

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

	Three Months Ended			Twelve Months Ended	
	Dec. 31, 2017	Sep. 30, 2017	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2016
Revenues:					
Online advertising					
Brand advertising	\$ 71,751	\$ 74,832	\$ 98,695	\$ 314,066	\$ 447,956
Search and search-related advertising	247,054	225,363	152,500	801,199	597,133
Subtotal	<u>318,805</u>	<u>300,195</u>	<u>251,195</u>	<u>1,115,265</u>	<u>1,045,089</u>
Online games	109,383	132,427	95,400	449,533	395,709
Others	81,442	83,439	65,164	296,164	209,633
Total revenues	<u>509,630</u>	<u>516,061</u>	<u>411,759</u>	<u>1,860,962</u>	<u>1,650,431</u>
Cost of revenues:					
Online advertising					
Brand advertising (includes stock-based compensation expense of \$-1,034, \$278, \$-91, \$-415 and \$163, respectively)	82,932	75,733	89,658	363,592	371,085
Search and search-related (includes stock-based compensation expense of \$535, \$0, \$168, \$540 and \$172, respectively)	118,683	115,422	79,611	412,904	290,158
Subtotal	<u>201,615</u>	<u>191,155</u>	<u>169,269</u>	<u>776,496</u>	<u>661,243</u>
Online games (includes stock-based compensation expense of \$1, \$4, \$-5, \$73 and \$31, respectively)	17,097	17,560	20,936	62,775	96,168
Others	56,987	53,679	41,606	195,895	102,389
Total cost of revenues	<u>275,699</u>	<u>262,394</u>	<u>231,811</u>	<u>1,035,166</u>	<u>859,800</u>
Gross profit	233,931	253,667	179,948	825,796	790,631
Operating expenses:					
Product development (includes stock-based compensation expense of \$14,048, \$2,247, \$3,383, \$23,547 and \$9,184, respectively)	122,767	105,162	91,499	412,173	353,144
Sales and marketing (includes stock-based compensation expense of \$3,976, \$344, \$1,467, \$5,915 and \$2,394, respectively)	116,179	111,935	116,183	413,045	434,780
General and administrative (includes stock-based compensation expense of \$1,486, \$3,682, \$-1,949, \$15,816 and \$7,176, respectively)	35,829	31,038	23,914	122,874	119,841
Goodwill impairment and impairment of intangibles via acquisitions of businesses	-	86,882	-	86,882	-
Total operating expenses	<u>274,775</u>	<u>335,017</u>	<u>231,596</u>	<u>1,034,974</u>	<u>907,765</u>
Operating loss	(40,844)	(81,350)	(51,648)	(209,178)	(117,134)
Other income/(expense)	4,321	(5,068)	6,258	6,658	(10,713)
Interest income	7,357	6,497	5,051	24,138	22,499
Interest expense	(2,567)	(1,141)	(205)	(4,088)	(1,356)
Exchange difference	(4,059)	(5,032)	9,257	(14,385)	12,803
Loss before income tax expense	(35,792)	(86,094)	(31,287)	(196,855)	(93,901)
Income tax expense	233,785	15,927	5,800	273,148	21,072
Net loss	<u>(269,577)</u>	<u>(102,021)</u>	<u>(37,087)</u>	<u>(470,003)</u>	<u>(114,973)</u>
Less: Net income attributable to the noncontrolling interest shareholders	24,558	1,939	28,810	84,523	109,048
Net loss attributable to Sohu.com Inc.	<u>(294,135)</u>	<u>(103,960)</u>	<u>(65,897)</u>	<u>(554,526)</u>	<u>(224,021)</u>
Basic net loss per share attributable to Sohu.com Inc.	\$ (7.56)	\$ (2.67)	\$ (1.70)	\$ (14.27)	\$ (5.79)
Shares used in computing basic net loss per share attributable to Sohu.com Inc.	<u>38,888</u>	<u>38,877</u>	<u>38,739</u>	<u>38,858</u>	<u>38,706</u>
Diluted net loss per share attributable to Sohu.com Inc.	\$ (7.57)	\$ (2.67)	\$ (1.71)	\$ (14.30)	\$ (5.83)
Shares used in computing diluted net loss per share attributable to Sohu.com Inc.	<u>38,888</u>	<u>38,877</u>	<u>38,739</u>	<u>38,858</u>	<u>38,706</u>

SOHU.COM INC.

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, 2017			Three Months Ended Sep. 30, 2017			Three Months Ended Dec. 31, 2016		
	GAAP	Non-GAAP Adjustments ¹	Non-GAAP	GAAP	Non-GAAP Adjustments	Non-GAAP	GAAP	Non-GAAP Adjustments	Non-GAAP
Brand advertising gross profit	\$ (11,181)	\$ (1,034)	\$ (12,215)	\$ (901)	\$ 278	\$ (623)	\$ 9,037	\$ (91)	\$ 8,946
Brand advertising gross margin	-16%		-17%	-1%		-1%	9%		9%
Search and search-related advertising gross profit	\$ 128,371	\$ 535	\$ 128,906	\$ 109,941	\$ -	\$ 109,941	\$ 72,889	\$ 168	\$ 73,057
Search and search-related advertising gross margin	52%		52%	49%		49%	48%		48%
Online advertising gross profit	\$ 117,190	\$ (499)	\$ 116,691	\$ 109,040	\$ 278	\$ 109,318	\$ 81,926	\$ 77	\$ 82,003
Online advertising gross margin	37%		37%	36%		36%	33%		33%
Online games gross profit	\$ 92,286	\$ 1	\$ 92,287	\$ 114,867	\$ 4	\$ 114,871	\$ 74,464	\$ (5)	\$ 74,459
Online games gross margin	84%		84%	87%		87%	78%		78%
Others gross profit	\$ 24,455	\$ -	\$ 24,455	\$ 29,760	\$ -	\$ 29,760	\$ 23,558	\$ -	\$ 23,558
Others gross margin	30%		30%	36%		36%	36%		36%
Gross profit	\$ 233,931	\$ (498)	\$ 233,433	\$ 253,667	\$ 282	\$ 253,949	\$ 179,948	\$ 72	\$ 180,020
Gross margin	46%		46%	49%		49%	44%		44%
Operating expenses	\$ 274,775	\$ (19,510)	\$ 255,265	\$ 335,017	\$ (6,273)	\$ 328,744	\$ 231,596	\$ (2,901)	\$ 228,695
Operating loss	\$ (40,844)	\$ 19,012	\$ (21,832)	\$ (81,350)	\$ 6,555	\$ (74,795)	\$ (51,648)	\$ 2,973	\$ (48,675)
Operating margin	-8%		-4%	-16%		-14%	-13%		-12%
Income tax expense	\$ (233,785)	\$ 214,819	\$ (18,966)	\$ 15,927	\$ -	\$ 15,927	\$ 5,800	\$ -	\$ 5,800

