

SOHU.COM LIMITED
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED, IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

	Three Months Ended			Twelve Months Ended	
	Dec. 31, 2018	Sep. 30, 2018	Dec. 31, 2017	Dec. 31, 2018	Dec. 31, 2017
Revenues:					
Online advertising					
Brand advertising	\$ 57,222	\$ 56,958	\$ 71,751	\$ 231,945	\$ 314,066
Search and search-related advertising	276,666	255,130	247,054	1,022,456	801,199
Subtotal	<u>333,888</u>	<u>312,088</u>	<u>318,805</u>	<u>1,254,401</u>	<u>1,115,265</u>
Online games	94,106	95,971	109,383	389,788	449,533
Others	54,204	51,763	81,442	238,840	296,164
Total revenues	<u>482,198</u>	<u>459,822</u>	<u>509,630</u>	<u>1,883,029</u>	<u>1,860,962</u>
Cost of revenues:					
Online advertising					
Brand advertising (includes stock-based compensation expense of \$-34, \$-14, \$-1,034, \$-707 and \$-415, respectively)	42,485	44,059	82,932	184,474	363,592
Search and search-related (includes stock-based compensation expense of \$-48, \$235, \$535, \$669 and \$540, respectively)	183,678	167,664	118,683	664,164	412,904
Subtotal	<u>226,163</u>	<u>211,723</u>	<u>201,615</u>	<u>848,638</u>	<u>776,496</u>
Online games (includes stock-based compensation expense of \$7, \$-3, \$1, \$-31 and \$73, respectively)	14,499	14,902	17,097	60,981	62,775
Others	35,633	33,716	56,987	162,102	195,895
Total cost of revenues	<u>276,295</u>	<u>260,341</u>	<u>275,699</u>	<u>1,071,721</u>	<u>1,035,166</u>
Gross profit	205,903	199,481	233,931	811,308	825,796
Operating expenses:					
Product development (includes stock-based compensation expense of \$919, \$2,362, \$14,048, \$6,132 and \$23,547, respectively)	108,611	107,164	122,767	441,161	412,173
Sales and marketing (includes stock-based compensation expense of \$216, \$201, \$3,976, \$405 and \$5,915, respectively)	102,112	106,056	116,179	400,579	413,045
General and administrative (includes stock-based compensation expense of \$470, \$-1,062, \$1,486, \$-4,372 and \$15,816, respectively)	26,828	35,078	35,829	113,724	122,874
Goodwill impairment and impairment of intangibles via acquisitions of businesses	16,369 ¹	-	-	16,369	86,882
Total operating expenses	<u>253,920</u>	<u>248,298</u>	<u>274,775</u>	<u>971,833</u>	<u>1,034,974</u>
Operating loss	(48,017)	(48,817)	(40,844)	(160,525)	(209,178)
Other income	13,073	28,822	4,321	64,167	6,658
Interest income	6,457	4,658	7,357	24,079	24,138
Interest expense	(5,279)	(6,174)	(2,567)	(17,538)	(4,088)
Exchange difference	(378)	7,970	(4,059)	9,026	(14,385)
Loss before income tax expense	(34,144)	(13,541)	(35,792)	(80,791)	(196,855)
Income tax expense/(benefit)	(69,557)	(13,145)	233,785	(13,432)	273,148
Net income/(loss)	<u>35,413</u>	<u>(396)</u>	<u>(269,577)</u>	<u>(67,359)</u>	<u>(470,003)</u>
Less: Net income attributable to the noncontrolling interest shareholders	20,773	33,870	24,558	92,723	84,523
Net loss attributable to Sohu.com Limited	<u>14,640</u>	<u>(34,266)</u>	<u>(294,135)</u>	<u>(160,082)</u>	<u>(554,526)</u>
Basic net income/(loss) per ADS attributable to Sohu.com Limited	\$ 0.37	\$ (0.88)	\$ (7.56)	\$ (4.11)	\$ (14.27)
ADS used in computing basic net loss per ADS attributable to Sohu.com Limited	<u>39,069</u>	<u>38,936</u>	<u>38,888</u>	<u>38,959</u>	<u>38,858</u>
Diluted net income/(loss) per ADS attributable to Sohu.com Limited	\$ 0.37	\$ (0.89)	\$ (7.57)	\$ (4.13)	\$ (14.30)
ADS used in computing diluted net loss per ADS attributable to Sohu.com Limited	<u>39,234</u>	<u>38,936</u>	<u>38,888</u>	<u>38,959</u>	<u>38,858</u>

¹ The impairment was mainly related to Changyou's 17173.com website business. The launch of new initiatives for the 17173.com website fell behind schedule in the fourth quarter of 2018, and the profit outlook of the business remained uncertain. In addition, due to more stringent regulations, there was a significant decline in the number of new game launches in the market, so the number of games marketed on 17173.com also fell. As a result, Changyou determined that the future performance of 17173.com would likely fall short of expectations, and that impairment charges were required.

