

Kakao

March 2016 | Investor Relations

Company Mission & Business Area

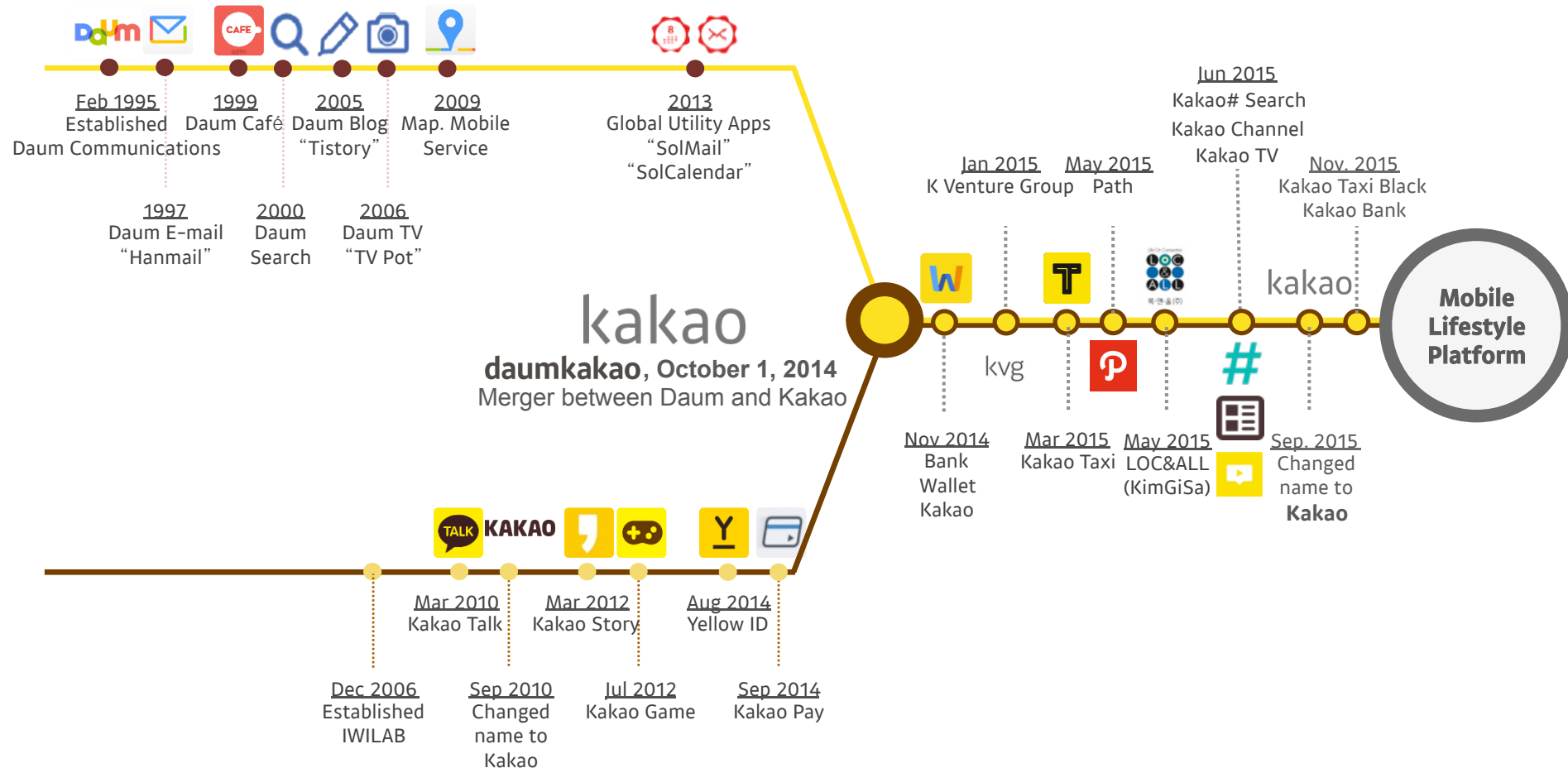


A Mobile Lifestyle Platform

Kakao provides mobile lifestyle services that make everyday connections boundless and better

Our mission is to “Connect Everything”
Connecting users, businesses, and more together on our platform in a way that touches every aspect of our lives

