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NetEase, Inc.

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 9999)

**UNAUDITED FINANCIAL RESULTS FOR
THE SECOND QUARTER ENDED 30 JUNE 2020**

We hereby announce our results for the second quarter of 2020, which contains unaudited financial results for the three months and six months ended 30 June 2020. This results announcement is also provided to shareholders as our interim report for 2020 under Rule 13.48(1) of the Listing Rules. This results announcement will be available for viewing on the website of the Hong Kong Stock Exchange at www.hkexnews.hk and our website at: <http://ir.netease.com>.

By order of the Board
NetEase, Inc.
William Lei Ding
Director

Hong Kong, August 13, 2020

As at the date of this document, the board of directors of the Company comprises Mr. William Lei Ding as the director, and Ms. Alice Cheng, Mr. Denny Lee, Mr. Joseph Tong, Mr. Lun Feng, Mr. Michael Leung and Mr. Michael Tong as the independent directors.



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NetEase Announces Second Quarter 2020 Unaudited Financial Results

(Beijing- August 13, 2020)- NetEase, Inc. (NASDAQ: NTES and HKEX: 9999, “NetEase” or the “Company”), one of China’s leading internet and online game services providers, today announced its unaudited financial results for the second quarter ended June 30, 2020.

Second Quarter 2020 Financial Highlights

- Net revenues were RMB18.2 billion (US\$2.6 billion), an increase of 25.9% compared with the second quarter of 2019.
 - Online game services net revenues were RMB13.8 billion (US\$2.0 billion), an increase of 20.9% compared with the second quarter of 2019.
 - Youdao net revenues were RMB623.3 million (US\$88.2 million), an increase of 93.1% compared with the second quarter of 2019.
 - Innovative businesses and others net revenues were RMB3.7 billion (US\$528.4 million), an increase of 38.7% compared with the second quarter of 2019.
- Gross profit was RMB9.8 billion (US\$1.4 billion), an increase of 26.6% compared with the second quarter of 2019.
- Total operating expenses were RMB5.6 billion (US\$795.8 million), an increase of 40.1% compared with the second quarter of 2019.

- Net income from continuing operations attributable to the Company’s shareholders was RMB4.5 billion (US\$642.3 million). Non-GAAP net income from continuing operations attributable to the Company’s shareholders was RMB5.2 billion (US\$739.7 million).^[1]
- Basic net income from continuing operations was US\$4.95 per ADS (US\$0.20 per share). Non-GAAP basic net income from continuing operations was US\$5.70 per ADS (US\$0.23 per share).^[1]

Second Quarter 2020 and Recent Operational Highlights

- Launched exciting new titles including *EVE Echoes*, *Fantasy Westward Journey H5*, *King of Hunters*, *PES Club Manager* and *MARVEL Duel*.
- Introduced PC game *Justice*’s two-year anniversary expansion pack in June, propelling high popularity and driving increased new and returning players.
- Reinforced international games presence with strong performances from *Knives Out* and *Life-After* in Japan.
- Continued popularity of Blizzard Entertainment’s *World of Warcraft*[®] in China, achieving a record number of peak concurrent users in the first half of this year.
- Advanced near-term titles for release including *Onmyoji: Yokai Koya*, as well as other upcoming titles in the pipeline such as: *The Lord of the Rings: Rise to War*, *Harry Potter: Magic Awakened*, *For All Time*, *Revelation* mobile game, *Ghost World Chronicle*, *Nightmare Breaker*, *Infinite Lagrange*, *Diablo*[®] *Immortal*[™] and *Pokémon Quest*.
- Grew Youdao’s intelligent learning business steadily with net revenues from learning services and products reaching RMB520.1 million (US\$73.6 million), up 190.0% year-over-year, and continued positive net operating cash flow of RMB93.0 million (US\$13.2 million).
- Maintained strong momentum for *NetEase Cloud Music*, with robust growth in net revenues from both membership and live streaming, and secured a multi-year licensing agreement with Universal Music Group recently.
- Completed listing on the main board of The Stock Exchange of Hong Kong Limited (the “Hong Kong Stock Exchange”) in June 2020.
- Issued first *Environmental, Social and Governance* report in June 2020.

^[1] As used in this announcement, non-GAAP net income from continuing operations attributable to the Company’s shareholders and non-GAAP basic and diluted net income from continuing operations per ADS and per share are defined to exclude share-based compensation expenses. See “Unaudited Reconciliation of GAAP and Non-GAAP Results” at the end of this announcement.

“We saw healthy gains across our business in the second quarter, with total net revenues of RMB18.2 billion, up 25.9% year-over-year, driven by strong performances from our online game services and *NetEase Cloud Music*,” said Mr. William Ding, Chief Executive Officer and Director of NetEase. “Our games portfolio holds considerable depth and diversity, supporting our online game services net revenues of RMB13.8 billion in the second quarter. We saw steady growth in our overseas revenue in the second quarter. With the continuous expansion of our abundant games pipeline, we are more confident and committed than ever to extending our reach to a broader market. Our other core businesses such as Youdao, *NetEase Cloud Music* and Yanxuan, among others, also continue to track well against our strategic goals.

“In June, we celebrated the 20th anniversary of our listing on NASDAQ, as well as completed our listing on the Hong Kong Stock Exchange. Creating value for our supporters is always a priority. We will continue to examine ways to drive our Company’s growth, keeping in mind the best interests of our long-term investors, who have extended their trust and support to us, as well as our increasingly global community of players,” Mr. Ding concluded.

Second Quarter 2020 Financial Results

Net Revenues

Net revenues for the second quarter of 2020 were RMB18,184.8 million (US\$2,573.9 million), compared to RMB17,062.4 million and RMB14,448.4 million for the preceding quarter and the second quarter of 2019, respectively.

