

NHN CORPORATION AND SUBSIDIARIES

Consolidated Interim Financial Statements

(Unaudited)

June 30, 2011 and 2010

(With Independent Auditors' Review Report Thereon)

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Independent Auditors' Review Report

Based on a report originally issued in Korean

The Board of Directors and Shareholders
NHN Corporation:

Introduction

We have reviewed the accompanying consolidated statements of financial position of NHN Corporation and subsidiaries (the "Group") as of June 30, 2011, December 31, 2010 and January 1, 2010 and the related consolidated statements of comprehensive income for the three-month and six-month periods, and consolidated statements of changes in equity and cash flows for the six-month periods ended June 30, 2011 and 2010, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility

Management is responsible for the preparation and fair presentation of these consolidated interim financial statements in accordance with Korean International Financial Reporting Standards No.1034 *Interim Financial Reporting* and for such internal control as management determines is necessary to enable the preparation of consolidated interim financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' review responsibility

Our responsibility is to issue a report on these consolidated interim financial statements based on our reviews.

We conducted our reviews in accordance with the Review Standards for Quarterly/Semiannual Financial Statements of the Republic of Korea. A review consists principally of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the Republic of Korea and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our reviews, nothing has come to our attention that causes us to believe that the consolidated interim financial statements referred to above are not presented fairly, in all material respects, in accordance with Korean International Financial Reporting Standards No.1034 *Interim Financial Reporting*.

As discussed in note 3 to the consolidated interim financial statements, the Group prepared the consolidated interim financial statements in accordance with accounting policies management plans to adopt for its first annual financial statements in accordance with Korean International Financial Reporting Standards. The accounting policies applied for the consolidated interim financial statements may be changed by management as considered necessary in the course of preparation of its first annual financial statements in accordance with Korean International Financial Reporting Standards for the year ended December 31, 2011.

Seoul, Korea
August 22, 2011

This report is effective as of August 22, 2011, the review report date. Certain subsequent events or circumstances, which may occur between the review report date and the time of reading this report, could have a material impact on the accompanying consolidated interim financial statements and notes thereto. Accordingly, the readers of the review report should understand that there is a possibility that the above review report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

NHN Corporation and Subsidiaries Consolidated Statements of Financial Position

As of June 30, 2011, December 31, 2010 and January 1, 2010

(In thousands of Korean won)

	Note	June 30, 2011	December 31, 2010	January 1, 2010
Assets				
Cash and cash equivalents	4,7,26	₩ 373,445,270	554,943,904	507,619,337
Short-term financial instruments	4,26	509,899,898	252,343,817	131,556,111
Financial assets at fair value through profit or loss	4,26	157,783,610	63,983,967	-
Trade and other receivables	4,8,26,30	175,729,468	196,481,966	186,575,199
Available-for-sale financial assets	4,9,26	6,063,033	-	35,189,443
Other current assets	10	69,960,601	58,331,958	57,455,454
Total current assets		<u>1,292,881,880</u>	<u>1,126,085,612</u>	<u>918,395,544</u>
Property and equipment	12	353,764,977	331,995,298	294,068,263
Intangible assets	13	150,044,317	153,607,097	55,531,026
Long-term financial instruments	4,26	2,754,481	249,965	6,995,908
Available-for-sale financial assets	4,9,26	184,418,490	159,341,651	36,286,176
Held-to-maturity investments	4,9,26	2,357,463	1,444,089	-
Investments in equity accounted investees	11	88,209,209	87,521,750	63,713,779
Deferred tax assets	28	46,090,125	52,931,074	37,067,751
Trade and other receivables	4,8,26,30	42,130,952	27,568,666	31,704,904
Other non-current assets	10	36,280,614	26,212,386	28,802,035
Total non-current assets		<u>906,050,628</u>	<u>840,871,976</u>	<u>554,169,842</u>
Total assets		<u>₩ 2,198,932,508</u>	<u>1,966,957,588</u>	<u>1,472,565,386</u>

See accompanying notes to consolidated interim financial statements.

NHN Corporation and Subsidiaries

Consolidated Statements of Financial Position, Continued

As of June 30, 2011, December 31, 2010 and January 1, 2010

(In thousands of Korean won)

	Note		June 30, 2011	December 31, 2010	January 1, 2010
Liabilities					
Trade and other payables	4, 14, 18, 26, 30	₩	177,090,485	176,835,387	171,071,045
Short-term borrowings	4, 15, 26		106,287,355	31,743,060	109,378,290
Income tax payables	28		79,966,685	97,123,883	75,362,995
Provisions	16		-	-	240,657
Derivative liabilities	19, 26		1,180,516	1,575,726	-
Other current liabilities	17		112,239,483	91,586,517	79,468,733
Total current liabilities			476,764,524	398,864,573	435,521,720
Trade and other payables	4, 14, 26, 30		657,687	49,497	4,126,058
Long-term borrowings	4, 15, 26		187,586,624	191,441,686	19,051,694
Employee benefits	18		51,130,716	39,103,770	25,467,814
Provisions	16		8,950,960	8,465,959	4,051,280
Other non-current liabilities	17		5,093,197	7,044,855	590,920
Total non-current liabilities			253,419,184	246,105,767	53,287,766
Total liabilities			730,183,708	644,970,340	488,809,486
Stockholders' equity					
Common stock	1, 20		24,063,852	24,063,852	24,063,852
Capital surplus			195,010,028	194,072,912	194,072,912
Other capital	21		(743,164,260)	(671,065,244)	(567,186,981)
Accumulated other comprehensive income	22		5,531,778	11,445,149	5,826,533
Retained earnings	23		1,988,836,644	1,765,292,414	1,315,219,580
Non-controlling interests			(1,529,242)	(1,821,835)	11,760,004
Total stockholders' equity			1,468,748,800	1,321,987,248	983,755,900
Total liabilities and stockholders' equity		₩	2,198,932,508	1,966,957,588	1,472,565,386

See accompanying notes to consolidated interim financial statements.

NHN Corporation and Subsidiaries

Consolidated Statements of Comprehensive Income

For the three-month and six-month period ended June 30, 2011 and 2010

(In thousands of Korean won, except earnings per share)	Note	2011		2010		
		Three-month period	Six-month period	Three-month period	Six-month period	
Operating revenues						
Sales	5,30	W	521,784,264	1,023,629,216	435,302,680	867,523,440
Other operating revenues	25,32		2,771,965	4,750,197	1,461,621	2,789,229
			<u>524,556,229</u>	<u>1,028,379,413</u>	<u>436,764,301</u>	<u>870,312,669</u>
Operating expenses						
Operating expenses	24,30		364,553,166	696,198,358	279,365,215	560,907,311
Other operating expenses	25,32		8,421,109	13,416,361	4,167,594	9,899,733
			<u>372,974,275</u>	<u>709,614,719</u>	<u>283,532,809</u>	<u>570,807,044</u>
Operating income	32		<u>151,581,954</u>	<u>318,764,694</u>	<u>153,231,492</u>	<u>299,505,625</u>
Finance income	27		10,101,393	20,969,973	6,753,822	13,931,584
Finance expenses	27		6,943,870	13,489,739	7,493,614	11,391,208
Equity in net gain (loss) of equity method accounted investees			285,334	(2,475,803)	4,661,365	5,417,360
Income before income taxes			<u>155,024,811</u>	<u>323,769,125</u>	<u>157,153,065</u>	<u>307,463,361</u>
Income taxes	28		41,036,679	86,625,883	36,731,486	76,751,745
Income from continuing operations			<u>113,988,132</u>	<u>237,143,242</u>	<u>120,421,579</u>	<u>230,711,616</u>
Discontinued operation	6					
Loss from discontinued operation			-	-	(1,223,230)	(4,932,938)
Net income attributable to:						
Owners of the Company			113,471,819	236,850,648	118,596,891	227,528,755
Non-controlling interests			516,313	292,594	601,458	(1,750,077)
Net income	W		<u>113,988,132</u>	<u>237,143,242</u>	<u>119,198,349</u>	<u>225,778,678</u>
Other comprehensive income						
Net change in fair value of available-for-sale financial assets			(368,334)	716,093	(629,156)	(128,863)
Changes in loss on translation of foreign operations			600,671	(5,792,729)	(1,489,802)	(6,801,140)
Capital changes in equity method accounted investees			90,695	(836,736)	(1,662,571)	2,803,506
			<u>323,032</u>	<u>(5,913,372)</u>	<u>(3,781,529)</u>	<u>(4,126,497)</u>

See accompanying notes to consolidated interim financial statements.

NHN Corporation and Subsidiaries

Consolidated Statements of Comprehensive Income, Continued

For the three-month and six-month period ended June 30, 2011 and 2010

(In thousands of Korean won, except earnings per share)	Note	2011		2010	
		Three-month period	Six-month period	Three-month period	Six-month period
Total comprehensive income attributable to:					
Owners of the Company	W	113,794,851	230,937,277	114,815,362	223,402,257
Non-controlling interests		<u>516,313</u>	<u>292,593</u>	<u>601,458</u>	<u>(1,750,076)</u>
Total comprehensive income	W	<u>114,311,164</u>	<u>231,229,870</u>	<u>115,416,820</u>	<u>221,652,181</u>
Earnings per share (in won)	29				
Basic earnings per share	W	<u>2,551</u>	<u>5,303</u>	<u>2,681</u>	<u>5,122</u>
Discontinued operations basic earnings per share		<u>-</u>	<u>-</u>	<u>(41)</u>	<u>(71)</u>
Diluted earnings per share		<u>2,549</u>	<u>5,298</u>	<u>2,663</u>	<u>5,085</u>
Discontinued operations diluted earnings per share		<u>-</u>	<u>-</u>	<u>(40)</u>	<u>(70)</u>

See accompanying notes to consolidated interim financial statements.

NHN Corporation and Subsidiaries Consolidated Statements of Changes in Equity

For the six-month periods ended June 30, 2011 and 2010

(In thousands of Korean won)

		Common stock	Capital surplus	Other capital	Accumulated other comprehensive income	Retained earnings	Non- controlling interest	Total stockholders' equity
Balance at January 1, 2010	₩	24,063,852	194,072,912	(567,186,981)	5,826,533	1,315,219,580	11,760,004	983,755,900
Net income for the six-month period ended June 30, 2010		-	-	-	-	227,528,755	(1,750,077)	225,778,678
Acquisition of treasury stock		-	-	(101,775,719)	-	-	-	(101,775,719)
Exercise of stock option		-	-	6,515,947	-	-	-	6,515,947
Reserve for loss on disposal of treasury stock		-	-	13,985,439	-	(13,985,439)	-	-
Net change in fair value of available-for-sale financial assets		-	-	-	(128,864)	-	-	(128,864)
Changes in loss on translation of foreign operations		-	-	-	(6,801,140)	-	(543,115)	(7,344,255)
Capital changes in equity method accounted investees		-	-	-	2,803,506	-	-	2,803,506
Balance at June 30, 2010	₩	<u>24,063,852</u>	<u>194,072,912</u>	<u>(648,461,314)</u>	<u>1,700,035</u>	<u>1,528,762,896</u>	<u>9,466,812</u>	<u>1,109,605,193</u>
Balance at January 1, 2011	₩	24,063,852	194,072,912	(671,065,244)	11,445,149	1,765,292,414	(1,821,835)	1,321,987,248
Net income for the six-month period ended June 30, 2011		-	-	-	-	236,850,648	292,593	237,143,241
Acquisition of treasury stock		-	-	(93,882,221)	-	-	-	(93,882,221)
Exercise of stock option		-	937,116	8,476,787	-	-	-	9,413,903
Reserve for loss on disposal of treasury stock		-	-	13,306,418	-	(13,306,418)	-	-
Net change in fair value of available-for-sale financial assets		-	-	-	716,094	-	-	716,094
Changes in loss on translation of foreign operations		-	-	-	(5,792,729)	-	-	(5,792,729)
Capital changes in equity method accounted investees		-	-	-	(836,736)	-	-	(836,736)
Balance at June 30, 2011	₩	<u>24,063,852</u>	<u>195,010,028</u>	<u>(743,164,260)</u>	<u>5,531,778</u>	<u>1,988,836,644</u>	<u>(1,529,242)</u>	<u>1,468,748,800</u>

See accompanying notes to consolidated interim financial statements.

NHN Corporation and Subsidiaries

Consolidated Statements of Cash Flows

For the six-month periods ended June 30, 2011 and 2010

(In thousands of Korean won)

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities		
Net income	₩ 237,143,242	225,778,678
Adjustments for:		
Bad debt expense	-	6,754,039
Other bad debt expense	323,000	-
Depreciation	34,601,109	42,870,307
Amortization	9,782,232	6,947,081
Foreign currency translation loss (gain), net	319,361	(123,502)
Loss on disposal of trade receivables	4,648,223	3,953,950
Loss on disposal of property, plant and equipment, net	76,066	925,935
Loss on disposal of intangible assets	-	23,458
Loss on impairment of intangible assets	-	203,258
Gain on valuation of financial assets at fair value through profit or loss, net	(508,526)	(322,539)
Gain on disposal of financial assets at fair value through profit or loss, net	(1,638,550)	-
Gain on valuation of derivative instruments	(47,270)	-
Loss on transaction of derivative instruments	5,529	1,174,475
Gain on sale of available-for-sale financial assets, net	(624,801)	(449,690)
Loss (gain) on valuation of investments in equity method accounted investees, net	2,475,804	(4,513,845)
Gain on disposal of investments in equity method accounted investees, net	-	(903,515)
Reversal of allowance for doubtful accounts	(709,747)	-
Rental income	-	(7,148)
Rental expenses	55,423	284,969
Accrual for retirement and severance benefits	15,300,134	12,201,950
Other expenses	552,814	-
Interest income	(14,998,776)	(11,701,509)
Interest expense	6,511,131	3,663,919
Dividend income	(337,165)	(151,131)
Income tax expenses	86,625,883	76,751,745
	<u>142,411,874</u>	<u>137,582,207</u>
Changes in assets and liabilities:		
Financial assets at fair value through profit or loss	(91,652,567)	(35,000,000)
Trade receivables	12,628,438	(10,435,771)
Other receivables	46,280	1,858,904
Other current assets	(18,406,490)	(5,962,927)
Other non-current assets	(4,096,703)	343,013
Other current liabilities	20,427,712	5,553,231
Other payables	(214,897)	(9,447,334)
Other non-current payables	640,350	1,030,459
Provisions	485,001	7,073,101
Other non-current liabilities	(1,951,656)	(582,150)
Plan assets	(39,712)	2,623,281
Employee benefits transfer to related parties	816,760	-

See accompanying notes to consolidated interim financial statements.