Milestone



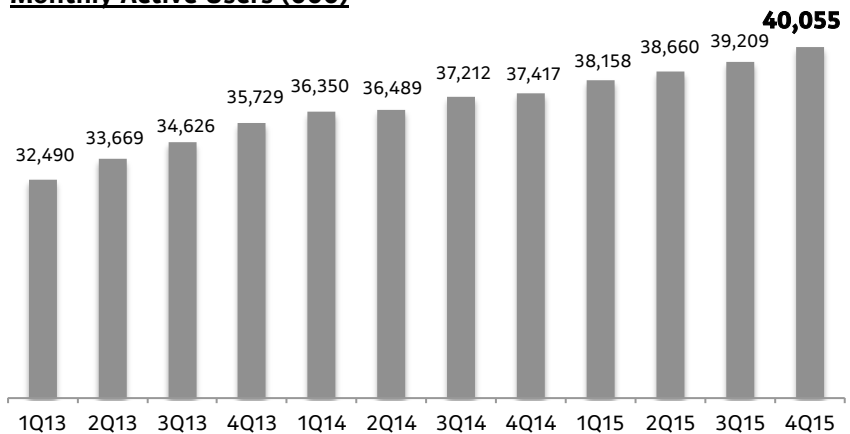
Communications



Kakao Talk

- Over 97% of smartphone users in Korea are active users
- Serve as the spine and central platform for many of Kakao's mobile services
- Features including Sharp(#) in-app Kakao Search, Channel tab in-app content curation, free video call, free voice call, free conference call, share photos and videos with Kakao Talk friends
- Recently launched Notification Talk (information-rich business messaging service) and Kakao Talk Reward (incentive based advertising, 12m visitors in just 6 weeks) are getting raving responses from the users
- Serviced worldwide in 230 countries in 15 different languages

Monthly Active Users (000)



kakao



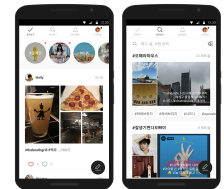
Kakao Story

- Mobile based SNS built on Kakao Talk's social graph which allows sharing of photos, videos, music and thoughts
 - Key features include video and photo upload/editing, Kakao Story Channel, Kakao TV, comments, hash tags, etc.
 - Via "Kakao Story Channel", a user-friendly mini blog within Kakao Story, promotes spontaneous creation of contents and offers a differentiated medium of contents recommendation
- Advertising: launched in 3Q14, native/push advertisements are displayed within the Kakao Story newsfeed



Plain

- Simple, beautiful UI optimized for mobile blogging
- Blogging is hash tag-centric, allowing users to easily find content they're after



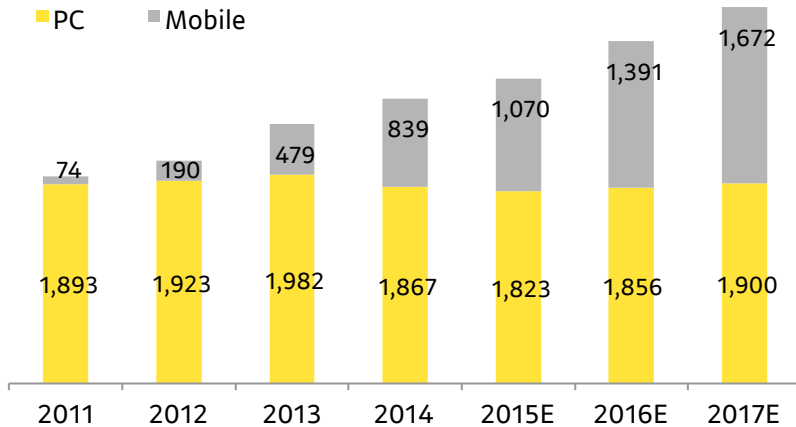
Brunch

- Content-publishing platform, under a beta service released in June 2015 to help nonprofessional writers to publish their compositions in an easy-to-read format
- Currently post content by contributors including students and office workers as well as proteurs, professional artists, photographers and novelists with a feature allowing multiple authors to release a collaborative work

Advertising

Korea Advertising Market

Korea Online Advertising Market Size (W bn)