Net revenues from online game services were RMB13,828.3 million (US\$1,957.3 million) for the second quarter of 2020, compared to RMB13,518.2 million and RMB11,433.4 million for the preceding quarter and the second quarter of 2019, respectively. Net revenues from mobile games accounted for approximately 72.3% of net revenues from online games for the second quarter of 2020, compared to 70.3% and 72.2% for the preceding quarter and the second quarter of 2019, respectively.

Net revenues from Youdao were RMB623.3 million (US\$88.2 million) for the second quarter of 2020, compared to RMB541.4 million and RMB322.8 million for the preceding quarter and the second quarter of 2019, respectively.

Net revenues from innovative businesses and others were RMB3,733.3 million (US\$528.4 million) for the second quarter of 2020, compared to RMB3,002.7 million and RMB2,692.3 million for the preceding quarter and the second quarter of 2019, respectively.

Gross Profit

Gross profit for the second quarter of 2020 was RMB9,792.2 million (US\$1,386.0 million), compared to RMB9,377.6 million and RMB7,736.8 million for the preceding quarter and the second quarter of 2019, respectively.

The quarter-over-quarter increase in online game services gross profit was primarily due to increased net revenues from self-developed mobile games such as *Invincible*, *Life-After* and *Knives Out*. The year-over-year increase was primarily due to increased net revenues from self-developed mobile games *Fantasy Westward Journey 3D*, *Invincible* and *Fantasy Westward Journey* mobile game, as well as certain licensed games.

The quarter-over-quarter and year-over-year increases in Youdao gross profit were primarily attributable to the significant increase in net revenues, improved economies of scale and faculty compensation structure optimization for its learning services and products.

The quarter-over-quarter increase in innovative businesses and others gross profit was primarily due to the improvement in gross profit from advertising services, Yanxuan and *NetEase Cloud Music*. The year-over-year increase was primarily due to increased net revenues from *NetEase Cloud Music*.

Gross Profit Margin

Gross profit margin for online game services for the second quarter of 2020 was 63.8%, compared to 64.1% and 63.1% for the preceding quarter and the second quarter of 2019, respectively. Gross profit margin for online game services was generally stable, fluctuating within a narrow band based on the revenue mix of mobile and PC games, as well as self-developed and licensed games.

Gross profit margin for Youdao for the second quarter of 2020 was 45.2%, compared to 43.5% and 32.9% for the preceding quarter and the second quarter of 2019, respectively. The quarter-over-quarter margin was comparatively stable. The year-over-year increase was primarily attributable to the factors enumerated above.

Gross profit margin for innovative businesses and others for the second quarter of 2020 was 18.5%, compared to 15.8% and 15.5% for the preceding quarter and the second quarter of 2019, respectively. The quarter-over-quarter increase was primarily due to improvement in gross profit margin from advertising services, Yanxuan and *NetEase Cloud Music*. The year-over-year increase was primarily due to increased net revenues from *NetEase Cloud Music*.

Operating Expenses

Total operating expenses for the second quarter of 2020 were RMB5,622.3 million (US\$795.8 million), compared to RMB4,891.2 million and RMB4,012.5 million for the preceding quarter and the second quarter of 2019, respectively. The quarter-over-quarter and year-over-year increases were mainly due to increased marketing expenditures related to online game services and Youdao, as well as higher staff-related costs and research and development investments.

Other Income

Other income consisted of investment income/ (loss), interest income, exchange gains and others. The quarter-over-quarter and year-over-year increases were mainly due to the gains from fair value changes of equity investments with readily determinable fair value and government incentives recognized.

Income Taxes

The Company recorded a net income tax charge of RMB1,064.5 million (US\$150.7 million) for the second quarter of 2020, compared to RMB1,082.0 million and RMB683.8 million for the preceding quarter and the second quarter of 2019, respectively. The effective tax rate for the second quarter of 2020 was 18.6%, compared to 21.5% and 16.7% for the preceding quarter and the second quarter of 2019, respectively. The effective tax rate represents certain estimates by the Company as to the tax obligations and benefits applicable to it in each quarter.

Net Income and Non-GAAP Net Income

Net income from continuing operations attributable to the Company's shareholders for the second quarter of 2020 totaled RMB4,537.8 million (US\$642.3 million), compared to RMB3,551.0 million and RMB3,354.2 million for the preceding quarter and the second quarter of 2019, respectively.

Non-GAAP net income from continuing operations attributable to the Company's shareholders for the second quarter of 2020 totaled RMB5,226.0 million (US\$739.7 million), compared to RMB4,212.9 million and RMB3,921.1 million for the preceding quarter and the second quarter of 2019, respectively.

NetEase reported basic and diluted net income from continuing operations per ADS of US\$4.95 and US\$4.89 for the second quarter of 2020, compared to US\$3.89 and US\$3.84, respectively for the preceding quarter and US\$3.68 and US\$3.65, respectively for the second quarter of 2019. NetEase reported basic and diluted net income from continuing operations per share of US\$0.20 each for the second quarter of 2020, compared to US\$0.16 and US\$0.15, respectively for the preceding quarter and US\$0.15 each for the second quarter of 2019.

Non-GAAP basic and diluted net income from continuing operations per ADS were US\$5.70 and US\$5.64 for the second quarter of 2020, compared to US\$4.61 and US\$4.55, respectively for the preceding quarter and US\$4.31 and US\$4.27, respectively for the second quarter of 2019. Non-GAAP basic and diluted net income from continuing operations per share were US\$0.23 each for the second quarter of 2020, compared to US\$0.18 each for the preceding quarter and US\$0.17 each for the second quarter of 2019.

