

NetEase

1Q22 Investor Presentation

Investor Relations
May 24, 2022

SAFE HARBOR STATEMENT

This announcement contains statements of a forward-looking nature. These statements are made under the “safe harbor” provisions of the U.S. Private Securities Litigation Reform Act of 1995. You can identify these forward-looking statements by terminology such as “will,” “expects,” “anticipates,” “future,” “intends,” “plans,” “believes,” “estimates” and similar statements. In addition, statements that are not historical facts, including statements about NetEase’s strategies and business plans, its expectations regarding the growth of its business and its revenue and the quotations from management in this announcement are or contain forward-looking statements. NetEase may also make forward-looking statements in its periodic reports to the U.S. Securities and Exchange Commission (the “SEC”), in announcements made on the website of The Stock Exchange of Hong Kong Limited (the “Hong Kong Stock Exchange”), in press releases and other written materials and in oral statements made by its officers, directors or employees to third parties. The accuracy of these statements may be impacted by a number of business risks and uncertainties that could cause actual results to differ materially from those projected or anticipated, including risks related to: the risk that the online game market will not continue to grow or that NetEase will not be able to maintain its position in that market in China or globally; the risk that COVID-19 or other health risks in China or globally could adversely affect the Company’s operations or financial results; risks associated with NetEase’s business and operating strategies and its ability to implement such strategies; NetEase’s ability to develop and manage its operations and business; competition for, among other things, capital, technology and skilled personnel; potential changes in government regulation that could adversely affect the industry and geographical markets in which NetEase operates, including, among others, initiatives to enhance supervision of companies listed on an overseas stock exchange and tighten scrutiny over data privacy and data security, as well as the risk that NetEase’s ADSs could be barred from trading in the United States as a result of the Holding Foreign Companies Accountable Act and the rules promulgated thereunder; the risk that NetEase may not be able to continuously develop new and creative online services or that NetEase will not be able to set, or follow in a timely manner, trends in the market; competition in NetEase’s existing and potential markets; and the risk that fluctuations in the value of the Renminbi with respect to other currencies could adversely affect NetEase’s business and financial results. Further information regarding these and other risks is included in NetEase’s filings with the SEC and announcements on the website of the Hong Kong Stock Exchange. NetEase does not undertake any obligation to update this forward-looking information, except as required under the applicable law.

MARKET SNAPSHOT

In USD

**\$63.7
billion**

Market Cap
(5/23/22)

**3.3
billion**

Shares Outstanding,
Diluted (1Q22)

\$1.06

Basic net income per ADS
(GAAP) (1Q22)

**\$3.7
billion**

Net revenues
(1Q22)

**\$693
million**

Net income attributable to the
Company's shareholders (GAAP)
(1Q22)

**\$16.9
billion**

Cash, time deposits
and short-term investments
(3/31/22)

Note:

1 Market Cap is calculated using the closing price on NASDAQ; Our market cap is HK\$505.4 billion (\$ 64.4 billion) based on the closing price on the Hong Kong Stock Exchange.



NetEase, Inc.

Founded in 1997, NetEase, Inc. is a leading China-based internet technology company that develops and operates some of China's most popular online PC and mobile games, and offers other innovative services, including intelligent learning services, online music content community, and a private label e-commerce brand.

NetEase, Inc. has been listed on NASDAQ since 2000 under the symbol (NASDAQ: NTES) and completed its dual listing on the Hong Kong Stock Exchange in June 2020 under the ticker (HKEX: 9999).

Its technology-focused intelligent learning business, Youdao, has been listed on NYSE since October 2019 (NYSE: DAO).

Its online music business, Cloud Village, has been listed on HKEX since December 2021 (HKEX: 9899).