NHN Corporation and Subsidiaries Consolidated Statements of Cash Flows, Continued

For the six-month periods ended June 30, 2011 and 2010

(In thousands of Korean won)

	2011	2010
Payment of retirement and severance benefits	(4,050,235)	(9,795,676)
Interest received	12,879,258	7,733,313
Interest paid	(6,299,005)	(3,005,004)
Dividends received	337,165	151,131
Income tax paid	(97,528,398)	(76,608,234)
Net cash provided by operating activities	203,576,417	238,890,222
Cash flows from investing activities		
Decrease of short-term investments, net	W (257,556,080)	(140,496,628)
Decrease of short-term loans receivable, net	(2,023,390)	(10,407,318)
Proceeds from sale of available-for-sale financial assets, net	(29,563,120)	9,996,570
Proceeds from disposal of property and equipment	119,610	4,075,658
Acquisition of property and equipment	(63,562,894)	(72,387,849)
Proceeds from disposal of intangible assets	802,021	-
Acquisition of intangible assets	(6,145,709)	(57,726,349)
Decrease (increase) of long-term investments, net	(2,504,515)	1,541,570
Acquisition of held-to-maturity financial assets	(935,918)	-
Acquisition of equity method accounted investees	(4,000,000)	(4,000,000)
Acquisition of investments in subsidiaries	(725,914)	(55,058,915)
Increase of long-term loans receivable	-	(113,720)
Decrease (increase) of other non-current assets, net	(9,302,479)	3,525,321
Net cash used in investing activities	(375,398,388)	(321,051,660)
Cash flows from financing activities		
Proceeds from short-term borrowings, net	75,280,883	14,544,170
Proceeds (repayment) of long-term borrowings, net	(62,486)	85,918,155
Decrease of other non-current liabilities, net	-	(804,869)
Proceeds from sale of treasury stock	9,713,087	5,630,865
Acquisition of treasury stock	(93,882,221)	(101,775,720)
Net cash provided by financing activities	(8,950,737)	3,512,601
Net increase (decrease) in cash and cash equivalents	(180,772,708)	(78,648,837)
Cash and cash equivalents at beginning of period	554,943,904	507,619,337
Effect of exchange rate fluctuations on cash held	(725,926)	90,060
Cash and cash equivalents at end of period	W 373,445,270	429,060,560

See accompanying notes to consolidated interim financial statements.

NHN Corporation and Subsidiaries

Notes to Consolidated Interim Financial Statements

June 30, 2011

1. Reporting entity

NHN Corporation (the "Company") was established on June 2, 1999 under the Commercial Code of the Republic of Korea to provide internet portal services. The Company's headquarters is located in Jeongja-dong, Seongnam-si, Gyeonggi-do, Korea. On October 29, 2002, the Company listed its shares on the Korean Securities Dealers' Automated Quotations stock market, and then on November 28, 2008, the Company transferred its shares to the Korea Composite Stock Price Index stock market. As of June 30, 2011, the Company's paid in capital amounted to ₩24,064 million with 48,127,704 shares outstanding having a par value of ₩500 per share.

Consolidated financial statements as of June 30, 2011 are composed of the Company and subsidiaries of the Company (the "Group"), shares of affiliated companies and joint controlling companies of the Group.

As of June 30, 2011, the major shareholders of the Company are as follows:

	<u>Number of shares</u>	<u>Ownership percentage</u>
Haejin Lee and executive personnel of the Company	4,605,786	9.57%
Oppenheimer Funds, Inc.	4,400,182	9.14%
Lazard Asset Management LLC	3,035,522	6.31%
National Pension Fund	2,212,303	4.60%
Others	33,873,911	70.38%
	<u>48,127,704</u>	<u>100.00%</u>

2. Basis of preparation

(1) Statement of compliance

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

The Group prepared the interim financial statements in accordance with accounting policies management plans to adopt for its first annual financial statements in accordance with K-IFRSs. The financial statements have been prepared in accordance with K-IFRS, article 1034, *Interim Financial Reporting*. They do not include all of the information required for full annual financial statements.

The financial statements as of June 30, 2011 and the comparative financial statements presented, prepared on the basis of accounting policies, were consistently used in preparing the opening K-IFRS statement of financial position as of January 1, 2010. An explanation of how the transition to K-IFRSs has affected the reported financial position, financial performance and cash flows of the Company is provided in note 31.

NHN Corporation and Subsidiaries

Notes to Consolidated Interim Financial Statements

June 30, 2011

2. Basis of preparation, continued

(2) Basis of measurement

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

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

(3) Functional and presentation currency

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

(4) Use of estimates and judgements

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

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

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

- Note 16: provisions
- Note 18: measurement of defined benefit obligations
- Note 19: commitments and contingencies

NHN Corporation and Subsidiaries

Notes to Consolidated Interim Financial Statements

June 30, 2011

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements. The accounting policies applied for the interim financial statements may be changed by management as considered necessary in the course of preparation of its first K-IFRS annual financial statements for the year ended December 31, 2011.

As required by K-IFRS No.1101 *First-time Adoption of International Financial Reporting Standards*, the date of transition to K-IFRSs is January 1, 2010. An explanation of how the transition to K-IFRSs has affected the reported financial position, financial performance and cash flows of the Group is provided in note 31.

(1) Basis of consolidation

① Subsidiaries

Subsidiaries are entities controlled by the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

NHN Corporation and Subsidiaries

Notes to Consolidated Interim Financial Statements

June 30, 2011

3. Significant accounting policies, continued

(1) Basis of consolidation, continued

Details of consolidated subsidiaries are as follows:

(In thousands of Korean won)

<u>Parent company</u>	<u>Subsidiaries</u>	<u>Location</u>	<u>Primary business</u>	<u>Capital stock</u>	<u>Percentage of ownership</u>	
NHN Corporation	NHN Business Platform Corp.	Korea	Portals and other Internet information services	138,611,083	100.00%	
	NHN I&S Corp.	Korea	Information systems services	37,683,031	100.00%	
	NHN Japan Corp.	Japan	Online game distribution	175,592,961	100.00%	
	NHN Global Limited	Cayman Islands	Investment	13,943,238	100.00%	
	NHN USA, Inc.	U.S.A.	Internet service	7,864,071	100.00%	
	NHN China Corp.	China	Software development and distribution	9,248,832	100.00%	
	NHN Investment Corp.	Korea	Business investment in new technology	100,917,031	100.00%	
	SearchSolution Corp.	Korea	Software development and sales	4,336,315	100.00%	
	Game Marketing & Business Corp.	Korea	Operating online gaming PC cafe	738,990	100.00%	
	N-Visions Corp.	Korea	Performances, exhibitions business	157,724	100.00%	
	Wisecat, Inc.	Korea	Software development and production	289,853	51.00%	
	Orange Crew Corp.	Korea	Smart device game development	18,395,132	100.00%	
	NHN Business Platform Corp.	NHN Search Marketing Corp.	Korea	Sales agency specializing in search advertising	10,780,756	100.00%
		Itopf Corp.	Korea	Mobile solutions business	211,604	100.00%
NHN I&S Corp.	Incomms Corp.	Korea	Internet commerce and customer service center	2,619,439	100.00%	
	Gplus Corp.	Korea	Operation of games and customer service center for games	2,882,405	100.00%	
	Greenweb Service Corp.	Korea	Monitoring, contents, and advertising business	2,406,203	100.00%	
	NHN Technology Service Corp.	Korea	Operation and security services of infrastructure	4,034,592	100.00%	
	Nplex Corp.	Korea	Picture production, design and development of content	272,749	100.00%	
	CommPartners Corp.	Korea	Operation of shopping services	518,688	100.00%	

NHN Corporation and Subsidiaries

Notes to Consolidated Interim Financial Statements

June 30, 2011

3. Significant accounting policies, continued

(1) Basis of consolidation, continued

Parent company	Subsidiaries	Location	Primary business	Capital stock	Percentage of ownership
NHN Japan Corp.	Naver Japan Corp.	Japan	Information and communication services	46,963,603	100.00%
	NHST Japan Corp.	Japan	Service operating	1,775,489	100.00%
	NHN ST Corp.	China	Service operating	3,672,653	100.00%
	Mediator Corp.	Japan	PC cafe business	(314,725)	100.00%
	Sync Corp.	Japan	Design and development of game software	3,445,284	100.00%
	Livedoor Corp.	Japan	Internet service	31,141,754	100.00%
Livedoor Corp.	Livedoor Career Corp.	Japan	Job searching services	174,224	100.00%
	Jisting Corp.	Japan	Synchronized keyword ads	2,376,536	100.00%
NHN Global Limited	NHN-PCCS HK Limited	Hong Kong	Investment	13,530,557	100.00%
NHN USA, Inc.	IJJI Games, LLC.	U.S.A.	Online game distribution	1,078,100	100.00%
Wisecat, Inc.	Studio Hon Corp.	Korea	Online game development	(5,796,959)	59.19%
Orange Crew Corp.	Game Crew Corp.	Korea	Mobile device game development & services	(731,639)	100.00%

The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

② Investments in associates and jointly controlled entities

Associates are those entities in which the Group has significant influence, but not control over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity.

Jointly controlled entities are those entities over whose activities the Group has joint control by contractual agreement, and which require unanimous consent of parties to the contractual agreement for strategic financial and operating decisions.

Investments in associates and jointly controlled entities are accounted for using the equity method and are recognized initially at cost. The consolidated financial statements include the Group's share of the income and expenses and equity movements of equity method accounted investees. The distributions received from an investee reduce the carrying amount of the investment.

NHN Corporation and Subsidiaries

Notes to Consolidated Interim Financial Statements

June 30, 2011

3. Significant accounting policies, continued

(1) Basis of consolidation, continued

Unrealized gains on transactions with associates and jointly controlled entities are eliminated to the extent of the Group's interest in the investees. Unrealized losses are eliminated in the same way except to the extent that the underlying asset is impaired.

If the associates and jointly controlled entities use accounting policies other than those of the Group for like transactions and events in similar circumstances, appropriate adjustments are made to their financial statements in applying the equity method.

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

③ Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

(2) Foreign currency

① Foreign currency transactions

In preparing financial statements of each entity, transactions in currencies other than functional currencies are recorded using the exchange rate at the transaction date. Monetary foreign currency items are translated using the closing rate at the end of the reporting period. Non-monetary foreign currency items denominated in foreign currencies that are measured at fair value are translated using the exchange rate on the date that the fair value was determined. Non-monetary foreign currency items that are measured in terms of historical cost are translated using the exchange rate at the transaction date.

Exchange differences arising on the settlement and retranslation of monetary foreign currency items at the settlement date are recognized in profit or loss, except for foreign currency differences from net investment in a foreign operation or from translation of monetary foreign currency items arising from financial liabilities which are designated as a qualifying cash flow hedge.

② Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to won at exchange rates at the reporting date. The income and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated to won at exchange rates at the dates of the transactions.

The income and expenses of foreign operations in hyperinflationary economies are translated to won at the exchange rate at the reporting date. Prior to translating the financial statements of foreign operations in hyperinflationary economies, their financial statements for the current period are restated to account for changes in the general purchasing power of the local currency. The restatement is based on relevant price indices at the reporting date.

NHN Corporation and Subsidiaries

Notes to Consolidated Interim Financial Statements

June 30, 2011

3. Significant accounting policies, continued

(2) Foreign currency, continued

Foreign currency differences are recognized in other comprehensive income. Since January 1, 2010, the Group's date of transition to K-IFRSs, such differences have been recognized in the translation reserve (see note 31).

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

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

③ Exchange of net investment for overseas branch

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

(3) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits and highly liquid short-term investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Equity securities and overdraft are excluded and deducted from cash and cash equivalents, respectively.

(4) Non-derivative financial assets

Financial assets are classified into the four categories; financial assets at fair value through profit or loss; held-to-maturity financial assets; loans and receivables; and available-for-sale financial assets and recognized in the statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

When a financial asset is recognized initially, the Company measures it at its fair value plus, if it is not classified as financial assets at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset.

① Financial assets at fair value through profit or loss

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

NHN Corporation and Subsidiaries

Notes to Consolidated Interim Financial Statements

June 30, 2011

3. Significant accounting policies, continued

(4) Non-derivative financial assets, continued

② Held-to-maturity financial assets

If the Group has the positive intent and ability to hold debt securities to maturity, then such financial assets are classified as held-to-maturity. Subsequent to initial recognition held-to-maturity financial assets are measured at amortized cost using the effective interest method, less any impairment losses.

③ Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

④ Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the previous categories. Subsequent to initial recognition, they are measured at fair value. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instrument are measured at cost.

⑤ Derecognition of a financial asset

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

If 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.

⑥ Offsetting a financial asset and a financial liability

A financial asset and liability are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

(5) Non-derivative financial liabilities

The Group classifies financial liabilities as financial liability at fair value through profit or loss, or other financial liabilities by definition of the financial liabilities and substance of the contract. A financial liability is recognized in the statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

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

NHN Corporation and Subsidiaries

Notes to Consolidated Interim Financial Statements

June 30, 2011

3. Significant accounting policies, continued

(5) Non-derivative financial assets, continued

Non-derivative financial liabilities which are not classified as financial liabilities at fair value through profit or loss are classified as other financial liabilities. Other financial liabilities are recognized initially at fair value less directly attributable transaction costs. Subsequent to initial recognition, these other financial liabilities are measured at amortized cost using the effective interest method and interest expenses are recognized using the effective interest rate method.

Financial liabilities are derecognized when the contractual obligation is discharged, cancelled, or expired.

(6) Share capital

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

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

Non-controlling interest is the relevant portion of net income and net assets which is not acquired by the Company either directly or indirectly through subsidiaries. Non-controlling interest is composed of net assets of minority stockholder's interest at the initial business combination, calculated according to the K-IFRS, article 1103 *Business Combinations*, and changes in equity of minority stockholder's interest after the business combination.

(7) Derivative financial instruments

The Group holds derivative financial instruments to hedge its foreign currency and interest rate risk exposures. Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss.

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

Derivatives are recognized initially at fair value; attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

NHN Corporation and Subsidiaries

Notes to Consolidated Interim Financial Statements

June 30, 2011

3. Significant accounting policies, continued

(7) Derivative financial instruments, continued

① Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the statement of income, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

Changes in the fair value of a derivative hedging instrument are recognized in other comprehensive income.

If the hedging instrument expires or is sold, terminated or exercised or the hedge no longer meets the criteria for hedge accounting or the Group revokes the designation, the hedge accounting is discontinued prospectively. The cumulative gain or loss on the hedging instrument that has been recognized in other comprehensive income is reclassified from equity to profit or loss when the forecast transaction occurs. If the transaction is no longer expected to occur, the cumulative gain or loss that had been recognized in other comprehensive income is immediately reclassified from equity to profit or loss.

② Cash flow hedges

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income and presented in the hedging reserve in equity. The amount recognized in other comprehensive income is removed and included in profit or loss in the same period as the hedged cash flows which affect profit or loss under the same line item in the statement of comprehensive income as the hedged item. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated, exercised, or the designation is revoked, then hedge accounting is discontinued, prospectively. The cumulative gain or loss previously recognized in other comprehensive income and presented in the hedging reserve in equity remains there until the forecast transaction affects profit or loss. When the hedged item is a non-financial asset, the amount recognized in other comprehensive income is transferred to the carrying amount of the asset when the asset is recognized. If the forecast transaction is no longer expected to occur, then the balance in other comprehensive income is recognized immediately in profit or loss. In other cases the amount recognized in other comprehensive income is transferred to profit or loss in the same period that the hedged item affects profit or loss.