Quarterly Dividend

The board of directors has approved a dividend of US\$1.485 per ADS (US\$0.0594 per share) for the second quarter of 2020, to holders of ADSs and holders of ordinary shares as of the close of business on August 28, 2020, New York Time and Hong Kong Time, respectively, payable in U.S. dollars. For holders of ordinary shares, in order to qualify for the dividend, all valid documents for the transfer of shares accompanied by the relevant share certificates must be lodged for registration with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on August 28, 2020 (Hong Kong Time). The payment date is expected to be on September 14, 2020 for holders of ordinary shares and on or around September 18, 2020 for holders of ADSs (assuming the dividend payment is timely received by the ADS depository).

NetEase paid a dividend of US\$1.16 per ADS (US\$0.0464 per share) for the first quarter of 2020 in June 2020.

Starting in the second quarter of 2019, the Company's policy has been to set quarterly dividends at an amount equivalent to approximately 20%-30% of the Company's anticipated net income after tax in each fiscal quarter. The determination to make dividend distributions and the amount of such distributions in any particular quarter will be made at the discretion of the board of directors and will be based upon the Company's operations and earnings, cash flow, financial condition and other relevant factors.

Other Information

As of June 30, 2020, the Company's total cash and cash equivalents, current and non-current time deposits and short-term investments balance totaled RMB102,993.6 million (US\$14,577.8 million), compared to RMB74,406.0 million as of December 31, 2019. Cash flow generated from continuing operating activities was RMB4,772.3 million (US\$675.5 million) for the second quarter of 2020, compared to RMB6,500.6 million and RMB4,928.1 million for the preceding quarter and the second quarter of 2019, respectively.

Share Purchase / Repurchase Program

On November 20, 2019, the Company announced that its board of directors had approved a share purchase program of up to US\$20.0 million of Youdao's outstanding ADSs for a period not to exceed 12 months beginning on November 25, 2019. Under the terms of this program, NetEase may purchase Youdao's ADSs in open-market transactions on the New York Stock Exchange. As of June 30, 2020, approximately 198,000 ADSs had been purchased under this program for a total cost of US\$3.4 million.

On February 26, 2020, the Company announced that its board of directors had approved a share repurchase program of up to US\$1.0 billion of the Company's outstanding ADSs for a period not to exceed 12 months beginning on March 2, 2020. On May 19, 2020, the Company announced that its board of directors had approved an amendment to such program to increase the total authorized repurchase amount to US\$2.0 billion. Under the terms of this program, NetEase may repurchase its issued and outstanding ADSs in open-market transactions on the NASDAQ Global Select Market. As of June 30, 2020, approximately 2.3 million ADSs had been repurchased under this program for a total cost of US\$755.7 million.

For both of the above-mentioned current programs, it is expected that the timing and dollar amount of purchase transactions will be in accordance with the Securities and Exchange Commission (SEC) Rule 10b-18 requirements and such purchases may be affected pursuant to a plan in conformity with SEC Rule 10b5-1. The extent to which NetEase repurchases its ADSs or purchases Youdao's ADSs will depend upon a variety of factors, including market conditions. These programs may be suspended or discontinued at any time.

** The United States dollar (US\$) amounts disclosed in this announcement are presented solely for the convenience of the reader. Translations of amounts from RMB into United States dollars for the convenience of the reader were calculated at the noon buying rate of US\$1.00 = RMB7.0651 on June 30, 2020 as set forth in the H.10 statistical release of the U.S. Federal Reserve Board. No representation is made that the RMB amounts could have been, or could be, converted into US\$ at that rate on June 30, 2020, or at any other certain date. The percentages stated are calculated based on RMB.

Change in Segment Reporting

Effective in the third quarter of 2019, the Company has reported the following segments: online game services, Youdao and innovative businesses and others, aligning with the manner in which the Company's chief operating decision maker ("CODM") currently receives and uses financial information to allocate resources and evaluate the performance of reporting segments. The Company retrospectively revised prior period segment information to conform to current period presentation.

Initial Public Offering in Hong Kong

In June, the Company successfully listed its ordinary shares on the main board of the Hong Kong Stock Exchange with a global offering of 197,202,000 ordinary shares. Gross proceeds from the global offering, before any underwriting fees and other offering expenses, were approximately HK\$24,255.8 million.

Impact of the Recently Adopted Major Accounting Pronouncements

In June 2016, the FASB issued ASU 2016-13 "Financial Instruments-Credit Losses (Topic 326)", which requires entities to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. This replaces the existing incurred loss model and is applicable to the measurement of credit losses on financial assets measured at amortized cost. The Company adopted the new standard effective January 1, 2020 on a modified retrospective basis and did not restate comparative periods. The impact of new standard was immaterial to the Company.

Conference Call

NetEase's management team will host a teleconference call with simultaneous webcast at 7:30 a.m. New York Time on Thursday, August 13, 2020 (Beijing/Hong Kong Time: 7:30 p.m., Thursday, August 13, 2020). NetEase's management will be on the call to discuss the quarterly results and answer questions.

Interested parties may participate in the conference call by dialing 1-929-477-0324 (US), 400-120-9101 (Mainland China) or 852-3008-1527 (Hong Kong) and providing conference ID: 7890540, 10-15 minutes prior to the initiation of the call. A replay of the call will be available by dialing 1-719-457-0820 and entering passcode 7890540#. The replay will be available through August 26, 2020.

This call will be webcast live and the replay will be available for 12 months. Both will be available on NetEase's Investor Relations website at <http://ir.netease.com/>.

About NetEase, Inc.

