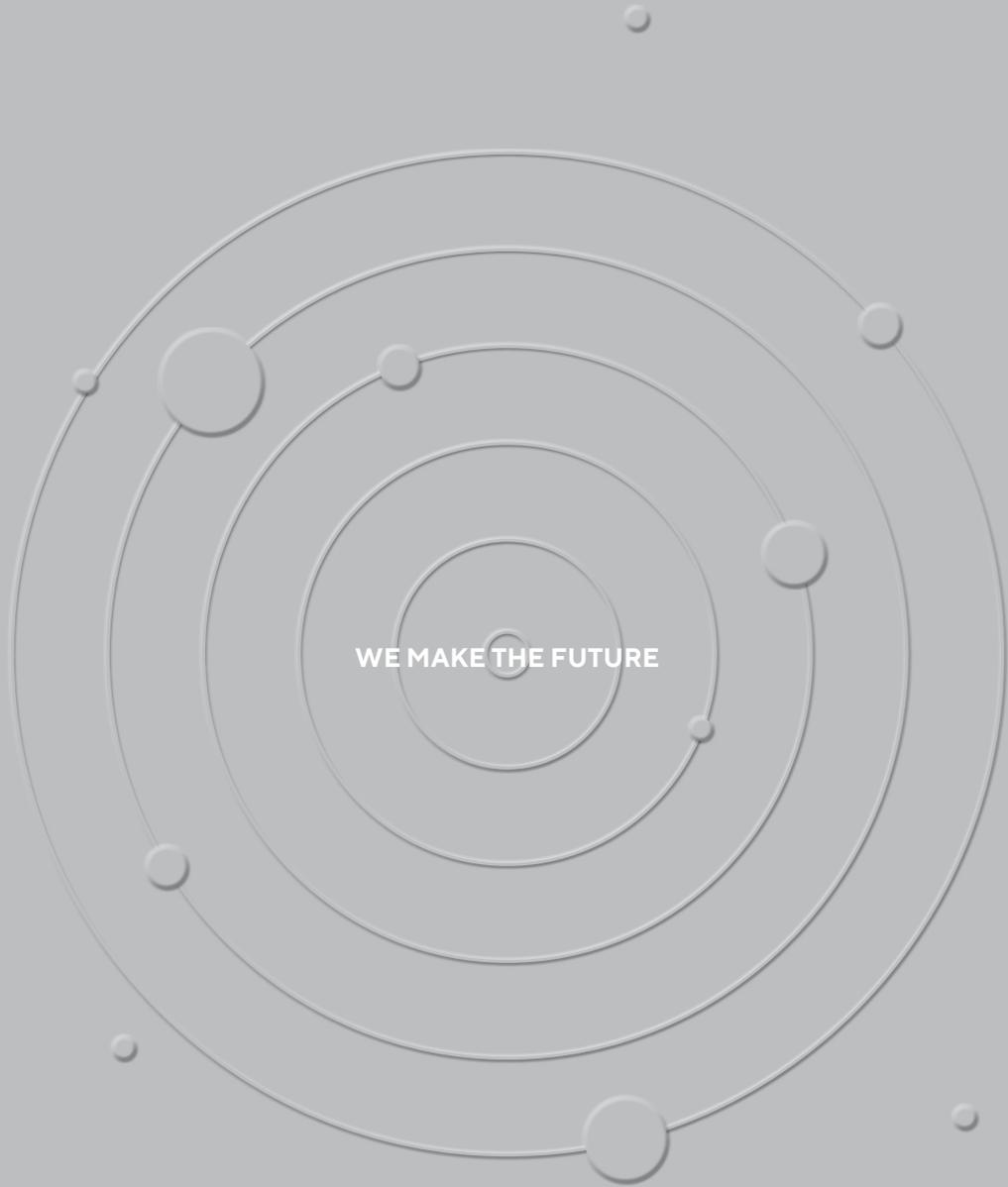


NAVER
ANNUAL REPORT
2017



WE MAKE THE FUTURE

NAVER

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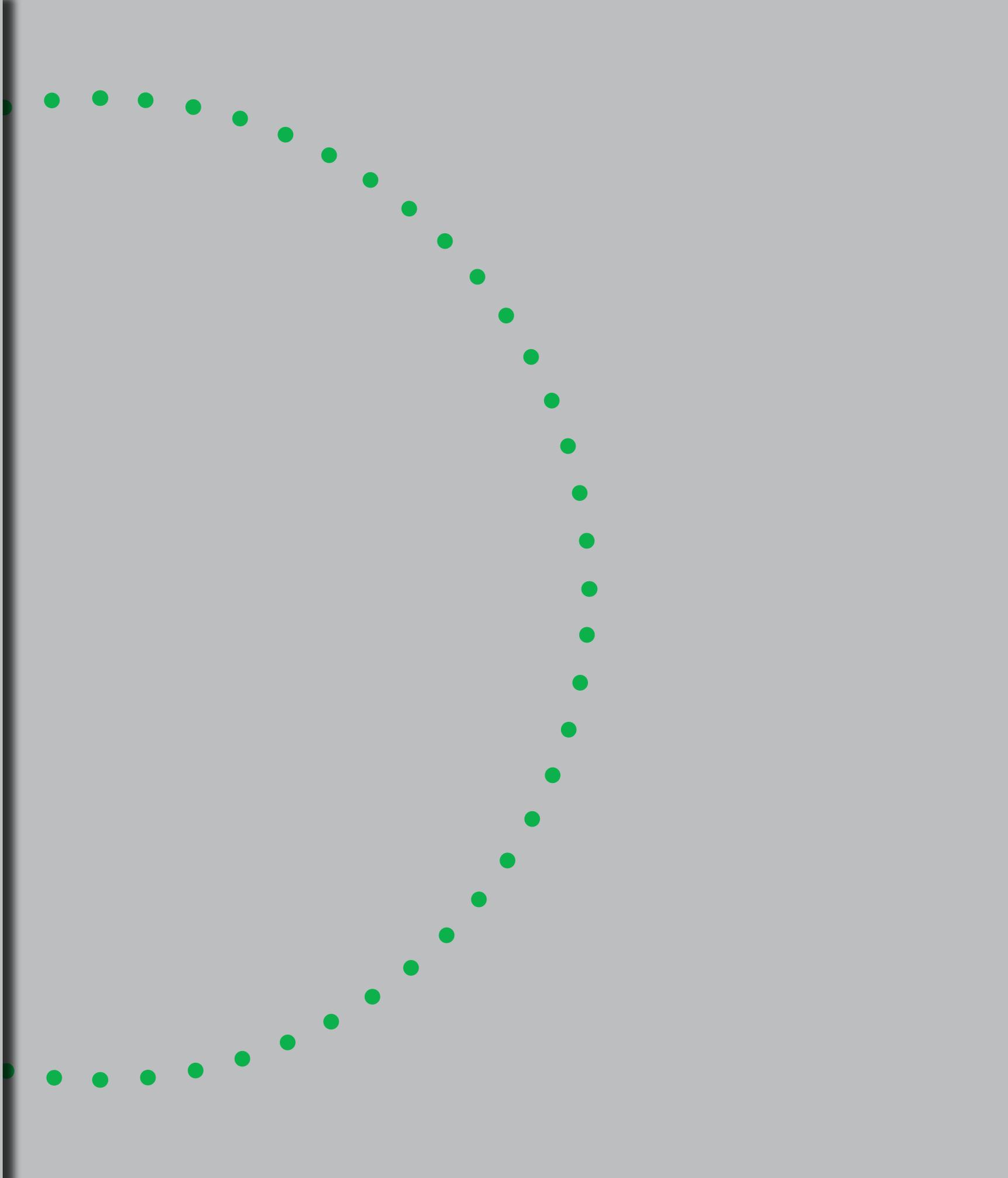
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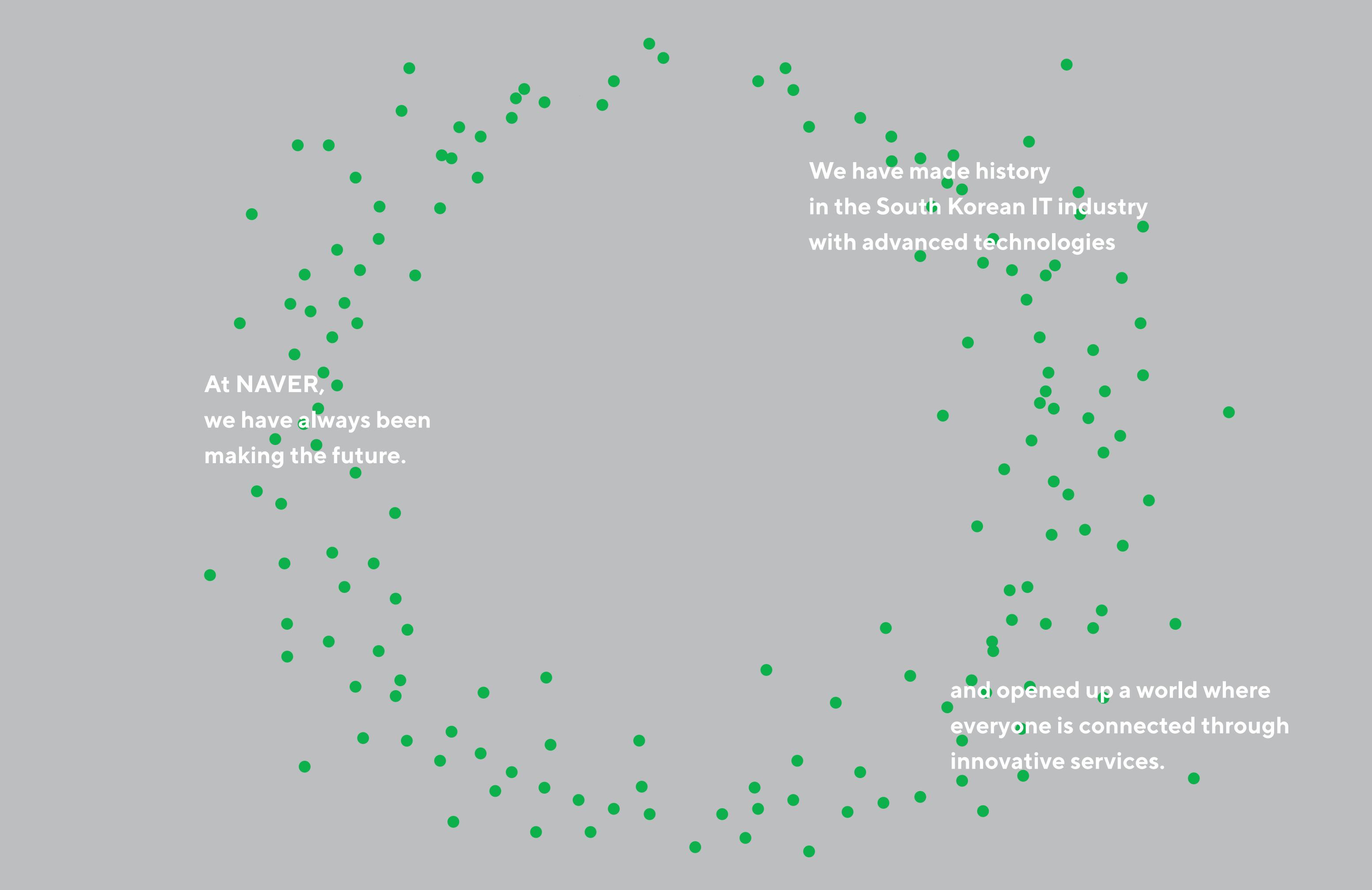
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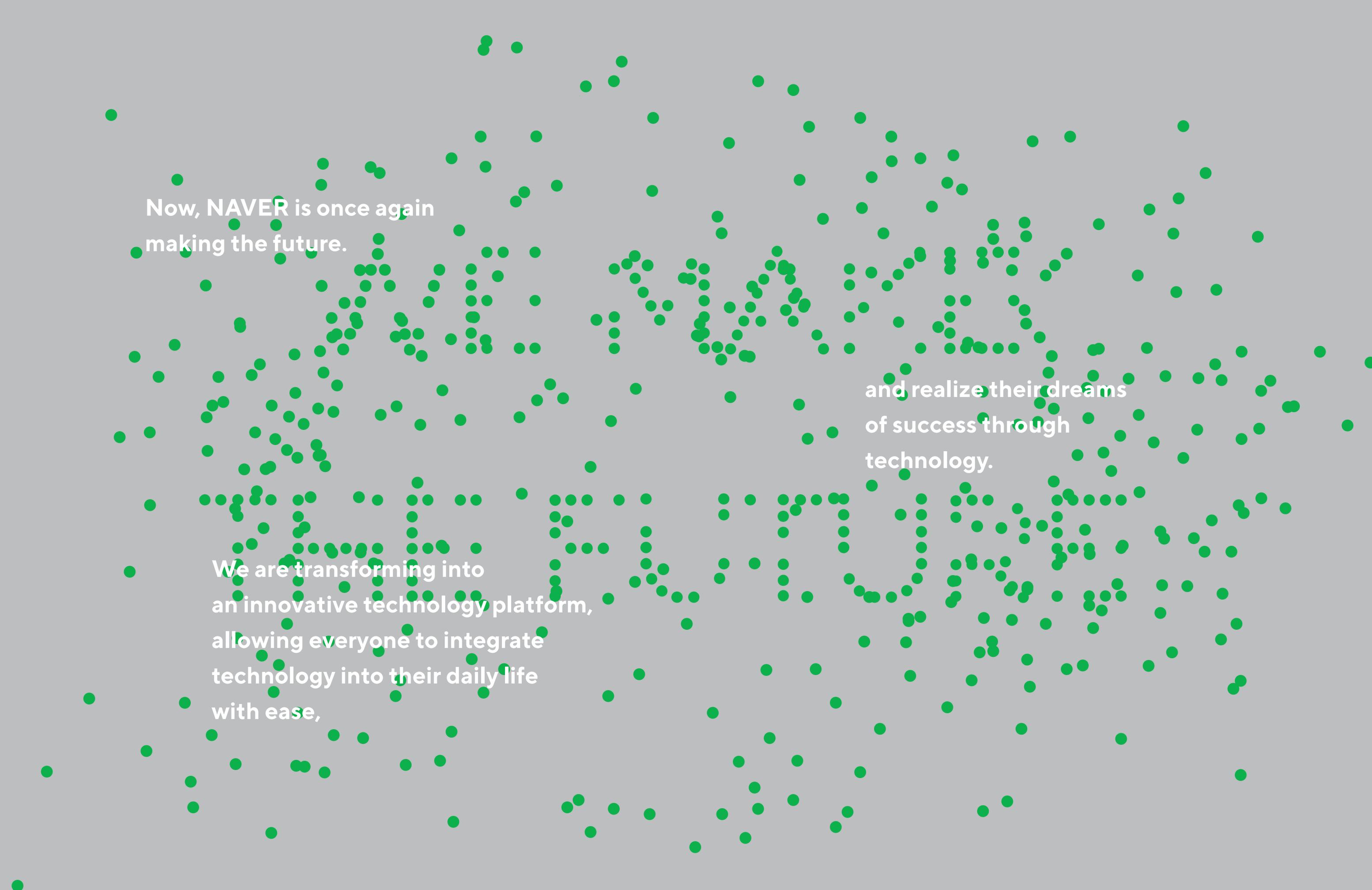




At NAVER,
we have always been
making the future.

We have made history
in the South Korean IT industry
with advanced technologies

and opened up a world where
everyone is connected through
innovative services.



Now, NAVER is once again
making the future.

and realize their dreams
of success through
technology.

We are transforming into
an innovative technology platform,
allowing everyone to integrate
technology into their daily life
with ease,

Seamless technology is woven

into daily tasks, making life more pleasant and convenient.

WELM

A powerful yet warm technology platform is with you for the most meaningful moments of life.

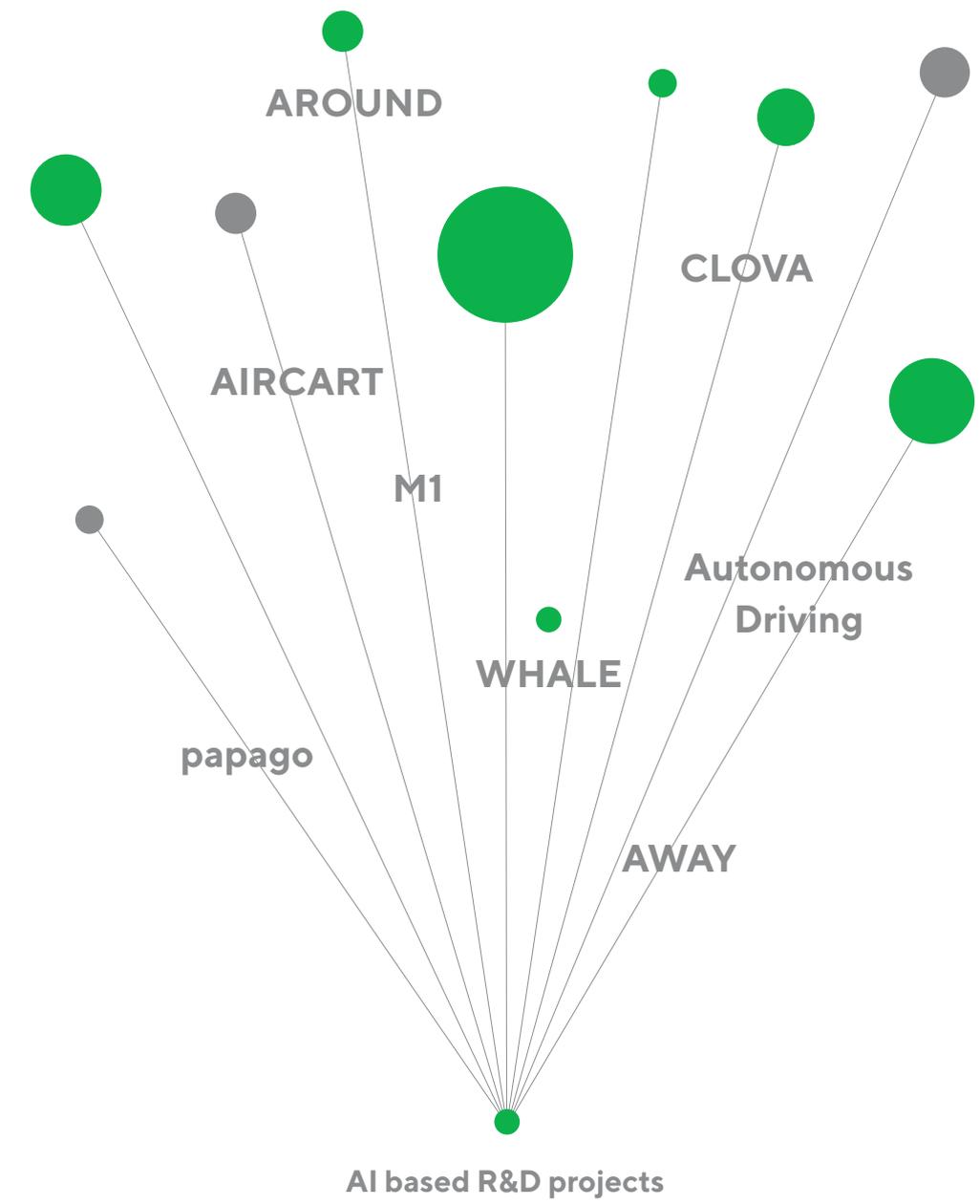
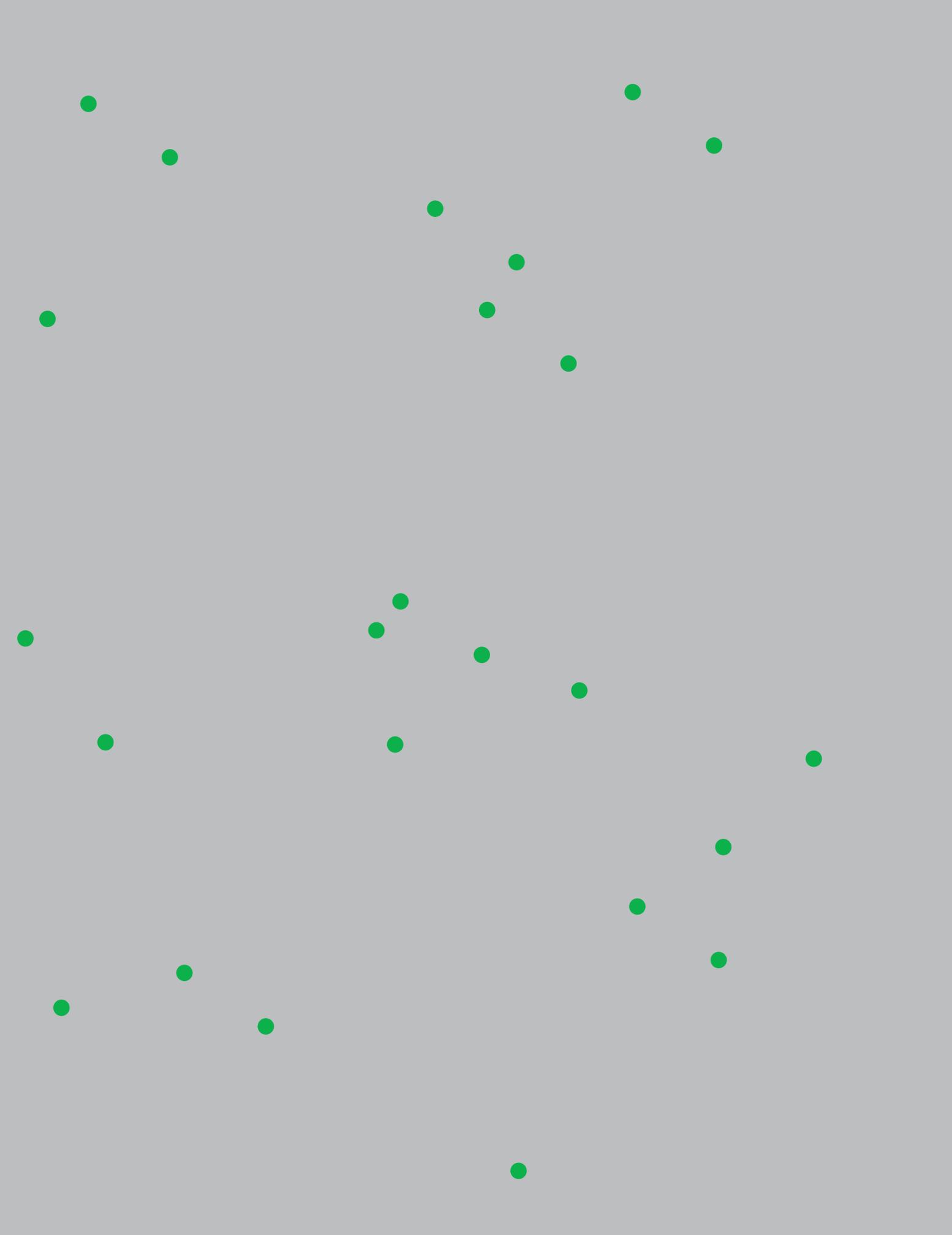
WELM

Small businesses, creators and startups are writing their own success stories using technology.

THIRN

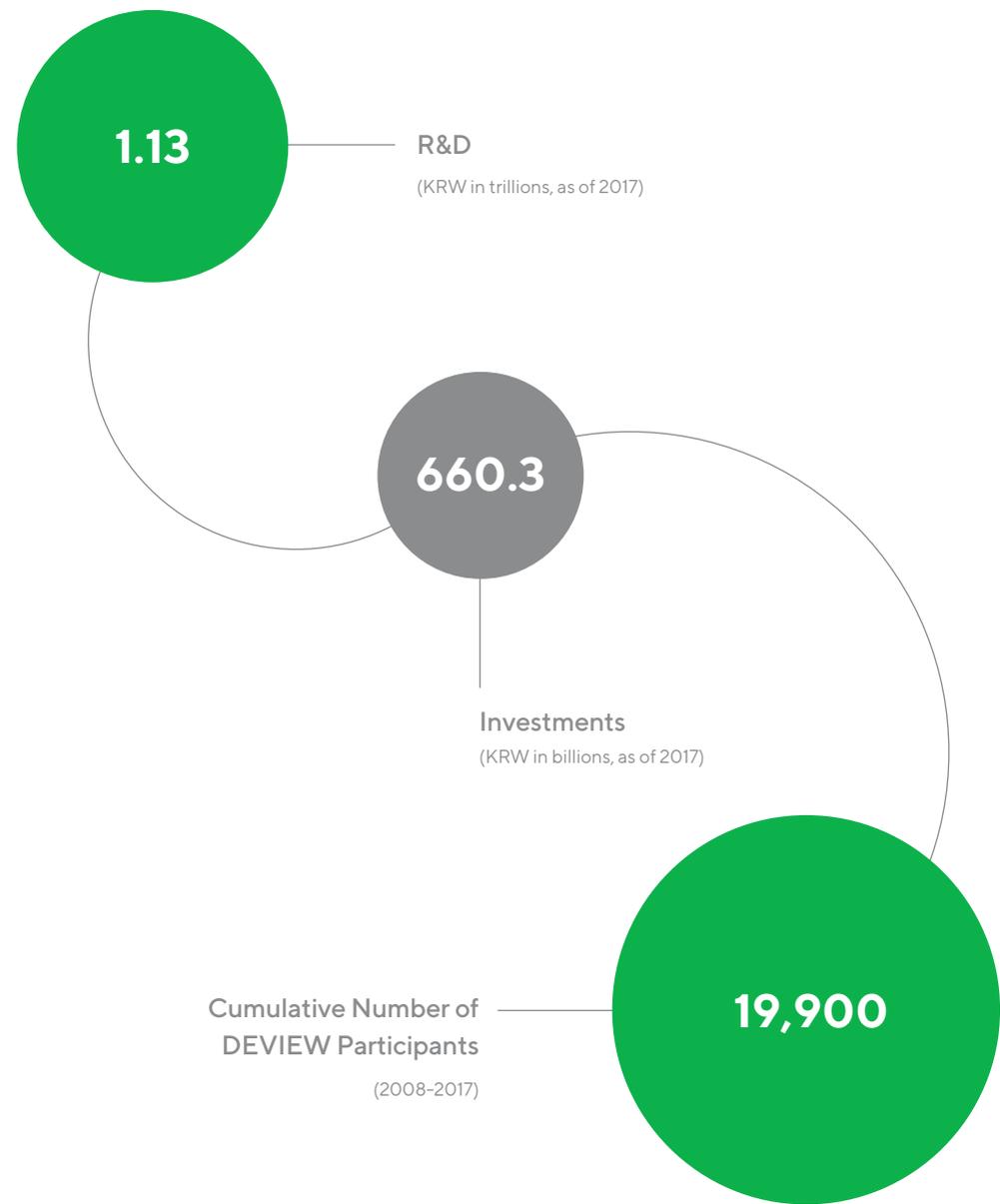
This is the new future we are making for everyone.

THIRN



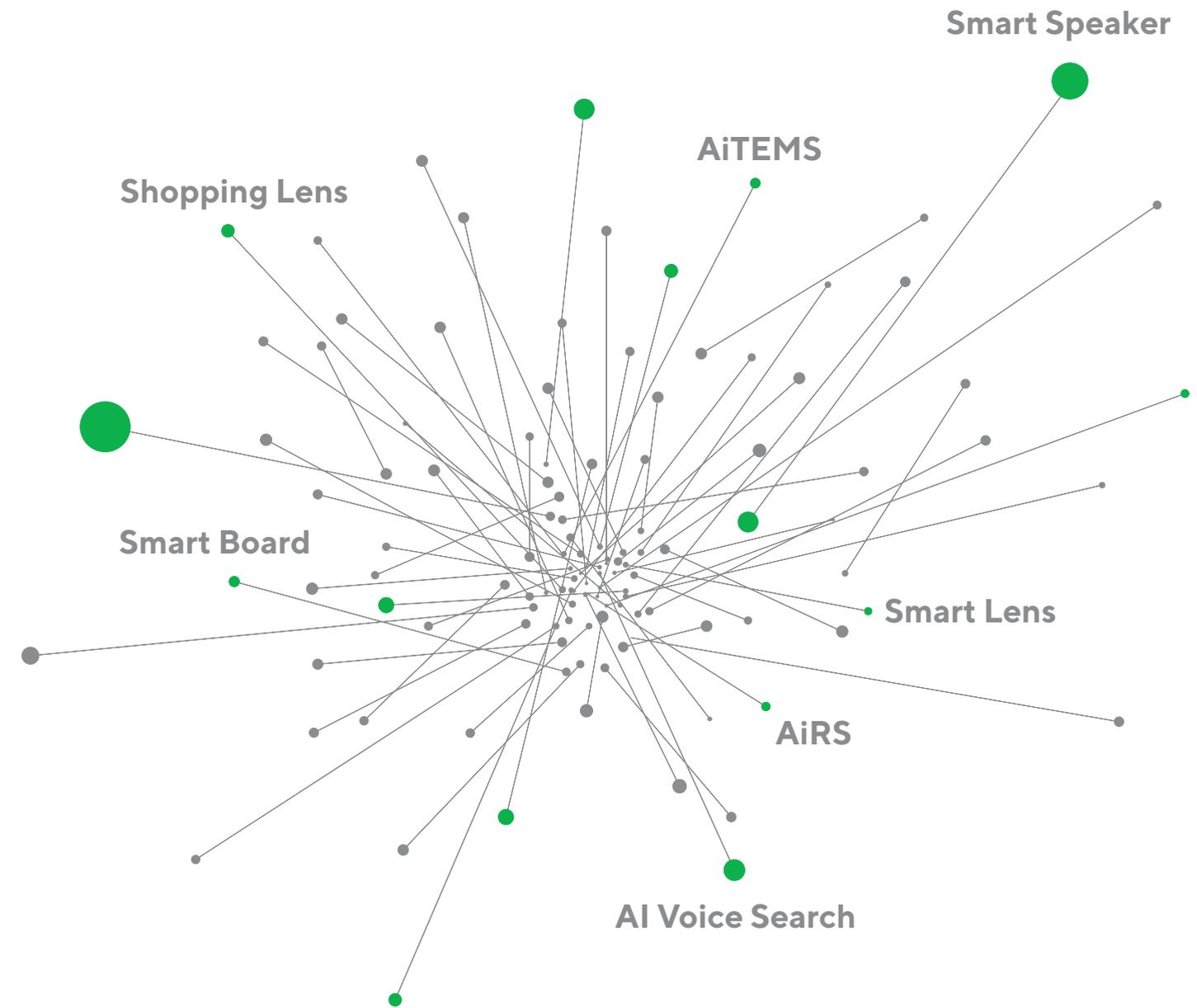
Technology Platform

Technology should be present in daily life, not just in a lab. It should belong to all, not just to some. It should create more opportunities for everyone. With a firm belief in the true value of technology, NAVER is transforming from an Internet company to a technology platform. We weave ground-breaking technology into daily life, creating friendly tools that anyone can use with ease. We also harness future technology to support individuals and startups to realize their dreams. NAVER's commitment and challenge to become a leading technology platform will redefine the new future for everyone.



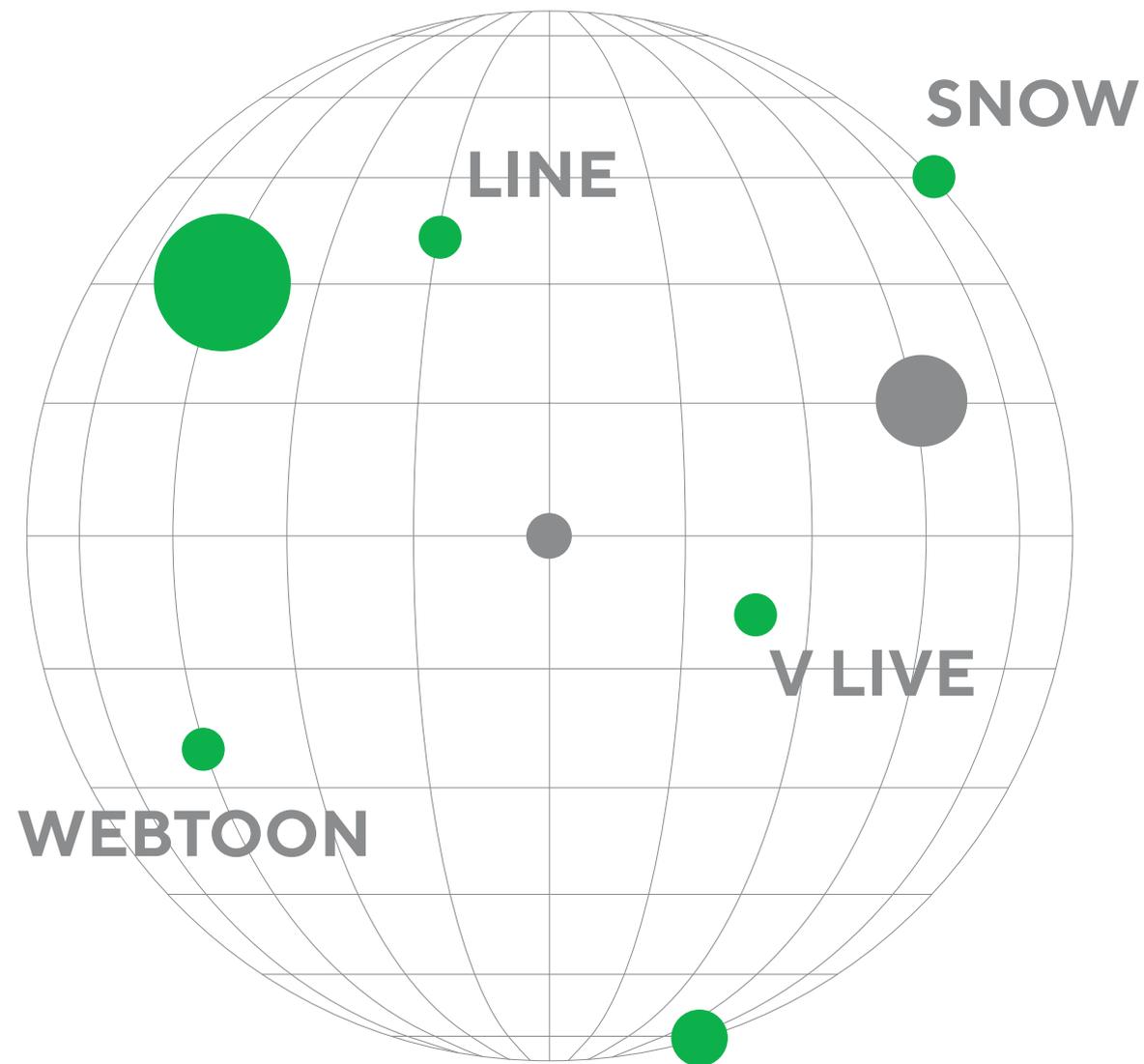
Strengthening Investment

NAVER is keeping one step ahead in preparing for the future by constantly expanding its investment in state-of-the-art technologies such as artificial intelligence (AI), robotics, and autonomous driving. In addition to focusing on technology development through an internal research organization, we are actively investing in promising technology startups at home and abroad. In South Korea, we are strengthening investment and cooperation mainly through the "D2SF" technology startup accelerator, and the "DEVIEW" developer conference. Overseas, we participate in "Station F", the world's largest startup incubating center, and the "K-Fund" startup investment fund. We will continue to maintain our unwavering commitment to investments that ensure we achieve the world's highest level of technological competitiveness.



Improving Experience

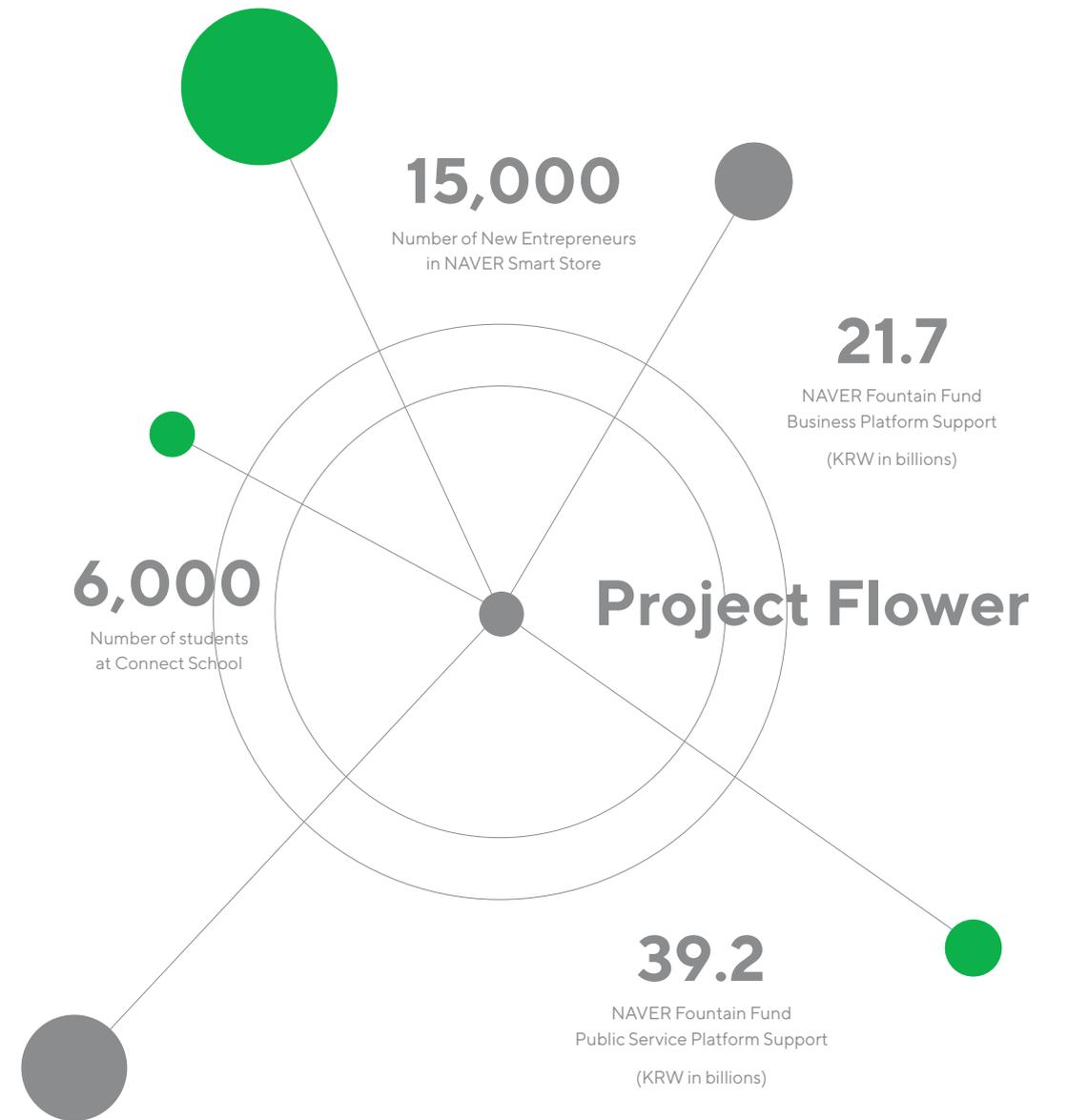
Our technology allows people to quickly search for information by voice or image, and receive customized shopping recommendations tailored to an individual's preferences. It intuitively understands the meaning of words in different contexts and translates them automatically. It finds and plays music that matches your mood with just a few simple words. The application of NAVER's AI and other cutting-edge technologies to services and content has made searching more sophisticated, shopping and translation more convenient, and content more richly varied. Users are thrilled to experience technology that is so seamlessly integrated into their daily lives through these groundbreaking platforms. NAVER will continue to introduce more innovative services and content by strengthening technology development and external cooperation.



Going Global

NAVER's platforms and content like LINE, NAVER Webtoon, V LIVE, and SNOW have become part of people's shared routines around the world. People listen to our music and see our newly posted webtoons on their way to work every day. They see live broadcasts by their favorite stars and use our platform to post comments. They use our platform to attach cool stickers to videos shot at a café to send to their loved ones.

They also use our platform to hang out with their friends and enjoy newly released mobile games. As our platforms become more powerful and content become more diverse, users and locations in which we operate are increasing every day. NAVER will continue its commitment to bringing joy to people's lives around the world.

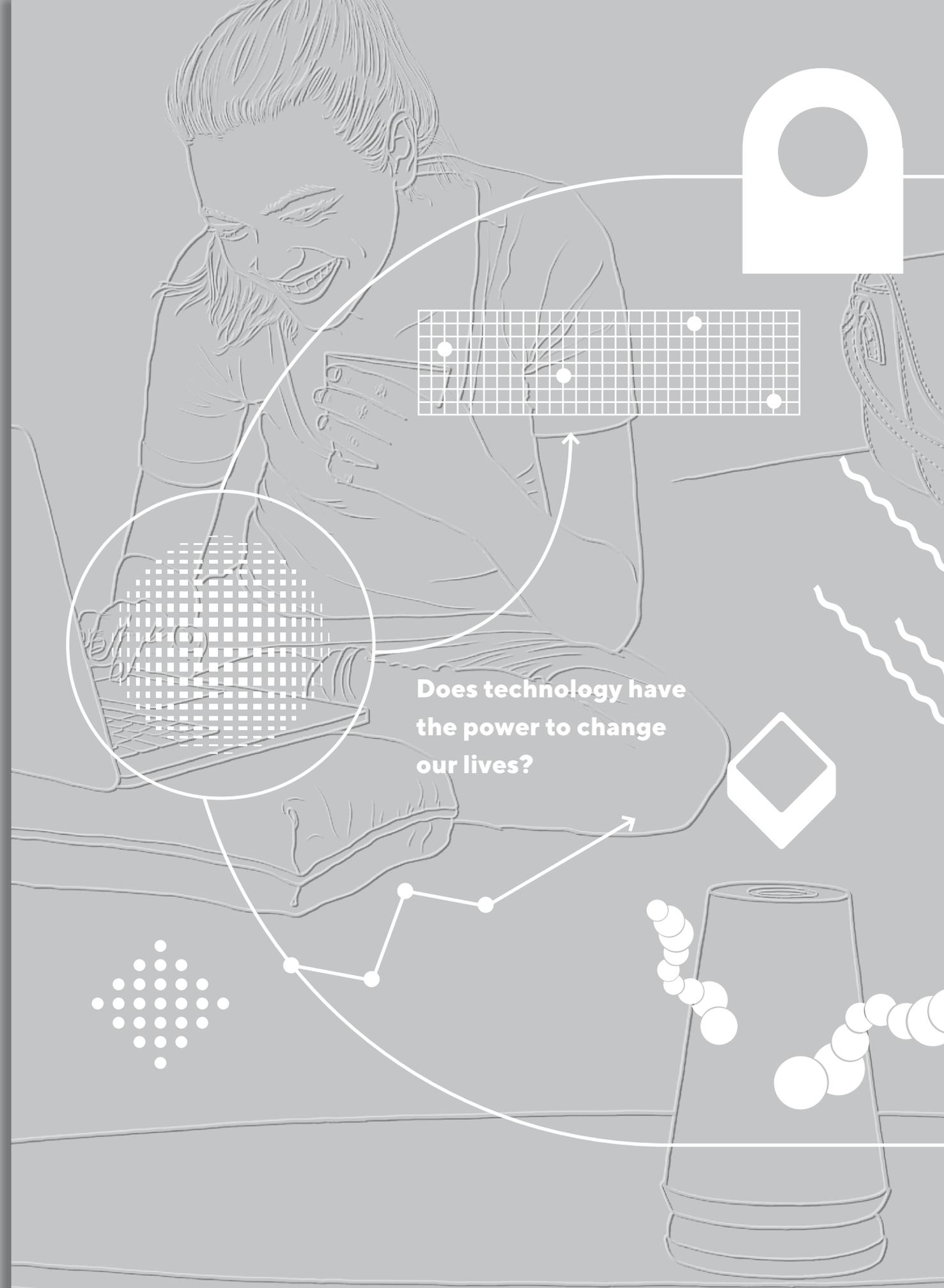


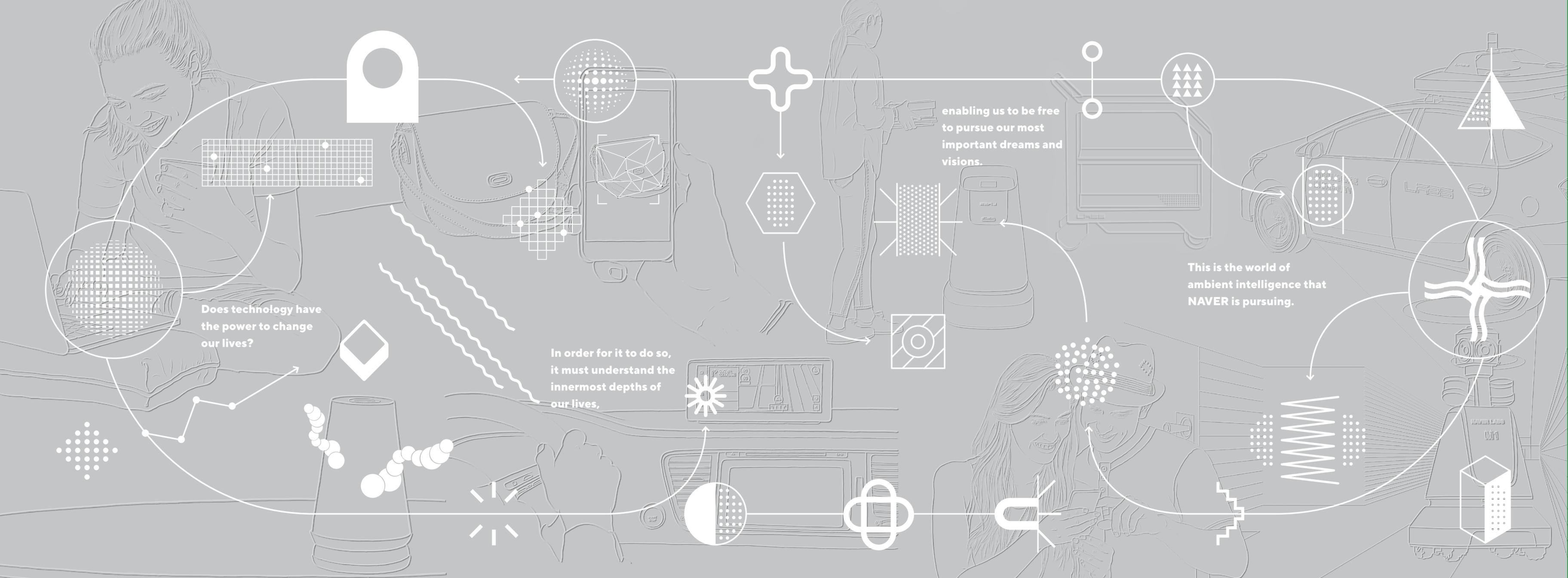
Opening Opportunities

With NAVER, the spark of passion for new startups begins in NAVER Smart Store, and new hopes grow in small alley stores. Artists of various disciplines receive support in expanding their artistic practices beyond their wildest dreams, and fashion designers and beauty creators realize their visions on a global scale. NAVER supports small businesses and creators to blossom through the Project Flower campaign. We believe that each individual success can add up to shared success, ultimately strengthening our economy. NAVER will remain dedicated to creating sustainable growth for everyone by investing and believing in small businesses and creators.