③ Separable embedded derivatives

Changes in the fair value of separable embedded derivatives are recognized immediately in profit or loss.

④ Other non-trading derivatives

When a derivative financial instrument is not held for trading, and is not designated in a qualifying hedge relationship, all changes in its fair value are recognized immediately in profit or loss.

NHN Corporation and Subsidiaries

Notes to Consolidated Interim Financial Statements

June 30, 2011

3. Significant accounting policies, continued

(8) Property and equipment

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

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

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

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

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

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

	<u>Estimated useful lives (years)</u>
Buildings	30
Structures	10
Furniture and fixtures	3~5
Others	4~6

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

(9) Borrowing costs

The Group capitalizes borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Other borrowing costs are recognized in an expense as incurred. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. To the extent that the Group borrows funds specifically for the purpose of obtaining a qualifying asset, the Group determines the amount of borrowing costs eligible for capitalization as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings. The Group immediately recognizes other borrowing costs as an expense. To the extent that the Company borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the Company shall determine the amount of borrowing costs eligible for capitalization by applying a capitalization rate to the expenditures on that asset.

NHN Corporation and Subsidiaries

Notes to Consolidated Interim Financial Statements

June 30, 2011

3. Significant accounting policies, continued

(9) Borrowing costs, continued

The capitalization rate shall be the weighted average of the borrowing costs applicable to the borrowings of the Company that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs that the Company capitalizes during a period shall not exceed the amount of borrowing costs it incurred during that period.

(10) Intangible assets

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

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

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

	<u>Estimated useful lives (years)</u>
Industrial property rights	5
Computer software costs	5
Others	5

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

① Goodwill

Goodwill that arises upon the acquisition of subsidiaries is included in intangible assets.

In respect of acquisitions prior to January 1, 2010, goodwill is stated as the amount recognized under the Group's previous accounting framework, Korean GAAP ("K-GAAP"). For acquisitions on or after January 1, 2010, the Group measures goodwill as the fair value of the consideration transferred including the recognized amount of any non-controlling interest in the acquiree, less the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss. Goodwill are not amortized and measured at cost less accumulated impairment losses after initial recognition.

Additional acquisition of non-controlling interest is accounted as transaction between stockholders as a result, relevant goodwill is not recognized.

NHN Corporation and Subsidiaries

Notes to Consolidated Interim Financial Statements

June 30, 2011

3. Significant accounting policies, continued

(10) Intangible asset, continued

② Research and development

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

③ Subsequent expenditure

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

(11) Impairment of financial assets

A financial asset is determined impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of an asset, and that loss event had a negative effect on the estimated future cash flows of that asset that can be reliably estimated.

Objective evidence that financial assets are impaired can include default or delinquency in interest or principal payments by issuer, the Group, for economic reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the Group would not otherwise consider, or the disappearance of an active market for that financial asset. For an investment in an unlisted equity security, objective evidence of impairment includes significant financial difficulty of the issuer and a significant or prolonged decline in its fair value below its cost.

For specific financial assets such as trade receivables, if the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, it collectively assesses them for impairment.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

The amount of the impairment loss on financial assets carried at cost is measured as the difference between its carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

When a decline in the fair value of an available-for-sale financial asset has been recognized in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized in other comprehensive income is reclassified from equity to profit or loss. In a subsequent period, if the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized, the previously recognized impairment loss is reversed.

NHN Corporation and Subsidiaries

Notes to Consolidated Interim Financial Statements

June 30, 2011

3. Significant accounting policies, continued

(12) Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than assets arising from employee benefits, deferred tax assets and non-current assets held for sale are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, irrespective of whether there is any indication of impairment, the recoverable amount is estimated each year at the same time.

The Group estimates recoverable amount of an individual asset, or a Cash Generating Unit ("CGU") if the recoverable amount of an individual asset is not able to be estimated. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss.

Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis. An impairment loss in respect of goodwill is not reversed.

In respect of other assets except goodwill, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(13) Employee benefits

① Short-term employee benefit

Short-term employee benefits that are due to be settled within twelve months after the end of the period in which the employees render the related service are recognized in profit or loss on an undiscounted basis. The expected cost of profit-sharing and bonus plans are recognized when the Group has a present legal or constructive obligation to make benefits as a result of past events and a reliable estimate of the obligation can be made.

② Retirement and severance benefit: National pension fund

In accordance with the National Pension Act legislated by the Korean government, the Company joined the National Pension Fund. A National Pension Fund is a defined contribution plan under which the Company and employees pay some proportion of fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in profit or loss in the periods during which services are rendered by employees except those included in the cost of assets.

NHN Corporation and Subsidiaries

Notes to Consolidated Interim Financial Statements

June 30, 2011

3. Significant accounting policies, continued

(13) Employee benefits, continued

③ Retirement and severance benefit: Defined benefit plans

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

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

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

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

(14) Share-based payment

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

(15) Provisions

Provisions are recognized when the Group has a present obligation as a result of past events, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and when a reliable estimate can be made of the amount of the obligation. The risks and uncertainties that inevitably surround many events and circumstances are considered in reaching the best estimate of a provision. Where the effect of the time value of money is material, provisions are recorded at the present value of the expenditures expected to be required to settle the obligation.

The balance of provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed. A provision is used only for expenditures for which the provision was originally recognized.

NHN Corporation and Subsidiaries

Notes to Consolidated Interim Financial Statements

June 30, 2011

3. Significant accounting policies, continued

(16) Revenue

① Services

The Company recognizes its revenue from internet services upon delivery of the service. Revenue from other services is recognized using the percentage-of-completion method.

② Commissions

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

(17) Finance income and finance expenses

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

Finance expenses comprise interest expense on borrowings, unwinding of the discount on provisions, changes in the fair value of financial assets at fair value through profit or loss. Borrowing costs are recognized as they accrue in profit or loss using the effective interest method.

(18) Income tax

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

① Current tax

Current tax is the expected tax payable or receivable on the taxable profit or loss for the period. The taxable profit is different from the accounting profit for the period since the taxable profit is calculated excluding the temporary differences, which will be taxable or deductible in determining taxable profit (tax loss) of future periods, non-taxable or non-deductible items from the accounting profit. Current tax liabilities for the current and prior periods are measured at the amount expected to be paid to the taxation authorities, using the tax rates that have been enacted or substantively enacted by the end of the reporting period.

② Deferred tax

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

NHN Corporation and Subsidiaries

Notes to Consolidated Interim Financial Statements

June 30, 2011

3. Significant accounting policies, continued

(18) Income tax, continued

The Group recognizes a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries and associates, except to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

A deferred tax asset for all deductible temporary differences associated with investments in subsidiaries and associates is recognized only to the extent that, it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period. The Group reduces the carrying amount of a deferred tax asset to the extent that it is no longer probable that the related tax benefit will be realized.

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

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

(19) Discontinued operations

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

(20) Earnings per share

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

NHN Corporation and Subsidiaries

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June 30, 2011

3. Significant accounting policies, continued

(21) Operating segment

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

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

4. Financial risk management

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

- Credit risk
- Liquidity risk
- Market risk

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

(1) Risk management framework

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

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

The Group Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

(2) Credit risk

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

NHN Corporation and Subsidiaries

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June 30, 2011

4. Financial risk management, continued

(2) Credit risk, continued

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

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

(3) Liquidity risk

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

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

Book values of financial liabilities based on the remaining maturities as of June 30, 2011 and December 31, 2010 are as follows: The amounts below include interest from financial liabilities scheduled to be paid, but was not reflected in the effects under application of any set-off agreements.

(In thousands of Korean won)

		June 30, 2011			
		Book value	Cash outflow under contract	Less than one year	One to five year
Trade and other payables	₩	177,748,172	177,748,172	177,090,485	657,687
Short-term borrowings		97,939,293	98,619,845	98,619,845	-
Debentures		100,000,000	109,665,217	4,560,000	105,105,217
Long-term borrowings		95,934,686	98,108,810	9,489,721	88,619,089
Total	₩	<u>471,622,151</u>	<u>484,142,044</u>	<u>289,760,051</u>	<u>194,381,993</u>

(In thousands of Korean won)

		December 31, 2010			
		Book value	Cash outflow under contract	Less than one year	One to five year
Trade and other payables	₩	176,884,884	176,884,884	176,835,387	49,497
Short-term borrowings		23,011,310	23,153,882	23,153,882	-
Debentures		100,000,000	111,945,217	4,560,000	107,385,217
Long-term borrowings		100,173,436	103,008,789	9,949,829	93,058,960
Total	₩	<u>400,069,630</u>	<u>414,992,772</u>	<u>214,499,098</u>	<u>200,493,674</u>

NHN Corporation and Subsidiaries

Notes to Consolidated Interim Financial Statements

June 30, 2011

4. Financial risk management, continued

(4) Market risk

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

① Exchange risk

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

Book values of monetary assets and liabilities denominated in a currency other than the functional currency as of June 30, 2011, December 31, 2010 and January 1, 2010 are as follows:

(In thousands of Korean won)

June 30, 2011					
	Currency	Amount	Exchange rate	Translated amount	
Monetary assets:					
Cash and cash equivalents	USD	1,989,684.34	1,078.10	₩	2,145,079
		170,652.00	13.36		2,279
		7,205.00	168.88		1,217
Accrued income	USD	76,198.00	1,078.10		82,149
Trade receivables	JPY	89,650,194.00	13.36		1,197,449
Total				₩	3,428,173
Monetary liabilities:					
Short-term borrowings	JPY	7,000,000,000.00	13.36	₩	93,498,300
Trade payables	USD	98,133.00	1,078.10		105,797
	JPY	153,429.00	13.36		2,049
	CNY	3,500,480.25	166.8		583,880
Other payable	USD	115,911.72	1,078.10		124,964
	JPY	89,676,712.24	13.36		1,197,803
	CNY	487,268.61	166.8		81,276
Total				₩	95,594,069

(In thousands of Korean won)

December 31, 2010					
	Currency	Amount	Exchange rate	Translated amount	
Monetary assets:					
Cash and cash equivalents	USD	8,500,591.42	1,138.90	₩	9,681,324
	JPY	94,139,827.00	13.97		1,315,209
Other receivables	USD	600,000.00	1,138.90		683,340
Accrued income	USD	58,584.00	1,138.90		66,721
Trade receivables	USD	24,429.95	1,138.90		27,823
	JPY	58,981,100.02	13.97		824,013
	CNY	3,212,643.70	172.5		554,181
Total				₩	13,152,611

NHN Corporation and Subsidiaries

Notes to Consolidated Interim Financial Statements

June 30, 2011

4. Financial risk management, continued

(4) Market risk, continued

(In thousands of Korean won)

December 31, 2010				
	Currency	Amount	Exchange rate	Translated amount
Monetary liabilities:				
Other payable	USD	640,268.70	1,138.90	₩ 729,202
	JPY	735,000.00	13.97	10,269
	CNY	13,609,246.27	172.5	2,347,595
Total				₩ <u>3,087,066</u>

(In thousands of Korean won)

January 1, 2010				
	Currency	Amount	Exchange rate	Translated amount
Monetary assets:				
Cash and cash equivalents	USD	3,611,577.55	1,167.60	₩ 4,216,117
	JPY	65,212,714.00	12.63	823,520
Other receivables	USD	8,310.24	1,167.60	9,703
	JPY	472,076.64	12.63	5,961
	EUR	6.66	1,674.28	11
Trade receivables	USD	106.4	1,167.60	124
	JPY	761,217.00	12.63	9,717
	CNY	5,807,742.56	171.06	993,472
Total				₩ <u>6,058,625</u>
Monetary liabilities:				
Other payable	USD	623,028.35	1,167.60	727,448
	JPY	1,397,558.27	12.63	17,649
	CNY	26,924,405.58	171.06	4,605,689
	EUR	65,202.93	1,674.28	109,168
	GBP	10,923.26	1,877.73	20,511
	CHF	8,361.40	1,126.43	9,419
	HKD	121,167.87	150.56	18,243
	ILS	18,840.08	307.59	5,795
	PHP	645,218.96	25.33	16,343
	RUB	451,788.36	38.52	17,403
Total				₩ <u>5,547,668</u>

NHN Corporation and Subsidiaries

Notes to Consolidated Interim Financial Statements

June 30, 2011

4. Financial risk management, continued

(4) Market risk, continued

Effects on income (loss) as a result of change in exchange rate as of June 30, 2011, December 31, 2010 and January 1, 2010 are as follows:

(In thousands of Korean won)

Currency	June 30, 2011		December 31, 2010		January 1, 2010	
	If increased by 5%	If decreased by 5%	If increased by 5%	If decreased by 5%	If increased by 5%	If decreased by 5%
USD	99,823	(99,823)	486,500	(486,500)	174,925	(174,925)
JPY	(4,674,922)	4,674,922	106,448	(106,448)	41,078	(41,078)
CNY, etc.	(33,258)	33,258	(89,671)	89,671	(190,455)	190,455
Total	(4,608,357)	4,608,357	503,277	(503,277)	25,548	(25,548)

② Interest rate risk

Interest bearing financial assets and liabilities as of June 30, 2011 and December 31 are as follows:

(In thousands of Korean won)

		June 30, 2011		December 31, 2010	
		Fixed rate	Variable rate	Fixed rate	Variable rate
Financial assets	₩	651,706,630	318,320,981	610,088,999	246,003,252
Financial liabilities		(145,079,538)	(148,794,441)	(151,651,450)	(71,533,296)
Total	₩	506,627,092	169,526,540	458,437,549	174,469,956

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

(In thousands of Korean won)

Item	June 30, 2011		December 31, 2010		January 1, 2010	
	If increased by 0.5%p	If decreased by 0.5%p	If increased by 0.5%p	If decreased by 0.5%p	If increased by 0.5%p	If decreased by 0.5%p
Interest expense	(698,398)	698,398	(310,850)	310,850	(29,559)	29,559
Interest income	1,591,605	(1,591,605)	1,230,016	(1,230,016)	1,137,156	(1,137,156)

NHN Corporation and Subsidiaries

Notes to Consolidated Interim Financial Statements

June 30, 2011

4. Financial risk management, continued

(4) Market risk, continued

③ Other market price risk

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

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

(In thousands of Korean won)

Item	If increased by 5%	If decreased by 5%
Total comprehensive income, net of tax effect	367,238	(367,238)

(5) Capital management

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

(In thousands of Korean won)

	June 30, 2011	December 31, 2010	January 1, 2010
Total debt	730,183,708	644,970,340	488,809,486
Total equity	1,468,748,800	1,321,987,248	983,755,900
Debt ratio	49.71%	48.79%	49.69%

NHN Corporation and Subsidiaries

Notes to Consolidated Interim Financial Statements

June 30, 2011

4. Financial risk management, continued

(6) Fair values

① The fair values of financial instruments, together with the carrying amounts as of June 30, 2011, December 31, 2010 and January 1, 2010 are as follows:

(In thousands of Korean won)

Items	June 30, 2011		December 31, 2010		January 1, 2010	
	Book value	Fair value	Book value	Fair value	Book value	Fair value
Financial assets:						
Financial assets recognized at fair value						
Financial assets at fair value through profit or loss	₩ 157,783,610	157,783,610	63,983,967	63,983,967	-	-
Available-for-sale financial assets	190,481,523	190,481,523	159,341,651	159,341,651	71,475,619	71,475,619
Subtotal	₩ 348,265,133	348,265,133	223,325,618	223,325,618	71,475,619	71,475,619
Financial assets recognized at amortized cost						
Cash and cash equivalents	₩ 373,445,270	373,445,270	554,943,904	554,943,904	507,619,337	507,619,337
Time deposits	512,654,379	512,654,379	252,593,782	252,593,782	138,552,019	138,552,019
Trade and other receivables	217,860,420	217,860,420	224,050,632	224,050,632	218,280,102	218,280,102
Held-to-maturity financial assets	2,357,463	2,357,463	1,444,089	1,444,089	-	-
Subtotal	₩ 1,106,317,532	1,106,317,532	1,033,032,407	1,033,032,407	864,451,458	864,451,458
Total	₩ 1,454,582,665	1,454,582,665	1,256,358,025	1,256,358,025	935,927,077	935,927,077
Financial liabilities:						
Financial liabilities recognized at amortized cost						
Trade and other payables	₩ 177,748,172	177,748,172	176,884,884	176,884,884	175,197,103	175,197,103
Short-term borrowings	106,287,355	106,287,355	31,743,060	31,743,060	109,378,290	109,378,290
Long-term borrowings	187,586,624	187,586,624	191,441,686	191,441,686	19,051,694	19,051,694
Total	₩ 471,622,151	471,622,151	400,069,630	400,069,630	303,627,087	303,627,087

NHN Corporation and Subsidiaries

Notes to Consolidated Interim Financial Statements

June 30, 2011

4. Financial risk management, continued

(6) Fair values, continued

② Fair value hierarchy

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

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

The Group uses a valuation technique to estimate fair values of financial instruments which are not traded in an active market. If the significant inputs which are required for a fair value measurement are observable directly or indirectly in a market, the instrument is classed as “Level 2”. On the other hand, if the significant inputs are not based on observable market data, that instrument is classed as “Level 3”.

The fair values of financial instruments based on the fair value hierarchy as of June 30, 2011, December 31, 2010 and January 1, 2010 are summarized as follows:

(In thousands of Korean won)

		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>June 30, 2011</u>					
Financial assets:					
Financial assets at fair value	₩	86,771	-	157,696,839	157,783,610
Available-for-sale financial assets		<u>31,652,479</u>	-	<u>158,829,044</u>	<u>190,481,523</u>
Total	₩	<u><u>31,739,250</u></u>	<u>-</u>	<u><u>316,525,883</u></u>	<u><u>348,265,133</u></u>
<u>December 31, 2010</u>					
Financial assets:					
Financial assets at fair value	₩	-	-	63,983,967	63,983,967
Available-for-sale financial assets		<u>34,466,767</u>	-	<u>124,874,884</u>	<u>159,341,651</u>
Total	₩	<u><u>34,466,767</u></u>	<u>-</u>	<u><u>188,858,851</u></u>	<u><u>223,325,618</u></u>
<u>January 1, 2010</u>					
Financial assets:					
Financial assets at fair value	₩	-	-	-	-
Available-for-sale financial assets		<u>43,166,853</u>	-	<u>28,308,766</u>	<u>71,475,619</u>
Total	₩	<u><u>43,166,853</u></u>	<u>-</u>	<u><u>28,308,766</u></u>	<u><u>71,475,619</u></u>

NHN Corporation and Subsidiaries

Notes to Consolidated Interim Financial Statements

June 30, 2011

5. Operating segments

(1) Operating segments

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

(2) Information for each operating segment

Operating revenue information by segment for the six-month periods ended June 30, 2011 and 2010 are as follows:

(In thousands of Korean won)

		June 30, 2011		June 30, 2010	
		Sales	Ratio	Sales	Ratio
Search advertising	₩	517,562,332	50.56%	406,173,250	46.82%
Display advertising		139,351,752	13.61%	120,351,077	13.87%
Games		320,151,696	31.28%	317,155,746	36.56%
Others		46,563,436	4.55%	23,843,367	2.75%
Total	₩	1,023,629,216	100.00%	867,523,440	100.00%

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

(3) Geographical segments

The following table provides information for each geographical segment for the six-month periods ended June 30, 2011 and 2010.

(In thousands of Korean won)

		June 30, 2011		June 30, 2010	
		Sales	Ratio	Sales	Ratio
Domestic, etc.	₩	891,539,023	87.10%	778,012,311	89.68%
Japan		132,090,193	12.90%	89,511,129	10.32%
Total	₩	1,023,629,216	100.00%	867,523,440	100.00%

NHN Corporation and Subsidiaries

Notes to Consolidated Interim Financial Statements

June 30, 2011

6. Discontinued operation

(1) The Group had resolved to sell Ourgame Assets Limited, which operates an on-line game portal business in China, on October 27, 2010, and was disposed of in 2010. For this reason this company was excluded from the scope of consolidation and the statement of comprehensive income has presented to show the discontinued operation separately from continuing operations.

(2) The profit from discontinued operation for the six-month period ended June 30, 2010 is as follows:

(In thousands of Korean won)	<u>June 30, 2010</u>
Operating revenues	
Sales	₩ 8,439,835
Other operating revenues	347,415
	<u>8,787,250</u>
Operating expenses	
Operating expenses	13,132,383
Other operating expenses	959,992
	<u>14,092,375</u>
Operating loss	(5,305,125)
Finance income	<u>30,241</u>
Income before income taxes	<u>(5,274,884)</u>
Income tax expenses	<u>(341,946)</u>
Loss from discontinued operation	₩ <u><u>(4,932,938)</u></u>

7. Cash and cash equivalents

Cash and cash equivalents as of June 30, 2011, December 31, 2010 and January 1, 2010 are summarized as follows:

(In thousands of Korean won)	<u>June 30, 2011</u>	<u>December 31, 2010</u>	<u>January 1, 2010</u>
Cash on hand	₩ 31,765	44,796	135,099
Demand deposits	320,183,367	257,739,120	232,902,818
Time deposits	53,230,138	297,159,988	274,581,420
	₩ <u><u>373,445,270</u></u>	<u><u>554,943,904</u></u>	<u><u>507,619,337</u></u>

NHN Corporation and Subsidiaries
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June 30, 2011

8. Trade and other receivables

(1) Trade and other receivables as of June 30, 2011, December 31, 2010 and January 1, 2010 are summarized as follows:

(In thousands of Korean won)	June 30, 2011		December 31, 2010		January 1, 2010	
	Current	Non-current	Current	Non-current	Current	Non-current
Trade receivables	₩ 194,645,087	1,571,757	217,672,405	1,646,976	205,796,343	1,026,552
Allowance for doubtful accounts	(28,528,917)	(1,571,757)	(32,575,380)	(1,646,976)	(32,863,407)	(1,026,552)
Other receivables	5,074,806	2,520	5,176,590	2,635	8,609,321	-
Allowance for doubtful accounts	(2,367,691)	(2,520)	(2,424,691)	(2,635)	(29,691)	-
Accrued revenues	6,799,813	-	4,722,362	-	3,662,727	-
Loans	106,370	12,847,675	3,910,680	8,387,469	1,399,906	5,337,202
Allowance for doubtful accounts	-	(1,135,049)	-	(1,135,049)	-	-
Leasehold deposits	-	30,418,326	-	20,316,246	-	26,367,702
	₩ <u>175,729,468</u>	<u>42,130,952</u>	<u>196,481,966</u>	<u>27,568,666</u>	<u>186,575,199</u>	<u>31,704,904</u>

NHN Corporation and Subsidiaries

Notes to Consolidated Interim Financial Statements

June 30, 2011

8. Trade and other receivables, continued

- (2) Changes in allowance for trade and other receivables for the six-month period ended June 30, 2011 and for the year ended December 31, 2010 are as follows:

(In millions of Korean won)

		<u>June 30, 2011</u>	<u>December 31, 2010</u>
Balance at the beginning	₩	37,784,731	33,919,650
Removal of receivables		(2,340,101)	(7,783,211)
Reversal of allowance		(709,747)	11,968,838
Others		(1,128,949)	(320,546)
Balance at the end	₩	<u>33,605,934</u>	<u>37,784,731</u>

- (3) The aging of trade receivables as of June 30, 2011, December 31, 2010 and January 1, 2010 are as follows:

(In thousands of Korean won)

		<u>June 30, 2011</u>		<u>December 31, 2010</u>		<u>January 1, 2010</u>	
		<u>Gross</u>	<u>Impairment</u>	<u>Gross</u>	<u>Impairment</u>	<u>Gross</u>	<u>Impairment</u>
Less than six months	₩	180,487,032	16,035,484	200,613,468	17,598,943	189,787,081	18,824,020
Six months to one year		1,275,141	704,484	4,532,483	2,962,900	2,533,410	1,924,013
Over one year		14,454,671	13,360,706	14,173,430	13,660,513	14,502,404	13,141,926
Total	₩	<u>196,216,844</u>	<u>30,100,674</u>	<u>219,319,381</u>	<u>34,222,356</u>	<u>206,822,895</u>	<u>33,889,959</u>

NHN Corporation and Subsidiaries

Notes to Consolidated Interim Financial Statements

June 30, 2011

9. Financial assets

(1) Available-for-sale financial assets

Available-for-sale financial assets as of June 30, 2011, December 31, 2010 and January 1, 2010 are summarized as follows:

(In thousands of Korean won)

		June 30, 2011		December 31, 2010	January 1, 2010
	Acquisition cost	Gain (loss) on valuation of available-for- sale securities	Carrying value	Carrying value	Carrying value
Equity securities *1					
Next Venture Investment Association	W 50,000	-	-	-	-
Pollever Corp.	100,000	-	-	-	-
Purunichildcare Association	1,500,000	-	1,443,233	1,443,233	1,443,233
Booktopia, Inc.	999,999	-	-	-	169,152
One Hour Com, Inc.	20,000	-	-	-	-
Globespan Capital Partners V, L.P.	781,454	-	781,454	711,454	628,981
Houyhnhnm Corp.	261,775	-	-	-	-
Npluto Co., Ltd.	109,791	-	-	-	-
09-7 Korea Venture Fund No.15	3,200,000	-	3,200,000	2,400,000	800,000
09-9 Hanmi New Growth Venture Fund	3,000,000	-	3,000,000	2,250,000	750,000
Toppig Co., Ltd.	510,000	-	510,000	510,000	-
LS Networks Corporation Limited *3	-	-	-	763,778	-
Polygon Games Corp.	2,500,000	-	2,500,000	2,500,000	-
Alliance Internet Corp.	200,000	-	200,000	-	-
IPbros Corp.	300,533	-	300,533	314,343	-
Dongwoon Anatech Co., Ltd.	2,012,665	-	2,012,665	2,012,665	-
M-BIZ Global Solution PLC	2,521,954	-	2,521,954	2,521,954	-
MEKICS Co., Ltd.	2,617,516	-	2,617,516	2,617,516	-
Daeyang Material Co., Ltd.	1,909,091	-	1,909,091	1,909,091	-
Kostek Systems, Inc.	1,967,996	-	1,967,996	1,967,996	-
Translink Capital	526,308	-	526,308	526,308	-
K-Top REITs Co., Ltd.	500,000	-	500,000	-	-
SPM Co., Ltd.	1,800,000	-	1,800,000	-	-
LTC Co., Ltd.	2,801,342	-	2,801,342	2,801,342	-
Smart Application System Co., Ltd.	2,499,995	-	2,499,995	2,999,995	-
Nanumtech Co., Ltd.	1,000,000	-	1,000,000	1,000,000	-
Glosil Co., Ltd.	1,499,999	-	1,499,999	1,499,999	-
Nepes Display Corporation	3,000,000	-	3,000,000	3,000,000	-
Atosolution Co., Ltd.	1,500,000	-	1,500,000	1,500,000	-
Wonil Co., Ltd.	3,000,000	-	3,000,000	-	-

NHN Corporation and Subsidiaries

Notes to Consolidated Interim Financial Statements

June 30, 2011

9. Financial assets, continued

(In thousands of Korean won)

		2011		2010	2010
		June 30,	Gain (loss) on valuation of available-for-sale securities	December 31,	January 1,
		Acquisition cost	Carrying value	Carrying value	Carrying value
Caffe Bene Co., Ltd.	₩	1,500,000	-	1,500,000	-
Solueta Co., Ltd.		2,000,040	-	2,000,040	-
Saehwa IMC Co., Ltd.		2,704,785	-	2,704,785	-
Doobic Co., Ltd.		1,007,500	-	1,007,500	-
Vessel Co., Ltd.		2,000,000	-	2,000,000	-
2010KIF-Premier Fund		4,875,000	-	4,875,000	1,500,000
China Optimum Fund		145,282	-	145,282	-
Boston Global Image Contents Fund		500,000	-	500,000	500,000
Subtotal		57,423,025	-	55,824,693	37,249,674
Debt securities					
Webzen, Inc.	₩	12,500,000	-	12,500,000	12,500,000
SPM Co., Ltd.		160,000	-	160,000	-
Halla Engineering & Construction Group ^{*2}		6,131,436	(68,403)	6,063,033	6,154,931
Asiana Airlines, Inc.		15,016,273	236,440	15,252,713	5,028,124
Hynix Semiconductor Inc.		10,012,488	324,246	10,336,734	10,019,934
Ajuautorental Corp.		10,000,000	(71,144)	9,928,856	9,952,282
Samsung Card Co., Ltd.		-	-	-	9,960,536
Shinhan Card Co., Ltd.		-	-	-	10,107,623
Lotte Chilsung Beverage Co., Ltd.		-	-	-	10,034,273
Korean Air Lines Co., Ltd.		-	-	-	13,064,421
Subtotal		53,820,197	421,139	54,241,336	43,655,271
Others					
Entrusted Investments (Samsung Securities Co., Ltd.) ^{*3}	₩	15,000,000	351,333	15,351,333	15,552,374
Entrusted Investments (Woori Investment & Securities Co., Ltd.) ^{*3}		15,000,000	935,454	15,935,454	15,855,903
Entrusted Investments (Boaz Asset Management Co., Ltd.)		-	-	-	10,171,005
Entrusted Investments (ASAM Investment Advisory) ^{*3}		10,000,000	870,406	10,870,406	10,320,524
Entrusted Investments (Daewoo Securities Co., Ltd.) ^{*3}		10,000,000	318,737	10,318,737	-
Entrusted Investments (Value Investment Advisors) ^{*3}		538,649	(126,267)	412,382	-

NHN Corporation and Subsidiaries

Notes to Consolidated Interim Financial Statements

June 30, 2011

9. Financial assets, continued

(In thousands of Korean won)

	June 30, 2011		December 31, 2010	January 1, 2010
	Acquisition cost	Gain (loss) on valuation of available-for- sale financial assets	Carrying value	Carrying value
Entrusted Investments (LIG Investment & Securities Co., Ltd.)	-	-	-	321,441
Entrusted Investments (Hana Daetoo Securities Co., Ltd.)	-	-	-	265,172
Shinhan Maritime No.1 Private Equity Fund	₩ 5,603,617	-	5,603,617	5,603,617
Miraeasset Nice Private Equity Fund	10,180,000	-	10,180,000	10,180,000
Goldman Sachs Korea Securities Investment Trust No.1	5,000,000	684,950	5,684,950	5,369,600
Goldman Sachs emerging market bond fund	5,000,000	(287,419)	4,712,581	4,797,070
IVP FUND II B, L.P	1,346,034	-	1,346,034	-
Tong Yang First Class Investment Trust No. 2	-	-	-	-
Subtotal	<u>77,668,300</u>	<u>2,747,194</u>	<u>80,415,494</u>	<u>78,436,706</u>
Deferred tax effects	-	697,033	-	-
Total	<u>₩ 188,911,522</u>	<u>2,471,300</u>	<u>190,481,523</u>	<u>159,341,651</u>

*1 All available-for-sale securities were valued at their acquisition costs.

