

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

	Three Months Ended		
	Jun. 30, 2018	Mar. 31, 2018	Jun. 30, 2017
Revenues:			
Online advertising			
Brand advertising	\$ 61,511	\$ 56,254	\$ 86,071
Search and search-related advertising	270,359	220,301	186,747
Subtotal	<u>331,870</u>	<u>276,555</u>	<u>272,818</u>
Online games	94,250	105,461	122,398
Others	59,894	72,979	65,952
Total revenues	<u>486,014</u>	<u>454,995</u>	<u>461,168</u>
Cost of revenues:			
Online advertising			
Brand advertising (includes stock-based compensation expense of \$-2, \$-657, and \$182, respectively)	47,319	50,611	124,730
Search and search-related (includes stock-based compensation expense of \$263, \$219, and \$2, respectively)	168,126	144,696	96,692
Subtotal	<u>215,445</u>	<u>195,307</u>	<u>221,422</u>
Online games (includes stock-based compensation expense of \$-23, \$-12, and \$44, respectively)	14,461	17,119	11,613
Others	44,346	48,407	45,159
Total cost of revenues	<u>274,252</u>	<u>260,833</u>	<u>278,194</u>
Gross profit	211,762	194,162	182,974
Operating expenses:			
Product development (includes stock-based compensation expense of \$2,136, \$715, and \$4,925, respectively)	113,843	111,543	100,146
Sales and marketing (includes stock-based compensation expense of \$77, \$-89, and \$930, respectively)	102,138	90,273	94,845
General and administrative (includes stock-based compensation expense of \$-1,260, \$-2,520, and \$6,597, respectively)	27,982	23,836	27,657
Total operating expenses	<u>243,963</u>	<u>225,652</u>	<u>222,648</u>
Operating loss	(32,201)	(31,490)	(39,674)
Other income	9,991	12,281	3,306
Interest income	5,156	7,808	5,813
Interest expense	(3,004)	(3,081)	(205)
Exchange difference	10,774 ¹	(9,340)	(4,528)
Loss before income tax expense	(9,284)	(23,822)	(35,288)
Income tax expense	5,891	63,379	12,764
Net loss	<u>(15,175)</u>	<u>(87,201)</u>	<u>(48,052)</u>
Less: Net income attributable to the noncontrolling interest shareholders	<u>32,463</u>	<u>5,617</u>	<u>40,131</u>
Net loss attributable to Sohu.com Limited	<u>(47,638)</u>	<u>(92,818)</u>	<u>(88,183)</u>
Basic net loss per ADS attributable to Sohu.com Limited	\$ (1.22)	\$ (2.39)	\$ (2.27)
ADSS used in computing basic net loss per ADS attributable to Sohu.com Limited	<u>38,927</u>	<u>38,904</u>	<u>38,855</u>
Diluted net loss per ADS attributable to Sohu.com Limited	\$ (1.23)	\$ (2.39)	\$ (2.28)
ADSS used in computing diluted net loss per ADS attributable to Sohu.com Limited	<u>38,927</u>	<u>38,904</u>	<u>38,855</u>

¹ The exchange gain in the second quarter of 2018 is primarily resulted from the depreciation of RMB against USD.

SOHU.COM LIMITED.

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

(UNAUDITED, IN THOUSANDS EXCEPT PER ADS AMOUNTS)