1Q22 BUSINESS HIGHLIGHTS

Online Games

Leading developer and operator of self-developed PC and mobile games for internet users in China and internationally;

Operator of licensed games from leading game developers internationally



- Announced 2022 launch date for *Diablo® Immortal™*, which is slated for global market release on June 2 and release in China and Southeast Asia on June 23
- Launched *Revelation* mobile game, *The Lord of the Rings: Rise to War* and *Dead by Daylight Mobile - NetEase* in Japan in April
- Propelled pipeline by advancing new games under development including console and mobile versions of *Naraka: Bladepoint*, *Ghost World Chronicle*, as well as the roll-out of *Harry Potter: Magic Awakened* in international markets
- Further expanded its international R&D capabilities by recruiting global talents and setting up first-party overseas games studio

Youdao

Leading intelligent learning services operated by Youdao, our majority-controlled subsidiary dedicated to providing learning content, applications and solutions to users of all ages



- Maintained a solid performance with its four pillars of future growth: smart devices, STEAM courses, adult learning, and education digitization solutions
- Continued to extend its technology offering by launching improved content, features and new products, and consistently optimized the functions and user experience for different STEAM courses

Cloud Music

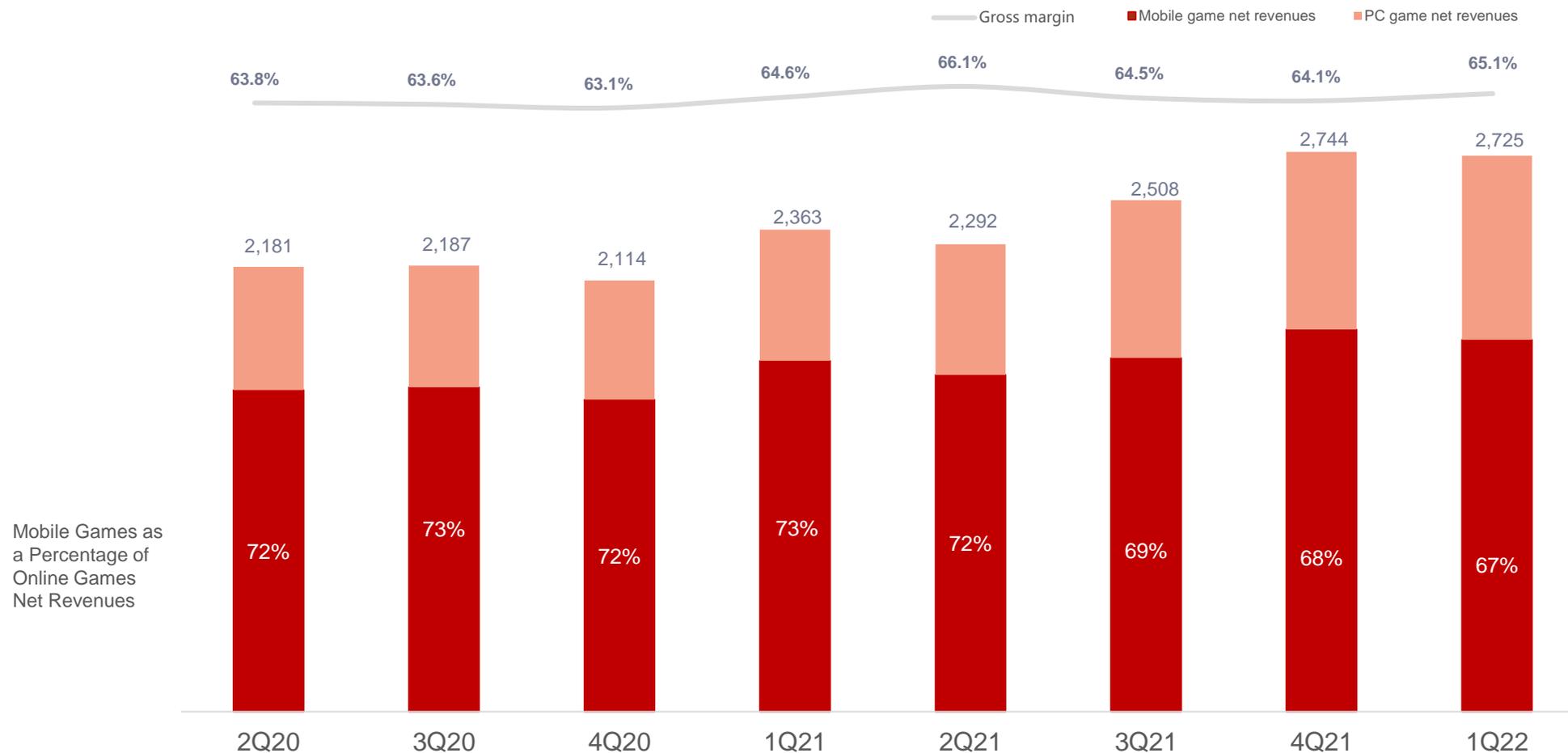
Leading online music content community

- Successfully increased profitability led by more effective monetization
- Continued to improve the differentiated community ecosystem and users' engagement through product innovation and content enhancement