Source: Cheil Worldwide, emarketer

Advertising Products

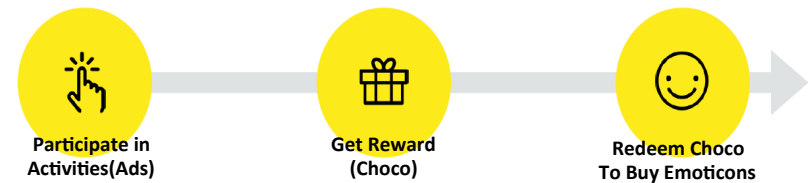
Performance Advertising	Search ^(D) , Ad@m ^(D) , DDN ^(D) , Local ^(D) , Kakao Story, Kakao Talk Rewards
Brand Advertising	Display ^(D) , Shopping How ^(D) , Kakao Talk Plus Friends, Yellow ID, Brand Emoticon, Kakao Talk PC ads

(D) Daum service based advertising products which account for 84% of total advertising revenue in 4Q2015

Latest Developments

■ Kakao Talk Reward (4th Tab)

- Launched in December 2015
- Kakao Talk embedded advertising platform that provide virtual coins(Choco) when Kakao Talk users participate in various activities offered by advertisers including app download, addition of plus friends, video view, image view, subscription to Kakao Story Channel, etc.
- Over 12 million visitors in just 6 weeks



■ Integrated Performance Advertising Platform

- 1st Phase: Completed the integration of advertising accounts between Kakao and Daum platforms in August 2015
- 2nd Phase: Continue enhancing targeting logics and keep developing mobile friendly native ads products to boost the value of advertising on Kakao platforms

■ Sharp(#) Search & Channel Tab (3rd Tab)

- Monthly active user numbers trend upward for both Sharp(#) Search and Channel Tab
- Plan to monetize in 2H2016

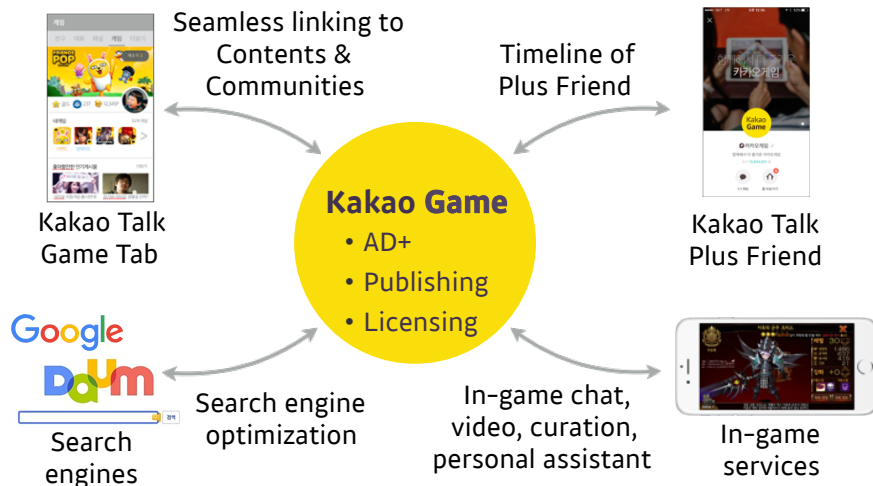
Games



Kakao Game

- Initially launched in July 2012, Kakao Game is the world's first social mobile gaming platform that has more than 600 game titles with approximately 520 million players
- Power of Kakao's social graph has predominantly driven the overall market growth
- Potential growth in average revenue per paying user to come from switch to more hardcore and expensive games on the back of increased screen size, better smartphones and faster mobile 4G/LTE data plans
- Consistently enhancing Kakao Game's capability as a game marketing platform by launching Game Home Tab and pre-registration program

New Challenge and Change for Kakao Game in 2016



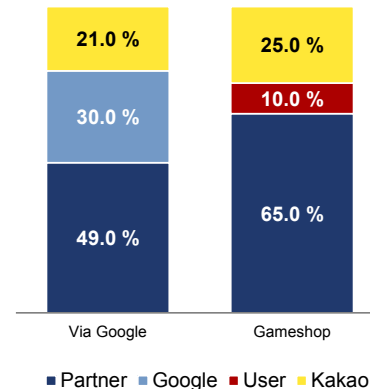
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Kakao Game Shop

- Launched in April 2015, Kakao Game Shop is an independent mobile gaming web app platform developed by Kakao, which introduced new revenue sharing scheme with developers and users