AMBIENT INTELLIGENCE

"Ambient intelligence" refers to technologies that offer users information and services that they can utilize even before they know they need it. It can perform these tasks by recognizing and understanding the user's environment and situation. NAVER's Aml technologies will become an integral part of the everyday lives of its users, offering them new and unexpected values and more pleasing experiences.





NAVER is making amazing differences in its users' lives by introducing a wide variety of services, content, and devices that combine with AI technology. This allows us to realize the total depth of ambient intelligence by developing and commercializing core technologies in such areas as robotics, autonomous driving, and in-vehicle infotainment (IVI). The closer NAVER gets to the future of technology platforms, the more convenient and happier our user's everyday lives will become.

Financial Highlights

Condensed Statements of Financial Position

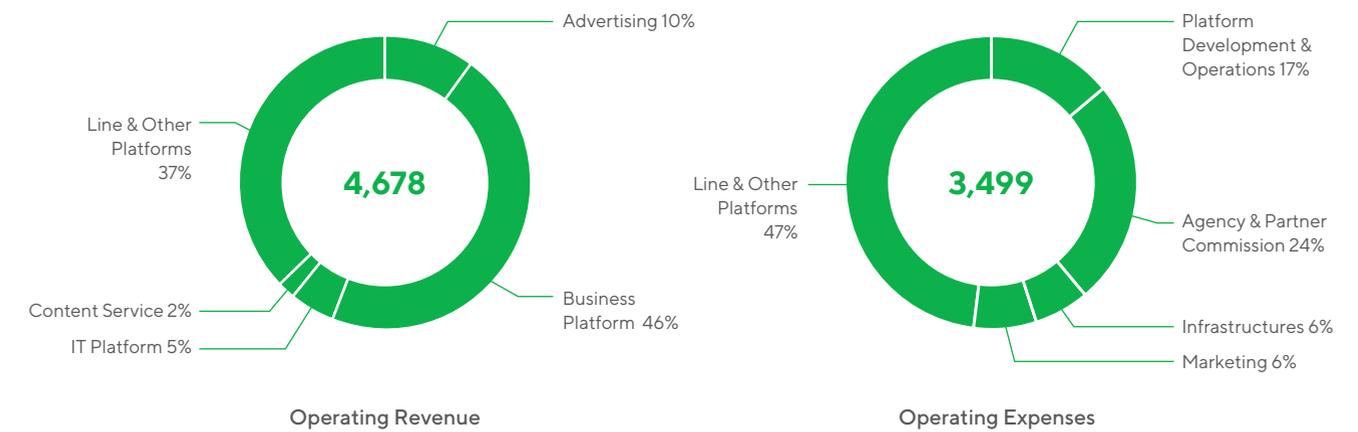
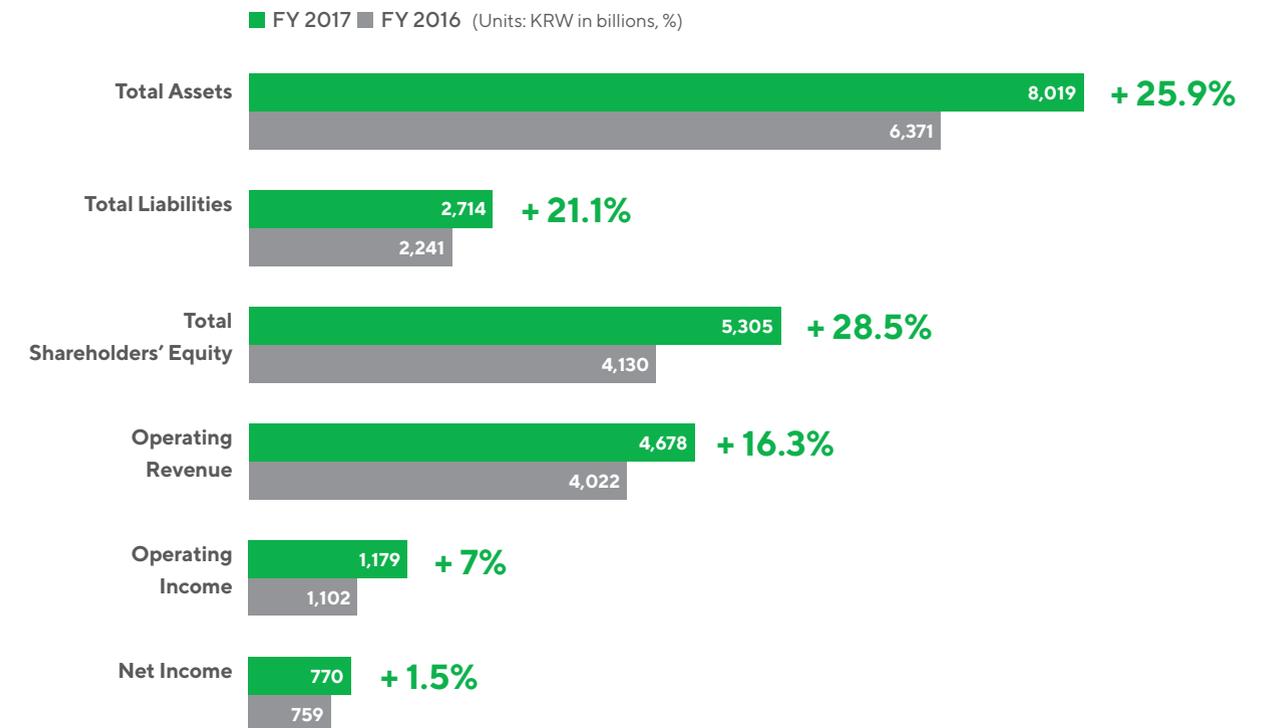
(Units: KRW in billions, %)

	FY 2017	FY 2016	% Change
Total Assets	8,019.3	6,370.6	25.9%
Total Liabilities	2,714.1	2,241.0	21.1%
Total Shareholders' Equity	5,305.2	4,129.6	28.5%

Condensed Statement of Comprehensive Income

(Units: KRW in billions, %)

	FY 2017	FY 2016	% Change
Operating Revenue	4,678.5	4,022.6	16.3%
Advertising	461.3	399.4	15.5%
Business Platform	2,153.0	1,865.7	15.4%
IT Platform	217.8	120.6	80.6%
Content Service	101.5	103.2	(1.6%)
Line & Other Platforms	1,744.8	1,533.7	13.8%
Operating Expenses	3,499.3	2,920.6	19.8%
Platform Development & Operations	577.1	537.1	7.4%
Agency & Partner Commission	844.4	660.5	27.8%
Infrastructures	222.0	188.1	18.0%
Marketing	219.9	148.3	48.2%
Line & Other Platforms	1,636.0	1,386.6	18.0%
Operating Income	1,179.2	1,102.0	7.0%
Operating Margin (%)	25.2%	27.4%	(2.2%p)
Net Income	770.1	759.1	1.5%
Net Margin (%)	16.5%	18.9%	(2.4%p)



CEO's Letter

NAVER's historical commitment to offering new experiences to its users and partners in its role as a world-leading technology platform continued apace in 2017. The company also continued with its dedication to providing exciting growth opportunities for small businesses and creators, as well as ensuring highly profitable economic results for its shareholders and investors.



President & CEO, NAVER Corporation
SEONG-SOOK HAN

In 2017, NAVER made a series of dramatic steps in a number of operating fields both at home and abroad. We upgraded our technologies, and added to our services, while deepening our degree of shared prosperity and cooperation with our partners. Our goal is to offer our users and partners new experiences and increased growth opportunities.

Many of these achievements were made in the realms of enhanced research and investment, resulting in the constant strengthening of our technology platform capabilities. An obvious example of this was our exciting "CLOVA" integrated AI platform, which has rapidly gained a reputation as a primary lifestyle-oriented platform with applications suited to a wide range of our services and devices. In addition, we are making steady efforts to make innovative discoveries in robotics, autonomous driving, indoor 3D mapping, and other next-generation lucrative technologies that can enhance our daily lives. We also increased our level of investment in futuristic technologies. Overseas, we acquired Xerox Research Centre Europe, and domestically, we are investing in startups excelling in the tech sector through our D2SF tech startup accelerator.

In addition, our AI-centered advanced technologies presented users with a never-before-imagined menu of highly innovative services, content, and devices, adding both substance and entertainment to their daily lives. This included AI technology-combined voice and conversational searches, image searches such as "Smart Lens" and "Shopping Lens", the "AiRS" content recommendation system, the "AiTEMS" product recommendation system, the "WAVE" and "FRIENDS" smart speakers, and interaction-toons.

Another of our remarkable achievements was our accelerated growth in the global market. Our number of LINE, Webtoon, V LIVE, and SNOW users is increasing steadily not just in South Korea but around the world. LINE is developing into a "must-have" smart portal by continually strengthening both its services and its content, while NAVER Webtoon is becoming increasingly popular in English-speaking markets as well as in Asia. V LIVE has long since established a devoted following as a live streaming platform in the Asian market, while SNOW is repeating its success in its role as a highly functional AR camera app.

NAVER is also very much about supporting small businesses and creators, including the many projects carried out by "Project Flower". We are working with our many partners, helping them to reach their dreams of success. These efforts included carrying out the Baekban Week campaign, establishing a "NAVER Partner Square" in Busan and promoting a phased-growth support program funded by our "Fountain Fund" of about KRW 60 billion.

NAVER's primary goal for 2018 will be to continue focusing our hearts and minds on being a beloved and trusted technology platform. We will accomplish this dream by investing in a full stream of future technologies, services, and content development, and by increasing our level of cooperation with our partners both at home and abroad even more. This will particularly apply to cheering on the sustainable growth of small businesses and creators through our "Project Flower" endeavor. Last, but not least, we will keep on with our commitment to enhancing our levels of transparency and fairness in our role as a respected public service. I look forward to your support and encouragement in 2018 and beyond. Thank you.

Board of Directors

Inside Directors

DAE-GYU BYUN

- **Chairman, Board of Directors, NAVER Corporation**
- **Chairman, Board of Directors, Humax**
- Vice President, National Academy of Engineering of Korea
- Outside Director, POSCO
- Outside Director, SK Telecom
- President & CEO, Humax
- PhD, Control and Measurement Engineering, Graduate School, Seoul National University

SEONG-SOOK HAN

- **President & CEO, NAVER Corporation**
- General Director, Service Management Committee, NAVER Corporation
- Director, Search Business Division, EMPAS
- PC Line
- Nanum Technology
- Mincom Company
- BA, English Language and Literature, Sookmyung Women's University

HAE-JIN LEE

- **Founder and Global Investment Officer, NAVER Corporation**
- Founder and CEO, NAVERcom
- Samsung SDS
- MS, Computer Science, KAIST
- BS, Computer Science, Seoul National University

Outside Directors

SU-UK KIM

- **Member, Audit Committee, NAVER Corporation**
- **Vice-Dean, Business School and Graduate School of Business, Seoul National University**
- **Director, Seoul National University Foundation**
- **Member of Government Investment Body/Management Evaluative Committee, Ministry of Strategy and Finance**
- Member of Invigorating ICT Industry Working Group, Ministry of Science, ICT, and Future Planning
- PhD, Business Administration, Michigan State University

JONG-WOO LEE

- **Member, Audit Committee, NAVER Corporation**
- **Dean, College of Engineering, Professor of Information Technology Engineering, Sookmyung Women's University**
- **Editor-in-Chief, Transactions on Computing Practices Journal, Korean Institute of Information Scientists and Engineers**
- Senior Researcher, Hyundai Information Technology
- PhD, Computer Science, Seoul National University

UI-JONG CHEONG

- **Member, Audit Committee, NAVER Corporation**
- **Lawyer, BAE, KIM & LEE LLC**
- Member, Financial Dispute Consultation Committee, Financial Supervisory Service
- Member, Economic Policy Consultation Committee, Ministry of Strategy and Finance
- LLM, Columbia University
- BA and MA in Law, Seoul National University

JUN-PYO HONG

- **Member, Audit Committee, NAVER Corporation**
- **Professor of Plastic Surgery, Ulsan University, Plastic Surgery Surgeon, Asan Medical Center**
- MD, College of Medicine, Yonsei University
- MBA, University of Southern California

At a Glance

In 2017, NAVER continued with the challenge it has always set itself—to deliver exciting new values and enjoyable experiences to its users and partners. As a result, a host of new services were developed, innovative future technologies came into being, and our endless desire to grow together continued to warm our society. We believe that these many efforts and achievements have helped to make the world a richer and more beautiful place to live in while bringing us closer to a better future.



Acquired Xerox Research Centre Europe for research into future technology

In June 2017, NAVER acquired Xerox Research Centre Europe (XRCE), located in Grenoble, France, from Xerox Corporation of the United States to expand research into artificial intelligence and other future technologies. Founded in 1993, XRCE is a high-tech research center that conducts research in the fields of future technologies such as AI, machine learning, computer vision, and natural language processing. Given XRCE's natural synergies with NAVER's future technology research directions, it is expected to generate significant mutual outcomes in future R&D. It is also hoped that, through this acquisition, XRCE's outstanding research performance will build on NAVER Labs' existing ambient intelligence research - such as AI, deep learning, 3D mapping and robotics - bringing even greater achievements on the global stage.



Created KRW 60 Billion Fountain Fund

In March 2017, NAVER started creating the Fountain Fund, a funding project designed to stimulate the growth of a program called "Project Flower", which in turn helps small businesses and creators start and grow their own enterprises. Targeting a total value of KRW 60 billion, the fund will be all raised in-house. NAVER's ultimate goal is to leverage the financial resources of the Fountain Fund to support social ventures, small-scale public utility foundations, and public interest activities in the field of software. We also plan to assist the development of phased support programs for the growth of small businesses and creators, as well as the opening of NAVER Partner Square Busan.



Participated in Station F, the world's largest startup incubating center

In June 2017, NAVER and LINE opened "Space Green", a startups promotion and collaboration space in "Station F", the world's largest startup incubation center, located in Paris, France. Space Green will allow 80 startups from Europe and other countries - including South Korea and Japan - to exchange knowledge and grow their global competitiveness. As part of this initiative, NAVER and LINE will share their expertise regarding services and content with the participating startups. We will also continue to build close partnerships with them by actively carrying out technological cooperation with the engineers of NAVER Labs through meet-up and other programs.



Test operated "AROUND" autonomous robot and "AIRCART" motorized cart

In October 2017, the AROUND autonomous service robot and the AIRCART motorized cart, developed by NAVER Labs, started operating in the YES24 bookstore located in F1963, a multicultural complex in Busan. AROUND, which carries books for customers and employees throughout the store, has sharply lowered its production cost by utilizing the "M1" mapping robot and the map cloud.

AIRCART is a motorized cart that controls its movement by recognizing the operator's intention using a force sensor on its handle, allowing employees to carry books safely and easily. These products have been well received as useful tools that combine real life needs with intuitive robot technology.



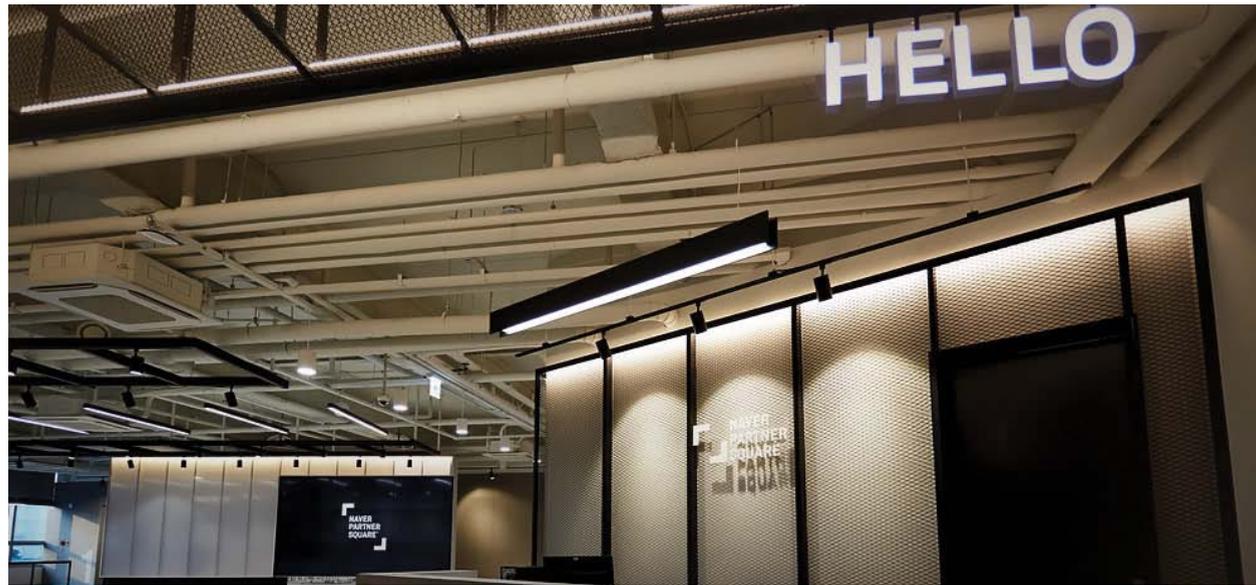
Officially launched AWAY in-vehicle infotainment platform

The AWAY in-vehicle infotainment (IVI), a platform developed by NAVER Labs to increase safety in driving situations and for drivers, was officially launched in August 2017. NAVER Labs succeeded in commercializing the platform five months after releasing its first prototype through the "SEOUL MOTOR SHOW 2017" when it was installed on the vehicles of "Green Car", a car sharing company, following the user optimization process. The product applied to Green Car consists of the AWAY IVI platform that has been optimized for the personal environment in the vehicle, plus the head unit display type hardware to which the platform has been applied. It provides a new driving experience to Green Car users by connecting vehicles, information, and drivers in real time, using uninterrupted Internet connection. By the end of the year, it was successfully installed on approximately 1,000 vehicles, with plans to increase the number of applied cars nationwide in the near future.

Listed on Forbes magazine's "The World's Most Innovative Companies" for four consecutive years

Rank	Company	Country	Industry
1	Salesforce.com	US	Application software
2	Tesla	US	Automobile manufacturers
3	Amazon	US	Internet and marketing
4	Shanghai RAAS Blood Products	China	Biotechnology
5	Netflix	US	Internet and marketing
6	Incyte Corp	US	Biotechnology
7	Hindustan Unilever	India	Household products
8	Asian Paints	India	Paints
9	Naver	Korea	Internet software & services
10	Pfizer Inc	US	Pharmaceuticals

This year NAVER ranked ninth in Forbes magazine's "The World's Most Innovative Companies", making us the only South Korean company to be listed for four consecutive years. Since our first selection in 2014, we have moved up in the rankings every year, entering the top ten rankings in 2017 for the first time and marking a rise of four notches from last year to reach ninth place. By industry, NAVER ranked second after Salesforce.com in the Software & Services category. We also ranked second among Pacific Rim region companies, behind Shanghai RAAS Blood Products.



Opened NAVER Partner Square Busan

NAVER opened its first regional Partner Square in May 2017 in Busan as part of the "Project Flower" project to help small businesses and creators grow. Only the second such establishment after Seoul, NAVER Partner Square Busan is an offline growth base aimed at helping small businesses and creators in the Gyeongsangdo Province area reach digital success. Comprising lecture rooms, various studios for photo and video filming and content production, and community space, it offers a broad range of benefits such as professional training, studio and professional equipment rentals, and production support for the founding and operation of online retail businesses.



Innovated Technology Platforms through NAVER Cloud Platform

In April 2017, NAVER Business Platform (NBP) launched the NAVER Cloud Platform, a new cloud service targeting the entire world. Equipped with computing, data, security, network, and other products in various fields, NAVER Cloud Platform will commercialize internalized technologies, systems, and operating know-how and provide them to domestic and overseas markets. We will also step up cooperation with our partners and focus on continuous R&D and technological support. In addition to reinforcing our cloud technology competitiveness by advancing into the cloud platform business, we will continue to upgrade our technology platform by expanding the cloud-based ecosystem, thereby securing an even greater level of technology leadership in the future industry.



Launched CLOVA AI platform- applied smart speakers

In August 2017, NAVER launched "WAVE", the first smart speaker to be loaded with the CLOVA AI platform, which was jointly developed by NAVER and LINE. In October, we introduced "FRIENDS", the second smart speaker created with the motif of "Brown" and "Sally", LINE characters loved around the world. Lightweight and portable, "FRIENDS" offers a variety of life-friendly functions through voice commands such as music playback, information search, scheduling, traffic information, place recommendation, English conversation, and food delivery ordering. In addition, NAVER is working at full scale to expand the CLOVA's ecosystem. For example, in partnership with LG U+, we launched the "U+ Home AI" smart home service, combining the CLOVA with IPTV and home IoT, and the "FRIENDS+" AI speaker.



Data Center Gak named Energy Champion of South Korea

Data Center Gak - operated by NAVER Business Platform - was named an "Energy Champion" by the Korea Energy Corporation in December 2017. This award recognizes Data Center Gak's successful efforts to maximize greenhouse gas reduction activities and energy saving efficiency through a variety of initiatives. These include snow melting that recycles waste heat, solar and photovoltaic power generation, and the use of natural cooling systems through outside air.

DIFFERENCES MAKE OUR SERVICES VALUABLE

NAVER's services are designed to make daily life simpler and more enjoyable through the introduction of AI and other future technologies. AI voice search and Smart Lens allowed us to further improve our search performance, and the AI Recommendation System helped us offer more personalized online content to our users. Shopping Lens and the personalized product recommendation system have made online shopping more convenient. We also recently released CLOVA-loaded AI services such as AI Assistant and smart speakers. In addition, the global popularity of our V LIVE, Webtoon, SNOW, and LINE initiatives, with their wide variety of exciting content is growing exponentially. NAVER will continue to accelerate technology development and service innovations that bring excitement and daily joy to our users around the world.





NAVER

South Korea's No.1 Internet Search Portal
www.naver.com

30 million

Number of daily mobile unique visitors
As of December 2017

NAVER is advancing its technologies and improving its services by combining AI technology with various services including search and shopping. We are also expanding globally by constantly developing new content that has a wide appeal, including webtoons and videos. Through these efforts, we will continue to evolve into a technology platform that brings convenience to our users and paves the way to online success for our partners.

Sophisticated search capability using AI technology

In 2017, NAVER applied its self-developed AI technology to mobile search, moving from search methods that were once limited to text to now include voice and images. This has greatly improved the diversity and relevance of our search services. Our "AI Voice Search" service utilizes the CLOVA integrated AI platform's conversation system, allowing users to access search, news reading, "papago" translation, app running, travel destination recommendation, and shopping search functions using only voice commands. We also newly introduced the "Smart Lens" service utilizing the "Scopic" AI-based image analysis technology, welcoming a brand new era of image-based searching capability. We have also improved the quality of our customized content service by applying the "AiRS" AI content commendation system to our main Mobile News vertical tab.

Ever-evolving services

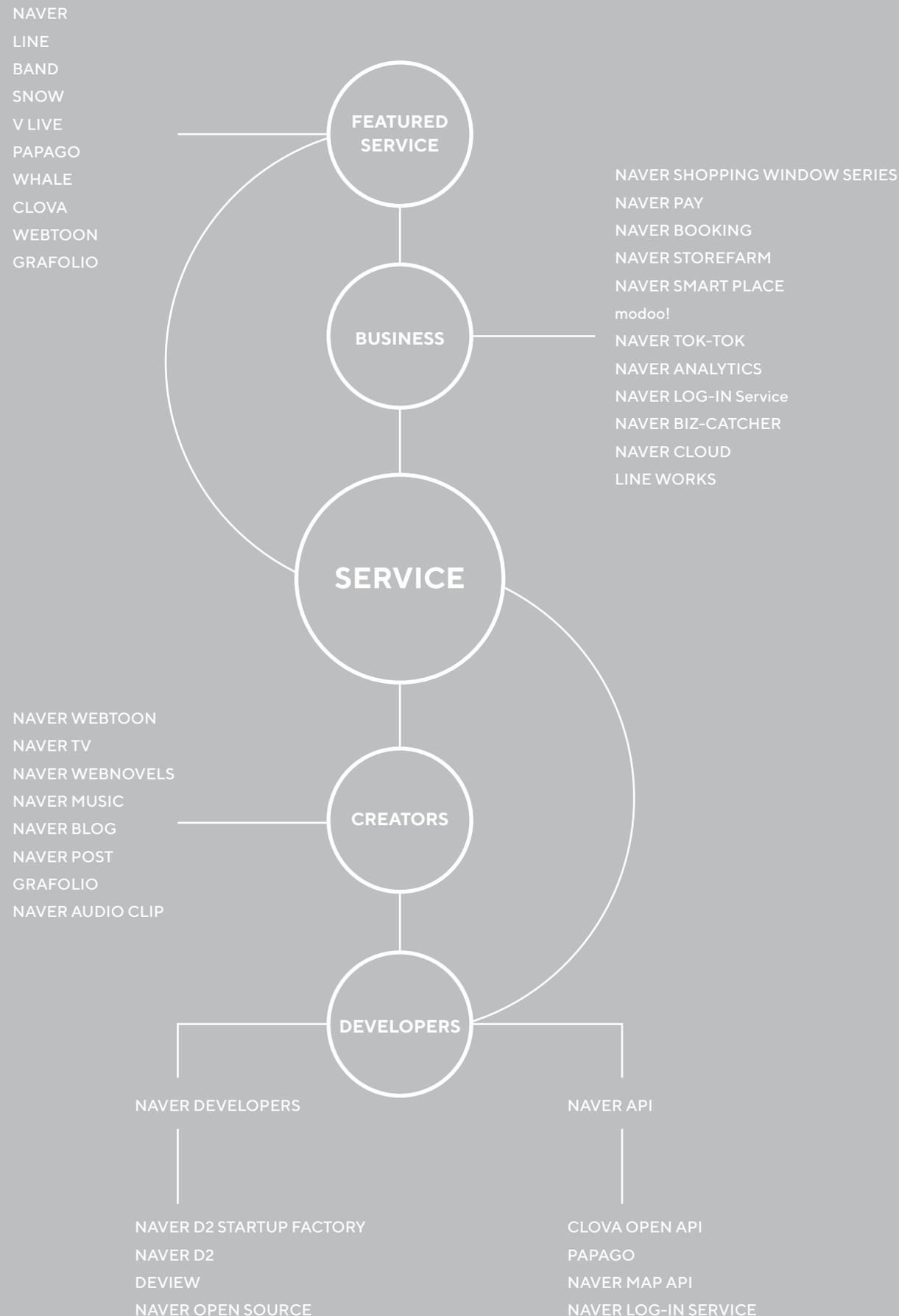
NAVER's efforts to improve its services continued in 2017. In addition to reorganizing the PC main screen, we placed microphone and camera icons on the right side of the front search window on mobile platforms to enable voice, music, and image searches. We have also greatly expanded the content of "NAVER TV" by theme, including web dramas, web entertainment, beauty and games, and redesigned the "Junior NAVER" app to make it more user friendly on mobile devices.

Mobile News also reflected the editorial value of media outlets and increased the subscription convenience of its users. This included opening "Channels" that media outlets can directly edit based on their preferences, and increasing the automatic arrangement of articles based on updated issues.

We are also proud to have achieved a greater level transparency and usability within our news comment service. For example, we now disclose comment statistics, and added new functions like "Request to collapse comment" and "Sort by empathy ratio".

Launching a range of new services and content

NAVER has been committed to enriching the lives of its users by launching a wide range of exciting new services. In January, we opened "Audio Clip", a platform dedicated to audio content that allows creators to easily produce and share audio content. The "TART" scheduling app, launched in July, introduces users to groundbreaking technology that revolutionizes how efficiently they can organize their lives. Other new content entertainment offerings we created include: NAVER Music's "Musicians", sharing playlists of popular musicians; and NAVER TV's "Creator Studio" for video content creators.



Applying AI technology to strengthen online shopping searches

NAVER is always improving its quality by adapting new AI technologies to online shopping searches on mobile devices. As part of such efforts, we opened the "Style Recommendation" service that analyzes the style information of each product with our deep learning-based image analysis technology and automatically assigns emotional tags with images of the product. The service spotlights fashion items in various styles that correspond to such emotional keywords as "Lovely", "Cute", and "Gorgeous". In addition, the "AiTEMS" AI-based personalized product recommendation system has been applied to our shopping tab on a trial basis. The system automatically analyzes the user's purchasing history and product information, and provides individually tailored product results. We are continuing to develop the system so that it will be able to make bespoke recommendations for all users. We have also recently introduced the "Shopping Lens" service, which optimizes the "Smart Lens" AI image search service for shopping. When users search for a product image using a photo taken in a physical store, Shopping Lens finds the same product or a similar one online, providing price information that leads to actual purchases. With Shopping Lens, shoppers are able to take a photo of an item they've found that they like, use the app to quickly search for similar products of various prices, then purchase their preferred option online. By applying various AI-based technologies to shopping search, we will continue to offer unprecedented new shopping experience to our users.

Enhancing user convenience by way of service upgrades

NAVER is actively improving its services for the convenience of NAVER Shopping users including vendors. NAVER Shopping Window, having secured nationwide sales as an O2O platform centering on small and medium-sized merchants, has continued to expand its categories and improve functions such as NAVER Booking, NAVER Tok-Tok, and NAVER Pay. NAVER Pay, which provides users with a convenient payment option, has also grown substantially. Its use expanded to include large malls and other businesses, leading to a rise in its total number of member stores from 120,000 in the previous year to 180,000 in 2017. We are doing even more to improve user convenience by launching branded card products through partnerships with banks and credit card companies, and offering a variety of services including remittances, gifts and points in addition to payment.

V LIVE, an online service featuring real-time celebrity broadcasts, has grown into a global live video platform recording over 42 million downloads worldwide, attracting over 20 million monthly active users since its launch in August 2015. More than 4,000 real-time broadcasts on 600-plus channels - covering topics from K-pop stars to classic artists - are on-air every month. Using world-class video technology, V Live operates many different services including "Channel Guide", "V LIVE+", "Multicam", "V Store" and "V Fansubs". We also offer various filters such as 2D & 3D Face, Color, Beauty, Touch, Background, Style Conversion, Augmented Reality (AR) and 3D Avatar, allowing our users to fully customize their broadcasts.

In 2018, we will support talented global creators from a range of backgrounds and experiences to contribute to this service, while further diversifying the format and content of the service, enhancing the quality of entertainment for both celebrities and fans worldwide.



V LIVE

Global Live Video Service
vlive.tv

42 million

Number of global cumulative downloads
As of December 2017



WEBTOON

Global Webtoon Content Service
comic.naver.com

40 million

Number of global monthly active users
As of December 2017

NAVER Webtoon, launched in 2004, has enjoyed consistent growth thanks to ongoing enhancements of its quantity and quality and the backing of a solid foundation of user support. We are nurturing the success of many best-selling authors through our unique promotion system: Challenge > Best Challenge > Official Webtoon. We are also widening our reach to include such industries as publishing, movies, dramas and gaming, based on our strong Intellectual Property policies and incredibly loyal fan base. We provide a wide variety of content for the global market as well, including Taiwan, Indonesia, Thailand and the United States through "LINE Webtoon". In 2017, the monthly active users (MAU) of this global comics platform exceeded 40 million. The "Encountered" interaction-toon, that created a new user experience by applying AI and AR technologies, has been particularly successful, reaching 50 million views. Moving forward, we will continue to act as solid and steadfast supporters of creators around the world through our platforms and programs, providing more users with the pleasure of webtoons by focusing on creating high quality content and strengthening the webtoon sector.



BAND

Mobile Community Service
band.us/home

The BAND group social networking service is a global community app used and loved in 226 countries around the world. Since its launch in August 2012, the service has provided users with various functions that allow them to keep in touch with their social networks, including loved ones and friends. It is also used to conduct study and business meetings through its mobile and PC versions. BAND is furthering its growth by expanding into a special interest and theme community that meets the needs of its users by allowing them to connect and communicate with others about special interest topics. In 2017, we continued to update BAND so that its users can enjoy more convenient and pleasant community activities within the platform. For example, we introduced Band Fix that allows users to edit their photos and videos before sharing them. We also redesigned the BAND home and app icons, and improved features like chat rooms, scheduling, Poll, Feed, and connections to external drives.



SNOW

AR Camera Content Platform
snow.me

270 million

Number of global cumulative downloads
As of December 2017

SNOW is a mobile AR camera content platform that allows users to play with a variety of effects on the smartphone camera. Since its launch in September 2015, the platform has continued to gain momentum in the global market, centering around Asia, including China, Japan and South Korea with the number of cumulative downloads surpassing 270 million. Using computer vision and AI technology specializing in graphics, SNOW is becoming more and more popular as it offers specialized services such as stickers, filters and content tailored to reflect the lifestyles and changing trends of its main users in their teens and twenties. In 2018, SNOW will revamp its services to become a camera app that focuses on video shooting, editing and sticker functions with the concept of an "AR camera that makes every moment special". In the future, we plan to further strengthen new content and services that utilize AR technology in Asia.



CLOVA

Integrated AI Assistant Platform
clova.ai

CLOVA is an integrated AI platform that has combined advanced AI technologies developed over the years by NAVER and LINE. In addition to applying NAVER and LINE services, we are building a CLOVA-centered AI ecosystem in cooperation with various external companies. We will continue to develop this platform into a lifestyle-oriented AI service by way of continuous technology development and service launches.

An AI platform that combines up-to-date AI technologies

CLOVA, a cloud virtual assistant developed jointly by NAVER and LINE, combines technologies using the five human senses, including voice and image recognition, artificial neural machine translation, and conversational engine. NAVER and LINE concentrate on AI technological development and convergence in order to further improve the performance of CLOVA, while also applying it to their search, shopping and other services to build up related databases. We are also striving to promote a CLOVA-based AI platform ecosystem by expanding our alliances with manufacturers and content companies in many different business sectors.

CLOVA App, an AI assistant in your hands

NAVER introduced "NAVER CLOVA App", a CLOVA-embedded AI assistant service, in May 2017. The CLOVA App offers a variety of AI assistant services, including information search, music recommendation, translation and interpretation, English conversation and emotion-detecting capability.

CLOVA has the unique ability to grow by learning, which means that users will experience an AI Assistant service that reflects their unique needs and preferences over time.

"WAVE" and "FRIENDS" smart speakers

NAVER launched CLOVA-embedded smart speakers in 2017. The first smart speaker, "WAVE", was introduced in August, followed by the second smart speaker, "FRIENDS", in October. WAVE and FRIENDS users can enjoy a variety of functions such as music playback, information search, scheduling, traffic information, place recommendation and English conversation via voice commands.

Promoting a CLOVA-based AI platform ecosystem

In order to cultivate CLOVA as a lifestyle-oriented AI platform, we are expanding the NAVER and LINE services with a focus on mobile application. In 2017, we launched the "DISCO" content curation service by combining CLOVA's recommendation engine and the "AI Voice Search" service with CLOVA's conversation system.

We are also proactively forging alliances with various manufacturers and content companies including LG Electronics and Daewoo E&C. We launched the "CLOVA Extensions Kit" service, which allows developers who want to provide their content or services through CLOVA to do so. We are also scheduled to launch the "CLOVA Interface Connect" service that will help CLOVA be loaded as an AI platform.



LINE

Global Smart Portal
line.me

LINE is evolving from a global messenger into a "smart portal" that connects people, businesses and services. Centering around four major countries - Japan, Taiwan, Thailand and Indonesia - we are scaling our growth by operating a variety of services such as communication, content, shopping, and payment. We will continue to offer more new and exciting services by increasing our investment in AI, FinTech and other emerging technologies.

LINE content, bringing joy and entertainment

LINE provides a wide range of content and services such as news, games, webtoons, music, live videos, TV, shopping, and payment as well as a mobile messenger and stickers. LINE News and LINE Today have seen their users grow significantly after adding the News button to their messaging app. LINE Game continues to expand its game lineup, and LINE Music has also upgraded its services by increasing the supply of sound sources and adding to the LINE BGM functions. LINE Live is becoming a popular video platform by operating the live broadcasting service in which all users can participate, while LINE TV is experiencing a rise in its number of users thanks to its increasingly diverse content and service localization.

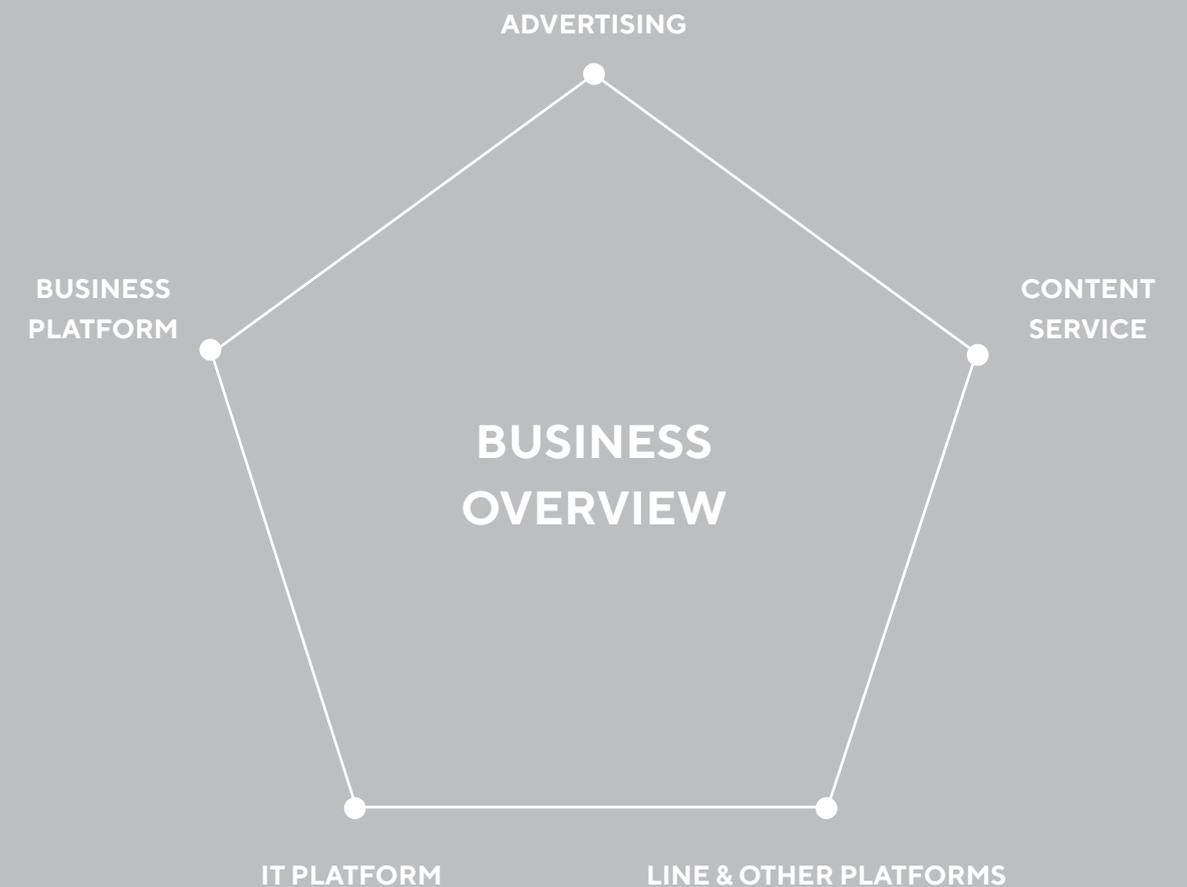
Expanding LINE Friends and smart speaker businesses

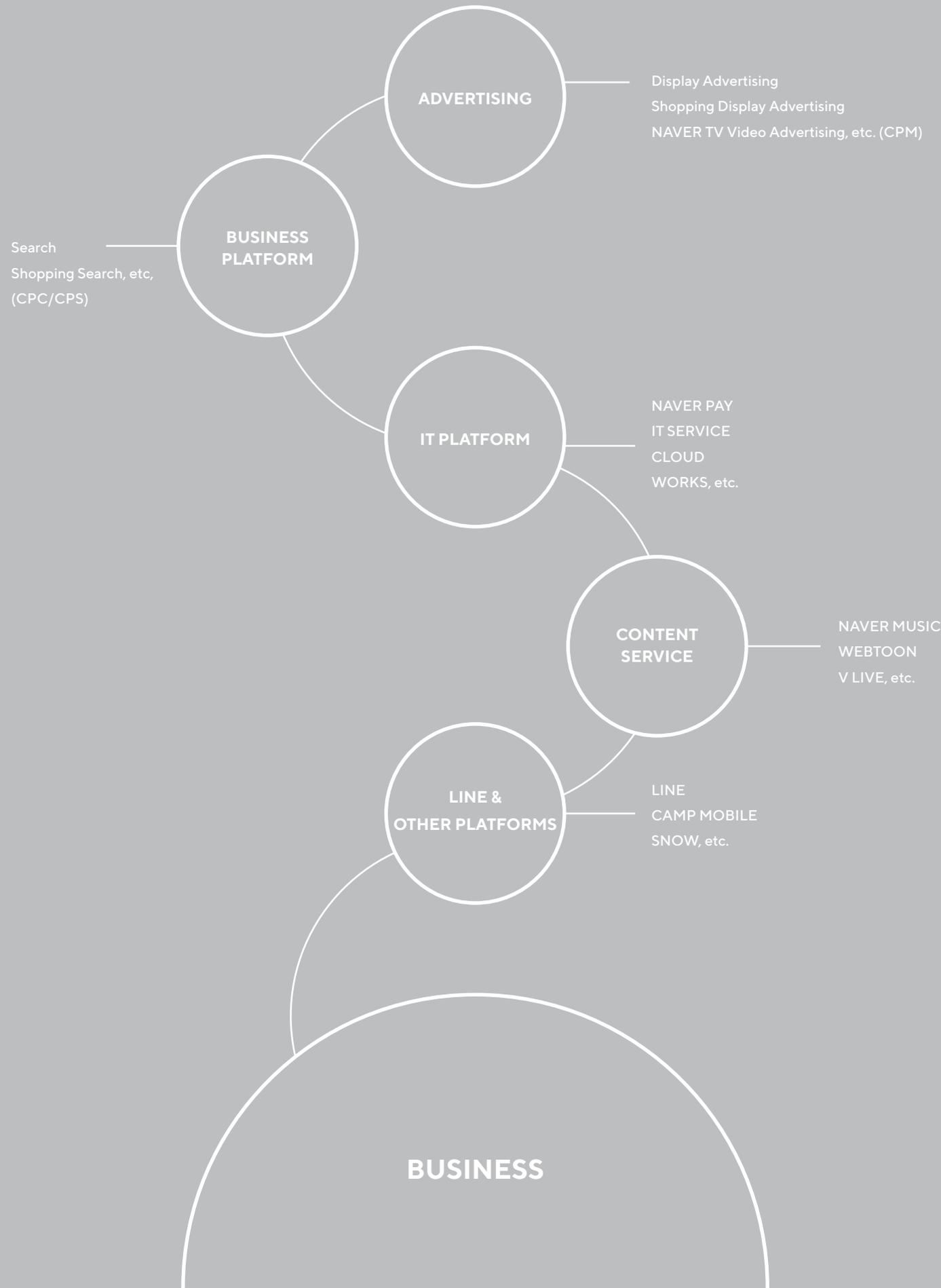
LINE Friends, a global character brand, supplies LINE character products from its online and offline stores in major regions of the world. We are also collaborating with global brands and characters in various industries to bring more fun products to the fans of LINE Friends.

In 2017 LINE launched the "WAVE" and "FRIENDS" smart speakers, outfitted with the CLOVA integrated AI platform, making successful inroads into the Japanese AI platform market. LINE's smart speakers are uniquely able to provide a wide range of convenient functions offered by the various LINE services. Going forward, we plan to further consolidate our AI platform business by launching new display-embedded products and increasing alliances with external companies.

DIFFERENCES MAKE OUR BUSINESS SPECIAL

NAVER performed well in 2017, with each of its businesses growing steadily, backed by the patronage of its users and the cooperation of its advertisers and partners. In the Advertising and Business Platform segments, we continued to grow through efforts to upgrade mobile search, improve our advertising platform, and introduce new products. The growth of NAVER Pay and the launch of NAVER Cloud Platform greatly improved our performance in the IT Platform sector. The Content Service division laid a solid groundwork for growth with an increase in the number of its global users, and LINE also achieved notable results as its ad and content sales continued to climb. NAVER aims to retain this sustained growth by continuing to enhance the satisfaction of its users, advertisers, and partners, while strengthening cooperation.





Advertising

NAVER operates the display advertising business, including banner ads, thematic ads, and video ads, on both online and on mobile platforms, using its superior media capabilities. Advertising sales surged 15.5% over the year to reach KRW 461.3 billion at the end of 2017. This impressive growth can be attributed to our diversified efforts of upgrading ad platforms, launching new products, and expanding our mobile inventory.

Improving ad platforms and launching new ad products

NAVER has actively responded to the needs of advertisers by developing more sophisticated ad platforms, improving its ad products, and launching new products. In 2017, we consolidated customized ad platforms by employing user behavior information, and expanded our premium inventory, while working to improve our ad platforms with diversified activities. These involved strengthening media management functions and providing reports to inform operational strategies.

With regard to mobile advertising - which is growing every year - we introduced new premium ads that are optimized for mobile platforms such as native advertising and the cinemagraph, receiving great feedback. NAVER TV is dedicated to creating an ecosystem by discovering talented creators through themed TVs such as web dramas, web entertainment, games, beauty, and kids, as well as expanding the original web content of broadcasting companies. In the future, we will continue to strengthen our role as a platform that enables new content creation and distribution.

Expanding inventory by adding mobile vertical tabs

NAVER's mobile advertising has achieved noticeable results in its content vertical tab that is operated under the different themes on its mobile main screen. Our products are advertised on vertical tabs such as News, Entertainment, Fashion Beauty, Food, Living, Economy M and Car Tech, using banner and content ads that are suitable for relevant themes or user groups.