ONLINE GAME SERVICES

USD million

Online Game Services Net Revenues and Gross Margin



Note:

1 US\$1.00 = RMB6.3393 on March 31, 2022. Same exchange rate is applied to all years for illustrative purpose

ONLINE GAME SERVICES

PC GAMES

Flagship Self-Developed PC Titles



Flagship Licensed PC Titles



MOBILE GAMES

Self-Developed Mobile Games



Licensed Mobile Games From Overseas Developers



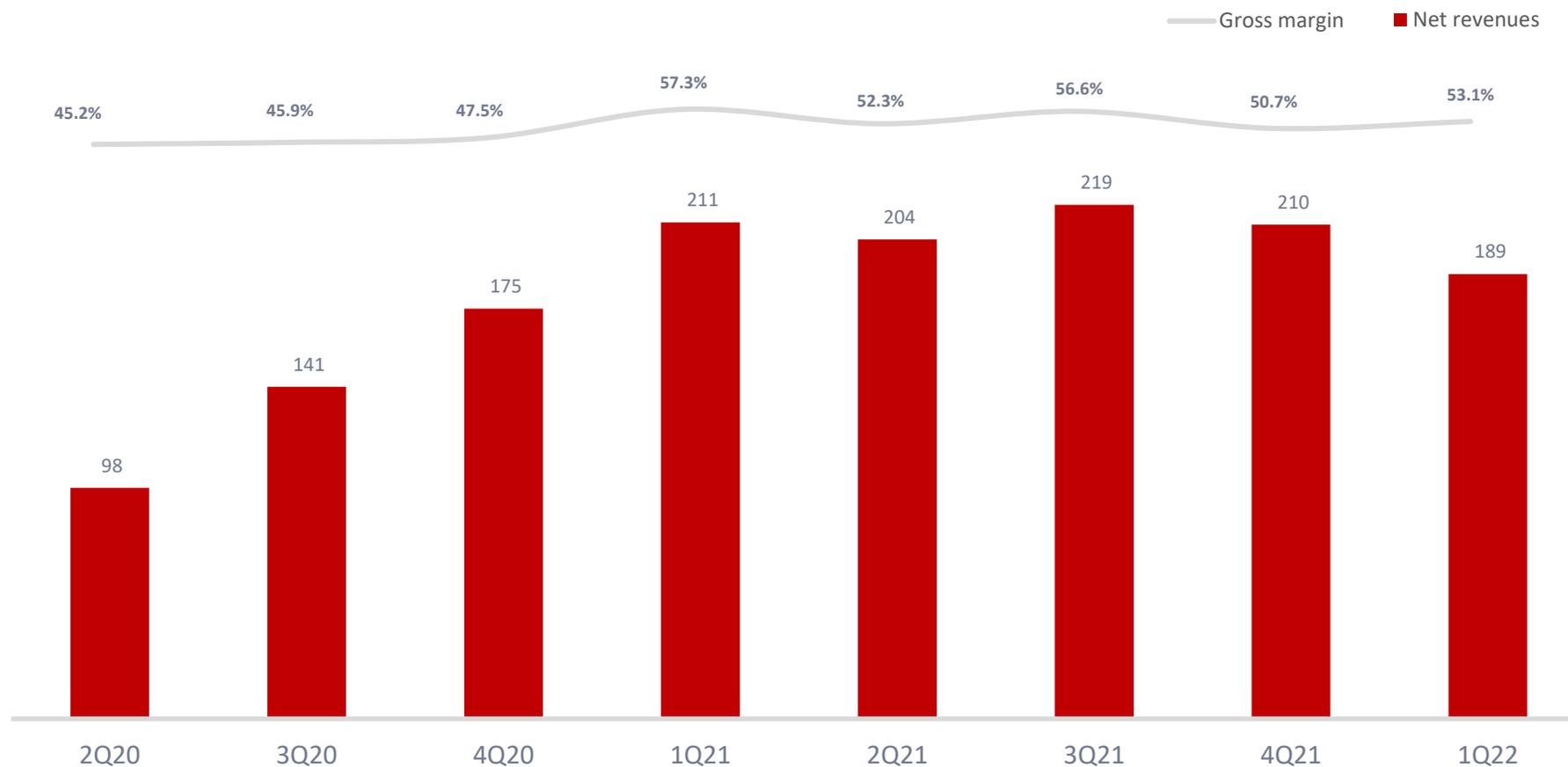
Launching Mobile Games in Overseas Markets