*2 Debt securities in Halla Engineering & Construction Group is classified as current portion of available-for-sale financial assets, as it is expected to be disposed of within a year.

*3 For the six-month period ended June 30, 2011 and for the year ended December 31, 2010, the Company entered into entrusted investment contracts with Samsung Securities Co., Ltd. and other securities companies and the portfolio composition as of June 30, 2011 is as follows:

(In thousands of
Korean won)

	Cash and deposit	Marketable equity securities	Beneficiary certificates	Bonds	Total
Samsung Securities Co., Ltd.	₩ 4,991,717	1,609,210	8,750,406	-	15,351,333
Woori Investment & Securities Co., Ltd.	3,508,392	2,110,695	10,316,367	-	15,935,454
ASAM Investment Advisory	985,260	448,370	-	9,436,776	10,870,406
Daewoo Securities Co., Ltd.	453,201	4,900,022	-	4,965,514	10,318,737
Value Investment Advisors	64,312	348,070	-	-	412,382
Total	<u>₩ 10,002,882</u>	<u>9,416,367</u>	<u>19,066,773</u>	<u>14,402,290</u>	<u>52,888,312</u>

NHN Corporation and Subsidiaries

Notes to Consolidated Interim Financial Statements

June 30, 2011

9. Financial assets, continued

(2) Held-to-maturity financial assets

Held-to-maturity financial assets as of June 30, 2011, December 31, 2010 and January 1, 2010 are summarized as follows:

		<u>June 30,</u> <u>2011</u>	<u>December 31,</u> <u>2010</u>	<u>January 1,</u> <u>2010</u>
	<u>Acquisition cost</u>			
The second bond with warrant of Candle media Co., Ltd.	₩ 400,000	487,513	467,182	-
Japan Government bonds	1,869,873	1,869,950	976,907	-
Total	₩ <u>2,269,873</u>	<u>2,357,463</u>	<u>1,444,089</u>	<u>-</u>

10. Other current assets and other non-current assets

Other current assets and other non-current assets as of June 30, 2011, December 31, 2010 and January 1, 2010 are summarized as follows:

(In thousands of Korean won)

		<u>June 30, 2011</u>		<u>December 31, 2010</u>		<u>January 1, 2010</u>	
		<u>Current</u>	<u>Non-current</u>	<u>Current</u>	<u>Non-current</u>	<u>Current</u>	<u>Non-current</u>
Advance payments	₩ 46,496,063		-	26,366,150	-	24,403,547	-
Prepaid expenses	22,476,241	36,280,614		30,987,397	26,117,013	29,921,646	28,761,909
Other	988,297	-		978,411	95,373	3,130,261	40,126
Total	₩ <u>69,960,601</u>	<u>36,280,614</u>		<u>58,331,958</u>	<u>26,212,386</u>	<u>57,455,454</u>	<u>28,802,035</u>

NHN Corporation and Subsidiaries

Notes to Consolidated Interim Financial Statements

June 30, 2011

11. Investments in equity accounted investees

Changes in book value of equity method accounted investments for the six-month period ended June 30, 2011 and as of December 31, 2010 and January 1, 2010 are summarized as follows:

(In thousands of Korean won)

Investee	Percentage of ownership	Beginning balance	Acquisitions	June 30, 2011	Capital changes	Ending balance	December 31, 2010	January 1, 2010
				Gain (loss) on valuation of equity method accounted investments			Ending balance	Ending balance
Mediaweb, Inc.	23.80%	2,111,596	-	183,335	-	2,294,931	2,111,596	1,932,221
Allat Corp.	20.00%	2,124,741	-	146,358	(149,878)	2,121,221	2,124,741	1,924,560
NetMania Co., Ltd.	27.17%	234,368	-	75,715	-	310,083	234,368	161,829
Digital YTN	50.00%	2,542,660	-	238,780	-	2,781,440	2,542,660	2,294,975
Webzen, Inc.	28.50%	29,504,301	-	(3,094,365)	(686,858)	25,723,078	29,504,301	11,310,226
Neowiz NHN Asset Management Co., Ltd.	50.00%	37,421,890	-	(83,476)	-	37,338,414	37,421,890	38,038,817
Stonebridge Early Stage Fund	27.27%	2,978,915	-	(35,574)	-	2,943,341	2,978,915	3,004,567
Synapsoft Corp.	30.00%	1,657,209	-	1,142	-	1,658,351	1,657,209	-
Amazingsoft Corp.	45.00%	4,786,211	-	228,778	-	5,014,989	4,786,211	4,378,328
MBARO Inc.	40.41%	254,069	-	(57,089)	-	196,980	254,069	283,904
Ko-FC LB Pioneer Champ 2010-10 Fund	30.30%	3,905,790	4,000,000	(79,409)	-	7,826,381	3,905,790	384,352
PT. Civitas Online	49.00%	-	-	-	-	-	-	-
		₩ 87,521,750	4,000,000	(2,475,805)	(836,736)	88,209,209	87,521,750	63,713,779

NHN Corporation and Subsidiaries

Notes to Consolidated Interim Financial Statements

June 30, 2011

12. Property and equipment

(1) Changes in property and equipment for the six-month period ended June 30, 2011 are as follows:

(In thousands of Korean won)										
		<u>Land</u>	<u>Buildings</u>	<u>Structures</u>	<u>Machinery</u>	<u>Furniture and fixtures</u>	<u>Vehicles</u>	<u>Others</u>	<u>Construction-in-progress</u>	<u>Total</u>
Cost										
Balance at January 1, 2011	₩	63,398,514	164,194,327	9,157,764	262,600,250	61,004,321	504,137	5,546,309	5,285,829	571,691,451
Acquisitions		84,336	6,669,466	-	33,306,181	11,116,467	-	313,721	12,072,723	63,562,894
Disposals		-	-	-	(85,062)	(1,484,351)	(24,571)	-	-	(1,593,984)
Effect of movements in exchange		-	-	-	(1,933,353)	(779,280)	(18,680)	(164,091)	-	(2,895,404)
Others		1,173,188	6,327,199	-	(41,148)	(157,242)	(895)	-	(7,500,387)	(199,285)
Balance at June 30, 2011		<u>64,656,038</u>	<u>177,190,992</u>	<u>9,157,764</u>	<u>293,846,868</u>	<u>69,699,915</u>	<u>459,991</u>	<u>5,695,939</u>	<u>9,858,165</u>	<u>630,565,672</u>
Depreciation and impairment										
Balance at January 1, 2011		-	4,528,343	734,193	194,666,760	36,229,805	89,938	3,447,114	-	239,696,153
Disposals		-	-	-	(80,611)	(1,309,505)	(8,192)	-	-	(1,398,308)
Depreciation		-	2,907,613	458,054	24,192,317	6,284,775	57,135	701,215	-	34,601,109
Effect of movements in exchange		-	-	-	3,786,267	421,906	(3,653)	(166,374)	-	4,038,146
Others		-	-	-	(33,676)	(102,338)	(392)	1	-	(136,405)
Balance at June 30, 2011		<u>-</u>	<u>7,435,956</u>	<u>1,192,247</u>	<u>222,531,057</u>	<u>41,524,643</u>	<u>134,836</u>	<u>3,981,956</u>	<u>-</u>	<u>276,800,695</u>
Property, plant and equipment, net										
Balance at January 1, 2011		<u>63,398,514</u>	<u>159,665,984</u>	<u>8,423,571</u>	<u>67,933,490</u>	<u>24,774,516</u>	<u>414,199</u>	<u>2,099,195</u>	<u>5,285,829</u>	<u>331,995,298</u>
Balance at June 30, 2011	₩	<u>64,656,038</u>	<u>169,755,036</u>	<u>7,965,517</u>	<u>71,315,811</u>	<u>28,175,272</u>	<u>325,155</u>	<u>1,713,983</u>	<u>9,858,165</u>	<u>353,764,977</u>

NHN Corporation and Subsidiaries

Notes to Consolidated Interim Financial Statements

June 30, 2011

12. Property and equipment, continued

(2) Changes in property and equipment for the year ended December 31, 2010 were as follows:

(In thousands of Korean won)										
		<u>Land</u>	<u>Buildings</u>	<u>Structures</u>	<u>Machinery</u>	<u>Furniture and fixtures</u>	<u>Vehicles</u>	<u>Other</u>	<u>Construction-in-progress</u>	<u>Total</u>
Cost										
Balance at January 1, 2010	₩	46,213,404	5,802,064	-	211,615,472	49,965,544	401,056	4,291,937	134,067,721	452,357,198
Acquisitions		3,093,749	24,341,655	786,164	44,568,704	11,813,365	295,076	895,504	38,424,863	124,219,080
Disposals		-	(4,324,010)	-	(7,247,216)	(7,316,360)	(135,131)	-	-	(19,022,717)
Effect of movements in exchange		-	(6,964)	-	2,987,210	517,343	(24,235)	358,868	-	3,832,222
Others		14,091,361	138,381,582	8,371,600	10,676,080	6,024,429	(32,629)	-	(167,206,755)	10,305,668
Balance at December 31, 2010		<u>63,398,514</u>	<u>164,194,327</u>	<u>9,157,764</u>	<u>262,600,250</u>	<u>61,004,321</u>	<u>504,137</u>	<u>5,546,309</u>	<u>5,285,829</u>	<u>571,691,451</u>
Depreciation and impairment										
Balance at January 1, 2010		-	1,294,289	-	127,605,570	27,262,359	168,772	1,957,945	-	158,288,935
Disposals		-	(1,007,836)	-	(5,787,507)	(5,864,082)	(105,667)	-	-	(12,765,092)
Depreciation		-	4,527,045	734,193	60,746,031	11,770,241	85,940	1,296,028	-	79,159,478
Effect of movements in exchange		-	(1,738)	-	2,213,061	638,048	(49,307)	193,141	-	2,993,205
Others		-	(283,417)	-	9,889,605	2,423,239	(9,800)	-	-	12,019,627
Balance at December 31, 2010		<u>-</u>	<u>4,528,343</u>	<u>734,193</u>	<u>194,666,760</u>	<u>36,229,805</u>	<u>89,938</u>	<u>3,447,114</u>	<u>-</u>	<u>239,696,153</u>
Property, plant and equipment, net										
Balance at January 1, 2010		<u>46,213,404</u>	<u>4,507,775</u>	<u>-</u>	<u>84,009,902</u>	<u>22,703,185</u>	<u>232,284</u>	<u>2,333,992</u>	<u>134,067,721</u>	<u>294,068,263</u>
Balance at December 31, 2010	₩	<u>63,398,514</u>	<u>159,665,984</u>	<u>8,423,571</u>	<u>67,933,490</u>	<u>24,774,516</u>	<u>414,199</u>	<u>2,099,195</u>	<u>5,285,829</u>	<u>331,995,298</u>

NHN Corporation and Subsidiaries

Notes to Consolidated Interim Financial Statements

June 30, 2011

13. Intangible assets

(1) Changes in intangible assets for the six-month period ended June 30, 2011 are as follows:

(In thousands of Korean won)		<u>Industrial property rights</u>	<u>Software</u>	<u>Goodwill</u>	<u>Others</u>	<u>Total</u>
Cost						
Balance at January 1, 2011	₩	5,142,920	34,164,329	66,436,904	88,366,914	194,111,067
Additions		243,892	4,444,846	1,552,522	1,456,970	7,698,230
Disposals		-	-	-	(802,021)	(802,021)
Effect of movements in exchange		(7,408)	(320,435)	(24,336)	(259,936)	(612,115)
Balance at June 30, 2011		<u>5,379,404</u>	<u>38,288,740</u>	<u>67,965,090</u>	<u>88,761,927</u>	<u>200,395,161</u>
Amortization and impairment						
Balance at January 1, 2011		2,956,077	18,651,423	-	18,896,470	40,503,970
Disposals		-	-	-	-	-
Amortization		435,760	3,688,758	-	5,657,714	9,782,232
Effect of movements in exchange		(5,614)	(175,365)	-	245,621	64,642
Balance at June 30, 2011		<u>3,386,223</u>	<u>22,164,816</u>	<u>-</u>	<u>24,799,805</u>	<u>50,350,844</u>
Intangible assets, net						
Balance at January 1, 2011		<u>2,186,843</u>	<u>15,512,906</u>	<u>66,436,904</u>	<u>69,470,444</u>	<u>153,607,097</u>
Balance at June 30, 2011	₩	<u><u>1,993,181</u></u>	<u><u>16,123,924</u></u>	<u><u>67,965,090</u></u>	<u><u>63,962,122</u></u>	<u><u>150,044,317</u></u>

NHN Corporation and Subsidiaries

Notes to Consolidated Interim Financial Statements

June 30, 2011

13. Intangible assets, continued

(2) Changes in intangible assets for the year ended December 31, 2010 are as follows:

(In thousands of Korean won)		<u>Industrial property rights</u>	<u>Software</u>	<u>Development costs</u>	<u>Goodwill</u>	<u>Others</u>	<u>Total</u>
Cost							
Balance at January 1, 2010	₩	4,673,070	26,149,502	263,129	6,579,357	43,419,201	81,084,259
Additions		501,981	6,477,502	-	61,616,914	45,388,457	113,984,854
Disposals		-	(279,237)	-	(1,759,367)	(325,453)	(2,364,057)
Effect of movements in exchange		957	418,876	-	-	(115,291)	304,542
Others		(33,088)	1,397,686	(263,129)	-	-	1,101,469
Balance at December 31, 2010		<u>5,142,920</u>	<u>34,164,329</u>	<u>-</u>	<u>66,436,904</u>	<u>88,366,914</u>	<u>194,111,067</u>
Amortization and impairment							
Balance at January 1, 2010		2,254,747	11,080,070	40,910	-	12,177,506	25,553,233
Disposals		-	(75,945)	-	-	-	(75,945)
Amortization		1,264,215	6,862,732	17,963	-	5,892,537	14,037,447
Effect of movements in exchange		344	270,548	-	-	(57,039)	213,853
Others		(563,229)	514,018	(58,873)	-	883,466	775,382
Balance at December 31, 2010		<u>2,956,077</u>	<u>18,651,423</u>	<u>-</u>	<u>-</u>	<u>18,896,470</u>	<u>40,503,970</u>
Intangible assets, net							
Balance at January 1, 2010		<u>2,418,323</u>	<u>15,069,432</u>	<u>222,219</u>	<u>6,579,357</u>	<u>31,241,695</u>	<u>55,531,026</u>
Balance at December 31, 2010	₩	<u><u>2,186,843</u></u>	<u><u>15,512,906</u></u>	<u><u>-</u></u>	<u><u>66,436,904</u></u>	<u><u>69,470,444</u></u>	<u><u>153,607,097</u></u>

NHN Corporation and Subsidiaries

Notes to Consolidated Interim Financial Statements

June 30, 2011

13. Intangible assets, continued

(3) Impairment testing for cash-generating units containing goodwill

The Group estimated the recoverable amount of cash-generation units for impairment testing for goodwill annually. The recoverable amount is determined based on its value in use estimated as the present value of its expected future cash flow from the continuing use of the assets.