As a leading internet technology company based in China, NetEase, Inc. (NASDAQ: NTES and HKEX: 9999, “NetEase”) is dedicated to providing premium online services centered around innovative and diverse content, community, communication and commerce. NetEase develops and operates some of China’s most popular mobile and PC games. In more recent years, NetEase has expanded into international markets including Japan and North America. In addition to its self-developed game content, NetEase partners with other leading game developers, such as Blizzard Entertainment and Mojang AB (a Microsoft subsidiary), to operate globally renowned games in China. NetEase’s other innovative service offerings include the intelligent learning services of its majority-controlled subsidiary, *Youdao* (NYSE: DAO); music streaming through its leading *NetEase Cloud Music* business; and its private label e-commerce platform, *Yanxuan*. For more information, please visit: <http://ir.netease.com/>.

Forward Looking Statements

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; 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.

Non-GAAP Financial Measures

NetEase considers and uses non-GAAP financial measures, such as non-GAAP net income from continuing operations attributable to the Company's shareholders and non-GAAP basic and diluted net income from continuing operations per ADS and per share, as supplemental metrics in reviewing and assessing its operating performance and formulating its business plan. The presentation of non-GAAP financial measures is not intended to be considered in isolation or as a substitute for the financial information prepared and presented in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

NetEase defines non-GAAP net income from continuing operations attributable to the Company's shareholders as net income from continuing operations attributable to the Company's shareholders excluding share-based compensation expenses. Non-GAAP net income from continuing operations attributable to the Company's shareholders enables NetEase's management to assess its operating results without considering the impact of share-based compensation expenses, which are non-cash charges. NetEase believes that these non-GAAP financial measures provide useful information to investors in understanding and evaluating the Company's current operating performance and prospects in the same manner as management does, if they so choose. NetEase also believes that the use of this non-GAAP financial measure facilitates investors' assessment of its operating performance.

Non-GAAP financial measures are not defined under U.S. GAAP and are not presented in accordance with U.S. GAAP. Non-GAAP financial measures have limitations as analytical tools. One of the key limitations of using non-GAAP net income from continuing operations attributable to the Company's shareholders is that it does not reflect all items of expense/ income that affect our operations. Share-based compensation expenses have been and may continue to be incurred in NetEase's business and are not reflected in the presentation of non-GAAP net income from continuing operations attributable to the Company's shareholders. In addition, the non-GAAP financial measures NetEase uses may differ from the non-GAAP measures used by other companies, including peer companies, and therefore their comparability may be limited.

NetEase compensates for these limitations by reconciling non-GAAP net income from continuing operations attributable to the Company's shareholders to the nearest U.S. GAAP performance measure, all of which should be considered when evaluating the Company's performance. See "Unaudited Reconciliation of GAAP and Non-GAAP Results" at the end of this announcement. NetEase encourages you to review its financial information in its entirety and not rely on a single financial measure.

NETEASE, INC.
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
(RMB and USD in thousands)

| | December 2019 | June 30, 2020 | June 30, 2020 |
|--|---------------------------|---------------------------|--------------------------|
| | RMB | RMB | USD (Note 1) |
| Assets | | | |
| Current assets: | | | |
| Cash and cash equivalents | 3,246,373 | 10,622,795 | 1,503,559 |
| Time deposits | 53,487,075 | 66,348,005 | 9,390,951 |
| Restricted cash | 3,150,354 | 3,351,610 | 474,390 |
| Accounts receivable, net | 4,169,358 | 5,018,414 | 710,310 |
| Inventories, net | 650,557 | 558,789 | 79,091 |
| Prepayments and other current assets | 4,817,422 | 6,014,017 | 851,229 |
| Short-term investments | 15,312,595 | 19,199,417 | 2,717,501 |
| Assets held for sale | 271,278 | - | - |
| Total current assets | <u>85,105,012</u> | <u>111,113,047</u> | <u>15,727,031</u> |
| Non-current assets: | | | |
| Property, equipment and software, net | 4,621,712 | 4,416,247 | 625,079 |
| Land use right, net | 3,707,179 | 4,221,940 | 597,577 |
| Deferred tax assets | 903,904 | 790,046 | 111,824 |
| Time deposits | 2,360,000 | 6,823,390 | 965,788 |
| Other long-term assets | 15,424,166 | 16,805,584 | 2,378,676 |
| Assets held for sale | 2,398 | - | - |
| Total non-current assets | <u>27,019,359</u> | <u>33,057,207</u> | <u>4,678,944</u> |
| Total assets | <u><u>112,124,371</u></u> | <u><u>144,170,254</u></u> | <u><u>20,405,975</u></u> |
| Liabilities, Redeemable Noncontrolling Interests and Shareholders' Equity | | | |
| Current liabilities: | | | |
| Accounts payable | 1,212,303 | 853,745 | 120,840 |
| Salary and welfare payables | 2,957,360 | 2,570,216 | 363,790 |
| Taxes payable | 3,156,513 | 3,822,542 | 541,046 |
| Short-term loans | 16,828,226 | 21,932,603 | 3,104,358 |
| Deferred revenue | 8,602,227 | 9,375,909 | 1,327,074 |
| Accrued liabilities and other payables | 5,484,228 | 6,640,467 | 939,897 |
| Liabilities held for sale | 2,156 | - | - |
| Total current liabilities | <u>38,243,013</u> | <u>45,195,482</u> | <u>6,397,005</u> |
| Non-current liabilities: | | | |
| Deferred tax liabilities | 382,030 | 980,530 | 138,785 |
| Other long-term payable | 456,912 | 476,640 | 67,464 |
| Liabilities held for sale | 961 | - | - |
| Total non-current liabilities | <u>839,903</u> | <u>1,457,170</u> | <u>206,249</u> |
| Total liabilities | <u>39,082,916</u> | <u>46,652,652</u> | <u>6,603,254</u> |
| Redeemable noncontrolling interests | 10,448,600 | 10,538,663 | 1,491,651 |
| Total NetEase, Inc.'s equity | 61,453,699 | 85,804,783 | 12,144,879 |
| Noncontrolling interests | 1,139,156 | 1,174,156 | 166,191 |
| Total shareholders' equity | <u>62,592,855</u> | <u>86,978,939</u> | <u>12,311,070</u> |
| Total liabilities, redeemable noncontrolling interests and shareholders' equity | <u><u>112,124,371</u></u> | <u><u>144,170,254</u></u> | <u><u>20,405,975</u></u> |

The accompanying notes are an integral part of this announcement.

