

Letter to shareholders – The present and future of NAVER Commerce

To our shareholders,

On March 17, analysts from 39 securities companies participated in Analyst Day which focused about NAVER's commerce business this year. Although our analysts' reports cover the current and future trajectory of our commerce business, I thought it vital to personally address our shareholders directly and regularly whenever we hold important events as this.

Before moving on to the main point, a quick update on NAVER's 22nd general shareholders' meeting held last week. Thanks to your support, all items on the agenda were passed. I extend my gratitude on behalf of the Board for your unwavering support and trust in our NAVER family. Director Lee Keon-hyok has been appointed as our latest Board member. With his extensive experience in leading companies and organizations and expertise as a Ph.D. in Economics, we look forward to his invaluable contribution to charting the course for our global business. The management of NAVER will continue to push towards its ultimate goal of steadily improving shareholder value.

The sheer power of small successes amidst the COVID-19 crisis: NAVER Commerce's commitment to support SMEs' online transition and growth.

Throughout the past year, COVID-19 has fundamentally changed how we conduct our daily lives. This makes the growth of NAVER's e-commerce business even more meaningful, because we have grown together with small businesses—supporting their transition into the online domain with our technology and services. While e-commerce business fuels the growth for IT companies all around the world, we more than ever feel the weight and responsibility of being the No. 1 commerce platform in Korea, all possible thanks to our massive user and seller base and infrastructure accumulated throughout the years.

March was an exceptional month highlighting milestone events for our commerce business. These include the finalization of the merger between LINE and Z Holdings and strengthened strategic partnerships with EMART and Shinsegae via treasury stock exchanges. Allow me to elaborate further on the importance of these events and how they will manifest our commerce business philosophy and further our competitiveness in the future.

Embracing diversity solidified our position as Korea's No.1 commerce platform... a vibrant ecosystem to compete globally.

NAVER e-commerce has grown together with small businesses, ensuring a seamless experience throughout sales and purchase for both our sellers and buyers. NAVER's e-commerce business started by leveraging its strength in search and price comparison models and vigorously continues to improve the online shopping experience of our users. With accurate product information, users can enjoy the seamless shopping experience from search to payment; We have designed and developed our Smart Store platform so that sellers with no experience in the online sector can easily start and expand their online business with the help from our tools.

Diversity is the cornerstone for our commerce business strategy. Our competitiveness comes from our extensive range of products provided by our diverse seller base rather than just focusing on price and delivery time of a narrow range of products. We have no doubt that our direction as a flexible commerce platform with differentiated products and diverse sellers for our largest user base is what will maintain our competitive position in the market. We will reinforce merchant solutions reflecting the needs of our sellers and introduce new marketing solutions, ultimately evolving into a global solution provider expanding our seller's global reach.

NAVER commerce platform encompasses sellers of various scales and types and has the flexibility and scalability to collaborate with competent partners in different industries to grow together. Sellers can choose which platform is best suited for their online store while fully utilizing various solutions to increase sales; users can choose the optimized shopping experience according to each product group, such as price comparison, Shopping Live, and Online Grocery. NAVER Commerce platform is where this simple, yet fundamental market logic applies most soundly in Korea.

As the leader of the e-commerce market embracing mutual growth with our users, sellers, and partners, NAVER recorded KRW 28 trillion in GMV last year. NAVER solidified its position as the leading company in Korea's e-commerce market and will continue to do so in the future.

To stay at the forefront in the commerce business, NAVER shall focus on the following five directions: Strengthen seller solutions, support various purchase methods, expand the partnership ecosystem by promoting membership subscriptions, establish data-based on-demand fulfillment, and expand globally.

1) Strengthen new "seller solutions," such as Merchant Solution: A virtuous circle of growth of commerce business

The number of NAVER Smart Stores exceeded 420,000 and the annual GMV over KRW 17 trillion. These numbers are evidence that Smart Store is the most preferred online business platform by our Korean sellers. This year's target is to accelerate this growth, and achieve at least KRW 25 trillion in GMV, 150% of last year's result. In five years, we project to have 1 million sellers carrying out their business in our Smart Store ecosystem.

Based on our seller solution expertise built over the years, we expanded our core seller

base from SMEs to major brands, launching Brand Store in February 2020. Currently, around 290 brands of all verticals from fashion, household items to electronic appliances are experiencing stable growth in Brand Store and not a single Brand Store partner has left the platform. Combined with NAVER's marketing solutions, the growing seller base and GMV of Smart Store and Brand Store is translating into the growth of NAVER Commerce revenue.

As the sellers entrust and grow their valuable businesses on our platform, NAVER grows with them. We believe that it is our role to provide an all-encompassing merchant solution, optimized for all business stages so that business owners can solely focus on managing their core businesses. The solution's basic functions—store establishment, product and order/payment management, have expanded into an all-inclusive tool covering CS, settlement and finance, data analytics, logistics, and cutting-edge marketing solutions. This extensive solution that supports all stages of online business is our “Merchant Solution.” We continuously are looking for monetization opportunities in highly effective business solutions. The addition of an advanced subscription model to the existing advertisement and commission-based models will only accelerate the virtuous circle: increased profits of sellers powered by merchant solutions will result in higher commission and ad sales, which in turn will lead to higher solution sales.

2) A differentiated shopping experience through subscription, luxury products, live commerce services, and new markets

Our ultimate business mission is to provide a wider range of selection and a fun, immersive shopping experience to our users. Though we are unrivalled in variety, there still are categories to discover. With the massive scale of the retail market and online retail just in its infant stages, we are confident that we will gain market share, especially in household items, online groceries, luxury categories, subscription, and rental services.