YOUDAO

USD million

Youdao Net Revenues and Gross Margin



Note:

1 US\$1.00 = RMB6.3393 on March 31, 2022. Same exchange rate is applied to all years for illustrative purpose

YOUDAO

Online Knowledge Tools



Youdao Dictionary



Youdao Kids Dictionary



Youdao Translation



U-dictionary

Learning Services



Youdao Premium Courses



NetEase Cloud Classroom



China University MOOC



Youdao Weiqi



Youdao iCloud



Youdao Chess



Youdao Kada



Youdao Drosophila Science Courses



Youdao Fun Reading

Smart Devices



Youdao Dictionary Pen



Youdao Listening Pod



Youdao Smart Light



Youdao Pocket Translator



Youdao Super Dictionary

Education Digitalization Solutions



Youdao Smart Learning Terminal



Youdao Smart Cloud

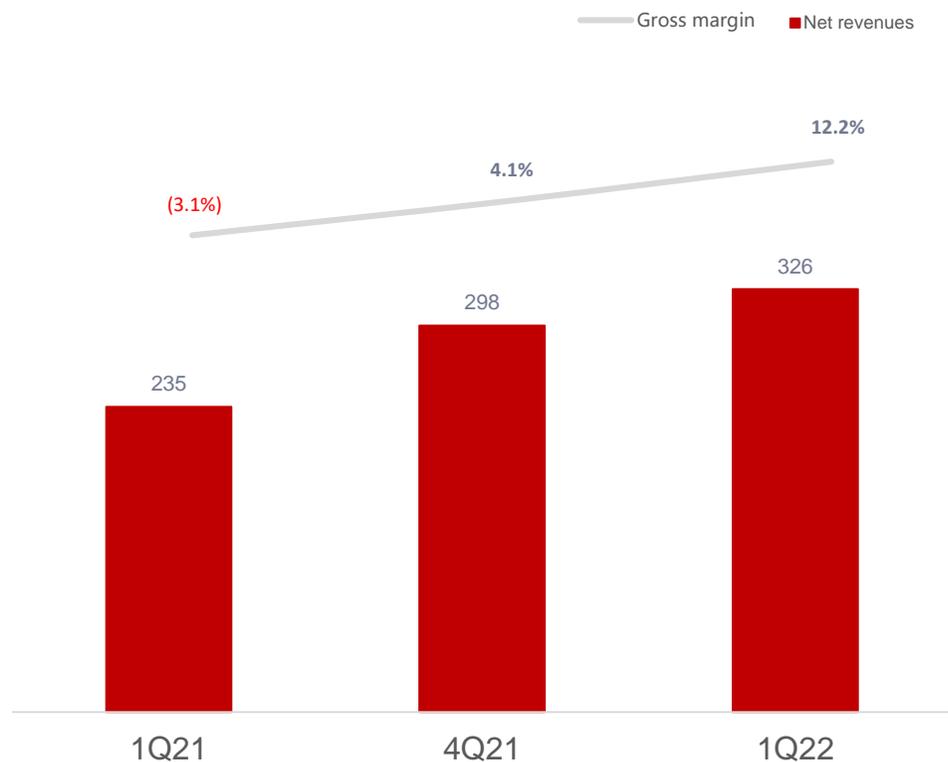
Achieved a solid and sustainable performance in the first quarter after disposing of its academic AST business

