

T O D A Y

T O M O R R O W

TODAY AND TOMORROW

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NHN: Creating a world in which everyone is connected to everyone.

The corporate identity (CI) of Next Human Network (NHN) encapsulates all the values contained in the word "connectivity." It refers to a world that helps us keep in touch with our loved ones, sharing information with them at the click of a mouse and connecting us with them even though they may live far away.

TODAY AND TOMORROW

NHN's goal is to create a happier world, in which people can grow and make their dreams come true. We help them share knowledge and information and connect with the whole wide world. This commitment to creativity, innovation, and challenge will build a brighter future for everyone.

MAJOR ACCOM- PLISH- MENTS IN 2011

The growth of NHN, Korea's premier Internet company, continued unabated in 2011.

This included maintaining the country's largest share of the Internet search market, and increasing our volume of both online and mobile ads. Our sales of games grew, and we also launched a broad line of smartphone games. In addition, we laid the foundations for future success by making exciting additions to our new business areas, including mobile and social networking services. Last, but not least, we leveraged our role as a caring and concerned corporate citizen to help create a happier and healthier world through a wide range of social contributions activities.

SEARCH

SEA MLESS

Korea's Number One Search Portal

Enhancing search competitiveness through innovative services and strengthened security protection

In 2011, Naver boasted a more than 70% share of Korea's search market, providing users with improved search services and convenience. This included enhancing our Knowledge-IN services, adding to our range of dictionaries and specialized content, and launching searches by image and video subject. We also started offering real-time stock prices, improved public transportation information, and a better maps section. In addition, we acquired a number of authorized information protection certificates, such as the Personal Information Management System, ensuring that our customers have 24/7 access to world-class personal information protection.

71.92%

Share of Korea's search query market
(As of December 2011/Source: KoreanClick)



34 million

Number of monthly unique visitors
(As of December 2011/Source: KoreanClick)

BU BUSINESS

BU

ILD

KRW 298.7 billion

Display ad revenue
(Based on consolidated financial statements as of December 2011)

KRW 1,081.8 billion

Search ad revenue
(Based on consolidated financial statements as of December 2011)

222,000

Number of advertisers registering search ads
(As of December 2011)

Sustained growth of both online and mobile ads

Strengthened business foundations by introducing customer-driven search ads and adding to volume of mobile ads

NHN continued its leadership of Korea's online advertising market by improving the quality of its searches and ad products. We also took steps to ensure that our advertisers enjoy a bigger bang for their advertising buck. This included giving them a choice of media selections rights and shifting from a flat-unit pricing scheme to a customer-oriented, fully-customized one.

Our volume of mobile search ads also soared, recording KRW 170 million in average daily sales.

In addition, we increased our profitability by commercializing our mobile display ads from November onwards.

KRW 170 million

Average daily sales of mobile search ads
(Based on consolidated financial statements as of December 2011)

CO NNECT

CO

MMUNICATION

Enhanced growth engines by enriching mobile and SNS platforms

Bolstered growth momentum by consolidating mobile and SNS services

NHN's leadership of Korea's online search market continued to grow dramatically. Naver Mobile's twenty-nine mobile webs and eighteen applications enable visitors to enjoy 24/7 access to its many services by linking PC with mobile. As a result, the number of our mobile unique visitors in 2011 rose to 59.8% of our PC volume, and the number of our me2day users and downloads of our LINE global mobile messenger service exceeded eight million and fifteen million, respectively. LINE is now available in two hundred countries.

8 million
Number of me2day members
(As of December 2011)

15 million
Number of LINE downloads
(As of January 2012)

59.8%
Ratio of unique visitors to mobile Naver to unique visitors to Naver's PC website
(As of December 2011)

47.0%
Ratio of mobile queries to PC queries
(As of December 2011)



FU N

FURTHER

Increased potential for growth in both online and smartphone games

Expanded online game publishing and mobile game portfolios

Hangame, NHN's online game portal, continued its solid growth by strengthening its game publishing and web-board game capabilities. It also launched a new, blockbuster-level MMORPG called TERA, Baseball Club, and the channeling service of FreeStyle 2. In addition, it introduced 185 smartphone games, such as Run and Hit, Every Farm, Sachunsung (a mahjong-type puzzle game), Jumping Mong, and Master of Sword 5 Reload. We will add to our growth and profitability by developing games in collaboration with Orange Crew, our in-house smartphone game studio, and third-party developers.

TERA

Received grand prize at 2011 Korea Game Awards

1.5 million

Total number of Run and Hit smartphone game downloads (As of December 2011)

OP EN

OP

17.9 million

Number of monthly mobile unique visitors to Naver Japan
(As of December 2011, Source: NHN)

PORTUNITY

7.3 million

Number of monthly PC unique visitors to Naver Japan
(As of December 2011, Source: Neilson Netratings)

Enhancing Global Business, with a Focus on Japan

Strengthened global business by advancing into game and web services

In 2011, Naver extended the reach of its global network, with a special emphasis on Japan. For example, Hangame Japan, the country's leading online game portal, added to its fan base by launching a series of new games, such as TERA, and opening its Hangame smartphone game portal. In addition, Naver Japan launched a broad range of smartphone applications, including LINE. It also enhanced its Matome user participation information service and its Unified Search service. In 2012, we are planning to integrate the management of our affiliates: NHN Japan, Naver Japan, and livedoor.



SH ARE

SH

IFT

7.9 million

Number of donors
(As of December 2011)

224

Number of school libraries
(As of December 2011)

Helping to Make the World Happier and Healthier

Creating a happier and healthier world through social contributions activities

In 2011, NHN continued helping society through a host of social contributions activities. They included encouraging the growth of a donation culture, raising the public's interest in sharing through our Happybean online donation portal, and supporting projects such as school libraries, book bus, and On Stage, a venue for introducing little-known musicians. We also worked to reduce prejudice against people who are "different" and increase job opportunities for the underprivileged. Much of this was done through a world-wide exhibition called Dialogue in the Dark, which is being carried out by our N-Visions social enterprise. Some of our other efforts included operating Library1, a library specializing in IT and designs, inside our office building, and establishing NHN NEXT, a software academy for fostering IT experts.

KRW 29.3 billion

Total value of donations from Happybean
(as of December 2011)

2011 AT A GLANCE

Expanded Naver search content

January

- NHN signed agreement with Ministry of Foreign Affairs and Trade to cooperate with its plan to strengthen public communications channels

February

- NHN signed MOU with Seoul National University Dental Hospital to share information about dental medicine

April

- NHN signed MOU with Hyundai Motor and Kia Motors regarding joint development of telematics services
- NHN signed MOU with Korea Transportation Safety Authority to increase level of information about environmentally friendly public transportation

- NHN signed MOU with Seoul National University regarding creation of reference database to promote scientific research
- NHN signed Exclusive Collaboration Agreement with province of Gangwon-do
- NHN agreed to cooperate with SK Telecom in stabilizing mobile services

June

- NHN signed MOU with Seoul National University regarding creation of reference database to promote scientific research
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- NHN agreed to cooperate with SK Telecom in stabilizing mobile services

July

- NHN signed MOU with Korean National Commission for UNESCO regarding creation of World Heritage database

October

- NHN signed MOU with CJ HelloVision and CJ E&M regarding improvements to broadcasting content
- NHN signed agreement with Ministry of Culture, Sports and Tourism and Korean Announcers' Association regarding correct use of Korean language

December

- NHN signed MOU with Korean Cultural Heritage Administration to help strengthen country's cultural heritage content

Strengthened Naver's mobile services

May

- Naver released Naver Music app

June

- Naver launched Auto-Complete service for Naver Mobile

August

- Naver began offering live mobile broadcasts of all Korean professional baseball games

September

- Naver launched knowledge dictionary service for Naver Mobile Web
- Naver launched Naver Mobile Web search registration service

October

- Naver began offering QR codes and shortened URLs to make mobile searches easier

November

- Naver launched Chinese-language dictionary for Naver Mobile Web
- Naver launched Naver Real Estate app

December

- Naver Map began offering real-time information on local bus service in Seoul, Gyeonggi-do, and Incheon
- Naver launched new ad campaign for Naver App

Revamped online and mobile ads

January

- Naver changed search ad partner to NHN Business Platform (NBP) from Overture Korea

February

- NHN decided to enter open market-type service

April

- NBP provided funds to Alliance Internet to grow with small- and medium-sized media

November

- NBP and Hyundai Motor introduced Hyundai Car Point Program
- Naver launched mobile display ads

Continued growth of online games

January

- Hangame launched commercial TERA service in Korea

April

- NHN signed agreement with Ginno Games regarding publishing of Immortal

August

- Hangame launched commercial TERA service in Japan

- Hangame signed agreement with KONAMI of Japan regarding publishing of Winning Eleven Online

November

- NHN announced winners of Second NHN Game Literature Awards, including Vaudeville

- Hangame introduced Winning Eleven Online, Metro Conflict: Presto, and Kingdom Under Fire II at G-star 2011, Korea's largest game exhibition

December

- Hangame launched the first closed beta service for Metro Conflict: Presto

Enhanced Hangame's mobile game capabilities

August

- Hangame released Sachunsung and New Mot-Go mobile games

September

- Hangame agreed to cooperate with SOFTMAX in smartphone game business

October

- Hangame released Wolf Boy mobile game

November

- Hangame released Run and Hit mobile game
- Hangame released Every Farm mobile game

- Hangame released Master of Sword 5 Reload mobile game

- Orange Crew released Jumping Mong mobile game

December

- Hangame released Anima mobile game
- Hangame released Yoma Yoma mobile game
- Hangame and O2Jam released Hangame O2Jam Analog smartphone rhythm-action game

Added to SNS business both at home and abroad

April

- me2day launched Me. Today. Now ad campaign

October

- me2day released social plug-in service

November

- me2day held user-oriented MEET 2011 event

- Number of LINE mobile messenger downloads exceeded 15 million in 108 countries around the world since launch in June (As of January 2012)

Reorganized business structure

January

- NHN established Orange Crew, with 100% ownership stake and capital of KRW twenty billion

February

- NHN acquired Game Crew, with 100% ownership stake and capital of KRW 500 million

- NHN's Webzen affiliate acquired YMIR Entertainment, with 100% ownership stake and capital of KRW 500 million

March

- NHN established Sync Corp., with 100% ownership stake and capital of KRW two billion

April

- NHN spun off NHN I&S and established NHN Technology Services and Nplex

- NHN established CommPartners, with 100% ownership stake and capital of KRW 500 million

September

- NBP established Kan Communications, a joint venture with KT, with 50% ownership stake and capital of KRW six billion

October

- NHN established NHN Arts, with 100% ownership stake and capital of KRW five billion

December

- NHN sold 100% stake in IJJI Games in the United States

Improved shareholder value

March - May

- Bought back 481,277 treasury stocks to stabilize share price and improve shareholder value

August - October

- Bought back 481,277 treasury stocks to stabilize share price and improve shareholder value
- Decided to pay KRW 23.6 billion (KRW 536 per share) in dividends (as of the end of 2011)

Engaged in R&D and monetary investments

April

- NHN joined with Hyundai Motor and Kia Motors to develop telematics services

October

- NHN held DeView 2011 developers' conference

- NHN announced establishment of NHN Next in 2013 to foster development of software specialists

- NHN decided to build eco-friendly NHN Internet Data Center (IDC) in city of Chuncheon

Boosted personal information protection activities

May

- NHN obtained Korea's first-ever Personal Information Management System certificate

Carried out social contributions activities

May

- NHN opened two hundredth neighborhood library

July

- NHN supported the establishment of disaster relief systems and IDC services for Japanese companies

October

- Naver launched fourth annual Beauty in Every Letter campaign to promote proper use of Korean language

November

- NHN hosted Happy Sharing Project with Korean Professional Baseball Players' Association

December

- NHN launched year-end sharing campaign with Gana Art Gallery

Awards and Accolades

July

- NHN's CFO, In-joon Hwang, named Best CFO in Internet category in All-Asia Executive Team survey by *Institutional Investor*, a leading international business-to-business publication

- Naver's talent donation campaign selected for final shortlist in PR category at Cannes Lion's International Festival of Creativity

August

- NHN's annual report won gold prize in Internet Services category at Annual Report Competition (ARC) 2011 Awards.

- The company won the same prize the year before.

November

- Naver App Square and Naver Photo Printing Package Design won iF Design Awards in Communications category

December

- Naver Map placed among Best Five in Navigation category at Apple's App Store Rewind 2011

2011 FINANCIAL HIGHLIGHTS

CONSOLIDATED FINANCIAL STATEMENTS

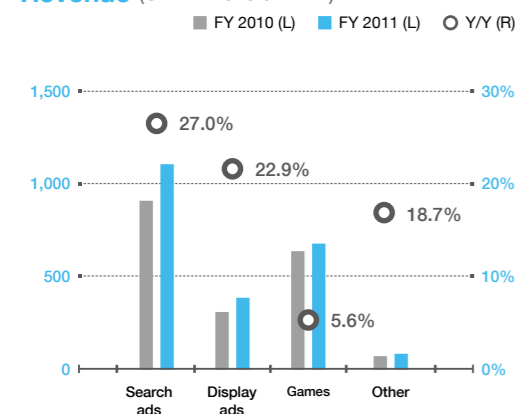
Statements of Financial Position (Units: Billions of KRW, %)

	FY 2010	FY 2011	% Change
Total Assets	1,967.0	2,372.7	20.6%
Total Liabilities	645.0	794.8	23.2%
Total Shareholders' Equity	1,322.0	1,577.9	19.4%

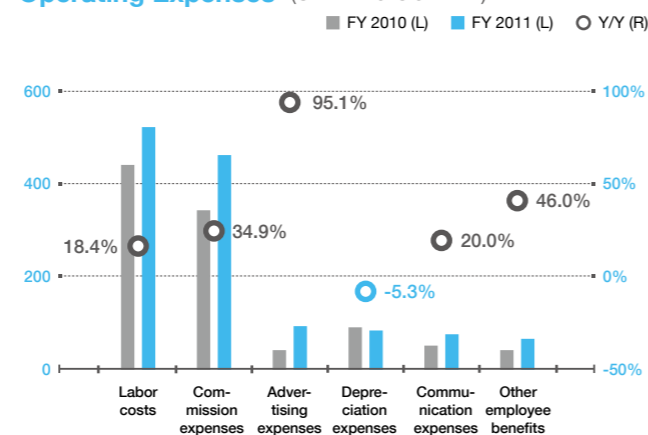
Statements of Comprehensive Income (Units: Billions of KRW, %)

	FY 2010	FY 2011	% Change
Operating Revenue	1,790.6	2,147.4	19.9%
Sales	1,785.4	2,121.3	18.8%
Other	5.2	26.1	400.7%
Operating Expenses	1,200.2	1,527.0	27.2%
Operating Expenses	1,168.9	1,465.1	25.3%
Other	31.3	61.9	97.6%
Operating income	590.2	620.4	5.1%
Operating Income Margins	33.0%	28.9%	-4.1%p
Financial Income	28.1	63.6	126.6%
Financial Costs	19.1	52.5	175.1%
Gains on Investment in Equity-Accounted Investee	6.3	2.2	-65.4%
Losses on Investment in Equity-Accounted Investee	2.2	1.6	-26.0%
Income before Income Taxes	603.5	632.1	4.7%
Income Taxes	155.1	180.0	16.1%
Gains from Discontinued Operation, Net of Tax	20.5	0	-
Net Income	468.9	452.1	-3.6%
Other Comprehensive Income (Loss)	-3.4	-14.2	317.1%
Total Comprehensive Income	465.5	437.9	-5.9%

Revenue (Unit: Billions of KRW)



Operating Expenses (Unit: Billions of KRW)



FINANCIAL STATEMENTS

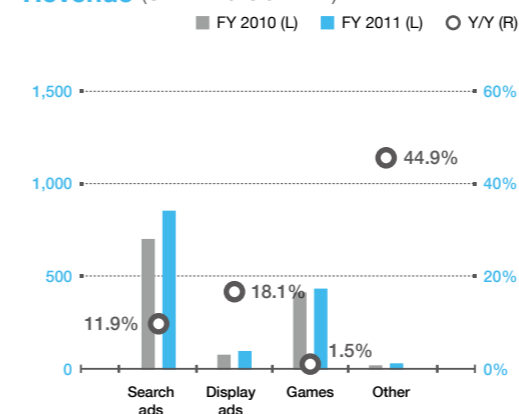
Statements of Financial Position (Units: Billions of KRW, %)

	FY 2010	FY 2011	% Change
Total Assets	1,697.4	1,984.8	16.9%
Total Liabilities	371.3	389.0	4.8%
Total Shareholders' Equity	1,326.1	1,595.7	20.3%

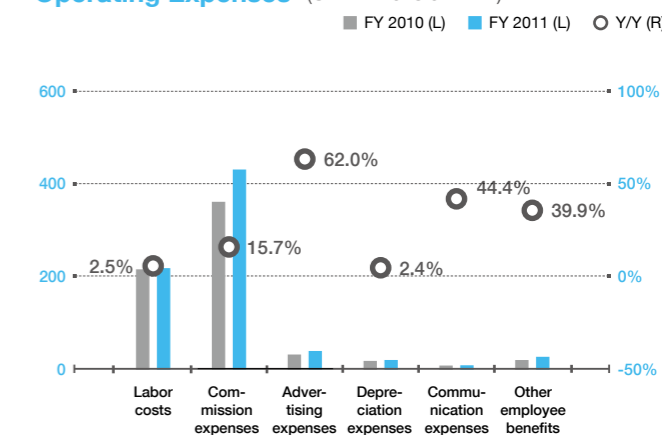
Statements of Comprehensive Income (Units: Billions of KRW, %)

	FY 2010	FY 2011	% Change
Operating Revenue	1,319.7	1,443.6	9.4%
Sales	1,311.6	1,435.1	9.4%
Other	8.0	8.5	5.8%
Operating Expenses	722.2	831.8	15.2%
Operating Expenses	700.9	781.1	11.4%
Other	21.3	50.7	137.7%
Operating Income	597.5	611.8	2.4%
Operating Income Margins	45.3%	42.4%	-2.9%p
Financial Income	41.7	53.2	27.6%
Financial Costs	14.7	39.0	164.6%
Income before Income Taxes	624.4	626.0	0.3%
Income Taxes	150.7	154.3	2.4%
Net Income	473.7	471.7	-0.4%

Revenue (Unit: Billions of KRW)



Operating Expenses (Unit: Billions of KRW)



CEO'S LETTER

“We will continue seeking profitable growth and a prosperous future by strengthening our competitiveness in our core services and developing new, industry-leading ones.”


Dear valued users and shareholders:

First of all, I would like to thank you for your unwavering enthusiasm and support. I want to tell you about Naver's major results and performances in 2011, as well as our goals and strategies for 2012.

Another year of excellent results

In 2011, NHN added to its competitiveness in its core businesses, including its online ads and games and its mobile and overseas businesses. Operating revenue increased by 19.9% to 2.1 trillion won, while operating income grew by 5.1% to 620.4 billion won.

Continued growth in existing businesses

We continued as Korea's number one Internet company by offering more specialized content. Our revenue and number of search ads buyers both increased sharply following the introduction of our in-house "Click Choice" search ads product. We also revamped our sales policies for our front-page display ads products, and launched a number of new online games, such as TERA and Baseball Club, all of which are receiving very positive feedback.

Made significant investments in new growth engines

In response to the dramatically increasing popularity of smartphones, we introduced a number of mobile web services and apps, and reinforced our SNS services, such as me2day and LINE. As a result, the average daily revenue from our mobile search ads reached 170 million won. We also began the full-scale commercialization of our mobile display ads, and launched a large number of popular games, such as Run and Hit and Every Farm. In addition, the number of unique visitors to Naver Japan almost doubled the level of the previous year.

Enhancing the competitiveness of our core businesses

Our main priority this year will be to continue investing in our core businesses: online ads, online games, and mobile and overseas services. We will also maximize our ads sales by adding to the quality of our online ads products and changing the exposure method of our mobile search ads. Some of our other projects will include diversifying our online game portfolio by releasing new titles, such as Winning Eleven Online and Metro Conflict: Presto, and launching a new generation of smartphone games. In addition, we will improve our return on equity by buying back treasury stocks, paying cash dividends, and carrying out M&As to seize new business opportunities.

Fulfilling our social responsibilities

NHN is also committed to fulfilling its role as a caring and concerned corporate citizen and Korea's leading Internet company. We will continue seeking growth that is both profit-oriented and responsible. Our ultimate goal is to help create a happier world and better tomorrows.