¹ Above Non-GAAP adjustment does not have impact on income tax expense.

Net loss before non-controlling interest		<u>233,831</u>	(a)		<u>12,309</u>	(a)		<u>2,973</u>	(a)		
	\$ <u>(269,577)</u>	\$ <u>233,831</u>		\$ <u>(35,746)</u>	\$ <u>(102,021)</u>	\$ <u>12,309</u>		\$ <u>(89,712)</u>	\$ <u>(37,087)</u>	\$ <u>2,973</u>	\$ <u>(34,114)</u>
		19,012	(a)		6,555	(a)		2,973	(a)		
		(17,545)	(b)		(1,017)	(b)		(6,051)	(b)		
		-			5,754	(c)		-			
		<u>214,819</u>	(d)		<u>-</u>			<u>-</u>			
Net loss attributable to Sohu.com Inc. for diluted net loss per share	\$ <u>(294,543)</u>	\$ <u>216,286</u>		<u>(78,257)</u>	\$ <u>(103,960)</u>	\$ <u>11,292</u>		\$ <u>(92,668)</u>	\$ <u>(66,411)</u>	\$ <u>(3,078)</u>	\$ <u>(69,489)</u>
Diluted net loss per share attributable to Sohu.com Inc.	\$ <u>(7.57)</u>			<u>(2.01)</u>	\$ <u>(2.67)</u>			\$ <u>(2.38)</u>	\$ <u>(1.71)</u>		\$ <u>(1.79)</u>
Shares used in computing diluted net loss per share attributable to Sohu.com Inc.		<u>38,888</u>		<u>38,888</u>	<u>38,877</u>			<u>38,877</u>	<u>38,739</u>		<u>38,739</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 one-time effect of the U.S. Tax Reform.

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, 2017			Twelve Months Ended Dec. 31, 2016		
	GAAP	Non-GAAP Adjustments ²	Non-GAAP	GAAP	Non-GAAP Adjustments	Non-GAAP
Brand advertising gross profit	\$ (49,526)	\$ (415)	\$ (49,941)	\$ 76,871	\$ 163	\$ 77,034
Brand advertising gross margin	-16%		-16%	17%		17%
Search and search-related advertising gross profit	\$ 388,295	\$ 540	\$ 388,835	\$ 306,975	\$ 172	\$ 307,147
Search and search-related advertising gross margin	48%		49%	51%		51%
Online advertising gross profit	\$ 338,769	\$ 125	\$ 338,894	\$ 383,846	\$ 335	\$ 384,181
Online advertising gross margin	30%		30%	37%		37%
Online games gross profit	\$ 386,758	\$ 73	\$ 386,831	\$ 299,541	\$ 31	\$ 299,572
Online games gross margin	86%		86%	76%		76%
Others gross profit	\$ 100,269	\$ -	\$ 100,269	\$ 107,244	\$ -	\$ 107,244
Others gross margin	34%		34%	51%		51%
Gross profit	\$ 825,796	\$ 198	\$ 825,994	\$ 790,631	\$ 366	\$ 790,997
Gross margin	44%		44%	48%		48%
Operating expenses	\$ 1,034,974	\$ (45,278)	\$ 989,696	\$ 907,765	\$ (18,754)	\$ 889,011
Operating loss	\$ (209,178)	\$ 45,476	\$ (163,702)	\$ (117,134)	\$ 19,120	\$ (98,014)
Operating margin	-11%		-9%	-7%		-6%
Income tax expense	\$ (273,148)	\$ 214,819	\$ (58,329)	\$ 21,072	\$ -	\$ 21,072
Net loss before non-controlling interest	\$ (470,003)	\$ 266,049	\$ (203,954)	\$ (114,973)	\$ 19,118	\$ (95,855)
Net loss attributable to Sohu.com Inc for diluted net loss per share	\$ (555,791)	\$ 245,425	\$ (310,366)	\$ (225,660)	\$ 6,858	\$ (218,802)
Diluted net loss per share attributable to Sohu.com Inc.	\$ (14.30)		\$ (7.99)	\$ (5.83)		\$ (5.65)
Shares used in computing diluted net loss per share attributable to Sohu.com Inc.	38,858		38,858	38,706		38,706

Note:

(a) To eliminate the impact of share-based awards as measured using the fair value method.

² Above Non-GAAP adjustment does not have impact on income tax expense.

- (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 one-time effect of the U.S. Tax Reform.