Our vertical tabs carry sufficient potential value as advertising resources because they have secured a variety of themes and accordingly a large number of user bases, thereby enabling sophisticated ad targeting. Moving forward, we will continue to increase our vertical tabs to reflect user interests while steadily expanding our inventory in accordance with service and user needs.

+15.5%

Revenue

As of December 2017, based on K-IFRS consolidated financial statements (Unit: KRW in billions)

2017	461
2016	399

Business Platform

NAVER is carrying out the Business Platform business that involves search ads and Shopping Search ads in both online and mobile platforms. Sales from the Business Platform sector in 2017 reached KRW 2.153 trillion, a rise of 15.4% over the year, backed by steady mobile search upgrades and product improvement.

Applying AI technology to strengthen mobile search

In 2017, by applying the AI technology to our Mobile Search service, we launched the "AI Voice Search" service that enables the use of searches and various services through voice commands, and the "Smart Lens" service that enables image search by camera. In addition, we applied the "AiRS" AI content recommendation system to our vertical tabs. The application of AI made advanced Mobile Search available, allowing us to increase satisfaction levels of both users and advertisers as users were able to obtain more elaborate search results, and search business partners saw a direct increase in sales thanks to the enhanced such results.

Upgrading shopping search via the application of AI technology

NAVER upgraded its mobile Shopping Search service by utilizing various AI technologies it had developed to date. Services launched in 2017 include: Style Recommendation, AiTEMS and Shopping Lens. Style Recommendation analyzes the style information of each product, and automatically matches emotional tags that relate to the product image. AiTEMS is a personalized product recommendation system. Shopping Lens finds a desired product or a similar item, and connects it to actual purchases, when users search for a product image. Shopping queries and actual purchases surged significantly through the strengthened Shopping Search, allowing us to contribute substantially to the increase of business partner sales.

Improving products and services to enhance performance

Shopping Search advertising that connects NAVER Shopping with keyword searches has become a successful product, receiving positive feedback from both users and business partners since its launch in 2016. Along with this, we broadened our Shopping Window categories to focus on small and medium-sized businesses, and improved the functions of our management system. We also enhanced usability by integrating and reorganizing the seller platform. Lastly, we further enhanced our marketing support for business partners by offering "Keyword Trend" that uses big data and "Product Management Tip" that helps improve product efficiency.

+15.4%

Revenue

As of December 2017, based on K-IFRS consolidated financial statements
(Unit: KRW in billions)



IT Platform

The IT Platform division is primarily engaged in NAVER Pay, NAVER Cloud Platform, IT Service, and NAVER Works businesses. In 2017, we had meaningful performance as NAVER Pay's transaction value and merchant stores continued to increase, and the newly launched NAVER Cloud Platform secured stable business foundations. This allowed IT Platform sales to grow as much as 80.6% over the year to reach KRW 217.8 billion at the end of 2017.

Solid and Rapid Growth of NAVER Pay

NAVER Pay has grown every year since its launch in 2015, by offering differentiated services to merchant stores and a convenient payment experience for users. Its transaction value, the number of its users and the number of merchant stores all showed a stable upturn in 2017. The number of its merchant stores surged from 120,000 in the previous year to 180,000, with the highest increases coming from small- and medium-sized businesses. Accordingly, its transaction value has also displayed solid growth. Its broadness of scope is growing as well in conjunction with NAVER services, which is connected to various fields such as insurance, education, accommodations, and aviation. In addition, we have further strengthened user convenience by launching various real card products including debit and credit cards in cooperation with banks and credit card issuers. Going forward, we will expand our business into many different sectors, drawing on our excellent payment convenience and safety, with the goal of creating a simple payment service that provides substantive benefits to both users and merchant stores.

Launching NAVER Cloud Platform and building up business foundation

In April 2017, NAVER Business Platform (NBP) opened "NAVER Cloud Platform" and began developing its cloud service business in earnest. Up until this point, NBP had stably operated NAVER's various Internet services in the cloud environment, proving its technology and operational competencies. Since its launch, we have released new products every month in 13 categories including computing, data, security, and network, to provide a total of 78 products. In doing so, we have established a solid foundation offering services globally in six regions, including South Korea, the United States, Singapore, Hong Kong, Japan, and Germany. Going forward, we will continue to launch new products, while creating a cloud ecosystem that grows with customers and partners by enhancing our collaboration with competent small and medium-sized solution partners.

+80.6%

Revenue

As of December 2017, based on K-IFRS consolidated financial statements
(Unit: KRW in billions)



Content Service

NAVER operates the Content Service business around the world, which includes NAVER Webtoon, NAVER Webnovels, V LIVE, and NAVER Music. Using our advanced technologies, we provide diverse content and services that have led to an impressive increase in the number of global users every year. We are also working to develop various revenue models. In 2017, the Content Service sector achieved sales of KRW 101.5 billion, similar to the previous year.

Webtoon service growing rapidly in the global market

NAVER Webtoon continued its dramatic growth in 2017, seeing sharp increases in the number of users in the global market, the sales of its fee-based content, and the production of secondary creations. More than 40 million users around the world, including 4 million in the United States, are currently using the service each month. It ranked first among the webtoon platforms not only at home but also in Taiwan, Indonesia, and Thailand. NAVER Webtoon has grown into a platform that attracts local creators within three years of its launch in the United States and other English speaking countries. NAVER Webtoon is committed to securing content and expanding investment in service development with an aim to become the No. 1 platform of its kind in all countries in which it operates.

Extending V LIVE service and expanding abroad

The V LIVE video service repeated its growth in 2017, recording more than 42 million cumulative downloads worldwide. It is gaining in recognition for its status and potential as a global content platform, with overseas users making up over 80% of the total number of users. Using world-class superior video technologies, we offer a wide array of well-loved sticker products along with unique content that has proven extremely popular among users. Following the "V LIVE+" fee-based video product, we launched another fee-based membership product, "Channel+", to deliver profitable revenue models for global creators who host the shows.

Upgrading music service by leveraging AI platforms

NAVER launched WAVE and FRIENDS smart speakers in 2017, onto which the CLOVA AI and NAVER Music platforms were loaded. Through these smart speakers, users can listen to music in any environment using simple voice commands, or enjoy a wide array of lifestyle-oriented functions such as information search, scheduling, traffic information, place recommendation, and English conversation. In the future, we will develop services that make customized recommendations of music tailored to an individual's preferences using AI technology and big data, while further extending our services by linking with smart speakers and other AI devices.

-1.6%

Revenue

As of December 2017, based on K-IFRS consolidated financial statements
(Unit: KRW in billions)

2017	102
2016	103

LINE & Other Platforms

LINE mainly operates advertising, communication, content, and character sales businesses in the global market while enjoying continued growth with a focus on performance ads. SNOW, Camp Mobile and other platforms are also steadily developing. In 2017, LINE & Other Platforms recorded sales of KRW 1,744.8 billion, an increase of 13.8% over the year.

Growing ad sales and entering new businesses

In 2017, LINE retained its solid growth in ad sales, driven by performance ads. We are actively engaged in the content business. The number of shopping and payment service users and the sales of LINE Friends character goods have also increased steadily. In particular, LINE Shopping continued to grow, registering 14 million subscribers and over 30 million product transactions. LINE Pay also saw a steady rise in its number of users and transaction value, posting more than 10 million transactions per month. In addition, we launched WAVE and FRIENDS smart speakers, applying our CLOVA integrated AI platform, and entered the Japanese AI platform market.

Expanding investment in advertising, FinTech and AI

In 2018, LINE aims to establish new growth foundations by adding to its investment with a focus on advertising, FinTech, and AI platforms. In the advertising business, we will achieve sustained growth and improve profitability by reinforcing our advertising platform further through the use of AI and big data. In the FinTech business, we will expand our LINE Pay business, and establish a subsidiary, "Line Financial", to engage in the financial service business in earnest. This will include virtual currencies, insurance, and loans, leveraging the blockchain technology. In the AI business, we will continue to extend the influence of the AI platform market, by launching new smart speaker products, establishing firm links with LINE Shopping and other existing services, and collaborating with outside companies in various fields.

Ongoing growth of SNOW and new changes

The SNOW mobile camera app service sustained its growth in 2017. Since its launch in 2015, it continued to grow in the global market centering around China, Japan, South Korea, and other Asian regions. In 2017, the number of its cumulative downloads exceeded 270 million, and the number of its monthly users has also increased significantly year by year. Starting in 2018, we plan to completely revamp our services to be an AR camera content platform that focuses on shooting, editing, and sticker functions so that users can produce and share videos with even more ease and enjoyment.

+13.8%

Revenue

As of December 2016, based on K-IFRS consolidated financial statements
(Unit: KRW in billions)

2017	1,745
2016	1,534

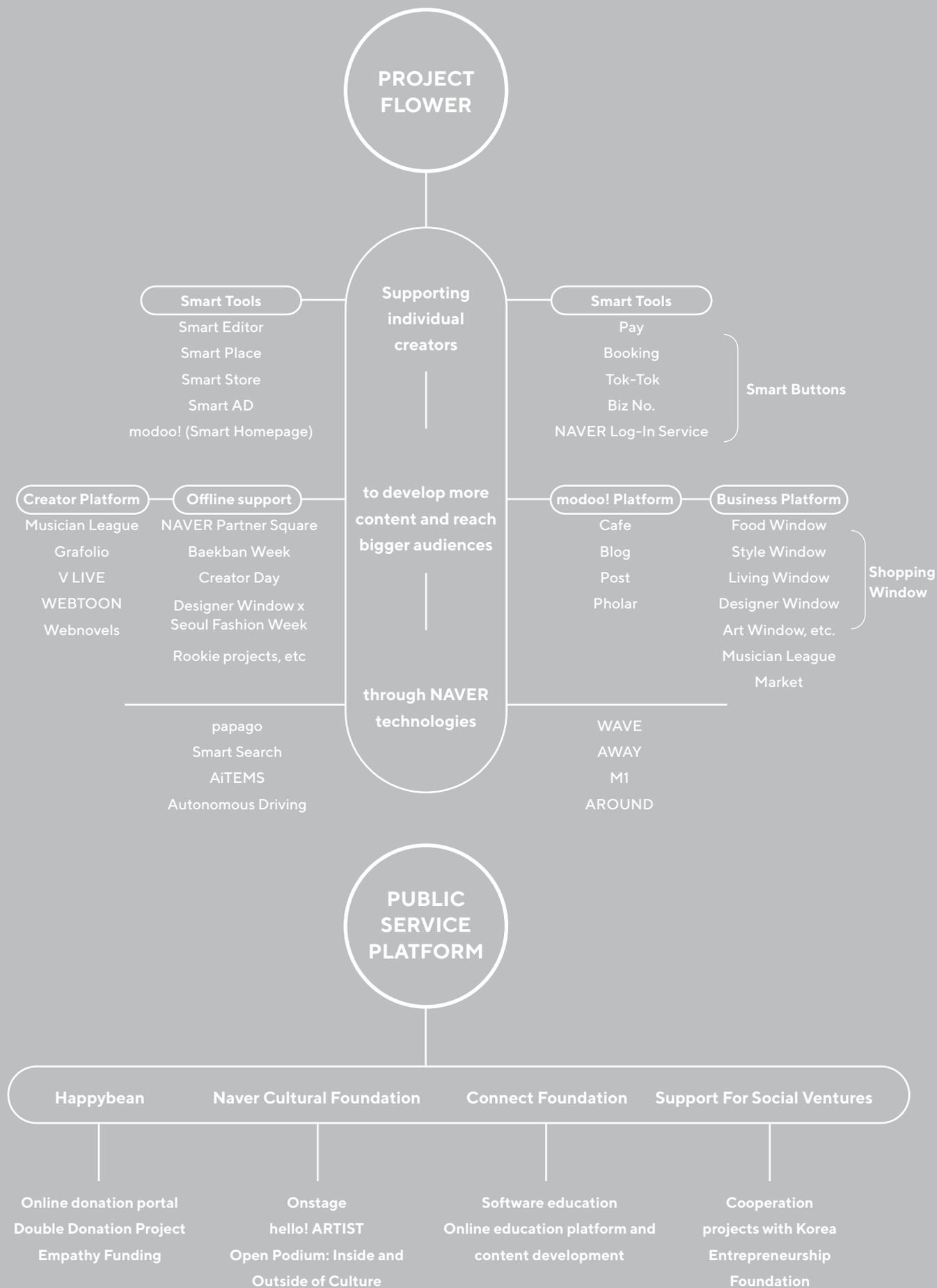
DIFFERENCES MAKE OUR WORLD BEAUTIFUL

NAVER is consistently strengthening its efforts to support the growth of its users and partners. In 2017, we supported the growth of more small businesses, creators, social ventures, and charities than ever before through the "NAVER Project Flower" campaign and a number of important community initiatives, using the KRW 60 billion Fountain Fund. We also expanded our support for and investment in developers and tech startups, contributing to the development of future technologies and nurturing a healthy startup ecosystem. In addition, we have met with considerable success in our environmental management efforts by saving energy and reducing carbon emissions through Data Center Gak and our office buildings. Going forward, we will continue to increase our social impact and help build a sustainable future for all, with our commitment to energy efficiency and the development of innovative technologies.



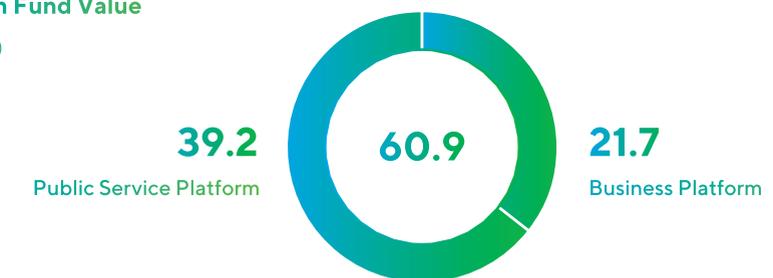
Social Impact

It has long been part of NAVER's corporate social responsibility (CSR) policy to use more than 1% of its annual domestic sales for charitable donations, making us the largest supporter of public initiatives in South Korea. Not content to stop there, in 2017 we also created an in-house budget called the "Fountain Fund" to further widen our social impact. The initiatives supported by the Fountain Fund are broadly divided into two categories of social contribution: "Business Platform (Project Flower)" and "Public Service Platform (Donations)". The Fund's purpose is to provide financial support to innovative small businesses, creators, social ventures and non-profits that contribute to the public good. Through Project Flower, NAVER Smart Store nurtured the development of 15,000 startups in 2017. This program also saw the number of distributors recording over KRW 100 million in annual sales exceed 10,000. The number of farmers and food producers that use our Food Window service also nearly doubled from 2016. We also recently launched "NAVER Partner Square" in Busan, an offline support hub for small businesses and advertisers. We launched a small business support program that will provide KRW 20 billion over the next three years to help promising new businesses reach their goals. We also offered essential support to important community initiatives that contribute to the public good. This included "Double Project" and other software education initiatives led by the Connect Foundation, as well as the "Empathy Shop X Project Flower" by Happybean, an online donation portal operated by NAVER's Happybean Foundation. Other public good efforts included collaborating with and donating to public interest and academic groups, and arts and culture organizations.

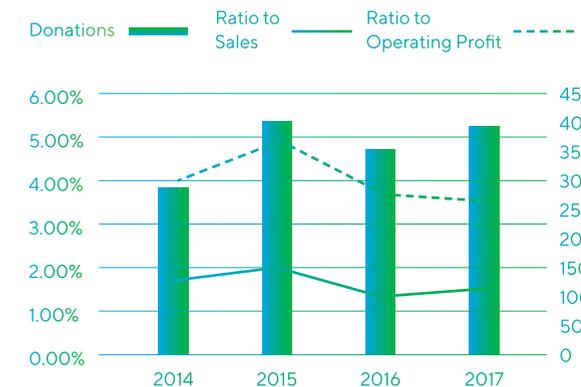


NAVER Fountain Fund Value

(Units: KRW in billions)



The highest level of donation in South Korea



Number of new entrepreneurs in NAVER Smart Store

(As of 2017)

15,000

Number of Connect School students

(As of 2017)

6,000



Partner Square Busan



Creator Day Vol.4



Designer Window x Seoul Fashion Week

Project Flower

Supporting small businesses and creators

At NAVER we understand that if we support individual content producers, we will ensure our users end up with the highest quality content. To meet this end, our developers, planners and designers started "Project Flower" with the goal of nurturing the best environment in which content producers can thrive.

"Project Flower" is a flagship campaign of NAVER that is aimed at discovering and nurturing new talent among creatives and small businesses that produce content through NAVER, and support their sustainable growth. Through this campaign, we can draw out the hidden gems and unsung heroes within the world of content creation, and provide tailored support to enable them each to reach their full potential. By supporting these unique creatives to overcome barriers to success, we are helping to strengthen our industry as well as the economy as a whole.

NAVER Partner Square, a tech startup hub

NAVER Partner Square is a regional tech startup hub serving local small businesses and creatives. In addition to our Busan location, we plan to launch two new hubs in Gwangju and Daejeon. Our goal in establishing these hubs is to foster greater connection between and within outlying provinces by enabling the acceleration of technology development. Opened in May 2017, Partner Square Busan is the only second of its kind in the country after Partner Square Yeoksam in Seoul, and the first to serve regions outside of the capital. Partner Square Busan provides studios and equipment rentals for creatives to produce and develop videos and audio content. It also offers startup education programs and professional consulting for small businesses. The number of users exceeded 10,000 in just six months after its launch, more than 86% of whom are residents of the Gyeongsangdo region, including Busan and adjoining areas. Building on the rapid growth and success of Partner Square Busan, which has committed to supporting 20,000 small businesses annually, we are confident that the Partner Square in Gwangju and Daejeon will be able to meet their goal of supporting 100,000 small businesses and creatives within a year of their launch in 2018.

Baekban Week, helping neighborhood restaurants

In June 2017, NAVER carried out the "Baekban Week Gyeonggi" that connected small neighborhood alley restaurants to over 40 conventional market restaurants in Bucheon, Gwangmyeong, Suwon and Uijeongbu in Gyeonggi-do Province. Following the success of "Baekban Week Seoul" in 2016, we helped these small restaurants build online databases that enable users to easily browse store information including menus, prices, and locations using mobile search. We also profiled each store that participated in the Baekban Week on the "Our Neighborhood Tab" on NAVER Mobile Home, which provides insider information about local neighborhoods.

This project helped participating shops strengthen their branding while offering new customers an opportunity to visit them. Baekban Week will be expanded nationwide in 2018 to shine the spotlight on more of these hidden gastronomic gems.

Creator Day - promoting cooperation among creatives

NAVER is the host of Creator Day, a unique avenue for collaboration that brings together creatives from different fields to meet, learn from, and be inspired by one another. Following on the success of our first Creator Day in 2016, other Creator Day events were held in Seongsu-dong and Nodeulseom Island along the Hangang River in Seoul in 2017. At Creator Day, we provide creatives from a range of disciplines - including indie musicians, illustrators, painters and pop artists - who are active in the NAVER Platform an opportunity to collaborate on a new creative work. On the day of the performance, the result of each collaboration is broadcast live online via NAVER TV and V Live, greatly expanding connections between creatives and users. The success of Creator Day can also extend beyond just the single event. The "MeloRomance" music duo and illustrator Bae Seongtae, who worked together at Creator Day Vol. 2 and have continued their collaboration since, released a performance from their subsequent collaborations that ranked on top of the NAVER Musician League daily charts.

Sponsoring Seoul Collection runways of rising designers

As part of the "Project Flower" campaign, NAVER supported runway shows of three designers - Lee Su-hyeon (LONDON CLOUD), Byeon Geu-rim (NASTY HABIT), and Lee Jeong-rok (SINCLAIR) - at the Seoul Collection of the 2018 S/S Hera Seoul Fashion Week. During Seoul Fashion Week, we provided an opportunity for rising star designers from the Designer Window of NAVER Shopping to participate in the Generation Next Seoul Trade Show, where emerging designers meet with buyers from home and overseas to establish export contracts. In addition to the three designers who participated in Fashion Week, nine designers successfully landed overseas export contracts totaling over USD 170,000 through this initiative.

Helping creatives gain global success

NAVER is spearheading a number of initiatives to help individual creatives make it on the global stage. Some success stories include those of Hong Hyeon-ji and Choi Su-hi, who are NAVER Webtoon's "Best Challenge" cartoonists, and Jang Jin-won who began his career at NAVER's "Challenge" cartoons. All of these artists are now officially publishing their works serially in Indonesia through our global webtoon platform, LINE Webtoon. We also hosted autograph sessions for the fans of South Korean and local webtoon artists in Jakarta, creating an opportunity for South Korean artists to personally meet and communicate with their fans in Indonesia.

Our Beaustar program features individual creatives in the beauty sector who are working with NAVER. These creatives have paved the way for their entry into Vietnam through the K Beauty Concert which introduces beauty content along with live music. NAVER Beaustars communicate with their fans by steadily introducing quality beauty content on NAVER platforms including blogs, posts, and Beauty TV, which has helped them reach a global market.



Creator Day Vol. 3



Autograph session for webtoon artist fans in Jakarta



Baekban Week Gyeonggi



Grafolio Story Exhibition: Jeong Woojae Meet-up



NAVER Beaustar participating in the K Beauty Concert in Vietnam

Connect Foundation, supporting lifelong learning

Digital Literacy

Connect Foundation is an independent non-profit organization that was established in 2011 to carry out NAVER's public interest education projects in a transparent and professional manner. The foundation aims to lead educational innovation by ensuring equal access to quality education, and by providing new educational models and platforms. We are helping individuals reach their full potential through lifelong learning initiatives, including providing training in programming from elementary and middle school students to those pursuing higher education in computer science while responding to human resource needs within the tech industry. Going forward, the Connect Foundation will expand its programming training by offering a variety of online education opportunities, and will continue to act as a gathering place for programming training professionals to share their expertise and grow together.

Providing high quality programming education

Connect Foundation has offered our popular "Software Classroom with College Student Teachers" program five times since 2014. We also launched our full scale "Connect School" program in 2017. Through the Connect School program, the foundation has provided programming training to approximately 6,000 students in cooperation with 29 universities nationwide. To further support our goal of creating an environment where anyone can easily learn programming, the foundation also operates the "Entry (playentry.org)", a training platform where students can conveniently learn programming using block-type programming language, and teachers can easily teach and direct them in their learning. With its total number of subscribers reaching 450,000 in 2017, the Entry is a widely used platform for software training. We are also operating "Boostcamp" to discover and nurture the programming professionals that are needed in today's tech industry. Boostcamp helps new developers jump directly into the job market by reducing the gap between college education and entering the workforce.



NAVER Entrepreneurship School

Cooperation projects with Korea Entrepreneurship Foundation

Since 2015, NAVER has been carrying out cooperation projects with the Korean Entrepreneurship Foundation to "spread entrepreneurship as a tool for life". Entrepreneurship refers to "the practical competence to create value while performing innovation activities, by defining problems in uncertain situations and capturing opportunities". In general, entrepreneurship tends to be connected with the foundation of startups. Our entrepreneurship training programs are, however, focused on helping teenagers to develop problem solving abilities. NAVER and the Korean Entrepreneurship Foundation are working to create programs that will help our future generations find new opportunities in today's entrepreneurship-focused workforce.

Entrepreneurship School

"Entrepreneurship School", which targets middle and high school students, has been in operation since 2016. Here, students learn how to independently solve problems by being empowered to solve various everyday problems they encounter using techniques taught in this program. Operated every six months at the request of schools, the program welcomed 1,151 students from 50 schools in Seoul as well as Gyeonggido, Gangwondo, and Jeju provinces in the first half of 2017, and another 1,250 students from 50 schools in Seoul as well as Gyeonggido, Chungcheongdo, Gyeongsangdo, and Jeollado provinces in the second half of the year.

Entrepreneurship Korea Conference

Hosted by Startup Alliance and the Korea Entrepreneurship Foundation, and sponsored by NAVER, the "Entrepreneurship Korea Conference" is the only entrepreneurship conference in South Korea to connect, share and celebrate the wide range of entrepreneurship research and initiatives. The third and fourth conferences, both held in 2017, included opportunities to gain insight directly from startup founders, learn about the diverse entrepreneurial ventures that exist in different regions and sectors under the theme of "Everyone's Entrepreneurship", and share research results relating to education on entrepreneurship.

Entrepreneurship Research and Study Contest

We run a number of programs aimed at encouraging entrepreneurship research and supporting research results in academic circles, including "Entrepreneurship Research and Study Contest". In 2017, we supported the research and publication of the following studies: "The Verification of the Effectiveness of Entrepreneurship Programs in School" by Professor Kim Do-hyeon and team of Kookmin University, and "Maker's Educational Design Model for Youth Entrepreneurship Development" by Dr. Yoon Sung-hye and team of Ewha Womans University.

Data Lab, a big data portal for data literacy

Since January 2016, NAVER has been operating "Data Lab", a data portal that helps users access and use data held within NAVER and other private companies and public institutions. We launched a more sophisticated data search function in 2017 that enables users to identify trends to be applied to marketing, based on consumer search behavior. Because Data Lab allows users to access a wide range of private and public data at a glance and use it in a variety of ways in combination with their own data, Data Lab is a great resource for those who are operating or starting businesses.

Most searched keyword tracking

NAVER initiated the overhaul of its Most Searched Keyword service beginning with "See More" for up to the 20th rankings of most searched keywords. In March 2017, we began to add the "Sudden Rise Tracking" section to NAVER Data Lab in order to provide the history of the Most Searched Keyword chart.

The Most Searched Keyword service shows the diversity of users' interests based on search words that they input, updating the top ten new search terms every 15 seconds.

Enhancing web accessibility for all users

NAVER operates under the Web Content Accessibility Guidelines to enable equitable access to web content. We opened the "NAVER Accessibility User Guide (<http://accessibility.naver.com>)" page in 2017 to allow people of all abilities to use the web and apps with ease. We also provide user guides for assistive equipment and software that may be required to use NAVER services. We strive to maintain the highest standard of web accessibility to ensure the web remains open to people of all abilities. We held the fifth "NULI Seminar" in 2017 as a venue to share knowledge in the area of web accessibility. The theme of this year's seminar was "Accessibility of Intelligence Information Society" with the goal of exploring how we can best ensure equitable access as we develop future technologies.

This seminar provided an opportunity to discuss and think about overseas AI case studies, CAPTCHA accessibility, NAVER's AI technologies in terms of accessibility, and explore policies that might enhance information accessibility. Going forward, NAVER will consistently seek to improve its accessibility for all its new technologies and services.

Winning "Best" rating in the Win-Win Index Evaluation

Shared growth with partners

NAVER has created a number of programs aimed at fostering stronger partner collaborations and mutual growth. One such initiative is our annual "NAVER Partners Day", which celebrates our common values and visions for shared growth, while also introducing a wide range of support programs. Our partner support programs focus on enhancing the organizational strength of small tech businesses so they can succeed, and enhancing the employment welfare and benefits within our partner companies. In 2017, we signed fair trade agreements with over 140 additional small IT businesses, integrating them into our partner support programs. In addition to our current lending program for small businesses, we recently implemented a new KRW 3 billion credit guarantee support program so small businesses can receive loans through our credit guarantees. In an effort to bolster the healthcare of our partner firms' employees and families, we provided three optional health check-up programs and discount benefits for flu vaccines.

With the goal of enhancing software education for the children of our partner organizations' employees, we hosted the "Software Coding Camp" for elementary school students and the "NAVER IDC Tour" for middle and high school students. In recognition of our continued efforts for mutual prosperity, we received the "Best" rating in the "Win-Win Index Evaluation" for 2017.



NAVER Partners' Day in 2H 2017

Social Contribution

Happybean, an online donation portal

Launched in July 2005, Happybean is an online donation portal that serves various community initiatives aimed at contributing to the public good. Because 68% of Happybean users are small and medium-sized organizations with an annual budget of less than KRW 1 billion, we launched the "Double Project" in 2017, where we offer to match the financial contributions of users to small organizations. Over 4,800 people donated more than KRW 200 million to 96 organizations through the Double Project in its first year.

Happybean also spotlights social good projects offered by community initiatives, social ventures and creatives through its "Funding" service. In 2017 alone, Happybean provided KRW 2.27 billion in sponsorship funding for 93 projects.

We also run the "Happybean Empathy Store" that allows public good initiatives to introduce and build their brand, ensuring their continued success after the funding has ended. Through this initiative we are supporting 20 Empathy Stores to increase sales and enhance job creation opportunities.

Donations and funding by Happybean (2005-2017)

Total donations

KRW 78.9 billion

Total number of donors

14 million

Total donations by year

(Unit: KRW in billions)



Total sponsorship funding

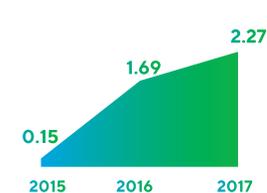
KRW 4.12 billion

Total number of funding supporters

163,694

Funding support value by year

(Unit: KRW in billions)



NAVER Cultural Foundation, supporting arts and culture

NAVER Culture Foundation is a non-profit public foundation established in 2010 with the mandate to support artists and promote artistic and cultural content through NAVER's online platforms. We strive to provide a solid foundation for emerging artists to hone their artistic talents and gain success in their creative fields.

The foundation provides a variety of support programs for emerging artists. The "Onstage" program discovers and supports talented indie musicians from any region and genre. The "hello! ARTIST" program supports the work of visual artists while increasing public access to contemporary art works. Lastly, the "Open Podium: Inside and Outside of Culture" is a lecture series about contemporary arts and science issues.

Onstage

To celebrate the seventh anniversary of Onstage in 2017, we produced and released the "Onstage Remaster" video featuring our most popular musicians during the "Onstage Live" performance. Onstage has distributed 1,210 music videos by 385 groups to the public, while supporting 96 public performances since November 2010.

"hello! ARTIST"

"hello! ARTIST" acts as an online platform for visual artists to introduce their works to the public. We feature one artist every other week through juried selections by art professionals, welcoming talented new artists to apply.

This program allows visual artists to grow and share their artistic practice while introducing users to the trends of the contemporary modern art scene. We featured 573 new works by 26 artists in 2017, bringing our cumulative total to 2,394 works by 111 artists. As a way to further support the artistic practices of our featured artists, in 2017 we also hosted the "HELLO! ARTIST x SEOULLO 7017" offline public exhibition which attracted a total of 980,000 viewers.

Open Podium: Inside and Outside of Culture

The Open Podium lecture series has been led by South Korea's leading intellectuals and scholars since 2014. The first year's theme for the series was "Cultural Introspection on This Era", followed by "This Era and Classics" in 2015 and "Ethics and Human Life" in 2016. We also published a series of eight books based on the 2014 lecture themes in 2016. In 2017, we hosted a total of 34 lectures in four sections on the topic of "Paradigm's Sustainability and Renewal", highlighting the works of game changing thought leaders and innovators from the past.



Open Podium: Inside and Outside of Culture



HELLO! ARTIST: Woosung Lee Exhibition



Concert celebrating 7th anniversary of Onstage

Tech for All

With its vision to be a "technology platform", NAVER is committed to research into future technologies including robotics and autonomous driving through its R&D subsidiary, NAVER Labs, while adding to its investment in domestic tech startups through its D2SF tech startup accelerator. D2SF has invested in a total of 19 domestic tech startups since 2015, including ten in 2017, rapidly accelerating its investment scale and speed. NAVER is actively promoting future technology development and investing in and acquiring high-caliber tech companies by injecting approximately KRW 1.13 trillion in R&D, and about KRW 660.3 billion in investments. We made strategic global investments by acquiring XRCE (currently NAVER Labs Europe), an AI research institute in France, and investing EU 200 million in Korelya Capital's K-Fund. As a result of these efforts, we ranked ninth in Forbes magazine's "The World's Most Innovative Companies" in August 2017. Our rank has continued to rise every year since we ranked 53rd in 2014, and we were the first South Korean company to be listed on the ranking for four consecutive years.

2017 Performance

R&D
(As of 2017 on a consolidated basis) | **KRW 1.13 trillion**

Investments
(As of 2017 on a consolidated basis) | **KRW 660.3 billion**

Cumulative Number of DEVIEW Participants
(2008-2017) | **19,900**

Number of Invested Startups by DS2F
(As of the end of 2017) | **19**

Number of Technology Patents Applied by NAVER Labs
(As of the end of 2017) | **56**

DEVIEW, the largest developer conference in South Korea

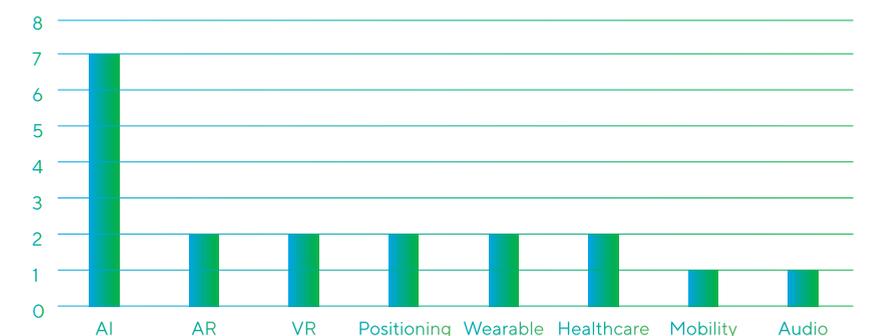
Investing in startups and developing a tech developer ecosystem

DEVIEW was launched in 2006 as a technology sharing event by NAVER's in-house developers. Since it opened its doors to the public in 2008 it has grown to become the nation's largest conference, drawing developers from South Korea and abroad to share the latest IT technology trends and development knowledge. Over the past ten years a total of 19,900 people have participated in the conference, and 398 speakers from domestic and overseas companies and academic circles have shared their practical experience and expertise in 364 sessions. DEVIEW is also a venue to envision future technologies while showcasing current trends. It has presented one step ahead technologies that have been now popularized such as "NoSQL" and "HTML5" in 2011, "Node.js" and "GPU Computing" in 2012, "Machine Learning" and "Deep Learning" in 2013, "IoT" and "VR" in 2014, and robotics in 2015. In addition, we have engaged in a broad spectrum of activities to expand the developer ecosystem. In 2017, we supported a total of 598 developer events, seminars and communities through "NAVER D2", a NAVER developer support program, and proclaimed eight in-house projects to be open sources.

D2SF, a tech startup accelerator

"D2 Startup Factory (D2SF)" is NAVER's tech startup accelerator. Its goal is to support tech startup growth by generating cooperation synergies. This involves making equity investments in startups that align with NAVER's long- and short-term technological strategies, and sharing NAVER's experience and expertise with them. Since its launch in May 2015 until the end of 2017, we have invested in 19 tech startups, 13 of which are carrying out or reviewing cooperative projects with NAVER. Because of our commitment to actively supporting tech startup communities, we were also named the best place to start up in a survey of national founders.

D2SF's Investment Portfolio by Area
(No. of Tech Startups)



NAVER's 10th annual DEVIEW developer conference



Space Green by NAVER and LINE



NAVER's D2SF tech startup accelerator

NAVER Labs

Launching Aml-based technological research company

NAVER Labs is a spin-off of NAVER's R&D division and launched as an independent corporation in January 2017. As preannounced at NAVER's "DEVIEW 2016" developer conference, the goal of this initiative is to focus our capacity and efforts on our global technological competition. NAVER Labs plans to speed up its R&D efforts with a focus on future technologies, and continue developing ambient intelligence (Aml)-based products and services. Aml refers to technologies and services that can recognize the users' situations and provide them with necessary services before they are requested. With such technology vision, NAVER Labs aims to create a world where people can focus on the important things of life without being held back by technology and devices.

Applying for technology patents and supporting the sharing of technologies

NAVER Labs applied for a total of 56 technology patents in South Korea within one year of its launch. The lab filed more than 20 patents in relation to several robot technologies, including the AROUND indoor self-driving service robot that was introduced at the DEVIEW, and the AIRCART that has adopted the wearable robot technology. We have also applied for a number of domestic patents in the areas of "AKI", a positioning-specialized Aml device, in-vehicle infotainment platforms, autonomous driving, hardware and other preliminary studies. We will make publicly available the patent technology and design drawings of AIRCART, one of our research achievements in the robotics area, so that smaller manufacturers with an ability to manufacture and produce hardware can make robotics products available in everyday life. We also plan to support the use of CLOVA on various hardware and software through the CLOVA Extensions Kit and the CLOVA Interface Connect. The former enables third party content developers or app developers to easily implement CLOVA's voice-based services in their own apps, while the latter allows hardware manufacturers to use the CLOVA platform.



NAVER Labs

"papago", an AI interpretation and translation service

Technology Application

"papago" has been applied to NAVER's many different services as a real-time interpretation and translation service in which the Neural Machine Translation technology has been employed. This technology has been also reflected in the interpretation and translation services through the WAVE and FRIENDS AI speakers. It is also utilized in the "DISCO" content curation platform and the Smart Board mobile keyboard app. The excellent service "papago" provides is widely employed by others as well. After establishing partnership with agencies, companies and local governments that engage in face-to-face operations with foreigners, we receive frequently used expressions from them, and translate those expressions into a database to be used with ease in business settings. We also use them as learning data for machine translation. We have entered into MOUs with the National Police Agency and the Presidential Security Service to provide "Police Conversation" and "Security Conversation", that contain frequently used examples of conversation in various situations, within the papago app.

We have also signed an MOU with the Korea Institute for Healthy Family under the Ministry of Gender Equality and Family in July 2017, which resulted in the launch of the "Multicultural Family Conversation Service" within papago in November. In order to provide this service to 217 multicultural family support centers nationwide, we surveyed the centers for frequently used expressions, and selected the final 671 sentences for translation. These sentences were selected in nine categories including: basic conversation; basic terms related to public services and local living information; and pregnancy, childbirth, and childcare-related conversations. They were incorporated into the app after translation and revision. Through this effort we have been able to help multicultural families with communications and social adjustment by offering customized interpretation and translation services.

NAVER X-eye, an AI pornography detection technology

NAVER has developed and applied the "NAVER X-eye" that filters pornography using AI technology. NAVER X-eye detects images that contain inappropriate content when they are registered in NAVER, to prevent their appearance in searches. To this end, we have categorized a huge amount of accumulated images by type, and trained AI for ten months. NAVER X-eye has displayed a high accuracy rate of 98.1% at the internal tests, successfully filtering four million images (normal + pornographic) in its latest version. From December 2017, we expanded it to include the video sector, by adding the process of extracting frames from every single section of the video to the existing image filtering method. Images that include frames with a pornography index higher than a certain level will be in the "Suspend playback" state, normal images will be restored and obscene videos will be deleted or restricted for use after reviews by inspectors in ten minutes. Updated NAVER X-eye showed a high accuracy rate of 98% as a result of internal filtering of pornographic videos.



AROUND indoor self-driving service robot



AKI smart watch for kids



AMBIDEX ROBOT ARM

Green Energy

NAVER recognizes the integral role of the environment in sustainable business practices and is focusing significant energy on increasing its environmental sustainability. Our Data Center Gak, the first data center to be built by the nation's Internet company, is minimizing power consumption while maximizing energy savings using technologies accumulated by NAVER. In addition, our office building, "NAVER Green Factory", which was built from its design stage to be an energy-saving type in consideration of the environment, achieves energy savings of 5% or more every year. Moving forward, NAVER will explore various ways to create the environmental value not only in its business but also in everyday life.

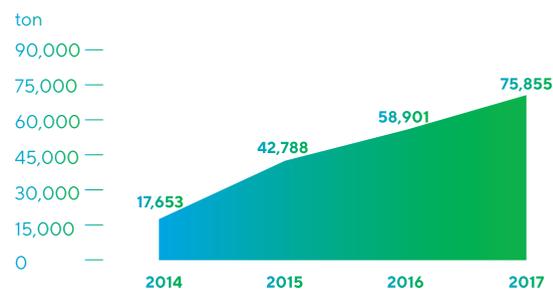
Power usage effectiveness by Data Center Gak



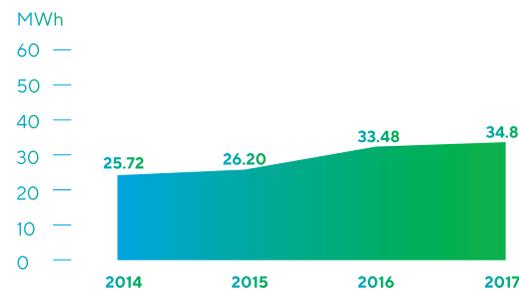
PUE Usage	PUE	Efficiency
	3.0	Very Inefficient
	2.5	Inefficient
	2.0	Average
	1.5	Efficient
	1.2	Very Efficient

* Power Usage Effectiveness (PUE): Referring to the ratio of total amount of energy used by a data center facility to the energy consumed by IT equipment, it is generally used as a measure of the efficiency of data centers. An ideal PUE is 1.0.

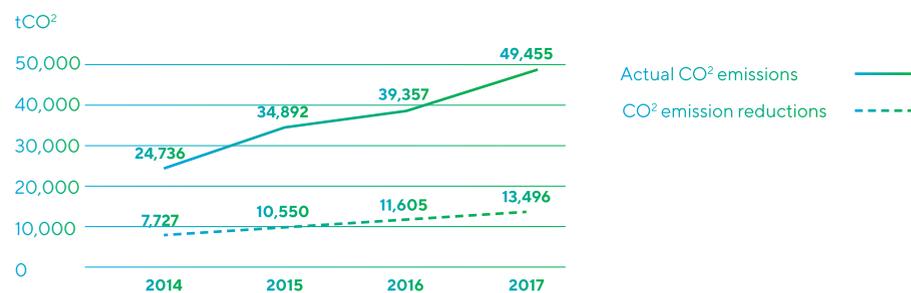
Use of clean water



Solar power generation



CO² emissions and CO² emission reductions



Eco-friendly Energy Use

Data Center Gak, maximizing energy efficiency

Opened in June 2013, Data Center Gak was built using a variety of technologies and expertise to lower the heat of the server in an eco-friendly way. In order to operate the data center efficiently, we have made various efforts that include snow melting, solar and photovoltaic power generation, and natural cooling systems using outside air. As recognition for these efforts, Data Center Gak received the Leadership in Energy and Environmental Design (LEED)-NC Platinum V2009 by reaching a score of 95, the highest of data centers worldwide. In 2017, It was selected as an "Energy Champion" by the Korea Energy Corporation, and was also featured in Datacenter Dynamics' list of Top 10 Beautiful Data Centers in the World.

Using eco-friendly technology and achieving global-standard PUE

Data Center Gak is dedicated to maximizing energy savings by using the Air Mistinf Unit (AMU) filters, an eco-friendly server cooling technology. In addition, the data center has maintained its power usage effectiveness at close to 1.0, the best performance among data centers in South Korea, as it is meticulously operated using a range of eco-friendly technologies.

Using new, renewable and eco-friendly energy

Data Center Gak is committed to the efficient use of energy by using renewable energy from solar power, investing in relevant businesses, and employing LED lighting and electric vehicles. In 2017, the center saved electricity by 34.8 MWh on an annual basis through solar power generation, allowing it to reduce 16.2 tons of CO₂ emissions. We are also actively utilizing waste heat from the server and rain and heavy water.

NAVER Green Factory

NAVER's office building, NAVER Green Factory, was designed as an energy-saving building from its conception, and has achieved energy savings of more than 5% every year through its facility investment. In addition, we encourage our employees to commute by bicycle and engage in energy saving practices throughout the work day, by providing staircases that promote the use of stairs between floors.

In recognition of such eco-friendly management efforts, we received the LEED top-level "Platinum" certification by achieving the world's highest score in the building category in 2014, and won the Presidential Award at the Korea Energy Show in 2016.

1784, NAVER's second office building

During the construction of our second office building, scheduled to open in 2020, we are making various efforts to create a safe and clean environment for local residents, reducing noise and dust from the construction stage and changing access roads to the building. We are also the nation's first company to carry out the construction work using the "Noise Prevention Cover". In 2017, we were named an excellent construction site at the 13th Best Practice for Construction Environment Management Contest in recognition of our excellent management at the second office building construction site.

Data Center Gak



Leadership in Energy and Environmental Design (LEED) Platinum for NAVER Green Factory



Data Center Gak with a greenhouse using waste heat from the server

DIFFERENCES MAKE OUR TOMORROW HAPPIER

In 2017, NAVER retained its record of solid and steadfast growth by making proactive efforts in all of its business divisions. These efforts involved upgrading search technologies, strengthening services and content, and improving advertising platforms and products. As a result, in 2017 we posted KRW 4,678.5 billion in sales, up 16.3% from the previous year, and operating profit grew 7% over the year to reach KRW 1,179.2 billion, on a consolidated basis. We have further enhanced the efficiency and transparency of our financial information by re-categorizing our business sectors into Advertising, Business Platform, IT Platform, Content Service, and LINE and Other Platforms. In 2018, we will present more and greater values to our shareholders and investors by expanding our investment and strengthening our sales and revenue bases.



MANAGEMENT'S DISCUSSION AND ANALYSIS

Disclaimer

The Management's Discussion and Analysis contains information about not only the current operating performances and financial conditions of NAVER Corporation (NAVER hereinafter) but also its future goals and strategies in accordance with a prospect of the domestic economy and Internet industry. Readers and potential investors should be aware that statements regarding NAVER's operating environment and market outlook can be affected significantly by unforeseeable future events. Therefore, the company's future business results and performances may differ substantively from those described herein.

In addition, NAVER 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 NAVER is under no obligation to publish or otherwise provide additional information regarding unforeseen future events.

NAVER's consolidated financial statements have been made by applying the Korean International Financial Reporting Standard in compliance with Article 13, Clause 1, Item 1 of the Act on External Audits of Stock Companies. The company also prepared its non-consolidated financial statements using the same method. The Management's Discussion and Analysis was prepared on consolidated basis, unless stated otherwise.

In the meantime, there have been many changes: NAVER's subsidiary, LINE, was listed on overseas stock markets in 2016; NAVER Shopping and NAVER Pay are rapidly growing; and another subsidiary, NAVER Business Platform (NBP), launched the Cloud Platform.

Consequently, reflecting changes in its services and businesses, NAVER classified its revenue by business into five categories: Advertising; Business Platform; IT Platform; Content Service (NAVER); and LINE & Other Platforms (LINE). This is to provide shareholders and investors with information on our performance in accordance with our internal resources management for efficiency and transparency.

I. INTRODUCTION

NAVER was established on June 2, 1999 with the goal of offering South Korean and other Internet users the widest possible selection of online services. The company listed its shares on the Korean Securities Dealers' Automated Quotations (KOSDAQ) market on October 29, 2002, and then transferred its share listing to the Korea Composite Stock Price Index (KOSPI) market on November 28, 2008. As of August 1, 2013, the company spun off the Hangame business. The company then changed its name from NHN Corporation to NAVER Corporation and listed this new name on the KOSPI on August 29, 2013.