NETEASE, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(in thousands, except per share data or per ADS data)

| | Three Months Ended | | | | Six Months Ended | | |
|---|--------------------|-------------------|------------------|------------------|------------------|------------------|------------------|
| | June 30, 2019 | March 31, 2020 | June 30, 2020 | June 30, 2020 | June 30, 2019 | June 30, 2020 | June 30, 2020 |
| | RMB | RMB | RMB | USD (Note 1) | RMB | RMB | USD (Note 1) |
| Net revenues | 14,448,442 | 17,062,367 | 18,184,806 | 2,573,892 | 28,870,651 | 35,247,173 | 4,988,914 |
| Cost of revenues | (6,711,594) | (7,684,745) | (8,392,631) | (1,187,900) | (13,396,129) | (16,077,376) | (2,275,605) |
| Gross profit | 7,736,848 | 9,377,622 | 9,792,175 | 1,385,992 | 15,474,522 | 19,169,797 | 2,713,309 |
| Selling and marketing expenses | (1,289,763) | (1,863,071) | (2,321,397) | (328,572) | (2,447,853) | (4,184,468) | (592,273) |
| General and administrative expenses | (776,900) | (885,434) | (892,622) | (126,342) | (1,563,750) | (1,778,056) | (251,667) |
| Research and development expenses | (1,945,788) | (2,142,649) | (2,408,306) | (340,874) | (3,983,482) | (4,550,955) | (644,146) |
| Total operating expenses | (4,012,451) | (4,891,154) | (5,622,325) | (795,788) | (7,995,085) | (10,513,479) | (1,488,086) |
| Operating profit | 3,724,397 | 4,486,468 | 4,169,850 | 590,204 | 7,479,437 | 8,656,318 | 1,225,223 |
| Other income: | | | | | | | |
| Investment income/ (loss), net | 24,142 | (109,731) | 711,159 | 100,658 | 179,966 | 601,428 | 85,127 |
| Interest income, net | 185,227 | 345,184 | 396,519 | 56,124 | 357,433 | 741,703 | 104,981 |
| Exchange gains, net | 72,646 | 244,057 | 17,008 | 2,407 | 33,126 | 261,065 | 36,951 |
| Other, net | 78,026 | 66,708 | 421,199 | 59,617 | 115,190 | 487,907 | 69,059 |
| Income before tax | 4,084,438 | 5,032,686 | 5,715,735 | 809,010 | 8,165,152 | 10,748,421 | 1,521,341 |
| Income tax | (683,755) | (1,082,033) | (1,064,455) | (150,664) | (1,950,440) | (2,146,488) | (303,816) |
| Net income from continuing operations | 3,400,683 | 3,950,653 | 4,651,280 | 658,346 | 6,214,712 | 8,601,933 | 1,217,525 |
| Net loss from discontinued operations | (282,815) | - | - | - | (633,570) | - | - |
| Net income | 3,117,868 | 3,950,653 | 4,651,280 | 658,346 | 5,581,142 | 8,601,933 | 1,217,525 |
| Accretion and deemed dividends in connection with repurchase of redeemable noncontrolling interests | (73,048) | (386,019) | (150,958) | (21,367) | (141,831) | (536,977) | (76,004) |
| Net loss/ (income) attributable to noncontrolling interests | 26,547 | (13,628) | 37,484 | 5,306 | 14,174 | 23,856 | 3,377 |
| Net income attributable to the Company's shareholders including: | 3,071,367 | 3,551,006 | 4,537,806 | 642,285 | 5,453,485 | 8,088,812 | 1,144,898 |
| -Net income from continuing operations attributable to the Company's shareholders | 3,354,182 | 3,551,006 | 4,537,806 | 642,285 | 6,087,055 | 8,088,812 | 1,144,898 |
| -Net loss from discontinued operations attributable to the Company's shareholders | (282,815) | - | - | - | (633,570) | - | - |
| Basic net income/ (loss) per share: | 0.95 | 1.10 | 1.40 | 0.20 | 1.70 | 2.50 | 0.35 |
| -Continuing operations | 1.04 | 1.10 | 1.40 | 0.20 | 1.89 | 2.50 | 0.35 |
| -Discontinued operations | (0.09) | - | - | - | (0.19) | - | - |
| Basic net income/ (loss) per ADS: | 23.84 | 27.47 | 34.99 | 4.95 | 42.42 | 62.48 | 8.84 |
| -Continuing operations | 26.03 | 27.47 | 34.99 | 4.95 | 47.35 | 62.48 | 8.84 |
| -Discontinued operations | (2.19) | - | - | - | (4.93) | - | - |
| Diluted net income/ (loss) per share: | 0.95 | 1.08 | 1.38 | 0.20 | 1.68 | 2.47 | 0.35 |
| -Continuing operations | 1.03 | 1.08 | 1.38 | 0.20 | 1.88 | 2.47 | 0.35 |
| -Discontinued operations | (0.08) | - | - | - | (0.20) | - | - |
| Diluted net income/ (loss) per ADS: | 23.64 | 27.12 | 34.58 | 4.89 | 42.09 | 61.70 | 8.73 |
| -Continuing operations | 25.82 | 27.12 | 34.58 | 4.89 | 46.98 | 61.70 | 8.73 |
| -Discontinued operations | (2.18) | - | - | - | (4.89) | - | - |
| Weighted average number of ordinary shares outstanding, basic | 3,221,306 | 3,231,395 | 3,242,061 | 3,242,061 | 3,213,792 | 3,236,728 | 3,236,728 |
| Weighted average number of ADS outstanding, basic | 128,852 | 129,256 | 129,682 | 129,682 | 128,552 | 129,469 | 129,469 |
| Weighted average number of ordinary shares outstanding, diluted | 3,247,408 | 3,273,999 | 3,281,100 | 3,281,100 | 3,239,406 | 3,277,550 | 3,277,550 |
| Weighted average number of ADS outstanding, diluted | 129,896 | 130,960 | 131,244 | 131,244 | 129,576 | 131,102 | 131,102 |

The accompanying notes are an integral part of this announcement.

