

Kakao

May 2016 | Investor Relations

Company Mission & Business Area

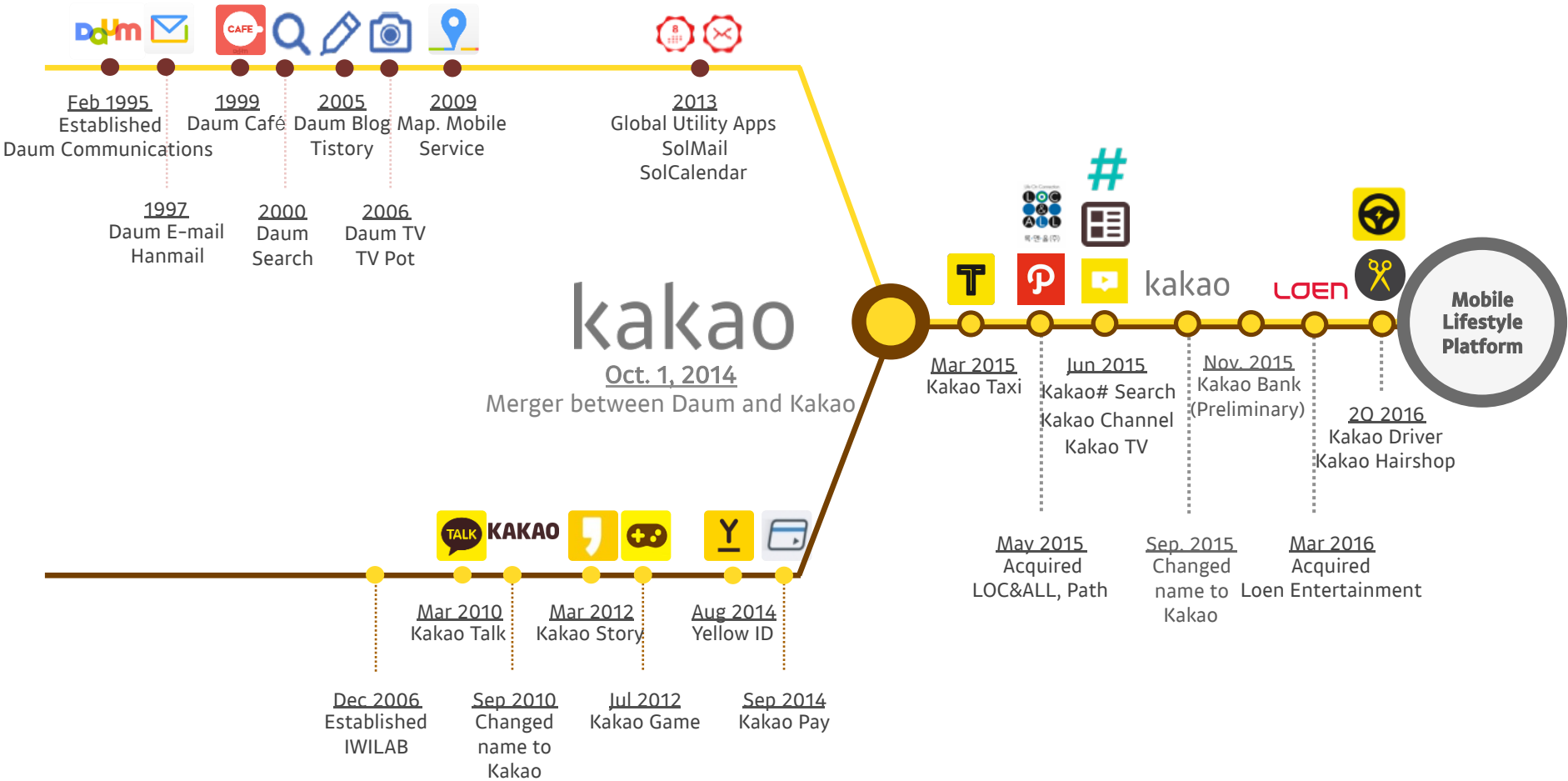


A Mobile Lifestyle Platform

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



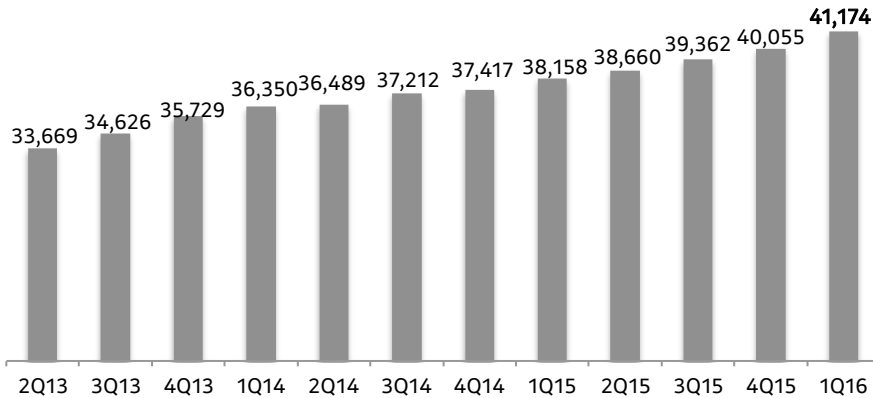
Communications



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)



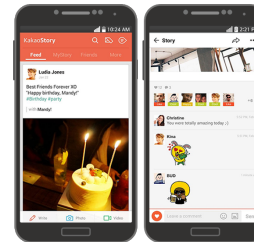
Korea 33,669 34,626 35,729 36,350 36,489 37,212 37,417 38,158 38,660 39,209 40,055 41,174

Global 46,132 48,916 50,619 50,386 48,769 48,411 48,254 48,207 48,073 48,464 48,321 49,318

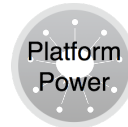


Kakao Story

- Mobile based SNS built on Kakao Talk's social graph which allows sharing of photos, videos, music and thoughts
- Recently introduced new features like hashtags, content recommendation, messages and more to widen usage spectrum
- 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
- Native/push advertisements are displayed within the Kakao Story newsfeed