The key assumptions used in the estimation of its value in use reflects management's assessment of future trends in the internet industry and are determined based on both external sources and internal sources (historical data).

14. Trade and other payables

Trade and other payables as of June 30, 2011, December 31, 2010 and January 1, 2010 are summarized as follows:

(In thousands of Korean won)

	<u>June 30, 2011</u>		<u>December 31, 2010</u>		<u>January 1, 2010</u>	
	<u>Current</u>	<u>Non-current</u>	<u>Current</u>	<u>Non-current</u>	<u>Current</u>	<u>Non-current</u>
Non-trade payables	₩ 98,143,335	640,350	84,958,052	-	72,532,705	-
Accrued expenses	78,897,736	-	91,780,539	-	98,288,256	-
Deposits received	49,414	-	96,796	-	250,084	-
Leasehold deposits received	-	17,337	-	49,497	-	4,126,058
Total	<u>₩ 177,090,485</u>	<u>657,687</u>	<u>176,835,387</u>	<u>49,497</u>	<u>171,071,045</u>	<u>4,126,058</u>

15. Borrowings

(1) Borrowings as of June 30, 2011, December 31, 2010 and January 1, 2010 are summarized as follows:

(In thousands of Korean won)

		<u>June 30, 2011</u>	<u>December 31, 2010</u>	<u>January 1, 2010</u>
Current liabilities				
Short-term borrowings in Korean won	₩	100,000	4,500,000	3,500,000
Short-term borrowings in foreign currency		97,839,293	18,511,310	3,788,460
Current portion of debentures in Korean won		-	-	99,966,548
Current portion of debentures in foreign currency		8,348,062	8,731,750	2,123,282
Total	₩	<u>106,287,355</u>	<u>31,743,060</u>	<u>109,378,290</u>

NHN Corporation and Subsidiaries

Notes to Consolidated Interim Financial Statements

June 30, 2011

15. Borrowings, continued

(In thousands of Korean won)

		<u>June 30, 2011</u>	<u>December 31, 2010</u>	<u>January 1, 2010</u>
Non-current liabilities				
Long-term borrowings in Korean won	₩	9,114,836	9,363,236	17,825,714
Long-term borrowings in foreign currency		78,471,788	82,078,450	1,225,980
Debentures		100,000,000	100,000,000	-
Total	₩	<u>187,586,624</u>	<u>191,441,686</u>	<u>19,051,694</u>

(2) Short-term borrowings

Short-term borrowings as of June 30, 2011, December 31, 2010 and January 1, 2010 are summarized as follows:

(In thousands of Korean won)

	<u>Lender</u>	<u>Annual interest rate</u>	<u>June 30, 2011</u>	<u>December 31, 2010</u>	<u>January 1, 2010</u>
Short-term borrowings in Korean won	NEOWIZ Games Corporation	7.00%	-	4,500,000	-
	Woori Bank	CD + 2.91%	100,000	-	-
	KDB	4.86%	-	-	3,500,000
	SUMITOMO MITSUI BANKING CORPORATION	0.96%	2,671,380 (JPY 200,000,000)	8,382,480 (JPY 600,000,000)	-
Short-term borrowings in foreign currency	MIZUHO BANK, Ltd.	0.93%	667,845 (JPY 50,000,000)	6,985,400 (JPY 500,000,000)	3,788,460 (JPY 300,000,000)
	MIZUHO BANK, Ltd.	Libor	93,498,300 (JPY 7,000,000,000)	-	-
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	3M+1.236%	1,001,768 (JPY 75,000,000)	3,143,430 (JPY 225,000,000)	-
Total			<u>97,939,293</u>	<u>23,011,310</u>	<u>7,288,460</u>

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15. Borrowings, continued

(3) Long-term Borrowings

Long-term borrowings as of June 30, 2011, December 31, 2010 and January 1, 2010 are summarized as follows:

(In thousands of Korean won)

	Lender	Annual interest rate	June 30, 2011	December 31, 2010	January 1, 2010
	Searainbow Holding Corporation	-	-	-	2,123,282 (RMB 12,412,500)
Long-term borrowings In foreign currency	Game Fund (Huxley) SUMITOMO MITSUI BANKING CORPORATION	-	-	-	1,225,980 (USD 1,050,000)
		1.18%	33,392,250 (JPY 2,500,000,000)	34,927,000 (JPY 2,500,000,000)	-
	SHINHAN BANK JAPAN	1.50%	53,427,600 (JPY 4,000,000,000)	55,883,200 (JPY 4,000,000,000)	-
Long-term borrowings In Korean won	Golden Bridge Asset Management Co.,Ltd., and The Korea Securities Finance Corporation	-	9,114,836	9,363,236	17,825,714
Subtotal			<u>95,934,686</u>	<u>100,173,436</u>	<u>21,174,976</u>
Less: Current portion of long-term debt			<u>(8,348,062)</u>	<u>(8,731,750)</u>	<u>(2,123,282)</u>
Total			<u>87,586,624</u>	<u>91,441,686</u>	<u>19,051,694</u>

(*) The Group entered into a 'Game Project Financing' agreement in May 2007 with Golden Bridge Asset Management Co., Ltd. and Korea Securities Finance Corp. (the "Investors") in order to invest in publishing games. In accordance with the agreement, the Group will be able to request the investors to invest up to ₩25 billion in the service rights for game titles, with the revenues from the provision of the game titles to be shared with the investors.

As of June 30, 2011 and December 31, 2010, the Group has received a total of ₩26,424 million and ₩25,024 million as borrowings from investors. The outstanding balance is presented as long-term borrowings in the statement of financial position.

The long-term borrowings from the investors are repaid by settling the contribution margin (total monthly sales from invested games less expenses) based on the agreed rates applied to accumulated revenues shared with the Investors.

As of June 30, 2011, the accumulated amounts of principal and interest paid for the investor's shares in the sales of the games are ₩17,123 million and ₩3,383 million, respectively, and the outstanding amounts of principal and interest payable are ₩186 million and ₩285 million, respectively.

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June 30, 2011

15. Borrowings, continued

(4) Debentures

Debentures as of June 30, 2011 and December 31, 2010 and January 1, 2010 are summarized as follows:

(In thousands of Korean won)

	<u>Issue date</u>	<u>Maturity date</u>	<u>Annual interest rate</u>		<u>June 30, 2011</u>	<u>December 31, 2010</u>	<u>January 1, 2010</u>
1st Private placement	2007. 9.11	2010. 9.10	5.87%	₩	-	-	100,000,000
1st Public offering	2010. 8.14	2013. 8.13	4.56%		100,000,000	100,000,000	-
Less: discount					-	-	(33,452)
Less: current portion of debentures					-	-	(99,966,548)
				₩	<u>100,000,000</u>	<u>100,000,000</u>	<u>-</u>

The debentures bear interest, which is generally payable quarterly, with its principal payable at maturity.

16. Provisions

Changes in provisions for the six-month period ended June 30, 2011 and for the year ended December 31, 2010 are as follows:

(In thousands of Korean won)

		<u>June 30, 2011</u>	<u>December 31, 2011</u>
Beginning balance	₩	8,465,959	4,291,937
Increase		679,186	4,414,679
Decrease		(194,185)	(240,657)
Ending balance	₩	<u>8,950,960</u>	<u>8,465,959</u>

Other provision is composed of provision for restoration of leased property. Provision for restoration of leased property is accounted based on the estimated restoration expense when the lease term is terminated.

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June 30, 2011

17. Other current liabilities and other non-current liabilities

Other current liabilities and other non-current liabilities as of June 30, 2011, December 31, 2010 and January 1, 2010 are as follows:

(In thousands of Korean won)

	<u>June 30, 2011</u>		<u>December 31, 2010</u>		<u>January 1, 2010</u>	
	<u>Current</u>	<u>Non-current</u>	<u>Current</u>	<u>Non-current</u>	<u>Current</u>	<u>Non-current</u>
Advance received	₩ 60,679,358	3,211,985	49,062,521	3,447,165	37,738,892	-
Unearned revenue	5,074,793	67,746	6,143,627	35,478	6,913,358	8,116
Deferred revenues	3,596,971	1,813,466	927,174	3,562,212	862,340	582,804
Deposit received	12,544,629	-	8,473,651	-	8,136,452	-
Withholdings	30,343,732	-	26,979,544	-	25,817,691	-
Total	₩ <u>112,239,483</u>	<u>5,093,197</u>	<u>91,586,517</u>	<u>7,044,855</u>	<u>79,468,733</u>	<u>590,920</u>

18. Employee benefits

(1) Liabilities for defined benefit obligations as of June 30, 2011, December 31, 2010 and January 1, 2010 are as follows:

(In thousands of Korean won)

		<u>June 30, 2011</u>	<u>December 31, 2010</u>	<u>January 1, 2010</u>
Present value of partially funded defined benefit obligations	₩	88,488,645	78,551,911	53,043,167
Fair value of plan assets		(37,357,929)	(39,448,141)	(27,575,353)
	₩	<u>51,130,716</u>	<u>39,103,770</u>	<u>25,467,814</u>

(2) Other liabilities for employee benefits as of June 30, 2011, December 31, 2010 and January 1, 2010 are as follows:

(In thousands of Korean won)

		<u>June 30, 2011</u>	<u>December 31, 2010</u>	<u>January 1, 2010</u>
Liabilities for paid leave	₩	24,878,914	21,173,728	15,929,389

(3) Fair value of plan assets as of June 30, 2011, December 31, 2010 and January 1, 2010 are as follows:

(In thousands of Korean won)

		<u>June 30, 2011</u>	<u>December 31, 2010</u>	<u>January 1, 2010</u>
Severance insurance bonds	₩	37,357,929	39,448,141	27,575,353

NHN Corporation and Subsidiaries

Notes to Consolidated Interim Financial Statements

June 30, 2011

18. Employee benefits, continued

- (4) Movement in the present value of defined benefit obligations for the six-month period ended June 30, 2011 and for the year ended December 31, 2010 are as follows:

(In thousands of Korean won)		<u>2011</u>	<u>2010</u>
Defined benefit obligations at beginning of period	₩	78,551,911	53,043,167
Benefits paid by the plan		(7,354,770)	(12,466,555)
Current service costs and interest		16,474,745	26,654,146
Actuarial losses in other comprehensive income		-	11,392,589
Others		816,759	(71,436)
Defined benefit obligations at end of period	₩	<u>88,488,645</u>	<u>78,551,911</u>

- (5) Movement in the present value of plan assets for the six-month period ended June 30, 2011 and for the year ended December 31, 2010 are as follows:

(In thousands of Korean won)		<u>2011</u>	<u>2010</u>
Fair value of plan assets at beginning of period	₩	39,448,141	27,575,353
Contributions paid into the plan		39,712	15,643,790
Benefits paid by the plan		(3,304,535)	(5,309,540)
Expected return on plan assets		1,174,611	1,716,310
Actuarial gains (losses) in other comprehensive income		-	(505,609)
Others		-	327,837
Fair value of plan assets at end of period	₩	<u>37,357,929</u>	<u>39,448,141</u>

- (6) Expenses for employee benefits for the six-month periods ended June 30, 2011 and 2010 are as follows:

(In thousands of Korean won)		<u>2011</u>	<u>2010</u>
Current service costs	₩	13,955,350	11,108,536
Expected return on plan assets		(1,174,611)	(845,471)
Interest expense		2,519,395	1,938,885
	₩	<u>15,300,134</u>	<u>12,201,950</u>

- (7) The details of expenses for the six-month periods ended June 30, 2011 and 2010 are as follows:

(In thousands of Korean won)		<u>2011</u>	<u>2010</u>
Operating expenses	₩	15,300,134	12,201,950

- (8) The Group determined the discount rate based on market returns of superior corporate bonds (AA-level) consistent with currencies and estimated payment terms of defined benefit obligations as of the reporting date in order to calculate present value of the defined benefit obligations. Major actuarial assumptions for the six-month periods ended June 30, 2011 and 2010 are as follows:

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June 30, 2011

18. Employee benefits, continued

	2011	2010
Weighted average of future salary increases	8.85%	7.99%
Discount rate	6.50%	7.50%
Expected return on plan assets	5.00%	5.00%

19. Commitments and contingencies

- (a) The Group has borrowing agreements totaling ₩170,100 million with Shinhan Bank, Hana Bank and Kookmin Bank as of June 30, 2011.
- (b) The Group is a defendant in an action brought by Hyundai Engineering & Construction Co., Ltd. which constructed the Group's headquarters during the last year, claiming damages of ₩32,594 million. Among the litigation amount, the Group paid a deposit of ₩20,086 million in Seoul Western District Court and Hyundai Engineering & Construction Co., Ltd. withdrew the amount.

As of June 30, 2011, except the above lawsuit, the Group is involved in thirteen lawsuits for alleged damages aggregating to ₩1,616 million. The ultimate outcome of the above lawsuits cannot yet be determined. The Group believes that although the outcome of these legal actions is uncertain, they would not ultimately result in a material effect on the Group's financial position, operating results or cash flows.