Revenue Sharing Scheme



- Developer's portion increase by 16% to 65% and user now take 10%
- Providing a more favorable ecosystem to developers, Kakao will maximize incentives to use the Kakao channel
- Kakao Game Shop App will be launched in March 2016

Other Latest Developments

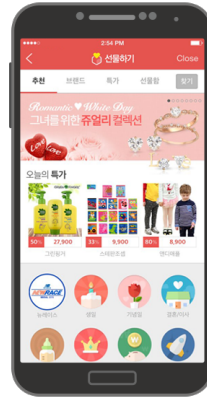
- Entered into Chinese mobile publishing market by launching SuperStar SMTown on 50 Chinese mobile app stores as well as international official stores in 2015. Keep expanding by helping Korean developers publishing their mobile games in China
- Mobile board game zone was introduced in December 2015 to offer diverse array of game from different genre
- Plan to launch new Kakao Friends IP games with the goal of creating more success stories like 'Friends Pop for Kakao', the first game featuring Kakao Friends character

Commerce



Kakao Talk Gift Shop

- Allows Kakao Talk users to send gifts and mobile coupons to Kakao Talk friends
- Embedded menu to Kakao Talk which facilitates users gifting
- Successfully entered the mobile commerce market leveraging its strong user base built on Kakao Talk



Kakao Style



- No. 1 social fashion app in Korea providing users with recent trends in fashion and shopping information
- Focused on tailored contents provision
- 190+ top shops/brands available
- 100,000+ browse-able items

Kakao Friends

- Kakao Friends have become the most popular characters in Korea that have been used as a means of communication such as sticker products used during Kakao Talk chats



- Kakao Friends Corp is a company that spun off of Kakao in May 2015 in effort to strengthen specialty in the character business. Under the motto “Sharing joys of everyday life with Kakao Friends”, it focuses on providing users with a positive brand experience through brand shops, collaborations, IP games and more.



- Kakao Friends' new character **RYAN** was introduced through event on Kakao Story in January 2016 and became an instant hit: Ryan is a maneless heir-to-the throne male lion, longing for freedom, escaping his own kingdom which could explain his short tale

Content



Kakao TV

- New approach to social viewing of video clips, centering around the most natural and convenient way of viewing and sharing video with friends on social networks such as Kakao Talk and Kakao Story
- Users can share videos within the chatroom to enjoy the video directly within the chatroom without having to leave the conversation hanging. It also provides convenient personalization features, helping users find video content of choice in the fastest manner
- Content available on Kakao TV vary from video clips of TV series, movies, web dramas and even live broadcast of sports games



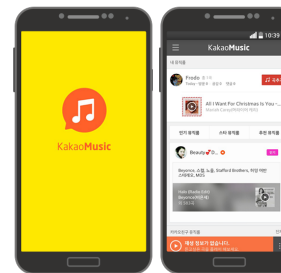
Kakao Page

- Mobile content distribution platform that helps the circulation and distribution of mobile optimized content
- Serves as an open market for content including comics, novels, educational content and more that is optimized for viewing on a mobile device
- Continues to experiment with new tools and mechanisms that could help monetize content, in effort to create an healthy ecosystem where the content providers and readers alike can foster



Kakao Music

- Social music service with a distinct social media element, and provides a space where users can express themselves through music, text and emoticons
- More than three million songs are available for users to purchase and share with their friends, and users can share Kakao Music content in Kakao Talk and Kakao Story by adding profile music and background images
- Kakao Music ranks #2 in MAU after **MelOn**



Downloads



Music albums created



Celebrity music rooms

LOEN **MelOn**
Kakao Acquires

- *Kakao decided to acquire 76.4% stake in LOEN Entertainment to gain competitiveness on the content platform.*
- *LOEN Entertainment is the leading player in the Korean music business. The company's B2C digital music service platform **MelOn** is a dominant music streaming service in Korea with 7mn MAUs and 28mn registered members*