- Total net revenues for Youdao were RMB1.2 billion, and gross margin was 53.1% in the first quarter
- Introduced a new smart learning product called Youdao Smart Light with the aim to help students develop more independent learning habits and improve their learning efficiency
- Continued to optimize the functions and user experiences for STEAM courses, for example, increasing gross billings from Youdao Chess (有道国际象棋) by over 170% quarter-over-quarter

CLOUD MUSIC

USD million

Cloud Music Net Revenues and Gross Margin



Note:

1 US\$1.00 = RMB6.3393 on March 31, 2022. Same exchange rate is applied to all years for illustrative purpose



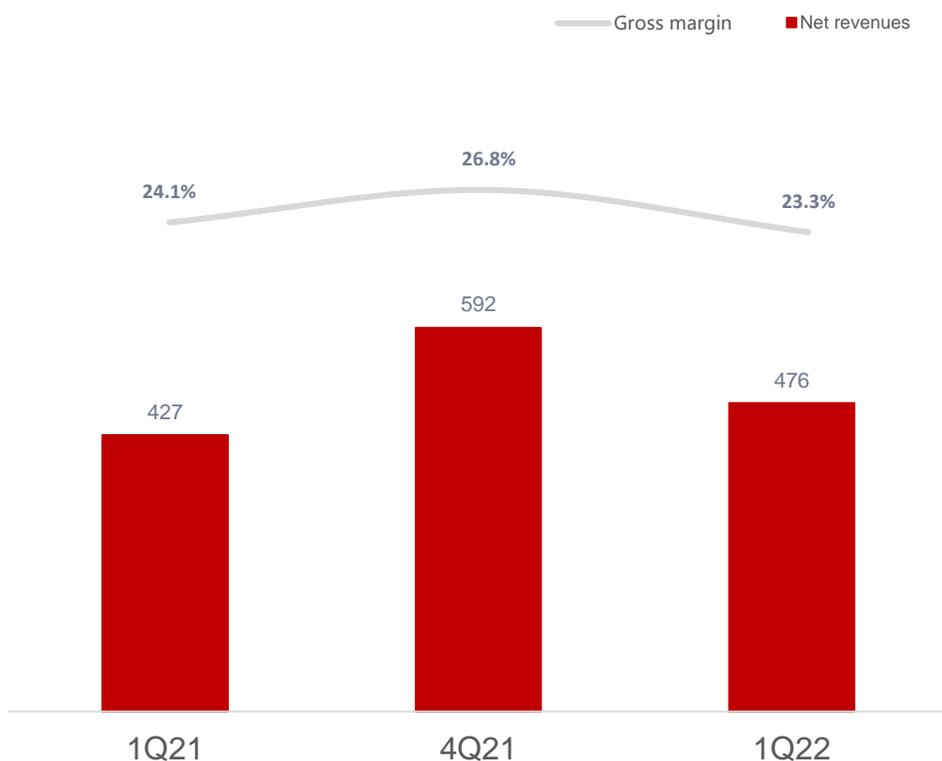
NetEase Cloud Music

- Net revenues increased 39% year-over-year to RMB2.1 billion, due to increased revenues from membership subscriptions and social entertainment services
- Increased membership paying ratio year-over-year to 20%
- Gross margins more than doubled quarter-over-quarter in Q1 reaching 12.2%, as we continued to optimize our content cost structure
- Home to more than 450,000 registered independent artists on our platform by the end of March 2022
- Introduced “Harry Potter Magic Radio,” a joint-collaboration with NetEase Games, allowing gamers to enjoy Harry Potter-themed podcast content within the game

INNOVATIVE BUSINESSES AND OTHERS

USD million

Innovative Businesses and Others Net Revenues and Gross Margin



Note:

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NetEase Yanxuan

- Leading private label consumer lifestyle brand in China
- Successively launched a variety of popular products across core categories such as pets, home cleaning and bedding



Live Streaming

- CC live streaming platform offers various live streaming content with a primary focus on games



Internet Media

- www.163.com is one of China's most visited internet portals, with strong user diversity, reach and stickiness
- Mobile News App is one of the most popular news apps in China