SOHU.COM LIMITED

RECONCILIATIONS OF NON-GAAP RESULTS OF OPERATION MEASURES TO THE NEAREST COMPARABLE GAAP MEASURES

(UNAUDITED, IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

	Three Months Ended Dec. 31, 2018			Three Months Ended Sep. 30, 2018			Three Months Ended Dec. 31, 2017		
	GAAP	Non-GAAP Adjustments	Non-GAAP	GAAP	Non-GAAP Adjustments	Non-GAAP	GAAP	Non-GAAP Adjustments	Non-GAAP
Brand advertising gross profit	\$ 14,737	\$ (34)	\$ 14,703	\$ 12,899	\$ (14)	\$ 12,885	\$ (11,181)	\$ (1,034)	\$ (12,215)
Brand advertising gross margin	26%	(48)	26%	23%	235	23%	-16%	535	-17%
Search and search-related advertising gross profit	\$ 92,988	\$ (48)	\$ 92,940	\$ 87,466	\$ 235	\$ 87,701	\$ 128,371	\$ 535	\$ 128,906
Search and search-related advertising gross margin	34%	(82)	34%	34%	221	34%	52%	(499)	52%
Online advertising gross profit	\$ 107,725	\$ (82)	\$ 107,643	\$ 100,365	\$ 221	\$ 100,586	\$ 117,190	\$ (499)	\$ 116,691
Online advertising gross margin	32%	7	32%	32%	(3)	32%	37%	1	37%
Online games gross profit	\$ 79,607	\$ 7	\$ 79,614	\$ 81,069	\$ (3)	\$ 81,066	\$ 92,286	\$ 1	\$ 92,287
Online games gross margin	85%		85%	84%		84%	84%		84%
Others gross profit	\$ 18,571	\$ -	\$ 18,571	\$ 18,047	\$ -	\$ 18,047	\$ 24,455	\$ -	\$ 24,455
Others gross margin	34%	(75)	34%	35%	218	35%	30%	(498)	30%
Gross profit	\$ 205,903	\$ (75)	\$ 205,828	\$ 199,481	\$ 218	\$ 199,699	\$ 233,931	\$ (498)	\$ 233,433
Gross margin	43%		43%	43%		43%	46%		46%
Operating expenses	\$ 253,920	\$ (1,605)	\$ 252,315	\$ 248,298	\$ (1,501)	\$ 246,797	\$ 274,775	\$ (19,510)	\$ 255,265
Operating loss	\$ (48,017)	\$ 1,530	\$ (46,487)	\$ (48,817)	\$ 1,719	\$ (47,098)	\$ (40,844)	\$ 19,012	\$ (21,832)
Operating margin	-10%		-10%	-11%		-10%	-8%		-4%
Income tax benefit/(expense)	\$ 69,557	\$ (74,160)	\$ (4,603)	\$ 13,145	\$ (1,286)	\$ 11,859	\$ (233,785)	\$ 214,819	\$ (18,966)
		1,530	(a)	1,719	(a)	19,012	(a)		
		267	(c)	3,861	(c)	-			

Net income/(loss) before non-controlling interest		<u>(74,071)</u>	(d)		<u>-</u>		<u>214,819</u>	(d)		
	\$ <u>35,413</u>	<u>(72,274)</u>		<u>(36,861)</u>	\$ <u>(396)</u>	\$ <u>5,580</u>	\$ <u>5,184</u>	\$ <u>(269,577)</u>	\$ <u>233,831</u>	\$ <u>(35,746)</u>
		1,530	(a)		1,719	(a)		19,012	(a)	
		(976)	(b)		(2,571)	(b)		(17,545)	(b)	
		267	(c)		3,861	(c)		-		
		<u>(74,071)</u>	(d)		<u>-</u>			<u>214,819</u>	(d)	
Net income/(loss) attributable to Sohu.com Limited for diluted net loss per ADS	\$ <u>14,511</u>	<u>(73,250)</u>		<u>(58,739)</u>	\$ <u>(34,685)</u>	\$ <u>3,009</u>	<u>(31,676)</u>	\$ <u>(294,543)</u>	\$ <u>216,286</u>	<u>(78,257)</u>
Diluted net income/(loss) per ADS attributable to Sohu.com Limited	\$ <u>0.37</u>			<u>(1.50)</u>	\$ <u>(0.89)</u>		<u>(0.81)</u>	\$ <u>(7.57)</u>		<u>(2.01)</u>
Shares used in computing diluted net loss per ADS attributable to Sohu.com Limited	<u>39,234</u>			<u>39,069</u>	<u>38,936</u>		<u>38,936</u>	<u>38,888</u>		<u>38,888</u>