- (c) For the six-month period ended June 30, 2011, the Group transferred the outstanding balance of trade receivables amounting to ₩122,324 million, ₩18,680 million of which has not matured as of June 30, 2011.
- (d) As of June 30, 2011, the Group is covered by a management indemnity obligation insurance of ₩50,000 million and property damages insurance coverage of ₩184,261 million from Samsung Fire & Marine Insurance Co., Ltd. and other medical insurance covered by LIG Insurance Co., Ltd.
- (e) As of June 30, 2011, the Group has guarantees of ₩7,049 million relating to deposits, authorization, and performance guarantees from Seoul Guarantee Insurance. Also, the Group has guarantees of ₩90 million from Korea Technology Finance Corporation relating to ₩100 million in borrowings from Wooribank.
- (f) The Group entered into publishing agreements with major game developing companies for exclusive rights and profit sharing in order to secure competitive games.
- (g) The Group entered into an agreement with the Korea Professional Baseball Players Association for the period from January 1, 2011 to December 31, 2015 for the exclusive right of publicity of specific players who can be applied in game services.
- (h) During the acquisition of Wisecat, Inc., the Controlling Company granted purchase options to eight shareholders ("transferors") including the largest shareholder. The rights of the options will be discharged as Wisecat, Inc. passes the screening in preparation for going public on the KOSPI or KOSDAQ by December 31, 2014. Also, the Controlling Company can deny the rights of the options and in this case, the transferors can demand that the Controlling Company should sell the shares up to two percent of the total issued shares.

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June 30, 2011

19. Commitments and contingencies, continued

- (i) The Group makes forward exchange contracts with Sumitomo Mitsui Banking Corporation and details of unsettled forward exchange contract as of June 30, 2011 is as follows:

<u>Contract date</u>	<u>Expiration date</u>	<u>Amount per contract (CNY)</u>	<u>Exchange rate (JPY/CNY)</u>	<u>Agreed amount per contract (JPY)</u>	<u>Note</u>
2010.04.15	2011.10.19 ~ 2013.04.19	10,162,000	14.76	149,991,120	4 contracts & 6 month cycle

20. Capital stock

- (1) Common shares issued and outstanding as of June 30, 2011 are as follows:

	<u>Issued shares</u>	<u>Treasury shares</u>	<u>Outstanding</u>
January 1, 2011	48,127,704	3,298,230	44,829,474
Exercise of stock option	-	(76,205)	76,205
Acquisition of treasury share	-	481,277	(481,277)
June 30, 2011	<u>48,127,704</u>	<u>3,703,302</u>	<u>44,424,402</u>

- (2) Common shares issued and outstanding as of December 31, 2010 were as follows:

	<u>Issued shares</u>	<u>Treasury shares</u>	<u>Outstanding</u>
January 1, 2010	48,127,704	2,958,039	45,169,665
Exercise of stock option	-	(622,363)	622,363
Acquisition of treasury share	-	962,554	(962,554)
December 31, 2010	<u>48,127,704</u>	<u>3,298,230</u>	<u>44,829,474</u>

21. Other capital

- (1) Other capital as of June 30, 2011, December 31, 2010 and January 1, 2010 are as follows:

(In thousands of Korean won)		<u>June 30, 2011</u>	<u>December 31, 2010</u>	<u>January 1, 2010</u>
Treasury share	₩	(717,621,172)	(634,819,618)	(548,998,308)
Loss on disposal of treasury share		-	(13,306,418)	(13,985,439)
Stock options		2,519,941	5,123,821	23,859,795
Capital adjustments		(28,063,029)	(28,063,029)	(28,063,029)
	₩	<u>(743,164,260)</u>	<u>(671,065,244)</u>	<u>(567,186,981)</u>

- (2) As of June 30, 2011, the Company has 3,703,302 shares of common shares held as treasury shares for the stabilization of share price and the exercise of stock options, with a total carrying value of ₩717,621 million is accounted for as other capital.

NHN Corporation and Subsidiaries

Notes to Consolidated Interim Financial Statements

June 30, 2011

21. Other capital, continued

(3) Share-based payments

Pursuant to the articles of incorporation of the Company, the Company is allowed to grant stock options to its directors and employees up to 15% of the total shares issued. In accordance with the resolutions of the Board of Directors and the general meeting of shareholders, the Company granted equity-settled stock options to its directors and employees as follows. The vesting period is within five years from the two-year anniversary of the grant date granted and the exercise conditions include that directors and employees have to be in service at the exercise date.

(In Korean won, except number of options)

<u>Date of grant</u>	<u>Number originally granted*¹</u>	<u>Number exercised</u>	<u>Number not exercised</u>	<u>Resolution</u>	<u>Exercise price</u>
2006.04.27	15,470	7,500	7,970	Board of directors	₩ 105,549
2006.11.07	15,270	7,600	7,670	Board of directors	96,500
2007.03.23	119,145	61,105	58,040	General meeting of shareholders	134,000
	<u>149,885</u>	<u>76,205</u>	<u>73,680</u>		
Weighted-average exercise price	₩127,243	₩127,460	₩127,019		

*¹ Adjustments for pre-exercised stock options as of last period and free issuance of new shares were applied.

The weighted-average stock price per share measured on the exercise date is ₩202,380 and the weighted-average remaining expected exercise period, from June 30, 2011 until expiration, is 2.59 years.

All compensation expense related to stock option grants were recognized until 2009.

22. Accumulated other comprehensive income

Accumulated other comprehensive income as of June 30, 2011, December 31, 2010 and January 1, 2010 are as follows:

(In thousands of Korean won)		<u>June 30, 2011</u>	<u>December 31, 2010</u>	<u>January 1, 2010</u>
Gain on valuation of available-for-sale financial assets	₩	2,902,821	2,233,593	330,383
Loss on valuation of available-for-sale financial assets		(431,521)	(478,387)	(112,919)
Loss on translation of foreign operations		2,054,627	(4,706,944)	-
Unrealized holding gain on equity method accounted investees		1,014,037	15,343,198	7,085,250
Unrealized holding loss on equity method accounted investees		(8,186)	(946,311)	(1,476,181)
	₩	<u>5,531,778</u>	<u>11,445,149</u>	<u>5,826,533</u>

NHN Corporation and Subsidiaries

Notes to Consolidated Interim Financial Statements

June 30, 2011

23. Retained earnings

(1) Retained earnings as of June 30, 2011, December 31, 2010 and January 1, 2010 are as follows:

(In thousands of Korean won)		<u>June 30, 2011</u>	<u>December 31, 2010</u>	<u>January 1, 2010</u>
Legal reserve	₩	560,283	560,283	560,283
Discretionary reserve		11,860,000	4,360,000	4,360,000
Unappropriated retained earnings		<u>1,976,416,361</u>	<u>1,760,372,131</u>	<u>1,310,299,297</u>
	₩	<u>1,988,836,644</u>	<u>1,765,292,414</u>	<u>1,315,219,580</u>

(2) Changes in unappropriated retained earnings for the six-month period ended June 30, 2011 and for the year ended December 31, 2010 are as follows:

(In thousands of Korean won)		<u>June 30, 2011</u>	<u>December 31, 2010</u>
Balance at beginning of period	₩	1,760,372,131	1,310,299,297
Reserve for discretionary reserve		(7,500,000)	-
Reserve for loss on disposal of treasury share		(13,306,418)	(13,985,439)
Actuarial losses		-	(9,018,834)
Net income		<u>236,850,648</u>	<u>473,077,107</u>
Balance at end of period	₩	<u>1,976,416,361</u>	<u>1,760,372,131</u>

NHN Corporation and Subsidiaries

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June 30, 2011

24. Operating expenses

Details of operating expenses for the three-month and six-month periods ended June 30, 2011 and 2010 are as follows:

(In thousands of Korean won)	2011		2010	
	Three-month period	Six-month period	Three-month period	Six-month period
Salaries	₩ 122,922,177	239,166,064	104,810,445	204,054,617
Accrual for retirement and severance benefits	7,673,269	15,300,134	6,276,267	12,201,950
Employee fringe benefits	19,365,824	34,706,466	12,492,346	23,196,882
Travel	2,244,466	4,035,395	1,547,040	2,869,718
Entertainment	892,265	2,060,990	821,583	1,728,178
Bad and doubtful debt	-	-	2,330,668	6,754,039
Depreciation	17,122,589	34,601,109	19,198,572	42,870,307
Amortization	5,280,977	9,782,232	3,724,020	6,947,081
Communications	19,581,641	38,595,258	17,277,423	33,685,507
Utilities	3,838,375	7,561,816	3,284,953	5,937,311
Taxes and dues	1,419,003	4,029,908	1,312,943	2,674,037
Rent	7,230,952	13,823,057	7,789,238	14,902,665
Insurance	2,641,767	4,818,204	3,030,568	4,711,064
Transportation	211,947	395,973	97,820	437,403
Publication	175,532	485,650	972,957	1,145,018
Conference	789,466	1,229,495	304,459	568,210
Supplies	3,107,054	4,919,206	3,841,962	5,195,952
Commission	116,908,377	225,517,278	74,471,361	162,358,787
Training	2,060,070	4,040,572	918,150	2,143,857
Outsourcing fee	9,846,327	19,118,916	4,853,847	10,204,198
Advertising	20,940,177	31,369,285	9,775,741	15,777,338
Event	279,585	447,454	100,525	398,120
Others	21,326	193,896	132,327	145,072
Total	₩ <u>364,553,166</u>	<u>696,198,358</u>	<u>279,365,215</u>	<u>560,907,311</u>

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25. Other operating revenues and other operating expenses

(1) Other operating revenues for the three-month and six-month periods ended June 30, 2011 and 2010 are as follows:

(In thousands of Korean won)		2011		2010	
		Three-month period	Six-month period	Three-month period	Six-month period
Rental income	₩	267,624	467,320	650,730	780,434
Foreign currency transaction gain		13,552	1,264,701	98,424	311,949
Foreign currency translation gain		216,121	10,208	346,576	124,351
Reversal of allowance for doubtful accounts		655,087	709,747	-	-
Gain on sale of property, plant and equipment		634	17,880	84,291	84,666
Miscellaneous income		1,618,947	2,280,341	281,600	1,487,829
Total	₩	<u>2,771,965</u>	<u>4,750,197</u>	<u>1,461,621</u>	<u>2,789,229</u>

(2) Other operating expenses for the three-month and six-month periods ended June 30, 2011 and 2010 are as follows:

(In thousands of Korean won)		2011		2010	
		Three-month period	Six-month period	Three-month period	Six-month period
Other bad debt expenses	₩	23,000	323,000	-	-
Foreign currency transaction loss		521,419	634,189	280,448	337,176
Foreign currency translation loss		-	2,423	-	183,036
Loss on disposal of property and equipment		61,178	93,945	53,315	1,010,601
Loss on disposal of intangible assets		-	-	-	23,458
Loss on impairment of intangible assets		-	-	203,258	203,258
Donation		7,716,622	8,541,826	3,325,023	7,700,091
Miscellaneous loss		98,890	3,820,978	305,550	442,113
Total	₩	<u>8,421,109</u>	<u>13,416,361</u>	<u>4,167,594</u>	<u>9,899,733</u>

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26. Classification of financial instruments by categories

Financial instruments classified by categories as of June 30, 2011, December 31, 2010 and January 1, 2010 are as follows:

(In thousands of Korean won)		<u>June 30, 2011</u>	<u>December 31, 2010</u>	<u>January 1, 2010</u>
Financial assets at fair value through profit or loss	₩	157,783,610	63,983,967	-
Available-for-sale financial assets		190,481,523	159,341,651	71,475,619
Held-to-maturity financial assets		2,357,463	1,444,089	-
Loans and receivables		1,103,960,069	1,031,588,318	864,451,458
Financial liabilities at fair value through profit or loss		1,180,516	1,575,727	-
Financial liabilities recognized at amortized cost		471,622,151	400,069,631	303,627,087

27. Finance income and finance expenses

(1) Finance income for the three-month and six-month periods ended June 30, 2011 and 2010 are as follows:

(In thousands of Korean won)		<u>2011</u>		<u>2010</u>	
		<u>Three-month period</u>	<u>Six-month period</u>	<u>Three-month period</u>	<u>Six-month period</u>
Interest income	₩	8,007,232	14,998,776	5,649,281	11,701,508
Dividend income		160,307	337,165	-	151,131
Foreign currency transaction gain		-	1,046,684	194,349	969,258
Foreign currency translation gain		-	473,167	108,787	233,963
Gain on valuation of financial assets at fair value through profit or loss		460,152	1,584,940	248,220	322,539
Gain on sale of financial assets at fair value through profit or loss		848,901	1,708,060	-	-
Gain on valuation of derivatives		-	196,380	-	-
Gain on sale of available-for-sale financial assets		624,801	624,801	553,185	553,185
Total	₩	<u>10,101,393</u>	<u>20,969,973</u>	<u>6,753,822</u>	<u>13,931,584</u>

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27. Finance income and finance expenses, continued

(2) Finance expenses for the three-month and six-month periods ended June 30, 2011 and 2010 are as follows:

(In thousands of Korean won)	2011		2010	
	Three-month period	Six-month period	Three-month period	Six-month period
Interest expense	₩ 2,780,012	6,511,130	1,866,765	3,663,920
Loss on sale of trade receivables	2,216,406	4,648,223	1,955,023	3,953,950
Foreign currency transaction loss	233,654	229,509	2,342,133	2,443,591
Foreign currency translation loss	801,064	800,313	51,723	51,777
Loss on valuation of financial assets at fair value through profit or loss	687,309	1,076,414	-	-
Loss on sale of financial assets at fair value through profit or loss	68,179	69,510	-	-
Loss on valuation of derivatives	151,717	149,111	1,174,475	1,174,475
Loss on transaction of derivatives	5,529	5,529	-	-
Loss on sale of available-for-sale financial assets	-	-	103,495	103,495
Total	₩ <u>6,943,870</u>	<u>13,489,739</u>	<u>7,493,614</u>	<u>11,391,208</u>

28. Income taxes

(1) The components of income tax expense for the six-month periods ended June 30, 2011 and 2010 are as follows:

(In thousands of Korean won)	2011	2010
Current income tax	₩ 80,333,789	86,066,203
Deferred income tax by temporary differences	6,840,949	(10,239,658)
Items charged directly to stockholders' equity	(548,855)	925,200
Income tax expense	₩ <u>86,625,883</u>	<u>76,751,745</u>

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28. Income taxes, continued

- (2) Items charged directly to stockholders' equity for the six-month periods ended June 30, 2011 and 2010 are as follows:

(In thousands of Korean won)

	2011			2010		
	Before tax	Current income tax	Deferred tax assets	Before tax	Current income tax	Deferred tax assets
Gain (loss) on valuation of available-for-sale financial assets	₩ 965,764	-	(249,670)	(168,981)	-	40,117
Gain (loss) on sale of treasury share	1,236,301	299,185	-	(3,657,366)	(885,083)	-

- (3) The income tax expense calculated by applying statutory tax rates to the Group's income before income taxes differs from the actual tax expense in the consolidated statements of income for the six-month periods ended June 30, 2011 and 2010 for the following reasons:

(In thousands of Korean won)

	2011	2010
Income before income taxes	₩ 323,769,125	307,463,361
Expense for income taxes at normal tax rates	85,103,613	78,450,130
Non-taxable income	(630,031)	(10,970)
Non-deductible expense	229,816	125,137
Tax credit	(225,371)	(150,859)
Changes of deferred tax assets with uncertain probability of realization	875,003	(126,009)
Others	1,272,853	(1,535,684)
Income tax expense	₩ <u>86,625,883</u>	<u>76,751,745</u>
Effective tax rate	<u>26.76%</u>	<u>24.96%</u>

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28. Income taxes, continued

(4) Temporary differences and deferred tax assets (liabilities) as of June 30, 2011 are as follows:

(In thousands of Korean won)		Temporary differences at June 30, 2011	Deferred tax assets (liabilities)	
			Beginning balance	Ending balance
Accounts receivable	₩	44,516,438	9,793,616	9,793,616
Allowance for doubtful accounts		25,229,176	6,745,618	5,550,419
Available-for-sale financial assets		(943,788)	43,166	(207,633)
Investments in equity accounted investees		158,595,773	34,167,647	34,891,070
Intangible assets		96,976,874	21,558,157	21,334,912
Accrued bonuses		67,147,846	18,495,572	14,772,526
Defined employee benefit obligations		65,394,915	13,683,512	14,386,881
Employee benefit plan assets		(26,755,481)	(5,983,858)	(5,886,206)
Others		(1,531,756)	1,761,115	(336,986)
	₩	428,629,997	100,264,545	94,298,599
Unrecognized deferred tax assets with uncertain probability of realization ^{*1}			47,333,471	48,208,474
Net deferred tax asset	₩		52,931,074	46,090,125

^{*1} The Group did not recognize deferred tax assets in the amount of W48,208 million arising from the taxable differences of Investments in equity accounted investees as of June 30, 2011, since the temporary difference will not reverse in the foreseeable future.