NETEASE, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(RMB and USD in thousands)

| | Three Months Ended | | | | Six Months Ended | | |
|---|--------------------|--------------|--------------|--------------|------------------|--------------|--------------|
| | June 30, | March 31, | June 30, | June 30, | June 30, | June 30, | June 30, |
| | 2019 | 2020 | 2020 | 2020 | 2019 | 2020 | 2020 |
| | RMB | RMB | RMB | USD (Note 1) | RMB | RMB | USD (Note 1) |
| Cash flows from operating activities: | | | | | | | |
| Net income | 3,117,868 | 3,950,653 | 4,651,280 | 658,346 | 5,581,142 | 8,601,933 | 1,217,525 |
| Net loss from discontinued operations | 282,815 | - | - | - | 633,570 | - | - |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | | | | |
| Depreciation and amortization | 633,574 | 690,057 | 892,150 | 126,276 | 1,214,751 | 1,582,207 | 223,947 |
| Fair value changes of equity security investments | 87,034 | 327,040 | (503,281) | (71,235) | (42,878) | (176,241) | (24,945) |
| Impairment losses of investments and other intangible assets | 68,883 | 6,600 | - | - | 164,982 | 6,600 | 934 |
| Fair value changes of short-term investments | (174,316) | (153,106) | (174,738) | (24,732) | (298,964) | (327,844) | (46,403) |
| Share-based compensation cost | 567,668 | 665,814 | 691,945 | 97,938 | 1,188,467 | 1,357,759 | 192,178 |
| Allowance for/ (reversal of) provision for doubtful debts | 2,854 | 49,939 | (1,305) | (185) | (15,465) | 48,634 | 6,884 |
| Losses on disposal of property, equipment and software | 1,452 | 37 | 1,070 | 151 | 4,190 | 1,107 | 157 |
| Unrealized exchange gains | (71,849) | (242,508) | (20,159) | (2,853) | (30,043) | (262,667) | (37,178) |
| Gains on disposal of long-term investments, business and subsidiaries | (156) | (15,433) | (14,803) | (2,095) | (12,134) | (30,236) | (4,280) |
| Deferred income taxes | 466,324 | 212,848 | 499,509 | 70,701 | 769,376 | 712,357 | 100,828 |
| Net equity share of (gains)/ losses from associated companies | (912) | (46,211) | (10,948) | (1,550) | 16,542 | (57,159) | (8,090) |
| Changes in operating assets and liabilities: | | | | | | | |
| Accounts receivable | 386,030 | (430,535) | (498,550) | (70,565) | (223,062) | (929,085) | (131,503) |
| Inventories | 132,712 | 88,440 | 3,329 | 471 | 295,716 | 91,769 | 12,989 |
| Prepayments and other assets | 546,551 | (1,103,798) | 233,607 | 33,065 | (432,822) | (870,191) | (123,168) |
| Accounts payable | (112,477) | (98,679) | (271,697) | (38,456) | (18,330) | (370,376) | (52,423) |
| Salary and welfare payables | 42,803 | (537,907) | 132,037 | 18,689 | (441,242) | (405,870) | (57,447) |
| Taxes payable | (833,059) | 1,234,078 | (568,138) | (80,415) | 106,300 | 665,940 | 94,258 |
| Deferred revenue | (490,658) | 1,379,126 | (605,444) | (85,695) | (339,017) | 773,682 | 109,507 |
| Accrued liabilities and other payables | 274,985 | 524,194 | 336,444 | 47,621 | (567,092) | 860,638 | 121,815 |
| Net cash provided by continuing operating activities | 4,928,126 | 6,500,649 | 4,772,308 | 675,477 | 7,553,987 | 11,272,957 | 1,595,585 |
| Net cash (used in)/ provided by discontinued operating activities | (462,362) | - | - | - | 298,351 | - | - |
| Net cash provided by operating activities | 4,465,764 | 6,500,649 | 4,772,308 | 675,477 | 7,852,338 | 11,272,957 | 1,595,585 |
| Cash flows from investing activities: | | | | | | | |
| Purchase of property, equipment and software | (274,448) | (164,320) | (237,039) | (33,551) | (644,038) | (401,359) | (56,809) |
| Proceeds from sale of property, equipment and software | 1,898 | 772 | 3,970 | 562 | 5,718 | 4,742 | 671 |
| Purchase of intangible assets, content and licensed copyrights | (298,301) | (306,835) | (839,441) | (118,815) | (1,149,861) | (1,146,276) | (162,245) |
| Net change in short-term investments with terms of three months or less | 1,503,083 | (780,535) | 1,083,342 | 153,337 | 1,462,828 | 302,807 | 42,860 |
| Purchase of short-term investments | (9,110,000) | (10,070,000) | (3,080,000) | (435,946) | (14,000,000) | (13,150,000) | (1,861,262) |
| Proceeds from maturities of short-term investments | 2,759,491 | 6,887,976 | 2,345,218 | 331,944 | 5,070,813 | 9,233,194 | 1,306,874 |
| Investment in associated companies and other long-term investments | (227,229) | (205,005) | (520,762) | (73,708) | (619,245) | (725,767) | (102,726) |
| Proceeds from disposal of investment in equity investments, businesses and subsidiaries | 42,399 | 196,952 | 33,856 | 4,792 | 251,081 | 230,808 | 32,669 |
| Placement/rollover of matured time deposits | (16,234,752) | (11,667,487) | (38,412,268) | (5,436,904) | (32,831,292) | (50,079,755) | (7,088,329) |
| Proceeds from maturities of time deposits | 18,588,553 | 13,640,617 | 19,442,266 | 2,751,874 | 34,548,012 | 33,082,883 | 4,682,578 |
| Change in other long-term assets | (56,553) | (10,522) | (76,103) | (10,772) | (88,312) | (86,625) | (12,261) |
| Amounts (paid to)/ received from disposed businesses | (200,690) | - | - | - | 450,486 | - | - |
| Net cash used in continuing investing activities | (3,506,549) | (2,478,387) | (20,256,961) | (2,867,187) | (7,543,810) | (22,735,348) | (3,217,980) |
| Net cash provided by/ (used in) discontinued investing activities | 136,649 | - | - | - | (567,355) | - | - |
| Net cash used in investing activities | (3,369,900) | (2,478,387) | (20,256,961) | (2,867,187) | (8,111,165) | (22,735,348) | (3,217,980) |