Note:

- (a) To eliminate the impact of share-based awards as measured using the fair value method. This adjustment does not have an impact on income tax expense.
- (b) To adjust Sohu's economic interests in Changyou and Sogou attributable to the above non-GAAP adjustments. This adjustment does not have an impact on income tax expense.
- (c) To adjust for a change in the fair value of the Company's investment in Hylink and the income tax effect.
- (d) To adjust for the effect of the U.S. TCJA.

SOHU.COM LIMITED

RECONCILIATIONS OF NON-GAAP RESULTS OF OPERATION MEASURES TO THE NEAREST COMPARABLE GAAP

MEASURES

(UNAUDITED, IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

	Twelve Months Ended Dec. 31, 2018			Twelve Months Ended Dec. 31, 2017		
	GAAP	Non-GAAP Adjustments	Non-GAAP	GAAP	Non-GAAP Adjustments	Non-GAAP
Brand advertising gross profit	\$ 47,471	\$ (707)	\$ 46,764	\$ (49,526)	\$ (415)	\$ (49,941)
Brand advertising gross margin	20%		20%	-16%		-16%
Search and search-related advertising gross profit	\$ 358,292	\$ 669	\$ 358,961	\$ 388,295	\$ 540	\$ 388,835
Search and search-related advertising gross margin	35%		35%	48%		49%
Online advertising gross profit	\$ 405,763	\$ (38)	\$ 405,725	\$ 338,769	\$ 125	\$ 338,894
Online advertising gross margin	32%		32%	30%		30%
Online games gross profit	\$ 328,807	\$ (31)	\$ 328,776	\$ 386,758	\$ 73	\$ 386,831
Online games gross margin	84%		84%	86%		86%
Others gross profit	\$ 76,738	\$ -	\$ 76,738	\$ 100,269	\$ -	\$ 100,269
Others gross margin	32%		32%	34%		34%
Gross profit	\$ 811,308	\$ (69)	\$ 811,239	\$ 825,796	\$ 198	\$ 825,994
Gross margin	43%		43%	44%		44%
Operating expenses	\$ 971,833	\$ (2,165)	\$ 969,668	\$ 1,034,974	\$ (45,278)	\$ 989,696
Operating loss	\$ (160,525)	\$ 2,096	\$ (158,429)	\$ (209,178)	\$ 45,476	\$ (163,702)
Operating margin	-9%		-8%	-11%		-9%
Income tax benefit/(expense)	\$ 13,432	\$ (75,281)	\$ (61,849)	\$ (273,148)	\$ 214,819	\$ (58,329)
Net loss before non-controlling interest	\$ (67,359)	\$ (68,341)	\$ (135,700)	\$ (470,003)	\$ 266,049	\$ (203,954)
		2,096 (a)		45,476 (a)		
		- (b)		5,754 (c)		
		(74,071) (d)		214,819 (d)		
		3,634 (e)		-		
		2,096 (a)		45,476 (a)		
		(7,574) (b)		(20,624) (b)		
		- (c)		5,754 (c)		
		(74,071) (d)		214,819 (d)		
		3,634 (e)		-		

Net loss attributable to Sohu.com Limited for diluted net loss per ADS	\$ <u>(160,959)</u>	<u>(75,915)</u>	<u>(236,874)</u>	\$ <u>(555,791)</u>	\$ <u>245,425</u>	\$ <u>(310,366)</u>
Diluted net loss per ADS attributable to Sohu.com Limited.	\$ <u>(4.13)</u>		\$ <u>(6.08)</u>	\$ <u>(14.30)</u>		\$ <u>(7.99)</u>
ADS used in computing diluted net loss per ADS attributable to Sohu.com Limited	<u>38,959</u>		<u>38,959</u>	<u>38,858</u>		<u>38,858</u>

Note:

- (a) To eliminate the impact of share-based awards as measured using the fair value method.
- (b) To adjust Sohu's economic interests in Changyou and Sogou attributable to the above non-GAAP adjustments.
- (c) To adjust impairment loss of available-for-sale securities of an investee that is unrelated to the Company's current business operations.
- (d) To adjust for the effect of the U.S. TCJA.
- (e) To adjust for a change in the fair value of the Company's investment in Hylink and the income tax effect.