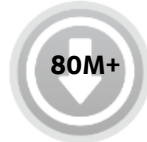
Kakao Taxi



**Kakao Taxi
Registered Drivers**



**Daily
Calls**



**Accumulated
Calls**



**Kingisa
Navigator**

- Launched in March 2015, Kakao Taxi is an O2O mobile application servicing both taxi drivers and taxi passengers
- The first full-scale, nationwide mobile taxi application, targeting to improve user engagement in the application and ultimately in other Kakao applications
 - On mobile devices, users are able to enter current location and destination to search nearest available drivers
 - Privacy features include one time number-generating for in-app calls, deletion of messages upon trip completion
 - Users can send pick-up time and location, drop-off location, vehicle information and estimated ride time as Kakao Talk notifications to friends
 - For the better service quality, drivers and customers are asked to mutually rate each other upon termination of service
- Kakao Taxi now has number of daily requests at 700k with cumulative calls surpassing 80mn, positioning itself as Korea's main taxi hailing service

Kakao Taxi Black

- Kakao Taxi Black, the first monetization model, was introduced on kakao taxi app 2.0 version in November 2015
- Successfully completed the 3 month pilot service with 100 vehicles within Seoul, attesting to potential for premium taxi service and possible market growth
- Plan to increase the fleet of vehicles and expand area coverage to meet the growing demands, and so that many new users can experience premium taxi service

Kakao Hairshop (1H16)

- *Beauty discount and reservation service*
- Utilizing **HASYS** infrastructure, helping users to select hair salons and make appointments
- *Beauty shop operators can use functions such as for customer management, new customer acquisition, and payment settlement*

Kakao Driver (1H16)

- *Kakao Driver, a designated-driver service, driver will start its service in full swing in 1H, with Q1 launch of app for designated drivers and launch of passenger app in Q2*



Kakao Pay

- A mobile payment service that allows Kakao Talk users to make convenient and secure online purchases with their pre-registered credit/debit cards
- Recently added automatic credit card billing and carrier billing as means of payment, membership management, public bill payment etc., driving Kakao Pay's development into a comprehensive payment platform
- Key features include:
 - Make purchases using only a user-set password for pre-registered cards without downloading multiple security programs
 - Able to make payments exceeding KRW 300,000 without public certification
 - Combines user's card and transaction information then stores segments of the encrypted data separately to prevent misuse of information
 - Automatic credit card billing, carrier billing, membership management, public bill payment etc.



Bank Wallet Kakao

- Virtual mobile wallet that allows users to transfer money back and forth without sharing personal financial information, make payments offline and even retrieve cash from ATMs
- Partnered with Korea Financial Telecommunications and Clearings Institute (KFTC) and 16 local banks

Kakao Bank (2H16)

- *On October 1, 2015, Kakao Bank consortium submitted application for preliminary approval to Financial Services Commission (FSC), to launch mobile-specialized bank*
- *Kakao Bank consortium is made up of 10 top companies representing finance, online commerce, contents, ICT and fin-tech industry including KIH, KB Bank, Tencent, Ebay, NetMarble, Yes24, SGI, Konai and Korea Post*
- *On November 29, 2015, the FSC announced that it has granted Kakao and KT-led consortiums (called Kakao Bank and K-Bank) preliminary licences to run Korea's first Internet-primary banks*
- *Kakao plans to take the leadership and increase the stake beyond current level (10%) when a revision to the current Banking Act (Article 16-2) passes*
- *Kakao Bank is in the process of building online banking systems, beefing up teams dedicated only to the operations of the branchless banks, and running a series of security tests before getting the final approval within 2016*

Others

K Venture Group



- Established in January 2015, with a starting capital of 100bn KRW, invested entirely by Kakao
- Focus on aggressively discovering, investing and selectively acquiring ventures with innovative ideas and visions, within and outside of Korea

Major Investments

- May 2015 – **Sell it!** a secondhand digital device dealing startup
- June 2015 – **TANGRAM**® a UX design agency
- August 2015 – **cardoc** a automobile A/S information service
- October 2015 – **HASYS** a POS software provider specializing in beauty salons

K Cube Ventures



- Established in April 2012
- K Cube Ventures is an early stage venture capital firm that focuses on the ICT/SW sector.
- Provides various areas of support in effort to create a healthy ecosystem in addition to financial investments
- Investee companies include Red Sahara Studio, Dunamu, WishLink, and Fincon

Kids Note



- Established in April 2012
- With Kids Note, parents can use their mobile devices to view daily updates on their child/ children's activities, diet and more via online posts from kindergarten and daycare teachers
- 50% of all Korean kindergartens and daycare centers, more than 25,000 facilities, use Kids Note