Thank you.

Sang-Hun Kim
CEO

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BOARD OF DIRECTORS

INSIDE DIRECTORS



- | | | | |
|---|--|---|--|
| <p>01 Hae-Jin Lee
 - CSO (Chief Strategy Officer),
 NHN Corporation
 - Board Chairman,
 NHN Corporation
 - Founder and Co-CEO,
 NHN Corporation
 (formerly Navercom)
 - Samsung SDS
 - MS in Computer Science,
 KAIST
 - BS in Computer Science,
 Seoul National University
 - Named Young Global Leader
 by World Economic Forum
 in 2007</p> | <p>02 Sang-Hun Kim
 - CEO, NHN Corporation
 - Chief Director of
 Business Management,
 NHN Corporation
 - Business Management Advisor,
 NHN Corporation
 - Vice President of Legal
 Division, LG Corporation
 - Judge, Intellectual Property
 Department,
 Seoul District Court
 - Judge, Seoul District
 Criminal Court
 - LLM, Harvard University</p> | <p>03 Joon-Ho Lee
 - COO
 (Chief Operating Officer),
 NHN Corporation
 - CAO (Chief Administrative
 Officer), NHN Corporation
 - CTO (Chief Technology
 Officer),
 NHN Corporation
 - Associate Professor,
 Soongsil University
 Department of Computing & IT
 - Ph.D. in Computer Science,
 KAIST</p> | <p>04 In-Joon Hwang
 - CFO (Chief Financial Officer),
 NHN Corporation
 - Managing Director,
 Woori Investment & Securities
 Co., Ltd.
 - Woori Finance
 Holdings Co., Ltd.
 - Credit Suisse Securities
 - MBA, New York University</p> |
|---|--|---|--|

OUTSIDE DIRECTORS



- | | | | |
|---|--|---|---|
| <p>05 Jae-Seung Yoon
 - Outside Director,
 NHN Corporation
 - Member of Audit Committee,
 NHN Corporation
 - Vice President,
 Daewoong Co., Ltd.
 - CEO, Daewoong
 Pharmaceutical Co., Ltd.
 - Prosecutor, Seoul Central
 District Prosecutors Office
 - BA in Law, Seoul National
 University</p> | <p>06 Gyeong-Hoon Boo
 - Outside Director,
 NHN Corporation
 - Member of Audit Committee,
 NHN Corporation
 - Partner, Knet Investment
 Partners
 - CEO, Charon Partners
 - Director, Hanmi Venture
 Capital Corporation
 - Chief Investment Officer,
 Korea Technology Investment
 Corporation
 - Korea Telecom Hitel
 - BA in Business Administration,
 Seoul National University</p> | <p>07 Hyun-Soon Do
 - Outside Director,
 NHN Corporation
 - Member of Audit Committee,
 NHN Corporation
 - Executive Director,
 Gallery Hyundai Co., Ltd.
 - Lehman Brothers International
 Securities (Seoul, Hong Kong)
 - McKinsey & Company (Seoul)
 - Peregrine Securities
 (Hong Kong)
 - Bank of Korea
 - BA in International Economics,
 Seoul National University</p> | <p>- Current Post
 - Past Work Experience</p> |
|---|--|---|---|

VISION AND CORE VALUES

VISION

NHN: Making people's lives richer by creating a networked world filled with fresh, exciting ideas.

Our goal is to develop an online environment that is radically different from our competitors' in both concept and execution. By creating a new culture and improving people's quality of life through values that extend beyond the Internet, we are doing our best to ensure that everyone will enjoy happier and healthier lives.

CORE VALUES

NHN believes in change, passion, and challenge

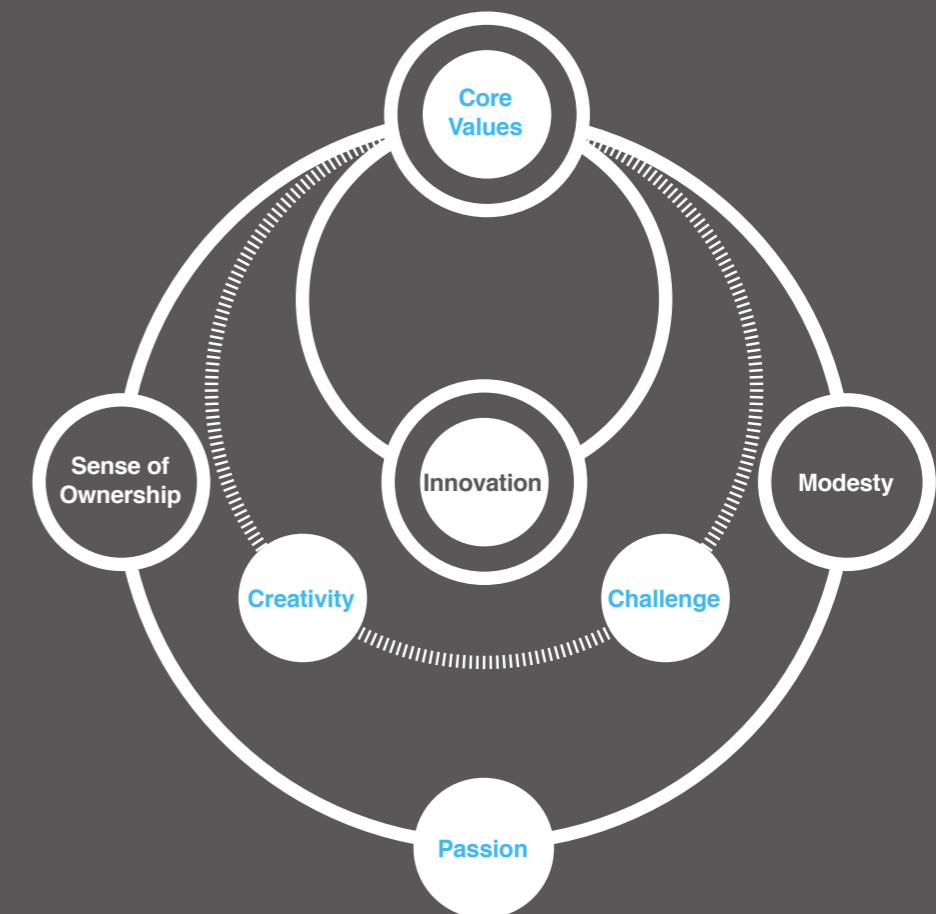
As a company that is dedicated to change and fresh new ways of thinking, NHN has declared creativity and innovation, challenge and passion, and modesty and a sense of ownership to be its core values.

Innovations that are based on creative thinking always lead to change.

Taking on challenges with passion is a driving force behind the development of enterprises such as ours.

Modesty and a sense of ownership are the bases of trust.

NHN wants to be a company that is trusted and respected by the communities it serves. We will do this by sharing and practicing these core values with all our employees.



SERVICE OVERVIEW

NHN offers its users a wide range of services, ensuring that they always have access to new sources of knowledge, information, and entertainment. Our large offering of online and mobile search services provides users with everything they want, when they want it.

Hangame offers its users a constantly increasing selection of fun and exciting games. Most of them can be accessed 24/7 by smartphone. Our social networking services (including me2day and LINE) help bring people closer together. In addition, our search, portal, and games services in Japan are becoming more and more popular.

- NAVER
- NAVER MOBILE
- HANGAME
- HANGAME MOBILE
- ME2DAY
- LINE
- JR. NAVER
- HAPPYBEAN
- HANGAME JAPAN
- NAVER JAPAN
- LIVEDOOR

SERVICE OVERVIEW / NAVER

NAVER

Korea's leading Internet search portal

www.naver.com

Naver is Korea's leading Internet search portal, ranking first in the country in terms of market share and boasting eighteen million visits a day. It is continuously innovating its search and other offerings, including mobile and social networking services.

Making searches more accurate and convenient

Naver offers users the world's first totally unified search service. It shows search results at a glance, organized into categories such as web documents, Knowledge-iN, blogs, news features, advice by experts, images, and videos. The accuracy and convenience of searches are being continually enhanced by the introduction of new services.

Evolving into Korea's best information platform

Naver's information distribution platform system includes Open Cast, News Cast, Theme Cast, Naver Cast, and Shopping Cast. Our goal is to help users generate and distribute content while offering them a broad range of knowledge and information.

Adding to volume of high-quality content and advice from experts

In partnership with public service institution¹, organizations², and private enterprises³ databases, Naver offers users fast and easy access to a vast amount of data and information. It also offers advice from over 2,200 experts through its Knowledge-iN Expert's Answer service.

Creating an open Internet of information and knowledge sharing

Naver is committed to creating an open Internet world. User-generated content, including information on daily living and advice by professionals, is connected to search services that extend beyond Naver's community space, including blogs and cafes. We are also using the Naver Developer Center to open the application programming interfaces of services such as Knowledge-iN and Dictionaries.

NAVER

As of December 2011

Number of subscribers

34 million

Number of daily unique visitors

18 million

Number of daily page views

1.1 billion

SEARCH

As of December 2011

Number of daily unique visitors

12 million

Number of daily page views

220 million

Number of daily search queries

130 million

SERVICE OVERVIEW / NAVER MOBILE

1999 **June** Launched Naver service

2000 **May** Launched Naver News service
Aug. Launched Naver Unified Search service

2001 **May** Launched Naver Keyword Search Ads service

May Launched Naver Shopping service

2002 **June** Launched Enjoy Japan, a Web search service about The Land of the Rising Sun

Oct. Launched Knowledge-iN, Naver's knowledge search service

2003 **Aug.** Ranked number one in the search service category

Oct. Launched Knowledge Shopping and Naver Blog services

Dec. Opened Cafe-iN, Naver's online community service

2004 **Jan.** Number of articles in Knowledge-iN's database passed ten million

May Launched Local Information Search service

2005 **Apr.** Launched Direct Search daily living information search service

May Launched Real-Time Top Queries, a first for the industry

July Ranked first in number of unique visitors in all Internet categories

2006 **Mar.** Unveiled Open API

June Launched Naver-Toon cartoon UCC-based community service

Nov. Launched Naver Toolbar 3.0 with free anti-virus software

Dec. Launched Headline News from leading media companies on Naver's home page

2007 **Mar.** Launched Item Factory, in which community items are produced and shared

Aug. Launched Real-Time Traffic Information service

2008 **Jan.** Began offering PC Green free, real-time anti-virus software package

Feb. Introduced CCL (Creative Common License) in Naver Blog and Cafe

2009 **Jan.** Revamped Naver's home page

Jan. Launched Knowledge-iN Experts' Answer service

June Launched Mobile Web service (m.naver.com)

June Launched Panorama Map service
July Launched Naver Japan open beta service

July Launched Naver Checkout shopping support service

July Launched N-Drive web storage service

2010 **Mar.** Launched Naver Shopping Cast service

Apr. Launched Naver Sequence Search service

Jun. Launched Naver Mobile Real-time Search and Fusion Web service

Sept. Launched Naver Street View map service

Sept. Launched Naver Social Apps service

2011 **June** Launched Auto-Complete Keyword service for Naver Mobile Web

Sept. Launched Virtual Museum service in partnership with the National Museum of Korea

Oct. Launched Naver People Album service

Nov. Launched Naver Spanish Dictionary service

Dec. Launched Naver Search by Image Theme service

NAVER

+ Mobile

Naver for Mobile Environments

m.naver.com

Optimized mobile web service

Naver Mobile (m.naver.com) enables mobile users to access a broad range of Naver services quickly and easily on mobile devices, such as smartphones and tablet PCs. Users can choose from mobile-optimized web services, including Search, Email, Blog, Cafe, N-Drive, Dictionary, and Naver Books.

Offering a wide array of useful apps

Naver Mobile offers users mobile apps, such as Naver, N-Drive, Map, me2day, Blog, Web Toon, Naver Books, Music, and Real Estate. Naver app is so popular that sixteen million people downloaded them in 2011 alone.

NAVER MOBILE

As of December 2011

Number of monthly unique visitors

24 million

Number of monthly page views

11.5 billion

RATIO OF MOBILE TRAFFIC TO PC

As of December 2011

Number of unique visitors

59.8%

Number of page views

34.7%

SERVICE OVERVIEW / HANGAME



Korea's favorite online game portal

www.hangame.com

Hangame provides web-board games that anyone can enjoy with ease, along with a wide range of online and mobile games. In addition to growing into a global game publisher, it operates a game portal platform in Japan.

Online games that everyone can enjoy

Hangame offers more than 135 titles in a wide number of genres, including web-board games and MMORPG, First Person Shooting, sports, and serious games. It also features a large number of Flash-based and casual games that can be played without logging in.

Providing an exciting and innovative game business model

Hangame was the first player in the world to introduce fee-based, premium-level supplementary services for games whose basic features can be accessed for free. It is now a staple of the online game industry.

Offering a safe gaming environment

Hangame is committed to protecting user information. It has acquired a number of domestic and international certificates, such as the ISO/IEC 27001, the ISMS (Information Security Management System), and the PIMS (Personal Information Management System). It also offers users the Secure Keystroke keyboard security solution, the Hangame Security Patch service, and the Hangame Ubiquitous-One Time Password (U-OTP) service.

Developing a sound and healthy gaming culture

Hangame is dedicated to the development of a sound gaming culture. This includes user protection programs and a Child Protection Service for parents. It also carries out a Clean Campaign, including offering rewards for money trader reports and information about damage caused by illegal programs.

HANGAME

As of December 2011

Number of subscribers

19 million

Number of peak concurrent users

290,000

Number of games

135

MAJOR GAMES

In Use		To Be Launched	
Name	Genre	Name	Genre
TERA	MMORPG	Winning Eleven Online	Sports
C9	MMORPG	Metro Conflict: Presto	FPS
Baseball Club	Sports	Kingdom Under Fire II	RPG
Atlantica	MMORPG	ASTA	MMORPG
Fishing Hero	Sports	Web Golf	Sports
Free Style II	Sports	Professional Baseball: The Fan	Sports
Go-Stop, Poker	Web-Board	Ace of Spades	MMORPG
Tetris	Puzzle	Project R1	MMORPG

SERVICE OVERVIEW / HANGAME MOBILE

1998 Nov. Established Hangame Communications Corporation

1999 Dec. Launched Hangame game portal

2000 Feb. Number of subscribers and concurrent users exceeded one million and ten thousand, respectively

Aug. Launched Seven Poker service

Sept. Ranked first among world gaming websites by Alexa.com

2001 Mar. Launched Hangame Premium Service, world's first fee-based game business model

May Launched fee-based Avatar Service

Oct. Entered online game publishing business

2002 Apr. Launched Pristontale channeling service

2003 Aug. Launched Hangame Keeper

2004 Mar. Launched New Mot-Go service

Aug. Launched Sachunsung, a mahjong-type puzzle game

2005 Mar. Launched Archlord MMORPG publishing service

2006 Jan. Launched New Yut Game service

May Launched Hangame Happybean which is online donation service through game

Oct. Introduced one-time password (OTP) service

Dec. Acquired Personal Information Protection ISO27001 certificate, a world's first in gaming category

2007 Jan. Launched Skid Rush racing RPG publishing service

Apr. Launched Game Pack casual game package service

July Launched Hangame S Internet Cafe

July Created KRW 25 billion game publishing fund in tandem with Golden Bridge Asset Management

Aug. Launched Tales Runner casual racing game channeling service

2008 Apr. Opened Hangame Clean Center to create sound gaming culture

Oct. Launched commercial Tetris service

Nov. Signed publishing agreement for Kingdom Under Fire II

Dec. Launched Child Protection Service

2009 Jan. Launched commercial Z9 Star casual game service

June Entered European game market with Karos Online

Sept. Entered global game market with Call of Chaos

Dec. Won grand prize at 2009 Korea Game Awards for C9

2010 Mar. Held Hangame EX2010 to release seven new games

Apr. Launched exclusive channeling service for Webzen's Huxley: The Dystopia

Apr. Launched Seven Souls

2011 Jan. Launched commercial TERA service in Korea

Apr. Signed agreement with Ginno Games regarding publishing of Immortal

Aug. Launched commercial TERA service in Japan

Aug. Signed agreement with KONAMI of Japan regarding publishing of Winning Eleven Online

Nov. Introduced Winning Eleven Online, Metro Conflict: Presto, and Kingdom Under Fire II at G-star 2011, Korea's largest game exhibition

Dec. Launched first closed beta service for Metro Conflict: Presto

Aug. Launched mobile games, including Sachunsung, New Mot-Go,

Dec. Run and Hit, Wolf Boy, Every Farm, Master of Sword 5 Reload,

Jumping Mong, Anima, and Yoma Yoma



An amazing gaming world you can hold in your hand

smart.hangame.com

Developing the industry's most popular smartphone games

Hangame's Orange Crew smartphone game studio and third-party developers provide it with a steady stream of high-quality smartphone game content. It also uses the Hangame smartphone platform to market its apps, build networks, and maximize user convenience.

Launching smartphone games in a wide range of genres

Hangame offers game portfolios in a wide range of genres through its Hangame smartphone platforms in Korea and Japan. In 2011, it introduced twenty smartphone games, including Sachunsung, New Mot-Go, Run and Hit, Wolf Boy, and Every Farm at home. It also launched 165 in Japan.

HANGAME MOBILE

As of December 2011

Number of Run and Hit smartphone game downloads

1.5 million

Number of Sachunsung smartphone game downloads

1.0 million

SERVICE OVERVIEW / ME2DAY | LINE



SNS Fun communications through networking

www.me2day.net

Leading the pack in the field of mobile communications

Launched in 2007 as Korea's first SNS, me2day has enjoyed repeated rapid growth while staying in the forefront of a new communications genre. It is so popular that it gained eight million subscribers in a mere three years.

Joining "Me Now" and "Friends Now"

me2day offers users a unique vehicle for sharing their thoughts and feelings with other people easily and freely. They can communicate and connect with each other in real-time through such functions as Friend Request, me2ing, Gather and See, and Summon.

ME2DAY

As of December 2011

Number of subscribers

8 million

LINE

SNS A "smart" global mobile messenger service

http://line.naver.jp/ko

Opening an exciting new world of communications

Launched in June 2011, Naver LINE is a global mobile messenger service that offers one-on-one and group conversations, free voice calls, location sharing, weather information, and a Japanese interpretation service. We also spice up our user's lives with a wide variety of emoticons and drawings.

Growing into a global messenger service

LINE has rapidly grown into one of the world's most popular mobile messenger services. It was the download leader in app stores in twelve countries, including Japan and Taiwan. Its total number of downloads broke the ten million mark within six months of its introduction.

LINE

As of January 2012

Number of subscribers

15 million

Number of monthly page views

1.2 billion

SERVICE OVERVIEW / JR. NAVER | HAPPYBEAN



An online world designed exclusively for children

jr.naver.com

Korea's largest children's-only portal

Jr. Naver offers young users a wide variety of content and services. This includes educational content, such as Homework Helper and Preschool World, entertainment content, such as Animal Farm and Game Land, and interesting and useful content for both children and parents, such as Children's Library and Parents' Room.

Providing a healthy and fun Internet environment

Jr. Naver is Korea's leader in the development of a safe Internet environment for children. It encourages healthy Internet habits through an Internet Ethics Class, operates Jr. Mom, a parents' monitoring group, and provides carefully filtered information managed by professional web surfers.

JR. NAVER

As of December 2011

Number of subscribers

4 million

Number of daily unique visitors

1.1 million

Number of daily page views

100 million

해피빈

Helping people by sharing and caring

happybean.naver.com

Korea's leading online donation portal

The Happybean online donation portal is leading the development of a new donation culture, in which netizens, public corporations, and sponsoring partners show the world the value of sharing and caring. It also provides Internet users with opportunities to volunteer.

A caring and sharing donation culture

Happybean encourages sharing and caring through Happylogs, which contains information and stories about online fund-raising, donations, and volunteer opportunities, and Happy Brands, which are given to sponsors and companies that support activities for the public good.

HAPPYBEAN

As of December 2011

Total donations to date

KRW 29.3 billion

Number of donors

7.9 million

Number of Happy Brands

570

SERVICE OVERVIEW / HANGAME JAPAN



Japan's leading
online game portal

www.hangame.jp

Growing by becoming part of the community

NHN Japan has been operating its Hangame Japan online game portal since 2000. Since then, it has grown into the country's leading online game platform, mainly by heightening its citizens' awareness of online games. At present, the site offers users in excess of 280 online games. It has become the country's foremost online game publisher by building partnerships with such renowned developers as Square Enix and Sega.