The accompanying notes are an integral part of this announcement.

NETEASE, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
(RMB and USD in thousands)

| | Three Months Ended | | | | Six Months Ended | | |
|--|--------------------|-------------|-------------|--------------|------------------|-------------|--------------|
| | June 30, | March 31, | June 30, | June 30, | June 30, | June 30, | June 30, |
| | 2019 | 2020 | 2020 | 2020 | 2019 | 2020 | 2020 |
| | RMB | RMB | RMB | USD (Note 1) | RMB | RMB | USD (Note 1) |
| Cash flows from financing activities: | | | | | | | |
| Proceeds of short-term bank loans | 297,875 | 100,000 | 360,474 | 51,022 | 312,875 | 460,474 | 65,176 |
| Payment of short-term bank loans | - | (98,395) | (358,171) | (50,696) | - | (456,566) | (64,623) |
| Net changes in short-term loans with terms of three months or less | (1,144,121) | 2,539,570 | 2,305,176 | 326,276 | (403,008) | 4,844,746 | 685,729 |
| Net proceeds received from issuance of shares in Hong Kong | - | - | 22,083,467 | 3,125,712 | - | 22,083,467 | 3,125,712 |
| Capital injection from/ (repurchase of) noncontrolling interests and redeemable noncontrolling interests shareholders, net | 215,913 | (447,632) | 163,865 | 23,194 | 284,524 | (283,767) | (40,165) |
| Cash received from/ (paid for) repurchase of NetEase's/ purchase of Youdao's ADSs | 10,645 | (2,560,897) | (3,260,996) | (461,564) | 10,645 | (5,821,893) | (824,035) |
| Dividends paid to shareholders | (613,117) | (926,545) | (1,115,136) | (157,837) | (1,026,706) | (2,041,681) | (288,981) |
| Net cash (used in)/ provided by financing activities | (1,232,805) | (1,393,899) | 20,178,679 | 2,856,107 | (821,670) | 18,784,780 | 2,658,813 |
| Effect of exchange rate changes on cash, cash equivalents and restricted cash held in foreign currencies | 35,624 | 74,100 | 180,056 | 25,485 | 17,730 | 254,156 | 35,973 |
| Net (decrease)/ increase in cash, cash equivalents and restricted cash | (101,317) | 2,702,463 | 4,874,082 | 689,882 | (1,062,767) | 7,576,545 | 1,072,391 |
| Cash, cash equivalents and restricted cash, at the beginning of the period | 9,245,088 | 6,397,860 | 9,100,323 | 1,288,067 | 10,206,538 | 6,397,860 | 905,558 |
| Cash, cash equivalents and restricted cash, at end of the period | 9,143,771 | 9,100,323 | 13,974,405 | 1,977,949 | 9,143,771 | 13,974,405 | 1,977,949 |
| Less: Cash, cash equivalents and restricted cash of held for sale at end of the period | 255,151 | 371 | - | - | 255,151 | - | - |
| Cash, cash equivalents and restricted cash of continuing operations at end of the period | 8,888,620 | 9,099,952 | 13,974,405 | 1,977,949 | 8,888,620 | 13,974,405 | 1,977,949 |
| Supplemental disclosures of cash flow information of continuing operations: | | | | | | | |
| Cash paid for income tax, net | 562,032 | 202,044 | 548,556 | 77,643 | 1,097,755 | 750,600 | 106,241 |
| Cash paid for interest expense | 115,410 | 96,711 | 55,301 | 7,827 | 224,074 | 152,012 | 21,516 |
| Supplemental schedule of non-cash investing and financing activities of continuing operations: | | | | | | | |
| Fixed asset purchases financed by accounts payable and accrued liabilities | 312,346 | 377,564 | 277,314 | 39,251 | 312,346 | 277,314 | 39,251 |

The accompanying notes are an integral part of this announcement.