Path



- Developed in November 2010, acquired in May 2015 in the form of asset acquisition of 'Path' the SNS and 'Path Talk' the messaging app
- Path's strong user base in the fast growing Indonesian market makes it a powerful candidate for growth into a mobile lifestyle platform in the global market

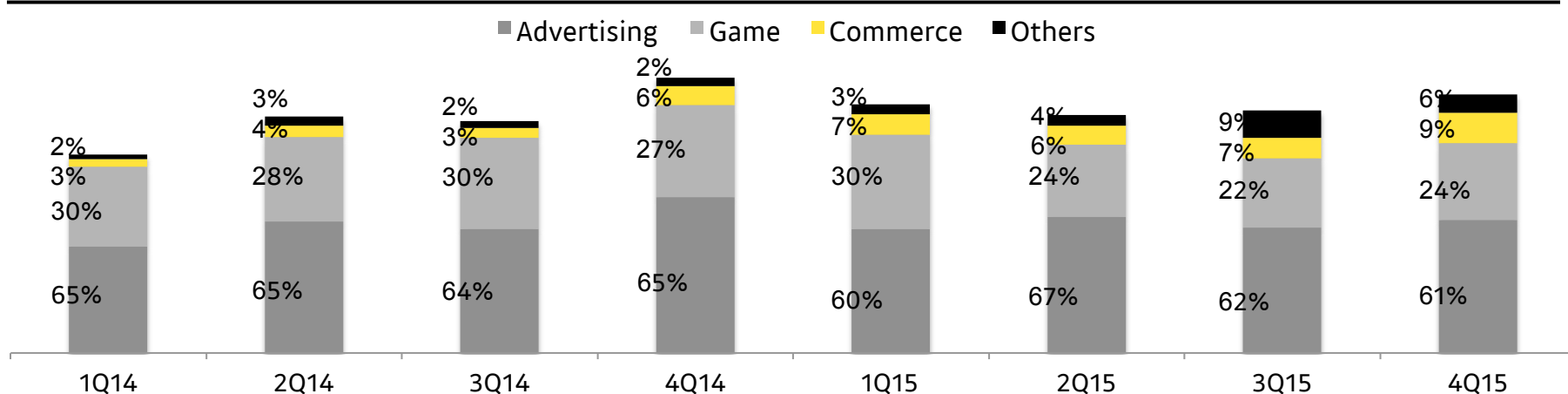
Traveline



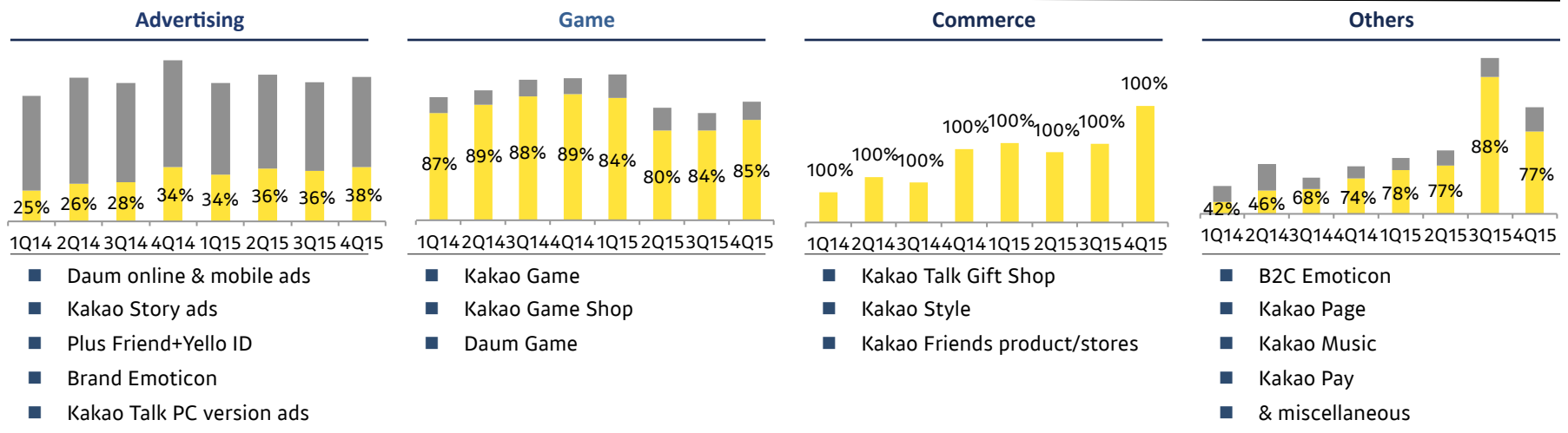
- Launched in August 2015 for Jeju Island
- Traveline is a travel app that automatically analyses posts and reviews on social media including Kakao Story, Instagram and more, to rank and introduce different tourist sites
- Plan to expand domestic and global coverage in 1H

