



Webzen Q2 2004 Earnings Release

August 10, 2004

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Results Summary

- Total revenue decline of 12.9% → domestic 13.3%, overseas 10.2%
- Operating expenses increased by 16.3%; margin pressure brought on mainly by continued investment in R&D initiatives
- Significant improvement in net non-operating income, reflecting amelioration of foreign currency issues highlighted in the previous quarter
- Pretax profit and net income growth of 25.1% and 31.8%, respectively

Summary of 2Q 2004 Results

Units : KRW mm

	2Q 2004	1Q 2004	QoQ (%)	2Q 2003	YoY (%)
Revenues	13,716	15,742	(12.9)	14,552	(5.7)
Operating expenses	7,798	6,706	16.3	6,552	19.0
Operating profit	5,918	9,036	(34.5)	8,000	(26.0)
Non-operating income	3,590	3,693	(2.8)	2,826	27.0
Non-operating expenses	132	5,235	(97.5)	168	(21.4)
Pretax profit	9,376	7,494	25.1	10,658	(12.0)
Net income	8,481	6,434	31.8	8,871	(4.4)

Revenue Breakdown

- Domestic revenues declined by 12.9% due to seasonality factors and fewer updates to MU relative to previous periods
- Decline in overseas royalty from China and Taiwan
- Japan and Thailand markets gaining traction

Revenue Distribution

Units: KRW mm

	2Q 2004		1Q 2004	Change (%)
Revenues	13,716	100%	15,762	(12.9)
Domestic	11,841		13,655	(13.3)
Overseas	1,854		2,065	(10.2)
Other	21	-	22	(4.5)

Domestic Revenues

- Domestic revenues declined by 13.3% over last quarter; domestic revenues account for 86% of total revenues
- Individual subscription revenues, accounting for 69% of domestic revenues, decreased by 8.4%
- Internet café revenues decreased by 22.7% due to the effects of seasonality and grouping of major MU updates for the third quarter

Breakdown of Domestic Revenues

Units: KRW mm

	2Q 2004	1Q 2004	Change (%)
Total Domestic	11,841	13,655	(13.3)
Individual	8,239	8,997	(8.4)
Internet Cafes	3,602	4,658	(22.7)

Overseas Revenue

- In China, continued revenue impact of problems associated with pirated servers led to decrease in royalty of 34%
- Through the establishment of Webzen Taiwan, a fully-owned subsidiary, the Company intends to aggressively expand market share in Taiwan
- A full quarter of revenues recorded from Japan, and new revenue source created through commercialization in Thailand in April → stable revenues expected from these growing markets going forward

Overseas Revenue by Country

Units: KRW mm

	2Q 2004	1Q 2004	Change (%)
Overseas royalty	1,854	2,065	(10.2)
China	1,048	1,587	(34.0)
Taiwan	247	288	(14.2)
Japan	345	190	81.6
Thailand	214	-	-

Operating Costs

- Total operating costs increased by 16.3% → 32.6% increase in cost of goods sold and 9.4% increase in SG&A
- The main driver for operating costs is labor costs, as headcount expanded dramatically over the last two quarters, particularly in the R&D department (176 employees in December 2003, 194 in March 2004, and 256 as of end of June 2004)
- Marketing costs increased by approximately 400 million Won due to the Company's active participation in the E3 Game Show in Los Angeles

Operating Costs

Units: KRW mm

	2Q 2004	1Q 2004	Change (%)
Total operating costs	7,798	6,705	16.3
Salaries	2,513	1,632	54.0
Depreciation	622	549	13.5
Bad debt expense	191	540	(64.6)
Sales commission	815	1,058	(23.0)
Commissions paid	1,322	1,166	13.4
Marketing expenses	1,255	852	47.3
Other	1,080	909	18.7

Non-operating Items

- Net non-operating income increased by 324.7%, resulting in significant pretax profit margin improvement
- Gains on equity method from 9Webzen increased by 209.7% over last quarter
- Limited foreign exchange impact, as USD-denominated assets fully hedged in forward currency contracts

Net Non-operating Income

Units: KRW mm

	2Q 2004	1Q 2004	Change (%)
Net non-operating income	3,458	(1,542)	324.3
Interest income	1,000	839	19.2
Profit (loss) on foreign exchange	1,424	(2,714)	n/a
Gains on equity method	1,020	329	210.0
Other	14	4	n/a

Income Statement

Units : KRW mm

	1Q 2004	4Q 2003	Change (%)
Revenues	13,716	15,742	(12.9)
Online games	11,862	13,677	(13.3)
Royalty	1,854	2,065	(10.2)
Merchandise	--	--	--
Cost of goods sold	2,653	2,002	32.5
Gross profit	11,063	13,740	(19.5)
SG&A	5,145	4,704	9.4
Operating profit	5,918	9,036	(34.5)
Non-operating income	3,590	3,693	(2.8)
Non-operating expenses	132	5,235	(97.6)
Recurring / pretax profit	9,376	7,494	25.2
Net income	8,481	7,494	31.8