NETEASE, INC.
UNAUDITED SEGMENT INFORMATION
(RMB and USD in thousands, except percentages)

| | Three Months Ended | | | | Six Months Ended | | |
|----------------------------------|-------------------------|--------------------------|-------------------------|----------------------------------|-------------------------|-------------------------|----------------------------------|
| | June 30, 2019 RMB | March 31, 2020 RMB | June 30, 2020 RMB | June 30, 2020 USD (Note 1) | June 30, 2019 RMB | June 30, 2020 RMB | June 30, 2020 USD (Note 1) |
| Net revenues: | | | | | | | |
| Online game services | 11,433,361 | 13,518,244 | 13,828,256 | 1,957,263 | 23,283,545 | 27,346,500 | 3,870,646 |
| Youdao | 322,812 | 541,388 | 623,290 | 88,221 | 548,543 | 1,164,678 | 164,849 |
| Innovative businesses and others | 2,692,269 | 3,002,735 | 3,733,260 | 528,408 | 5,038,563 | 6,735,995 | 953,419 |
| Total net revenues | 14,448,442 | 17,062,367 | 18,184,806 | 2,573,892 | 28,870,651 | 35,247,173 | 4,988,914 |
| Cost of revenues: | | | | | | | |
| Online game services | (4,220,652) | (4,851,831) | (5,009,354) | (709,028) | (8,519,997) | (9,861,185) | (1,395,760) |
| Youdao | (216,749) | (305,663) | (341,751) | (48,372) | (389,585) | (647,414) | (91,636) |
| Innovative businesses and others | (2,274,193) | (2,527,251) | (3,041,526) | (430,500) | (4,486,547) | (5,568,777) | (788,209) |
| Total cost of revenues | (6,711,594) | (7,684,745) | (8,392,631) | (1,187,900) | (13,396,129) | (16,077,376) | (2,275,605) |
| Gross profit: | | | | | | | |
| Online game services | 7,212,709 | 8,666,413 | 8,818,902 | 1,248,235 | 14,763,548 | 17,485,315 | 2,474,886 |
| Youdao | 106,063 | 235,725 | 281,539 | 39,849 | 158,958 | 517,264 | 73,213 |
| Innovative businesses and others | 418,076 | 475,484 | 691,734 | 97,908 | 552,016 | 1,167,218 | 165,210 |
| Total gross profit | 7,736,848 | 9,377,622 | 9,792,175 | 1,385,992 | 15,474,522 | 19,169,797 | 2,713,309 |
| Gross profit margin: | | | | | | | |
| Online game services | 63.1% | 64.1% | 63.8% | 63.8% | 63.4% | 63.9% | 63.9% |
| Youdao | 32.9% | 43.5% | 45.2% | 45.2% | 29.0% | 44.4% | 44.4% |
| Innovative businesses and others | 15.5% | 15.8% | 18.5% | 18.5% | 11.0% | 17.3% | 17.3% |

The accompanying notes are an integral part of this announcement.

NETEASE, INC.

NOTES TO UNAUDITED FINANCIAL INFORMATION

Note 1: The conversion of Renminbi (RMB) into United States dollars (USD) is based on the noon buying rate of USD1.00 = RMB7.0651 on the last trading day of June 2020 (June 30, 2020) as set forth in the H.10 statistical release of the U.S. Federal Reserve Board.

Note 2: Share-based compensation cost reported in the Company's unaudited condensed consolidated statements of comprehensive income is set out as follows in RMB and USD (in thousands):

| | Three Months Ended | | | | Six Months Ended | | |
|--|--------------------|-------------------|------------------|------------------|------------------|------------------|------------------|
| | June 30, 2019 | March 31, 2020 | June 30, 2020 | June 30, 2020 | June 30, 2019 | June 30, 2020 | June 30, 2020 |
| | RMB | RMB | RMB | USD (Note 1) | RMB | RMB | USD (Note 1) |
| Share-based compensation cost included in: | | | | | | | |
| Costs of revenue | 187,141 | 207,915 | 204,953 | 29,009 | 386,350 | 412,868 | 58,438 |
| Operating expenses | | | | | | | |
| - Selling and marketing expenses | 21,144 | 24,811 | 27,034 | 3,826 | 46,391 | 51,845 | 7,338 |
| - General and administrative expenses | 187,362 | 230,371 | 247,589 | 35,044 | 385,220 | 477,960 | 67,651 |
| - Research and development expenses | 172,021 | 202,717 | 212,369 | 30,059 | 370,506 | 415,086 | 58,752 |

The accompanying notes are an integral part of this announcement.

NETEASE, INC.

UNAUDITED RECONCILIATION OF GAAP AND NON-GAAP RESULTS

(in thousands, except per share data or per ADS data)

| | Three Months Ended | | | | Six Months Ended | | |
|---|--------------------|-------------------|------------------|------------------|------------------|------------------|------------------|
| | June 30, 2019 | March 31, 2020 | June 30, 2020 | June 30, 2020 | June 30, 2019 | June 30, 2020 | June 30, 2020 |
| | RMB | RMB | RMB | USD (Note 1) | RMB | RMB | USD (Note 1) |
| Net income from continuing operations attributable to the Company's shareholders | 3,354,182 | 3,551,006 | 4,537,806 | 642,285 | 6,087,055 | 8,088,812 | 1,144,898 |
| Add: Share-based compensation | 566,869 | 661,871 | 688,227 | 97,412 | 1,187,308 | 1,350,098 | 191,094 |
| Non-GAAP net income from continuing operations attributable to the Company's shareholders | 3,921,051 | 4,212,877 | 5,226,033 | 739,697 | 7,274,363 | 9,438,910 | 1,335,992 |
| Non-GAAP basic net income from continuing operations per share | 1.22 | 1.30 | 1.61 | 0.23 | 2.26 | 2.92 | 0.41 |
| Non-GAAP basic net income from continuing operations per ADS | 30.43 | 32.59 | 40.30 | 5.70 | 56.59 | 72.90 | 10.32 |
| Non-GAAP diluted net income from continuing operations per share | 1.21 | 1.29 | 1.59 | 0.23 | 2.25 | 2.88 | 0.41 |
| Non-GAAP diluted net income from continuing operations per ADS | 30.19 | 32.17 | 39.82 | 5.64 | 56.14 | 72.00 | 10.19 |

The accompanying notes are an integral part of this announcement.