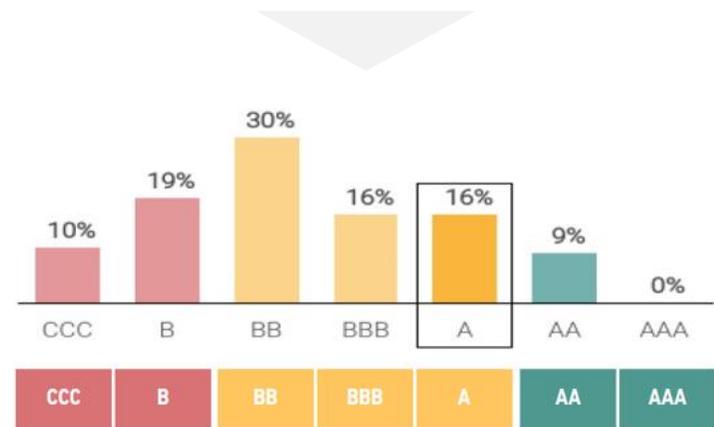
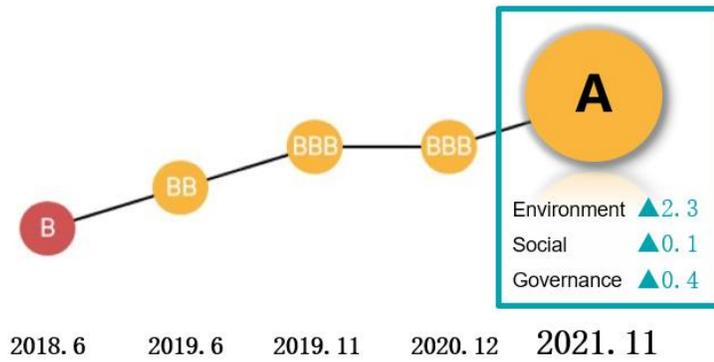


E-mail Services

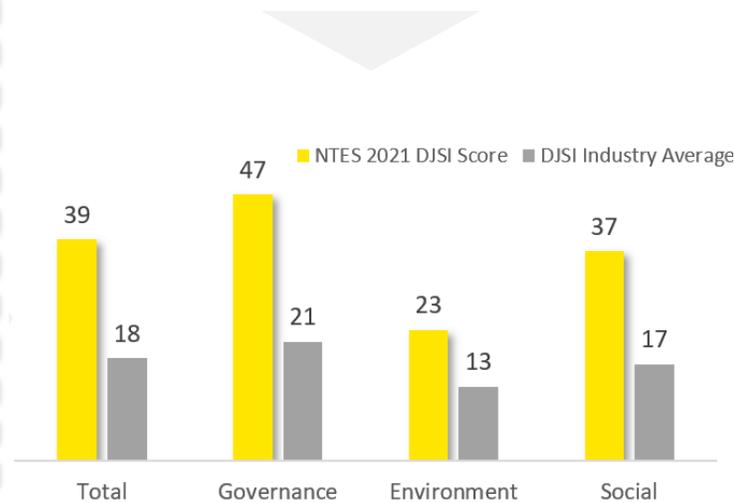
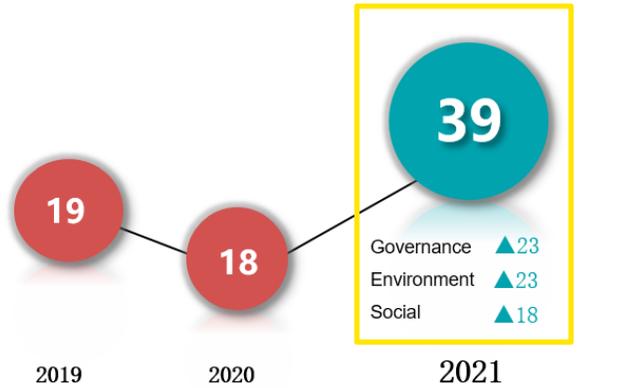
- China's leading e-mail service provider since 1997
- Nearly 500 million annual active users as of March 31, 2022