The company offers competitive online and mobile services such as "NAVER", South Korea's No.1 Internet search portal, and "LINE", a global mobile platform. Revenues are generated by our five major businesses: Advertising, which encompasses both display and video advertising; Business Platform, which includes shopping searches; IT Platform, which consists of NAVER Pay, IT services, NAVER Cloud Platform, and NAVER Works; Content Service, which is comprised of NAVER Music, NAVER Webtoon, and V LIVE; and LINE & Other Platforms.

The number of domestic wired and wireless Internet users has continuously increased, reaching 45.28 million as of the end of 2017 with the rate of Internet use standing at 90.3%, according to the Korea Internet and Security Agency. This solid foundation led to the dramatic growth of Internet-related businesses including online ads, digital content sales, and e-commerce.

Notably, the popularization of smartphones has catalyzed the increase of mobile Internet users around the world, stimulating the development of new mobile Internet services and products and ensuring sustainable growth of the Internet industry at home and abroad.

In 2017, NAVER made a sustained effort to offer users and partners new experiences and values through enhanced services and advanced technologies. In order to acquire new platforms and markets in this turbulent period of what is being referred to as the Fourth Industrial Revolution, we are actively engaging in technology, startup, AI and content-related investments, business alliances and partnerships in both domestic and overseas marketplaces.

Subsidiaries for consolidated reporting as of the end of 2017

NAVER has expanded its service area and intensified business capability through continued cooperation with promising SMEs and venture companies as well as direct and indirect investments including mergers and acquisitions. As of the end of 2017, NAVER was the parent company to 98 subsidiaries. A total of 47 companies - including NAVER Labs, NAVER Webtoon, LINE Games, and Spring Camp - were newly incorporated, while 6 companies - such as Quicket and KIWIPL - were excluded due to the selling of stake and acquisition during the year. Our subsidiaries for consolidated reporting as of the end of 2017 are as follows:

(KRW in billions, %)

	Company name	Major business	Ownership	Assets
Major subsidiaries (8)	LINE	Mobile service	73.68%	2,737
	LINE Plus	Portal and Internet information service	100.00%	435
	NAVER Business Platform	Online information service	100.00%	360
	LINE Games	Software development and supply	100.00%	123
	LINE Pay	Mobile billing planning and development	100.00%	122
	LINE Friends	Character goods and dolls wholesale and retail	100.00%	88
	LINE C&I	Investment and M&A	100.00%	81
	Camp Mobile	Software development and supply	100.00%	75
Other subsidiaries (90)	NAVER I&S / NAVER China / Search Solution / N-Visions / Entry Labs / Works Mobile / WAV Media / SNOW / SB Next Media Innovation Fund / NAVER Labs / NAVER Webtoon / Naver France / Company AI / NAVER-KTB Audio Contents Fund / Spring Camp Early Stage Fund 1/ NAVER Business Platform Asia Pacific / NAVER Business Platform America / NAVER Business Platform Europe / NAVER Business Platform Japan / Incomms / Greenweb Service / NHH Technology Service / NIT Service / CommPartners / LINE Play / LINE Euro-Americas / LINE Taiwan / LINE Company (Thailand) / LINE Digital Technology (Shanghai) / LINE Vietnam / PT.LINE PLUS INDONESIA / LINE Up / LINE Studio / Nemustech / Bapul / Drama & Company / Iconnect / Gogolook / Camp Mobile / Works Mobile Japan / WEBTOON Entertainment / Watong Entertainment / Lico / Broccoli Entertainment / Dongman Entertainment/ Epipolar / LINE Fukuoka / LINE BIZ+ / LINE Book Distribution / LINE Ventures / LINE Game Global Gateway / MIXRADIO / LINE Life Global Gateway / LINE-NAVER Game Investment Fund / LINE Mobile / M.T. Burn / Gatebox (formerly, Vinclu) / LINE Friends Japan / LINE TICKET / Next Library / Five / LFG HOLDINGS /LINE BIZ+ Taiwan / SHINEWANT TECHNOLOGY / Tre Tho Information Service Joint Stock Company (Webtretho) / Silent Illumination / Webpay Holdings / Line Biz Plus / BALIE / Webpay / SNOW China / SNOW Japan / SNOW China (Beijing) / SNOW Inc. / Spring Camp / Playlist / Amuse / Yiruike Information Technology (Beijing) / LINE Friends Inc. / LINE Friends(Shanghai) Commercial Trade / Markt / Beijing Wangzhongwenda Technology / NextFloor / Pig / Stairs / Msquared Managerment / Next Floor Basement Lab / Studio 4LEAF / InnoAG / Mobil Factory			

II. SUMMARY OF OPERATING PERFORMANCES

The year 2017 saw a rapid change in global Internet use. People moved from using PCs to mobile devices, technological entry barriers for newcomers were lowered, and it became easier to switch Internet providers. Faced with such intensifying competitiveness, NAVER focused on diversifying its capabilities as a technology platform by making strides in a wide range of artificial intelligence technologies. As a result, NAVER once again recorded stable growth across all its business sectors.

Going forward, NAVER will continue its efforts to remain a trusted technology platform. This will be done by providing a wide variety of tools and data that organically connect users, creators, and operators, as well as supporting startup and business activities. We will also promote the growth of the domestic startup ecosystem through aggressive investment in promising businesses, while constantly assisting the global expansion and growth of investment companies through synergies with NAVER and LINE Platform.

Our consolidated operating revenue surged 16.3% over the year to KRW 4.68 trillion, led by the stable growth of each subsidiary. Operating income and net income also increased 7.0% and 1.5% year-on-year, respectively, to KRW 1.18 trillion and KRW 770.1 billion. This was attributed to an increase in operating expenses following ongoing employment, and rises in marketing expenses and commissions to agencies and partner companies. Operating margin was 25.2%

(KRW in billions, %)

	Consolidated			Non-consolidated		
	FY 2016	FY 2017	% change	FY 2016	FY 2017	% change
Operating revenue	4,022.6	4,678.5	16.3%	2,496.5	2,930.7	17.4%
Operating income	1,102.0	1,179.2	7.0%	968.4	1,178.2	21.7%
Operating margin (%)	27.4%	25.2%	(2.2%p)	38.8%	40.2%	1.4%p
Net income	759.1	770.1	1.5%	651.8	849.4	30.0%

1. OPERATING REVENUE

Operating revenue in 2017 amounted to KRW 4.68 trillion, of which 62.7% was contributed by NAVER (Advertising 99%, Business Platform 46.0%, IT Platform 4.7%, and Content Service 2.2%), and 37.3% by LINE & Other Platforms, which recorded similar portions to those in the previous year. All business sectors grew evenly, except for a modest decrease in the Content Service despite the steady growth in Webtoon and V LIVE. This was influenced by the transfer of the App Store business.

(KRW in billions, %)

	Consolidated			
	FY 2016	FY 2017	% change	Ratio to Sales
Operating revenue	4,022.6	4,678.5	16.3%	100.0%
Advertising	399.4	461.3	15.5%	9.9%
Business Platform	1,865.7	2,153.0	15.4%	46.0%
IT Platform	120.6	217.8	80.6%	4.7%
Content Service	103.2	101.5	(1.6%)	2.2%
LINE & Other Platforms	1,533.7	1,744.8	13.8%	37.3%

NAVER

NAVER is South Korea's No.1 Internet Search Portal, boasting approximately 30 million daily unique visitors to Mobile Main. NAVER is advancing its technologies and improving its services by combining AI technology with various services including search and shopping. We are also expanding globally by constantly developing new content that has a wide appeal, including webtoons and videos. Through these efforts, NAVER plans to continue evolving into a technology platform that brings convenience to our users and paves the way to online success for our partners.

Advertising

The Advertising business is a product designed to deliver our advertisers' commercial messaging directly to users. NAVER operates the display advertising business, including banner ads, thematic ads, and video ads, through both online and mobile platforms, using our superior media capabilities. We are making ongoing and substantive efforts to upgrade our ad platforms, launch new products, and expand our mobile inventory.

Business Platform

The Business Platform is a product aimed at boosting business activities by connecting partners' sales strategies with user demand as informed by information searches conducted through NAVER. NAVER is delivering the Business Platform, which involves offering search ads and Shopping Search ads through online and mobile platforms. The Business Platform is seeing steady growth thanks to consistent mobile search upgrades and product improvement.

IT Platform

The IT Platform business is related to the many technological elements that support smooth business operations within NAVER platforms, and mainly comprises NAVER Pay, NAVER Cloud Platform, IT services, and NAVER Works. We saw considerable performance improvements as NAVER Pay's transaction value and merchant stores continued to increase, and the newly launched NAVER Cloud Platform has already secured a promising business foundation.

Content Service

The Content Service business provides a content ecosystem in which creators and consumers of creative content interact freely. NAVER operates the Content Service business around the world, which includes webtoons, web novels, V LIVE, and music. Using our advanced technologies, we provide diverse content and services that have led to an impressive increase in the number of global users every year. We are also working to develop diverse revenue models.

LINE & Other Platforms

LINE has evolved into a “smart portal” that connects people, businesses and services in ways that surpass the typical global messenger. We are expanding our growth by operating a wide range of services such as communication, content, shopping, and finance, centering around four major countries of Japan, Taiwan, Thailand, and Indonesia. By expanding our investment in future technologies such as AI and FinTech, we will continue to provide more innovative and groundbreaking services. Other platforms such as SNOW and Camp Mobile are also growing steadily.

2. PROFITABILITY

Operating expenses in 2017 amounted to KRW 4.68 trillion, an increase of 19.8% from the previous year. Platform development and operation expenses increased 7.4%, affected by an increase in employment following our active R&D activities for new services. Agent and partner expenses, which make up the largest portion in our operating expenses, climbed 27.8%, due to an upsurge in commissions following the growth of sales.

Infrastructure expenses expanded 18.0% to KRW 222.0 billion, caused by the continued infrastructure-related investment following an increase in traffic and a rise in depreciation volume. Marketing expenses soared 48.2% to KRW 219.9 billion. This was primarily attributed to points accumulation and service marketing following an expansion in NAVER Pay transactions. LINE and Other Platforms recorded KRW 1.64 trillion in operating expenses, up 18.0%.

As a result, our consolidated operating income in 2017 edged up 7.0% from the year before to KRW 1.12 trillion. Our operating margin saw a slight increase to 25.2%.

Globally, we are in an exciting era characterized by the rapid development of new technologies and platforms. Given this societal context, we feel this is the most opportune time to make smart new investments. We will continue to strive for excellence and contribute to the augmentation of shareholder value with strategic investments that achieve and sustain a long-term growth pattern.

(KRW in billions, %)

	Consolidated			Ratio to Operating Expenses
	FY 2016	FY 2017	% change	
Operating Revenue	4,022.6	4,678.5	16.3%	
Operating Expenses	2,920.6	3,499.3	19.8%	
Platform development & operations	537.1	577.1	7.4%	16.5%
Agency & Partner Commission	660.5	844.4	27.8%	24.1%
Infrastructure	188.1	222.0	18.0%	6.3%
Marketing	148.3	219.9	48.2%	6.3%
LINE & Other Platforms	1,386.6	1,636.0	18.0%	46.8%
Operating Income	1,102.0	1,179.2	7.0%	16.5%
Operating Margin (%)	27.4%	25.2%	(2.2%p)	
Net income	759.1	770.1	1.5%	
Net Margin (%)	18.9%	16.5%	(2.4%p)	

III. FINANCIAL POSITION

NAVER remains dedicated to achieving optimal management performance and capital structure with efficient financial strategies while strengthening future competitiveness that leverages our unique value. For example, we are making investment decisions that take into account growth potential and profitability, creating stable cash flow, managing working capital, and implementing financial strategies for maximizing shareholder value.

1. ASSETS

Our consolidated total assets at the end of 2017 stood at KRW 8.02 trillion, an increase of 25.9% from the previous year.

Current Assets

Current assets edged up 13.9% from the previous year to KRW 4.78 trillion at the end of 2017. This resulted from the expansion of trade and other receivables, cash and cash equivalents, and short-term financial instruments by 35.0%, 10.5%, and 7.3%, respectively, following business growth.

Financial assets at fair value through profit or loss are measured at fair value, and there are no significant changes in the business and economic environment that affect the fair value of affiliated companies' financial assets. NAVER is constantly monitoring liquidity to keep its liquidity at an appropriate level and to meet capital requirements such as working capital.

Non-current Assets

Non-current assets amounted to KRW 3.24 trillion, up 49.0% from the previous year. This resulted from the increase of 144.9% in available-for-sale financial assets due to technology and content-related investment to enhance future competitiveness. It was also attributed to the increase of 33.2% and 202.8%, respectively, in tangible and intangible assets following our business growth.

Meanwhile, NAVER spent 24.2% of its operating revenue for R&D expenses to sustain its competitive advantage and build new value. As of the end of 2017, we had a total of 3,053 intellectual properties, including 2,053 patents, 810 trademarks, and 190 designs.

(KRW in billions, %)

	Consolidated			Non-consolidated		
	FY 2016	FY 2017	% change	FY 2016	FY 2017	% change
Current assets	4,199.9	4,784.2	13.9%	2,108.0	2,629.9	24.8%
Cash and cash equivalents	1,726.2	1,907.6	10.5%	203.7	457.8	124.7%
Short-term financial instruments	1,243.2	1,333.9	7.3%	1,103.6	1,196.2	8.4%
Financial asset at fair value through profit or loss	352.1	274.5	(22.0%)	352.0	247.4	(29.7%)
Trade and other receivables	760.9	1,026.9	35.0%	404.3	612.7	51.5%
Others	117.5	241.4	105.3%	44.4	115.8	160.7%
Non-current assets	2,170.7	3,235.0	49.0%	1,748.5	2,712.5	55.1%
Tangible assets	863.3	1,150.0	33.2%	666.6	765.3	14.8%
Intangible asset	112.1	339.5	202.8%	38.5	40.4	5.0%
Long-term financial instruments	192.2	120.3	(37.4%)	78.0	43.8	(43.8%)
Available-for-sale financial assets	385.3	943.6	144.9%	238.2	794.1	233.3%
Investments in affiliates	182.2	281.0	54.3%	625.0	962.4	54.0%
Others	435.7	400.6	(8.1%)	102.1	106.5	4.3%
Total assets	6,370.6	8,019.3	25.9%	3,856.5	5,342.4	38.5%

2. LIABILITIES

Consolidated total liabilities stood at KRW 2.30 trillion at the end of 2017, expanding 27.7% over the year. This was caused by ordinary increases following business growth. NAVER has maintained an overall low debt-to-equity ratio by implementing efficient debt management based on its satisfactory operating performance. Our consolidated debt-to-equity ratio improved 3.1% points to 51.2% from 54.3% in the previous year.

(KRW in billions, %)

	Consolidated			Non-consolidated		
	FY 2016	FY 2017	% change	FY 2016	FY 2017	% change
Current liabilities	1,803.9	2,302.7	27.7%	875.6	1,266.8	44.7%
Trade and other payables	671.8	770.7	14.7%	329.2	322.6	(2.0%)
Short-term borrowings	227.3	211.0	(7.2%)	0.0	0.0	N/A
Current portion of debentures	0.0	150.0	N/A	0.0	150.0	N/A
Current tax liabilities	239.1	305.7	27.9%	173.6	277.1	59.6%
Others	665.7	865.3	30.0%	372.7	517.1	38.7%
Non-current liabilities	437.1	411.3	(5.9%)	271.5	141.7	(47.8%)
Long-term borrowings	0.0	49.9	N/A	0.0	0.0	N/A
Debentures	150.0	0.0	N/A	150.0	0.0	N/A
Liabilities for defined benefit obligations	241.7	284.0	17.5%	109.7	129.3	17.9%
Others	45.4	77.4	70.3%	11.8	12.4	4.8%
Total liabilities	2,241.0	2,714.1	21.1%	1,147.1	1,408.5	22.8%

3. SHAREHOLDERS' EQUITY

The company's consolidated total shareholders' equity at the end of 2017 recorded KRW 5.31 trillion, an increase of 28.5% year-on-year. NAVER has been pursuing a consistent dividend policy for the past ten years and as part of this, the company acquired treasury shares again in 2017, using 30% of its free cash flow and excluding a certain level of funds for dividends.

Such acquisition of treasury shares caused changes in capital surplus and other capital. As of the end of 2017, NAVER had 3,592,203 treasury shares (as of 2017, 10.9% of issued shares). Retained earnings increased due mainly to an increase in unappropriated retained earnings led by continuous profit creation.

(KRW in billions, %)

	Consolidated			Non-consolidated		
	FY 2016	FY 2017	% change	FY 2016	FY 2017	% change
Share capital	16.5	16.5	0.0%	16.5	16.5	0.0%
Share premium	1,217.2	1,507.9	23.9%	162.5	362.4	123.0%
Other capital	(1,449.1)	(1,317.5)	N/A	(1,395.0)	(1,178.4)	N/A
Retained earnings	3,810.2	4,555.5	19.6%	3,925.4	4,733.3	20.6%
Non-controlling interests	534.9	542.8	1.5%	0.0	0.0	N/A
Total equity	4,129.6	5,305.2	28.5%	2,709.4	3,933.9	45.2%

IV. CASH FLOWS

Cash and cash equivalents increased 10.5% from the previous year to KRW 1.91 trillion in 2017. Cash flow from operating activities dropped 19.3% to KRW 939.0 billion. This was mainly attributable to increases in trade and other receivables and a gain on valuation of financial assets. In the meantime, NAVER continued its solid operating performance. Cash flow from investing activities stood at (-) KRW 1.31 trillion. This was mainly attributable to the acquisition of available-for-sale financial assets, tangible assets, property, and investment securities, and the decrease in cash from business combinations. The increase in investment assets was mainly caused by NAVER's capital expenditures, which surged approximately 181.7% to KRW 506.7 billion from KRW 179.9 billion in 2016 as a consequence of diversified investing activities. Cash flow from financing activities declined 8.8% to KRW 636.2 billion. NAVER continues to implement a dividend policy, and this involves investing in the establishment of new businesses and sustainable management, based on its stable cash flow; appropriately managing surplus funds; acquiring treasury shares; and paying dividends.

(KRW in billions, %)

	Consolidated			Non-consolidated		
	FY 2016	FY 2017	% change	FY 2016	FY 2017	% change
Cash flow from operating activities	1,164.0	939.0	(19.3%)	842.9	911.2	8.1%
Cash flow from investing activities	(941.7)	(1,309.3)	N/A	(557.3)	(1,121.8)	N/A
Cash flow from financing activities	697.8	636.2	(8.8%)	(436.6)	465.9	N/A
Effect of exchange rate changes on cash and cash equivalents	(7.3)	(84.6)	N/A	(0.4)	(1.2)	N/A
Net increase in cash and cash equivalents	912.8	181.3	(80.1%)	(151.4)	254.1	N/A
Cash and cash equivalents at the beginning of the year	813.4	1,726.2	112.2%	355.1	203.7	(42.6%)
Cash and cash equivalents at the end of the year	1,726.2	1,907.6	10.5%	203.7	457.8	124.7%

V. OUTLOOK FOR 2018 AND BUSINESS PLANS

NAVER has managed to maintain our competitive edge amidst the turbulence of the Fourth Industrial Revolution by continuously striving for improvement and innovation through securing new platforms and assuring our long-term growth momentum. Every year new challenges emerge within the technology sector, influenced by ever-increasing user expectations and rapidly changing Internet environment. NAVER has met the challenges of this complex terrain by growing quickly into a thriving platform boasting 30 million visitors a day.

For the past 19 years, we have continued to focus in on the desires of "users" and deliver on their desires using "technology". Now we have set our sights on taking it further, by evolving into an advanced technology platform that focuses ever more faithfully on truly supporting users with technology that fits.

By honing in on the concept of "connection", the essence of the Internet, we are committed to marrying artificial intelligence with emerging tools and technologies, and search platforms with AI platforms. By doing this, we are developing a unique and varied suite of "connection technologies" that manifest deeper, closer connections.

We will strive to use these advanced technologies to expand time and space in a way that allows for the vast and reliable interconnection of all people, all the time, everywhere.

NAVER will continue to stand out amongst our peers by developing "deep connecting" technology that fosters an intuitive understanding of the needs of all our stakeholders by applying the "deep learning" technology that allows a computer to learn independently like a person.

In celebration of our 20th anniversary in 2018, we will do everything in our power to grow together with all of our stakeholders, by building on the basis of our technology platform and ensuring that such growth delivers strong financial performance.

INDEPENDENT AUDITOR'S REPORT

(English Translation of a Report Originally Issued in Korean)

To the Shareholders and Board of Directors of NAVER Corporation

We have audited the accompanying consolidated financial statements of NAVER Corporation (the "Company") and its subsidiaries (collectively the "Group"), which comprise the consolidated statements of financial position as at December 31, 2017 and 2016, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information.

Management's Responsibilities for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the Republic of Korea (Korean IFRS), and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with Korean Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Group's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with Korean IFRS.

Auditing standards and their application in practice vary among countries. The procedures and practices used in the Republic of Korea to audit such financial statements may differ from those generally accepted and applied in other countries.

Seoul, Korea

March 8, 2018

This report is effective as of March 8, 2018, 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 there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

(in Korean won)

Consolidated Statements of Financial Position

December 31, 2017 and 2016

NAVER Corporation and Subsidiaries

(in Korean won)

	Notes	December 31, 2017	December 31, 2016
Assets			
Current assets			
Cash and cash equivalents	6,7	1,907,575,060,667	1,726,231,781,291
Short-term financial instruments	6,7	1,333,889,498,274	1,243,188,526,333
Financial assets at fair value through profit or loss	5,6,8	274,532,710,666	352,050,575,067
Trade and other receivables	6,9	1,026,872,808,889	760,913,097,079
Available-for-sale financial assets	5,6,10	79,435,727,110	31,239,415,661
Inventories	12	36,204,513,812	10,346,098,622
Current tax asset		1,099,626,162	-
Other current assets	13	124,617,831,303	75,963,752,602
		4,784,227,776,883	4,199,933,246,655
Non-current assets			
Property and equipment	14	1,150,012,698,630	863,258,398,071
Intangible assets	15	339,511,680,983	112,131,534,109
Long-term financial instruments	6,7	120,301,393,998	192,181,000,000
Financial assets at fair value through profit or loss	5,6,8	39,151,181,682	4,338,051,108
Trade and other receivables	6,9	74,199,645,388	122,501,672,197
Available-for-sale financial assets	5,6,10	943,632,439,930	385,267,016,322
Held-to-maturity financial assets	6,11	2,660,696,298	2,907,350,285
Investments in associates and joint ventures	16	280,997,122,915	182,152,420,107
Deferred tax assets	29	248,493,530,447	285,890,760,768
Other non-current assets	13	36,063,392,760	20,073,730,970
		3,235,023,783,031	2,170,701,933,937
Total assets		8,019,251,559,914	6,370,635,180,592

[Continued]

	Notes	December 31, 2017	December 31, 2016
Liabilities			
Current liabilities			
Trade and other payables	4,6,17	770,724,455,666	671,823,271,030
Financial liabilities at fair value through profit or loss	5,6	30,360,536	-
Short-term borrowings	4,6,19	211,011,222,442	227,320,592,500
Current portion of debentures	4,6,19	150,000,000,000	-
Income tax payables		305,730,913,120	239,105,201,541
Provisions	20	5,897,847,971	46,354,541,621
Other current liabilities	18	859,335,494,500	619,321,944,579
		2,302,730,294,235	1,803,925,551,271
Non-current liabilities			
Trade and other payables	4,6,17	11,652,173,744	9,065,271,620
Financial liabilities at fair value through profit or loss	5,6	4,608,180,098	-
Long-term borrowings	4,6,19	49,933,677,257	-
Debentures	4,6,19	-	150,000,000,000
Net defined benefit liabilities	21	284,033,206,529	241,674,742,927
Provisions	20	34,765,546,071	15,120,742,106
Deferred tax liabilities	29	25,177,671,162	20,622,509,111
Other non-current liabilities	18	1,164,575,869	627,500,617
		411,335,030,730	437,110,766,381
Total liabilities		2,714,065,324,965	2,241,036,317,652
Equity			
Equity attributable to owners of the Parent Company			
Share capital	22	16,481,339,500	16,481,339,500
Share premium		1,507,878,510,842	1,217,201,126,674
Other components of equity	23	(1,317,531,622,681)	(1,449,123,370,169)
Retained earnings	25	4,555,517,868,323	3,810,189,403,596
Non-controlling interest		542,840,138,965	534,850,363,339
Total equity		5,305,186,234,949	4,129,598,862,940
Total liabilities and equity		8,019,251,559,914	6,370,635,180,592

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

Consolidated Statements of Comprehensive Income

Years Ended December 31, 2017 and 2016

NAVER Corporation and Subsidiaries

(in Korean won)

	Notes	2017	2016
Operating revenues	35	4,678,468,928,032	4,022,629,619,982
Operating expenses	26	(3,499,281,121,701)	(2,920,589,144,190)
Operating profit		1,179,187,806,331	1,102,040,475,792
Other income	27	35,057,161,984	102,016,939,984
Other expenses	27	(86,985,385,595)	(91,759,944,041)
Finance income	28	115,010,335,280	66,704,079,766
Finance costs	28	(32,414,107,346)	(37,789,903,111)
Share of net loss of associates and joint ventures	16	(14,026,821,694)	(9,440,699,473)
Profit before income tax expense		1,195,828,988,960	1,131,770,948,917
Income tax expense	29	(423,173,257,798)	(360,863,616,391)
Profit for the year from continuing operations		772,655,731,162	770,907,332,526
Loss from discontinued operations		(2,554,060,955)	(11,834,381,339)
Profit for the year		770,101,670,207	759,072,951,187
Profit (loss) for the year is attributable to:			
Owners of the Parent Company			
Profit from continuing operations		775,433,640,876	761,140,055,404
Loss from discontinued operations	36	(2,554,060,955)	(11,834,381,339)
Non-controlling interests		(2,777,909,714)	9,767,277,122
Other comprehensive income			
Items that may be subsequently reclassified to profit or loss			
Changes in the fair value of available-for-sale financial assets		(1,660,488,494)	(12,901,819,949)
Reclassification due to disposal of available-for-sale financial assets		(21,149,295,045)	(42,827,000)
Exchange differences		(120,113,501,595)	(48,071,575,946)
Share of other comprehensive income of associates and joint ventures		(8,355,322,396)	1,038,023,692
Items that will not be reclassified to profit or loss			
Remeasurements of net defined benefit liabilities		8,580,245,095	24,496,714,917
Share of other comprehensive income of associates and joint ventures		(164,582,919)	-
Other comprehensive income (loss) for the year, net of tax		(142,862,945,354)	(35,481,484,286)
Total comprehensive income for the year		627,238,724,853	723,591,466,901

[Continued]

Years Ended December 31, 2017 and 2016

(in Korean won)

	Notes	2017	2016
Total comprehensive income (loss) for the year is attributable to:			
Owners of the Parent Company		672,515,439,629	733,007,313,456
Non-controlling interests		(45,276,714,776)	(9,415,846,555)
Earnings (losses) per share from continuing and discontinued operations to the equity holders of the Parent Company			
Basic earnings (losses) per share			
From continuing operations	30	26,650	26,153
From discontinued operations	30	(88)	(407)
Diluted earnings (losses) per share			
From continuing operations	30	26,570	25,921
From discontinued operations	30	(88)	(407)

The above consolidated statements of comprehensive income should be read in conjunction with the accompanying notes.

Consolidated Statements of Changes in Equity

Years Ended December 31, 2017 and 2016

NAVER Corporation and Subsidiaries

(in Korean won)

	Attributable to owners of the parent company				Non-controlling Interest	Total Equity
	Share Capital	Share Premium	Other Components of Equity	Retained Earnings		
Balance at January 1, 2016	16,481,339,500	133,088,065,258	(1,094,415,009,876)	3,069,369,884,003	145,054,240,603	2,269,578,519,488
Total comprehensive income for the year						
Profit for the year	-	-	-	749,305,674,065	9,767,277,122	759,072,951,187
Changes in the fair value of available-for-sale financial assets	-	-	(11,010,316,915)	-	(1,934,330,034)	(12,944,646,949)
Exchange differences	-	-	(29,809,084,598)	-	(18,262,491,348)	(48,071,575,946)
Share of other comprehensive income of associates and joint ventures	-	-	876,505,576	-	161,518,116	1,038,023,692
Remeasurements of net defined benefit liabilities	-	-	-	23,644,535,328	852,179,589	24,496,714,917
Transactions with owners						
Dividends	-	-	-	(32,130,689,800)	-	(32,130,689,800)
Share-based payment expenses	-	-	-	-	100,992,243,024	100,992,243,024
Acquisition of treasury shares	-	-	(298,713,406,870)	-	-	(298,713,406,870)
Changes in ownership interest in subsidiaries that do not result in loss of control						
Acquisition of investments in subsidiaries	-	-	-	-	1,856,146,059	1,856,146,059
Share issuance of subsidiaries	-	1,084,113,061,416	(16,052,057,486)	-	296,363,580,208	1,364,424,584,138
Balance at December 31, 2016	16,481,339,500	1,217,201,126,674	(1,449,123,370,169)	3,810,189,403,596	534,850,363,339	4,129,598,862,940

[Continued]

Years Ended December 31, 2017 and 2016

(in Korean won)

	Attributable to owners of the parent company				Non-controlling Interest	Total Equity
	Share Capital	Share Premium	Other Components of Equity	Retained Earnings		
Balance at January 1, 2017	16,481,339,500	1,217,201,126,674	(1,449,123,370,169)	3,810,189,403,596	534,850,363,339	4,129,598,862,940
Total comprehensive income for the year						
Profit for the year	-	-	-	772,879,579,921	(2,777,909,714)	770,101,670,207
Changes in the fair value of available-for-sale financial assets	-	-	(19,160,034,716)	-	(3,649,748,823)	(22,809,783,539)
Exchange differences	-	-	(78,917,839,096)	-	(41,195,662,499)	(120,113,501,595)
Share of other comprehensive income of associates and joint ventures	-	-	(7,316,335,389)	(164,582,919)	(1,038,987,007)	(8,519,905,315)
Remeasurements of net defined benefit liabilities	-	-	-	5,194,651,828	3,385,593,267	8,580,245,095
Transactions with owners						
Dividends	-	-	-	(32,581,184,103)	-	(32,581,184,103)
Share-based payment expenses	-	-	-	-	19,018,329,936	19,018,329,936
Disposal of treasury shares	-	198,906,442,679	223,384,587,753	-	-	422,291,030,432
Changes in ownership interest in subsidiaries that do not result in loss of control						
Acquisition of investments in subsidiaries	-	-	-	-	39,217,696,494	39,217,696,494
Share issuance of subsidiaries	-	118,548,791,706	13,601,368,936	-	(9,205,434,297)	122,944,726,345
Others	-	(26,777,850,217)	-	-	4,235,898,269	(22,541,951,948)
Balance at December 31, 2017	16,481,339,500	1,507,878,510,842	(1,317,531,622,681)	4,555,517,868,323	542,840,138,965	5,305,186,234,949

The above consolidated statements of changes in equity should be read in conjunction with the accompanying notes.

Consolidated Statements of Cash Flows

Years Ended December 31, 2017 and 2016

NAVER Corporation and Subsidiaries

(in Korean won)

	note	2017	2016
Cash flows from operating activities			
Cash generated from operations	31	1,294,925,991,320	1,471,646,010,009
Interest received		40,844,270,854	29,646,878,900
Interest paid		(2,113,445,772)	(6,732,073,925)
Dividends received		21,196,536,973	8,272,597,252
Income taxes paid		(414,871,355,687)	(338,809,154,339)
Net cash inflow from operating activities		939,981,997,688	1,164,024,257,897
Cash flows from investing activities			
Net decrease(increase) in short-term financial instruments		160,523,617,087	(292,254,027,607)
Net decrease(increase) in financial assets at fair value through profit or loss		103,499,196,889	(68,725,459,908)
Increase in long-term financial instruments		(183,619,742,032)	(175,854,608,696)
Decrease in long-term financial instruments		10,000,000,000	10,050,000,000
Payments for property and equipment		(472,167,146,968)	(153,799,500,551)
Proceeds from disposal of property and equipment		5,965,531,286	56,618,452,246
Payments for intangible assets		(31,072,901,155)	(20,810,426,358)
Proceeds from disposal of intangible assets		3,132,644,885	187,761,297
Payments for available-for-sale financial assets		(708,671,194,496)	(124,184,790,622)
Proceeds from disposal of available-for-sale financial assets		57,147,603,136	19,004,020,280
Payments for investments in associates and joint ventures		(136,126,745,603)	(104,722,327,187)
Proceeds from disposal of investments in associates and joint ventures		7,150,302,942	2,712,000,000
Decrease in cash due to business combination		(198,281,260,652)	(4,597,667,305)
Proceeds from disposal of subsidiaries		1,799,666,549	7,300,449,311
Cash inflows(outflows) from other investing activities		70,389,096,479	(92,636,441,891)
Net cash outflow from investing activities		(1,310,331,331,653)	(941,712,566,991)
Cash flows from financing activities			
Proceeds from short-term borrowings		122,544,486,739	232,880,139,130
Repayment of short-term borrowings		(123,466,235,617)	(468,100,761,103)
Proceeds from long-term borrowings		49,026,203,012	-
Repayment of debentures		-	(105,454,275,958)
Payment of dividends		(32,581,184,103)	(32,130,689,800)
Acquisition of treasury shares		-	(304,437,387,130)
Disposal of treasury shares		498,449,944,178	-
Share issuance of subsidiaries		129,793,266,196	1,374,092,814,478
Cash inflows(outflows) from other financing activities		(7,522,254,466)	1,000,000,000
Net cash inflow from financing activities		636,244,225,939	697,849,839,617
Effects of exchange rate changes on cash and cash equivalents		(84,551,612,598)	(7,321,644,685)
Net increase in cash and cash equivalents		181,343,279,376	912,839,885,838
Cash and cash equivalents at the beginning of the year		1,726,231,781,291	813,391,895,453
Cash and cash equivalents at the end of the year		1,907,575,060,667	1,726,231,781,291

The above consolidated statements of cash flows should be read in conjunction with the accompanying notes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NAVER Corporation and Subsidiaries

December 31, 2017 and 2016

1. General Information

NAVER 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 headquarter is located at Buljeong-ro 6, Bundang-gu, Seongnam-si, Gyeonggi-do, Korea.

On October 29, 2002, the Company listed its shares on the Korean Securities Dealers' Automated Quotations market. On November 28, 2008, the Company transferred its share listing to the Korea Composite Stock Price Index market. As at December 31, 2017, the major shareholders of the Company consist of National Pension Fund (10.76%) and others.

The Company and its subsidiaries (collectively the "Group") engage in providing internet portal and mobile services.

1.1 Consolidated Subsidiaries

Largest shareholder	Subsidiaries	Location	Primary business	Ownership interest held by the Group (%)		
				December 31, 2017	December 31, 2016	Closing month
NAVER	NAVER Business Platform	Korea	Online information distribution business	100.00	100.00	December
	NAVER I&S	Korea	Business support, workforce supply, employee dispatch, and software development	100.00	100.00	December
	LINE ¹	Japan	Mobile service development	73.68	80.35	December
	NAVER China	China	Software development and distribution	100.00	100.00	December
	Search Solution	Korea	Software development and distribution	100.00	100.00	December
	N-Visions	Korea	Exhibition and performance planning business	100.00	100.00	December
	Camp Mobile	Korea	Software development and distribution	100.00	100.00	December
	Entry Labs	Korea	Software development and distribution	100.00	100.00	December
	Works Mobile	Korea	Applied software development and distribution	100.00	100.00	December
	WAV Media	USA	Mobile service development	100.00	100.00	December
	SNOW ³	Korea	Software development and distribution	88.16	95.09	December
	SB Next Media Innovation Fund	Korea	Investment	92.50	88.89	December
	NAVER Labs	Korea	Information services and manufacturing electrical equipment	100.00	-	December
	NAVER Webtoon	Korea	Software development and distribution	100.00	-	December
	Naver France	France	Investment and information services	100.00	-	December
	Company AI ⁴	Korea	Software development and distribution	39.10	-	December
	NAVER-KTB Audio Contents Fund	Korea	Investment	99.00	-	December
	Spring Camp Early Stage Fund ¹²	Korea	Investment	100.00	-	December

[Continued]

Largest shareholder	Subsidiaries	Location	Primary business	Ownership interest held by the Group (%)			
				December 31, 2017	December 31, 2016	Closing month	
NAVER Business Platform	NAVER Business Platform Asia Pacific	Singapore	IT infrastructure operations	100.00	100.00	December	
	NAVER Business Platform America	USA	IT infrastructure operations	100.00	100.00	December	
	NAVER Business Platform Europe	Germany	IT infrastructure operations	100.00	100.00	December	
	NAVER Business Platform Japan	Japan	IT infrastructure operations	100.00	-	December	
	Incomms	Korea	Other contract services	100.00	100.00	December	
NAVER I&S	Greenweb Service	Korea	Other contract services	100.00	100.00	December	
	NHN Technology Service	Korea	Software consulting, development and distribution	100.00	100.00	December	
	NIT Service	Korea	Software development and consulting	100.00	100.00	December	
	CommPartners	Korea	Portal and other Internet services, call center and telemarketing services	100.00	100.00	December	
	LINE Play	Korea	Software development	100.00	100.00	December	
LINE Plus ²	LINE Euro-Americas	USA	Mobile service marketing	100.00	100.00	December	
	LINE Taiwan	Taiwan	Mobile service operations	100.00	100.00	December	
	LINE Company (Thailand)	Thailand	Mobile service operations	99.95	99.95	December	
	LINE Digital Technology (Shanghai)	China	Mobile service marketing	100.00	100.00	December	
	LINE Vietnam	Vietnam	Mobile service operations	100.00	95.00	December	
	PT.LINE PLUS INDONESIA	Indonesia	Mobile service operations	99.99	99.84	December	
	LINE Up	Korea	Mobile game software development and distribution	100.00	-	December	
	LINE Studio	Korea	Mobile game software development and distribution	100.00	-	December	
	Nemustech	Korea	Software development	88.57	-	December	
	Bapul	Korea	Software development and distribution	53.69	-	December	
	Drama & Company	Korea	Software development and distribution	74.31	-	December	
	Camp Mobile	Iconnect	Korea	Software development	100.00	100.00	December
		Gogolook	Taiwan	Mobile service development	69.13	70.00	December
Camp Mobile		USA	Mobile service operations	100.00	100.00	December	
Works Mobile	Works Mobile Japan	Japan	Mobile service operations	100.00	100.00	December	
NAVER Webtoon	WEBTOON Entertainment	USA	Mobile service development	100.00	100.00	December	
	Watong Entertainment	Hong Kong	Mobile service operations	100.00	100.00	December	
	Lico	Korea	Online information distribution business	100.00	-	December	
Watong Entertainment	Broccoli Entertainment	China	Mobile service operations	100.00	-	December	
NAVER Labs	Epipolar	Korea	Software development and distribution	100.00	-	December	

[Continued]

Largest shareholder	Subsidiaries	Location	Primary business	Ownership interest held by the Group (%)		
				December 31, 2017	December 31, 2016	Closing month
LINE ²	LINE Plus	Korea	Portal and Internet services	100.00	100.00	December
	LINE Fukuoka	Japan	Mobile service operations	100.00	100.00	December
	LINE Biz+	Singapore	Mobile payment system planning and development	100.00	100.00	December
	LINE Book Distribution	Japan	Mobile service development	52.00	52.00	December
	LINE Ventures	Japan	Investment	100.00	100.00	December
	LINE C&I	Korea	Investment and Mergers & Acquisitions	100.00	100.00	December
	LINE Game Global Gateway	Japan	Investment	100.00	100.00	December
	MIXRADIO	UK	Mobile service development	100.00	100.00	December
	LINE Friends	Korea	Character equipment and doll wholesale and retail	100.00	100.00	December
	LINE Life Global Gateway	Japan	Investment	100.00	100.00	December
	LINE-NAVER Game Investment Fund	Korea	Investment	100.00	100.00	December
	LINE Mobile	Japan	Telecommunications service	100.00	100.00	December
	M.T. Burn	Japan	Mobile advertising service business	50.49	50.49	December
	Gatebox (formerly, Vinclu)	Japan	Mobile service development	51.00	-	December
	LINE Games	Korea	Software development and distribution	100.00	-	December
	LINE Friends Japan	Japan	Character equipment and doll wholesale and retail	100.00	-	December
	LINE TICKET	Japan	Internet information services	51.00	-	December
	Next Library	Japan	Internet information services	100.00	-	December
	FIVE	Japan	Mobile advertising service business	100.00	-	December
	LFG HOLDINGS	Hong kong	Character equipment and doll wholesale and retail	100.00	-	December
LINE Pay	Japan	Mobile payment system planning and development	100.00	100.00	December	
Line Biz+ Taiwan	Taiwan	Mobile payment system planning and development	100.00	100.00	December	
LINE Taiwan ²	SHINEWANT TECHNOLOGY	Taiwan	Internet information services	100.00	-	December
LINE Biz+ ²	Tre Tho Information Service Joint Stock Company (Webtretho)	Vietnam	Online information distribution business	72.60	-	December
SHINEWANT TECHNOLOGY ²	Silent Illumination	Taiwan	Software development and distribution	100.00	-	December
LINE Pay ²	Webpay Holdings	Japan	Mobile payment system planning and development	100.00	100.00	December
	Line Biz Plus	Korea	Software development and distribution	100.00	100.00	December
	BALIE	Japan	Searching advertising service business	60.00	-	December
Webpay Holdings ²	Webpay	Japan	Mobile payment system planning and development	100.00	100.00	December

[Continued]

Largest shareholder	Subsidiaries	Location	Primary business	Ownership interest held by the Group (%)		Closing month
				December 31, 2017	December 31, 2016	
Snow ²	SNOW China	Hong Kong	Mobile service operations	100.00	100.00	December
	SNOW Japan	Japan	Mobile service operations	100.00	100.00	December
	SNOW China (Beijing)	China	Mobile service operations	100.00	-	December
	SNOW Inc.	USA	Mobile service operations	100.00	-	December
	Spring Camp	Korea	Investment	100.00	-	December
	Playlist	Korea	Information and communication service	100.00	-	December
	Amuse	Korea	Cosmetics manufacturing, distribution and sales	100.00	-	December
LINE Friends ²	LINE Friends Inc.	USA	Character equipment and doll wholesale and retail	100.00	-	December
	LINE Friends (Shanghai) Commercial Trade	China	Character equipment and doll wholesale and retail	100.00	-	December
	Markt	Korea	Software development and wholesale and retail	51.00	-	December
LINE Games ²	NextFloor	Korea	Software development and distribution	51.00	-	December
	Pig	Korea	Software development and distribution	100.00	-	December
	Stairs	Japan	Software development and distribution	100.00	-	December
NextFloor ²	Msquared Management	U.S.A	Software development and distribution	100.00	-	December
	Next Floor Basement Lab	Korea	Software development and distribution	100.00	-	December
	Studio 4LEAF	Korea	Software development and distribution	60.00	-	December
	InnoAG	Korea	Software development and distribution	50.72	-	December
Msquared Management ²	Mobil Factory	China	Software development and distribution	100.00	-	December
Others ²	Others	-	Mobile service operations	100.00	-	December

¹ The ownership of the Group decreased due to issuance of shares arising from exercising stock option (Note 37).

² Ownership interest held by the Group represents percentage of LINE's ownership, and the effective ownership based on non-controlling interests of LINE are as follow:

Largest shareholder	Subsidiaries	Location	Primary business	Ownership interest held by the Group (%)		Closing month
				December 31, 2017	December 31, 2016	
NAVER	Spring Camp Early Stage Fund 1	Korea	Investment	99.88	-	December
LINE Plus	LINE Play	Korea	Software development	73.68	80.35	December
	LINE Euro-Americas	USA	Mobile service marketing	73.68	80.35	December
	LINE Taiwan	Taiwan	Mobile service operations	73.68	80.35	December
	LINE Company (Thailand)	Thailand	Mobile service operations	73.64	80.31	December
	LINE Digital Technology (Shanghai)	China	Mobile service marketing	73.68	80.35	December
	LINE Vietnam	Vietnam	Mobile service operations	73.68	76.34	December
	PT.LINE PLUS INDONESIA	Indonesia	Mobile service operations	73.67	80.23	December
	LINE Up	Korea	Mobile game software development and distribution	73.68	-	December
	LINE Studio	Korea	Mobile game software development and distribution	73.68	-	December
	Nemustech	Korea	Software development	65.26	-	December
	Bapul	Korea	Software development and distribution	39.56	-	December
	Drama & Company	Korea	Software development and distribution	64.53	-	December
	LINE Plus	Korea	Portal and Internet services	73.68	80.35	December
	LINE Fukuoka	Japan	Mobile service operations	73.68	80.35	December
LINE	LINE Biz+	Singapore	Mobile payment system planning and development	73.68	80.35	December
	LINE Book Distribution	Japan	Mobile service development	38.31	41.78	December
	LINE Ventures	Japan	Investment	73.68	80.35	December
	LINE C&I	Korea	Investment and Mergers & Acquisitions	73.68	80.35	December
	LINE Game Global Gateway	Japan	Investment	73.68	80.35	December
	MIXRADIO	UK	Mobile service development	73.68	80.35	December
	LINE Friends	Korea	Character equipment and doll wholesale and retail	73.68	80.35	December
	LINE Life Global Gateway	Japan	Investment	73.68	80.35	December
	LINE-NAVER Game Investment Fund	Korea	Investment	73.68	86.90	December
	LINE Mobile	Japan	Telecommunications service	73.68	80.35	December
	M.T. Burn	Japan	Mobile advertising service business	37.20	40.57	December
	Gatebox (formerly, Vinclu)	Japan	Mobile service development	37.58	-	December
	LINE Games	Korea	Software development and distribution	73.68	-	December
	LINE Friends Japan	Japan	Character equipment and doll wholesale and retail	73.68	-	December
	LINE TICKET	Japan	Internet information services	37.58	-	December
	Next Library	Japan	Internet information services	73.68	-	December
	FIVE	Japan	Mobile advertising service business	73.68	-	December

[Continued]

Largest shareholder	Subsidiaries	Location	Primary business	Ownership interest held by the Group (%)		Closing month
				December 31, 2017	December 31, 2016	
LINE	LFG HOLDINGS	Hongkong	Character equipment and doll wholesale and retail	73.68	-	December
	LINE Pay	Japan	Mobile payment system planning and development	73.68	-	December
	Line Biz+ Taiwan	Taiwan	Mobile payment system planning and development	73.68	-	December
LINE Taiwan	SHINEWANT TECHNOLOGY	Taiwan	Internet information services	73.68	-	December
LINE Biz+	Tre Tho Information Service Joint Stock Company (Webtretho)	Vietnam	Online information distribution business	53.49	-	December
SHINEWANT TECHNOLOGY	Silent Illumination	Taiwan	Software development and distribution	73.68	-	December
LINE Pay	Webpay Holdings	Japan	Mobile payment system planning and development	73.68	80.35	December
	Line Biz Plus	Korea	Software development and distribution	73.68	80.35	December
	BALIE	Japan	Searching advertising service business	44.21	-	December
	Webpay	Japan	Mobile payment system planning and development	73.68	80.35	December
Webpay Holdings	Webpay	Japan	Mobile payment system planning and development	73.68	80.35	December
SNOW	SNOW China	Hong Kong	Mobile service operations	88.16	95.09	December
	SNOW Japan	Japan	Mobile service operations	88.16	95.09	December
	SNOW China (Beijing)	China	Mobile service operations	88.16	-	December
	SNOW Inc.	USA	Mobile service operations	88.16	-	December
	Spring Camp	Korea	Investment	88.16	-	December
	Playlist	Korea	Information and communication service	94.08	-	December
	Amuse	Korea	Cosmetics manufacturing, distribution and sales	88.16	-	December
LINE Friends	LINE Friends Inc.	USA	Character equipment and doll wholesale and retail	73.68	-	December
	LINE Friends(Shanghai) Commercial Trade	China	Character equipment and doll wholesale and retail	73.68	-	December
	Markt	Korea	Software development and wholesale and retail	37.58	-	December
LINE Games	NextFloor	Korea	Software development and distribution	37.58	-	December
	Stairs	Japan	Software development and distribution	73.68	-	December
	Pig	Korea	Software development and distribution	61.26	-	December
NextFloor	Msquared Managerment	USA	Software development and distribution	37.58	-	December
	Next Floor Basement Lab	Korea	Software development and distribution	37.58	-	December
	Studio 4LEAF	Korea	Software development and distribution	22.55	-	December
	InnoAG	Korea	Software development and distribution	25.08	-	December
Msquared Managerment	Mobil Factory	China	Software development and distribution	37.58	-	December
Others	Others	-	Mobile service operations	73.68~88.16	-	December

³ The ownership interest of SNOW is the effective ownership interest held by the Group calculated based on the shares held by both the Company and LINE, a subsidiary of the Company.