	Three Months Ended Jun. 30, 2018			Three Months Ended Mar. 31, 2018			Three Months Ended Jun. 30, 2017		
	GAAP	Non-GAAP Adjustments	Non-GAAP	GAAP	Non-GAAP Adjustments	Non-GAAP	GAAP	Non-GAAP Adjustments	Non-GAAP
Brand advertising gross profit	\$ 14,192	\$ (2)	(a) \$ 14,190	\$ 5,643	\$ (657)	(a) \$ 4,986	\$ (38,659)	\$ 182	(a) \$ (38,477)
Brand advertising gross margin	23%		23%	10%		9%	-45%		-45%
Search and search-related advertising gross profit	\$ 102,233	\$ 263	(a) \$ 102,496	\$ 75,605	\$ 219	(a) \$ 75,824	\$ 90,055	\$ 2	(a) \$ 90,057
Search and search-related advertising gross margin	38%		38%	34%		34%	48%		48%
Online advertising gross profit	\$ 116,425	\$ 261	(a) \$ 116,686	\$ 81,248	\$ (438)	(a) \$ 80,810	\$ 51,396	\$ 184	(a) \$ 51,580
Online advertising gross margin	35%		35%	29%		29%	19%		19%
Online games gross profit	\$ 79,789	\$ (23)	(a) \$ 79,766	\$ 88,342	\$ (12)	(a) \$ 88,330	\$ 110,785	\$ 44	(a) \$ 110,829
Online games gross margin	85%		85%	84%		84%	91%		91%
Others gross profit	\$ 15,548	\$ -	(a) \$ 15,548	\$ 24,572	\$ -	(a) \$ 24,572	\$ 20,793	\$ -	(a) \$ 20,793
Others gross margin	26%		26%	34%		34%	32%		32%
Gross profit	\$ 211,762	\$ 238	(a) \$ 212,000	\$ 194,162	\$ (450)	(a) \$ 193,712	\$ 182,974	\$ 228	(a) \$ 183,202
Gross margin	44%		44%	43%		43%	40%		40%
Operating expenses	\$ 243,963	\$ (953)	(a) \$ 243,010	\$ 225,652	\$ 1,894	(a) \$ 227,546	\$ 222,648	\$ (12,452)	(a) \$ 210,196
Operating loss	\$ (32,201)	\$ 1,191	(a) \$ (31,010)	\$ (31,490)	\$ (2,344)	(a) \$ (33,834)	\$ (39,674)	\$ 12,680	(a) \$ (26,994)

Operating margin		<u><u>-7%</u></u>		<u><u>-6%</u></u>	<u><u>-7%</u></u>		<u><u>-7%</u></u>	<u><u>-9%</u></u>		<u><u>-6%</u></u>									
Income tax expense	\$	<u><u>(5,891)</u></u>	\$	<u><u>165</u></u>	\$	<u><u>(5,726)</u></u>	\$	<u><u>(63,379)</u></u>	\$	<u><u>-</u></u>	\$	<u><u>(63,379)</u></u>	\$	<u><u>12,764</u></u>	\$	<u><u>-</u></u>	(a)\$	<u><u>12,764</u></u>	
Net loss before non-controlling interest				<u><u>1,191</u></u>	(a)	<u><u>(2,344)</u></u>	(a)	<u><u>12,680</u></u>	(a)										
				<u><u>(494)</u></u>	(c)	<u><u>-</u></u>		<u><u>-</u></u>											
	\$	<u><u>(15,175)</u></u>	\$	<u><u>697</u></u>		\$	<u><u>(14,478)</u></u>	\$	<u><u>(87,201)</u></u>	\$	<u><u>(2,344)</u></u>	\$	<u><u>(89,545)</u></u>	\$	<u><u>(48,052)</u></u>	\$	<u><u>12,680</u></u>	\$	<u><u>(35,372)</u></u>
				<u><u>1,191</u></u>	(a)	<u><u>(2,344)</u></u>	(a)	<u><u>12,680</u></u>	(a)										
				<u><u>(1,976)</u></u>	(b)	<u><u>(2,102)</u></u>	(b)	<u><u>4,254</u></u>	(b)										
				<u><u>(494)</u></u>	(c)	<u><u>-</u></u>		<u><u>-</u></u>											
Net loss attributable to Sohu.com Limited for diluted net loss per ADS	\$	<u><u>(47,965)</u></u>	\$	<u><u>(1,279)</u></u>		<u><u>(49,244)</u></u>	\$	<u><u>(92,925)</u></u>	\$	<u><u>(4,446)</u></u>	<u><u>(97,371)</u></u>	\$	<u><u>(88,698)</u></u>	\$	<u><u>16,934</u></u>	\$	<u><u>(71,764)</u></u>		
Diluted net loss per ADS attributable to Sohu.com Limited	\$	<u><u>(1.23)</u></u>		<u><u>(1.27)</u></u>		<u><u>(2.39)</u></u>		<u><u>(2.50)</u></u>	\$	<u><u>(2.28)</u></u>							\$	<u><u>(1.85)</u></u>	
ADSs used in computing diluted net loss per ADS attributable to Sohu.com Limited		<u><u>38,927</u></u>		<u><u>38,927</u></u>		<u><u>38,904</u></u>		<u><u>38,904</u></u>		<u><u>38,855</u></u>								<u><u>38,855</u></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 investment in Hylink and the income tax effect.