ESG PERFORMANCE

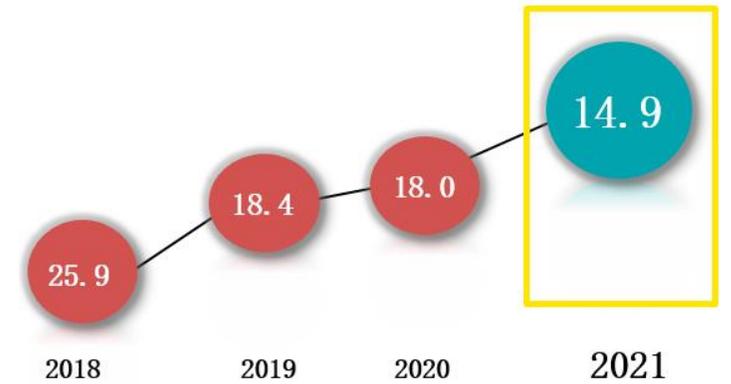
MSCI Ratings



DJSI (Dow Jones Sustainability Index) Ratings



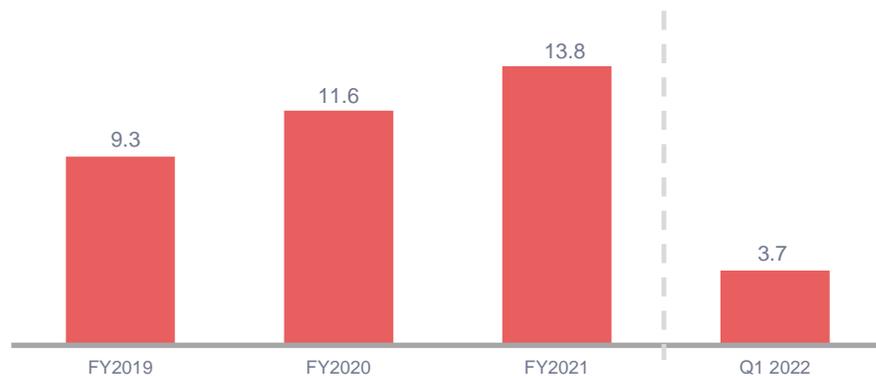
Sustainalytics Ratings



FINANCIAL HIGHLIGHTS

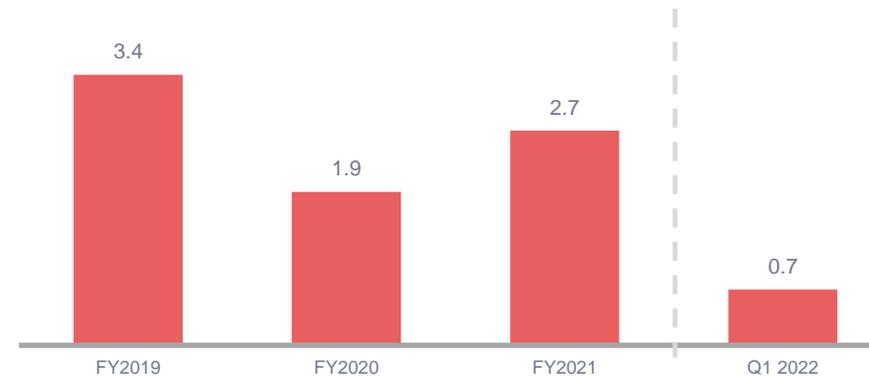
Net Revenues

USD billion



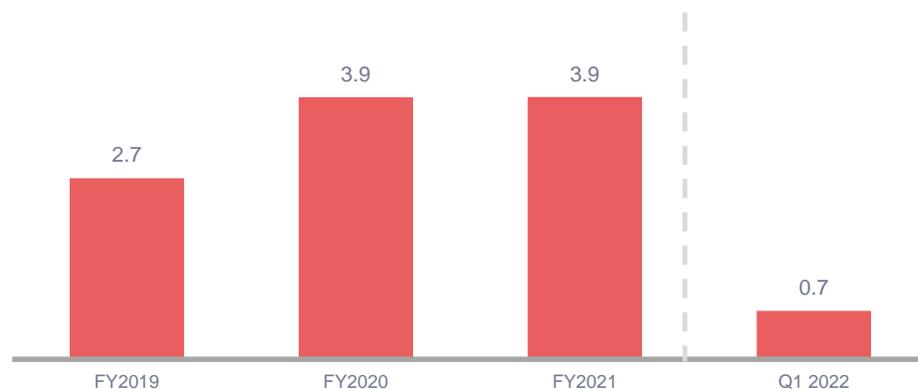
Net Income Attributable to Shareholders (GAAP)