⁴ Although the Group owns less than 50% ownership of Company AI, the Group is considered to have control over the entity because the Group has a right to appoint all of its BOD members under arrangements with other shareholders.

1.2 Summarized Financial Information

Summarized financial information for subsidiaries as at and for the years ended December 31, 2017 and 2016, is as follows:

(in thousands of Korean won)

Subsidiary	2017					
	Assets	Liabilities	Equity	Operating Revenues	Profit (loss) for the year	Total comprehensive income (loss)
LINE	2,737,380,869	767,863,324	1,969,517,545	1,269,566,007	107,940,129	(58,730,880)
LINE Plus	435,050,563	165,280,870	269,769,694	437,494,238	116,920,365	99,560,123
SNOW	37,408,226	17,553,467	19,854,759	2,231,898	(72,666,001)	(70,944,085)
NAVER Business Platform	360,287,929	115,763,990	244,523,939	355,643,353	29,692,328	30,753,566
LINE C&I	81,961,785	6,187,607	75,774,177	750,000	(761,783)	(16,892,642)
NAVER I&S	46,879,770	19,139,713	27,740,058	17,344,540	(49,867)	276,181
Works Mobile	66,212,484	13,896,830	52,315,654	33,999,521	(5,379,201)	(3,784,879)
LINE Friends	88,836,838	24,107,320	64,729,518	91,853,411	(7,853,570)	(6,713,367)
Camp Mobile	75,012,556	17,665,880	57,346,676	67,552,404	17,968,882	19,301,054
LINE Biz+ PTE	32,439,568	8,497,810	23,941,759	10,805,273	(43,906,832)	(48,832,994)
LINE Taiwan	72,448,675	45,948,182	26,500,493	39,724,156	6,515,893	5,418,979

(in thousands of Korean won)

Subsidiary	2016					
	Assets	Liabilities	Equity	Operating Revenues	Profit (loss) for the year	Total comprehensive income (loss)
LINE	2,671,847,783	770,303,957	1,901,543,826	1,142,901,303	2,001,319	(28,538,899)
LINE Plus	401,385,543	229,902,433	171,483,110	470,239,376	37,212,416	53,461,572
SNOW	47,222,971	8,526,024	38,696,947	85,000	(15,801,147)	(16,389,969)
NAVER Business Platform	262,990,115	49,252,041	213,738,074	304,236,920	20,200,274	20,745,634
LINE C&I	104,838,746	12,171,927	92,666,819	752,055	(4,344,167)	(22,514,627)
NAVER I&S	43,449,445	15,999,569	27,449,876	15,405,060	(63,794)	1,136,206
Works Mobile	31,403,999	15,272,970	16,131,029	26,173,288	(10,606,386)	(8,970,303)
LINE Friends	57,477,822	46,782,360	10,695,462	78,130,776	6,887,263	8,060,385
Camp Mobile	55,875,470	17,789,060	38,086,410	36,062,146	(23,786,881)	(22,687,176)
LINE Biz+ PTE	69,835,061	12,909,463	56,925,598	8,421,585	(10,048,228)	(9,249,220)
LINE Taiwan	60,960,130	51,173,824	9,786,306	23,246,652	2,590,682	3,054,175

1.3 Changes in Scope of Consolidation

Subsidiaries newly included in the consolidation for the year ended December 31, 2017, are as follows:

Reason	Subsidiaries
Obtaining control through establishment	NAVER Labs, SNOW China (Beijing), SNOW Inc., Broccoli Entertainment, NAVER Webtoon, Playlist, Naver France, NAVER-KTB Audio Contents Fund, Spring Camp Early Stage Fund 1, Lico, Amuse, NAVER Business Platform Japan, LINE Friends Inc., LINE Friends (Shanghai) Commercial Trade, LINE Games, LINE Friends Japan, LINE TICKET, LFG HOLDINGS, LINE Studio, LINE Up, Next Library, Others
Newly acquired	Epipolar, Spring Camp, Company AI, Kiwiple, Drama & Company, Gatebox(formerly, Vinclu), NextFloor, BALIE, Next Floor Basement Lab, Stairs, Msquared Management, Mobil Factory, Pig, InnoAG, Studio 4LEAF, Rooftop Games, SHINEWANT TECHNOLOGY, Silent Illumination, Nemustech, Tre Tho Information Service Joint Stock Company (Webtretho), Bapul, Markt, FIVE, Others

Subsidiaries excluded from the consolidation for the year ended December 31, 2017, are as follows:

Reason	Subsidiaries
Disposal	Quicket
Liquidation	LINE Digital Technologies India, MixRadio Entertainment India
Merger ¹	Line Business Partner, Rooftop Games, Kiwiple

¹ For the year ended December 31, 2017, Line Business Partner, Rooftop Games and Kiwiple were merged with Line Pay, NextFloor and LINE Plus, subsidiaries of the Group, respectively.

2. Significant Accounting Policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below.

These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of Preparation

The Group maintains its accounting records in Korean won and prepares statutory financial statements in the Korean language (Hangul) in accordance with International Financial Reporting Standards as adopted by the Republic of Korea (Korean IFRS).

The accompanying consolidated financial statements have been restructured and translated into English from the Korean language financial statements.

Certain information attached to the Korean language financial statements, but not required for a fair presentation of the Group's financial position, financial performance or cash flows, is not presented in the accompanying consolidated financial statements.

The consolidated financial statements of the Group have been prepared in accordance with Korean IFRS. These are the standards, subsequent amendments and related interpretations issued by the International Accounting Standards Board (IASB) that have been adopted by the Republic of Korea.

The preparation of financial statements requires the use of critical accounting estimates. Management also needs to exercise judgement in applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

2.2 Changes in Accounting Policy and Disclosures

(a) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing January 1, 2017. The adoption of these amendments did not have any material impact on the consolidated financial statements.

- Amendments to Korean IFRS 1007 Statement of Cash Flows

Amendments to Korean IFRS 1007 Statement of Cash flows require to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash flows.

- Amendments to Korean IFRS 1012 Income Tax

Amendments to Korean IFRS 1012 clarify how to account for deferred tax assets related to debt instruments measured at fair value. Korean IFRS 1012 provides requirements on the recognition and measurement of current or deferred tax liabilities or assets. The amendments issued clarify the requirements on recognition of deferred tax assets for unrealized losses, to address diversity in practice.

- Amendments to Korean IFRS 1112 Disclosures of Interests in Other Entities

Amendments to Korean IFRS 1112 clarify when an entity's interest in a subsidiary, a joint venture or an associate is classified as held for sales in accordance with Korean IFRS 1105, the entity is required to disclose other information except for summarized financial information in accordance with Korean IFRS 1112.

(b) New standards and interpretations not yet adopted by the Group

Certain new accounting standards and interpretations that have been published that are not mandatory for annual reporting period commencing January 1, 2017 and have not been early adopted by the Group are set out below.

- Amendments to Korean IFRS 1028 Investments in Associates and Joint Ventures

When an investment in an associate or a joint venture is held by, or is held indirectly through, an entity that is a venture capital organization, or a mutual fund, unit trust and similar entities including investment-linked insurance funds, the entity may elect to measure that investment at fair value through profit or loss in accordance with Korean IFRS 1109. The amendments clarify that an entity shall make this election separately for each associate of joint venture, at initial recognition of the associate or joint venture. The Group will apply these amendments retrospectively for annual periods beginning on or after January 1, 2018, and early adoption is permitted. The Group does not expect the amendments to have a significant impact on the consolidated financial statements because the Group is not a venture capital organization.

- Amendment to Korean IFRS 1040 Transfers of Investment Property

Paragraph 57 of Korean IFRS 1040 clarifies that a transfer to, or from, investment property, including property under construction, can only be made if there has been a change in use that is supported by evidence, and provides a list of circumstances as examples. The amendment will be effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Group does not expect the amendment to have a significant impact on the consolidated financial statements.

- Amendments to Korean IFRS 1102 Share-based Payment

Amendments to Korean IFRS 1102 clarify accounting for a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. Amendments also clarify that the measurement approach should treat the terms and conditions of a cash-settled award in the same way as for an equity-settled award. The amendments will be effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Group does not expect the amendments to have a significant impact on the consolidated financial statements.

- Enactments to Interpretation 2122 Foreign Currency Transaction and Advance Consideration

According to these enactments, the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the entity shall determine a date of the transaction for each payment or receipt of advance consideration. These enactments will be effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Group does not expect the enactments to have a significant impact on the consolidated financial statements.

- Enactment of Korean IFRS 1116 Leases

Korean IFRS 1116 Leases issued on May 22, 2017 is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted. This standard will replace Korean IFRS 1017 Leases, Interpretation 2104 Determining whether an Arrangement contains a Lease, Interpretation 2015 Operating Leases-Incentives, and Interpretation 2027 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

At inception of a contract, the Group shall assess whether the contract is, or contains, a lease. Also, at the date of initial application, the Group shall assess whether the contract is, or contains, a lease in accordance with the standard. However, as practical expedient, the Group may elect to assess whether the contract is, or contains, a lease only to contracts entered into (or changed) on or after the date of initial application.

For a contract that is, or contains, a lease, the Group shall account for each lease component within the contract as a lease separately from non-lease components of the contract. A lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. The lessee may elect not to apply the requirements to short-term lease (a lease term of 12 months or less at the commencement date) and low value underlying assets. In addition, as a practical expedient, the lessee may elect, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

Lessee accounting

A lessee shall apply this standard to its leases either:

- retrospectively to each prior reporting period presented applying Korean IFRS 1008 Accounting Policies, Changes in Accounting Estimates and Errors (Full retrospective application); or
- retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application.

The Group has not yet elected the application method.

The Group is performing an impact assessment to identify potential financial effects of applying Korean IFRS 1116. However, it is difficult to provide reasonable estimates of financial effects until the analyses is complete.

Lessor accounting

The Group expects the effect on the financial statements applying the new standard will not be significant as accounting for the Group, as a lessor, will not significantly change.

- Korean IFRS 1109 Financial Instruments

The new standard for financial instruments issued on September 25, 2015 is effective for annual periods beginning on or after January 1, 2018 with early application permitted. This standard will replace Korean IFRS 1039 Financial Instruments: Recognition and Measurement. The Group will apply the standards for annual periods beginning on or after January 1, 2018.

The standard requires retrospective application with some exceptions. For example, an entity is not required to restate prior period in relation to classification, measurement and impairment of financial instruments. The standard requires prospective application of its hedge accounting requirements for all hedging relationships except the accounting for time value of options and other exceptions.

Korean IFRS 1109 Financial Instruments requires three main areas including: (a) classification and measurement of financial assets on the basis of the entity's business model for managing financial assets and the contractual cash flow characteristics of the financial assets, (b) a new impairment model of financial instruments based on the expected credit losses, and (c) hedge accounting including expansion of the range of eligible hedging instruments and hedged items that qualify for hedge accounting or change of a method of hedge effectiveness assessment.

An effective implementation of Korean IFRS 1109 requires preparation processes including financial impact assessment, accounting policy establishment, accounting system development and the system stabilization. The impact on the Group's financial statements due to the application of the standard is dependent on judgements made in applying the standard, financial instruments held by the Group and macroeconomic variables.

The Group performed an impact assessment to identify potential financial effects of applying Korean IFRS 1109. The assessment was performed based on available information as at December 31, 2017, and the results of the assessment are explained as below.

(a) Classification and Measurement of Financial Assets

When implementing Korean IFRS 1109, the classification of financial assets will be driven by the Group's business model for managing the financial assets and contractual terms of cash flow. The following table shows the classification of financial assets measured subsequently at amortized cost, at fair value through other comprehensive income and at fair value through profit or loss. If a hybrid contract contains a host that is a financial asset, the classification of the hybrid contract shall be determined for the entire contract without separating the embedded derivative.

Business model for the contractual cash flows characteristics	Solely represent payments of principal and interest	All other
Hold the financial asset for the collection of the contractual cash flows	Measured at amortized cost ¹	
Hold the financial asset for the collection of the contractual cash flows and sale	Recognized at fair value through other comprehensive income ¹	Recognized at fair value through profit or loss ²
Hold for sale	Recognized at fair value through profit or loss	

¹ A designation at fair value through profit or loss is allowed only if such designation mitigates an accounting mismatch (irrevocable).

² Equity investments not held for trading can be recorded in other comprehensive income (irrevocable).

With the implementation of Korean IFRS 1109, the criteria to classify the financial assets at amortized cost or at fair value through other comprehensive income are more strictly applied than the criteria applied with Korean IFRS 1039. Accordingly, the financial assets at fair value through profit or loss may increase by implementing Korean IFRS 1109 and may result an extended fluctuation in profit or loss.

As at December 31, 2017, the Group owns loans and receivables of \ 4,462,838 million, financial assets held-to-maturity of \ 2,661 million, available-for-sale financial assets of \ 1,023,068 million, financial assets at fair value through profit or loss of \ 313,684 million.

The following table presents the impact of the change in classification and measurement of financial assets held by the Group as at December 31, 2017, with applying Korean IFRS 1109.

(in thousands of Korean won)

Account	In accordance with the Korean IFRS 1039			In accordance with the Korean IFRS 1109	
	Classification	Measurement Method	Amount	Measurement Method	Amount
Cash and cash equivalents	Loans and receivables	Measured at amortized cost	1,907,575,061	Measured at amortized cost	1,907,575,061
Long and short-term financial instruments	Loans and receivables	Measured at amortized cost	1,454,190,892	Measured at amortized cost	1,156,836,523
				Recognized at fair value through other comprehensive income	57,407,714
				Recognized at fair value through profit or loss	244,722,674
Trade and other receivables	Loans and receivables	Measured at amortized cost	1,101,072,454	Measured at amortized cost	1,101,072,454
Available-for-sale financial assets (debt securities)	Available-for-sale financial assets	Recognized at fair value through other comprehensive income	130,366,099	Recognized at fair value through other comprehensive income	55,596,038
				Recognized at fair value through profit or loss	74,770,061
Available-for-sale financial assets (equity securities)	Available-for-sale financial assets	Recognized at fair value through other comprehensive income	839,899,428	Recognized at fair value through other comprehensive income	578,863,169
				Recognized at fair value through profit or loss	261,036,259
Available-for-sale financial assets (others)	Available-for-sale financial assets	Recognized at fair value through other comprehensive income	52,802,640	Recognized at fair value through profit or loss	52,802,640
Held-to-maturity financial assets	Financial assets held-to-maturity	Measured at amortized cost	2,660,696	Measured at amortized cost	2,660,696
Financial assets at fair value through profit or loss	Financial assets at fair value through profit or loss	Recognized at fair value through profit or loss	313,683,892	Recognized at fair value through profit or loss	313,683,892
			5,802,251,162		5,807,027,181

With the implementation of Korean IFRS 1109, as at December 31, 2017, \ 57,408 million and \ 244,723 million of loans and receivables, which are measured at amortized cost, are classified to financial assets recognized at fair value through other comprehensive income and financial assets recognized at fair value through profit or loss, respectively. These classifications increased the total financial assets from \ 5,802,251 million to \ 5,807,027 million. Also, \ 244,723 million of loans and receivables, which are measured at amortized cost, and \ 388,609 million of financial assets available-for-sales, which are measured at fair value through other comprehensive income, are classified to financial assets recognized at fair value through profit or loss. As a result of these classifications, the share of the financial assets recognized at fair value through profit or loss will increase from 5.4% to 16.3% over the total financial assets, and may result an extended fluctuation in profit or loss.

(b) Classification and Measurement of Financial Liabilities

Korean IFRS 1109 requires the amount of the change in the liability's fair value attributable to changes in the credit risk to be recognized in other comprehensive income, unless this treatment of the credit risk component creates or enlarges a measurement mismatch. Amounts presented in other comprehensive income are not subsequently transferred to profit or loss. Under Korean IFRS 1039, all financial liabilities designated at fair value through profit or loss recognized their fair value movements in profit or loss. However, under Korean IFRS 1109, certain fair value movements will be recognized in other comprehensive income and

as a result, profit or loss from fair value movements may decrease.

As at December 31, 2017, there are no financial liabilities designated at fair value through profit or loss.

(c) Impairment: Financial Assets and Contract Assets

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under Korean IFRS 1039. It applies to financial assets classified at amortized cost, debt instruments measured at fair value through other comprehensive income, lease receivables, contract assets, loan commitments and certain financial guarantee contracts.

Under Korean IFRS 1109 'expected loss' model, a credit event (or impairment 'trigger') no longer has to occur before credit losses are recognized. The Group will always recognize (at a minimum) 12-month expected credit losses in profit or loss. Lifetime expected losses will be recognized on assets for which there is a significant increase in credit risk after initial recognition.

Stage ¹	Loss allowance
1 No significant increase in credit risk after initial recognition ²	12-month expected credit losses (expected credit losses that result from those default events on the financial instrument that are possible within 12 months after the reporting date)
2 Significant increase in credit risk after initial recognition	Lifetime expected credit losses (expected credit losses that result from all possible default events over the life of the financial instrument)
3 Credit-impaired	

¹ A loss allowance for lifetime expected credit losses is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. It is also required for contract assets or trade receivables that are not, according to Korean IFRS 1115 Revenue from Contracts with Customers, considered to contain a significant financing component. Additionally, the Group can elect an accounting policy of recognizing lifetime expected credit losses for all contract assets and/or all trade receivables, including those that contain a significant financing component.

² If the financial instrument has low credit risk at the end of the reporting date, the Group may assume that the credit risk has not increased significantly since initial recognition.

Under Korean IFRS 1109, the asset that is credit-impaired at initial recognition would recognize all changes in lifetime expected credit losses since the initial recognition as a loss allowance with any changes recognized in profit or loss.

As at December 31, 2017, the Group owns debt investment carried at amortized cost of \ 4,489,076 million (loans and receivables \ 4,486,415 million and financial assets held-to-maturity \ 2,661 million), debt investments carried at fair value through other comprehensive income, which classified as financial assets available-for-sales, of \ 130,366 million. And, the Group recognized loss allowance of \ 23,576 million for these assets.

For trade receivables, contract assets and lease receivables that contain a significant financing component, the Group measures the loss allowance at an amount equal to lifetime expected credit losses at initial recognition. The Group plans to use the simplified approach if the credit risk has not increased significantly since initial recognition because the financial instrument has a low credit risk at the reporting period. The following table presents the impact on the loss allowance measured by the Group as at December 31, 2017.

(in thousands of Korean won)

Account	Loss allowance in accordance with		
	Korean IFRS 1039 (a)	Korean IFRS 1109 (b)	Difference (b)-(a)
Trade and other receivables	12,862,181	13,061,358	199,177
Long and short-term financial instruments	-	190,718	190,718
Debt instruments available-for-sale	-	282,392	282,392
	12,862,181	13,534,468	672,287

(d) Hedge Accounting

Hedge accounting mechanics (fair value hedges, cash flow hedges and hedge of net investments in a foreign operations) required by Korean IFRS 1039 remains unchanged in Korean IFRS 1109, however, the new hedge accounting rules will align the accounting for hedging instruments more closely with the Group's risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach. Korean IFRS 1109 allows more hedging instruments and hedged items to qualify for hedge accounting, and relaxes the hedge accounting requirement by removing two hedge effectiveness tests that are a prospective test to ensure that the hedging relationship is expected to be highly effective and a quantitative retrospective test (within range of 80-125%) to ensure that the hedging relationship has been highly effective throughout the reporting period.

With implementation of Korean IFRS 1109, volatility in profit or loss may be reduced as some items that were not eligible as hedged items or hedging instruments under Korean IFRS 1039 are now eligible under Korean IFRS 1109.

As at December 31, 2017, there are no assets, liabilities, firm commitments or forecast transactions applying hedge accounting.

- Korean IFRS 1115 Revenue from Contracts with Customers

The Group will apply Korean IFRS 1115 Revenue from Contracts with Customers issued on November 6, 2015 for annual reporting periods beginning on or after January 1, 2018, and earlier application is permitted. This standard replaces Korean IFRS 1018 Revenue, Korean IFRS 1011 Construction Contracts, Interpretation 2031 Revenue-Barter Transactions Involving Advertising Services, Interpretation 2113 Customer Loyalty Programs, Interpretation 2115 Agreements for the Construction of Real Estate and Interpretation 2118 Transfers of assets from customers. The Group must apply Korean IFRS 1115 Revenue from Contracts with Customers within annual reporting periods beginning on or after January 1, 2018, and will elect the modified retrospective approach which will recognize the cumulative impact of initially applying the revenue standard as an adjustment to retained earnings as at January 1, 2018, the period of initial application.

Korean IFRS 1018 and other current revenue standard identify revenue as income that arises in the course of ordinary activities of an entity and provides guidance on a variety of different types of revenue, such as, sale of goods, rendering of services, interest, dividends, royalties and construction contracts. However, the new standard is based on the principle that revenue is recognized when control of a good or service transfers to a customer so the notion of control replaces the existing notion of risks and rewards. A new five-step process must be applied before revenue from contract with customers can be recognized:

- Identify contracts with customers
- Identify the separate performance obligation
- Determine the transaction price of the contract
- Allocate the transaction price to each of the separate performance obligations, and
- Recognize the revenue as each performance obligation is satisfied.

The Group engages in providing internet search portal services. The Group's operating revenues are mainly comprised of advertisement, business platform, IT platform and contents services.

The Group performed an impact assessment to identify potential financial effects of applying Korean IFRS 1115. The assessment was performed based on available information as at December 31, 2017, and the results of the assessment are explained as below.

a) Allocating the transaction price

With implementation of Korean IFRS 1115, the transaction price in an arrangement must be allocated to each separate performance obligation based on the relative standalone selling prices of the goods or services being provided to a customer. The Group determines the standalone selling price for each separate performance obligation by using observable standalone selling price.

As a result of the financial effects analyzed during 2017, the Group's retained earnings are expected to be increased by \ 2,681 million

as of the date of initial application (January 1, 2018) under Korean IFRS 1115.

b) A performance obligation is satisfied over time

Under the current standard, the Group recognizes contents revenue (Sticker) based on the usage pattern of users over the estimated usage period. On the other hand, the concept of a service of standing ready is clarified under Korean IFRS 1115. Therefore, the Group will recognize revenue on a straight-line method over the estimated usage period.

As a result of the financial effects analyzed during 2017, the Group's retained earnings are expected to be decreased by \ 17,708 million as of the date of initial application (January 1, 2018) under Korean IFRS 1115, recognizing the contents revenue (Sticker) on a straight-line method over the estimated usage period.

c) Identify performance obligation

Under the current standard, the Group recognizes the fair value of LINE points granted to users in relation to LINE Point Ad service as deferred revenue until the time when utilized by the users, regarded as a customer loyalty program. On the other hand, the definition of a "customer" is clarified under Korean IFRS 1115 and the Group determines the advertisers as customers for LINE Point Ad services, not the users who receive LINE Points. In addition, it is not a performance obligation in the contract with an advertiser to manage LINE Points or to provide users with other goods or services in exchange for the LINE Points. Therefore, the Group will recognize provisions for the expenses expected to be incurred in relation to the consumption of LINE Points under Korean IFRS 1115.

As a result of the financial effects analyzed during 2017, the Group's retained earnings are expected to be increased by \ 6,796 million as of the date of initial application (January 1, 2018) under Korean IFRS 1115, recognizing LINE Points when they are granted as expenses expected to be incurred in relation to the consumption of LINE Points, rather than recognizing the fair value as deferred revenue.

d) Principal versus Agent ; Contractual Incremental Costs

The Group enters into contracts with agencies with respect to services provided through LINE platform. Under current standard, the Group recognizes revenue by deducting the share attributable to agencies from the total consideration received from customers due to the fact that the share of the advertising agency is identified as an individually identifiable element, that the Group does not directly provide the service and earns revenue at constant rate, and that the Group does not bear credit risks.

With implementation of Korean IFRS 1115, the Group determines that the Group controls the service provided by agencies and thus the Group is a principal. In addition, the Group determined the commissions to agencies meets criteria of the incremental costs of obtaining a contract, which are specified in Korean IFRS 1115.

As a result of the financial effects analyzed during 2017, there will be no change in the Group's retained earnings as of the date of initial application (January 1, 2018) under Korean IFRS 1115.

2.3 Consolidation

The Group has prepared the consolidated financial statements in accordance with Korean IFRS 1110 Consolidated Financial Statements.

(a) Subsidiaries

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group. The consideration transferred is measured at the fair values of the assets transferred, and identifiable assets acquired and liabilities and contingent liabilities

assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognizes any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets. All other non-controlling interests are measured at fair values, unless otherwise required by other standards. Acquisition-related costs are expensed as incurred.

The excess of consideration transferred, amount of any non-controlling interest in the acquired entity and acquisition-date fair value of any previous equity interest in the acquired entity over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognized directly in the profit or loss as a bargain purchase.

Intercompany transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interest to reflect their relative interest in the subsidiary. Any difference between the amount of the adjustment to non-controlling interest and any consideration paid or received is recognized in a separate reserve within equity attributable to owners of the Parent Company.

When the Group ceases to consolidate for a subsidiary because of a loss of control, any retained interest in the subsidiary is remeasured to its fair value with the change in carrying amount recognized in profit or loss.

(b) Associates

Associates are entities over which the Group has significant influence but not control or joint control. Investments in associates are accounted for using the equity method of accounting, after initially being recognized at cost. Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. If there is objective evidence of impairment for the investment in the associate, the Group recognizes the difference between the recoverable amount of the associate and its book amount as impairment loss.

(c) Joint Ventures

A joint agreement, wherein two or more parties have joint control, is classified as either a joint operation or a joint venture. A joint operator holds direct rights and obligations to the assets, liabilities, revenues and expenses of joint operations and recognizes its share of any jointly held or incurred assets, liabilities, revenues and expenses. Interests in joint ventures are accounted for using the equity method, after initially being recognized at cost in the consolidated statement of financial position.

2.4 Foreign Currency Translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which each entity operates (the "functional currency"). The consolidated financial statements are presented in Korean won, which is the Parent Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognized in profit or loss.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when

the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognized in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as available-for-sale financial assets are recognized in other comprehensive income.

(c) Translation to the presentation currency

All of the entity's financial statements that have functional currencies different from the presentation currency of the Group are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of the reporting period,
- income and expense for each statement of comprehensive income are translated at the average exchange rate,
- equity is translated at the historical exchange rate, and
- all resulting exchange differences are recognized in other comprehensive income.

2.5 Financial Assets

(a) Classification and measurement

The Group classifies its financial assets into the following categories: financial assets at fair value through profit or loss, available-for-sale financial assets, loans and receivables and held-to-maturity financial assets. Regular way purchases and sales of financial assets are recognized on trade-date, the date on which the Group commits to purchase or sell the asset.

The Group designated financial assets securitized derivatives that are managed and evaluated on a fair value basis in accordance with the investment strategy as financial assets at fair value through profit or loss.

At initial recognition, the Group measures a financial asset at its 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 acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. And, loans and receivables and financial assets held to maturity are subsequently carried at amortized cost using the effective interest method.

Gains or losses arising from changes in the fair value of financial assets at fair value through profit or loss are recognized in profit or loss within finance income or finance costs. Gains or losses arising from changes in the available-for-sale financial assets are recognized in other comprehensive income, and amounts are reclassified to profit or loss when the associated assets are sold or impaired.

(b) Impairment

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or a group of financial assets that can be reliably estimated.

Impairment of loans and receivables is presented as a deduction in an allowance account, and that of other financial assets is directly deducted from their carrying amount. The Group writes off financial assets when the assets are determined to be no longer recoverable.

The Group considers that there is objective evidence of impairment if significant financial difficulties of the debtor, or prolonged delinquency in interest or principal payments is indicated. Moreover, in the case of equity investments classified as available-for-

sale, a significant decline in the fair value of the security below its cost significantly or prolonged decline is considered an objective evidence of impairment.

(c) Derecognition

If a transfer does not result in derecognition because the Group has retained substantially all the risks and rewards of ownership of the transferred asset, the Group continues to recognize the transferred asset in its entirety and recognizes a financial liability for the consideration received.

(d) Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statements of financial position where there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the assets and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Group or the counterparty.

2.6 Derivatives instruments

Derivatives are initially recognized at fair value on the date when a derivative contract is entered into and are subsequently remeasured at their fair value at the end of each reporting period. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognized immediately in profit or loss within 'other income (expenses)' or 'finance income (costs)' based on the nature of transactions.

2.7 Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the first-in, first-out (FIFO) method.

2.8 Property and Equipment

Property and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation of all property and equipment, except for land, is calculated using the straight-line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives as follows:

	Useful life
Buildings	30 years
Structures	10
Vehicles	5
Office equipment	3 - 5
Machinery	3
Others	4 - 6

The assets' depreciation method, residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

2.9 Borrowing Costs

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized during the period of time that is required to complete and prepare the asset for its intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. Other borrowing costs are expensed in the period in which they are incurred.

2.10 Intangible Assets

Goodwill is measured as described in Note 2.3.(a), and carried at cost less accumulated impairment losses.

Intangible assets are initially recognized at its historical cost, and carried at cost less accumulated amortization and accumulated impairment losses.

Membership rights that have an indefinite useful life are not subject to amortization because there is no foreseeable limit to the period over which the assets are expected to be utilized. The Group amortizes intangible assets with a limited useful life using the straight-line method over the following periods:

	Useful life
Industrial rights	5 years
Software	5
Others	5-30

2.11 Government Grants

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants related to assets are presented in the statement of financial position either by deducting the grant in arriving at the carrying amount of the asset, and government grants related to income are deferred and later deducted from the related expense.

2.12 Impairment of Non-financial Assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

2.13 Financial Liabilities

(a) Classification and measurement

The Group's financial liabilities at fair value through profit or loss are financial instruments held for trading. A financial liability is held for trading if it is incurred principally for the purpose of repurchasing in the near term. A derivative that is not designated as hedging instruments and an embedded derivative that is separated are also classified as held for trading.

The Group classifies non-derivative financial liabilities, except for financial liabilities at fair value through profit or loss, financial guarantee contracts and financial liabilities that arise when a transfer of financial assets does not qualify for derecognition, as financial liabilities carried at amortized cost and present as 'trade and other payables', 'borrowings', or 'debentures' in the consolidated statement of financial position.

(b) Derecognition

Financial liabilities are removed from the statement of financial position when they are extinguished, for example, when the obligation specified in the contract is discharged, cancelled or expired or when the terms of an existing financial liability are substantially modified.

2.14 Provisions

Provisions are measured at the present value of the expenditure required to settle the present obligation at the end of the reporting period, and the increase in the provision due to the passage of time is recognized as interest expense.

2.15 Current and Deferred Income Tax

The tax expense for the period consists of current and deferred tax. The Company is implementing a consolidated tax payment system to presume the Parent Company and its subsidiaries in Korea are one taxpayer. Subsidiaries that are not included in the consolidated tax payment system measure and pay their tax returns by regarding each entities as a taxation unit. Current and deferred tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

The tax expense is measured at the amount expected to be paid to the taxation authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. The Group recognizes current income tax on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred tax assets are recognized only if it is probable that future taxable amounts will be available to utilize those temporary differences and losses.

The Group recognizes a deferred tax liability all taxable temporary differences associated with investments in subsidiaries, associates, and interests in joint arrangements, 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. In addition, the Group recognizes a deferred tax asset for all deductible temporary differences arising from such investments to the extent that it is probable the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis.

2.16 Employee Benefits

(a) Post-employment benefits

The Group operates both defined contribution and defined benefit pension plans.

For defined contribution plans, the Group pays contribution to publicly or privately administered pension insurance plans on mandatory, contractual or voluntary basis. The Group has no further payment obligation once the contribution have been paid. The contribution are recognized as employee benefit expense when they are due.

A defined benefit plan is a pension plan that is not a defined contribution plan. Generally, post-employment benefits are payable after the completion of employment, and the benefit amount depended on the employee's age, periods of service or salary levels. The liability recognized in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms approximating to the terms of the

related obligation. Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized in the period in which they occur, directly in other comprehensive income.

Changes in the present value of the defined benefit obligation resulting from plan amendments, curtailments and settlements are recognized immediately in profit or loss as past service costs.

(b) Share-based payments

Equity-settled share-based payment is recognized at fair value of equity instruments granted, and employee benefit expense is recognized over the vesting period. At the end of each period, the Group revises its estimates of the number of options that are expected to vest based on the non-market vesting and service conditions. It recognizes the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

When the options are exercised, the Group issues new shares. The proceeds received, net of any directly attributable transaction costs, are recognized as share capital (nominal value) and share premium.

Under cash-settled share based payment plan, the Group compensates the difference of the fair value and exercise price of option as the consideration for employee services received. Total expense that will be recognized over the vesting period is determined by reference to the fair value of the option granted. Until the liability is settled, the Group is required to remeasure the fair value of the liability at the end of each reporting period and at the date of settlement, with any changes in value recognized in profit or loss for the period.

2.17 Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable for the sale of goods or rendering of services arising from the normal course of the business. Amounts disclosed as revenue are net of value added taxes, returns, rebates and discounts and after elimination of inter-company transactions.

The Group recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities as described below. The Group bases its estimate on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) Sale of goods

Revenue from the sale of goods is recognized when products are delivered to the customer.

(b) Rendering of services

Revenue from internet and mobile services is recognized when such services are rendered. The other revenues from rendering of services are recognized under the accrual basis of accounting based on the terms of the contracts.

(c) Commission income

The Group recognizes the net amount charged to the client less the amount needs to be paid to the actual supplier of the goods and services as commission income in case the Group performs as agent of the supplier, not the principal of the transaction.

(d) Customer loyalty program

The Group operates a customer loyalty program where customers accumulate points for purchases made which entitle them to discounts on future purchases. The fair value of the consideration received or receivable in respect of the initial sale is allocated between the reward points and the other components of the sale. The fair value of the reward points is measured by taking into account the proportion of the reward points that are not expected to be redeemed by customers. Revenue from the reward points is recognized when the points are redeemed and the reward points are expected to expire 12 months after the initial sale.

(e) Interest income

Interest income is recognized using the effective interest method according to the time passed. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount and continues unwinding the discount as interest income. Interest income on impaired loans and receivables is recognized using the original effective interest rate.

(f) Dividend income

Dividend income is recognized when the right to receive payment is established.

2.18 Segment Reporting

Information of each operating segment is reported in a manner consistent with the internal business segment reporting provided to the chief operating decision-maker (Note 35). The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors that makes strategic decisions.

2.19 Approval of Issuance of the Financial Statements

The consolidated financial statements 2017 were approved for issue by the Board of Directors on January 24, 2018 and are subject to change with the approval of shareholders at their Annual General Meeting.

3. Critical Accounting Estimates and Assumptions

The preparation of financial statements requires the Group to make estimates and assumptions concerning the future. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Estimated goodwill impairment

The Group tests whether goodwill has suffered any impairment on an annual basis. The recoverable amount of a cash generating unit (CGU) is determined based on value-in-use calculations (Note 15).

(b) Income taxes

The Group's taxable income generated from these operations are subject to income taxes based on tax laws and interpretations of tax authorities in numerous jurisdictions. There are many transactions and calculations for which the ultimate tax determination is uncertain (Note 29).

If certain portion of the taxable income is not used for investments or increase in wages or dividends in accordance with the Tax System For Recirculation of Corporate Income, the Group is liable to pay additional income tax calculated based on the tax laws. The new tax system is effective for three years from 2015. Also, in accordance with the Tax System For Promotion of Investment and Cooperation, if certain portion of the taxable income is not used for investments or increase in wages, the Group is liable to pay additional income tax calculated based on the tax laws. The new tax system is effective for three years from 2018. Accordingly, the measurement of current and deferred income tax is affected by the tax effects from the new tax systems. As the Group's income tax is dependent on the investments, increase in wages and dividends, there is an uncertainty measuring the final tax effects.

(c) Fair value of financial instruments

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the

end of each reporting period (Note 5).

(d) Net defined benefit liability

The present value of net defined benefit liability depends on a number of factors that are determined on an actuarial basis using a number of assumptions including the discount rate (Note 21).

(e) Provisions

As at December 31, 2017, the Group recognizes provisions for social contribution, restoration and others. These provisions are estimated based on past experience (Note 20).

(f) Stock option

The Group measures the cost of equity-settled share-based payment transaction by reference to the fair value of equity instruments granted at the grant date and the fair value is estimated using valuation models which considers the conditions upon which equity instruments are granted. Also, the Group measures the cost of cash-settled share-based payment transaction based on the fair value of the liability considering vesting conditions. Until the liability is settled, the Group is required to remeasure the fair value of the liability at the end of each reporting period and at the date of settlement (Note 24).

4. Financial Risk Management**4.1 Financial Risk Factors**

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, price risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize any adverse effects on the financial performance of the Group.

4.1.1 Market risk**(a) Foreign exchange risk**

The Group operates internationally and is exposed to foreign exchange risk arising from foreign currency transactions, primarily with respect to the US dollar and the Japanese yen. Foreign exchange risk arises from recognized assets and liabilities.

The Group's financial assets and liabilities exposed to foreign currency risk for major foreign currencies (USD and JPY) as at December 31, 2017 and 2016, are as follows:

(in USD, JPY and thousands of Korean won)

		2017		2016	
		Foreign currency	Korean won	Foreign currency	Korean won
Financial asset					
Cash and cash equivalents	USD	107,871,956	115,574,013	34,935,395	42,219,424
	JPY	4,618,017,707	43,830,068	6,687,237,897	69,333,951
Shor-term financial instruments	USD	10,022,606	10,738,220	2,207,455	2,667,709
Trade and other receivables	USD	45,471,499	48,718,164	24,742,968	29,901,877
	JPY	13,942,430,313	132,329,000	10,516,839,115	109,039,640
Available-for-sale financial assets	USD	66,610,236	71,366,206	9,084,357	10,978,445
Financial liabilities					
Trade and other payables	USD	33,606,008	36,005,477	18,328,879	22,150,451
	JPY	11,476,198,922	108,921,751	12,420,086,431	128,772,698

The impact of weakened/strengthened Korean won by 5% against foreign currencies with all other variables held constant on the post-tax profit for the years ended and equity as at December 31, 2017 and 2016, is as follows:

(in thousands of Korean won)

		Impact on post-tax profit		Impact on equity	
		2017	2016	2017	2016
USD	Weakened	5,269,044	2,188,425	7,973,824	2,188,425
	Strengthened	(5,269,044)	(2,188,425)	(7,973,824)	(2,188,425)
JPY	Weakened	2,548,294	2,070,067	2,548,294	2,070,067
	Strengthened	(2,548,294)	(2,070,067)	(2,548,294)	(2,070,067)

(b) Price risk

The Group is exposed to equity securities price risk arises from investments held by the Group and classified in the consolidated statement of financial position either as available-for-sale or at fair value through profit or loss.

The impact of increases/decreases of the stock index of each country by 5% with all other variables held constant on the Group's post-tax profit for the years ended and equity as at December 31, 2017 and 2016, are as follows:

(in thousands of Korean won)

		Impact on post-tax profit		Impact on equity	
		2017	2016	2017	2016
Korea	Increase	48,584	20,319	18,372,044	20,319
	Decrease	(48,584)	(20,319)	(18,372,044)	(20,319)
USA	Increase	3,567,286	2,355,132	3,567,286	2,483,378
	Decrease	(3,567,286)	(2,355,132)	(3,567,286)	(2,483,378)
Japan	Increase	-	-	565,976	793,592
	Decrease	-	-	(565,976)	(793,592)

(c) Interest rate risk

Interest rate risk is defined as the risk that the interest income or expenses arising from deposits and borrowings will fluctuate because of changes in future market interest rate. The interest rate risk mainly arises on floating rate deposits and borrowings. The objective of interest rate risk management lies in maximizing corporate value by minimizing uncertainty in interest rates fluctuations and net interest expense.

As at December 31, 2017, the Group has floating rate deposits which exceed floating rate borrowings, and because of this, net interest income increase when interest rates increase. The Group adequately minimizes risks from interest rate fluctuations through various policies, such as avoiding high rate borrowings, reforming capital structure, monitoring fluctuations of domestic and foreign interest rates daily, weekly and monthly, establishing alternatives, and balancing floating rate short-term borrowings with floating rate deposits.

The impact of 10bp higher/lower of interest rate with all other variables held constant on the Group's post-tax profit for the years ended and equity as at December 31, 2017 and 2016, is as follows:

(in thousands of Korean won)

	Impact on post-tax profit		Impact on equity	
	2017	2016	2017	2016
Increase	631,499	758,892	631,499	719,378
Decrease	(631,499)	(758,892)	(631,499)	(719,378)

4.1.2 Credit Risk

Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions. For banks and financial institutions, only independently rated parties with high rating are accepted. If customers are independently rated, these ratings are used. If there is no independent rating, the credit quality of the customer is evaluated by taking into account its financial position, past experience and other factors. The utilization of credit limits is regularly monitored.

As at December 31, 2017, and 2016, the book amount of the Group's financial assets represents the maximum exposure of the credit risks after deducting impairment losses.

4.1.3 Liquidity Risk

The Group monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. Such forecasting takes into consideration the Group's debt financing plans, covenant compliance with internal financial ratio target and external regulatory or legal requirements such as currency restrictions.

Details of the Group's liquidity risk analysis as at December 31, 2017 and 2016, are as follows:

(in thousands of Korean won)

	2017			
	Book amount	Cash flow in agreement	Less than 1 years	Between 1 and 5 years
Trade and other payables	620,963,606	620,963,606	609,311,432	11,652,174
Borrowings	260,944,899	265,221,860	211,182,416	54,039,444
Debentures	150,000,000	152,763,800	152,763,800	-
	1,031,908,505	1,038,949,266	973,257,648	65,691,618

(in thousands of Korean won)

	2016			
	Book amount	Cash flow in agreement	Less than 1 years	Between 1 and 5 years
Trade and other payables	492,888,649	492,888,649	483,823,377	9,065,272
Borrowings	227,320,593	227,440,867	227,440,867	-
Debentures	150,000,000	155,952,800	3,189,000	152,763,800
	870,209,242	876,282,316	714,453,244	161,829,072

4.2 Capital Risk Management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern. The Group uses debt to equity ratio for capital management. This ratio is calculated as total debt divided by total equity as shown in the statements of financial position

The Group's debt to equity ratio as at December 31, 2017 and 2016 are as follows:

(in thousands of Korean won)

	2017	2016
Debt	2,714,065,325	2,241,036,318
Equity	5,305,186,235	4,129,598,863
Debt to equity ratio	51.16%	54.27%

5. Fair Value

5.1 Financial Instruments Measured at Fair Value

Details of financial instruments measured at fair value as at December 31, 2017 and 2016, are as follows:

(in thousands of Korean won)

	2017		2016	
	Book amount	Fair value	Book amount	Fair value
Financial assets				
Financial assets at fair value through profit or loss	313,683,892	313,683,892	356,388,626	356,388,626
Available-for-sale financial assets	1,013,113,446	1,013,113,446	316,104,081	316,104,081
	1,326,797,338	1,326,797,338	672,492,707	672,492,707
Financial liabilities				
Financial liabilities at fair value through profit or loss	4,638,541	4,638,541	-	-

As at December 31, 2016, there were no financial liabilities measured at fair value, financial assets and liabilities whose carrying amount is a reasonable approximation of fair value are excluded from the fair value disclosures.

5.2 Financial Instruments Measured at Cost

Details of financial instruments measured at cost as at December 31, 2017 and 2016, are as follows:

(in thousands of Korean won)

	2017	2016
Available-for-sale financial assets	9,954,721	100,402,351

The above available-for-sale financial assets mainly consist of unlisted securities, of which the variability of estimated cash flows is significant and the probabilities of the various estimates cannot be reasonably assessed.