Providing a wide range of services, including games and social networking

Hangame Japan offers users a wide range of online games in a variety of genres, ranging from traditional web-board games to action, racing, RPG, FPS, MMORPG, card games, and sports. It also provides them with an efficient and effective communications venue, in which they can connect with each other through such community services as Chat, Mini Mail, and Blog.

Dramatically increasing number of mobile games

In line with dramatic growth in the mobile content market and the increasing popularity of smartphones in Japan, Hangame Japan launched 165 smartphone games in 2011. They included the Photo ZigSaw puzzle game, the Darts sports game, and the Majong Cheongeukbi board game. The total number of downloads of smartphone games in 2011 exceeded nine million. The company plans to introduce more than forty new ones in 2012.

HANGAME JAPAN

As of December 2011

Number of subscribers

45 million

Number of peak
concurrent users

203,000

Number of games

287

Number of
smartphone games

231

SERVICE OVERVIEW / NAVER JAPAN | LIVEDOOR



A fixed-line and wireless search portal service
with a truly Japanese flavor

www.naver.jp

Having fun searching on "Green Window"

Naver Japan has been providing The Land of the Rising Sun with a dedicated search portal service since 2009. Naver Matome, Naver Japan's leading participatory search service, is becoming increasingly popular with Japanese users.

Expanding mobile searches and increasing number of apps

Naver Japan offers users a wide range of optimized mobile web services so they can do mobile searches easily and conveniently. In addition, it makes Internet use more pleasant and rewarding by providing a wide spectrum of mobile apps, including Naver Map, Cafe, N-drive, Pick, Photo Album, and LINE.

NAVER JAPAN

As of December 2011

Number of daily
unique visitors

18 million



A comprehensive portal
offering a wide array of web services

www.livedoor.com

A comprehensive portal serving both online and mobile platforms

livedoor is Naver Japan's comprehensive portal site, offering such services as media, blog, web services, and advertising for both online and mobile platforms. Two of its most popular services are livedoor News, which is comprised of about 250 news sites, and livedoor Blog, which enables bloggers to add to their media savvy while sharing information with other users.

livedoor infrastructure business

Another of livedoor's services is an infrastructure business that contributes to the development of Japan's IT industry by providing a one-stop data center service. The center is manned by highly-skilled engineers who maintain and operate its servers and networks on a 24/7 basis.

LIVEDOOR

Number of subscribers
(As of January 2012)

10 million

Monthly page views
(As of February 2012)

6.8 billion

Number of monthly
unique visitors
(As of January 2012)

44 million

BUSINESS OVERVIEW

NHN's continuing growth flows from its ability to anticipate and respond to ongoing changes in its environment and improve its competitiveness. The increase in the volume of our online search ads has been especially noticeable, particularly on our mobile platforms. The games area was equally successful, launching a wide variety of new games and strengthening its publishing capabilities.

Our Japanese operations also grew in popularity. In addition to increasing our number of users by expanding our search services, we gained an early edge in the market by introducing a large number of extremely popular online and mobile games.

In overall terms, our business foundations strengthened dramatically, largely due to the growth of our mobile and overseas businesses and the excellence of our core services, including online ads and games.

- SEARCH ADVERTISING
- DISPLAY ADVERTISING
- GAMES
- GLOBAL BUSINESS

BUSINESS OVERVIEW / SEARCH ADVERTISING



Search ads continued growing with the introduction of in-house products and increased mobile sales

NHN has enjoyed continuous growth in the search ad market. In 2011, revenue from these ads reached KRW 1.08 trillion, a healthy 27% rise over the previous year. This was due to an upturn in our number of advertisers, an increase in keyword prices, and the growing popularity of mobile searches.

Boosted competitiveness of search ads through "Click Choice"

In January 2011, we centralized all our ad functions under the NHN Business Platform, and replaced the SponsorLink search ad area with Click Choice, our own in-house product. Besides allowing us to manage our ads in a more organized and efficient manner, this step made decision-making simpler for advertisers. By utilizing Click Choice, advertisers can choose the media platform and exposure area(s) that they want to place their ads in. They can also fine-tune the relative weighting of their choices according to the effect of their ads on each platform.

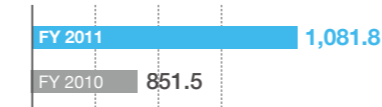
Increased revenue from "PowerLink (Mobile)" mobile search ads service

Revenue from our PowerLink (Mobile) mobile search ads service grew significantly in 2011, with daily average revenue exceeding KRW 170 million. This was triggered by a dramatic increase in the number of searches on our mobile platforms, with the ratio of mobile queries to PC ones reaching 47%.

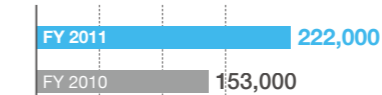
We boosted our mobile search ad business even further by opening up new local advertising areas following the establishment of Kan Communications by NBP and KT last September. In 2012, we will make improvements to our mobile ad exposure logic and boost our sales, mainly through the See More Ads function.

Revenue (Based on K-IFRS and consolidated statements)

(Unit: Billions of KRW)



Number of registered advertisers on Naver



PPC growth rate



Note: The number of registered advertisers on Naver and the PPC growth rate are based on results from Click Choice, the company's in-house cost-per-click product.

Reorganized display ads and developed new products

Revenue increased sharply after we revamped our sales policies for Naver's home page display ads last November. We also began commercializing our mobile display ads in earnest. Open market-type services will be launched soon, following the introduction of the Naver Mileage shopping mileage program. Display ad revenue reached KRW 298.7 billion, increasing by 22.9% over the year.

Increased revenue by revamping ads policies and introducing new products

Growth in our display ads business was especially noticeable after we reorganized our display ads sales policies for Naver's home page. As a result, revenue from display ads, as well as our number of new advertisers, increased sharply. This happened when we started offering improved display ad products, including Time Board and Rolling Board.

Commercialized mobile display ads

We have been commercializing our string banner mobile display ads since November 2011, and will soon launch new mobile ad platforms to bolster our competitiveness.

In addition to adding online-based ad products like Rich Media and Brand Search to the mobile environment, we will enhance our mobile ad offerings through the use of augmented reality, quick response codes, and a location-based service.

Introduced "Naver Mileage" system

We launched Naver Mileage, a shopping mileage system that enables users to accumulate and use mileage at our merchant stores with a single Naver ID, in August 2011. This helped both large and small shopping malls attract more customers and increase their sales.

Scheduled to launch "ShopN" open market service

In order to add to the convenience of both users and sellers, NHN plans to launch ShopN, an open market service that allows vendors to register their products directly on Naver, in 2012. The new service will benefit our sellers, users, and advertisers, and enhance the quality of our search service.

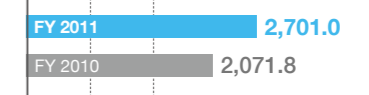
Revenue
(Based on K-IFRS and consolidated statements)
(Unit: Billions of KRW)



Number of high-price ad campaigns



Naver Knowledge Shopping GMS (Gross Merchandise Sales)
(Unit: Billions of KRW)



Expanded game publishing service and strengthened smartphone game capabilities

In 2011, Hangame concentrated on diversifying its game portfolio and expanding its publishing service. We also made large-scale investments in developing smartphone games, and introduced a wide array of new ones. Game revenue increased by 5.6% over the year to KRW 640.7 billion.

Strengthened publishing capabilities by diversifying game portfolio

The goal of Hangame's game portfolio diversification strategy is to strengthen our publishing capabilities. In 2011, we launched our blockbuster-level MMORPG TERA in both Korea and Japan. We also launched a number of sports games, including Baseball Club, Free Style 2, and Fishing Hero.

We enhanced our publishing portfolio by signing agreements for our Immortal action MMORPG and our Winning Eleven Online sports game. In November, we introduced the Winning Eleven Online sports game, the Metro Conflict: Presto FPS game, and the Kingdom Under Fire II RPG at G-star 2011, Korea's largest game exhibition.

Investing in the smartphone game business

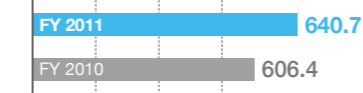
NHN is planning to invest KRW 100 billion in the smartphone game business over the next three years. This includes establishing Orange Crew, a smartphone game studio, with an initial capital investment of KRW twenty billion last January. We also increased our support for in-house studios and enhanced our level of cooperation with third-party developers.

In 2011, we launched the Sachungsung puzzle game, the New Mot-Go board game, the Run and Hit sports game, the Wolf Boy action game, the Every Farm SNG, and the Jumping Mong action arcade game. Run and Hit is especially popular, with its total number of cumulative downloads reaching the 1.5 million mark.

Revenue

(Based on K-IFRS and consolidated statements)

(Unit: Billions of KRW)



Aiming to become the top industry player in Japan

Backed by its Hangame Japan, Naver Japan, and livedoor subsidiaries, NHN enjoyed remarkable results in its Japanese online game, mobile game, search portal, and comprehensive portal businesses. In 2012, we hope to become the leader in Japan's comprehensive Internet and smartphone markets by integrating the management of these companies.

Hangame Japan continued its growth by strengthening its portfolio

Hangame Japan added to its presence in that country's game market in 2011 by increasing its portfolio to about 280 online games and 165 smartphone ones. In addition, we launched our TERA blockbuster MMORPG. Publishing revenue continued to climb dramatically.

Naver Japan and livedoor Web service businesses continued upward trend

Our Naver Japan search portal and livedoor comprehensive portal continued to add to the success of our Japanese web service businesses. The total number of unique visitors to Naver Japan (including those on mobile) continued to grow, rising to about 27.3 million as of the end of 2011. We plan to add to our number of users by offering our LINE global messenger service to Internet cafes, and leveraging those platforms with apps for "Korean wave" celebrities.

Integrating the management of Hangame Japan, Naver Japan, and livedoor

NHN Japan began integrating the management of Hangame Japan, Naver Japan, and livedoor in January 2012. After that, their business divisions will be divided into online games and web services, allowing them to share their strengths and generate synergies. It will also prevent overlapping investments in service development, add to management efficiency, and result in significant tax savings.

Revenue by Hangame Japan (Based on J-GAAP and parent company results)

(Unit: Billions of JPY)



Revenue by livedoor (Based on J-GAAP and parent company results)

(Unit: Billions of JPY)



TODAY

TOMORROW

FINANCIAL REVIEW

In 2011, NHN took a series of steps to ensure its continuous growth and stable earnings. It enhanced its competitiveness in its core businesses, such as online ads and games, and added to its new ones, including mobile, SNS, and its overseas operations. As a result, it recorded KRW 2,147.4 billion in operating revenue and KRW 620.4 billion in operating income at the end of the year (on a consolidated basis). In addition, it increased its shareholder value by paying cash dividends and buying back treasury stocks on two occasions. This was made possible through stable cash generation from the company's business activities. In 2012, NHN will focus on enhancing its core competitive edges, creating new business opportunities, and improving shareholder value.

MANAGEMENT DISCUSSION
AND ANALYSIS
-
INDEPENDENT AUDITOR'S REPORT
-
FINANCIAL STATEMENTS
-
NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS

MANAGEMENT DISCUSSION AND ANALYSIS

I. Introduction

NHN was established in 1999. Its overall business concept is to offer Korean and other Internet users the widest possible selection of online services. In addition to operating the Naver portal service and the Hangame online game service, the company is the industry leader in terms of search technologies, traffic volume, and online services and ad products. Most of its revenue is generated from search and display ads and online games.

The following Management Discussion and Analysis contains information about NHN's goals and strategies going forward, data regarding its past performances and its current financial and operating conditions, and an analysis of future prospects for the Korean economy and the country's Internet industry.

Readers and potential investors should be aware that these statements regarding NHN's operating environment and market outlook can be affected dramatically by unforeseen future events. As a result, the company's business results and performances going forward may differ substantially from those described herein.

In addition, NHN does not guarantee either the accuracy or the completeness of the information given below. Statements concerning the company's past achievements and future prospects must not be construed as constituting definite promises or guarantees, and NHN is under no obligation to publish or otherwise provide additional information regarding unforeseen future events.

Reference for Analysis

NHN's consolidated financial statements were made by applying the K-IFRS (Korean International Financial Reporting Standard) to its 2011 fiscal year, as per the dictates of Article 7-2 of the Korean government's Act on External Audit of Stock Companies. The company prepared its parent-only financial statements using the same method. NHN began using the K-IFRS methodology in January 2010. Any figures given after this date have been prepared on a consolidated basis, unless stated otherwise.

A. Major differences between K-IFRS and K-GAAP

Classification	K-IFRS	K-GAAP*
First adoption of the K-IFRS	Cumulative translation differences	The cumulative translation difference of foreign operations as of January 1, 2010 (the date of transition to K-IFRS) will be regarded as nil.
	Borrowing costs	K-IFRS 1023 (Borrowing costs) will not be applied retroactively to qualifying assets occurring prior to January 1, 2010 (the date of transition to K-IFRS).
	Deemed costs	Applied book values of property and equipment as deemed costs on the date of the change in methodologies
	Fair value measurement	Applied to financial assets and liabilities of deals made after the date of the change in methodologies
Scope of consolidated financial statements	Consolidated financial statements, include all subsidiaries which the parent company has control over.	In accordance with the External Audit Law, a company with assets of less than KRW 10 billion shall be excluded from consolidation.

[Continued]

Classification	K-IFRS	K-GAAP*
Investments in subsidiaries and associates	Apply the cost method in a separate financial statement.	Apply the equity method.
Annual leaves and long-term bonus payments	The company recognizes an accrual for annual leaves and long-term employee bonuses incurred in the period in which the services are provided.	The company recognizes an accrual for leaves and long-term employee bonuses to be estimated as cash payments.
Goodwill and intangible assets with indefinite useful lives	Goodwill and intangible assets with indefinite useful lives are not amortized while tested for impairment at the end of each reporting period.	Goodwill and intangible assets with indefinite useful lives are amortized for their useful lives using the straight-line method.

* K-GAAP: Korean Generally Accepted Accounting Principles

B. Quantitative information on the influence that the K-IFRS has on corporate financial positions and management performances

The K-IFRS's influence on NHN's consolidated financial status and 2010 management performance as of the end of 2010 were as follows:

	K-GAAP	Adjusted amount	K-IFRS
Total assets	1,975.9	-8.9	1,967
Total liabilities	609.7	35.2	644.9
Total shareholders' equity	1,366.1	-44.1	1,322.0
Net income	494.7	-25.9	468.8
Total comprehensive income	501.3	-35.8	465.5

(Unit: Billions of KRW)

C. Subsidiaries for consolidated reporting, as of the end of 2011

NHN's thirty-six consolidated subsidiaries establish their own financial and operational policies. The existence and effects of potential voting rights that can be executed or converted are also considered when evaluating whether they have a controlling interest over other companies of the consolidated entities. If they have used different accounting methods than the one that NHN has chosen regarding identical deals and events that have occurred in similar situations, NHN has prepared its consolidated financial statements by adjusting them properly.

	Company name	Business	Stake	Assets
Major subsidiaries (5)	NHN Business Platform Corp.	Portal and other Internet information-related services, Korea	100.0%	446.5
	NHN Japan Corp.	Online game distribution, Japan	100.0%	276.4
	NHN Investment Corp.	Investing in new technology businesses and ventures, Korea	100.0%	98.2
	NHN I&S Corp. livedoor Co., Ltd.	Information system service, Korea Internet service, Japan	100.0% 100.0%	56.6 46.9
Other subsidiaries (31)	(In order of asset value) NHN USA, Inc., Dongbu Credit-Linked Private Equity Investment Trust No. 4, NHN Search Marketing, NHN Global Limited, Orange Crew, NHN Technology Services, NHN China, NHN-PCCS HK Limited, Wise Cat, Hyundai Foreign-Currency Bond Denominated Private Equity Investment Trust No. 2, Truston Long-Short Private Equity Investment Trust No. 4, KTB CLN-Linked Private Equity Investment Trust No. 2, Dongbu Together Foreign Currency Bond Private Equity Investment Trust No. 3, NHST Japan, Gplus, inComms, Greenweb Service, NHN ST Corp., NHN Arts, Search Solution, Jlisting, Sync, Mediator, Game Marketing and Business, CommPartners, Nflex, Studio Hon, N-Visions, livedoor Career, ITOFF, Truston Long-Short Private Equity Investment Trust No. 2			

(Units: %, Billions of KRW)

Note 1: NHN has a 100% stake in all the above subsidiaries, except for Wise Cat (51%) and Studio Hon (51.19%).

The media division of livedoor merged with NHN Japan in January 2012, and its network division became DataHotel.

Note 2: Please refer to Notes to the Independent Auditors' Report for details.

II. Summary of Financial Performance

In 2011, NHN focused on enhancing its competitiveness in its core businesses (including searches), reinforcing its publishing game lineup, and strengthening its new businesses (including mobile). As a result, the company again enjoyed gratifying operating results.

Operating revenue was KRW 2,147.4 billion, up 19.9% from the year before. Operating income increased by 5.1% to KRW 620.4 billion, the company's largest-ever result.

The healthy growth in operating revenue was mainly attributable to increased search ad revenue. This in turn was driven by an increase in the number of search ad buyers and a steady rise in price per click (PPC), as well as improved display ad revenue due to an upsurge in the number of ad campaigns. Another reason was the introduction of additional new games in Korea and abroad.

Operating expenses also increased. This was mainly caused by increases in commission expenses in line with growth in the company's online ad and game-publishing revenue. Other factors included advertising expenses and labor costs relating to the activation of new businesses.

The company secured more growth engines during the year. For example, it developed mobile applications and smartphone games, and continued its advance into the Japanese search market through Naver Japan. It also carried on with its policies of investing for the future and enhancing its management efficiency. These efforts included establishing the NHN Internet Data Center (IDC) and the NHN NEXT software academy to train talented human resources in Korea.

(Units: Billions of KRW, %)

	Consolidated			Parent		
	FY 2010	FY 2011	Y/Y	FY 2010	FY 2011	Y/Y
Operating revenue	1,790.6	2,147.4	19.9%	1,319.7	1,443.6	9.4%
Operating income	590.2	620.4	5.1%	597.5	611.8	2.4%
Operating margin (%)	33.0%	28.9%	-4.1%p	45.3%	42.4%	-2.9%p
Net income	468.9	452.1	-3.6%	473.7	471.7	-0.4%

1. Operating Revenue

2011 operating revenue was KRW 2,147.4 billion, up 19.9% year-on-year (YoY). This was led by growth in search and display ads (27.0% and 22.9% YoY, respectively), which accounted for 51.0% and 14.1% of the company's total revenue. The games sector, which constituted 30.2% of its total revenue, also continued its upward movement, thanks to growth in publishing revenue. Other revenue surged by 18.7%, primarily owing to a rise in IT service revenue by NBP. Despite this, its overall weighting to total revenue remained at 4.7%.

(Units: Billions of KRW, %)

	Consolidated			Proportion	Parent		
	FY 2010	FY 2011	Y/Y		FY 2010	FY 2011	Y/Y
Operating revenue	1,790.6	2,147.4	19.9%		1,319.7	1,443.6	9.4%
Revenue	1,785.4	2,121.3	18.8%		1,311.6	1,435.1	9.4%
Search ads	851.5	1,081.8	27.0%	51.0%	736.9	824.2	11.9%
Display ads	243.1	298.7	22.9%	14.1%	145.1	171.4	18.1%
Games	606.4	640.7	5.6%	30.2%	421.4	427.5	1.5%
Other	84.4	100.2	18.7%	4.7%	8.3	12.0	44.9%
Other operating revenue	5.2	26.1	400.7%		8.0	8.5	5.8%

Search Ads

Search ad revenue climbed by 27.0% to KRW 1,081.8 billion, largely due to increases in PPC and search ad buyers and mobile search ad revenue. Advertisers were allowed to choose their desired media platforms and bid on advertising rates through NHN's in-house Click Choice search ad product. They also enjoyed high returns on their advertising investments by using the keyword recommendation and See More Ads functions. The total number of advertisers rose to 220,000, while PPC experienced stable growth. NHN also launched mobile search ads to meet the rising popularity of smartphones. Average daily revenue was KRW 170 million, raising the growth potential of search ads dramatically.