USD billion



Operating Cash Flow

USD billion



Value Returned to Shareholders

| US\$ | FY2018 | FY2019 | FY2020 | FY2021 | Q1 2022 |
|------------------------------------|-----------|-----------|-----------|-----------|---------|
| Dividend per ADS (declared) | \$0.354 | \$1.378 | \$0.784 | \$1.170 | \$0.322 |
| Total Dividends (declared) | \$229 m | \$1,334 m | \$515 m | \$777 m | \$211 m |
| Share Buyback (mn) | \$1,178 m | \$0.2 m | \$1,625 m | \$1,974 m | \$143 m |

Note:

1 US\$1.00 = RMB6.3393 on March 31, 2022. Same exchange rate is applied to all years for illustrative purpose

2 Total Dividends (declared) equals to Dividend per ADS (declared) multiplied by each quarter's corresponding Weighted average number of ADS outstanding, basic

BALANCE SHEET SUMMARY

| in millions | 2021 | 2022 | |
|--|----------------------------|----------------------------|----------------------------|
| | Dec 31, RMB (Unaudited) | Mar 31, RMB (Unaudited) | Mar 31, USD (Unaudited) |
| ASSETS | | | |
| Current assets: | | | |
| Cash and cash equivalents | 14,498 | 9,852 | 1,554 |
| Time deposits | 70,755 | 81,303 | 12,825 |
| Other current assets | 27,867 | 27,918 | 4,404 |
| Total current assets | 113,120 | 119,073 | 18,783 |
| Property, equipment and software, net | 5,434 | 5,842 | 922 |
| Other non-current assets | 35,090 | 34,332 | 5,416 |
| Total assets | 153,644 | 159,248 | 25,121 |
| LIABILITIES, REDEEMABLE NONCONTROLLING INTERESTS & SHAREHOLDERS' EQUITY | | | |
| Current liabilities: | | | |
| Contract liabilities | 12,133 | 12,051 | 1,901 |
| Other current liabilities | 38,368 | 39,713 | 6,265 |
| Total current liabilities | 50,501 | 51,764 | 8,166 |
| Total liabilities | 54,220 | 57,473 | 9,067 |
| Redeemable noncontrolling interests | 145 | 147 | 23 |
| Total shareholders' equity | 99,279 | 101,628 | 16,031 |
| Total liabilities, redeemable noncontrolling interests and shareholders' equity | 153,644 | 159,248 | 25,121 |

INCOME STATEMENT SUMMARY

| | 1Q21 | 4Q21 | 1Q22 | 1Q22 | QoQ | YoY |
|--|--------|--------|-------------|-------------|-------------|-------------|
| in millions except per ADS data & percentage data | RMB | RMB | RMB | USD | Change | Change |
| | | | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| Total net revenues: | 20,517 | 24,374 | 23,556 | 3,716 | -3.4% | 14.8% |
| <i>Online game services</i> | 14,982 | 17,398 | 17,273 | 2,725 | -0.7% | 15.3% |
| <i>Youdao</i> | 1,340 | 1,334 | 1,201 | 189 | -10.0% | -10.4% |
| <i>Cloud Music</i> | 1,491 | 1,889 | 2,067 | 326 | 9.4% | 38.6% |
| <i>Innovative businesses and others</i> | 2,704 | 3,753 | 3,015 | 476 | -19.7% | 11.5% |
| Gross profit | 11,053 | 12,918 | 12,836 | 2,025 | -0.6% | 16.1% |
| Gross profit margin | 53.9% | 53.0% | 54.5% | 54.5% | | |
| Operating profit | 4,276 | 4,608 | 5,507 | 869 | 19.5% | 28.8% |
| Operating profit margin | 20.8% | 18.9% | 23.4% | 23.4% | | |
| Net income attributable to the Company's shareholders | 4,439 | 5,694 | 4,394 | 693 | -22.8% | -1.0% |
| Diluted net income per ADS | ¥6.53 | ¥8.57 | ¥6.63 | \$1.05 | -22.6% | 1.5% |

Note:
All percentages are calculated based on numbers in millions except per ADS data

THANK YOU

網易 NETEASE