5.3 Fair Value Hierarchy

Financial instruments measured at fair value are categorized within the fair value hierarchy, and the defined levels are as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

Fair value hierarchy classifications of the financial instruments that are measured at fair value or its fair value is disclosed as at December 31, 2017 and 2016, are as follows:

(in thousands of Korean won)

	2017			Total
	Level 1	Level 2	Level 3	
Recurring fair value measurements				
Financial assets				
Financial assets at fair value through profit or loss	95,405,587	46,465,466	171,812,839	313,683,892
Available-for-sale financial assets	498,402,007	152,682,848	362,028,591	1,013,113,446
Financial liabilities				
Financial liabilities at fair value through profit or loss	-	-	4,638,541	4,638,541

(in thousands of Korean won)

	2016			Total
	Level 1	Level 2	Level 3	
Recurring fair value measurements				
Financial assets at fair value through profit or loss	62,676,789	12,164,335	281,547,502	356,388,626
Available-for-sale financial assets	24,322,904	169,038,711	122,742,466	316,104,081

5.4 Transfers Between Fair Value Hierarchy Levels of Recurring Fair Value Measurements

The Group recognizes transfers between levels of the fair value at the end of the reporting period. There are no transfers between Level 1 and Level 2 for recurring fair value measurements during the year.

Details of changes in level 3 of the fair value hierarchy for recurring fair value measurements for the years ended December 31, 2017 and 2016, are as follows:

(in thousands of Korean won)

	2017		2016	
	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Financial assets at fair value through profit or loss	Available-for-sale financial assets
Beginning balance	281,547,502	122,742,466	267,066,492	139,228,275
Total profit or loss				
Amount recognized in profit or loss	9,671,748	(26,738,125)	(4,120,523)	(383,856)
Amount recognized in other comprehensive income	-	67,947,602	-	(22,774,371)
Acquisition	160,393,754	152,981,004	241,850,761	8,353,830
Disposal	(279,800,165)	(61,274,697)	(223,249,228)	(2,356,042)
Others	-	7,631,625	-	-
Transfer into Level 3 ¹	-	104,085,078	-	-
Exchange differences	-	(5,346,362)	-	674,630
Ending balance	171,812,839	362,028,591	281,547,502	122,742,466

¹ During the year, the Group reclassified debt instrument that are measured based on unobservable inputs amounting to \ 14,515 million as level 3. Also, the Group measured equity instruments at fair value amounting to \ 89,570 million that were recognized at cost and reclassified as level 3.

5.5 Valuation Techniques and the Inputs

Valuation techniques and inputs used in the fair value measurements of financial instruments categorized in Levels 2 and Level 3 of the fair value hierarchy as at December 31, 2017 and 2016, are as follows:

(in thousands of Korean won)

2017						
	Fair value	Level	Valuation techniques	Major Inputs	Unobservable inputs	Range of unobservable inputs
Financial assets at fair value through profit or loss						
Derivatives linked securities	132,341,738	3	Black Scholes Model, Hull-White Model, Monte Carlo Simulation, Gaussian 1-factor model, Garman-Kohlhagen model and others	Price of the underlying assets, Dividend rate, Volatility of the underlying assets, Correlation between the underlying assets (rates of return on shares), Interest rate, CDS SPREAD, Recovery rate, Discount rate	Volatility of the underlying assets Correlation coefficient CDS SPREAD Discount rate Recovery rate	9.2% ~ 10.45% 0 ~ 1 0.10% ~ 0.47% 1.66% ~ 2.41% 40.00%
Debt securities	43,474,930	2	Present value method	Credit risk adjusted discount rate	-	-
Derivatives	2,990,536	2	Present value method	Forward rate	-	-
Derivatives	39,471,102	3	Option pricing model	Price of the underlying assets, Credit risk adjusted discount rate, Volatility of the underlying assets	Volatility of the underlying assets Discount rate	25.51% ~ 46.00% 2.34% ~ 2.37%
Available-for-sale financial assets						
Beneficiary certificates	26,353,363	2	-	Quoted price of the underlying assets	-	-
Beneficiary certificates	22,990,070	3	Market approach	EBITDA Multiple Revenue Multiple Liquidity discount rate	EBITDA Multiple Revenue Multiple Liquidity discount rate	31.1 2.2 11.50%
Debt securities	126,329,485	2	Present value method	Credit risk adjusted discount rate	-	-
Debt securities	4,036,614	3	Present value method	Credit risk adjusted discount rate	Discount rate	2.21%
Equity securities	335,001,907	3	Market approach, Discount Cash Flow model,	EBITDA Multiple Revenue Multiple Discount rate	EBITDA Multiple Revenue Multiple Discount rate	3.11 ~ 19.32 2.25 ~ 6.16 9.60% ~ 13.00%
Financial liabilities at fair value through profit or loss						
Derivatives	4,638,541	3	Option pricing model, Binomial distribution model, Monte Carlo Simulation	Price of the underlying assets, Volatility of the underlying assets, Discount rate	Volatility of the underlying assets Discount rate	9.20% ~ 45.00% 2.47% ~ 4.26%

(in thousands of Korean won)

2016						
	Fair value	Level	Valuation techniques	Major Inputs	Unobservable inputs	Range of unobservable inputs
Financial assets at fair value through profit or loss						
Derivatives linked securities	277,209,451	3	Black Scholes Model, Hull-White Model, Monte Carlo Simulation, Gaussian 1-factor model, Garman-Kohlhagen model and Others	Price of the underlying assets, Dividend rate, Volatility of the underlying assets, Correlation between the underlying assets (rates of return on shares), Interest rate, CDS SPREAD, Recovery rate, Discount rate	Volatility of the underlying assets Correlation coefficient CDS SPREAD Discount rate Recovery rate	3.29% ~ 37.15% 0.00 ~ 1.00 0.14% ~ 1.97% 1.92% ~ 2.31% 40.00%
Debt securities	12,164,335	2	Present value method	Credit risk adjusted discount rate	-	-
Derivatives	4,338,051	3	Option pricing model	Price of the underlying assets, Credit risk adjusted discount rate, Volatility of the underlying assets	Volatility of the underlying assets Discount rate	34.30% ~ 39.56% 1.56% ~ 1.88%
Available-for-sale financial assets						
Beneficiary certificates	23,104,863	2	-	Quoted price of the underlying assets	-	-
Beneficiary certificates	14,508,458	3	Market approach	EBITDA Multiple Revenue Multiple Liquidity discount rate	EBITDA Multiple Revenue Multiple Liquidity discount rate	35.3 8.85 30.00%
Debt securities	145,933,848	2	Present value method	Credit risk adjusted discount rate	-	-
Equity securities	108,234,008	3	Market approach	EBITDA Multiple Revenue Multiple Liquidity discount rate	EBITDA Multiple Revenue Multiple Liquidity discount rate	2.54 ~ 21.70 0.15 ~ 16.85 30.00%

5.6 Valuation Processes for Fair Value Measurements Categorized Within Level 3

The Group operates a separate team that performs the fair value measurements required for financial reporting purposes, including level 3 fair values. This team reports directly to the chief financial officer (CFO), and discusses the valuation process and results with the CFO at least once a quarter in line with the Group's quarterly reporting schedule.

5.7 Sensitivity Analysis for Recurring Fair Value Measurements Categorized Within Level 3

Sensitivity analysis of financial instruments is performed to measure favorable and unfavorable changes in the fair value of financial instruments which are affected by the unobservable parameters, using a statistical technique. When the fair value is affected by more than two input parameters, the amounts represent the most favorable or most unfavorable. The results of the sensitivity analysis for the effect on profit or loss from changes in inputs for each financial instrument, which is categorized within level 3 and subject to sensitivity analysis, are as follows:

(in thousands of Korean won)

	2017			
	Favorable changes		Unfavorable changes	
	Profit or loss	Equity	Profit or loss	Equity
Financial assets				
Derivatives-linked securities ¹	205,597	205,597	(75,031)	(75,031)
Derivatives ²	9,097,706	9,086,452	(6,148,903)	(6,140,816)
Unlisted shares ³	-	24,742,192	-	(24,742,192)

(in thousands of Korean won)

	2016			
	Favorable changes		Unfavorable changes	
	Profit or loss	Equity	Profit or loss	Equity
Financial assets				
Derivatives-linked securities ¹	401,409	401,409	(1,175,418)	(1,175,418)
Derivatives ²	1,316,262	1,316,262	(1,057,175)	(1,057,175)
Unlisted shares ³	-	5,589,702	-	(6,144,075)

¹ For derivative-linked securities related to stocks (index), foreign exchange rate and interest rate, changes in their fair value are calculated by increasing or decreasing the volatility of the underlying assets and correlation, which are significant unobservable inputs, by 10%. For derivative-linked securities related to credit events, changes in fair value are calculated by increasing or decreasing the CDS SPREAD by 10bp.

² For derivative instruments such as conversion rights to the common stock, changes in their fair value are calculated by increasing or decreasing the volatility of the stock price, which are significant unobservable inputs, by 10%.

³ For unlisted stocks, changes in their fair value are calculated by increasing or decreasing the EBITDA multiple or revenue multiple, which are significant unobservable inputs, by 10%.

6. Financial Instruments by Category

6.1 Carrying Amounts of Financial Instruments by Category

Categorizations of financial assets and liabilities as at December 31, 2017 and 2016, are as follows:

(in thousands of Korean won)

	2017				
	Financial assets at fair value through profit or loss	Loans and receivables	Available-for-sale financial assets	Held-to-maturity financial assets	Total
Cash and cash equivalents	-	1,907,575,061	-	-	1,907,575,061
Long and short-term financial instruments ¹	-	1,454,190,892	-	-	1,454,190,892
Financial assets at fair value through profit or loss	313,683,892	-	-	-	313,683,892
Trade and other receivables	-	1,101,072,454	-	-	1,101,072,454
Available-for-sale financial assets	-	-	1,023,068,167	-	1,023,068,167
Held-to-maturity financial assets	-	-	-	2,660,696	2,660,696
	313,683,892	4,462,838,407	1,023,068,167	2,660,696	5,802,251,162

¹ As at December 31, 2017, long and short-term financial instruments amounting to \ 18,800 million are restricted as deposits for shared corporate growth program, \ 500 million are pledged with regard to the restoration of the leased facilities and \ 5,000 million are restricted for the borrowings with prime rate for the Group's employees. In addition, \ 1,690 million out of long and short-term financial instruments are pledged to Shinhan bank for financial guarantees in relation to NaverPay service.

(in thousands of Korean won)

	2017	
	Financial liabilities at fair value through profit or loss	Financial liabilities at amortized cost
Trade and other payables	-	620,963,606
Financial liabilities at fair value through profit or loss	4,638,541	-
Borrowings	-	260,944,900
Debentures	-	150,000,000
	4,638,541	1,031,908,506

(in thousands of Korean won)

	2016				
	Financial assets at fair value through profit or loss	Loans and receivables	Available-for-sale financial assets	Held-to-maturity financial assets	Total
Cash and cash equivalents	-	1,726,231,781	-	-	1,726,231,781
Long and short-term financial instruments	-	1,435,369,526	-	-	1,435,369,526
Financial assets at fair value through profit or loss	356,388,626	-	-	-	356,388,626
Trade and other receivables	-	883,414,769	-	-	883,414,769
Available-for-sale financial assets	-	-	416,506,432	-	416,506,432
Held-to-maturity financial assets	-	-	-	2,907,350	2,907,350
	356,388,626	4,045,016,076	416,506,432	2,907,350	4,820,818,484

(in thousands of Korean won)

	2016
	Financial liabilities at amortized cost
Trade and other payables	492,888,649
Short-term borrowings	227,320,593
Debentures	150,000,000
	870,209,242

6.2 Net Gains or Losses by Category of Financial Instruments

Net gains or losses on each category of financial instruments for the years ended December 31, 2017 and 2016, are as follows:

(in thousands of Korean won)

	2017	2016
Available-for-sale financial assets		
Loss on valuation (other comprehensive income)	(22,809,784)	(12,901,820)
Gain (loss) on disposal (profit or loss)	(14,655,037)	60,000
Gain on disposal (reclassified to profit or loss) ¹	21,149,295	(42,827)
Interest income	6,582,462	5,671,255
Foreign currency exchange differences	3,483	(329,818)
Dividend income	11,039,823	7,817,460
Impairment loss (profit or loss)	(20,616,107)	(5,979,510)
Loans and receivables		
Interest income	27,399,186	27,710,333
Foreign currency exchange differences ²	(7,829,725)	(5,692,153)
Bad debt expenses / Reversal	3,623,071	(10,858,609)
Other bad debt expenses ²	(2,775,832)	(545,561)
Financial assets at fair value through profit or loss		
Interest income	2,659,462	2,173,086
Foreign currency exchange differences	-	(12,949)
Gain (loss) on valuation	46,055,269	(6,476,021)
Gain on disposal	4,348,731	2,571,190
Held-to-maturity financial assets		
Interest income	36,920	29,078
Financial liabilities measured at amortized cost		
Interest expense ²	(568,580)	(6,070,381)
Foreign currency exchange differences ²	(9,161,420)	754,971

¹ The amount reclassified from other comprehensive income to profit or loss.

² The amounts include discontinued operations income and expenses.

7. Cash and Cash Equivalents and Long and short-term Financial Instruments

Cash and cash equivalents long and short-term financial instruments as at December 31, 2017 and 2016, are as follows:

(in thousands of Korean won)

	2017	2016
Cash and cash equivalents		
Cash on hand	543,236	86,720
Bank deposits	1,774,342,660	1,715,992,475
Time deposits	132,689,165	10,152,586
	1,907,575,061	1,726,231,781
Short-term financial instruments		
Time deposits	895,321,247	885,208,759
Commercial paper	-	10,000,000
ABCP	230,507,600	347,979,767
Corporate bonds	8,060,651	-
Bank debenture	200,000,000	-
	1,333,889,498	1,243,188,526
Long-term financial instruments		
Time deposits	19,300,000	122,181,000
ABCP	10,000,000	60,000,000
Corporate bonds	91,001,394	-
Others	-	10,000,000
	120,301,394	192,181,000

8. Financial Assets at Fair Value through Profit or Loss

Financial assets at fair value through profit or loss as at December 31, 2017 and 2016, are as follows:

(in thousands of Korean won)

	2017	2016
Current		
Derivatives-linked securities	132,341,738	277,209,451
Others	142,190,973	74,841,124
	274,532,711	352,050,575
Non-current		
Others	39,151,181	4,338,051
	313,683,892	356,388,626

Changes in fair value of financial assets at fair value through profit or loss are presented as 'financial income and costs' in the consolidated statements of comprehensive income (Note 28).

9. Trade and Other Receivables

Trade and other receivables as at December 31, 2017 and 2016, are as follows:

(in thousands of Korean won)

	2017			2016		
	Gross amount	Allowances	Book amount	Gross amount	Allowances	Book amount
Current						
Trade receivables	626,239,979	(4,701,800)	621,538,179	485,340,272	(9,896,606)	475,443,666
Other receivables	400,311,981	(7,740,753)	392,571,228	225,262,207	(6,901,066)	218,361,141
Loans	2,013,965	(186,901)	1,827,064	42,164,914	(555,212)	41,609,702
Accrued income	9,141,950	(51,309)	9,090,641	13,371,196	-	13,371,196
Leasehold deposits	1,845,697	-	1,845,697	12,127,392	-	12,127,392
	1,039,553,572	(12,680,763)	1,026,872,809	778,265,981	(17,352,884)	760,913,097
Non-current						
Trade receivables	131,379	(131,379)	-	845,946	(845,946)	-
Other receivables	646	(646)	-	5,918	(5,918)	-
Loans	1,048,005	(49,393)	998,612	30,083,241	-	30,083,241
Leasehold deposits	73,143,089	-	73,143,089	35,223	-	35,223
Other financial assets	57,944	-	57,944	92,383,208	-	92,383,208
	74,381,063	(181,418)	74,199,645	123,353,536	(851,864)	122,501,672

Changes in the allowance for trade and other receivables for the years ended December 31, 2017 and 2016, are as follows:

(in thousands of Korean won)

	2017	2016
Beginning balance	18,204,748	11,843,565
Write off	(4,171,574)	(6,694,791)
Bad debt expenses (Reversal)	(847,239)	11,404,170
Others	(323,754)	1,651,804
Ending balance	12,862,181	18,204,748

The aging analysis of the trade and other receivables as at December 31, 2017 and 2016, is as follows:

(in thousands of Korean won)

	2017		2016	
	Trade receivables	Other receivables	Trade receivables	Other receivables
Receivables not past due ¹	587,010,991	378,273,022	463,323,798	216,836,533
Past due but not impaired ²				
Up to 6 months	33,326,700	14,298,206	12,119,868	1,524,608
6 months to 1 years	1,200,488	-	-	-
	34,527,188	14,298,206	12,119,868	1,524,608
Impaired ³	4,833,179	7,741,399	10,742,552	6,906,984
	626,371,358	400,312,627	486,186,218	225,268,125

¹ The Group performs credit checking procedure for all counterparties who wish to engage in credit transactions, and deals with those who have healthy credit only. Additionally, the Group maintains its exposure to default risk to a minimal level by continuously evaluating credit quality of counterparties. Credit risk of trade and other receivables arises when customers or counterparties fail to keep the obligations stated on terms of the contract in regular

transactions. In order to manage credit risk, the Group continuously evaluates credit quality of the counterparties through taking into account its financial position, past experience and other factors. The utilization of credit limits is regularly monitored.

² As at December 31, 2017, trade and other receivables which are past due but not impaired are not subject to significant indicators of impairment and the managements decided that the possibilities of potential defaults on those receivables are low.

³ Receivables which are individually identifiable for the indicator of impairment such as default and bankruptcy are subject to the individually analysis for the recognition of allowance.

10. Available-for-sale Financial Assets

Details of available-for-sale financial assets as at December 31, 2017 and 2016, are as follows:

(in thousands of Korean won)

	2017	2016
Equity securities		
Stocks	839,899,428	239,431,020
Beneficiary certificates	52,802,640	30,901,563
Debt securities		
Corporate bonds	130,366,099	146,173,849
	1,023,068,167	416,506,432

Changes in available-for-sale financial assets for the years ended December 31, 2017 and 2016, are as follows:

(in thousands of Korean won)

	2017	2016
Beginning balance	416,506,432	332,648,416
Acquisitions	708,671,193	124,186,174
Disposals	(50,653,345)	(18,944,020)
Impairment	(20,616,107)	(5,979,510)
Net losses reclassified from equity	(27,082,100)	(56,500)
Net losses reclassified to equity	(2,130,661)	(17,110,205)
Others	(1,627,245)	1,762,077
Ending balance	1,023,068,167	416,506,432
Less: current portion	(79,435,727)	(31,239,416)
Non-current portion	943,632,440	385,267,016

11. Held-to-maturity Financial Assets

Details of held-to-maturity financial assets as at December 31, 2017 and 2016, are as follows:

(in thousands of Korean won)

	2017	2016
Bond issued by Japanese government	2,660,696	2,907,350

Changes in held-to-maturity financial assets for the years ended December 31, 2017 and 2016, are as follows:

(in thousands of Korean won)

	2017	2016
Beginning balance	2,907,350	2,726,392
Amortization	(741)	(823)
Others	(245,913)	181,781
Ending balance	2,660,696	2,907,350
Less: current portion	-	-
Non-current portion	2,660,696	2,907,350

12. Inventories

All of the Group's inventories are merchandise and inventories recognized as an expense during the year amounted to ₩ 60,736 million (2016: ₩ 39,093 million). They were included in 'operating expenses'.

The Group recognized ₩3,987 million of loss on inventory valuation during the year (2016: ₩934 million).

13. Other Assets

Details of other assets as at December 31, 2017 and 2016, are as follows:

(in thousands of Korean won)

	2017		2016	
	Current	Non-current	Current	Non-current
Prepayment	16,831,304	738,294	9,423,683	1,155
Prepaid expenses	81,859,909	35,312,258	62,425,525	20,072,240
Prepaid value added tax	15,385,824	-	3,309,275	-
Others	10,540,794	12,841	805,270	336
	124,617,831	36,063,393	75,963,753	20,073,731

14. Property and Equipment

Details of property and equipment as at December 31, 2017 and 2016, are as follows:

(in thousands of Korean won)

	2017			2016		
	Acquisition Cost	Accumulated depreciation ¹	Book amount	Acquisition Cost	Accumulated depreciation ¹	Book amount
Land	225,378,810	-	225,378,810	218,663,488	-	218,663,488
Buildings	453,850,500	(80,576,559)	373,273,941	419,449,691	(65,936,621)	353,513,070
Structures	110,754,898	(37,867,930)	72,886,968	80,201,464	(28,772,192)	51,429,272
Machinery	759,971,641	(480,581,461)	279,390,180	556,734,622	(417,274,525)	139,460,097
Vehicles	1,141,196	(467,021)	674,175	670,110	(344,391)	325,719
Office equipment	186,337,763	(91,801,822)	94,535,941	136,867,402	(79,330,777)	57,536,625
Others	42,980,219	(16,721,659)	26,258,560	24,945,406	(11,671,591)	13,273,815
Construction in Progress	77,614,124	-	77,614,124	29,056,312	-	29,056,312
	1,858,029,151	(708,016,452)	1,150,012,699	1,466,588,495	(603,330,097)	863,258,398

¹ Accumulated impairment losses and government grant are included.

Changes in property and equipment for the years ended December 31, 2017 and 2016, are as follows:

(in thousands of Korean won)

	2017								
	Land	Buildings	Structures	Machinery	Vehicles	Office equipment	Others	Construction in Progress	Total
Opening net book amount	218,663,488	353,513,070	51,429,272	139,460,097	325,719	57,536,625	13,273,815	29,056,312	863,258,398
Acquisition/capital expenditures	6,715,322	7,057,999	17,273	262,880,390	659,940	75,296,156	22,560,811	108,210,117	483,398,008
Increase due to business combination	-	75,892	-	1,027,224	1	1,198,635	1,361,523	125,146	3,788,421
Depreciation	-	(14,636,809)	(9,095,737)	(117,712,471)	(162,392)	(33,818,061)	(7,247,865)	-	(182,673,335)
Disposals	-	-	-	(817,399)	(142,177)	(3,155,053)	(1,846,748)	-	(5,961,377)
Disposal of a subsidiary	-	-	-	-	-	(1,737,725)	(117,218)	-	(1,854,943)
Others ¹	-	27,263,789	30,536,160	(5,447,661)	(6,916)	(784,636)	(1,725,758)	(59,777,451)	(9,942,473)
Closing net book amount	225,378,810	373,273,941	72,886,968	279,390,180	674,175	94,535,941	26,258,560	77,614,124	1,150,012,699

(in thousands of Korean won)

	2016								
	Land	Buildings	Structures	Machinery	Vehicles	Office equipment	Others	Construction in Progress	Total
Opening net book amount	243,813,667	367,435,383	58,985,860	130,923,856	262,404	53,210,201	7,644,942	1,528,292	863,804,605
Acquisition/capital expenditures	-	-	-	100,131,075	169,309	31,867,385	8,539,563	30,844,294	171,551,626
Increase due to business combination	-	-	-	-	-	1,887	-	-	1,887
Depreciation	-	(14,034,650)	(8,046,068)	(94,513,766)	(105,791)	(26,512,252)	(2,441,371)	-	(145,653,898)
Disposals	(27,618,636)	-	-	(206,654)	-	(2,913,829)	(180,250)	-	(30,919,369)
Disposal of a subsidiary	-	-	-	-	-	(248,631)	(26,665)	-	(275,296)
Others ¹	2,468,457	112,337	489,480	3,125,586	(203)	2,131,864	(262,404)	(3,316,274)	4,748,843
Closing net book amount	218,663,488	353,513,070	51,429,272	139,460,097	325,719	57,536,625	13,273,815	29,056,312	863,258,398

¹ An increase/decrease from fluctuations of foreign currency exchange rate is included.

During the year, the Group has capitalized borrowing costs amounting to ₩ 3,069 million (2016: ₩ 7 million) on property and equipment that are qualifying assets. The capitalization rate of borrowings used to determine the amount of borrowing costs to be capitalized is 2.13% (2016: 2.13%).

The Group leases various property and equipment under non-cancellable operating lease agreements. The lease payments recognized as expenses for the years ended December 31, 2017 and 2016, are as follows:

(in thousands of Korean won)

	2017	2016
Total lease payments	74,989,371	39,730,576
Sub lease payments	(2,502)	(81,710)
Minimum lease payments	54,958,320	27,413,663
Contingent rental payments	20,033,553	12,398,623

Total rental expenses recognized as expenses including above lease payments during the year are \ 74,989 million (2016: ₩ 46,731 million).

Total minimum lease payments in relation to non-cancellable operating leases are as follows:

(in thousands of Korean won)

	2017	2016
Within 1 year	67,198,773	37,066,313
1 year to 5 years	178,830,727	135,465,018
More than 5 years	76,062,077	-
	322,091,577	172,531,331

15. Intangible Assets

Details of intangible assets as at December 31, 2017 and 2016, are as follows:

(in thousands of Korean won)

	2017			2016		
	Acquisition Cost	Accumulated amortization ¹	Book amount	Acquisition Cost	Accumulated amortization ¹	Book amount
Industrial rights	15,761,085	(8,046,743)	7,714,342	8,424,838	(6,828,470)	1,596,368
Software	81,025,227	(58,193,077)	22,832,150	65,347,099	(52,001,940)	13,345,159
Goodwill	264,029,762	(30,828,683)	233,201,079	81,701,222	(35,957,459)	45,743,763
Others	148,705,668	(72,941,558)	75,764,110	113,564,892	(62,118,649)	51,446,243
	509,521,742	(170,010,061)	339,511,681	269,038,051	(156,906,518)	112,131,533

¹ Accumulated impairment losses and government grant are included.

Changes in intangible assets for the years ended December 31, 2017 and 2016, are as follows:

(in thousands of Korean won)

	2017				
	Industrial rights	Software	Goodwill	Others	Total
Opening net book amount	1,596,368	13,345,159	45,743,763	51,446,243	112,131,533
Acquisition/Capital expenditures	3,281,296	13,036,012	-	14,943,033	31,260,341
Increase due to business combination	4,014,539	5,839,873	194,365,650	29,386,720	233,606,782
Amortization	(1,167,108)	(7,457,365)	-	(14,958,269)	(23,582,742)
Disposals	(9,945)	(508,251)	-	(1,940,893)	(2,459,089)
Impairment	-	-	-	(1,829,001)	(1,829,001)
Disposal of a subsidiary	-	(142,781)	(269,465)	-	(412,246)
Others ¹	(808)	(1,280,497)	(6,638,869)	(1,283,723)	(9,203,897)
Ending net book amount	7,714,342	22,832,150	233,201,079	75,764,110	339,511,681

(in thousands of Korean won)

	2016				
	Industrial rights	Software	Goodwill	Others	Total
Opening net book amount	1,660,558	15,986,063	43,527,984	42,144,167	103,318,772
Acquisition/Capital expenditures	648,065	4,290,539	-	15,876,755	20,815,359
Increase due to business combination	-	11,372	4,665,417	4,381,104	9,057,893
Amortization	(793,406)	(7,183,434)	-	(9,322,778)	(17,299,618)
Disposals	-	(24,092)	-	(232,281)	(256,373)
Impairment	-	-	(4,031,340)	(1,486,798)	(5,518,138)
Disposal of a subsidiary	-	-	(1,336,105)	-	(1,336,105)
Others ¹	81,151	264,711	2,917,807	86,074	3,349,743
Ending net book amount	1,596,368	13,345,159	45,743,763	51,446,243	112,131,533

¹ An increase/decrease from fluctuations of foreign currency exchange rate is included.

The Group recognized total research and development costs of \ 1,130,230 million (2016: \ 1,009,633 million) as expenses and they are included in 'operating expenses'. As at December 31, 2017 and 2016, goodwill is allocated for each cash-generating unit (CGU) by which goodwill is monitored by management. The table below summarizes goodwill allocation for each cash-generating unit.

(in thousands of Korean won)

	2017	2016
Naver service	24,760,618	-
LINE service	195,646,691	31,663,891
Other	12,793,770	14,079,872
	233,201,079	45,743,763

Impairment Tests for Goodwill

The Group performs the impairment test on goodwill each year and evaluates the recoverable amounts of each CGU. The recoverable amounts are determined based on the values in use which are calculated based on the discounted future cash flows expected from the continuous use of the assets. The Group estimates future cash flows of each CGU by considering past experience, operation results and future business plan for the next five years which reflect management's evaluation for internal and external information of relevant industries. In order to estimate the discount rate that reflects the time value of money and the risks specific to the CGU, the Group have assumed a risk-free rate equal to average market yields on government bonds in each country at the date of performing the annual impairment test. The Group also incorporated a risk premium, such as a company specific premium and equity premium, in the discount rate. The major assumptions used in the calculation of values in use of LINE service CGU are as follows.

(in thousands of Korean won)

	2017	2016
Discount rate	7.8%	8.8%
Sales growth rate during the estimation period	13.0%	17.6%
Perpetual growth rate (*)	1.6%	1.1%

(*)The perpetual growth rate is the long-term average inflation rates in Japan, take into consideration external macroeconomic data.

In validating the value-in-use determined for the cash-generating units, the sensitivity of key assumptions used in the discounted cash-flow model such as discount rates and the terminal growth rate was evaluated. There is no impairment loss recognized during the year based on the recoverable amount which is calculated with the value in use of each CGU, as the recoverable amounts have considerably exceeded the carrying amounts of cash-generating units, and the outcomes of the impairment tests were not sensitive to reasonably likely changes in any of the assumptions underlying the cash flow projections used for the impairment tests.

16. Investments in Associates and Joint Ventures

Details of investments in associates and joint ventures of the Group as at December 31, 2017 and 2016, are as follows:

(in thousands of Korean won)

Name of entity	Primary business	Location	Closing month	Percentage of ownership (%)	December 31, 2017	December 31, 2016
					Book amount	Book amount
Associates						
Allat	Online payment service	Korea	December	20.00	3,708,376	3,206,028
NetMania	Software development and distribution	Korea	December	27.17	846,150	777,831
Synapsoft	Software development and distribution	Korea	December	26.39	3,993,600	3,394,726
Cloud Application Factory	Software development and distribution	Korea	December	30.10	1,487	39,359
BonAngels Pacemaker Fund	Investment	Korea	December	22.73	4,109,379	4,909,679
Korea Contents Mutual Aid Association	Investment	Korea	December	46.09	5,274,711	2,577,500
ARO In Tech	Software development and distribution	Korea	December	29.85	415,967	379,878
Future Creation NAVER Stonebridge Early Stage Start-up Fund	Investment	Korea	December	40.00	6,844,658	8,313,362
Future Creation NAVER-SB Startup Investment Fund	Investment	Korea	December	37.04	8,011,687	9,829,236
Epic Voyage	Mobile service development	Japan	December	30.00	24,929	27,780
LINE Music	Mobile service development	Japan	December	33.40	447,864	4,287,724
Green Monster ²	Mobile service development	Japan	December	-	-	65,860
Digital Media Partners II	Investment	Cayman Islands	December	30.00	2,499,797	2,598,721
AUBE	Mobile service development	Japan	December	49.00	3,169,994	3,522,535
NAVER-Suprema Youth Foundation No.5 Investment Fund	Investment	Korea	December	50.00	7,915,533	5,667,325
NAVER KIP Cheer up! Gamers Fund	Investment	Korea	December	50.00	4,128,854	4,558,437
NSPACE	Space Cloud	Korea	December	49.04	1,360,751	861,605
Silicon Cube	Service platform on network	Korea	December	45.05	2,192,699	1,751,159
One Store	Internet commerce	Korea	December	34.46	21,511,791	27,110,684
Transcosmos Online Communication	Business customer support	Japan	December	37.06	1,152,090	437,395
Nplegames	Software development and distribution	Korea	December	31.95	4,502,629	924,048
Alchera	Solutions development and Sales	Korea	December	25.16	1,862,085	1,464,219
Sound of Heart Culture Industry Special Purpose Company ²	Contents development	Korea	December	-	-	133,383
Trust Us ²	Software development and distribution	Korea	December	21.39	-	3,085,823
Yume no machi Souzou linkai	Mobile service development	Japan	December	21.93	37,080,639	43,410,681
Mirae Asset-NAVER New Growth Fund 1	Investment	Korea	December	50.00	19,562,524	10,000,000
K-Fund ¹	Investment	France	December	100.00	24,435,726	-

[Continued]

(in thousands of Korean won)

Name of entity	Primary business	Location	Closing month	Percentage of ownership (%)	December 31, 2017	December 31, 2016
					Book amount	Book amount
Fandom	Software development and distribution	Korea	December	20.00	150,793	-
YG NAVER Contents & Lifestyle Fund ¹	Investment	Korea	December	90.91	48,661,077	-
Orpeo Sound Works	Software development and distribution	Korea	December	27.41	1,948,965	-
Nano Interactive	Software development and distribution	Korea	December	35.48	517,457	-
The Grim Ent.	Webtoon production	Korea	December	34.98	1,049,309	-
Meshkorea	Mail order brokerage, Internet commerce	Korea	December	25.30	25,163,892	-
Studio Horang	Webtoon production	Korea	December	35.00	332,814	-
Oozoo	Software development and distribution	Korea	December	44.53	2,442,539	-
Soran Media Venture Fund I ¹	Investment	Korea	December	66.67	1,000,000	-
Motif	Software development and distribution	Korea	December	41.46	1,999,899	-
Fast Cowell Private Equity Fund	Investment	Korea	December	21.13	1,500,000	-
Skeinglobe	Software development and distribution	Korea	December	28.72	1,220,800	-
YLAB Japan	Software development and distribution	Japan	December	35.71	479,600	-
Laiqu Technology (Shenzhen)	Software development and distribution	China	December	20.00	164,067	-
					251,685,132	143,334,978
Joint ventures						
YTN PLUS	Digital contents distribution	Korea	December	50.00	4,298,774	3,872,403
LINE Project ²	Investment	Japan	December	50.00	-	-
Collab+LINE	Investment	USA	December	50.00	1,147,638	1,253,437
Lantu Games	Smartphone contents development	Hong Kong	December	50.00	399,883	8,301,453
JobsN	Online information service	Korea	December	49.00	898,764	456,947
RABBIT-LINE PAY COMPANY	Online payment service	Thailand	December	50.00	20,061,560	24,283,413
YEOPEUL (formerly, Travel +)	Online information service and internet contents business	Korea	December	49.00	523,102	189,892
Cineplay	Online information service and online advertising	Korea	December	49.00	492,381	193,194
China Lab	Database and online information service	Korea	December	49.00	185,692	116,235
Designpress	Online information service and internet contents business	Korea	December	49.00	281,207	150,468
Interbiz	Online information service and internet contents business	Korea	December	49.00	91,654	-
Artitian	Online information service and internet contents business	Korea	December	49.00	134,610	-
Schooljam	Online information service and internet contents business	Korea	December	49.00	185,110	-

[Continued]

(in thousands of Korean won)

Name of entity	Primary business	Location	Closing month	Percentage of ownership (%)	December 31, 2017	December 31, 2016
					Book amount	Book amount
Agroplus	Online information service and internet contents business	Korea	December	49.00	158,006	-
Sumlab	Online information service and internet contents business	Korea	December	49.00	141,837	-
Techplus	Online information service and internet contents business	Korea	December	49.00	109,533	-
Animal and Human Story	Online information service and internet contents business	Korea	December	49.00	94,906	-
Law and Media	Online information service and internet contents business	Korea	December	49.00	107,334	-
					29,311,991	38,817,442
					280,997,123	182,152,420

¹ Although, the Group owns more than 50% of K-Fund I, YG NAVER Contents & Lifestyle Fund and Soran Media Venture Fund I, the Group does not have controls over the entities since the voting rights are restricted to be exercised under arrangements with other shareholders.

² LINE Project discontinued the use of equity method due to accumulated deficits and impairment loss were recognized for Trust us and ITDA whose book value exceeded the recoverable amount. Meanwhile, Green monster, Sound of Heart Culture Industry Special Purpose Company and ITDA were liquidated during the year.

Details of valuation of investments in associates and joint ventures that are accounted for using the equity method for the years ended December 31, 2017 and 2016, are as follows:

(in thousands of Korean won)

	Valuation of equity method in 2017							Ending Balance
	Beginning balance	Acquisition (Disposal)	Share of profit or loss	Share of other comprehensive income (loss)	Dividends	Impairment	Others	
Associates								
Allat	3,206,028	-	502,348	-	-	-	-	3,708,376
NetMania	777,831	-	68,319	-	-	-	-	846,150
Synapsoft	3,394,726	(25,866)	733,846	(1,964)	(107,142)	-	-	3,993,600
Cloud Application Factory	39,359	-	(37,872)	-	-	-	-	1,487
BonAngels Pacemaker Fund	4,909,679	(250,001)	(550,299)	-	-	-	-	4,109,379
Korea Contents Mutual Aid Association	2,577,500	3,001,818	(304,607)	-	-	-	-	5,274,711
ARO In Tech	379,878	-	36,089	-	-	-	-	415,967
Future Creation NAVER Stonebridge Early Stage Start-up Fund	8,313,362	(5,488,000)	8,419,296	- (4,400,000)	-	-	-	6,844,658

[Continued]

(in thousands of Korean won)

	Valuation of equity method in 2017							Ending Balance
	Beginning balance	Acquisition (Disposal)	Share of profit or loss	Share of other comprehensive income (loss)	Dividends	Impairment	Others	
Future Creation NAVER-SB Startup Investment Fund	9,829,236	(1,057,406)	6,717,669	-	(7,477,812)	-	-	8,011,687
Epic Voyage	27,780	-	(537)	(2,314)	-	-	-	24,929
LINE Music	4,287,724	-	(3,703,612)	(136,248)	-	-	-	447,864
Green Monster	65,860	-	(85,878)	20,018	-	-	-	-
Digital Media Partners II	2,598,721	330,054	(126,434)	(302,544)	-	-	-	2,499,797
AUBE	3,522,535	-	(57,742)	(294,799)	-	-	-	3,169,994
NAVER-Suprema Youth Foundation No.5 Investment Fund	5,667,325	2,500,000	(251,792)	-	-	-	-	7,915,533
NAVER KIP Cheer up! Gamers Fund	4,558,437	-	(429,583)	-	-	-	-	4,128,854
NSPACE	861,605	700,002	(200,856)	-	-	-	-	1,360,751
Silicon Cube	1,751,159	59,815	81,725	-	-	-	300,000	2,192,699
One Store	27,110,684	-	(5,530,899)	(67,994)	-	-	-	21,511,791
Transcosmos Online Communication	437,395	872,807	(128,961)	(29,151)	-	-	-	1,152,090
Nplegames	924,048	4,384,455	(805,874)	-	-	-	-	4,502,629
Alchera	1,464,219	561,188	(163,322)	-	-	-	-	1,862,085
Sound of Heart Culture Industry Special Purpose Company	133,383	(98,486)	-	-	(34,897)	-	-	-
Trust Us	3,085,823	-	(967,403)	-	-	(2,118,420)	-	-
Yume no machi Souzou linkai	43,410,681	(16,206)	(817,209)	(5,496,627)	-	-	-	37,080,639
Mirae Asset-NAVER New Growth Fund 1	10,000,000	10,000,000	(437,476)	-	-	-	-	19,562,524
K-Fund	-	27,761,313	(3,136,228)	(189,359)	-	-	-	24,435,726
Fandom	-	-	(46,303)	-	-	-	197,096	150,793
YG NAVER Contents & Lifestyle Fund 1	-	50,000,000	(1,338,923)	-	-	-	-	48,661,077
Orpeo Sound Works	-	1,500,006	(51,142)	-	-	-	500,101	1,948,965
Nano Interactive	-	-	(96,543)	-	-	-	614,000	517,457
The Grim Ent.	-	1,049,415	(106)	-	-	-	-	1,049,309
Meshkorea	-	27,474,987	(2,311,095)	-	-	-	-	25,163,892
Studio Horang	-	350,017	(17,203)	-	-	-	-	332,814
Oozoo	-	-	(377,242)	-	-	-	2,819,781	2,442,539
Soran Media Venture Fund I 1	-	1,000,000	-	-	-	-	-	1,000,000
Motif	-	1,999,899	-	-	-	-	-	1,999,899

[Continued]

(in thousands of Korean won)

	Valuation of equity method in 2017							Ending Balance
	Beginning balance	Acquisition (Disposal)	Share of profit or loss	Share of other comprehensive income (loss)	Dividends	Impairment	Others	
Fast Cowell Private Equity Fund	-	1,500,000	-	-	-	-	-	1,500,000
Skeinglobe,	-	1,220,800	-	-	-	-	-	1,220,800
YLAB Japan	-	479,600	-	-	-	-	-	479,600
Laiqu Technology (Shenzhen)	-	164,067	-	-	-	-	-	164,067
ITDA	-	300,000	-	-	-	(300,000)	-	-
InnoAG	-	-	(258,263)	-	-	-	258,263	-
Pig	-	-	(82,182)	-	-	-	82,182	-
	143,334,978	130,274,278	(5,756,294)	(6,500,982)	(12,019,851)	(2,418,420)	4,771,423	251,685,132
Joint ventures								
YTN PLUS	3,872,403	-	439,814	(13,443)	-	-	-	4,298,774
Collab+LINE	1,253,437	-	43,982	(149,781)	-	-	-	1,147,638
Lantu Games	8,301,453	-	(6,648,315)	(1,253,255)	-	-	-	399,883
JobsN	456,947	-	441,817	-	-	-	-	898,764
RABBIT-LINE PAY COMPANY	24,283,413	-	(3,619,409)	(602,444)	-	-	-	20,061,560
YEOPEUL	189,892	-	333,210	-	-	-	-	523,102
Cineplay	193,194	-	299,187	-	-	-	-	492,381
China Lab	116,235	-	69,457	-	-	-	-	185,692
Designpress	150,468	-	130,739	-	-	-	-	281,207
Interbiz	-	98,000	(6,346)	-	-	-	-	91,654
Artitian	-	98,000	36,610	-	-	-	-	134,610
Schooljam	-	98,000	87,110	-	-	-	-	185,110
Agroplus	-	98,000	60,006	-	-	-	-	158,006
Sumlab	-	98,000	43,837	-	-	-	-	141,837
Techplus	-	98,000	11,533	-	-	-	-	109,533
Animal and Human Story	-	98,000	(3,094)	-	-	-	-	94,906
Law and Media	-	98,000	9,334	-	-	-	-	107,334
	38,817,442	784,000	(8,270,528)	(2,018,923)	-	-	-	29,311,991
	182,152,420	131,058,278	(14,026,822)	(8,519,905)	(12,019,851)	(2,418,420)	(2,418,420)	280,997,123

(in thousands of Korean won)

	Valuation of equity method in 2016						Ending Balance
	Beginning balance	Acquisition (Disposal)	Share of profit or loss	Share of other comprehensive income (loss)	Others		
Associates							
Allat	3,066,348	-	139,680	-	-	-	3,206,028
NetMania	561,454	-	216,377	-	-	-	777,831
Synapsoft	3,196,926	-	187,029	10,771	-	-	3,394,726
Cloud Application Factory	51,280	-	(11,921)	-	-	-	39,359
BonAngels Pacemaker Fund	5,036,629	-	(126,950)	-	-	-	4,909,679
Korea Contents Mutual Aid Association	2,815,268	-	(261,002)	-	23,234	-	2,577,500
ARO In Tech	343,128	-	36,750	-	-	-	379,878
LINE Bros.	-	-	-	-	-	-	-
Future Creation NAVER Stonebridge Early Stage Start-up Fund	9,729,777	(2,712,000)	2,215,585	-	(920,000)	-	8,313,362
Future Creation NAVER-SB Startup Investment Fund	9,750,327	-	78,909	-	-	-	9,829,236
Epic Voyage	26,534	-	(538)	1,784	-	-	27,780
LINE Music	1,065,632	7,172,182	(3,892,215)	(57,875)	-	-	4,287,724
Green Monster	417,465	-	(389,192)	37,587	-	-	65,860
Digital Media Partners II	629,710	2,056,920	(238,193)	150,284	-	-	2,598,721
AUBE	2,792,769	-	563,683	166,083	-	-	3,522,535
NAVER-Suprema Youth Foundation No.5 Investment Fund	2,909,627	3,000,000	(242,302)	-	-	-	5,667,325
NAVER KIP Cheer up! Gamers Fund	4,871,891	-	(313,454)	-	-	-	4,558,437
NSPACE	1,000,002	-	(138,397)	-	-	-	861,605
Silicon Cube	-	2,298,400	(127,883)	(419,358)	-	-	1,751,159
One Store	-	29,497,707	(2,532,648)	145,625	-	-	27,110,684
Transcosmos Online Communication	-	514,925	(62,054)	(15,476)	-	-	437,395
Nplegames	-	1,079,852	(155,804)	-	-	-	924,048
Alchera	-	1,500,030	(35,811)	-	-	-	1,464,219
Sound of Heart Culture Industry Special Purpose Company	-	320,000	(186,617)	-	-	-	133,383
Trust Us	-	3,085,823	-	-	-	-	3,085,823
Yume no machi Souzou linkai	-	43,706,487	(266,212)	(29,594)	-	-	43,410,681
Mirae Asset-NAVER New Growth Fund 1	-	10,000,000	-	-	-	-	10,000,000
	48,264,767	101,520,326	(5,543,180)	(10,169)	(896,766)	-	143,334,978

[Continued]

(in thousands of Korean won)

	Valuation of equity method in 2016					
	Beginning balance	Acquisition (Disposal)	Share of profit or loss	Share of other comprehensive income (loss)	Others	Ending Balance
Joint ventures						
YTN PLUS	3,517,931	-	354,472	-	-	3,872,403
LINE Project	-	-	-	-	-	-
Collab+LINE	1,372,435	-	(160,806)	41,808	-	1,253,437
Lantu Games	11,709,802	-	(3,775,030)	366,681	-	8,301,453
JobsN	-	98,000	358,947	-	-	456,947
RABBIT-LINE PAY COMPANY	-	24,553,069	(932,890)	639,704	23,530	24,283,413
YEOPEUL	-	98,000	91,892	-	-	189,892
Cineplay	-	98,000	95,194	-	-	193,194
China Lab	-	98,000	18,235	-	-	116,235
Designpress	-	98,000	52,468	-	-	150,468
	16,600,168	25,043,069	(3,897,518)	1,048,193	23,530	38,817,442
	64,864,935	126,563,395	(9,440,698)	1,038,024	(873,236)	182,152,420

The tables below provide summarized financial information for those associates and joint ventures that are material to the Group and received dividends from the associates and joint ventures.