Display Ads

Revenue from display ads grew by 22.9% YoY to KRW 298.7 billion, due to increases in new advertisers and the number of campaigns. This growth was particularly noticeable after the company revamped its sales policies for Naver's initial web-page display ads. The company also added to the competitiveness of its mobile ads by commercializing its string banner mobile display ads. In addition, the revenue from the front page of Naver's Knowledge Shopping continued to expand, due to rises in the number of advertisers and shopping malls using Naver Checkout. Revenue is expected to increase further following the introduction of the ShopN open market service in 2012.

Games

Game revenue rose by 5.6% YoY to KRW 640.7 billion, led by the introduction of new games and solid publishing revenue in Japan. Hangame, NHN's online game portal, launched a number of new games in 2011, including TERA and Baseball Club. It also concentrated on securing future growth engines through such popular entries as Winning Eleven Online, Kingdom Under Fire II, and Metro Conflict: Presto. In response to the rapidly-changing mobile environment, NHN announced earlier this year that it would invest KRW 100 billion in the Japanese and Korean smartphone game markets over the next three years. This includes introducing twenty smartphone games at home and 165 in Japan. There is a move to increasing control of web-board games and tightened regulations of gaming hours to oversee young players. NHN will advance the growth of the gaming industry, while following all relevant laws and regulations. This will be done by launching educational games to lessen the negative effects of online games, implementing campaigns to help establish a healthier gaming culture, and strengthening its publishing game lineup.

Other

Other revenue surged by 18.7% YoY to KRW 100.2 billion, mainly due to NBP's satisfactory IT platform service performance and the popularity of Naver Real Estate. Other revenue comes from IT services provided by NBP in Korea, livedoor in Japan, and others. Since the earthquakes in Japan in March, NBP and livedoor have been heavily involved in the construction of disaster recovery systems and data center service offerings, especially targeting Japanese companies. NBP provides and operates IT infrastructure services and solutions, while livedoor is in charge of sales and product development.

Other operating revenue was KRW 26.1 billion. This included rental income, gains on foreign currency transactions, gains on foreign currency translation, reversals of loan loss provisions, and gains from the disposition of tangible assets.

2. Profitability

2011 operating expenses were KRW 1,527.0 billion, up 27.2% YoY. This was mainly due to salary hikes, hiring personnel to operate new businesses, and increases in commission expenses commensurate with revenue, and advertising expenses to activate new services.

2011 operating income rose by 5.1% to KRW 620.4 billion. In terms of non-operating income, financial income swelled by 126.6% to KRW 63.6 billion, due to a rise in interest income and gains on financial assets at fair value through profit or loss (including convertible bonds of Webzen). Financial expenses were KRW 52.5 billion, up 175.1% YoY. This was mainly due to foreign currency transaction and translation losses, and interest expenses. Net income decreased by 3.6% to KRW 452.1 billion. Some reasons for this included higher costs and a temporary increase in deferred income tax liabilities following the merger of the company's Japanese subsidiaries.

In 2012, NHN will improve its returns by paying careful attention to its costs and maximizing its revenue. In addition, it will continue investing in both core and new businesses to ensure future sustainable growth.

(Units: Billions of KRW, %)

	Consolidated			Proportion	Parent		
	FY 2010	FY 2011	Y/Y		FY 2010	FY 2011	Y/Y
Operating expenses	1,200.2	1,527.0	27.2%		722.2	831.8	15.2%
Labor costs	446.8	529.1	18.4%	34.6%	212.6	218.0	2.5%
Commission expenses	342.9	462.4	34.9%	30.3%	376.3	435.5	15.7%
Advertising expenses	48.3	94.2	95.1%	6.2%	30.0	48.6	62.0%
Depreciation expenses	93.2	88.3	-5.3%	5.8%	19.4	19.9	2.4%
Communication expenses	67.8	81.4	20.0%	5.3%	0.6	0.8	44.4%
Other employee benefits	48.4	70.7	46.0%	4.6%	19.6	27.4	39.9%
Other	121.5	139.1	14.5%	9.1%	42.4	30.9	-27.1%
Other operating expenses	31.5	61.9	97.6%		21.3	50.7	137.7%
Operating income	590.2	620.4	5.1%		597.5	611.8	2.4%
Operating margin (%)	33.0%	28.9%	-4.1%p		45.3%	42.4%	-2.9%p
Net income	468.9	452.1	-3.6%		473.7	471.7	-0.4%
Net income margin (%)	26.2%	21.1%	-5.1%p		35.9%	32.7%	-3.2%p

III. Financial Structure

NHN is committed to achieving an optimal capital structure and management performances through efficient financial strategies and adding to its competitiveness in its core operations. These efforts include investment decision-making based on growth potential and profitability, stable cash flow generation, working capital management, and financial strategies that maximize shareholder value.

(Units: Billions of KRW, %)

	Consolidated			Parent		
	FY 2010	FY 2011	Y/Y	FY 2010	FY 2011	Y/Y
Total assets	1,967.0	2,372.7	20.6%	1,697.4	1,984.8	16.9%
Total liabilities	645.0	794.8	23.2%	371.3	389.0	4.8%
Total shareholders' equity	1,322.0	1,577.9	19.4%	1,326.1	1,595.7	20.3%

1. Assets

Assets grew by 20.6% to KRW 2,372.7 billion at the end of 2011. This was mainly due to growth in financial assets at fair value through profit or loss, accounts receivable, and property and equipment.

Current Assets

Current assets were KRW 1,431.2 billion, up 27.1%. This was due to increases in the accounts receivable of consolidated entities and financial assets at fair value through profit or loss incurred by investments by NHN Investment. Cash and cash equivalents were worth approximately KRW 805.9 billion. NHN's ample liquidity (which is reflected in its cash ratio of 151% and current ratio of 269%) will mainly be used to invest in new services, buy back treasury stocks, pay dividends, and engage in M&As.

Non-Current Assets

Non-current assets were KRW 941.5 billion, up 12.0% YoY. This was led by growth in property and equipment, and investment assets. The rise in property and equipment resulted from increases in machinery, buildings, and construction-in-progress assets. Intangible assets decreased marginally due to the increased amortization of intangible assets. The value of investment assets increased as the result of acquiring stakes in affiliated companies and growth in investments in available-for-sale financial assets.

(Units: Billions of KRW, %)

	Consolidated			Parent		
	FY 2010	FY 2011	Y/Y	FY 2010	FY 2011	Y/Y
Total assets	1,967.0	2,372.7	20.6%	1,697.4	1,984.8	16.9%
Current assets	1,126.1	1,431.2	27.1%	808.9	904.1	11.8%
Cash and cash equivalents	807.3	805.9	-0.2%	552.8	442.2	-20.0%
Financial assets at fair value through profit or loss	64.0	267.8	318.5%	45.0	182.8	305.9%
Trade and other receivables	196.5	238.1	21.2%	169.0	186.9	10.6%
Other	58.3	119.4	104.7%	42.1	92.1	118.7%
Non-current assets	840.9	941.5	12.0%	888.5	1,080.7	21.6%
Investment assets	248.6	280.4	12.8%	545.7	707.2	29.6%
Property and equipment	332.0	383.9	15.6%	248.2	265.2	6.8%
Intangible assets	153.6	138.8	-9.6%	40.4	34.1	-15.6%
Other	106.7	138.4	29.7%	54.1	74.3	37.3%

Note: The above cash and cash equivalents as of the end of 2011 included short-term financial instruments.

2. Liabilities

Liabilities grew by 23.2% to KRW 794.8 billion. This stemmed from increases in the projected benefit obligation (PBO), accounts payable, and short-term borrowings. NHN maintained a low debt-to-equity ratio, thanks to efficient liabilities management. Borrowings remained similar to the previous year. A rise in short-term borrowings and a fall in long-term borrowings were led by liquidity transfers due to long-term foreign-currency borrowings with maturities of less than one year. The increase in the PBO resulted from changes in our accounting methodologies and yearly salary hikes. The debt-to-equity ratio remained steady at 50%.

(Units: Billions of KRW, %)

	Consolidated			Parent		
	FY 2010	FY 2011	Y/Y	FY 2010	FY 2011	Y/Y
Total liabilities	645.0	794.8	23.2%	371.3	389.0	4.8%
Current liabilities	398.9	532.8	33.6%	235.8	215.5	-8.6%
Trade and other payables	176.8	230.7	30.5%	106.8	81.8	-23.4%
Short-term borrowings	31.7	73.5	131.6%	-	-	-
Income tax payable	97.1	99.9	2.9%	87.8	85.9	-2.1%
Other	93.2	128.6	38.1%	41.2	47.8	16.1%
Non-current liabilities	246.1	262.0	6.5%	135.6	173.5	28.0%
Long-term borrowings	191.4	147.4	-23.0%	109.4	108.4	-0.9%
Projected benefit obligation	39.1	103.7	165.3%	24.0	63.9	166.0%
Other	15.6	10.9	-29.7%	2.2	1.2	-42.3%

3. Shareholders' Equity

Total shareholders' equity was KRW 1,577.9 billion, up 19.4%. This was mainly due to an increase in retained earnings thanks to strong business results, and despite a decrease in other elements of shareholders' equity resulting from the company's KRW 194.7 billion buyback of treasury stocks. Accumulated other comprehensive income increased due to overseas business translation gains from a strengthening Japanese yen. The company also decided to pay about KRW 23.6 billion of unappropriated retained earnings in cash dividends.

(Units: Billions of KRW, %)

	Consolidated			Parent		
	FY 2010	FY 2011	Y/Y	FY 2010	FY 2011	Y/Y
Total shareholders' equity	1,322.0	1,577.9	19.4%	1,326.1	1,595.7	20.3%
Capital stock	24.1	24.1	0.0%	24.1	24.1	0.0%
Capital surplus	194.1	195.2	0.6%	194.1	195.2	0.6%
Elements of other shareholders' equity	-671.1	-841.0	25.3%	-644.3	-814.2	26.4%
Accumulated other comprehensive income	11.4	28.2	146.3%	1.8	1.9	7.4%
Retained earnings	1,765.3	2,171.0	23.0%	1,750.5	2,188.8	25.0%
Non-controlling interests	-1.8	0.3	-117.7%	-	-	-

IV. Cash Flow Analysis

Cash and cash equivalents in 2011 fell by 16.0% to KRW 466.3 billion.

Cash flow from operating activities shrank by 21.6% to KRW 418.5 billion, due to increased investments in financial instruments to manage surplus funds efficiently.

Cash flow from investments was KRW 317.9 billion. Cash outflows from investment activities decreased, due mainly to the base effect from large-scale acquisitions in 2010, such as livedoor and Wise Cat. As a result, capital expenditures (including expenditures for intangible assets) fell by 40% to KRW 142.7 billion.

Cash outflows from financing activities grew to KRW 189.1 billion. This was led by a rise in the value of treasury stocks that the company bought back, as well as reduced long-term borrowings.

(Units: Billions of KRW, %)

	Consolidated			Parent		
	FY 2010	FY 2011	Y/Y	FY 2010	FY 2011	Y/Y
Cash flow from operating activities	534.0	418.5	-21.6%	495.0	332.9	-32.7%
Cash flow from investment activities	-459.0	-317.9	-30.7%	-302.3	-300.5	-0.6%
Cash flow from financing activities	-27.7	-189.1	582.3%	-108.9	-183.5	68.4%
Cash and cash equivalents at the beginning of the year	507.6	554.9	9.3%	266.4	350.1	31.4%
Cash and cash equivalents at the end of the year	554.9	466.3	-16.0%	350.1	199.1	-43.1%

V. Outlook for 2012

In 2011, NHN continued with its strategy of profit-oriented growth to retain its position as Korea's premier Internet company.

NHN consolidated its role as Korea's largest search service provider by enhancing the quality of its service and adding specialized content. At the same time, it had outstanding results in online and mobile ads. The number of Korean smartphone users grew to over 20 million, with over 80% of them using Naver Mobile apps. Growth in display ads also accelerated, due to the company's revamped policy regarding Naver's opening web page. Game revenue also grew, backed by the expansion of online game portfolios and the launching of a wide range of smartphone games.

In 2012, NHN will continue to grow its new mobile business and overseas operations.

In 2012, search and display ads are expected to outperform the overall advertising market's growth, due to product improvements and rising Internet use. In the area of mobile advertising, NHN will increase its revenue to over KRW 100 billion and enhance its advertisers' convenience by revamping its products and services. This will also help it to generate new business opportunities and hone its competitive edge. Naver's Knowledge Shopping will enhance the company's competitiveness in product information search results when it launches the ShopN open market service. It will be upgraded to an e-commerce platform, with enhanced user convenience.

In the games area, NHN will pursue sustainable growth by toning down the content of its web-board games and steadily expanding its publishing lineups, including Winning Eleven Online, Kingdom Under Fire II, and Metro Conflict: Presto. As was reflected in the company's announcement in early 2011 that it would invest KRW 100 billion in the smartphone game business over the next three years, NHN will continue positioning itself at the top of the Korean and Japanese smartphone markets. In addition, the company will continue to broaden its user base and embrace new business opportunities by adding about 70 games—30 in Korea, and 40 in Japan.

NHN will also strengthen its overseas businesses. Its main goal will be to rank first in Japan's Internet portal service and smartphone game markets. In order to improve its operating efficiency in that country, the company merged the management of Hangame Japan, Naver Japan, and livedoor in January 2012. It will also widen the user base of the Naver Japan search portal mainly by revitalizing its Matome user participation information service, improving the search quality, and launching new mobile services. The company also intends to increase its number of global users by upgrading the quality of its LINE SNS service, and seek added synergy effects with its services.

NHN is committed to building better tomorrows for everyone, creating change-leading services, innovating with passion, and taking on challenges without fear.

INDEPENDENT AUDITORS' REPORT

Based on a report originally issued in Korean

The Board of Directors and Shareholders

NHN Corporation:

We have audited the accompanying consolidated statements of financial position of NHN Corporation and its subsidiaries (the "Group") as of December 31, 2011, 2010 and January 1, 2010, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2011 and 2010. Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Korean International Financial Reporting Standards. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Group as of December 31, 2011, 2010 and January 1, 2010 and the its financial performance and its cash flows for the years ended December 31, 2011 and 2010, in accordance with Korean International Financial Reporting Standards.

CEO Gyo-tae Kim

Samjong KPMG

10th Floor, Gangnam Finance Center,
737 Yeoksam-dong, Gangnam-gu, Seoul, Korea

February 20, 2012

This report is effective as of February 20, 2012, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that the above audit report has not been updated to reflect the impact of such subsequent events or circumstances, if any.

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statements of Financial Position

As of December 31, 2011, 2010
and January 1, 2010

NHN Corporation and Subsidiaries

(In thousands of Korean won)

	December 31, 2011	December 31, 2010	January 1, 2010
Assets			
Cash and cash equivalents	₩466,270,679	554,943,904	507,619,337
Short-term financial instruments	339,580,091	252,343,817	131,556,111
Financial assets at fair value through profit or loss	267,790,688	63,983,967	-
Trade and other receivables	238,134,324	196,481,966	186,575,199
Available-for-sale financial assets	29,859,084	-	35,189,443
Held-to-maturity investments	3,493,939	-	-
Other current assets	86,041,321	58,331,958	57,455,454
Total current assets	1,431,170,126	1,126,085,612	918,395,544
Property and equipment	383,865,979	331,995,298	294,068,263
Intangible assets	138,831,861	153,607,097	55,531,026
Long-term financial instruments	2,991,646	249,965	6,995,908
Available-for-sale financial assets	175,468,411	159,341,651	36,286,176
Held-to-maturity investments	3,272,410	1,444,089	-
Investments in equity accounted investees	98,690,974	87,521,750	63,713,779
Deferred tax assets	50,013,950	52,931,074	37,067,751
Trade and other receivables	55,299,737	27,568,666	31,704,904
Other non-current assets	33,100,182	26,212,386	28,802,035
Total non-current assets	941,535,150	840,871,976	554,169,842
Total assets	₩2,372,705,276	1,966,957,588	1,472,565,386

[Continued]

	December 31, 2011	December 31, 2010	January 1, 2010
Liabilities			
Trade and other payables	₩230,721,211	176,835,387	171,071,045
Short-term borrowings	73,515,420	31,743,060	109,378,290
Income tax payables	99,917,073	97,123,883	75,362,995
Provisions	4,612,443	-	240,657
Derivative liabilities	1,228,163	1,575,726	-
Other current liabilities	122,809,014	91,586,517	79,468,733
Total current liabilities	532,803,324	398,864,573	435,521,720
Trade and other payables	1,124,077	49,497	4,126,058
Long-term borrowings	147,360,201	191,441,686	19,051,694
Projected benefit obligation	103,735,707	39,103,770	25,467,814
Provisions	6,641,097	8,465,959	4,051,280
Deferred tax liabilities	205,270	-	-
Other non-current liabilities	2,973,570	7,044,855	590,920
Total non-current liabilities	262,039,922	246,105,767	53,287,766
Total liabilities	794,843,246	644,970,340	488,809,486
Shareholders' equity			
Capital stock	24,063,852	24,063,852	24,063,852
Capital surplus	195,247,998	194,072,912	194,072,912
Element of other shareholders' equity	(841,004,173)	(671,065,244)	(567,186,981)
Accumulated other comprehensive income	28,184,619	11,445,149	5,826,532
Retained earnings	2,171,048,074	1,765,292,414	1,315,219,580
Equity attributable to owners of the Company	1,577,540,370	1,323,809,083	971,995,895
Non-controlling interests	321,660	(1,821,835)	11,760,005
Total shareholders' equity	1,577,862,030	1,321,987,248	983,755,900
Total liabilities and shareholders' equity	₩2,372,705,276	1,966,957,588	1,472,565,386

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

For the years ended December 31,
2011 and 2010

NHN Corporation and Subsidiaries

(In thousands of Korean won, except earnings per share)

	2011	2010
Continuing operations		
Operating revenues:	₩2,147,412,414	1,790,600,457
Sales	2,121,317,926	1,785,388,877
Other operating revenues	26,094,488	5,211,580
Operating expenses:	₩1,526,998,036	1,200,227,691
Operating expenses	1,465,067,047	1,168,883,277
Other operating expenses	61,930,989	31,344,414
Operating income	620,414,378	590,372,766
Finance income	63,648,207	28,094,532
Finance costs	(52,485,915)	(19,078,263)
Net gain of equity method accounted investees	550,866	4,107,298
Income before income taxes	632,127,536	603,496,333
Income taxes	179,999,243	155,071,543
Income from continuing operations	452,128,293	448,424,790
Discontinued operation		
Gain from discontinued operation, net of tax	-	20,452,469
Net income attributable to:		
Owners of the Company	449,984,798	473,077,107
Non-controlling interests	2,143,495	(4,199,848)
Net income	₩452,128,293	468,877,259
Other comprehensive income	₩(14,183,250)	(3,400,218)
Net change in fair value of available-for-sale financial assets	(598,142)	1,537,741
Changes in gain (loss) on translation of foreign operations	14,397,193	7,847,357
Capital changes in equity method accounted investees	2,940,419	(3,766,482)
Defined benefit plan actuarial losses	(30,922,720)	(9,018,834)
Total comprehensive income attributable to:		
Owners of the Company	₩435,801,547	469,676,889
Non-controlling interests	2,143,496	(4,199,848)
Total comprehensive income	₩437,945,043	465,477,041
Earnings per share (in won)		
Basic earnings per share	₩10,134	10,003
Discontinued operations basic earnings per share	-	550
Diluted earnings per share	10,127	9,943
Discontinued operations diluted earnings per share	-	547

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Equity

For the years ended December 31,
2011 and 2010

NHN Corporation and Subsidiaries

(In thousands of Korean won)