Financial Overview

Quarterly Revenue Breakdown (W bn)



Mobile vs. Online



Note: For the pre-merger periods, the above financials are based on unaudited pro forma combined financial information of Daum Communications and Kakao

4Q15 Summary Results

- 4Q Mobile revenue was 137.2bn Won, accounted for 57% of total revenue, up 7% yoy and up 1% qoq
- FY2015 mobile revenue was 521.2bn Won, accounted for 55% of total revenue, up 12% yoy

(in million KRW)

	4Q15	3Q15	QoQ	4Q14	YoY	FY2015	FY2014	YoY
Total Revenue	241,706	229,580	12,126	254,046	-12,339	932,161	898,386	33,775
Advertising	148,403	142,949	5,455	165,363	-16,959	583,841	583,409	432
Game	57,019	51,383	5,636	68,289	-11,270	232,378	257,601	-25,223
Commerce	22,698	15,339	7,359	14,284	8,414	67,241	36,664	30,577
Others	13,586	¹⁾ 19,909	-6,323	6,110	7,476	48,701	20,712	27,989
Operating Expense	221,318	213,396	7,922	188,632	32,686	843,803	689,491	154,312
Operating Income	20,388	16,184	4,205	65,414	-45,025	88,358	208,895	-120,537
<i>% of Revenue</i>	8%	7%	1%p	26%	-18%p	9%	23%	-14%p
EBIT	23,920	21,782	2,138	62,551	-38,631	111,909	178,320	-66,411
Net Income	²⁾ 10,225	14,767	-4,542	51,743	-41,518	³⁾ 77,207	141,465	-64,258
EBITDA	40,694	35,657	5,037	81,702	-41,008	163,773	263,039	-99,266

1) Non-recurring revenue of 10.3bn Won from the change in revenue recognition methods of Kakao Page and Kakao Music reflected in 3Q

2) Include the 4.7bn Won gift tax applied to the transfer by gift of 28.6% stakes of the 'PodoTree' and additional 1.5bn income tax due to 2014 Amendments to the Tax Act which included the taxation of corporate reserves.

3) Effective Income Tax Rate for FY2015 is 31%

Consolidated Financial Statements

Consolidated Statements of Income

(in million KRW)	4Q14	1Q15	2Q15	3Q15	4Q15
Sales Revenues	254,046	234,392	226,482	229,580	241,706
Advertising Platform	165,363	141,753	150,736	142,949	148,403
Game Platform	68,289	69,991	53,984	51,383	57,019
Commerce Platform	14,284	15,526	13,678	15,339	22,698
Others	6,110	7,122	8,084	19,909	13,586
Operating Expenses	188,632	194,040	215,049	213,396	221,318
Labor Costs	47,242	51,803	54,590	56,455	55,694
Fringe Benefits	8,782	9,970	17,337	12,813	10,964
Depreciation	10,596	11,455	12,333	12,375	12,960
Rental Fees	4,287	5,034	4,363	4,666	4,531
Commissions	55,865	52,645	56,381	62,876	64,957
Advertising	9,116	17,221	19,662	6,843	13,074
Bad Debt Expenses	1,583	-21	394	8	1,123
Amortization	5,692	5,937	5,911	7,099	7,345
Content Fees	7,111	8,452	11,398	15,626	12,698
Ad Agency Fees	30,154	24,418	26,576	27,068	27,553
Event Fees	1,833	171	312	148	560
Others	6,371	6,955	5,794	7,420	9,859
Operating Profit	65,414	40,352	11,434	16,184	20,388
<i>Operating Profit Margin</i>	<i>25.7%</i>	<i>17.2%</i>	<i>5.0%</i>	<i>7.0%</i>	<i>8.4%</i>
Other Revenues	485	1,339	9,822	6,706	10,020
Other Expenses	6,345	2,715	12,925	4,611	5,711
Financial Income	3,574	3,252	18,240	3,543	4,936
Financial Expenses	69	330	951	325	2,427
Equity-method Income	-508	-553	-756	284	-3,286
Gains on Equity Method Invest.	181	35	591	2,972	-147
Losses on Equity Method Invest.	689	588	1,346	2,688	3,139
Profit before Income Tax Expenses	62,551	41,344	24,863	21,782	23,920
Income Tax Expenses	10,809	10,498	3,494	7,015	13,695
Net Profit from Continued Operations	51,743	30,846	21,369	14,767	10,225
Net Profit	51,743	30,846	21,369	14,767	10,225
Net Profit of Controlling Interests	51,914	31,097	20,556	13,004	9,534
Net Profit of Non-controlling Int.	-171	-250	814	1,762	691