(in thousands of Korean won)

	2017				
	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Equity
Associates					
BonAngels Pacemaker Fund	5,453,371	12,569,059	69,049	-	17,953,381
Future Creation NAVER Stonebridge Early Stage Start-up Fund	452,443	16,379,970	322,719	-	16,509,694
Future Creation NAVER-SB Startup Investment Fund	1,409,172	20,131,938	508,834	-	21,032,276
One Store	76,810,419	18,564,161	38,547,067	1,327,259	55,500,254
Yume no machi Souzou linkai ¹	36,657,700	48,814,097	19,940,266	12,313,799	53,151,983
Mirae Asset-NAVER New Growth Fund ¹	18,131,600	21,236,905	254,123	-	39,114,382
K-Fund I	1,862,656	23,244,003	670,933	-	24,435,726
YG NAVER Contents & Lifestyle Fund	30,552,818	23,378,005	403,638	-	53,527,185
Mesh Korea	26,793,888	8,861,091	4,468,389	11,324,833	19,861,757
Joint ventures					
RABBIT-LINE PAY COMPANY	21,948,046	1,573,585	3,005,438	111,636	20,404,557
Lantu Games ²	11,694,722	440,310	9,463,445	1,871,820	799,767

¹ Information based on the consolidated financial statements and therefore, equity amount represents controlling interests.

² Including Beijing Lantu Times Technology Company, subsidiary of Lantu Games.

(in thousands of Korean won)

	2017					
	Revenue	Operating income (loss)	Profit (loss) for the year	Other comprehensive income	Total comprehensive income (loss)	Received dividend
Associates						
BonAngels Pacemaker Fund	58,348	(1,268,008)	(1,268,008)	-	(1,268,008)	-
Future Creation NAVER Stonebridge Early Stage Start-up Fund	21,247,661	20,541,391	20,541,394	-	20,541,394	4,400,000
Future Creation NAVER-SB Startup Investment Fund	-	(548,184)	18,837,668	-	18,837,668	7,477,812
One Store	115,596,443	(8,202,934)	(16,051,252)	-	(16,051,252)	-
Yume no machi Souzou linkai ¹	22,791,855	(11,665,367)	(3,705,824)	-	(3,705,824)	-
Mirae Asset-NAVER New Growth Fund ¹	140,568	(874,951)	(874,951)	-	(874,951)	-
K-Fund I	227	(3,095,185)	(3,136,228)	-	(3,136,228)	-
YG NAVER Contents & Lifestyle Fund	(524,735)	(1,472,815)	(1,472,815)	-	(1,472,815)	-
Mesh Korea	19,033,409	(8,536,159)	(7,821,673)	-	(7,821,673)	-
Joint ventures						
RABBIT-LINE PAY COMPANY	1,221,468	(7,448,794)	(7,220,456)	-	(7,220,456)	-
Lantu Games ²	54,839	(13,222,494)	(13,284,665)	-	(13,284,665)	-

¹ Information based on the consolidated financial statements and loss for the year includes loss attributable to controlling shareholders.

² Including Beijing Lantu Times Technology Company, a subsidiary of Lantu Games.

(in thousands of Korean won)

	2016				
	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Equity
Associates					
BonAngels Pacemaker Fund	6,828,922	14,723,486	77,711	-	21,474,697
Future Creation NAVER Stonebridge Early Stage Start-up Fund	673,368	19,672,248	164,162	-	20,181,454
Future Creation NAVER-SB Startup Investment Fund	3,766,434	22,331,909	158,684	-	25,939,659
One Store	90,413,889	23,073,296	40,969,835	768,519	71,748,831
Yume no machi Souzou linkai	28,025,287	68,527,351	15,933,310	20,041,794	60,498,822
Mirae Asset-NAVER New Growth Fund 1	20,000,219	-	10,885	-	19,989,334
Joint ventures					
RABBIT-LINE PAY COMPANY	29,531,945	270,813	1,483,844	71,020	28,247,894
Lantu Games	21,339,344	765,018	5,501,457	-	16,602,905

(in thousands of Korean won)

	2016					Received dividend
	Revenue	Operating income (loss)	Profit (loss) for the year	Other comprehensive income	Total comprehensive income (loss)	
Associates						
BonAngels Pacemaker Fund	1,074,841	381,209	381,209	-	381,209	-
Future Creation NAVER Stonebridge Early Stage Start-up Fund	6,207,553	5,538,963	5,538,963	-	5,538,963	920,000
Future Creation NAVER-SB Startup Investment Fund	-	(637,956)	213,055	-	213,055	-
One Store	106,809,160	(13,949,913)	(12,373,450)	-	(12,373,450)	-
Yume no machi Souzou linkai	18,655,191	(1,348,655)	(1,215,913)	-	(1,215,913)	-
Mirae Asset-NAVER New Growth Fund 1	219	(10,666)	(10,666)	-	(10,666)	-
Joint ventures						
RABBIT-LINE PAY COMPANY	503,066	(3,783,893)	(340,256)	-	(340,256)	-
Lantu Games	-	(8,171,416)	(7,550,064)	-	(7,550,064)	-

Details of adjustments from financial information of associates and joint ventures to the book amount of investments in associates and joint ventures as at December 31, 2017 and 2016, are as follows:

(in thousands of Korean won)

	2017				
	Net asset (a)	Ownership interests held by the Group (b)	Interest in net asset (a×b)	Goodwill	Book amount
Associates					
Allat	18,541,881	20.00%	3,708,376	-	3,708,376
NetMania	3,113,821	27.17%	846,150	-	846,150
Synapsoft	13,228,471	26.39%	3,491,369	502,231	3,993,600
Cloud Application Factory	4,939	30.10%	1,487	-	1,487
BonAngels Pacemaker Fund	17,953,381	22.73%	4,080,313	29,066	4,109,379
Korea Contents Mutual Aid Association	10,815,665	46.09%	4,984,561	290,150	5,274,711
ARO In Tech	1,144,829	29.85%	341,740	74,227	415,967
Future Creation NAVER Stonebridge Early Stage Start-up Fund	16,509,694	40.00%	6,603,878	240,780	6,844,658
Future Creation NAVER-SB Startup Investment Fund	21,032,276	37.04%	7,789,732	221,955	8,011,687
Epic Voyage	83,098	30.00%	24,929	-	24,929

[Continued]

(in thousands of Korean won)

	2017				
	Net asset (a)	Ownership interests held by the Group (b)	Interest in net asset (a×b)	Goodwill	Book amount
Associates					
LINE Music	1,340,910	33.40%	447,864	-	447,864
Digital Media Partners II	8,332,655	30.00%	2,499,797	-	2,499,797
AUBE	6,469,375	49.00%	3,169,994	-	3,169,994
NAVER-Suprema Youth Foundation No.5 Investment Fund	15,831,067	50.00%	7,915,533	-	7,915,533
NAVER KIP Cheer up! Gamers Fund	8,257,709	50.00%	4,128,854	-	4,128,854
NSPACE	568,247	49.04%	278,694	1,082,057	1,360,751
Silicon Cube	2,449,912	45.05%	1,186,158	1,006,541	2,192,699
One Store	55,500,254	34.46%	19,124,135	2,387,656	21,511,791
Transcosmos Online Communication	3,108,948	37.06%	1,152,090	-	1,152,090
Nplegames	5,024,111	31.95%	2,313,548	2,189,081	4,502,629
Alchera	3,283,860	25.16%	826,102	1,035,983	1,862,085
Yume no machi Souzou linkai ²	53,151,983	21.93%	11,655,446	25,425,193	37,080,639
Mirae Asset-NAVER New Growth Fund 1	39,114,382	50.00%	19,557,191	5,333	19,562,524
K-Fund I	24,435,726	100.00%	24,435,726	-	24,435,726
Fandom	71,480	20.00%	31,180	119,613	150,793
YG NAVER Contents & Lifestyle Fund	53,527,185	90.91%	48,661,077	-	48,661,077
Orpeo Sound Works	1,232,915	27.41%	337,917	1,611,048	1,948,965
Nano Interactive	(267,683)	35.48%	(94,984)	612,441	517,457
The Grim Ent.	1,047,866	34.98%	366,549	682,760	1,049,309
Meshkorea	19,861,757	25.30%	5,868,617	19,295,275	25,163,892
Studio Horang	301,868	35.00%	105,659	227,155	332,814
Oozoo	(2,075,854)	44.53%	(924,459)	3,366,998	2,442,539
Soran Media Venture Fund I	1,476,697	66.67%	984,465	15,535	1,000,000
Motif	1,915,007	41.46%	794,005	1,205,894	1,999,899
Fast Cowell Private Equity Fund	7,079,434	21.13%	1,495,655	4,345	1,500,000
Skeinglobe,	(2,456,867)	28.72%	(705,627)	1,926,427	1,220,800
YLAB Japan ¹	773,847	35.71%	479,600	-	479,600
Laiqu Technology (Shenzhen) ¹	820,335	20.00%	164,067	-	164,067
	412,605,181		188,127,388	63,557,744	251,685,132

[Continued]

(in thousands of Korean won)

	2017				
	Net asset (a)	Ownership interests held by the Group (b)	Interest in net asset (a×b)	Goodwill	Book amount
Joint ventures					
YTN PLUS	8,597,547	50.00%	4,298,774	-	4,298,774
Collab+LINE	2,295,277	50.00%	1,147,638	-	1,147,638
Lantu Games	799,767	50.00%	399,883	-	399,883
JobsN	1,834,211	49.00%	898,764	-	898,764
RABBIT-LINE PAY COMPANY ²	20,404,557	50.00%	10,202,279	9,859,281	20,061,560
YEOPEUL	1,067,555	49.00%	523,102	-	523,102
Cineplay	1,004,860	49.00%	492,381	-	492,381
China Lab	378,964	49.00%	185,692	-	185,692
Designpress	573,892	49.00%	281,207	-	281,207
Interbiz	187,050	49.00%	91,654	-	91,654
Artitian	274,715	49.00%	134,610	-	134,610
Schooljam	377,775	49.00%	185,110	-	185,110
Agroplus	322,462	49.00%	158,006	-	158,006
Sumlab	289,463	49.00%	141,837	-	141,837
Techplus	223,537	49.00%	109,533	-	109,533
Animal and Human Story	193,686	49.00%	94,906	-	94,906
Law and Media	219,049	49.00%	107,334	-	107,334
	39,044,367		19,452,710	9,859,281	29,311,991
	451,649,548		207,580,098	73,417,025	280,997,123

¹ Acquired at the end of December, 2017 and therefore, acquisition cost was recognized as book amount.² Information based on the consolidated financial statements and therefore, net asset represents amount attributable to controlling interests.

(in thousands of Korean won)

	2016					
	Net asset (a)	Ownership in- terests held by the Group (b)	Interest in net asset (a×b)	Goodwill	Internal Transaction etc.	Book amount
Associates						
Allat	16,030,140	20.00%	3,206,028	-	-	3,206,028
NetMania	2,862,408	27.17%	777,831	-	-	777,831
Synapsoft	10,832,240	26.70%	2,892,495	502,231	-	3,394,726
Cloud Application Factory	130,762	30.10%	39,359	-	-	39,359
BonAngels Pacemaker Fund	21,474,697	22.73%	4,880,613	29,066	-	4,909,679
Korea Contents Mutual Aid Association	8,533,680	30.17%	2,574,263	3,237	-	2,577,500
ARO In Tech	1,023,930	29.85%	305,651	74,227	-	379,878

[Continued]

(in thousands of Korean won)

	2016					
	Net asset (a)	Ownership in- terests held by the Group (b)	Interest in net asset (a×b)	Goodwill	Internal Transaction etc.	Book amount
Associates						
Future Creation NAVER Stonebridge Early Stage Start-up Fund	20,181,455	40.00%	8,072,582	240,780	-	8,313,362
Future Creation NAVER-SB Startup Investment Fund	25,939,659	37.04%	9,607,281	221,955	-	9,829,236
Epic Voyage	92,600	30.00%	27,780	-	-	27,780
LINE Music	12,833,679	33.40%	4,286,449	-	1,275	4,287,724
Green Monster	188,171	35.00%	65,860	-	-	65,860
Digital Media Partners II	8,662,401	30.00%	2,598,721	-	-	2,598,721
AUBE	7,188,847	49.00%	3,522,535	-	-	3,522,535
NAVER-Suprema Youth Foundation No.5 Investment Fund	11,334,650	50.00%	5,667,325	-	-	5,667,325
NAVER KIP Cheer up! Gamers Fund	9,116,874	50.00%	4,558,437	-	-	4,558,437
NSPACE	312,764	37.74%	118,047	743,558	-	861,605
Silicon Cube	2,068,532	38.27%	791,660	943,773	15,726	1,751,159
One Store	71,748,831	34.46%	24,723,028	2,387,656	-	27,110,684
Transcosmos Online Communication	1,093,488	40.00%	437,395	-	-	437,395
Nplegames	1,223,716	22.22%	271,910	631,088	21,050	924,048
Alchera	1,427,435	30.00%	428,237	1,035,982	-	1,464,219
Sound of Heart Culture Industry Special Purpose Company	629,785	21.03%	132,456	927	-	133,383
Trust Us	(11,060)	26.00%	3,085,823	-	-	3,085,823
Yume no machi Souzou linkai	60,498,822	22.09%	13,366,047	27,774,540	2,270,094	43,410,681
Mirae Asset-NAVER New Growth Fund 1	20,000,000	50.00%	10,000,000	-	-	10,000,000
	315,418,506		106,437,813	34,589,020	2,308,145	143,334,978
Joint ventures						
YTN PLUS	7,744,806	50.00%	3,872,403	-	-	3,872,403
LINE Project	-	50.00%	-	-	-	-
Collab+LINE	2,506,875	50.00%	1,253,437	-	-	1,253,437
Lantu Games	16,602,905	50.00%	8,301,453	-	-	8,301,453
JobsN	932,544	49.00%	456,947	-	-	456,947
RABBIT-LINE PAY COMPANY	28,247,894	50.00%	14,123,947	10,159,466	-	24,283,413
YEOPEUL	387,534	49.00%	189,892	-	-	189,892
Cineplay	394,274	49.00%	193,194	-	-	193,194
China Lab	237,213	49.00%	116,235	-	-	116,235
Designpress	307,077	49.00%	150,468	-	-	150,468
	57,361,122		28,657,976	10,159,466	-	38,817,442
	372,779,628		135,095,789	44,748,486	2,308,145	182,152,420

As at December 31, 2017, marketable investment security out of the investment in associates and joint ventures held by the Group is Yume no machi Souzou linkai, whose fair value is ₩ 173,871 million (2016: ₩ 62,860 million).

17. Trade and Other Payables

Trade and other payables as at December 31, 2017 and 2016, are as follows:

(in thousands of Korean won)

	2017		2016	
	Current	Non-current	Current	Non-current
Financial liabilities				
Other payables	543,560,055	5,559,259	424,772,827	7,500,000
Accrued expenses	64,794,019	5,957,788	58,762,275	1,514,970
Deposits received	957,358	135,127	288,275	50,302
	609,311,432	11,652,174	483,823,377	9,065,272
Non-financial liabilities				
Accrued expenses	161,413,024	-	187,999,894	-
	770,724,456	11,652,174	671,823,271	9,065,272

18. Other Liabilities

Other liabilities as at December 31, 2017 and 2016, are as follows:

(in thousands of Korean won)

	2017		2016	
	Current	Non-current	Current	Non-current
Advances from customers	290,878,895	-	205,021,741	-
Deferred revenues				
Customer loyalty programs	6,523,665	-	5,553,604	-
Others	86,878,299	1,022,209	99,738,690	627,501
Withholdings	408,345,613	142,367	229,683,949	-
Withholdings-VAT	66,709,023	-	79,323,961	-
	859,335,495	1,164,576	619,321,945	627,501

19. Borrowings and Debentures

Short-term borrowings as at December 31, 2017 and 2016, are as follows:

(in thousands of Korean won, in thousands of Japanese yen and in thousands of VND)

	Lender	Latest maturity date	Annual interest rate (%)	December 31,	December 31,
				2017	2016
Short-term borrowings					
Foreign currency	Sumitomo Mitsui Banking Corporation	September 28, 2018	0.07	113,893,200 (JPY 12,000,000)	120,964,623 (JPY 11,667,000)
	Mizuho Corporate Bank, Ltd.	September 30, 2018	0.09	94,911,000 (JPY 10,000,000)	103,681,000 (JPY 10,000,000)
	HIENDAT	June 30, 2018	-	1,379,472 (VND 28,166,221)	-
	Mizuho Corporate Bank, Ltd.	May 31, 2018	0.93	395,456 (JPY 41,666)	-
	FreakOut, Inc.	-	-	-	1,555,215 (JPY 150,000)
	IGNIS Ltd.	-	-	-	1,119,755 (JPY 108,000)
Local currency	KOOKMIN Bank	March 30, 2018	2.97	403,962	-
				210,983,090	227,320,593
Long-term borrowings					
Foreign currency	Japan Finance Corporation	2020.6.30	1.40	28,540 (JPY 3,007)	-
	Dai Ichi Kangyo Credit Cooperative	2023.6.15	1.00	71,183 (JPY 7,500)	-
	Sendai Bank	2020.1.15	1.00	35,592 (JPY 3,750)	-
Local currency	YOJ	2019.7.18	4.60	779,780	-
	Shinhan Bank	2020.10.31	2.91	49,046,714	-
				(28,132)	-
				49,933,677	-

Debentures as at December 31, 2017 and 2016, are as follows:

(in thousands of Korean won)

	Lender	Latest maturity date	Annual interest rate (%)	December 31,	December 31,
				2017	2016
Fixed rate in Korean won	3rd public bond	2018.11.12	2.13	150,000,000	150,000,000
Less: Current portion				(150,000,000)	-
				-	150,000,000

20. Provisions

Changes in provisions for the years ended December 31, 2017 and 2016, are as follows:

(in thousands of Korean won)

	2017				
	Provision for litigation	Provision for Customer loyalty programs	Provision for social contribution ²	Provision for restoration and others	Total
Beginning balance	926,439	249,054	40,000,000	20,299,791	61,475,284
Charged / (credited) to the statement of profit or loss					
Additional provisions	-	-	-	25,056,683	25,056,683
Unused amounts reversed	-	-	-	(1,041,597)	(1,041,597)
Used during the year	-	-	(40,000,000)	(2,606,596)	(42,606,596)
Others	-	-	-	(2,220,380)	(2,220,380)
Ending balance	926,439	249,054	-	39,487,901	40,663,394
Current portion	926,439	249,054	-	4,722,355	5,897,848
Non-current portion	-	-	-	34,765,546	34,765,546

(in thousands of Korean won)

	2016					
	Provision for litigation	Provision for personnel ¹	Provision for Customer loyalty programs	Provision for social contribution ²	Provision for restoration and others	Total
Beginning balance	926,439	412,280	249,054	45,726,559	18,008,897	65,323,229
Charged / (credited) to the statement of profit or loss						
Additional provisions	-	-	-	-	11,406,196	11,406,196
Unused amounts reversed	-	(412,280)	-	-	(3,710,267)	(4,122,547)
Used during the year	-	-	-	(5,726,559)	(4,876,445)	(10,603,004)
Others	-	-	-	-	(528,590)	(528,590)
Ending balance	926,439	-	249,054	40,000,000	20,299,791	61,475,284
Current portion	926,439	-	249,054	40,000,000	5,179,049	46,354,542
Non-current portion	-	-	-	-	15,120,742	15,120,742

¹ According to a ruling by the Supreme Court of Korea, the previous agreement with employees that specified 'Bonus Coins' provided to employees would not be treated as part of ordinary wages for the purpose of calculating pension contributions and other statutory benefits became invalid. Accordingly, the Group has calculated a provision for additional compensation to be provided to employees covering previous periods within the statute of limitation, and reversed the entire unused amounts as the statute of limitation has expired during the prior year.

² During 2013, the Group agreed with the Fair Trade Commission to contribute to good causes, the exact nature of which to be agreed with the Fair Trade Commission in advance. The entire amount was paid during the year.

21. Post-employment Benefits

The Group operates defined benefit pension plans mainly in Korea. The majority of the plans are final salary pension plans, which provide benefit to employees in the form of a guaranteed level of pension payable for life. The level of benefits provided depends on employees' length of service and their salary in the final years leading up to retirement. The majority of benefit payments are unfunded; however, there are also a number of trustee administered funds. Plan assets held in trusts are governed by local regulations and practice in each country.

Details of net defined benefit liabilities recognized in the statements of financial position as at December 31, 2017 and 2016, are as follows:

(in thousands of Korean won)

	2017	2016
Present value of funded defined benefit obligations	27,710,745	35,382,391
Present value of unfunded defined benefit obligations	272,652,127	223,869,256
Total	300,362,872	259,251,647
Fair value of plan assets	(16,329,665)	(17,576,904)
Net defined benefit liabilities	284,033,207	241,674,743

Movements in the defined benefit obligations for the years ended December 31, 2017 and 2016, are as follows:

(in thousands of Korean won)

	2017	2016
Beginning balance	259,251,647	252,472,478
Current service cost	58,833,379	55,699,181
Interest expense	7,806,472	6,304,788
Remeasurements:		
Actuarial losses from change in demographic assumptions	-	103,023,464
Actuarial gains from change in financial assumptions	(16,738,670)	(136,247,967)
Actuarial losses from experience adjustments	5,069,075	1,810,102
Payments from plans:		
Benefit payments	(15,310,770)	(22,574,916)
Others	1,451,739	(1,235,483)
Ending balance	300,362,872	259,251,647

Movements in the fair value of plan assets for the years ended December 31, 2017 and 2016, are as follows:

(in thousands of Korean won)

	2017	2016
Beginning balance	17,576,904	18,792,029
Interest income	522,354	473,861
Remeasurements:		
Return on plan assets (excluding amounts included in interest income)	(1,030,555)	268,090
Payments from plans:		
Benefit payments	(739,038)	(1,957,076)
Ending balance	16,329,665	17,576,904

Plan assets as at December 31, 2017 and 2016, consist of:

(in thousands of Korean won)

	2017		2016	
	Amount	Ratio (%)	Amount	Ratio (%)
Cash and cash equivalents, etc.	16,329,665	100	17,576,904	100

The significant actuarial assumptions as at December 31, 2017 and 2016, are as follows:

(in thousands of Korean won)

	2017	2016
Discount rate	2.70%~3.70%	2.20% ~ 3.40%
Salary growth rate	4.00%~9.17%	5.03% ~ 11.42%

The sensitivity analysis of the defined benefit obligation to changes in the principal assumptions is:

(in thousands of Korean won)

	Impact on defined benefit obligation		
	Changes in assumption	Increase in assumption	Decrease in assumption
Discount rate	1% Increase/Decrease	(24,747,300)	30,047,209
Salary growth rate	1% Increase/Decrease	28,563,352	(24,058,742)

The above sensitivity analysis are based on a change in an assumption while holding all other assumptions constant. The sensitivity of the defined benefit obligation to changes in principal actuarial assumptions is calculated using the projected unit credit method, the same method applied when calculating the defined benefit obligations recognized on the consolidated statement of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the prior year.

There is no expected contributions to plan assets for the year ending December 31, 2018, and the weighted average duration of the defined benefit obligations is between 4.94 and 16.78 years.

22. Issuance and Acquisition of Shares

The Company's total number of authorized shares is 300,000,000 shares. As at December 31, 2017, the Company has issued 32,962,679 ordinary shares and 3,592,203 treasury shares. There are no changes in the number of shares issued for the years ended December 31, 2017 and 2016. During the year, the Company disposed of the 563,063 treasury shares and recognized gain on disposal of treasury shares amounting to \ 238,547 million. The Company's share capital and share premium as at December 31, 2017 amount to \ 16,481,340 thousand and \ 132,920,605 thousand, respectively.

23. Other Components of Equity

Other components of equity as at December 31, 2017 and 2016, are as follows:

(in thousands of Korean won)

	2017	2016
Treasury shares	(1,172,239,396)	(1,355,983,085)
Loss on disposal of treasury shares	-	(39,640,899)
Changes in the fair value of available-for-sale financial assets	22,782,882	46,046,252
Share of other comprehensive income of associates and the joint ventures	(6,168,688)	1,147,647
Exchange difference	(133,834,505)	(72,621,369)
Others	(28,071,916)	(28,071,916)
	(1,317,531,623)	(1,449,123,370)

The Group retains the treasury shares to stabilize the share price in the market, etc.

24. Share-based Payment

As at December 31, 2017, LINE, a subsidiary of the Company, entered into share-based payments agreements for the employees and directors of the Group upon the resolution of several shareholders' meetings and the Board of Directors.

(a) Stock option

Stock options granted during the years ended December 31, 2012, 2013, 2014 and 2015 vest after two years from the grant date and are exercisable for a period of eight years from the vesting date. Stock options granted during year ended December 31, 2017 vest 25% of stock options per year over a period of four years from the grant date and are exercisable from the vesting date until July 18, 2027.

Conditions for vesting and exercise of the stock options require that those who received the allotment of stock options continue to be employed by the Group from the grant date to the vesting date, and from the grant date to the exercise date, respectively, unless otherwise permitted by the board of directors of LINE.

The changes in the number of stock options and weighted average exercise prices for the years ended December 31, 2017 and 2016, are as follows:

(in number of shares)

Grant date	2017					Unexercised at the end of the year	Granted by
	Unexercised at the beginning of the year	Granted during the year	Exercised during the year	Expired during the year			
2012.12.17 (1st)	14,000,000	-	(14,000,000)	-	-	-	LINE
2013.12.16 (2nd)	1,654,000	-	(890,500)	-	763,500	763,500	LINE
2014.02.01 (3rd)	1,135,000	-	(313,500)	(3,500)	818,000	818,000	LINE
2014.08.01 (4th)	311,000	-	(93,000)	-	218,000	218,000	LINE
2014.10.01 (5th)	221,500	-	(74,500)	(2,000)	145,000	145,000	LINE
2015.02.04 (6th)	5,590,000	-	(4,342,000)	(1,500)	1,246,500	1,246,500	LINE
2017.07.18 (7th)	-	2,386,000	-	-	2,386,000	2,386,000	LINE
	22,911,500	2,386,000	(19,713,500)	(7,000)	5,577,000	5,577,000	
Weighted average exercise price	(JPY) 653	(JPY) 4,206	(JPY) 583	(JPY) 1,320	(JPY) 2,421	(JPY) 2,421	

(in number of shares)

Grant date	2016					Granted by
	Unexercised at the beginning of the year	Granted during the year	Exercised during the year	Expired during the year	Unexercised at the end of the year	
2012.12.17 (1st)	14,000,000	-	-	-	14,000,000	LINE
2013.12.16 (2nd)	3,332,500	-	(1,633,500)	(45,000)	1,654,000	LINE
2014.02.01 (3rd)	1,667,000	-	(476,500)	(55,500)	1,135,000	LINE
2014.08.01 (4th)	697,000	-	(351,500)	(34,500)	311,000	LINE
2014.10.01 (5th)	323,000	-	(72,000)	(29,500)	221,500	LINE
2015.02.04 (6th)	5,665,000	-	-	(75,000)	5,590,000	LINE
	25,684,500	-	(2,533,500)	(239,500)	22,911,500	
Weighted average exercise price	JPY 661	-	JPY 691	JPY 1,137	JPY 653	

The Group calculated the compensation costs using black-scholes model and the assumptions and inputs used for calculation of the compensation costs are as follows:

(in number of shares)

	1 st	2 nd	3 rd	4 th	5 th	6 th	7 th
Risk-free interest rate	0.30%	0.30%	0.20%	0.20%	0.20%	0.30%	(0.04%)
Option maturity	6 years	5.5 years					
Expected price volatility	60.00%	67.00%	58.00%	53.00%	52.00%	56.20%	44.90%
Expected dividend yield	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Weighted average share price at grant date	JPY 233	JPY 1,011	JPY 1,161	JPY 3,280	JPY 3,297	JPY 4,225	JPY 3,840
Weighted average fair value of stock options granted at grant date	JPY 107	JPY 793	JPY 575	JPY 2,310	JPY 2,312	JPY 3,219	JPY 1,436
Exercise price	JPY 344	JPY 1,320	JPY 4,206				

(b) Employee stock ownership plan (ESOP)

LINE, a subsidiary of the Group, has a policy, the Regulations on Stock Compensation, which regulates an incentive for excellent human resources in line with the stock price movement. In accordance with the Regulations on Stock Compensation, the Group has granted points equivalent to 262,069 shares to the employees of the Group on July 18, 2017. The points vest once the employees who received the points satisfy the conditions under the Regulations on the Stock Compensation where the employees are required to be employed by the Group until the vesting dates, which are set between April 1, 2018 and April 1, 2020. And the employees receive LINE's shares equivalent to the number of points. In addition, the Group has granted points equivalent to 573,545 shares to the employees of the Group on July 18, 2017. The employees who are granted the points will receive the cash from selling LINE's shares which are equivalent to the number of points.

The changes in the number of points for the year ended December 31, 2017, are as follows:

(in number of shares)

	Grant date	Unexercised at the beginning of the year	Granted during the year	Exercised during the year	Expired during the year	Unexercised at the end of the year

(in number of shares)

	Grant date	Unexercised at the beginning of the year	Granted during the year	Exercised during the year	Expired during the year	Unexercised at the end of the year

As the Group's ESOP does not have an exercise price, the employees receive the number of shares or the amount of cash equivalent to the points. The fair value of the points at the vest date was LINE's share price of the day the points were granted, JPY 3,840 and the fair value of the points issued from cash-settled ESOP was JPY 4,595 as measured at the end of the year.

25. Retained Earnings

Retained earnings as at December 31, 2017 and 2016, consist of:

(in thousands of Korean won)

	2017	2016
Legal reserves ¹	8,240,670	8,240,670
Other reserves	13,909,235	13,909,235
Retained earnings before appropriation	4,533,367,963	3,788,039,498
	4,555,517,868	3,810,189,403

¹ The Commercial Code of the Republic of Korea requires the Parent Group to appropriate for each financial period, as a legal reserve, an amount equal to a minimum of 10% of cash dividends paid until such reserve equals 50% of its issued capital stock. The reserve is not available for cash dividends payment, but may be transferred to capital stock or used to reduce accumulated deficit. When the accumulated legal reserves (the sum of capital reserves and earned profit reserves) are greater than 1.5 times the paid-in capital amount, the excess legal reserves may be distributed in accordance with a resolution of the shareholders' meeting.

26. Operating Expenses

Operating expenses for the years ended December 31, 2017 and 2016, are as follows:

(in thousands of Korean won)

	2017	2016
Salaries and wages	790,903,118	709,166,905
Post-employment benefits	69,105,426	63,213,165
Share-based payments	27,404,744	100,969,352
Employee benefits	114,347,273	90,783,477
Travel	30,920,522	25,429,597
Entertainment	3,252,212	3,796,741
Depreciation	182,673,335	145,652,950
Amortization	23,582,742	17,285,538
Communication	128,303,064	114,136,600
Utility	30,326,797	25,546,490
Taxes and dues	25,130,013	18,005,805
Rental	74,989,371	46,730,869
Commission	1,401,446,447	1,141,464,046
Advertising	442,804,307	303,352,000
Insurance	13,026,271	10,098,535
Freight	8,464,794	6,801,861
Supplies	37,040,492	20,232,318
Training	20,612,750	16,943,173
Others	74,947,444	60,979,722
	3,499,281,122	2,920,589,144

27. Other Income and Other Expenses

Details of other income for the years ended December 31, 2017 and 2016, are as follows:

(in thousands of Korean won)

	2017	2016
Rental income	229,521	100,663
Foreign currency exchange gain	16,996,896	30,797,599
Gain on disposal of property and equipment	1,039,695	27,867,310
Gain on disposal of investments in associates and joint ventures	3,263,910	19,201,945
Others	13,527,140	24,049,423
	35,057,162	102,016,940

Details of other expenses for the years ended December 31, 2017 and 2016, are as follows:

(in thousands of Korean won)

	2017	2016
Foreign currency exchange loss	32,073,255	31,315,423
Donations	40,276,389	37,561,442
Impairment loss on investments in associates and joint ventures	2,418,420	-
Other impairment loss ¹	2,775,832	12,829,591
Others	9,441,490	10,053,488
	86,985,386	91,759,944

¹ Other impairment loss for the prior year represents the impairment loss from the receivables to MIXRADIO recognized in continuing operations and MIXRADIO was classified as 'discontinued operations'. The related intercompany transaction was eliminated from profit (loss) from discontinued operations (other expenses) (Note 36).

28. Finance Income and Costs

Details of finance income for the years ended December 31, 2017 and 2016, are as follows:

(in thousands of Korean won)

	2017	2016
Interest income	36,678,031	35,583,752
Dividends income	11,039,823	7,817,460
Foreign currency exchange gain	6,775,729	14,607,970
Gain on valuation of financial assets at fair value through profit or loss	46,761,928	2,911,608
Gain on transactions of financial assets at fair value through profit or loss	4,816,406	5,723,290
Gain on disposal of available-for-sale financial assets	8,938,418	60,000
	115,010,335	66,704,080

Details of finance costs for the years ended December 31, 2017 and 2016, are as follows:

(in thousands of Korean won)

	2017	2016
Interest expenses	568,580	6,070,381
Foreign currency exchange loss	7,595,857	13,200,283
Loss on valuation of financial assets at fair value through profit or loss	706,659	9,387,629
Loss on transactions of financial assets at fair value through profit or loss	467,675	3,152,100
Loss on disposal of available-for-sale financial assets	2,444,160	-
Impairment loss on available-for-sale financial assets	20,616,107	5,979,510
Others	15,069	-
	32,414,107	37,789,903

29. Income tax expense

Income tax expense for the years ended December 31, 2017 and 2016, consists of:

(in thousands of Korean won)

	2017	2016
Current tax:		
Current tax on profits for the year	390,004,613	400,589,136
Adjustments in respect of prior year	9,965,884	8,617,011
Deferred tax:		
Origination and reversal of temporary differences	31,630,169	(58,060,690)
Impact of changes in corporate tax rate	(6,121,517)	2,649,858
Income tax expense	425,479,149	353,795,315
Continuing operations	423,173,258	360,863,616
Discontinued operations	2,305,891	(7,068,301)

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

(in thousands of Korean won)

	2017	2016
Profit before income tax expense	1,195,580,819	1,112,868,266
Continuing operations profit before income tax expense	1,195,828,989	1,131,770,949
Discontinued operations profit before income tax expense	(248,170)	(18,902,683)
Tax at domestic tax rates applicable to profits in the respective countries	314,318,870	275,407,062
Adjustments:		
Income not subject to tax	(2,948,048)	(148,191)
Expenses not deductible for tax purposes	5,606,334	28,213,791
Tax credits	(6,964,661)	(12,995,481)
Changes in non-recoverable deferred tax asset	61,021,650	14,463,731
Adjustment in respect of prior year	9,965,884	8,617,011
Change in deferred tax attributable to the corporate tax rate	(6,121,517)	2,649,858
Effects of the tax system for recirculation of corporate income	32,227,928	32,598,157
Effects of consolidated tax return	-	(12,308,430)
Others	18,372,709	17,297,807
Income tax expense	425,479,149	353,795,315
Continuing operations	423,173,258	360,863,616
Discontinued operations	2,305,891	(7,068,301)

The weighted average applicable tax rate of the Group was 26.29% (2016: 24.75%).

Due to the amendment of the Corporate Tax Law of Korea during the year, the tax rate for taxable income exceeding \ 300 billion will be increased by 3% per annum to 25% from 2018. The Group measured deferred income tax assets and liabilities based on the increase in the average tax rate due to the revision.

Income tax effect related to components of other comprehensive income (loss) for the years ended December 31, 2017 and 2016, is as follows:

(in thousands of Korean won)

	2017		
	Before tax	Tax effect	After tax
Changes in the fair value of available-for-sale financial assets	(2,130,661)	470,173	(1,660,488)
Reclassification of available-for-sale financial assets	(27,082,099)	5,932,804	(21,149,295)
Remeasurements of the net defined benefit liabilities	10,639,041	(2,058,796)	8,580,245
Exchange difference ¹	(120,187,582)	74,080	(120,113,502)
Changes in investments in associates and joint ventures that are accounted for using the equity method ¹	(8,355,322)	-	(8,355,322)
	(147,116,623)	4,418,261	(142,698,362)

(in thousands of Korean won)

	2016		
	Before tax	Tax effect	After tax
Changes in the fair value of available-for-sale financial assets	(17,110,205)	4,208,385	(12,901,820)
Reclassification of available-for-sale financial assets	(56,500)	13,673	(42,827)
Remeasurements of the net defined benefit liabilities	31,682,491	(7,185,776)	24,496,715
Exchange difference ¹	(47,927,846)	-	(47,927,846)
Changes in investments in associates and joint ventures that are accounted for using the equity method ¹	1,038,024	-	1,038,024
	(32,374,036)	(2,963,718)	(35,337,754)

¹ The Group did not recognize deferred tax assets and liabilities for the exchange differences and share of other comprehensive income of subsidiaries and associates from the investment in subsidiaries and associates as at December 31, 2017 considering the Group has no plan for disposal of those investments.

The aggregate current tax relating to items that are charged or credited directly to equity for the year ended December 31, 2017, is as follows:

(in thousands of Korean won)

	2017		
	Before tax	Tax effect	After tax
Gain on disposal of treasury shares	314,706,255	(76,158,914)	238,547,341

The income tax that are charged or credited directly to equity does not exist for the year ended December 31, 2016.

The analysis of deferred tax assets and liabilities as at December 31, 2017 and 2016, is as follows:

(in thousands of Korean won)

	2017	2016
Deferred tax assets		
Deferred tax asset to be recovered within 12 months	115,916,619	155,426,313
Deferred tax asset to be recovered after more than 12 months	121,127,052	117,039,817
	237,043,671	272,466,130
Deferred tax liabilities		
Deferred tax liability to be within 12 months	(3,484,355)	(245,775)
Deferred tax liability to be recovered after more than 12 months	(10,243,457)	(6,952,103)
	(13,727,812)	(7,197,878)
Deferred tax assets, net	223,315,859	265,268,252

The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

(in thousands of Korean won)

	2017						
	Beginning balance	Statement of profit or loss	Other comprehensive income (loss)	Share issuance of subsidiary	Business combination	Exchange difference	Ending balance
Financial assets at fair value through profit or loss	(245,775)	(9,997,682)	-	-	-	-	(10,243,457)
Available-for-sale financial assets	(6,952,103)	(3,004,740)	6,402,977	-	-	69,511	(3,484,355)
Deferred income tax liabilities	(7,197,878)	(13,002,422)	6,402,977	-	-	69,511	(13,727,812)
Provision for impairment	7,397,375	(1,226,814)	-	-	-	(345,087)	5,825,474
Investments in subsidiaries and associates	29,861,081	(5,521,475)	74,080	(2,586,946)	-	-	21,826,740
Intangible assets	9,802,898	(130,142)	-	-	-	(11,135)	9,661,621
Accrued expenses	43,915,278	(9,213,897)	-	-	-	(213,273)	34,488,108
Deferred revenue	34,184,465	9,693,878	-	-	-	(3,223,703)	40,654,640
Net defined benefit liabilities	53,884,124	13,614,559	(2,058,796)	-	5,807	(279)	65,445,415
Provision for social contribution	9,680,000	(9,680,000)	-	-	-	-	-
Tax losses and tax credit carryforward	10,325,014	3,748,542	-	-	-	(16,322)	14,057,234
Others	73,415,895	(13,790,881)	-	-	(9,287,099)	(5,253,476)	45,084,439
Deferred income tax assets	272,466,130	(12,506,230)	(1,984,716)	(2,586,946)	(9,281,292)	(9,063,275)	237,043,671
Deferred income tax assets, net	265,268,252	(25,508,652)	4,418,261	(2,586,946)	(9,281,292)	(8,993,764)	223,315,859

(in thousands of Korean won)

	2016						
	Beginning balance	Statement of profit or loss	Other comprehensive income (loss)	Share issuance of subsidiary	Exchange difference	Ending balance	
Financial assets at fair value through profit or loss	485,919	(731,694)	-	-	-	(245,775)	
Available-for-sale financial assets	(13,521,047)	2,173,092	4,222,058	-	173,794	(6,952,103)	
Deferred income tax liabilities	(13,035,128)	1,441,398	4,222,058	-	173,794	(7,197,878)	
Provision for impairment	2,463,406	5,028,148	-	-	(94,179)	7,397,375	
Investments in subsidiaries and associates	33,304,979	4,743,228	-	(8,187,126)	-	29,861,081	
Intangible assets	3,583,988	6,254,050	-	-	(35,140)	9,802,898	
Accrued expenses	27,279,083	16,461,838	-	-	174,357	43,915,278	
Deferred revenue	28,792,306	3,575,312	-	-	1,816,847	34,184,465	
Net defined benefit liabilities	45,876,413	15,193,322	(7,185,776)	-	165	53,884,124	
Provision for social contribution	10,890,000	(1,210,000)	-	-	-	9,680,000	
Tax losses and tax credit carryforward	30,619,999	(20,294,985)	-	-	-	10,325,014	
Others	47,397,849	24,218,521	-	-	1,799,525	73,415,895	
Deferred income tax assets	230,208,023	53,969,434	(7,185,776)	(8,187,126)	3,661,575	272,466,130	
Deferred income tax assets, net	217,172,895	55,410,832	(2,963,718)	(8,187,126)	3,835,369	265,268,252	

The Group did not recognize deferred tax assets for the temporary differences amounting to \ 616,829 million (2016: \ 292,604million) from the investments in subsidiaries and associates which are not subject to disposal, tax losses amounting to \ 251,102 million (2016: \ 88,453 million) which are not recoverable because of the uncertainty of future taxable income of the subsidiaries.

30. Earnings per Share

Basic earnings per share for operating profit from continuing operations for the years ended December 31, 2017 and 2016, are as follows:

(in thousands of Korean won and in number of shares)

	2017	2016
Profit attributable to the ordinary equity holders of the Group	775,433,641	761,140,055
Weighted average number of ordinary shares outstanding	29,097,429	29,103,159
Basic earnings per share from continuing operations (in Korean won)	26,650	26,153

Basic earnings per share for operating loss from discontinued operations for the years ended December 31, 2017 and 2016, are as follows:

(in thousands of Korean won and in number of shares)

	2017	2016
Loss from discontinued operation attributable to the ordinary equity holders of the Parent Company	(2,554,061)	(11,834,381)
Weighted average number of ordinary shares outstanding	29,097,429	29,103,159
Basic loss per share from discontinued operations (in Korean won)	(88)	(407)

Weighted average number of ordinary shares outstanding for the years ended December 31, 2017 and 2016, are calculated as follows:

(in number of shares)

	2017	
	Number of ordinary shares outstanding	Cumulative amount
Beginning balance	28,807,413	10,514,705,745
Treasury shares disposal	563,063	105,855,844
		10,620,561,589

Weighted average number of ordinary shares outstanding: $10,620,561,589 \div 365 \text{ days} = 29,097,429 \text{ shares}$

(in number of shares)

	2016	
	Number of ordinary shares outstanding	Cumulative amount
Beginning balance	29,200,768	10,687,481,088
Treasury shares acquisition	(393,355)	(35,724,840)
		10,651,756,248

Weighted average number of ordinary shares outstanding: $10,651,756,248 \div 366 \text{ days} = 29,103,159 \text{ shares}$

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Group has stock options granted by a subsidiary as dilutive potential ordinary shares. Increase in the rate of non-controlling interest caused by exercising stock options granted by a subsidiary results in decrease in profit from continuing operations attributable to owners of the Parent Company. The Group calculated diluted earnings per share by assuming all stock options are exercised at the beginning of the year.

(in thousands of Korean won and in number of shares)

	2017	2016
Profit attributable to ordinary equity holders of the Parent Company	775,433,641	761,140,055
Adjustment for net profit of non-controlling interest	2,302,564	6,751,820
Profit attributable to ordinary equity holders of the Parent Company for diluted earnings per share	773,131,077	754,388,235
Weighted average number of ordinary shares	29,097,429	29,103,159
Diluted earnings per share (in Korean won)	26,570	25,921

Basic earnings per shares from discontinued operations are identical to diluted earnings per share from discontinued operations because of the anti-dilution.

31. Cash Generated from Operations

Details of cash generated from operations and changes in assets and liabilities due to operations for the years ended December 31, 2017 and 2016, are as follows:

(in thousands of Korean won)

	2017	2016
Profit for the year	770,101,670	759,072,951
Adjustments:		
Impairment loss (reversal)	(3,623,071)	10,858,609
Depreciation	182,673,335	145,653,898
Amortization	23,582,742	17,299,618
Gain on foreign currency transaction	(7,297,442)	(13,981,035)
Loss on foreign currency transaction	12,701,182	10,253,881
Gain on disposal of property and equipment	(1,039,695)	(27,867,310)
Loss on disposal of property and equipment	1,076,023	1,628,626
Impairment loss on intangible assets	1,829,001	5,393,645
Gain on valuation of financial assets at fair value through profit or loss	(46,761,928)	(2,911,608)
Loss on valuation of financial assets at fair value through profit or loss	706,659	9,387,629
Gain on disposal of financial assets at fair value through profit or loss transaction	(4,816,406)	(5,723,290)
Loss on disposal of financial assets at fair value through profit or loss transaction	467,675	3,152,100
Gain on disposal of available-for-sale financial assets	(8,938,418)	(60,000)
Loss on disposal of available-for-sale financial assets	2,444,160	-
Impairment loss on available-for-sale financial assets	20,616,107	5,979,510
Loss on disposal of investments in associates and joint ventures	(3,263,910)	(19,201,945)
Impairment loss on investments associates and joint ventures	2,418,420	-
Share of profit of associates and joint ventures	(18,565,929)	(4,409,221)

[Continued]

(in thousands of Korean won)

	2017	2016
Share of loss of associates and joint ventures	32,592,750	13,849,920
Share-based payments	27,404,744	100,969,352
Post-employment benefits	69,105,426	73,438,469
Interest income	(36,678,031)	(35,583,752)
Interest expenses	568,580	6,070,381
Dividends income	(11,039,823)	(7,817,460)
Income tax expenses	425,479,149	353,795,315
Others	1,724,978	(15,928,401)
Change in operating assets and liabilities:		
Increase in trade receivables	(176,170,233)	(56,449,175)
Increase in other receivables	(183,732,987)	(86,604,790)
Increase in other current assets	(60,745,391)	(24,323,200)
Increase in other payables	96,619,548	10,505,246
Increase (decrease) in accrued expenses	(10,059,835)	68,520,172
Increase in other current liabilities	249,771,119	202,774,770
Decrease in provisions	(34,847,834)	(356,000)
Decrease in net defined benefit liabilities	(12,872,335)	(34,817,633)
Others	(6,504,009)	9,076,738
	1,294,925,991	1,471,646,010

Significant transactions not affecting cash flows for the years ended December 31, 2017 and 2016, are as follows:

(in thousands of Korean won)

	2017	2016
Reclassification of construction in progress	59,700,983	3,316,274
Other payables for acquisition of property and equipment	11,687,049	6,345,929
Other payables for the treasury shares	-	(5,723,980)
Reclassification of current portion of available-for-sale financial assets	57,782,056	10,087,000
Reclassification of current portion of long-term financial instruments	155,043,410	18,979,767
Reclassification of current portion of long-term borrowings and debentures	150,000,000	-

Changes in liabilities arising from financing activities for the years ended December 31, 2017, are as follows:

(in thousands of Korean won)

	Liabilities from financing activities			Total
	Short-term borrowings	Long-term borrowings	Debenture	
Beginning balance	227,320,593	-	150,000,000	377,320,593
Cash flows-proceeds	122,544,487	49,026,203	-	171,570,690
Cash flows-repayment	(123,466,236)	-	-	(123,466,236)
Current portion	24,043	(24,043)	-	-
Business combination	11,012,150	918,937	-	11,931,087
Exchange differences	(26,423,815)	12,580	-	(26,411,235)
Ending balance	211,011,222	49,933,677	150,000,000	410,944,899

32. Commitments and Contingencies

As at December 31, 2017, the Group has borrowing agreement with Kookmin bank, Shinhan bank and Industrial Bank of Korea of up to ₩ 90,300 million. And the Group has borrowing agreement with Sumitomo Mitsui Banking Corporation, Shinhan Bank Japan, Mizuho Corporate Bank and Sendai Bank of up to JPY 23,389 million.