(5) The gross balances of deferred tax assets and liabilities as of June 30, 2011 and December 31, 2010 are as follows:

(In thousands of Korean won)		June 30, 2011	December 31, 2010
Deferred tax assets	₩	52,183,964	58,914,932
Deferred tax liabilities		(6,093,839)	(5,983,858)
Net deferred tax asset	₩	46,090,125	52,931,074

29. Earnings per share

(1) Basic earnings per share for the three-month periods ended June 30, 2011 and 2010 are as follows:

(In Korean won, except share information)		2011		2010	
		Profit of continued operations	Profit of discontinued operations	Profit of continued operations	Profit of discontinued operations
Income on equity of subsidiaries	₩	113,471,818,816	-	120,421,578,746	(1,824,687,496)
Weighted average number of common shares outstanding		44,474,902	44,474,902	44,912,686	44,912,686
Basic earnings per share	₩	2,551	-	2,681	(41)

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June 30, 2011

29. Earnings per share, continued

Weighted average number of common shares outstanding:

Account	Period	Common shares issued	Weighted number of shares
Balance at January 1, 2011	2011.04.01~2011.06.30	44,754,547	4,072,663,777
Effect of stock options exercised	2011.05.30~2011.06.30	36,295	1,161,440
Purchase of treasury shares	2011.04.01~2011.06.30	(366,440)	(26,609,100)
Balance at June 30, 2011			<u>4,047,216,117</u>

Period	Weighted average number of common shares
2011.01.01~2011.03.31	4,047,216,117 ÷ 91 = 44,474,902

Account	Period	Common shares issued	Weighted number of shares
Balance at January 1, 2010	2010.04.01~2010.06.30	45,213,746	4,114,450,886
Purchase of treasury shares	2010.04.01~2010.06.30	(532,308)	(27,396,420)
Balance at June 30, 2010			<u>4,087,054,466</u>

Period	Weighted average number of common shares
2010.04.01~2010.06.30	4,087,054,466 ÷ 91 = 44,912,686

(2) Basic earnings per share for the six-month periods ended June 30, 2011 and 2010 are as follows:

(In Korean won, except share information)

		2011		2010	
		Profit of continued operations	Profit of discontinued operations	Profit of continued operations	Profit of discontinued operations
Income on equity of subsidiaries	₩	236,850,648,127	-	230,711,616,153	(3,182,861,644)
Weighted average number of common shares outstanding		44,664,353	44,664,353	45,043,994	45,043,994
Basic earnings per share	₩	<u>5,303</u>	<u>-</u>	<u>5,122</u>	<u>(71)</u>

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29. Earnings per share, continued

Weighted average number of common shares outstanding:

Account	Period	Common shares issued	Weighted number of shares
Balance at January 1, 2011	2011.01.01~2011.06.30	44,829,474	8,114,134,794
Effect of stock options exercised	2011.01.24~2011.06.30	76,205	7,467,220
Purchase of treasury shares	2011.01.01~2011.06.30	(481,277)	(37,354,104)
Balance at June 30, 2011			<u>8,084,247,910</u>

Period	Weighted average number of common shares
2011.01.01~2011.06.30	8,084,247,910 ÷ 181 = 44,664,353

Account	Period	Common shares issued	Weighted number of shares
Balance at January 1, 2010	2010.01.01~2010.06.30	45,169,665	8,175,709,365
Effect of stock options exercised	2010.03.23~2010.06.30	74,310	7,431,000
Purchase of treasury shares	2010.01.01~2010.06.30	(562,537)	(30,177,488)
Balance at June 30, 2010			<u>8,152,962,877</u>

Period	Weighted average number of common shares
2010.01.01~2010.06.30	8,152,962,877 ÷ 181 = 45,043,994

(3) Diluted earnings per share for the three-month periods ended June 30, 2011 and 2010 are as follows:

(In Korean won, except share information)

		2011		2010	
		Profit of continued operations	Profit of discontinued operations	Profit of continued operations	Profit of discontinued operations
Income on equity of subsidiaries	₩	113,471,818,816	-	120,421,578,746	(1,824,687,496)
Weighted average number of common shares outstanding		44,474,902	44,474,902	44,912,686	44,912,686
Weighted-average number of dilutive security common shares in circulation		<u>34,786</u>	<u>34,786</u>	<u>311,058</u>	<u>311,058</u>
Basic earnings per share	₩	<u>2,549</u>	<u>-</u>	<u>2,663</u>	<u>(40)</u>

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June 30, 2011

29. Earnings per share, continued

(4) Diluted earnings per share for the six-month periods ended June 30, 2011 and 2010 are as follows:

(In Korean won, except share information)

		2011		2010	
		Profit of continued operations	Profit of discontinued operations	Profit of continued operations	Profit of discontinued operations
Income on equity of subsidiaries	₩	236,850,648,127	-	230,711,616,153	(3,182,861,644)
Weighted average number of common shares outstanding		44,664,353	44,664,353	45,043,994	45,043,994
Weighted-average number of dilutive security common shares in circulation		38,423	38,423	328,451	328,451
Basic earnings per share	₩	5,298	-	5,085	(70)

30. Related parties

(1) NHN Corporation is the holding company of the Group.

(2) Significant transactions which occurred in the normal course of business with related companies for the six-month periods ended June 30, 2011 and 2010 are as follows:

(In thousands of Korean won)

Relationship	Name	Transaction		2011	2010
Affiliated corporation	Digital YTN Corp.	Sales	₩	200,000	200,000
		Purchases		279,315	230,000
	Mediaweb, Inc.	Purchases		49,299	757,414
		Sales		50,367	616,120
	Allat Corp.	Purchases		4,068,842	7,842,919
		Purchases		4,500	9,000
	Webzen, Inc.	Sales		468,669	-
		Purchases		5,793,409	8,240,046
	AmazingSoft Co., Ltd.	Sales		-	659
		Purchases		217,150	14,661
	Mbaro Inc.	Sales		86,626	-
		Total	Sales	₩	805,662
		Purchases		10,412,515	17,094,040

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30. Related parties, continued

(3) Account balances with related companies as of June 30, 2011 and December 31, 2010 are as follows:

		Receivables		Payables		
		2011	2010	2011	2010	
(In thousands of Korean won)						
Relationship	Name					
Affiliated corporation	Digital YTN Corp.	₩	73,700	105,200	-	52,167
	Allat Corp.		1,938,238	1,375,612	-	-
	NetMania Co., Ltd.		-	450	-	2,174
	Neowiz NHN Asset Management Co., Ltd.		5,300,000	3,300,000	-	-
	Webzen, Inc.		12,562,268	14,464,384	-	629,381
	AmazingSoft Co., Ltd.		-	-	93,190	31,195
	Mbaro Inc.		14,388	12,040	-	-
		₩	<u>19,888,594</u>	<u>19,257,686</u>	<u>93,190</u>	<u>714,917</u>

(4) Key management personnel compensation for each of the following categories for the six-month periods ended June 30, 2011 and 2010 are as follows:

		2011		2010	
		(In millions of Korean won)			
Short-term salaries	₩		12,809		10,876
Severance benefits			4,363		860
	₩		<u>17,172</u>		<u>11,736</u>

31. Explanation of transition to K-IFRSs

As stated in note 2, these are the Group's interim financial statements prepared for the part of the period covered by the first K-IFRS annual financial statements in accordance with K-IFRS No.1101 *First-time adoption of Korea International Financial Reporting Standards*.

The accounting policies in note 3 have been applied in preparing the interim financial statements for the six-month period ended June 30, 2011, the comparative information for the year ended December 31, 2010 and the preparation of an opening K-IFRS statement of financial position at January 1, 2010 (the Group's date of transition).

(1) Optional exemptions under K-IFRS, No.1101

In accordance with K-IFRS, No.1101 the Group may elect to apply one or more exemptions in applying other K-IFRSs regarding the preparation of its opening K-IFRS statements of financial position. The Group elected to apply the following exemptions:

- ① Business combinations
Business combinations that occurred prior to the date of transition were not restated.
- ② Employee benefits
All accumulated actuarial gains or losses were recognized at the date of transition to K-IFRSs with respect to employee benefits.

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June 30, 2011

31. Explanation of transition to K-IFRSs, continued

③ Borrowing costs

The Group capitalized borrowing costs only in respect of qualifying assets for which the commencement date for capitalization was on or after the date of transition.

④ Cumulative translation differences

All cumulative translation differences were deemed as nil at the date of transition.

(2) Effects of the adoption of K-IFRSs

① The effects of the adoption of K-IFRSs on the Group's financial position as of January 1, 2010, the date of transition to K-IFRSs are as follows:

(In thousands of Korean won)	<u>Total assets</u>	<u>Total liabilities</u>	<u>Total equity</u>
K-GAAP	₩ 1,605,435,243	510,487,257	1,094,947,986
Adjustment for:			
Effect of changes in scope of consolidation ^(*1)	(136,773,035)	(37,070,643)	(99,702,392)
Recognition of revenues ^(*2)	-	3,358,166	(3,358,166)
Allowance for doubtful accounts ^(*3)	(1,144,181)	-	(1,144,181)
Employee benefits ^(*4)	-	7,743,229	(7,743,229)
Depreciation method and useful lives ^(*5)	(910,206)	-	(910,206)
Restoration provisions ^(*6)	2,333,992	4,291,937	(1,957,945)
Deposits on leases ^(*7)	(44,641)	(460)	(44,181)
Deferred tax asset ^(*8)	3,668,214	-	3,668,214
Total adjustment	<u>(132,869,857)</u>	<u>(21,677,771)</u>	<u>(111,192,086)</u>
K-IFRSs	<u>₩ 1,472,565,386</u>	<u>488,809,486</u>	<u>983,755,900</u>

(*1) Effect of changes in scope of consolidation

(*2) Recognition of deferred revenue regarding game items

(*3) Differences in impairment assessing method of financial assets

(*4) Assessment of employee benefits using actuarial assumptions under K-IFRSs

(*5) Depreciation method and useful lives agreement of the Group

(*6) Recognition of restoration provisions with respect to leased building

(*7) Difference in discount rate applied to present value calculation of deposits on leases

(*8) Deferred tax adjustments on differences in accounting balances under K-IFRSs and K-GAAP

NHN Corporation and Subsidiaries

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June 30, 2011

31. Explanation of transition to K-IFRSs, continued

- ② The effects of the adoption of K-IFRSs on the Company's financial statement as of December 31, 2010 are as follows:

(In thousands of Korean won)

	Total assets	Total liabilities	Total equity	Net income	Total comprehensive income
K-GAAP	₩ 1,975,871,036	609,736,901	1,366,134,135	494,746,413	501,316,568
Adjustment for:					
Effect of changes in scope of consolidation ^(*1)	(21,773,755)	(22,931)	(21,750,824)	(24,593,905)	(24,933,157)
Business combination ^(*2)	1,808,745	-	1,808,745	1,808,745	1,808,745
Recognition of revenues ^(*3)	-	5,842,730	(5,842,730)	(2,544,170)	(2,544,170)
Allowance for doubtful accounts ^(*4)	157,116	-	157,116	1,300,110	1,300,110
Employee benefits ^(*5)	-	24,107,849	(24,107,849)	(4,227,138)	(13,858,258)
Depreciation method and useful lives ^(*6)	(3,699,106)	-	(3,699,106)	(2,548,246)	(2,548,246)
Restoration provisions ^(*7)	2,099,195	5,305,652	(3,206,457)	(1,055,371)	(1,055,371)
Deposits on leases ^(*8)	(11,500)	139	(11,639)	32,542	32,542
Deferred tax asset ^(*9)	12,505,857	-	12,505,857	5,958,279	5,958,279
Total adjustment	<u>(8,913,448)</u>	<u>35,233,439</u>	<u>(44,146,887)</u>	<u>(25,869,154)</u>	<u>(35,839,526)</u>
K-IFRSs	₩ <u>1,966,957,588</u>	<u>644,970,340</u>	<u>1,321,987,248</u>	<u>468,877,259</u>	<u>465,477,042</u>

(*1) Effect of changes in scope of consolidation

(*2) Account deemed cost at the date of transition for goodwill

(*3) Recognition of deferred revenue regarding game items

(*4) Differences of impairment assessing method of financial assets

(*5) Assessment of employee benefits using actuarial assumptions under K-IFRSs

(*6) Depreciation method and useful lives agreement of the Company

(*7) Recognition of restoration provisions with respect to leased building

(*8) Difference in discount rate applied to present value calculation of deposits on leases

(*9) Deferred tax adjustments on differences in accounting balances under K-IFRSs and K-GAAP

- (3) The cash flows according to sale or acquisition of securities for short-term trading were classified as investing cash flows under previous K-GAAP. These cash flows were reclassified as operating cash flows under K-IFRSs.

There are no other material differences between the statement of cash flows presented under K-IFRSs and the statement of cash flows presented under previous K-GAAP.

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32. Operating income

The items that are included in the calculation of the Group's operating income have changed and the differences between K-IFRSs and previous K-GAAP are as follows:

(In thousands of Korean won)		2011		2010	
		Three-month period	Six-month period	Three-month period	Six-month period
K-GAAP	₩	157,231,098	327,430,858	155,937,465	306,616,129
Adjustment for:					
Other operating revenues		2,771,965	4,750,197	1,461,621	2,789,229
Other operating expenses		(8,421,109)	(13,416,361)	(4,167,594)	(9,899,733)
K-IFRSs	₩	<u>151,581,954</u>	<u>318,764,694</u>	<u>153,231,492</u>	<u>299,505,625</u>