	Capital stock	Capital surplus	Element of other shareholders' equity	Accumulated other comprehensive income	Retained earnings	Non-controlling interest	Total shareholders' equity
Balance at January 1, 2010	₩24,063,852	194,072,912	(567,186,981)	5,826,532	1,315,219,580	11,760,005	983,755,900
Net income for the year ended December 31, 2010	-	-	-	-	473,077,107	(4,199,848)	468,877,259
Changes in the scope of consolidation	-	-	-	-	-	(9,381,992)	(9,381,992)
Acquisition of treasury stock	-	-	(176,316,644)	-	-	-	(176,316,644)
Exercise of stock option	-	-	58,452,942	-	-	-	58,452,942
Transfer of loss on disposal of treasury stock to retained earnings	-	-	13,985,439	-	(13,985,439)	-	-
Net change in fair value of available-for-sale financial assets	-	-	-	1,537,742	-	-	1,537,742
Changes in loss on translation of foreign operations	-	-	-	7,847,357	-	-	7,847,357
Capital changes in equity method accounted investees	-	-	-	(3,766,482)	-	-	(3,766,482)
Defined benefit plan actuarial losses	-	-	-	-	(9,018,834)	-	(9,018,834)
Balance at December 31, 2010	₩24,063,852	194,072,912	(671,065,244)	11,445,149	1,765,292,414	(1,821,835)	1,321,987,248
Balance at January 1, 2011	₩24,063,852	194,072,912	(671,065,244)	11,445,149	1,765,292,414	(1,821,835)	1,321,987,248
Net income for the year ended December 31, 2011	-	-	-	-	449,984,798	2,143,495	452,128,293
Acquisition of treasury stock	-	-	(194,667,558)	-	-	-	(194,667,558)
Exercise of stock option	-	1,175,086	11,422,211	-	-	-	12,597,297
Transfer of loss on disposal of treasury stock to retained earnings	-	-	13,306,418	-	(13,306,418)	-	-
Net change in fair value of available-for-sale financial assets	-	-	-	(598,142)	-	-	(598,142)
Changes in loss on translation of foreign operations	-	-	-	14,397,193	-	-	14,397,193
Capital changes in equity method accounted investees	-	-	-	2,940,419	-	-	2,940,419
Defined benefit plan actuarial losses	-	-	-	-	(30,922,720)	-	(30,922,720)
Balance at December 31, 2011	₩24,063,852	195,247,998	(841,004,173)	28,184,619	2,171,048,074	321,660	1,577,862,030

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

For the years ended December 31,
2011 and 2010

NHN Corporation and Subsidiaries

(In thousands of Korean won)

	2011	2010
Cash flows from operating activities		
Net income	₩452,128,293	468,877,259
Adjustments for:	285,812,075	274,280,264
Bad debt expense	-	6,881,294
Other bad debt expense	1,522,563	5,087,544
Reversal of allowance for doubtful accounts	(6,508,471)	-
Depreciation	69,959,666	79,159,478
Amortization	18,300,933	14,037,447
Foreign currency translation loss, net	3,659,084	(51,152)
Loss on sale of trade receivables	9,003,413	8,348,339
Loss (gain) on disposal of property and equipment, net	(58,785)	678,911
Loss on impairment of property and equipment	1,228,934	-
Loss on disposal of intangible assets	(8,674,327)	42,492
Loss on impairment of intangible assets	18,539,022	203,258
Loss (gain) on valuation of financial assets at fair value through profit or loss, net	(11,628,435)	(1,806,190)
Gain on sale of financial assets at fair value through profit or loss, net	(4,097,714)	(430,822)
Loss on valuation of derivative instruments	264,570	1,784,388
Loss on transaction of derivative instruments, net	(1,195)	46,964
Gain on sale of available-for-sale financial assets, net	(712,841)	(462,991)
Loss on impairment of available-for-sale financial assets	7,596,617	169,152
Loss (gain) on valuation of investments in equity method accounted investees, net	(572,504)	(2,286,059)
Loss (gain) on disposal of investments in equity method accounted investees, net	21,637	(1,821,240)
Rental income	(1,339)	(7,819)
Rental expenses	127,026	386,271
Miscellaneous expenses, net	512,634	-
Accrual for retirement and severance benefits	30,854,214	24,937,836
Interest income	(33,300,382)	(23,321,708)
Interest expense	11,732,106	7,784,459
Dividend income	(1,953,594)	(151,131)
Income tax expense	₩179,999,243	155,071,543

[Continued]

Consolidated Statements of Cash Flows

For the years ended December 31,
2011 and 2010

(In thousands of Korean won)

	2011	2010
Changes in assets and liabilities:	₩(168,721,282)	(78,574,604)
Financial assets at fair value through profit or loss	(181,241,542)	(61,746,955)
Trade and other receivables	(34,377,898)	(14,953,360)
Other current assets	(23,678,126)	(8,268,847)
Other non-current assets	(6,935,856)	2,203,379
Trade and other payables	54,635,588	4,505,569
Other current liabilities	30,997,240	12,477,596
Provisions	2,827,763	4,158,821
Other non-current liabilities	(4,069,940)	6,457,582
Employee benefit plan assets	6,077,008	(10,870,398)
Employee benefits transfer to related parties	1,013,576	(71,436)
Payment of retirement and severance benefits	(13,969,095)	(12,466,555)
Interest received	29,534,040	21,833,400
Interest paid	(11,644,424)	(6,693,238)
Dividends received	1,953,594	151,131
Income tax paid	(173,756,500)	(145,908,332)
Income tax refund received	3,148,553	-
Net cash provided by operating activities	₩418,454,349	533,965,880

[Continued]

Consolidated Statements of Cash Flows

For the years ended December 31,
2011 and 2010

(In thousands of Korean won)

	2011	2010
Cash flows from investing activities		
Increase of short-term investments, net	₩(87,913,235)	(79,818,443)
Increase of short-term loans receivable, net	(2,807,987)	(2,878,419)
Increase (decrease) of long-term investments, net	(3,031,171)	-
Proceeds from sale of available-for-sale financial assets, net	(60,272,617)	(85,703,457)
Acquisition of held-to-maturity investments	(5,227,356)	(1,444,089)
Proceeds from disposal of property and equipment	1,302,967	5,578,714
Acquisition of property and equipment	(122,365,032)	(124,219,080)
Proceeds from disposal of intangible assets	10,582,691	2,245,619
Acquisition of intangible assets	(18,893,004)	(113,984,854)
Proceeds from sale of equity method accounted investees	250,005	-
Acquisition of equity method accounted investees	(7,927,945)	(10,704,543)
Acquisition of subsidiary, net of cash acquired	(725,914)	(55,058,915)
Decrease of other non-current assets, net	(20,837,278)	7,031,559
Net cash used in investing activities	₩(317,865,876)	(458,955,908)

[Continued]

Consolidated Statements of Cash Flows

For the years ended December 31,
2011 and 2010

(In thousands of Korean won)

	2011	2010
Cash flows from financing activities		
Proceeds from short-term borrowings	₩119,198,920	54,222,850
Proceeds from long-term borrowings	1,400,000	90,284,220
Repayment of short-term borrowings	(117,062,510)	(38,500,000)
Repayment of long-term borrowings	(11,011,799)	(11,055,981)
Decrease of other non-current liabilities, net	88,638	(4,080,589)
Disposal of treasury stock	12,971,969	57,735,666
Acquisition of treasury stock	(194,667,558)	(176,316,644)
Net cash used in financing activities	(189,082,340)	(27,710,478)
Net decrease in cash and cash equivalents	(88,493,867)	47,299,494
Cash and cash equivalents at beginning of year	554,943,904	507,619,337
Effect of exchange rate fluctuations on cash held	(179,358)	25,073
Cash and cash equivalents at end of year	₩466,270,679	554,943,904

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2011

NHN Corporation and Subsidiaries

1. Reporting entity

NHN Corporation (the "Company") was established on June 2, 1999 under the Commercial Code of the Republic of Korea to provide internet portal services. The Company's headquarters is located in Jeongja-dong, Seongnam-si, Gyeonggi-do, Korea. On October 29, 2002, the Company listed its shares on the Korean Securities Dealers' Automated Quotations stock market, and then on November 28, 2008, the Company transferred its shares to the Korea Composite Stock Price Index stock market. As of December 31, 2011, the Company's paid in capital amounted to ₩24,064 million with 48,127,704 issued shares with a par value of ₩500 per share.

Consolidated financial statements as of December 31, 2011 are composed of the Company and subsidiaries of the Company (the "Group"), shares of affiliated companies and jointly controlled companies of the Group.

As of December 31, 2011, the major shareholders of the Company are as follows:

	Number of shares	Ownership percentage
Hae-Jin Lee and executive personnel of the Company	4,578,786	9.51%
Oppenheimer Funds, Inc. and Related Persons	4,883,061	10.15%
National Pension Fund and Related Persons	3,355,364	6.97%
Lazard Asset Management LLC and Related Persons	2,050,135	4.26%
Others	33,260,358	69.11%
Total	48,127,704	100.00%

The above list of major shareholders of the Company is based on the shareholders' list closed on December 31, 2011, and we adjusted for shareholding changes from the date to the present by reflecting relevant public disclosures published through the Financial Supervisory Service. Therefore, actual shareholdings might differ from the above list.

2. Basis of preparation

(1) Statement of compliance

The financial statements have been prepared in accordance with Korean International Financial Reporting Standards ("K-IFRS"), as prescribed in the *Act on External Audit of Corporations* in the Republic of Korea.

These are the Group's first consolidated financial statements prepared in accordance with K-IFRS and K-IFRS No. 1101 *First-time Adoption of Korean International Financial Reporting Standards ("K-IFRS No. 1101")* has been applied. The Group's date of transition to K-IFRS is January 1, 2010, and the effect of the transition from Korean Generally Accepted Accounting Principles ("K-GAAP") to K-IFRS on the Group's reported financial position and financial performance is explained in note 33.

(2) Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following material items in the statement of financial position:

- ① financial assets at fair value through profit or loss are measured at fair value
- ② available-for-sale financial assets are measured at fair value
- ③ derivatives are measured at fair value
- ④ liabilities for defined benefit plans are recognized as the net total of present value of defined benefit obligation less the fair value of plan assets and unrecognized past service cost

(3) Functional and presentation currency

These consolidated financial statements are presented in Korean won, which is the Company's functional currency and the currency of the primary economic environment in which the Group operates.

(4) Use of estimates and judgements

The preparation of the consolidated financial statements in conformity with K-IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is included in the following notes:

- Note 3: revenue

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

- Note 14: intangible assets
- Note 17: provisions
- Note 19: employee benefits
- Note 20: commitments and contingencies

3. Significant accounting policies

The significant accounting policies applied by the Group in preparation of its consolidated financial statements are included below. The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and in preparing the opening K-IFRS statement of financial position at January 1, 2010 for the purpose of the transition to K-IFRS, unless otherwise indicated.

(1) Basis of consolidation

① Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of the other entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Details of consolidated subsidiaries as of December 31, 2011 and 2010 are as follows:

(In thousands of Korean won)

Parent company	Subsidiaries	Location	Primary business	Percentage of ownership	
				2011	2010
NHN Corporation	NHN Business Platform Corp.	Korea	Portals and other Internet information services	100.00%	100.00%
	NHN I&S Corp.	Korea	Information systems services	100.00%	100.00%
	NHN Japan Corp.	Japan	Online game distribution	100.00%	100.00%
	NHN Global Limited	Cayman Islands	Investment	100.00%	100.00%
	NHN USA, Inc.	U.S.A.	Internet service	100.00%	100.00%
	NHN China Corp.	China	Software development and distribution	100.00%	100.00%
	NHN Investment Corp.	Korea	Business investment in new technology	100.00%	100.00%
	SearchSolution Corp.	Korea	Software development and sales	100.00%	100.00%
	Game Marketing & Business Corp.	Korea	Operating online gaming PC cafe	100.00%	100.00%
	N-Visions Corp.	Korea	Performances, exhibitions business	100.00%	100.00%
	Wisecat, Inc.	Korea	Software development and production	51.00%	51.00%
	Orange Crew Corp.	Korea	Smart device game development	100.00%	-
	NHN Arts Corp.	Korea	Contents and service development	100.00%	-
	Truston Longshort Private Investment Trust No. 2	Korea	Investment	100.00%	-
	Truston Longshort Private Investment Trust No. 4	Korea	Investment	100.00%	-
	KTB CLN Linked Private Securities Investment Trust	Korea	Investment	100.00%	-
	Dongbu Credit Linked Trust No. 4	Korea	Investment	100.00%	-
	Dongbu Together Global Bond Trust No. 3	Korea	Investment	100.00%	-
	Hyundai Korea Paper Bond Fund No.2	Korea	Investment	100.00%	-
NHN Business Platform Corp.	NHN Search Marketing Corp.	Korea	Sales agency specializing in search advertising	100.00%	100.00%
	ITOPF	Korea	Mobile solutions business	100.00%	100.00%
NHN I&S Corp.	inComms Corp.	Korea	Internet commerce and customer service center	100.00%	100.00%
	Gplus Corp.	Korea	Operation of games and customer service center for games	100.00%	100.00%
	Greenweb Service Corp.	Korea	Monitoring, contents, and advertising business	100.00%	100.00%
	NHN Technology Service Corp.	Korea	Operation and security services of infrastructure	100.00%	-
	Nplex Corp.	Korea	Picture production, design and development of content	100.00%	-
	CommPartners Corp.	Korea	Operation of shopping services	100.00%	-
	NHN Service China Corp.	China	Service operating	-	100.00%
	NHN Japan Corp.	Japan	Service operating	100.00%	100.00%
NHN Japan Corp.	NHST Japan Corp.	Japan	Service operating	100.00%	100.00%
	NHN ST Corp.	China	Service operating	100.00%	100.00%
	Mediator Corp.	Japan	PC cafe business	100.00%	100.00%
	Sync Corp.	Japan	Design and development of game software	100.00%	-
	Livedoor Co., Ltd.	Japan	Internet service	100.00%	100.00%
	Naver Japan Corp.	Japan	Internet service	-	100.00%
	Livedoor Co., Ltd.	Japan	Job searching services	100.00%	100.00%
Livedoor Co., Ltd.	LIVEDOOR CAREER Co., Ltd.	Japan	Job searching services	100.00%	100.00%
	JLISTING Co., Ltd.	Japan	Synchronized keyword ads	100.00%	100.00%
NHN Global Limited	NHN-PCCS HK Limited	Hong Kong	Investment	100.00%	100.00%
Wisecat, Inc.	Studio Hon Corp.	Korea	Online game development	59.19%	59.19%

Financial information of consolidated subsidiaries as of December 31, 2011 is as follows:

(In thousands of Korean won)

	2011				
	Assets	Liabilities	Shareholders' equity	Revenue	Net income
NHN Business Platform Corp.	446,475,615	294,821,806	151,653,809	542,444,680	25,321,796
NHN I&S Corp.	56,555,768	16,668,865	39,886,903	35,877,016	6,265,177
NHN Japan Corp.	276,380,149	175,032,327	101,347,822	210,510,490	(85,512,374)
NHN Global Limited	18,849,022	22,919	18,826,103	-	432,542
NHN USA, Inc.	26,412,984	1,422,104	24,990,880	8,566,607	6,373,760
NHN China Corp.	13,256,328	2,750,046	10,506,282	24,349,735	940,972
NHN Investment Corp.	98,223,526	849,855	97,373,671	-	(2,119,020)
SearchSolution Corp.	4,695,162	452,907	4,242,255	1,508,417	282,097
Game Marketing & Business Corp.	963,278	310,035	653,243	2,392,055	246,488
N-Visions Corp.	376,150	251,848	124,302	632,484	(136,795)
Wisecat, Inc.	10,965,744	8,949,718	2,016,026	9,244,415	1,891,333
Orange Crew Corp.	15,935,606	929,204	15,006,402	5,333	(4,993,598)
NHN Arts Corp.	5,115,880	1,020,705	4,095,175	-	(904,825)
Truston Longshort Private Investment Trust No. 2	4,974,085	3,772	4,970,313	-	29,687
Truston Longshort Private Investment Trust No. 4	10,087,628	23,339	10,064,289	-	64,289
KTB CLN Linked Private Securities Investment Trust	10,018,513	696	10,017,817	-	17,817
Dongbu Credit Linked Trust No.4	20,178,970	2,335	20,176,635	-	400,635
Dongbu Together Global Bond Trust No.3	9,064,071	9,127	9,054,944	-	(1,634,056)
Hyundai Korea Paper Bond Fund No.2	10,430,335	2,120	10,428,215	-	(301,786)
NHN Search Marketing Corp.	19,390,493	7,344,173	12,046,320	28,337,910	3,609,984
ITOPF	77,255	39,975	37,280	42,000	(143,014)
inComms Corp.	6,832,688	3,712,296	3,120,392	15,143,689	686,617
Gplus Corp.	7,410,455	3,907,506	3,502,949	16,038,431	887,850
Greenweb Service Corp.	6,512,061	3,508,128	3,003,933	15,602,140	769,522
NHN Technology Service Corp.	13,794,147	8,984,421	4,809,726	25,751,223	932,712
Nplex Corp.	764,247	449,465	314,782	1,785,098	74,070
CommPartners Corp.	881,308	319,870	561,438	1,636,667	61,439
NHST Japan Corp.	7,908,266	5,232,645	2,675,621	20,427,003	422,949
NHN ST Corp.	5,866,067	1,059,446	4,806,621	22,841,211	1,051,325
Mediator Corp.	1,575,393	1,976,794	(401,401)	4,227,279	(5,645)
Sync Corp.	2,914,318	244,220	2,670,098	-	(1,672,561)
Livedoor Co., Ltd.	46,922,373	14,077,927	32,844,446	79,882,080	(1,018,518)
Livedoor Career Corp.	196,281	254	196,027	-	(4,315)
JLISTING Co., Ltd.	3,317,006	1,265,380	2,051,626	6,753,249	(687,338)
NHN-PCCS HK Limited	12,745,700	1,078,459	11,667,241	-	(606,001)

Financial information of consolidated subsidiaries as of December 31, 2010 is as follows:

(In thousands of Korean won)

	2010				
	Assets	Liabilities	Shareholders' equity	Revenue	Net income
Studio Hon Corp.	631,169	7,736,117	(7,104,948)	-	(2,468,387)
NHN Business Platform Corp.	355,189,599	228,853,561	126,336,038	345,064,883	(3,718,173)
NHN I&S Corp.	50,130,182	16,508,456	33,621,726	36,345,148	3,229,140
NHN Japan Corp.	240,339,434	156,933,873	83,405,561	179,190,677	16,451,485
NHN Global Limited	17,438,671	2,756,051	14,682,620	-	26,374,057
NHN USA, Inc.	11,048,858	1,317,257	9,731,601	10,282,661	(4,142,374)
NHN China Corp.	4,084,812	669,961	3,414,851	8,965,540	(1,992,781)
NHN Investment Corp.	50,747,342	216,223	50,531,119	-	823,733
SearchSolution Corp.	13,602,670	345,672	13,256,998	2,166,000	127,144
Game Marketing & Business Corp.	504,611	97,856	406,755	750,489	(93,245)
N-Visions Corp.	411,114	149,927	261,187	868,467	(291,615)
Wisecat, Inc.	12,564,098	12,401,994	162,104	9,738,941	(5,158,756)
NHN Search Marketing Corp.	12,346,537	3,910,201	8,436,336	12,050,471	436,336
ITOPF	250,566	70,272	180,294	175,699	(229,809)
inComms Corp.	5,877,664	3,443,889	2,433,775	13,078,563	196,896
Gplus Corp.	5,904,095	3,288,996	2,615,099	12,250,403	349,603
Greenweb Service Corp.	5,138,706	2,904,296	2,234,410	13,416,213	298,469
NHST Japan Corp.	3,898,004	1,805,769	2,092,235	13,475,057	402,670
NHN ST Corp.	4,154,204	668,664	3,485,540	16,335,038	661,932
Mediator Corp.	873,832	1,245,759	(371,927)	2,454,508	(617,148)
Livedoor Co., Ltd.	43,698,187	11,778,896	31,919,291	43,023,109	(7,683,430)
Livedoor Career Corp.	184,640	239	184,401	-	(1,726)
JLISTING Co., Ltd.	3,632,018	1,011,878	2,620,140	2,776,895	192,333
NHN-PCCS HK Limited	14,345,024	32,293	14,312,731	-	10,020,336
Studio Hon Corp.	563,664	5,222,489	(4,658,825)	500,000	(2,547,292)

If a member of the Group uses accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to its financial statements in preparing the consolidated financial statements.