As at December 31, 2017, the Group was provided with guarantees up to ₩ 7,095 million from Seoul Guarantee and up to ₩ 2,700 million from Shinhan bank and Industrial Bank of Korea regarding the performance guarantee insurance.

As at December 31, 2017, the Company entered into a construction contract amounting to ₩ 27,795 million with Doosan Engineering & Construction Co., Ltd in relation to a construction of new building for the Company and the remained amount of the contract is ₩ 12,946 million. Also, the Company entered into a contract to acquire a land amounting to ₩ 51,000 million in relation to a construction of new building for Cloud Data Center and the remained amount of the contract is ₩ 5,000 million.

As at December 31, 2017, the Group is a defendant in lawsuit cases filed with regard to patent, copyright and compensation for damage. The results of the cases are uncertain for the present and the management recognizes the provision in relation to the potential loss in case any of the lawsuit cases require the recognition of the provision.

The Japanese Payment Services Act requires non-banking entities that engage in business activities involving advance payments from end users using virtual credits to secure a certain amount of money equal to or more than one half of the unused balance of virtual credits purchased by the end users, either by depositing or entrusting a cash reserve or government bonds with the Legal Affairs Bureau, or by concluding a guarantee contract with a financial institution. If deposits are made, they are recorded as guarantee deposits. In accordance with the Japanese Payment Services Act, the Group had deposited cash of JPY 635 million as at December 31, 2017. The Group also had deposited investments in Japanese government bonds of JPY 280 million as at December 31, 2017, which are recognized as held-to-maturity financial assets. In addition, the Group had credit guarantee contracts with banks for JPY 12,500 million from Sumitomo Mitsui Banking Corporation and Mizuho Corporate Bank as at December 31, 2017 to comply with the Japanese Payment Services Act.

33. Related Party Transactions

Details of associates and joint ventures as at December 31, 2017 and 2016, are as follows:

Type	December 31, 2017	December 31, 2016
Associates	Allat, NetMania, Synapsoft, Cloud Application Factory, BonAngels Pacemaker Fund, Korea Contents Mutual Aid Association, ARO In Tech, Future Creation NAVER Stonebridge Early Stage Start-up Fund, Future Creation NAVER-SB Startup Investment Fund, Epic Voyage, LINE Music, AUBE, Digital Media Partners II, NAVER KIP Cheer up! Gamers Fund, NAVER-Suprema Youth Foundation No.5 Investment Fund, NSPACE, Silicon Cube, One Store, Transcosmos Online Communication, Beijing Lantu Times Technology Company, Nplegames, Alchera, Trust Us, Yume no Machi Souzou linkai, Mirae Asset-NAVER New Growth Fund 1, K-Fund I, Fandom, YG NAVER Contents & Lifestyle Fund, Orpeo Sound Works, SATSUMAEBISUDO, PT Klik Eat Indonesia, Oozoo, Nano Interactive, Studio Horang, Meshkorea, The Grim Ent. Soran Media Venture Fund I, Motif, Fast Cowell Private Equity Fund, Skeinglobe, YLAB Japan, Laiqu Technology (Shenzhen)	Allat, NetMania, Synapsoft, Cloud Application Factory, BonAngels Pacemaker Fund, Korea Contents Mutual Aid Association, ARO In Tech, Future Creation NAVER Stonebridge Early Stage Start-up Fund, Future Creation NAVER-SB Startup Investment Fund, Epic Voyage, LINE Music, Green Monster, AUBE, Digital Media Partners II, NAVER KIP Cheer up! Gamers Fund, NAVER-Suprema Youth Foundation No.5 Investment Fund, NSAPCE, Silicon Cube, One Store, Transcosmos Online Communication, Beijing Lantu Times Technology Company, Nplegames, Alchera, Trust Us, Sound of Heart Culture Industry Special Purpose Company, Yume no Machi Souzou linkai, Mirae Asset-NAVER New Growth Fund 1, SATSUMAEBISUDO, ZEN, PT Klik Eat Indonesia
Joint ventures	YTN PLUS, LINE Project Cooperative, Collab+LINE, Lantu Games, JobsN, RABBIT-LINE PAY COMPANY, YEOPEUL, Cineplay, China Lab, Designpress, Interbiz, Artitian, Agroplus, Schooljam, Sumlab, Techplus, Animal and Human Story, Law and Media	YTN PLUS, LINE Project Cooperative, Collab+LINE, Lantu Games, JobsN, RABBIT-LINE PAY COMPANY, YEOPEUL (formerly, Travel+), Cineplay, China Lab, Designpress

Details of other related parties that have sales and other transactions or outstanding balances with the Group are as follows:

Type	December 31, 2017	December 31, 2016
Others ¹	Bluenet, Iscon, Happybean foundation, NAVER Cultural foundation, Connect foundation, Everyoung Korea and other individuals	-

¹ Although these entities are not the related parties of the Group in accordance with Korean IFRS 1024, the entities belong to the large enterprise group in accordance with the Monopoly Regulation and Fair Trade Act.

Transactions with related parties including operating revenues and expenses for the years ended December 31, 2017 and 2016, are as follows:

(in thousands of Korean won)

	2017	
	Operating revenues	Operating expenses
Associates		
Synapsoft	-	847,814
AUBE	10,369,642	3,021
LINE MUSIC	6,205,032	45,310
Transcosmos online communications	551,709	20,541
Yume no Machi Souzou linkai	194,449	48,058
ARO In Tech	-	637,831
Allat	-	2,810,284
One Store	293,205	77
Silicon cube	-	2,623,663
Alchera	-	512,041
NSAPCE	-	319,009
Orpeo Sound Works	-	199,400
Green Monster	912	210,638
Others	59,758	251,825
Joint ventures		
YTN PLUS	-	664,422
RABBIT-LINE PAY COMPANY	1,893,130	163,424
Designpress	-	996,000
Cineplay	-	1,263,550
YEOPEUL	139,000	1,398,310
JobsN	996,391	1,843,403
Artitian	-	541,400
China Lab	-	1,035,587
Interbiz	-	688,100
Agroplus	-	650,170
Schooljam	23	332,000
Sumlab	-	322,340
Techplus	-	249,000
Animal and Human Story	-	327,600
Others	3,341	148,281

[Continued]

(in thousands of Korean won)

	2017	
	Operating revenues	Operating expenses
Others¹		
Everyoung Korea	9,077	1,601,160
NAVER Cultural foundation	24,577	5,000,074
Connect foundation	289,222	7,174,012
Happybean foundation	153,895	10,000,850
Others	1,629	78,888

¹ Although these entities are not the related parties of the Group in accordance with Korean IFRS 1024, the entities belong to the large enterprise group in accordance with the Monopoly Regulation and Fair Trade Act. And, transaction amounts after designated as a large enterprise group are disclosed.

(in thousands of Korean won)

	2016	
	Operating revenues	Operating expenses
Associates		
ARO In Tech	-	558,227
Allat	-	2,862,208
One Store	9,180,496	38
NSAPCE	5,000	22,700
LINE Music	4,751,086	104,721
AUBE	9,766,231	3,132
Green Monster	3,860	1,198,557
Cloud Application Factory	-	2,400
Synapsoft	-	1,077,186
Transcosmos Online Communication	190,894	20,652
Yume no Machi Souzou linkai	6,969	20,047
Trust Us	1,384	-
Alchera	-	60,000
Silicon Cube	-	300
Joint ventures		
YTN PLUS	-	485,368
Collab+LINE	-	29,770
JobsN	462,757	1,257,081
LANTU GAMES	1,120	-
RABBIT-LINE PAY COMPANY	1,166,019	36,835
China Lab	-	166,000
Designpress	-	269,000
Travel+	-	249,000

Outstanding balances of receivables and payables arising from sales and purchases of goods and services as at December 31, 2017 and 2016, are as follows:

(in thousands of Korean won)

	2017			
	Receivables			Payables
	Trade receivables	Other receivables and others	Trade and other payables	Leasehold deposits and others
Associates				
Synapsoft	-	-	225,700	-
LINE Music	1,606,485	339,587	1,605,714	121,080
Yume no Machi Souzou linkai	122,628	-	578,378	104,760
Nano Interactive	-	5,744	-	42,086
AUBE	1,042,836	42,938	-	-
Transcosmos Online Communication.	171,461	-	-	-
Allat	113,481	-	-	-
Oozoo	-	1,524,963	-	-
Other	-	-	130,626	30,105
Joint ventures				
YTN PLUS	-	-	413,232	-
RABBIT-LINE PAY COMPANY	877,172	118,577	188,491	-
China Lab	-	-	480,000	-
Cineplay	-	-	144,815	-
Other	137,722	-	217,035	-
Others¹				
Happybean foundation	79,016	1,384	769,389	-
Connect foundation	221,814	1,758	442,528	-
NAVER Cultural foundation	11,680	366	-	-

¹ Although these entities are not the related parties of the Group in accordance with Korean IFRS 1024, the entities belong to the large enterprise group in accordance with the Monopoly Regulation and Fair Trade Act.

(in thousands of Korean won)

	2016			
	Receivables			Payables
	Trade receivables	Other receivables and others	Trade and other payables	Leasehold deposits and others
Associates				
ARO In Tech	-	-	51,165	-
Allat	1,523,775	-	-	-
One Store	191,043	-	-	-
NSAPCE	-	-	3,300	-
LINE Music	836,291	84,610	150,629	-
AUBE	973,811	1,037	-	-
Green Monster	-	555,212	78,335	59,291
Synapsoft	-	-	1,000,000	-
Silicon Cube	-	301,000	-	-
Transcosmos Online Communication.	48,131	-	-	-
Yume no Machi Souzou linkai	4,702	-	7,617	-
Joint ventures				
YTN PLUS	-	-	56,533	-
JobsN	110,000	-	190,300	-
Cineplay	-	-	83,000	-
RABBIT-LINE PAY COMPANY	434,180	376,578	36,897	-

No provisions are held against receivables from related parties.

In addition to the above receivables, the Group recognized impairment loss on the convertible notes, amounting to ₩ 843 million of Trust Us during the year, which were acquired during the prior year. The Group converted convertible notes, amounting to ₩ 300 million of Silicon Cube, into ordinary shares for the year which were acquired during the prior year.

The compensation paid or payable to key management (executive directors) for employee services for the years ended December 31, 2017 and 2016, consists of:

(in thousands of Korean won)

	2017	2016
Short-term employee benefits	2,904,032	2,901,275
Post-employment benefits	394,795	765,912
Other long-term benefits	1,403,498	1,571,699

34. Business Combination

a) On March 14, 2017, the Group acquired 100% shares of Epipolar, which owns auto-design technology of 3D MAP based on satellite, aerial, drone and mobile images and photos. The goodwill is attributable to the workforce of the acquired business and the synergy to technology development. It will not be deductible for tax purposes. Details of the purchase consideration, the assets and liabilities recognized as a result of the acquisition, and fair value of the non-controlling interest at the acquisition date are as follows:

(in thousands of Korean won)

	Amount
Consideration	
Cash and cash equivalents	9,999,990
Contingent payments to employees or selling shareholders (separate transactions)	(5,594,400)
Non-controlling interest	-
Recognized amounts of identifiable assets acquired and liabilities assumed	
Assets	
Cash and cash equivalents	285,557
Trade and other receivables	30,200
Property and equipment	101,972
Intangible assets	6,013
Other assets	26,111
	449,853
Liabilities	
Trade and other payables	18,786
Other liabilities	195,592
	214,378
Total identifiable net assets	235,475
Goodwill	4,170,115

b) The Group acquired 51% shares of Gatebox (formerly, Vinclu) which designs and develops internet of things (IoT) products using hologram on April 3, 2017. The goodwill is attributable to the workforce of the acquired business and the synergy to technology development. It will not be deductible for tax purposes. Details of the purchase consideration, the assets and liabilities recognized as a result of the acquisition, and fair value of the non-controlling interest at the acquisition date are as follows:

(in thousands of Korean won)

	Amount
Consideration	
Cash and cash equivalents	20,787,453
Non-controlling interest ¹	3,687,150
Recognized amounts of identifiable assets acquired and liabilities assumed	
Assets	
Cash and cash equivalents	5,229,258
Trade and other receivables	276,952
Property and equipment	44,285
Intangible assets	4,466,639
Other assets	5,274
	10,022,408
Liabilities	
Trade and other payables	86,618
Borrowings	114,631
Deferred tax liabilities	1,396,248
Other liabilities	899,654
	2,497,151
Total identifiable net assets	7,525,257
Goodwill	16,949,346

¹ The non-controlling interest was measured using the proportionate amount of the fair value of identifiable net assets.

c) The Group acquired 51% shares of NextFloor which develops and publishes mobile games on July 6, 2017. The goodwill is attributable to the workforce of the acquired business and the synergy from the marketing combination. It will not be deductible for tax purposes. Details of the purchase consideration, the assets and liabilities recognized as a result of the acquisition, and fair value of the non-controlling interest at the acquisition date are as follows:

(in thousands of Korean won)

	Amount
Consideration	
Cash and cash equivalents	59,999,981
Non-controlling interest ¹	26,578,506
Recognized amounts of identifiable assets acquired and liabilities assumed	
Assets	
Cash and cash equivalents	19,703,160
Trade and other receivables	12,555,087
Available-for-sale financial assets	6,176,110
Property and equipment	1,466,832
Intangible assets	20,949,531
Other assets	12,759,068
	73,609,788
Liabilities	
Trade and other payables	4,952,083
Borrowings	7,236,693
Deferred tax liabilities	4,098,674
Other liabilities	3,080,646
	19,368,096
Total identifiable net assets	54,241,692
Goodwill	32,336,795

¹ The non-controlling interest was measured using the proportionate amount of the fair value of identifiable net assets.

d) The Group acquired Xerox Research Center, which is a research center for artificial intelligence and machine learning on August 1, 2017. The goodwill is attributable to the workforce of the acquired business and the synergy to technology development. It will not be deductible for tax purposes. Details of the purchase consideration, the assets and liabilities recognized as a result of the acquisition, and fair value of the non-controlling interest at the acquisition date are as follows:

(in thousands of Korean won)

	Amount
Consideration	
Cash and cash equivalents	18,031,005
Non-controlling interest	-
Recognized amounts of identifiable assets acquired and liabilities assumed	
Assets	
Property and equipment	1,342,272
Intangible assets	43
	1,342,315
Liabilities	
Trade and other payables	1,567,226
Other liabilities	2,381,309
	3,948,535
Total identifiable net assets	(2,606,220)
Goodwill	20,637,225

e) On October 30, 2017, the Group acquired 100% shares of Shinewant which provides internet community, advertising and entertainment portal service in Taiwan. The goodwill is attributable to the workforce of the acquired business and the synergy from the marketing combination. It will not be deductible for tax purposes. Details of the purchase consideration, the assets and liabilities recognized as a result of the acquisition, and fair value of the non-controlling interest at the acquisition date are as follows:

(in thousands of Korean won)

	Amount
Consideration	
Cash and cash equivalents	12,279,990
Non-controlling interest	-
Recognized amounts of identifiable assets acquired and liabilities assumed	
Assets	
Cash and cash equivalents	3,089,908
Trade and other receivables	151,436
Property and equipment	63,058
Intangible assets	971,397
Other assets	139,190
	4,414,989
Liabilities	
Trade and other payables	60,443
Deferred tax liabilities	157,022
Other liabilities	126,039
	343,504
Total identifiable net assets	4,071,485
Goodwill	8,208,505

f) On November 16, 2017, the Group acquired 72.6% shares of Tre Tho Information Service Joint Stock Company (Webtretho) to enter Vietnam's internet service market, especially for local contents and community service. The goodwill is attributable to the workforce of the acquired business and the synergy from the marketing combination. It will not be deductible for tax purposes. Details of the purchase consideration, the assets and liabilities recognized as a result of the acquisition, and fair value of the non-controlling interest at the acquisition date are as follows:

(in thousands of Korean won)

	Amount
Consideration	
Cash and cash equivalents	13,603,622
Fair value of put option	2,258,122
Non-controlling interest ¹	722,541
Recognized amounts of identifiable assets acquired and liabilities assumed	
Assets	
Cash and cash equivalents	4,717,463
Trade and other receivables	587,693
Property and equipment	34,380
Intangible assets	9,804
Other assets	205,948
	5,555,288
Liabilities	
Trade and other payables	383,292
Borrowings	1,341,486
Other liabilities	1,193,124
	2,917,902
Total identifiable net assets	2,637,386
Goodwill ²	13,946,899

¹ The non-controlling interest was measured using the proportionate amount of the fair value of identifiable net assets.

² The value of identifiable net assets and goodwill will be determined subject to the final valuation results.

g) On December 7, 2017, the Group acquired 74.3% shares of Drama & Company which is a developer of Remember, a mobile application for managing business cards. The goodwill is attributable to the workforce of the acquired business and the synergy from the marketing combination. It will not be deductible for tax purposes. Details of the purchase consideration, the assets and liabilities recognized as a result of the acquisition, and fair value of the non-controlling interest at the acquisition date are as follows:

(in thousands of Korean won)

	Amount
Consideration	
Cash and cash equivalents	38,266,857
Fair value of put option	2,077,351
Non-controlling interest ¹	2,802,285
Recognized amounts of identifiable assets acquired and liabilities assumed	
Assets	
Cash and cash equivalents	10,823,440
Trade and other receivables	367,695
Property and equipment	188,386
Intangible assets	19,351
Other assets	5,571
	11,404,443
Liabilities	
Trade and other payables	78,605
Other liabilities	417,380
	495,985
Total identifiable net assets	10,908,458
Goodwill	32,238,035

¹ The non-controlling interest was measured using the proportionate amount of the fair value of identifiable net assets.

h) The Group acquired 100% shares of FIVE to obtain technology and human resources in the field of video advertising on December 15, 2017. The goodwill is attributable to the workforce of the acquired business and the synergy to technology development. It will not be deductible for tax purposes. Details of the purchase consideration, the assets and liabilities recognized as a result of the acquisition, and fair value of the non-controlling interest at the acquisition date are as follows:

(in thousands of Korean won)

	Amount
Consideration	
Cash and cash equivalents	51,690,385
Non-controlling interest ¹	-
Recognized amounts of identifiable assets acquired and liabilities assumed	
Assets	
Cash and cash equivalents	4,515,215
Trade and other receivables	2,555,789
Property and equipment	83,933
Intangible assets	3,711,020
Other assets	62,629
	10,928,586
Liabilities	
Trade and other payables	2,448,865
Borrowings	395,456
Deferred tax liabilities	1,167,487
Other liabilities	2,650,836
	6,662,644
Total identifiable net assets	4,265,942
Goodwill	47,424,443

i) Accounting treatments of other business combination during the year are as follows:

(in thousands of Korean won)

	Amount
Consideration	
Cash and cash equivalents	36,047,925
Contingent payments to employees or selling shareholders (separate transactions)	(9,168,750)
Fair value of equity held before the business combination	4,324,173
Fair value of put option	67,052
Non-controlling interest ¹	5,427,080
Recognized amounts of identifiable assets acquired and liabilities assumed	
Assets	
Cash and cash equivalents	11,016,947
Trade and other receivables	3,195,185
Available-for-sale financial assets	2,148,382
Property and equipment	463,303
Intangible assets	9,107,334
Other assets	1,242,692
Subtotal	27,173,843
Liabilities	
Trade and other payables	1,485,333
Borrowings	2,882,821
Deferred tax liabilities	2,467,668
Other liabilities	2,094,827
Subtotal	8,930,649
Total identifiable net assets	18,243,194
Goodwill ²	18,454,286

¹ The non-controlling interest was measured using the proportionate amount of the fair value of identifiable net assets.

² The goodwill is attributable to the workforce of the acquired business, the synergy to technology development and from the marketing combination. It will not be deductible for tax purposes.

35. Operating Segment Information

The chief operating decision-maker of the Group is the Board of Directors who makes resource allocation decisions and assesses performance based on financial information presented on a consolidated basis. Accordingly, the Group have determined that they have a single reportable segment and operating segment structure. Operating information by service types is reported to the chief operating decision-maker and there is no difference from the amount reported in the consolidated statements of comprehensive income.

Operating revenues by service types for the years ended December 31, 2017 and 2016, are as follows:

(in thousands of Korean won)

	2017		2016	
	Operating Revenue	Ratio (%)	Operating Revenue	Ratio (%)
Ads ¹	461,277,473	9.86	399,429,768	9.93
Business Platform ²	2,153,049,555	46.02	1,865,674,121	46.38
IT Platform ³	217,805,728	4.66	120,575,087	3.00
Contents Service ⁴	101,537,508	2.17	103,218,460	2.57
LINE & Other Platforms ⁵	1,744,798,664	37.29	1,533,732,184	38.12
	4,678,468,928	100.00	4,022,629,620	100.00

¹ DA, Shopping DA, NAVER TV Video Ads, etc. (CPM)

² Search, Shopping Search, etc. (CPC/CPS)

³ NAVER Pay, IT Services, Cloud, WORKS, etc.

⁴ NAVER Music, Webtoon, V LIVE, etc.

⁵ LINE, Camp Mobile, SNOW, etc.

Financial performance by each region for the years ended December 31, 2017 and 2016, are as follows:

(in thousands of Korean won)

	Revenue from external customers		Non-current assets ¹	
	2017	2016	2017	2016
Domestic	3,314,009,566	2,592,038,787	1,408,347,312	973,821,879
Japan	1,288,979,250	1,341,473,792	261,344,882	160,115,412
Others	75,480,112	89,117,041	136,892,701	43,678,792
	4,678,468,928	4,022,629,620	1,806,584,895	1,177,616,083

¹ Financial instruments and deferred tax assets are not included.

36. Discontinued Operation

The Group's subsidiary, LINE Corp. decided to terminate the service of its subsidiary, MIXRADIO, at the Board of Directors' meeting in February 2016 and is proceeding to liquidate the subsidiary. The profit and loss on the related operations are presented as discontinued operations.

Loss from discontinued operations for the years ended December 31, 2017 and 2016, are as follows:

(in thousands of Korean won)

	2017	2016
Operating revenues	-	(976,771)
Operating expenses	(77,229)	(27,366,956)
Operating loss	(77,229)	(28,343,727)
Other income	274,188	2,033,124
Other expenses	(224,653)	6,410,292
Finance income	-	1,096,716
Finance costs	(220,476)	(99,087)
Loss before income tax	(248,170)	(18,902,682)
Income tax expense (benefit)	2,305,891	(7,068,301)
Loss for the year of discontinued operations	(2,554,061)	(11,834,381)

Summarized cash flows from discontinued operations for the years ended December 31, 2017 and 2016, are as follows:

(in thousands of Korean won)

	2017	2016
Cash flows from operating activities	(1,307,453)	(55,059,769)
Cash flows from investing activities	-	260,379
Cash flows from financing activities	(1,166,488)	1,903,694
Effects of exchange rate changes on cash and cash equivalents	(248,946)	(2,602,168)
Net cash outflow	(2,722,887)	(55,497,864)

37. Information for Non-controlling Interests

The profit or loss allocated to non-controlling interests and accumulated non-controlling interests of subsidiaries that are material to the Group for the year ended December 31, 2016 and 2017:

(in thousands of Korean won)

	2017					
	Non-controlling interest rate (%)	Accumulated non-controlling interests at the beginning of the year	Changes in non-controlling interests by share issuance of subsidiaries	Profit or loss allocated to non-controlling interests	Other comprehensive loss allocated to non-controlling interests	Accumulated non-controlling interests at the end of the year
LINE	26.32	474,974,274	(132,009,090)	21,353,236	(34,616,631)	19,018,330

(in thousands of Korean won)

	2016					
	Non-controlling interest rate (%)	Accumulated non-controlling interests at the beginning of the year	Changes in non-controlling interests by share issuance of subsidiaries	Profit or loss allocated to non-controlling interests	Other comprehensive loss allocated to non-controlling interests	Accumulated non-controlling interests at the end of the year
LINE	19.65	143,942,168	229,888,041	16,413,198	(16,261,376)	100,992,243

Effects of transactions with non-controlling interests on the equity attributable to owners of the Parent Company for the years ended December 31, 2017 and 2016, are as follows:

(in thousands of Korean won)

	2017	2016
Changes in interest in subsidiaries that do not result in loss of control ¹	132,150,161	1,068,061,004
Net effect on the Parent Company's equity	132,150,161	1,068,061,004

¹ During the year, the Group recognized additional 6.67% of non-controlling interests due to shares issuance from exercised stock option of LINE, a subsidiary of the Group. Also, the Group acquired 19% interest through the shares issuance of Gogolook. These and other transactions resulted in a decrease in non-controlling interests of \ 9,205 million and increase in equity attributable to owners of the Parent Company of \132,150 million, respectively.

38. Events After the Reporting Period

With the resolution of Board of Directors as at January 24, 2018, the Company acquired 133,858 shares of treasury stock after the reporting period.

AFFILIATES

Subsidiary

NAVER Corp.'s current affiliated companies

Sub-subsidiary - As of December 31, 2017, there are a total of 99 affiliated companies including NAVER Corp.

NAVER

NAVER Business Platform / 100.00

Online information distribution business

NAVER I&S / 100.00

Business support, workforce supply, employee dispatch, and software development

LINE¹ / 73.68

Mobile service development

NAVER China / 100.00

Software development and distribution

Search Solution / 100.00

Software development and distribution

N-Visions / 100.00

Exhibition and performance planning business

Camp Mobile / 100.00

Software development and distribution

Entry Labs / 100.00

Software development and distribution

Works Mobile / 100.00

Applied software development and distribution

WAV Media / 100.00

Mobile service development

SNOW (*3) / 88.16

Software development and distribution

SB Next Media Innovation Fund / 92.50

Investment

NAVER Labs / 100.00

Information services and manufacturing electrical equipment

NAVER Webtoon / 100.00

Software development and distribution

Naver France / 100.00

Investment and information services

Company AI⁴ / 39.10

Software development and distribution

NAVER-KTB Audio Contents Fund / 99.00

Investment

Spring Camp Early Stage Fund^{1,2} / 100.00

Investment

NAVER Business Platform

NAVER Business Platform Asia Pacific / 100.00

IT infrastructure operations

NAVER Business Platform America / 100.00

IT infrastructure operations

NAVER Business Platform Europe / 100.00

IT infrastructure operations

NAVER Business Platform Japan / 100.00

IT infrastructure operations

NAVER I&S

Incomms / 100.00

Other contract services

Greenweb Service / 100.00

Other contract services

NHN Technology Service / 100.00

Software consulting, development and distribution

NIT Service / 100.00

Software development and consulting

CommPartners / 100.00

Portal and other Internet services, call center and telemarketing services

Other contract services

Other contract services

NHN Technology Service / 100.00

Software consulting, development and distribution

NIT Service / 100.00

Software development and consulting

CommPartners / 100.00

Portal and other Internet services, call center and telemarketing services

Other contract services

Other contract services

LINE Plus²

LINE Play / 100.00

Software development

LINE Euro-Americas / 100.00

Mobile service marketing

LINE Taiwan / 100.00

Mobile service operations

LINE Company (Thailand) / 99.95

Mobile service operations

LINE Digital Technology (Shanghai) / 100.00

Mobile service marketing

LINE Vietnam / 100.00

Mobile service operations

PT.LINE PLUS INDONESIA / 99.99

Mobile service operations

LINE Up / 100.00

Mobile game software development and distribution

LINE Studio / 100.00

Mobile game software development and distribution

Nemustech / 88.57

Software development

Bapul / 53.69

Software development and distribution

Drama & Company / 74.31

Software development and distribution

Camp Mobile

Iconnect / 100.00

Software development

Gogolook / 69.13

Mobile service development

Camp Mobile / 100.00

Mobile service operations

Works Mobile

Works Mobile Japan / 100.00

Mobile service operations

NAVER Webtoon

WEBTOON Entertainment / 100.00

Mobile service development

Watong Entertainment / 100.00

Mobile service operations

Lico / 100.00

Online information distribution business

NAVER Labs

Epipolar / 100.00

Software development and distribution

LINE²

LINE Plus / 100.00

Portal and Internet services

LINE Fukuoka / 100.00

Mobile service operations

LINE BIZ+ / 100.00

Mobile payment system planning and development

development

LINE Book Distribution / 52.00

Mobile service development

LINE Ventures / 100.00

Investment

LINE C&I / 100.00

Investment and Mergers & Acquisitions

LINE Game Global Gateway / 100.00

Investment

MIXRADIO / 100.00

Mobile service development

LINE Friends / 100.00

Character equipment and doll wholesale and retail

LINE Life Global Gateway / 100.00

Investment

LINE-NAVER Game Investment Fund / 100.00

Investment

LINE Mobile / 100.00

Telecommunications service

M.T. Burn / 50.49

Mobile advertising service business

Gatebox (formerly, Vinclu) / 51.00

Mobile service development

LINE Games / 100.00

Software development and distribution

LINE Friends Japan / 100.00

Character equipment and doll wholesale and retail

LINE TICKET / 51.00

Internet information services

Next Library / 100.00

Internet information services

Five / 100.00

Mobile advertising service business

LFG HOLDINGS / 100.00

Character equipment and doll wholesale and retail

LINE Pay / 100.00

Mobile payment system planning and development

development

LINE BIZ+ Taiwan / 100.00

Mobile payment system planning and development

development

LINE Taiwan²

SHINEWANT TECHNOLOGY / 100.00

Internet information services

LINE BIZ+²

Tre Tho Information Service Joint Stock Company

(Webtretho) / 72.60

Online information distribution business

SHINEWANT TECHNOLOGY²

Silent Illumination / 100.00

Software development and distribution

LINE Pay²

Webpay Holdings / 100.00

Mobile payment system planning and development

development

Line Biz Plus / 100.00

Software development and distribution

BALIE / 60.00

Searching advertising service business

Webpay Holdings²

Webpay / 100.00

Mobile payment system planning and development

development

SNOW²

SNOW China / 100.00

Mobile service operations

SNOW Japan / 100.00

Mobile service operations

SNOW China (Beijing) / 100.00

Mobile service operations

SNOW Inc. / 100.00

Mobile service operations

Spring Camp / 100.00

Investment

Playlist / 100.00

Information and communication service

Amuse / 100.00

Cosmetics manufacturing, distribution and sales

LINE Friends²

LINE Friends Inc. / 100.00

Character equipment and doll wholesale and retail

LINE Friends (Shanghai) Commercial

Trade / 100.00

Character equipment and doll wholesale and retail

Markt / 51.00

Software development and wholesale and retail

LINE Games²

NextFloor / 51.00

Software development and distribution

Pig / 100.00

Software development and distribution

Stairs / 100.00

Software development and distribution

NextFloor²

Msquared Management / 100.00

Software development and distribution

Next Floor Basement Lab / 100.00

Software development and distribution

Studio 4LEAF / 60.00

Software development and distribution

InnoAG / 50.72

Software development and distribution

Msquared Management²

Mobil Factory / 100.00

Software development and distribution

¹ The ownership of the Group decreased due to issuance of shares arising from exercising stock option.

² Ownership interest held by the Group represents percentage of LINE's ownership.

³ The ownership interest of SNOW is the effective ownership interest held by the Group calculated based on the shares held by both the Company and LINE, a subsidiary of the Company.

⁴ Although the Group owns less than 50% ownership of Company AI, the Group is considered to have control over the entity because the Group has a right to appoint all of its BOD members under arrangements with other shareholders.

CORPORATE HISTORY

1999. 06 Incorporated Navercom; launched search portal "Naver"
06 Launched children's portal "Jr.Naver"
12 Launched game portal "Hangame"
2000. 07 Merged Hangame Communications and One-Cue; and acquired Search Solutions
09 Established Hangame Japan
2001. 09 Changed the corporate name to NHN (Next Human Network)
2002. 10 Listed on KOSDAQ (Korean Securities Dealers Automated Quotations)
2003. 10 Hangame Japan changed the company name to NHN Japan
12 Acquired digital content transmission technology company Future Valley
2004. 04 Ranked No.1 on KOSDAQ in market capitalization
06 Launched Ourgame Joint venture company with Sea Rainbow Holdings Corporation in China
11 Established game development studio NHN Games
2005. 07 Launched online donation portal 'Happybean'
07 Incorporated NHN USA
08 Established Internet service management company NHN Services
2006. 06 Acquired search company 'Inoon'
10 Acquired data storage management solution company Datachorus
2007. 05 NHN USA started official services of game portal 'ijji.com'
11 Established Naver Japan
12 Established NHST (Next Human Search Technology)
2008. 11 Transferred to KOSPI (Korea Composite Stock Price Index)
2009. 01 Acquired 'me2day', a micro blog website
02 Acquired 'Wingbus', a tour guide website
04 NHN Corporation undergoes divestiture, Established 'NHN Business Platform' (NBP)
05 Established the Happybean Foundation, to strengthen the online donation culture
07 Mobile coupon distribution solution company, ITOPF Corporation became NHN's affiliate
08 Changed corporate identity (CI) in celebration of the 10th anniversary
2010. 01 NHN signed an "Agreement to Promote a Women-Friendly Corporate Culture" with the Ministry of Gender Equality and Family
04 Established NHN Investment, specializing in asset management and venture investment business
2011. 01 NBP started full-fledged autonomous advertisement service
01 Established the affiliated company 'Orange Crew', smart device game developer
04 Established NTS (NHN Technology Services)
09 Established Khan Communications for local advertising, joint cooperation with KT

2012. 01 Merged three entities, NHN Japan, Naver Japan, Livedoor to become 'NHN Japan'
04 Established 'The Sarang' for hiring vulnerable social group, joint invest with Webzen
08 Establishred NHN SINGAPORE PTE.LTD
2013. 03 Established 'Camp Mobile', the mobile exclusive affiliated company
03 Established the LINE exclusive 'LINE Plus'
04 Change corporate name of NHN Japan to LINE Corp.
06 Established Gak, Internet Data Center of NAVER Corp.
08 NAVER Corporation and NHN Entertainment (formerly 'Hangame') underwent split-off
12 CAMP MOBILE acquired 'Gogolook', Taiwan spam filtering app 'Whoscall' service company
2014. 07 Merged Advertising and Platform business part of NBP into NAVER Corp.
2015. 04 Established 'Works Mobile', a company for enterprises/business services
06 Meged software education platform Entry Korea
2016. 07 LINE Corp double listed on NYSE (New York) and TSE (tokyo)
08 Establishd SNOW Inc.
2017. 01 Established NAVER LABS Inc., R&D specialized company
05 Established NAVER WEBTOON Corp.
06 opened 'Space Green' for nurturing startups in Station F, a world largest startup incubator
06 Acquired Xerox Research Centre Europe (XRCE)

AWARDS & ACCOLADES

2000. 02 Awarded for Excellence in the field of Digital Information Technology by Hankyoreh Daily
05 Korea Management Association Consulting names Naver.com as Korea's top search portal
12 Awarded the Internet Grand Prize for Top Search Portal by Chosun Ilbo
2001. 06 Awarded the Internet Grand Prix of Entertainment Award by New Business Management
2002. 05 Hangame won the 1st place for 'The Best Web Awards, Game Division' (KMAC)
10 Awarded for excellence in privacy protection by the Korea Association of Information and Telecommunication(KAIT)
12 Awarded Grand Prize, 'Top Internet Company of the Year' (Korea Internet Corporations Association, Journalist Association of Korea)
12 Awarded the Grand Prize for Best Internet Company of Year by the Korea Internet Corporations Association and Journalist Association of Korea
2003. 03 Naver ranked No.1 among search portals by NCSI (National Customers Satisfaction Index)
07 Awarded the Grand Prize among 2003 Korean Technology Fast 50 (Deloitte Consulting)
08 Ranked as No.1 search portal by Korea Service-Quality Index (Korean Standards Association)
12 Naver's "Knowledge Search" service is selected as one of the "Hits of the Year," a list compiled by Joongang Ilbo and Samsung Economic Research Institute
12 Received Presidential Award for Contribution to the Advancement of Korean Software Industry
2004. 08 Ranked No.1 search portal by the Korea Service-Quality Index (Korean Standards Association)
12 Awarded Gold Prize, 'Web Award Korea 2004, Game Division' (Web Award Committee)
2005. 03 Awarded Namoo Prize, '1-People Award' (joins.com)
06 Awarded the Grand Prize for Best Internet Company of the year (New Business Management)
06 Named 'Korean Brand Star, Portal Division' (Brand Stock)
09 Won the 1st Place, 'Korean Standard-Service Quality Index, Internet Portal Division' for third consecutive year (Korea Standards Association)
10 Awarded 'CEO Who Brightens Korea', Talent Management Division (Korea Economy, Seoul National University Academics and Industry Cooperation Foundation)
11 Won Grand Prize, 'Korean IR Awards' (Korea IR Association)
12 Granted the Grand Prize in social contribution by IMI
12 Selected as the Internet Company of the Year by Kinternet, the association of online-based businesses
2006. 06 Awarded the Best Kosdaq listed Company Award (KOSDAQ Listed Companies Association)
06 Naver acquired 'Good Design' mark (Korea Institute of Design Promotion)
09 Won the 1st place, 'Korean Standard-Service Quality Index, Internet Portal Division' for 4th consecutive year (Korea Standards Association)
10 Hangame won the 1st place in 'National Brand Competitive Index (NBCI), Game Portal Division' for 2nd straight year (Korea Productivity Center)
2007. 04 Presented the 2007 Award for Excellence in Gender Equality Employment. Awarded by the president. (Ministry of Labor)
11 Awarded Presidential Prize, 'Korea Internet Awards' (Ministry of Information and Communication)
11 Awarded Grand Prize, 'Korean IR Awards' (Korea IR Association)
12 Selected 'Technology Fast 500 Asia Pacific' for 5th consecutive year (Deloitte Consulting)
12 Awarded Grand Prize, 'Web Award Korea 2007' (Web Award Committee)
12 Awarded 1st Prize for 'Cyberethics Index Evaluation, Portal Division' (Government Youth Commission)
2008. 02 Named in '60 CMT Shareholder Performance Index' (Oliver Wyman)
02 Named 'Korea's Most Admired Companies 2008, All-Star 3' (Korean Management Association Consulting)
03 Naver ranked top in 'National Customers Satisfaction Index(NCSI), Search Portal Service Division' for 3th consecutive year (Korea Productivity Center)
04 NHN named in 'Global 2000' (Forbes)
09 NHN named in 'Asia50' (Businessweek)
11 Awarded the 1st prize for '2008 Korea Design Awards, InDesign Management Division' (Ministry of Knowledge Economy, Korea Institute of Design Promotion)
12 NHN ranked the 5th in '2008 Most Profitable Companies in ternet Service' (Newsweek)

AWARDS & ACCOLADES

- 2009. 04** Naver ranked No.1 for four consecutive years among search portals by NCSI (National Customers Satisfaction Index)
- 04** Hangeul ranked 2nd place in web board games (Korea Productivity Center) Awarded "The Best Venture Business with Highest Sales in 2009" among venture
- 06** businesses with sales of 100 billion KRW (Korea Venture Business Association)
- 09** NHN listed in "Asia 50" (Forbes)
- 10** Naver ranked No.1 in "2009 KS-SQI (Korea Standard Service Quality Index)" for six consecutive years (Korean Standards Association)
- 11** Naver ranked first place in "2009 KCSI (Korean Customer Satisfaction Index)" for seven years in a row (Korea Management Association)
- 11** Naver ranked no.5 among worldwide search portals (Comscore)
- 12** Naver awarded grand prize in mobile web & media/information service category (Web Award Korea)
- 12** C9 awarded grand prize at 2009 Game Awards Korea (Ministry of Culture, Sports and Tourism)
- 12** NHN listed in "50 promising Asia-Pacific companies 2009" (Forbes)
- 12** Ranked no.3 in "2009 Top 100 Brands of Korea" (Brandstock)
- 12** NHN awarded "2009 Korea Sharing and Volunteer Awards" (Hankook Daily News)
- 12** NHN awarded by the Minister of Culture, Sports and Tourism for its library donation efforts. (Ministry of Culture, Sports and Tourism)
- 2010. 04** Naver ranked No.1 for five consecutive years among search portals by NCSI (National Customers Satisfaction Index)
- 06** Naver Hangeul campaign 'Hangeul, beauty in every letter' won PR Silver Lions at Cannes Lions International Advertising Festival.
- 08** Won 5 awards for Brand Design (Red Dot Award)
- 08** Won 9 design awards including Naver greenwindow, Dialogue in the dark intro clip (iF communication Award)
- 08** Annual report received gold prize in internet service, publication/production category and bronze prize in design category (Annual Report Competition 2010 Awards)
- 12** Naver listed in Top 10 Tech Companies representing Asia
- 12** Naver won 15 awards include mobile web & media/information service category (Web Award Korea)
- 2011. 04** Naver ranked No.1 for six consecutive years among search portals by NCSI (National Customers Satisfaction Index)
- 06** Awarded in "Annual Report Competition 2011" with gold medal for internet service and picture, silver medal for publishing and bronze for design
- 07** Awarded "The Best Venture Business with Highest Sales in 2011" (Small & Medium Business Administration and Korea Venture Business Association)
- 10** NHN Green Factory awarded with "Korean Architecture Award 2011" (Excellence award)
- 11** Naver App Square and Photo printing package awarded by iF Design Award (communication)
- 2012. 04** Naver ranked No.1 for seven consecutive years among search portals by NCSI (National Customers Satisfaction Index)
- 06** Naver App.Square, NHN Next Identity awarded by red dot award
- 07** Naver Real Estate App, NHN Diary package awarded by IDEA 2012 Award
- 10** NHN presented in group section at '2012 Digital Geo EXPO', Awarded by the president (Ministry of Land, Transport and Maritime Affairs)
- 12** Won 7 design awards including NHN NEXT identity, Line (iF communication award)
- 12** Naver Music awarded 'The Best Korea TV app. in Daily Life' (Korea Communication Commission)
- 2013. 04** Naver ranked No.1 for eight consecutive years among search portals by NCSI (National Customers Satisfaction Index)
- 2014. 02** Awarded Lifetime Achievement award (Korea Barrister Association)
- 02** Won 4 design awards including IDC 'Gak' (iF communication award)
- 04** Presented the 2014 Award for Excellence in Employment. Awarded by the minister (Ministry of Labor)
- 05** Presented the 2014 Award for Excellence in Gender Equality Employment. Awarded by the president. (Ministry of Labor)
- 07** Won 6 design awards including Naver 'Korean Language Campaign' (IDEA 2014 Award)
- 08** Won 5 main design prize including Naver SDF Data Square (Red Dot Award)
- 10** Naver Green Factory achieved the world's best score (LEED Platinum)
- 12** Won Gold prize in donation for education, company section (Ministry of Education)
- 12** Presented Lifetime Achievement award for promoting software industry (Ministry of Science, ICT and Future Planning)
- 2015. 01** LINE FRIENDS awarded 'Best Property' prizes (LIMA and ALA)
- 02** Won 8 design awards including Naver Library, TOSS (iF Communication Award)
- 02** LINE awarded 'Best International Startup' (8th Annual Crunchies Award)
- 08** Won 5 main design awards, including Naver Subway map won 'Best of The Best' in the social responsibility field (Red dot award)
- 08** Won 2 main design awards, including B612-a selfie app of LINE- won 'Best of The Best' in the Communication Design field (Red Dot Award)
- 08** Naver Service History Wall at Connect One won gold prize in Digital Design area (IDEA)
- 09** Presented Minister award for Win-Win Challenge between agriculture and business (MAFRA)
- 11** Presented Minister award for using genuine software (MSIP)
- 2016. 01** Naver ranked No.1 for ten consecutive years among search portals by NCSI (National Customers Satisfaction Index)
- 08** Nominated as 'The World Most Innovative Companies' for third consecutive year (Forbes)
- 10** Naver ranked 1st in "2016 KCSI (Korean Customer Satisfaction Index)" for 13 consecutive years (Korea Management Association)
- 10** Presented Presidential Awards for 38th Korea Energy Efficiency Awards (MOI)
- 2017. 03** Naver ranked No.1 for eleven consecutive years among search portals by NCSI (National Customers Satisfaction Index)
- 05** Ranked Best company of management by CEO SCORE
- 11** Data Center 'GAK' granted as Energy Champion Company

INVESTOR INFORMATION

NAME OF COMPANY	NAVER Corporation (KOSPI 035420)
CEO	SUNG-SOOK HAN
DATE OF ESTABLISHMENT	June 2, 1999
CAPITAL	KRW 16,481,339,500
HEAD OFFICE	NAVER Green Factory, 6, Buljeong-ro, Bundang-gu, Seongnam-si, Gyeonggi-do, Korea (Postal code: 13561)
HOMEPAGE	www.navercorp.com

MAJOR SERVICES

Internet Services

Internet Services naver.com

Junior NAVER, children's online portal jr.naver.com

Happybean, online donation portal happybean.naver.com

Matome, user-generated contents service in Japan matome.naver.jp

Livedoor, online comprehensive portal in Japan livedoor.com

Mobile Services

Mobile NAVER m.naver.com

LINE, mobile messenger line.me/ko/

SNOW, AR camera content platform snow.me

NUMBER OF EMPLOYEES (As of December 31, 2017)

NAVER Corp.: 2,793

STOCK INFORMATION (As of December 31, 2017)

Number of common shares outstanding: 32,962,679

Market capitalization: KRW 28.67 trillion

INDEPENDENT AUDITOR

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DISCLAIMER

This report does not contain a complete description of NAVER Corporation'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. Executives and employees of NAVER Corporation 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 2017 Annual Report and recent investment information on NAVER Corporation can be found in both Korean and English on NAVER Corporation's website (www.navercorp.com).

CONTACTS

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