Consolidated Statements of Financial Position

(in million KRW)	2014.12.31	2015.12.31
Current Assets	798,291	975,035
Cash and Cash Equivalents	451,228	397,179
Short-term Financial Instruments	184,548	373,389
Accounts Receivable	108,431	88,829
Other Current Financial Assets	25,843	59,671
Other Current Assets	24,709	45,373
Others	3,532	10,594
Non-Current Assets	1,969,734	2,215,188
Long-term Available for Sales	25,258	30,892
Equity Method Investments	18,712	68,543
Tangible Assets	196,894	219,052
Intangible Assets	1,688,974	1,856,691
Other Non-current Financial Assets	33,702	33,177
Other Non-current Assets	6,194	6,832
Total Assets	2,768,025	3,190,223
Liabilities	227,487	298,160
Trade Payables and Non-trade Payables	109,126	89,297
Accrued Expenses	5,443	6,949
Advances from Customers	34,488	109,397
Income Taxes Payable	20,680	29,236
Other Current Liabilities	57,751	63,280
Non-Current Liabilities	77,309	304,183
Bonds	-	199,383
Defined Benefit Liabilities	3,362	8,344
Deferred Income Tax Liabilities	50,083	47,951
Other Non-Current Liabilities	23,864	48,505
Total Liabilities	304,797	602,343
Paid-in Capital	29,121	30,098
Capital Surplus	2,258,974	2,279,510
Capital Adjustments	-26,268	-9,032
Accum. Other Comprehens. Inc.	2,114	753
Retained Earnings	190,678	254,838
Non-controlling Interests	8,609	31,714
Total Equity	2,463,228	2,587,880
Total Liabilities & Equity	2,768,025	3,190,223

Employees / Subsidiaries

	(in person)							
	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15
Kakao	2,162	2,272	2,250	2,262	2,255	2,271	2,299	2,375
L Daum	1,589	1,593	1,525					
L Kakao	573	679	725					
Kakao Subsidiaries	1,059	1,089	1,217	1,269	1,348	1,413	1,447	1,725
Consolidated total	3,221	3,361	3,467	3,531	3,603	3,684	3,746	4,100

- Above number of employees include full-time and part-time employees
- Subsidiaries: Daum Global Holdings Corp, Kakao Singapore PTE. Ltd., DK CHINA Co., Ltd., DK CHINA YanJiao Co., Ltd., ImageOn Corp, Daum Game Co., Ltd., Dialod Corp., TNK Factory Co., Ltd., Buzzpia Co., Ltd. Thinkreals Corp., Lotiple Inc., Kakao Lab Corp., Sunnyloft Corp., Beijing Kakao Co., Ltd., Ultra Caption Corp., Ltd., Kakao JAPAN Corp., Kids Note Inc., K-cube Venture Fund, Kakao Venture Fund, K-cube Ventures, K Venture Group, Sellit Inc., LOCNALL Inc., KakaoFriends Inc., Daum Games Europe B.V., Ultra Interactive, Inc., Tangram Design Lab., Tangram Factory, Tangram Factory America, Inc., DK Business, DK Service, DK Techin, Path Mobile Inc., Valuepotion, Nzin, Cadac, Valuepotion Pte. LTD, Zinny Labs Corp., Aina, Supernova Eleven, Co., Ltd., Black Star Games, Co., Ltd., Red Star Games, Co., Ltd., Mmagnet Corporation, NGLE Corporation, BULLHOCsoft Corp., Podotree, Inc., About Time Corp. (Total **47** subsidiaries as of December 31, 2015)