Consolidated subsidiaries that have been included into the consolidated financial statements for the first time during the year ended December 31, 2011 are follows:

Name of subsidiary	Reason
Orange Crew Corp.	Obtained controlling interest through establishment of new entity
Sync Corp.	Obtained controlling interest through establishment of new entity
NHN Arts Corp.	Obtained controlling interest through establishment of new entity
CommPartners Corp.	Obtained controlling interest through establishment of new entity
NHN Technology Service Corp.	Physical division of NHN I&S Corp.
Nplex Corp.	Physical division of NHN I&S Corp.
Truston Longshort Private Investment Trust No. 2	Obtained controlling interest through acquisition
Truston Longshort Private Investment Trust No. 4	Obtained controlling interest through acquisition
KTB CLN Linked Private Securities Investment Trust	Obtained controlling interest through acquisition
Dongbu Credit Linked Investment Trust No.4	Obtained controlling interest through acquisition
Dongbu Together Global Bond Investment Trust No.3	Obtained controlling interest through acquisition
Hyundai Korea Paper Bond Fund No.2	Obtained controlling interest through acquisition

Consolidated subsidiaries that have been excluded from the consolidated financial statements during the year ended December 31, 2011 are follows:

Name of subsidiary	Reason
NHN Service China Corp.	Merged with NHN China Corp.
Naver Japan Corp.	Merged with NHN Japan Corp.

② Special purpose entities

The Group has established a number of special purpose entities (SPEs) for trading and investment purposes. The Group does not have any direct or indirect shareholdings in these entities. An SPE is consolidated if, based on an evaluation of the substance of its relationship with the Group and the SPE's risks and rewards, the Group concludes that it controls the SPE.

③ Intra-group transactions

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Intra-group losses are recognized as expense if intra-group losses indicate an impairment that requires recognition in the consolidated financial statements.

④ Non-controlling interests

Non-controlling interests in a subsidiary are accounted for separately from the parent's ownership interests in a subsidiary. Each component of net profit or loss and other comprehensive income is attributed to the owners of the parent and non-controlling interest holders, even when the allocation reduces the non-controlling interest balance below zero.

(2) Business combination

① Business combination

A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control.

Each identifiable asset and liability is measured at its acquisition-date fair value except for below:

- Leases and insurance contracts are required to be classified on the basis of the contractual terms and other factors
- Only those contingent liabilities assumed in a business combination that are a present obligation and can be measured reliably are recognized
- Deferred tax assets or liabilities are recognized and measured in accordance with K-IFRS No. 1012 *Income Taxes*
- Employee benefit arrangements are recognized and measured in accordance with K-IFRS No.1019 *Employee Benefits*
- Indemnification assets are recognized and measured on the same basis as the indemnified liability or asset
- Reacquired rights are measured in accordance with special provisions
- Liabilities or equity instruments related to share-based payment transactions are measured in accordance with the method in K-IFRS No. 1102 *Share-based Payment*
- Assets held for sale are measured at fair value less costs to sell in accordance with K-IFRS No. 1105 *Non-current Assets Held for Sale*

As of the acquisition date, non-controlling interests in the acquiree are measured as the non-controlling interests' proportionate share of the acquiree's identifiable net assets.

The consideration transferred in a business combination shall be measured at fair value, which shall be calculated as the sum of the acquisition-date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity interests issued by the acquirer. However, any portion of the acquirer's share-based payment awards exchanged for awards held by the acquiree's employees that is included in consideration transferred in the business combination shall be measured in accordance with the method described above rather than at fair value.

Acquisition-related costs are costs the acquirer incurs to effect a business combination. Those costs include finder's fees; advisory, legal, accounting, valuation and other professional or consulting fees; general administrative costs, including the costs of maintaining an internal acquisitions department; and costs of registering and issuing debt and equity securities. Acquisition-related costs, other than those associated with the issue of debt or equity securities, are expensed in the periods in which the costs are incurred and the services are received. The costs to issue debt or equity securities are recognized in accordance with K-IFRS No.1032 *Financial Instruments: Presentation* and K-IFRS No.1039 *Financial Instruments: Recognition and Measurement*.

② Goodwill

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognized amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less
- the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, bargain purchase gain is recognized immediately in profit or loss.

As part of its transition to K-IFRS, the Group elected to restate only those business combinations which occurred on or after January 1, 2010 in accordance with K-IFRS. In respect of acquisitions prior to January 1, 2010, goodwill is included on the basis of its deemed cost, which represents the amount recorded under previous GAAP, K-GAAP.

(3) Associates and jointly controlled entities

An associate is an entity in which the Group has significant influence, but not control, over the entity's financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity.

Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement, and require unanimous consent for strategic financial and operating decisions.

The investment in an associate is initially recognized at cost and the carrying amount is increased or decreased to recognize the Group's share of the profit or loss and changes in equity of the associate after the date of acquisition. Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Intra-group losses recognized as expense if intra-group losses indicate an impairment that requires recognition in the consolidated financial statements.

If an associate uses accounting policies different from those of the Company for like transactions and events in similar circumstances, appropriate adjustments are made to its financial statements in applying the equity method.

When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has to make payments on behalf of the investee for further losses.

(4) Foreign currency

① Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated to the functional currency using the reporting date's exchange rate. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

Foreign currency differences arising on retranslation are recognized in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, a financial liability designated as a hedge of the net investment in a foreign operation, or qualifying cash flow hedges, which are recognized in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

② Foreign operations

If the presentation currency of the Group is different from a foreign operation's functional currency, the financial statements of the foreign operation are translated into the presentation currency using the following methods:

The assets and liabilities of foreign operations, whose functional currency is not the currency of a hyperinflationary economy, are translated to presentation currency at exchange rates at the reporting date. The income and expenses of foreign operations are translated to functional currency at exchange rates at the dates of the transactions. Foreign currency differences are recognized in other comprehensive income.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation is treated as assets and liabilities of the foreign operation. Thus they are expressed in the functional currency of the foreign operation and translated at the closing rate.

When a foreign operation is disposed of, the relevant amount in the translation is transferred to profit or loss as part of the profit or loss on disposal. On the partial disposal of a subsidiary that includes a foreign operation, the relevant proportion of such cumulative amount is reattributed to non-controlling interest. In any other partial disposal of a foreign operation, the relevant proportion is reclassified to profit or loss.

Foreign exchange gains or losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely to occur in the foreseeable future and which in substance is considered to form part of the net investment in the foreign operation, are recognized in other comprehensive income in the translation reserve.

③ Foreign exchange difference in net investment for overseas branch

Foreign exchange differences arise from a monetary item receivable from or payable to an overseas branch that are not expected to be settled in the reasonably estimated future are assumed to be a part of net investments, recognizing the differences as other comprehensive income and reclassified to net income at the time of disposition of the net investments.

(5) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits, and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and are used by the Group in management of its short-term commitments. Generally equity investments are excluded from cash and cash equivalents. However, redeemable preference shares, for which the period from the acquisition to redemption is short, are classified as cash and cash equivalents.

(6) Non-derivative financial assets

The Group recognizes and measures non-derivative financial assets by the following four categories: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets. The Group recognizes financial assets in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

Upon initial recognition, non-derivative financial assets are measured at their fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the asset's acquisition or issuance.

① Financial assets at fair value through profit or loss

A financial asset is classified as financial assets at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Upon initial recognition, transaction costs are recognized in profit or loss when incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

② Held-to-maturity financial assets

A non-derivative financial asset with a fixed or determinable payment and fixed maturity, for which the Group has the positive intention and ability to hold to maturity, are classified as held-to-maturity investments. Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method.

③ Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method except for loans and receivables of which the effect of discounting is immaterial.

④ Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as financial assets at fair value through profit or loss, held-to-maturity investments or loans and receivables. Subsequent to initial recognition, they are measured at fair value, which changes in fair value, net of any tax effect, recorded in other comprehensive income in equity. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost. When a financial asset is derecognized or impairment losses are recognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss. Dividends on an available-for-sale equity instrument are recognized in profit or loss when the Group's right to receive payment is established.

⑤ Derecognition of a financial asset

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognized as a separate asset or liability.

If the Group retains substantially all the risks and rewards of ownership of the transferred financial assets, the Group continues to recognize the transferred financial assets and recognizes financial liabilities for the consideration received.

⑥ Offsetting a financial asset and a financial liability

Financial assets and financial liabilities are offset and the net amount is presented in the consolidated statement of financial position only when the Group currently has a legally enforceable right to offset the recognized amounts, and there is the intention to settle on a net basis or to realize the asset and settle the liability simultaneously.

(7) Non-derivative financial liabilities

The Group classifies non-derivative financial liabilities into financial liabilities at fair value through profit or loss or other financial liabilities in accordance with the substance of the contractual arrangement and the definitions of financial liabilities. The Group recognizes financial liabilities in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the financial liability.

① Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading or designated as such upon initial recognition. Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss. Upon initial recognition, transaction costs that are directly attributable to the acquisition are recognized in profit or loss as incurred.

② Other financial liabilities

Non-derivative financial liabilities other than financial liabilities at fair value through profit or loss are classified as other financial liabilities. At the date of initial recognition, other financial liabilities are measured at fair value minus transaction costs that are directly attributable to the acquisition. Subsequent to initial recognition, other financial liabilities are measured at amortized cost using the effective interest method.

The Group derecognizes a financial liability from the consolidated statement of financial position when it is extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

(8) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

When the Group repurchases its share capital, the amount of the consideration paid is recognized as a deduction from equity and classified as treasury shares. The profits or losses from the purchase, disposal, reissue, or retirement of treasury shares are not recognized as current profit or loss. If the Group acquires and retains treasury shares, the consideration paid or received is directly recognized in equity.

(9) Derivative financial instruments

Derivatives are initially recognized at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are either recognized in profit or loss or, when the derivatives are designated in a hedging relationship and the hedge is determined to be an effective hedge, other comprehensive income.

1) Hedge accounting

The Group holds forward exchange contracts, interest rate swaps, currency swaps and other derivative contracts to manage interest rate risk and foreign exchange risk. The Group designated derivatives as hedging instruments to hedge the risk of changes in the fair value of assets, liabilities or firm commitments (a fair value hedge) and foreign currency risk of highly probable forecasted transactions or firm commitments (a cash flow hedge).

On initial designation of the hedge, the Group formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at the inception of the hedge relationship as well as on a quarterly basis, whether the hedging instruments are expected to be "highly effective" in offsetting the changes in the fair value or cash flows of the respective hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80%-125%. For a cash flow hedge of a forecasted transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that could ultimately affect reported net income.

① Fair value hedge

Changes in the fair value of a derivative hedging instrument designated as a fair value hedge are recognized in profit or loss. The gain or loss from remeasuring the hedging instrument at fair value for a derivative hedging instrument and the gain or loss on the hedged item attributable to the hedged risk are recognized in profit or loss in the same line item of the consolidated statement of comprehensive income.

The Group discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, or if the hedge no longer meets the criteria for hedge accounting. Any adjustment arising from gain or loss on the hedged item attributable to the hedged risk is amortized to profit or loss from the date the hedge accounting is discontinued.

② Cash flow hedge

When a derivative is designated to hedge the variability in cash flows attributable to a particular risk associated with a recognized asset or liability or a highly probable forecasted transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income, net of tax, and presented in the hedging reserve in equity. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated, exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. The cumulative gain or loss on the hedging instrument that has been recognized in other comprehensive income is reclassified to profit or loss in the periods during which the forecasted transaction occurs. If the forecasted transaction is no longer expected to occur, then the balance in other comprehensive income is recognized immediately in profit or loss.

2) Separable embedded derivatives

Embedded derivatives are separated from the host contract and accounted for separately only if the following criteria has been met: (a) the economic characteristics and risks of the host contract and the embedded derivatives are not clearly and closely related to a separate instrument with the same terms as the embedded derivative that would meet the definition of a derivative, and (b) the hybrid (combined) instrument is not measured at fair value through profit or loss. Changes in the fair value of separable embedded derivatives are recognized immediately in profit or loss.

3) Other derivative financial instruments

Changes in the fair value of other derivative financial instrument not designated as a hedging instrument are recognized immediately in profit or loss.

(10) Property and equipment

Property and equipment are measured and recognized initially at cost. The cost includes any other costs directly attributable to bring the assets to a working condition for their intended use and the costs of dismantling and removing the assets and restoring the site on which they are located.

Subsequent to initial recognition, carrying value of property, plant and equipment except land are measured at cost less accumulated depreciation and accumulated impairment losses.

The cost of replacing a part of property, plant and equipment is included in the carrying amount of the asset or recognized as a separate asset as necessary if it is probable that the future economic benefits embodied within the part will flow into the Group and if the cost can be reliably measured. Accordingly, the carrying amount of the replaced part is derecognized. The cost of the day-to-day servicing of property and equipment are recognized in current profit or loss as incurred.

Depreciation for property and equipment is computed using the straight-line method based on the depreciable amount of the assets over the useful lives of the respective assets as provided below. Land is not depreciated.

A component that is significant compared to the total cost of property, plant and equipment is depreciated over its separate useful life.

Gains or losses arising from the derecognition of an item of property and equipment are determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item and recognized in other operating income or expenses.

The estimated useful lives for the current and comparative periods are as follows:

	Estimated useful lives (years)
Buildings	30
Structures	10
Furniture and fixtures	3-5
Others	4-6

Depreciation methods, useful lives and residual values are reviewed at each financial year-end, if expectations differ from previous estimates, and adjusted if appropriate. The change is accounted for as a change in an accounting estimate.

(11) Borrowing costs

The Group capitalizes borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Other borrowing costs are recognized in expense as incurred. A qualifying asset is an asset that requires a substantial period of time to get ready for its intended use or sale. Financial assets and inventories that are manufactured or otherwise produced over a short period of time are not qualifying assets. Assets that are ready for their intended use or sale when acquired are not qualifying assets.

To the extent that the Group borrows funds specifically for the purpose of obtaining a qualifying asset, the Group determines the amount of borrowing costs eligible for capitalization as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings. The Group immediately recognizes other borrowing costs as an expense. To the extent that the Group borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the Group shall determine the amount of borrowing costs eligible for capitalization by applying a capitalization rate to the expenditures on that asset. The capitalization rate shall be the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs that the Group capitalizes during a period shall not exceed the amount of borrowing costs incurred during that period.

(12) Intangible assets

Intangible assets are initially measured at cost, and recognized at cost less accumulated amortization and accumulated impairment losses after initial recognition.

Intangible assets except goodwill are amortized using the straight-line method over the useful lives of the respective assets as provided below. The residual value of intangible assets is assumed to be zero. However, as there are no foreseeable limits to the periods over which certain intangible assets are expected to be available for use, these intangible assets are regarded as having indefinite useful lives and not amortized.

The estimated useful lives for the current and comparative period are as follows:

	Estimated useful lives (years)
Industrial property rights	5
Computer software costs	5
Others	5

The amortization periods and methods for intangible assets with finite useful lives are reviewed at each financial year-end.

The amortization periods and methods for intangible assets with infinite useful lives shall be reviewed each period to determine whether events and circumstances continue to support an indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite shall be accounted for as a change in an accounting estimate.

① Research and development

Expenditures on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognized in profit or loss as incurred. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. Other development expenditures are recognized in profit or loss as incurred.

② Subsequent expenditures

Subsequent expenditures are capitalized only when they increase the future economic benefits embodied in the specific asset to which it relates. All other expenditures, including expenditures on internally generated goodwill and brands, are recognized in profit or loss as incurred.

(13) Impairment of financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. However, losses expected as a result of future events, regardless of likelihood, are not recognized.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

If financial assets have objective evidence that they are impaired, impairment losses should be measured and recognized.

① Financial assets measured at amortized cost

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of its estimated future cash flows discounted at the asset's original effective interest rate. If it is not practicable to obtain the instrument's estimated future cash flows, impairment losses would be measured by using prices from any observable current market transactions. The Group can recognize impairment losses directly or establish a provision to cover impairment losses. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss shall be reversed either directly or by adjusting an allowance account.

② Financial assets carried at cost

If there is objective evidence that an impairment loss has occurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses shall not be reversed.

③ Available-for-sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognized in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized in other comprehensive income shall be reclassified from equity to profit or loss as a reclassification adjustment even though the financial asset has not been derecognized. Impairment losses recognized in profit or loss for an investment in an equity instrument classified as available-for-sale shall not be reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognized in profit or loss.

(14) Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than assets arising from employee benefits, inventories, deferred tax assets and non-current assets held for sale, are reviewed at the end of the reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, irrespective of whether there is any indication of impairment, are tested for impairment annually by comparing their recoverable amount to their carrying amount.

The Group estimates the recoverable amount of an individual asset, if it is impossible to measure the individual recoverable amount of an asset, then the Group estimates the recoverable amount of cash-generating unit ("CGU"). A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. The value in use is estimated by applying a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU for which estimated future cash flows have not been adjusted, to the estimated future cash flows expected to be generated by the asset or CGU.

An impairment loss is recognized if the carrying amount of an asset or a CGU exceeds its recoverable amount. Impairment losses are recognized in profit or loss.

Goodwill acquired in a business combination is allocated to each CGU that is expected to benefit from the synergies arising from the goodwill acquired. Any impairment identified at the CGU level will first reduce the carrying value of goodwill and then be used to reduce the carrying amount of the other assets in the CGU on a pro rata basis. Except for impairment losses in respect of goodwill which are never reversed, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(15) Employee benefits

① Short-term employee benefit

Short-term employee benefits are employee benefits that are due to be settled within 12 months after the end of the period in which the employees render the related service. When an employee has rendered service to the Group during an accounting period, the Group recognizes the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service.

② Retirement benefit: defined contribution plans

When an employee has rendered service to the Group during a period, the Group recognizes the contribution payable to a defined contribution plan in exchange for that service as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the end of the reporting period, the Group recognizes that excess as an asset (prepaid expense) to the extent that the prepayment will lead to a reduction in future payments or a cash refund.

③ Retirement benefit: defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The fair value of plan assets is deducted. The calculation is performed annually by an independent actuary using the projected unit credit method.

The discount rate is the yield at the reporting date on corporate bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The Group recognizes all actuarial gains and losses arising from actuarial assumption changes and experiential adjustments in other comprehensive income when incurred.

When the fair value of plan assets exceeds the present value of the defined benefit obligation, the Group recognizes an asset, to the extent of the total of cumulative unrecognized past service cost and the present value of any economic benefits available in the form of refunds from the plan or reduction in the future contributions to the plan.

Past service costs which are the change in the present value of the defined benefits obligation for employee service in prior periods, resulting in the current period from the introduction of, or change to post-employment benefits, is recognized as an expense on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits are already vested immediately following the introduction of, or changes to, a defined benefit plan, the Group recognizes the past service cost immediately.

(16) Share-based payment

For equity settled share-based payment transactions that grant shares or share options to employees in consideration of goods or services received, the Group recognized the fair value of share-based payment awards as an employee expense with a corresponding increase in equity over the period that the employees unconditionally become entitled to the awards. The Group measures the fair value of share-based payment awards at the fair value of goods or services received which cannot be estimated reliably and the fair value of share-based payment awards is measured directly by reference to the fair value of the equity instruments granted.

(17) Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The risks and uncertainties that inevitably surround many events and circumstances are taken into account in reaching the best estimate of a provision. Where the effect of the time value of money is material, provisions are determined at the present value of the expected future cash flows.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimates. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

A provision shall be used only for expenditures for which the provision was originally recognized.

(18) Revenue

① Services

Revenue from services rendered is recognized in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

② Commissions

When the Group acts in the capacity of an agent rather than as the principal in a transaction, the revenue recognized is the net amount of commission made by the Group.

(19) Finance income and finance costs

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss, and gains on hedging instruments that are recognized in profit or loss. Interest income is recognized as it accrues in profit or loss, using the effective interest method. Dividend income is recognized in profit or loss on the date that the Group's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, dividends on preference shares classified as liabilities, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognized on financial assets, and losses on hedging instruments that are recognized in profit or loss. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest method.

(20) Income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

① Current tax

Current tax is the expected tax payable or receivable on the taxable profit or loss for the year, using tax rates enacted or substantively enacted at the end of the reporting period and any adjustment to tax payable in respect of previous years. The taxable profit is different from the accounting profit for the period since the taxable profit is calculated excluding the temporary differences, which will be taxable or deductible in determining taxable profit (tax loss) of future periods, and non-taxable or non-deductible items from the accounting profit.

② Deferred tax

Deferred tax is recognized, using the asset-liability method, in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. A deferred tax liability is recognized for all taxable temporary differences. A deferred tax asset is recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which they can be utilized. However, deferred tax is not recognized for the following temporary differences: taxable temporary differences arising on the initial recognition of goodwill, or the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting profit or loss nor taxable income.

The Group recognizes a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries, associates, and interests in joint ventures, except to the extent that the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The Group recognizes a deferred tax asset for all deductible temporary differences arising from investments in subsidiaries and associates, to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset only if there is a legally enforceable right to offset the related current tax liabilities and assets, and they relate to income taxes levied by the same tax authority and they intend to settle current tax liabilities and assets on a net basis.