The exceptional rapid growth of NAVER Shopping Live is the result of the combined efforts of NAVER's massive user base, commerce, UGC, and content business and leading live streaming technology. Never complacent, we push our boundaries to create new markets. China's live commerce market, which started earlier than other markets, represents more than 15% of total e-commerce GMV. Though in its earlier stages, NAVER Shopping Live's growth trajectory is none-the-less astonishing. To stay ahead in global competition, Shopping Live will only become a more essential growth engine for NAVER.

3) Acquire six million users of NAVER Plus Memberships based on strong partnerships and attractive benefits

The core competitiveness of NAVER Plus Membership lies in our close alliance with our partners. We have recently established a partnership for content with TVING and are discussing ‘linked mileage benefit’ products with Korean Air, following the MOU signed in February. We will discuss integrated online and offline services with our recently announced alliance, EMART and Shinsegae: NAVER Pay points rewards and free delivery service at EMART and Shinsegae stores across the country. NAVER Plus Membership aims to become an open symbiotic system where we do not compete with our partners but

combine both our internal and our partners' benefits. This synergy of benefits will make NAVER Plus Membership indispensable to users in all aspects of their lives.

The monthly user spending on the NAVER Commerce platform increases significantly once they sign up for NAVER Plus Membership. Data shows that the monthly average transaction amounts of NAVER Plus members increase over time. Considering these patterns, we expect that the NAVER Plus Membership subscriber base will reach 6 million by this year, which surpassed 2.5 million last year.

4) Differentiated logistics service according to product: Strengthen logistics competency by establishing data-based on-demand fulfillment

The scale of our alliance with EMART and Shinsegae is unprecedented in this industry. Through this alliance, we will further strengthen the logistics competitiveness of our commerce platform. Integrating EMART and Shinsegae's nation-wide offline stores into our ecosystem will take NAVER's shopping experience to the next level. We are reviewing plans to leverage EMART and Shinsegae's 7,300 offline stores to introduce same-day or next-day delivery service to NAVER Shopping, free delivery to NAVER Plus members, and fresh food delivery service for Smart Store.

Before EMART and Shinsegae, CJ Logistics had already joined NAVER's fulfillment ecosystem and is the leading company in the logistics industry. We will continue our efforts to identify the strengths of our partners and develop a system that maximizes the synergy of NAVER and our partners.

Meanwhile, as the diversity of our products continuously increases, so should the delivery methods. From household items, fresh food, Dongdaemun mass fashion, and electronic appliances to premium brands and cross-border items, NAVER will prepare specialized logistics services targeting each category. This year, we plan to introduce official fulfillment solutions for Smart Store and Brand Store.

5) Enter the Japanese market with NAVER's successful Smart Store model: The next step to becoming a global commerce company

The merger of LINE and Z Holdings first announced in 2019 was completed on March 1st this year. Now, NAVER will continue our history of facing new challenges and succeeding in Japan by cooperating with LINE and Yahoo, which are subsidiaries of Z Holdings.

Initially, Smart Store will become our flagship business in Japan launched in the first half of this year. Smart Store will be integrated to social commerce services, such as LINE's Gift and Group Buying features. Smart Store integrated with Yahoo Search, Shopping and PayPay will unleash the already proven powerful synergy of search – shopping – payment throughout the various business verticals of Z Holdings.

While Japan's retail market is three times Korea's size, its online penetration rate is only at one-third of Korea's. This market has great potential for growth. Considering that Yahoo Shopping e-commerce GMV recorded KRW 32 trillion already, it will provide a great foundation for Smart Store's rapid growth.

This business is only the first of many as NAVER broadens its horizon as a global commerce player.

Shared growth and ESG as the core values for the growth of NAVER Commerce

To summarize the extensive overview of our growth strategies: NAVER will continue to grow leveraging its unique position as the only commerce platform able to respond to the increasing diverse needs of sellers and users quickly and effectively. We shall continue to strengthen our No. 1 position in e-commerce through strategic partnerships with leading players from different industries. Starting with Japan, NAVER Commerce will expand and apply its proven formula for success to Asian markets, ultimately generating global revenues surpassing that of Korea's.

NAVER's ambition to encompass the Asian market was made possible due to our unwavering commitment to shared growth—for a decade or more, we have supported our small businesses in their new challenges and given back to our users via our NAVER point system. NAVER's consistent investment became the nutrients for sustainable growth with our sellers, users, and partners, and finally, now we are reaping the fruits of our long-vested labor.

No matter how much we grow, we must never forget our cornerstone philosophy—we support our sellers to succeed and constantly strive to improve user experience. We believe expanding the profit generated by this virtuous circle is possible when we effectively support our sellers and users through various technologies and cooperation with partners. Global investors and users will soon recognize the value of our commerce business model rooted in shared growth.

Together with the rapid progress of e-commerce business, our Search Platform, Fintech, Content, and Cloud businesses contribute to NAVER's growth by producing synergy with one another. As CEO, I will update our shareholders about NAVER's performances, plans and goals of each business area on a regular basis through a letter, such as this one, or through other channels in the future.

Lastly, I would like to express my heartfelt appreciation to our shareholders for exhibiting unyielding trust in NAVER. Your support and interest of NAVER is what motivates us to keep going. On behalf of the dedicated 4,000 members of the NAVER family, thank you once again.

Han Seong-sook
Chief Executive Officer