(21) Discontinued operations

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative consolidated statement of comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative period.

(22) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, such as share options granted to employees.

(23) Operating segment

The Group identifies the segment based on the internal report reviewed by the Group's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance. As described in note 5, the Group has four reportable segments, which are the Group's strategic business units. The strategic business units are managed because they provide different services and they require different technology and marketing strategies.

As it is not possible to allocate operating expenses and property and equipment by operating segment due to the inherent nature of the Group's business, that information is not presented by operating segment.

(24) New standards and interpretations not yet adopted

The following new standards, interpretations and amendments to existing standards have been published and are mandatory for the Group for annual periods beginning after January 1, 2011, and the Group has not early adopted them.

- K-IFRS No. 1113 *Fair Value Measurement*

The standard defines fair value and a single framework for fair value, and requires disclosures about fair value measurements. The standard will be applied prospectively for the Group's annual periods beginning on or after January 1, 2013.

4. Financial risk management

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

(1) Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

The Group Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

(2) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investments.

Maximum amounts of possible financial loss to the Group due to credit risk as of December 31, 2011 and 2010 are as follows:

	(In thousands of Korean won)	
	2011	2010
Cash and cash equivalents (*)	₩466,219,347	554,899,108
Available-for-sale financial assets	205,327,495	159,341,651
Held-to-maturity investments	6,766,349	1,444,089
Financial assets at fair value through profit or loss	267,790,688	63,983,967
Short-term financial instruments	339,580,091	252,343,817
Long-term financial instruments	2,991,646	249,965
Trade and other receivables	293,434,061	224,050,632
Total	₩1,582,109,677	1,256,313,229

(*) Cash on hand has been excluded from cash and cash equivalents as it has no credit risk.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The Group regularly performs credit assessment of customers and counterparties considering their financial position and historical data in order to manage the credit risk.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified.

The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

(3) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group monitors its cash flow through long-term and short-term management strategies and ensures it has sufficient cash on demand to meet expected operational expenses.

Book values of financial liabilities based on the remaining maturities as of December 31, 2011 and December 31, 2010 are as follows: The amounts below include estimated interest from financial liabilities scheduled to be paid, but was not reflected in the effects under application of any set-off agreements.

December 31, 2011

	(In thousands of Korean won)			
	Book value	Contractual cash outflow	Less than one year	One to five year
Trade and other payables	₩231,845,288	231,845,288	230,721,211	1,124,077
Short-term borrowings	25,247,720	25,384,530	25,384,530	-
Derivative liabilities	1,228,163	1,228,163	793,252	434,911
Debentures	100,000,000	107,980,000	4,560,000	103,420,000
Long-term borrowings (including current portion)	95,627,901	96,939,554	48,993,295	47,946,259
	₩453,949,072	463,377,535	310,452,288	152,925,247

December 31, 2010

	(In thousands of Korean won)			
	Book value	Contractual cash outflow	Less than one year	One to five year
Trade and other payables	₩176,884,884	176,884,884	176,835,387	49,497
Short-term borrowings	23,011,310	23,153,882	23,153,882	-
Derivative liabilities	1,575,726	1,575,726	1,575,726	-
Debentures	100,000,000	111,945,217	4,560,000	107,385,217
Long-term borrowings (including current portion)	100,173,436	103,008,789	9,949,829	93,058,960
	₩401,645,356	416,568,498	216,074,824	200,493,674

(4) Market risk

Market risk is the risk that changes in market prices will affect the future cash flow or the value of its holdings of financial instruments the Group holds. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

① Exchange risk

The Group has exposure to currency risk on the sale, purchase, and borrowing that are denominated in a currency other than the functional currency. Main currencies used for these transactions are USD, JPY, CNY and etc.

Book values of monetary assets and liabilities denominated in a currency other than the functional currency as of December 31, 2011, 2010 and January 1, 2010 are as follows:

(In thousands of Korean won)

	December 31, 2011			December 31, 2010			January 1, 2010					
	Cur- ren- cy	Ex- change rate	Translated amount	Cur- ren- cy	Ex- change rate	Translated amount	Cur- ren- cy	Ex- change rate	Translated amount			
Monetary assets:												
Cash and cash equivalents	USD	3,170,340.27	1,153.30	₩3,656,354	USD	8,500,591.42	1,138.90	₩9,681,324	USD	3,610,925.82	1,167.60	₩4,216,117
	CNY	3,800.00	182.51	694	JPY	94,139,827.00	13.97	1,315,209	JPY	65,212,714.00	12.63	823,520
	AUD	5,004.28	1,169.27	5,851								
	HKD	22,972.66	148.38	3,409								
Other receivables	USD	918,055.40	1,153.30	1,058,793	USD	600,000.00	1,138.90	683,340	USD	8,310.24	1,167.60	9,703
									JPY	472,076.64	12.63	5,961
									EUR	6.66	1,674.28	11
Accrued income	USD	94,103.67	1,153.30	108,530	USD	58,584.00	1,138.90	66,721				
Trade receivables	USD	173,650.83	1,153.30	200,272	USD	24,429.95	1,138.90	27,823	USD	106.40	1,167.60	124
	JPY	107,847,662.74	14.85	1,601,710	JPY	58,981,100.02	13.97	824,013	JPY	769,477.00	12.63	9,717
	EUR	6,935.00	1,494.10	10,362	CNY	3,212,643.70	172.50	554,181	CNY	5,807,742.56	171.06	993,472
	SGD	858.57	886.44	761								
Short-term loans receivable	USD	770,000.00	1,153.30	888,041								
Total				₩7,534,777				₩13,152,611				₩6,058,625
Monetary liabilities:												
Other payables	USD	1,624,253.23	1,153.30	₩1,873,251	USD	640,268.70	1,138.90	₩729,202	USD	623,028.35	1,167.60	₩727,448
	JPY	33,702,001.00	14.85	500,529	JPY	735,000.00	13.97	10,269	JPY	1,397,558.27	12.63	17,649
	CNY	7,471,389.00	182.51	1,363,603	CNY	13,609,246.27	172.50	2,347,595	CNY	26,924,405.58	171.06	4,605,689
									EUR	65,202.93	1,674.28	109,168
									GBP	10,923.26	1,877.73	20,511
									CHF	8,361.40	1,126.43	9,419
									HKD	121,167.87	150.56	18,243
									ILS	18,840.08	307.59	5,795
									PHP	645,218.96	25.33	16,343
									RUB	451,788.36	38.52	17,403
Total				₩3,737,383				₩3,087,066				₩5,547,668

Effects on income (loss) as a result of change in exchange rate as of December 31, 2011, 2010 and January 1, 2010 are as follows:

(In thousands of Korean won)

	December 31, 2011		December 31, 2010		January 1, 2010	
	If increased by 5%	If decreased by 5%	If increased by 5%	If decreased by 5%	If increased by 5%	If decreased by 5%
USD	201,937	(201,937)	486,500	(486,500)	174,925	(174,925)
JPY	55,059	(55,059)	106,448	(106,448)	41,078	(41,078)
CNY, etc.	(67,126)	67,126	(89,671)	89,671	(190,455)	190,455
Total	189,870	(189,870)	503,277	(503,277)	25,548	(25,548)

② Interest rate risk

Interest bearing financial assets and liabilities as of December 31, 2011 and 2010 are as follows:

(In thousands of Korean won)

	December 31, 2011		December 31, 2010	
	Fixed rate	Variable rate	Fixed rate	Variable rate
Financial assets	₩633,051,365	258,380,584	610,088,999	246,003,252
Financial liabilities	(184,654,120)	(36,221,501)	(151,651,450)	(71,533,296)
Total	₩448,397,245	222,159,083	458,437,549	174,469,956

The Group has exposure to interest rate risk as it possesses financial assets and liabilities bearing interest. Effects on income (expense) for one year from the reporting date as a result of change in interest rate are as follows:

(In thousands of Korean won)

	December 31, 2011		December 31, 2010		January 1, 2010	
	If increased by 0.5% P	If decreased by 0.5% P	If increased by 0.5% P	If decreased by 0.5% P	If increased by 0.5% P	If decreased by 0.5% P
Interest expense	(139,234)	139,234	(310,850)	310,850	(29,559)	29,559
Interest income	1,291,903	(1,291,903)	1,230,016	(1,230,016)	1,137,156	(1,137,156)

③ Other market price risk

Market price risk arises from the available-for-sale financial assets that the Group possesses. Major investments within the portfolio are managed separately and the approval of the board of directors is necessary for important acquisition or sale decisions.

The effect on net income and other comprehensive income (gains/losses on valuation of financial assets at fair value through profit or loss and available-for-sale financial assets), when the price of listed equity financial assets, among the financial assets at fair value through profit or loss and available-for-sale financial assets that the Group possesses, changed by 5% is as follows:

(In thousands of Korean won)

	If increased by 5%	If decreased by 5%
Net income	13,389,534	(13,389,534)
Other comprehensive income, net of tax effect	-	-

(5) Capital management

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The Group uses the debt ratio as a capital management indicator to maintain creditor and market confidence and to sustain future development of the business. The debt ratio is calculated by dividing total debt by total equity.

(In thousands of Korean won)

	December 31, 2011	December 31, 2010	January 1, 2010
Total liabilities	794,843,246	644,970,340	488,809,486
Total equity	1,577,862,030	1,321,987,248	983,755,900
Debt ratio	50.37%	48.79%	49.69%

(6) Fair values

① The fair values of financial instruments, together with the carrying amounts as of December 31, 2011, 2010 and January 1, 2010 are as follows:

(In thousands of Korean won)

	December 31, 2011		December 31, 2010		January 1, 2010	
	Book value	Fair value	Book value	Fair value	Book value	Fair value
Financial assets:						
Financial assets recognized at fair value						
Financial assets at fair value through profit or loss	₩267,790,688	267,790,688	63,983,967	63,983,967	-	-
Available-for-sale financial assets	205,327,495	205,327,495	159,341,651	159,341,651	71,475,619	71,475,619
Subtotal	₩473,118,183	473,118,183	223,325,618	223,325,618	71,475,619	71,475,619
Financial assets recognized at amortized cost						
Cash and cash equivalents	₩466,270,679	466,270,679	554,943,904	554,943,904	507,619,337	507,619,337
Time deposits, etc	342,571,737	342,571,737	252,593,782	252,593,782	138,552,019	138,552,019
Trade and other receivables	293,434,061	293,434,061	224,050,632	224,050,632	218,280,102	218,280,102
Held-to-maturity financial assets	6,766,349	6,766,349	1,444,089	1,444,089	-	-
Subtotal	₩1,109,042,826	1,109,042,826	1,033,032,407	1,033,032,407	864,451,458	864,451,458
Total	₩1,582,161,009	1,582,161,009	1,256,358,025	1,256,358,025	935,927,077	935,927,077
Financial liabilities:						
Financial liabilities recognized at fair value						
Derivative liabilities	₩1,228,163	1,228,163	1,575,727	1,575,727	-	-
Financial liabilities recognized at amortized cost						
Trade and other payables	231,845,288	231,845,288	176,884,884	176,884,884	175,197,103	175,197,103
Short-term borrowings	73,515,420	73,515,420	31,743,060	31,743,060	109,378,290	109,378,290
Long-term borrowings	147,360,201	147,360,201	191,441,686	191,441,686	19,051,694	19,051,694
Subtotal	₩452,720,909	452,720,909	400,069,630	400,069,630	303,627,087	303,627,087
Total	₩453,949,072	453,949,072	401,645,357	401,645,357	303,627,087	303,627,087

② Fair value hierarchy

The Group classified the levels of the fair value hierarchy for the financial instruments, which are estimated as fair value on the consolidated financial statements, based on the inputs used in fair value estimation as follows:

“Level 1” indicates quoted prices in active markets for identical instruments or liabilities. Instruments included in “Level 1” are composed of listed equity securities that are classified as available-for-sale financial assets.

The Group uses a valuation technique to estimate fair values of financial instruments which are not traded in an active market.

If the significant inputs which are required for a fair value measurement are observable directly or indirectly in a market, the instrument is classed as “Level 2”. On the other hand, if the significant inputs are not based on observable market data, that instrument is classed as “Level 3”.

The fair values of financial instruments based on the fair value hierarchy as of December 31, 2011, 2010 and January 1, 2010 are as follows:

(In thousands of Korean won)

	Level 1	Level 2	Level 3	Total
	December 31, 2011			
Financial assets:				
Financial assets at fair value through profit or loss	₩22,804,805	-	244,985,883	267,790,688
Available-for-sale financial assets	35,781,910	-	169,545,585	205,327,495
Total	₩58,586,715	-	414,531,468	473,118,183
Financial liabilities:				
Derivative liabilities	₩ -	-	1,228,163	1,228,163
December 31, 2010				
Financial assets:				
Financial assets at fair value through profit or loss	₩ -	-	63,983,967	63,983,967
Available-for-sale financial assets	34,466,767	-	124,874,884	159,341,651
Total	₩34,466,767	-	188,858,851	223,325,618
Financial liabilities:				
Derivative liabilities	₩ -	-	1,575,727	1,575,727
January 1, 2010				
Financial assets:				
Financial assets at fair value through profit or loss	₩ -	-	-	-
Available-for-sale financial assets	43,166,853	-	28,308,766	71,475,619
Total	₩43,166,853	-	28,308,766	71,475,619

5. Operating segments**(1) Operating segments**

The Group identified its operating segments as search advertising, display advertising, games and others. Due to the inherent nature of the Group's businesses, the main clients of the Group are internet users and advertisers.

(2) Information for each operating segment

Operating revenue information by segment for the years ended December 31, 2011 and 2010 are as follows:

(In thousands of Korean won)

	2011		2010	
	Sales	Ratio	Sales	Ratio
Search ads	₩1,081,775,758	51.00%	851,460,647	47.69%
Display ads	298,679,087	14.08%	243,103,381	13.62%
Games	640,673,398	30.20%	606,422,541	33.97%
Others	100,189,683	4.72%	84,402,308	4.72%
Total	₩2,121,317,926	100.00%	1,785,388,877	100.00%

As it is impossible to allocate operating expenses and property and equipment by operating segment due to the inherent nature of the Group's business, such information is not presented by operating segment.

(3) Geographical information

The following table provides information for each geographical region for the years ended December 31, 2011 and 2010.

(In thousands of Korean won)

	December 31, 2011		December 31, 2010	
	Sales	Non-current assets	Sales	Non-current assets
Domestic	₩1,821,856,911	459,169,151	1,554,290,141	424,523,030
Japan	288,324,712	93,052,288	220,264,698	81,274,895
Others	11,136,303	3,576,583	10,834,038	6,016,856
Total	₩2,121,317,926	555,798,022	1,785,388,877	511,814,781

6. Discontinued operation

(1) The Group had resolved to sell Ourgame Assets Limited, which operates an on-line game portal business in China, on October 27, 2010, which was subsequently disposed of by the end of 2010. As a result, the operating results of Ourgame Assets Limited were separately presented in the statement of comprehensive income as the discontinued operation.

(2) Results of discontinued operation for the year ended December 31, 2010 were as follows:

(In thousands of Korean won)

	Amount
Results of discontinued operation	
Revenue	₩15,801,500
Expenses	22,455,652
Results from operating activities	(6,654,152)
Income tax	102,125
Results from operating activities, net of tax	(6,756,277)
Gain on sale of discontinued operation	35,895,443
Income tax on gain on sale of discontinued operation	8,686,697
Profit for the year	₩20,452,469

(3) Cash flow from discontinued operation for the year ended December 31, 2010 was as follows:

(In thousands of Korean won)

	Amount
Cash flow from discontinued operation	
Net cash from operating activities	₩(1,222,883)
Net cash from investing activities	4,470,560
Net cash from financing activities	-
Net cash from discontinued operation	₩3,247,677

7. Acquisitions of subsidiary**(1) Business combination**

On February 1, 2011 the Group obtained control of Game Crew Corp., a company which develops and provides service of mobile device games by acquiring 100% of the shares and voting interests in the company. Acquisition cost of the shares is ₩739,000 thousand.

Taking control of Game Crew Corp., is expected to provide improvement in developing mobile device games and increase in the market share.

(2) Identifiable assets acquired and liabilities assumed are as follows:

(In thousands of Korean won)

	Amount
Property, plant and equipment	₩31,922
Intangible assets	7,189
Trade and other receivables	26,960
Cash and cash equivalents	13,086
Borrowings	627,700
Trade and other payables	264,979
Total identifiable net assets	(813,522)

(3) Goodwill recognized as a result of the acquisition was as follows:

(In thousands of Korean won)

	Amount
Total consideration transferred	₩739,000
Less: fair value of identifiable net assets	(813,522)
Goodwill	1,552,522

The goodwill is attributable mainly to the increase in the efficiency of management and the synergies expected to be achieved from integrating the company into the Group's existing mobile device game business.

4) Others

The Group incurred acquisition-related costs relating to external legal fees and due diligence costs. The legal fees and due diligence costs have been included in operating expenses in the Group's consolidated statement of comprehensive income. The Group has no contingent consideration for above acquisition contract.

Note: The financial statements of and notes to the above Independent Auditors' Report were not approved at the General Shareholders' Meeting, since it will not be held until March 23, 2012. They were also not finally audited by an independent auditor.

AFFILIATES

Current status of NHN's affiliates

NHN had forty-two affiliates as of the end of December 2011

ONLINE AD FIRMS (4)

NHN Business Platform Corp. / 100.00%

NHN Search Marketing Corp. / 100.00%
ITOPF Corp. / 100.00%
Kan Communications Co., Ltd. / 50.00%

NHN Business Platform

<http://www.nbp-corp.com>

Date of establishment: May 2009 (spun off from NHN)

Major businesses: Online ad sales and marketing, IT infrastructure service

MANAGEMENT SUPPORT (7)

NHN I&S Corp. / 100.00%

Greenweb Service Corp. / 100.00%
Gplus Corp. / 100.00%
inComms Corp. / 100.00%
NHN Technology Services Corp. / 100.00%
Nflex Corp. / 100.00%
CommPartners Corp. / 100.00%

NHN I&S

<http://www.nhnins.com>

Date of establishment: March 2009

Major businesses: Information systems development, education, personnel, financial affairs, general affairs, and security

SEARCHES (1)

Search Solution Inc.* / 100.00%

<http://www.searchsolutions.co.kr>

Date of establishment: February 2000

Major business: Search engine software development and supply

* Merged with 1noon, another specialist in search technology, in 2006

INVESTMENT (1)

NHN Investment Corp. / 100.00%

<http://www.nhninv.com>

Date of establishment: April 2010

Major business: Investing in new technology businesses and ventures, management and technology consulting

ONLINE GAMES (10)

Webzen Inc. / 28.50%

Flux / 55.40%
9Webzen Ltd. / 70.00%
Webzen China Co., Ltd. / 100.00%
Webzen Taiwan Inc. / 100.00%
Webzen America Inc. / 100.00%
Webzen Europe / 100.00%
YMIR Entertainment Co., Ltd. / 100.00%

Wise Cat Corp. / 100.00%

Studio Hon / 59.20%

Webzen

<http://www.webzen.co.kr>

Date of establishment: April 2000

Date of listing on KOSDAQ: May 2003

Major business: Online and mobile game development and supply

Major games: Mu Online, SUN Online, Huxley, Battery Online, C9, R2, Arch Lord

Wise Cat

<http://www.wisecat.co.kr>

Date of establishment: October 2001

Major business: Online game development, including sports games

Major games: Slugger, Professional Baseball: The Fan

ONLINE GAME SALES (1)

Game Marketing and Business Corp. / 100.00%

Date of establishment: May 2010

Major business: Online game sales

MOBILE GAMES (2)

Orange Crew Corp. / 100.00%

Game Crew Corp.* / 100.00%

<http://www.orangecrew.com>

Date of establishment: January 2011

Major business: Online game development

Major game: Jumping Mong

* Game Crew merged with Orange Crew in January 2012.

JAPAN (9)

NHN Japan Corp. / 100.00%

Naver Japan Corp.* / 100.00%
NHN Search Tech. Corp. / 100.00%
NHN ST Japan Corp. / 100.00%
Mediator Corp. / 100.00%
Sync Corporation Corp. / 100.00%
livedoor Co., Ltd.* / 100.00%
Livedoor Careers Co., Ltd. / 100.00%
JLISTING Co., Ltd. / 100.00%

NHN Japan

<http://www.nhncorp.jp>

Date of establishment: September 2000

Major business: Operation of Hangame Japan

Naver Japan

<http://corp.naver.jp>

Date of establishment: November 2007

Major business: Operation of Naver Japan

livedoor

<http://corp.livedoor.com>

Date of establishment: April 2007

Major business: Operation of Japanese search portal and blog site

* Naver Japan Corp. and livedoor Co., Ltd. (Media Division) became part of NHN Japan Corp. in January 2012. The Network Division of livedoor was renamed DataHotel Co., Ltd.

CAYMAN ISLANDS (2)

NHN Global Ltd.* / 100.00%

NHN-PCCS HK Ltd. / 100.00%

Date of establishment: June 2004

* Holding company for NHN's Chinese operations

CHINA (1)

NHN China Corp. / 100.00%

Date of establishment: December 2004

Major businesses: Management support, outsourcing

USA (1)

NHN USA, Inc.* / 100.00%

<http://www.nhnusainc.com>

* Holding company for NHN's US operations

MOBILE CONTENT (1)

NHN Arts Corp. / 100.00%

Date of establishment: October 2011

Major business: Developing avatars for mobile devices

ENTERTAINMENT BUSINESS (1)

N-Visions Corp. / 100.00%

Date of establishment: February 2009

Major businesses: Concerts and exhibitions

FOUNDATIONS (2)

[Happybean Foundation / 100% funded by NHN](#)
[NHN Cultural Foundation / 100% funded by NHN](#)

<http://happylog.naver.com>

Date of establishment: May 2009

Major businesses: Operation of Happybean (an online donation portal), Happy Energy campaign, support for civic and social service groups' volunteer activities

<http://www.nhnfoundation.org>

Date of establishment: May 2010

Major projects: Book bus, support for school libraries, On Stage, Dialogue in the Dark, book refunds

Subsidiary

Sub-Subsidiary

[Foundation Corporation](#)

* Brackets show the number of affiliates.

CORPORATE HISTORY

1999

- June** Incorporated Navercom Corp.
- June** Launched Naver search portal
- June** Launched Jr. Naver children's portal
- Dec.** Launched Hangame online game portal

2000

- July** Merged with Hangame Communications, One-Cue, Search Solution
- Sept.** Established Hangame Japan Corp.

2001

- Sept.** Company name changed to Next Human Network (NHN)

2002

- Oct.** Listed on KOSDAQ

2003

- Oct.** Merged Japanese subsidiaries into NHN Japan Corp.
- Dec.** Acquired Future Valley Corp. digital content transmission technology company

2004

- Apr.** Ranked number one on KOSDAQ in terms of capitalization
- June** Signed service alliance agreement of Renzhong (game portal) in china
- Nov.** Established NHN Games Corp. game development studio

2005

- July** Launched Happybean online donations portal
- July** Established NHN USA Inc.
- Aug.** Established NHN Service Corp. Internet services management company

2006

- June** Acquired 1noon search engine
- Oct.** Acquired Datachorus Corp. data storage management solutions company

2007

- May** NHN USA launched ijji.com online game portal
- Nov.** Established Naver Japan Corp.
- Dec.** Established NHST (Next Human Search Technology) in Japan

2008

- Nov.** Transferred listing to KOSPI

2009

- Jan.** Acquired me2day Corp. micro-blogging service
- Feb.** Acquired Wingbus Corp. tour guide website
- May** Established NHN Business Platform (NBP) through spin-off
- May** Established Happybean foundation
- July** Acquired ITOF mobile marketing solutions provider
- Aug.** Changed corporate identity to mark tenth anniversary

2010

- Jan.** Signed agreement to promote Female-Friendly Corporate Culture with Ministry of Gender Equality and Families
- Apr.** Established NHN Investments to specialize in asset management and venture investment businesses
- July** NHN Japan acquired livedoor Co., Ltd. (livedoor.com)
- July** Merged Wingbus Corp.
- July** N-Visions acquired Social Enterprise Certificate from Ministry of Labor
- Oct.** Acquired Wise Cat Corp. sports game development studio

2011

- Jan.** Established Orange Crew Corp. mobile game studio
- Aug.** Signed Winning Eleven Online publishing agreement with KONAMI of Japan
- Oct.** Laid plans to build eco-friendly NHN Internet Data Center in Chuncheon, Korea
- Oct.** Sold entire stake in Ourgame Assets Chinese game business
- Dec.** Sold 100% stake in ijji Games game business in America

AWARDS AND ACCOLADES

2000

- Feb.** Awarded Grand Prize for Excellence in Digital Information Technology category by *Hankyoreh Daily*
- May** Named Korea's top search portal by Korea Management Association (KMA)
- Dec.** Awarded Grand Prize for Top Internet Search Portal by *Chosun Ilbo*

2001

- June** Won Internet Grand Prix of Entertainment Award from New Industry Management Academy

2002

- May** Ranked first by KMA for Best Web Awards in Game Division for third straight year
- Oct.** Named Excellent Website for Privacy Protection by Korea Association of Information and Telecommunications
- Dec.** Named Internet Company of the Year by Korea Internet Corporations' Association and Journalists' Association of Korea
- Dec.** Acquired Exemplary Company Certification for Legitimate Use of Software Products from Korea Software Property Rights Council

2003

- July** Awarded Grand Prize at Korean Technology Fast 50 Growth Company ceremony by Deloitte Consulting
- Aug.** Ranked first in Internet Portal category in Korea Service Quality Index (KS-SQI), conducted by Korean Standards Association
- Dec.** Named 2003 Hit Product for Naver's Knowledge Search by *Joongang Ilbo* and Samsung Economic Research Institute
- Dec.** Awarded Presidential Citation for contributions to the advancement of the Korean software industry

2004

- Aug.** Ranked first in KS-SQI in Internet Search Portal category for second consecutive year by Korean Standards Association
- Dec.** Awarded Grand Prize at Web Awards Korea 2004 by Web Awards Committee

2005

- Mar.** Awarded Excellence Prize at I-People Awards by joins.com
- June** Named Internet Company of the Year by NIMA
- June** Named Korean Brand Star in Portal Site category by Brandstock
- Sept.** Ranked first in KS-SQI in Internet Portal category for third consecutive year by Korean Standards Association
- Oct.** Won Korea's Most Admired CEO award in HR Management category from *Korea Economy* and Seoul National University Academics and Industry Cooperation Foundation
- Nov.** Awarded Grand Prize at Korean IR Awards by Korea IR Association
- Dec.** Awarded Grand Prize at IMI Management Awards in Social Contributions category by International Management Institution
- Dec.** Named Internet Company of the Year in Portal category by Kinternet

2006

- June** Won Grand Prize at KOSDAQ-Listed Company Awards Ceremony from KOSDAQ-Listed Companies' Association
- June** Acquired industry's first Good Design mark from Korea Institute of Design Promotion for Naver
- Sept.** Ranked first in KS-SQI in Internet Portal category for fourth consecutive year by Korean Standards Association
- Oct.** Ranked first in National Brand Competitive Index (NBCI) survey for Hangame, in Game Portal category, for second straight year by Korea Productivity Center

2007

- Apr.** Received Presidential Citation at 2007 Awards for Excellence in Gender Equality Employment from Ministry of Labor
- Nov.** Received Presidential Prize at Korea Internet Awards from Ministry of Government Administration and Home Affairs
- Nov.** Awarded Grand Prize at Korean IR Awards by Korea IR Association
- Dec.** Listed in Deloitte Technology's Fast 500 Asia Pacific for fifth consecutive year by Deloitte Consulting
- Dec.** Won Innovation Award at Web Awards Korea 2007 from Web Awards Committee
- Dec.** Named Excellent Website for Protection of Children

2008

- Feb.** Included in 60 CMT Shareholders' Performance Index by Oliver Wyman
- Feb.** Included in Korea's Most Admired Companies 2008, All-Star 3 by KMAC
- Mar.** Ranked first in National Customers' Satisfaction Index (NCSI) survey in Search Portal category for third consecutive year by Korea Productivity Center
- Apr.** Included in Global 2000 by *Forbes Magazine*
- Sept.** Included in Asia 50 by *Businessweek*
- Nov.** Won Prime Minister's Award in Design Management category at 2008 Korea Design Awards from Ministry of Knowledge Economy and Korea Institute of Design Promotion
- Dec.** Ranked fifth in 2008 Most Profitable Companies by Industry by *Newsweek*

2009

- Apr.** Naver ranked first (for fourth consecutive year) in NCSI in Search Portal category
- Apr.** Hangame ranked second in Web-Board Game category by Korea Productivity Center
- June** Won Best Venture Business with Highest Sales in 2009 Award from Korea Venture Business Association
- Sept.** Included in Asia 50 by *Forbes Magazine*
- Oct.** Naver ranked first in 2009 KS-SQI survey for sixth consecutive year by Korean Standards Association
- Nov.** Naver ranked first in 2009 Korean Customer Satisfaction Index survey for seventh consecutive year by KMAC
- Nov.** Naver ranked Number 5 among world-wide search portals by comScore
- Dec.** Naver awarded Grand Prize in mobile web, media, and information services category by Web Awards Korea
- Dec.** C9 won Grand Prize at 2009 Game Awards Korea from Ministry of Culture, Sports and Tourism
- Dec.** Included in 50 Promising Asia-Pacific Companies 2009 by *Forbes Magazine*
- Dec.** Ranked third in 2009 Top 100 Brands of Korea survey by Brandstock
- Dec.** Won 2009 Korea Sharing and Volunteer Awards prize from *Hankook Daily News*
- Dec.** Won Minister of Culture, Sports and Tourism award for contributions in Library Donations category

2010

- June** Naver Hangeul campaign, Beauty in Every Letter, won PR Silver Lions award at Cannes Lions International Advertising Festival
- Aug.** Won five awards for Brand Design from red dot Awards
- Aug.** Won nine design awards for Naver Greenwindow, Dialogue in the Dark intro clip, and others at iF Communications Awards
- Aug.** NHN's annual report won Gold Prize in Internet Services and Publication/Production categories, and Bronze Prize in Design category, at Annual Report Competition 2010 Awards

2011

- July** NHN's CFO, In-Joon Hwang, named Best CFO in Internet category in All-Asia Executive Team survey by *Institutional Investor*
- July** Naver's talent donation campaign selected for final shortlist in PR category in Social Responsibility area at Cannes Lion's International Festival of Creativity
- Aug.** NHN's annual report won second consecutive gold prize in Internet Services category at ARC 2011 Awards
- Nov.** Naver App Squire and Naver Photo Printing Package Design won iF Design Awards in Communications category
- Dec.** Naver Map placed among Best 5 in Navigation category at Apple's App Store Rewind 2011

SUSTAINABILITY

NHN is committed to building a healthy and sustainable future. We contribute to the well-being of our society by fostering the development of an online donation culture, supporting artistic and cultural programs, carrying out volunteer activities that make our society richer, and preserving and protecting the environment. Our efforts to become a more open and transparent company are carried out through an ethical management system that places a premium on honesty, integrity, and mutual respect. These efforts to earn the trust and respect of all our stakeholders are part of our corporate DNA. They will continue each and every year.

SOCIAL CONTRIBUTIONS
-
ENVIRONMENTAL MANAGEMENT
-
ETHICAL MANAGEMENT

SUSTAINABILITY /
SOCIAL CONTRIBUTIONS



Making the world a better place by caring and sharing

NHN engages in a wide variety of caring and sharing social contributions activities, both online and offline. They include operating a social enterprise and the Happybean online donation portal, supporting school libraries for elementary school students around the country, establishing the NHN NEXT software academy, and carrying out volunteer work.



Developing a donation culture for the good of us all

Naver's Happybean online donation portal, a joint effort by NHN and the Happybean Foundation, is tasked with developing a donation culture in Korea. Through it, more than 7.9 million supporters donated over KRW 29.3 billion to more than 5,300 public service institution from 2005 to 2011. About 2.5 million users donated approximately KRW 1.3 billion through the Hangeul Happybean service from 2006 to 2011. In addition, we have been operating the Talent Donating Blog and carrying out social betterment campaigns through the Naver Cafe Bean Piggy Bank League since 2010. We launched the Naver Knowledge-iN Hope Tree Campaign, which engages in sharing activities with users, in 2011.

Enriching the world through books and the development of a sharing culture

NHN uses books and other print materials to add to its users' store of knowledge and information. We contribute to increasing people's love of reading by supporting the work of My School Neighborhood Library (which opened its two hundredth facility in 2011) and book bus. We also carry out a Book Refund campaign, and operate the Intellectual's Library program. Some of our other efforts to encourage the growth of a culture of sharing and caring include operating a Social Contributions section in the Theme Cast area of Naver's homepage, and the Naver On Stage and Naver Hangeul (Korean alphabet) campaigns.

Changing negative societal attitudes and developing Korea's IT industry

NHN's N-Visions social enterprise subsidiary reduces negative attitudes towards "being different" and provides jobs for the differently challenged through a world-wide exhibition called Dialogue in the Dark. We will also be opening the NHN NEXT software academy in 2013. It will be tasked with adding to the Korean IT industry's store of trained and talented human resources.

Helping people who can't help themselves

NHN's N'gels volunteer employee group operates an N'gels Fund through various types of fundraising activities, including payroll deductions. One of its major activities in 2011 was doing volunteer work in Nepal through the N'gels Hope Travel program. The company also operates a volunteer club called "THE NANUM (More Sharing)." Its mission is to help the less fortunate on a regular and sustaining basis.

SUSTAINABILITY / ENVIRONMENTAL MANAGEMENT



Preserving and protecting the environment

NHN's environmental management activities help to ensure a healthier future for everyone. They include being environmentally conscious every day and in every way, creating animated characters and serious games that stress the need to protect the environment, and developing an eco-friendly Internet Data Center (IDC).



Practicing environmental management through eco-friendly IT technologies

Our efforts to reduce energy use at our IDC include developing a Green IT Infrastructure and eco-friendly IT technologies. In 2006, we formed a task force team to enhance the operations of our servers and cooling systems. This helped us to increase the efficiency of our electricity use by more than 30%. We will be opening an even more eco-friendly IDC in Chuncheon in 2013. It will minimize our level of CO₂ emissions, maximize our use of new and renewable energy sources, and produce significant energy and electricity savings.

Taking steps to increase environmental awareness

NHN employees have adopted a number of eco-friendly behaviors at work to show their commitment to environmental protection and preservation. They include using eco-friendly coffee cups and participating in our Green Factory Environment Month every June.

Last year, we carried out a "four great eco-friendly habits for me and the earth" campaign. Its activities included wearing badges supporting environmental preservation, using a single sheet of tissue paper, turning off lamps and computer monitors when they were not being used, and suggesting other eco-friendly behaviors.

We also participated in the 2011 Seoul Design Festival, at which we and twenty artists presented our ideas about the environment, under the theme "Naver and the Environment." The cloth and wood that was used for our booth was recycled into eco-friendly bags, furniture, and other articles afterwards.

Working with others to protect the environment

NHN developed two animated characters called "Harty" and "Waddy." They are modeled after ringed seals and Irrawaddy dolphins, both of which are endangered species. We donated them, as well as the slogan "Save the Earth, Save Yourself," to UNEP, the United Nations Environment Programme, for use in its international environmental campaigns.

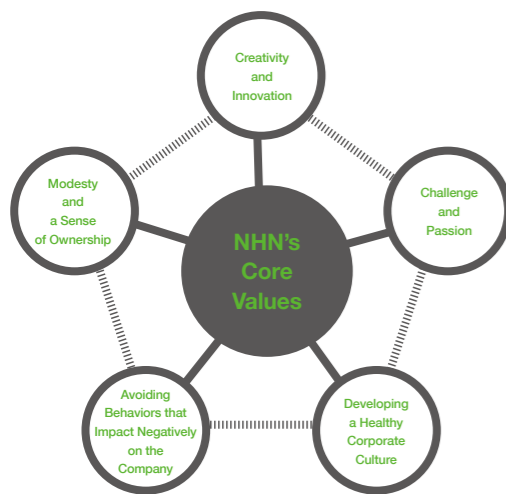
In 2011, Hangame developed a serious game called EcoFriends to raise children's awareness of environmental protection. It was the first such endeavor to receive a UNEP certification. Available in Korean, English, Chinese, Spanish, and French versions, it helps kids around the world to think about the needs of the earth and the environment, while also having fun.

SUSTAINABILITY / ETHICAL MANAGEMENT



Putting our commitment to open and honest management into practice

All of NHN's employees are expected to abide by our strict and serious rules and regulations concerning honest, ethical, and equitable behavior. By doing so, they will ensure that the company will continue to be respected and trusted by all of its stakeholders.



- Modesty and a Sense of Ownership**
NHN's employees must act modestly and never forget that they are the front-line faces of the company.
- Creativity and Innovation**
NHN's employees should never be satisfied with the status quo. They must have a friendly and helpful attitude, and provide customers with high-quality services.
- Challenge and Passion**
NHN's employees should adhere to the belief that "people who do not face challenges gain nothing." This means that they should always be willing to take on new challenges.
- Avoiding Behaviors that Impact Negatively on the Company**
NHN's employees must know where to draw the line between public and private matters when they are at work. They should not do anything outside the workplace that might damage the company.
- Developing a Healthy Corporate Culture**
NHN's employees are people who respect the rights of others and recognize the value of honesty and trust. Their words and actions must not hurt or offend their fellow workers, and they must not discriminate against them in any way.

Fulfilling our corporate responsibilities by practicing ethical behavior

As part of its evolution into a world-class Internet company, NHN has established a series of ethical management guidelines outlining the values and behaviors that it expects its employees to adhere to. Our values include modesty and a sense of ownership, creativity and innovation, and challenge and passion. In terms of behavior, our workers are expected to avoid any and all actions and activities that might have a negative impact on the company's fortunes. In addition, they should do whatever they can to help develop a happy and healthy organizational culture.

Ethical management programs and processes

NHN has also published guidelines governing its business activities, its fair trade practices, and the purchase of company shares by its employees. Information regarding these strictures is available at our Ethics Counseling Center. In addition, we carry out a wide range of campaigns and educational and training programs to increase our employees' awareness of the need to act in an ethical and responsible manner.

Implementing fair trade compliance programs

NHN's Fair Trade Compliance Program was established in 2007 to encourage honest and open management and ensure that our transactions with our business partners are conducted in a fair and transparent manner. They include appointing a Compliance Officer and providing our employees with educational and training programs and printed materials. In addition to operating an Ethics Counseling Center and a hot-line, we have taken various steps to strengthen our monitoring activities.

INVESTOR INFORMATION

NAME OF COMPANY: NHN Corporation (KOSPI 035420)

CEO: Sang-Hun Kim

DATE OF ESTABLISHMENT: June 2, 1999

CAPITAL: KRW 24,063,852,000

HEAD OFFICE: NHN Green Factory, 178-1 Jeongja-dong,
Bundang-gu, Seongnam, Gyeonggi-do,
Korea 463-867

HOMEPAGE: www.nhncorp.com

MAJOR SERVICES

Internet Services

Naver Internet Search Portal (www.naver.com)

Hangame Online Game Portal (www.hangame.com)

Naver Children's Portal (jr.naver.com)

Happybean Online Donation Portal (happybean.naver.com)

me2day Social Networking Service (www.me2day.net)

Hangame Online Game Portal in Japan (www.hangame.jp)

Naver Internet Search Portal in Japan (www.naver.jp)

livedoor Internet Portal in Japan (www.livedoor.jp)

Mobile Services

Naver Mobile (m.naver.com)

Hangame Mobile (smart.hangame.com)

LINE Mobile Messenger (<http://line.naver.jp/ko>)

NUMBER OF EMPLOYEES

(AS OF DECEMBER 31, 2011)

NHN: 2,686

NHN Business Platform: 1,049

STOCK INFORMATION

(AS OF DECEMBER 31, 2011)

Number of outstanding common shares: 48,127,704

Market capitalization: KRW 10.2 trillion

INDEPENDENT AUDITOR

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DISCLAIMER

This report does not contain a complete description of NHN's business performance. All investments involve an element of risk, and the performances described herein must not be taken as a guarantee of future results. NHN Corporation and the officers and employees of it and its affiliates are not liable for losses or damages arising from investments or business decisions made by a third party based on the information contained herein.

IR INFORMATION

The 2011 Annual Report and recent investment information on NHN Corporation can be found, in both Korean and English, on NHN's home page, www.nhncorp.com.

CONTACTS

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TODAY

AND

TOMORROW

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