10M downloads in 9 days



Platform Power proven through Kakao Story



70M registered users



32.8B comments

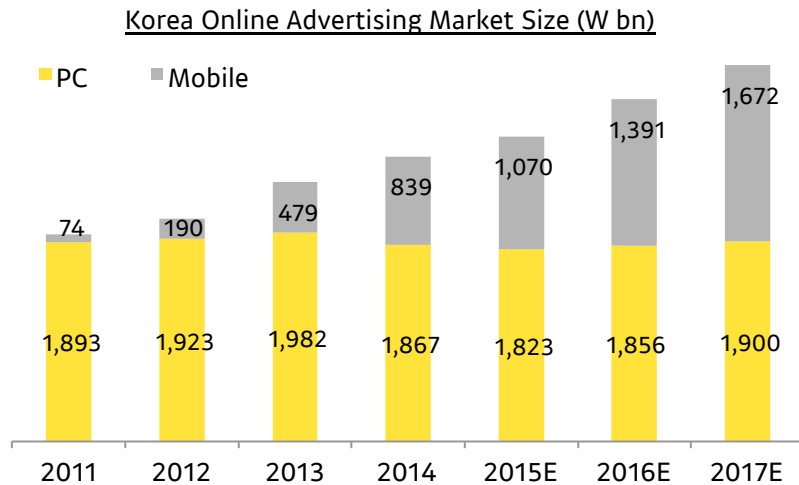


Brunch

- 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



Source: Cheil Worldwide, emarketer

Advertising Products

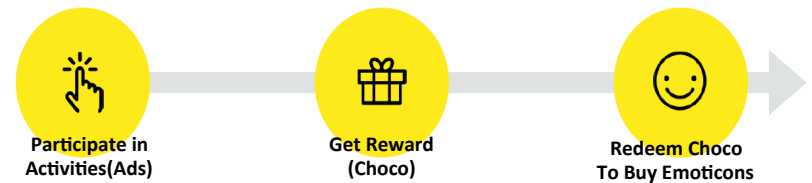
Performance Advertising	Search ^(D) , Ad@m ^(D) , DDN ^(D) , Local ^(D) , Kakao Story, Kakao Talk Rewards
Brand Advertising	Display ^(D) , Shopping How ^(D) , Kakao Talk Plus Friends, Yellow ID, Brand Emoticon, Kakao Talk PC ads Kakao Style

(D) Daum service based advertising products which account for 80% of total advertising revenue in 1Q2016

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

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

- Active user numbers, search query, and click frequency trend upward for both Sharp(#) Search and Channel Tab
- Plan to monetize in 2H2016

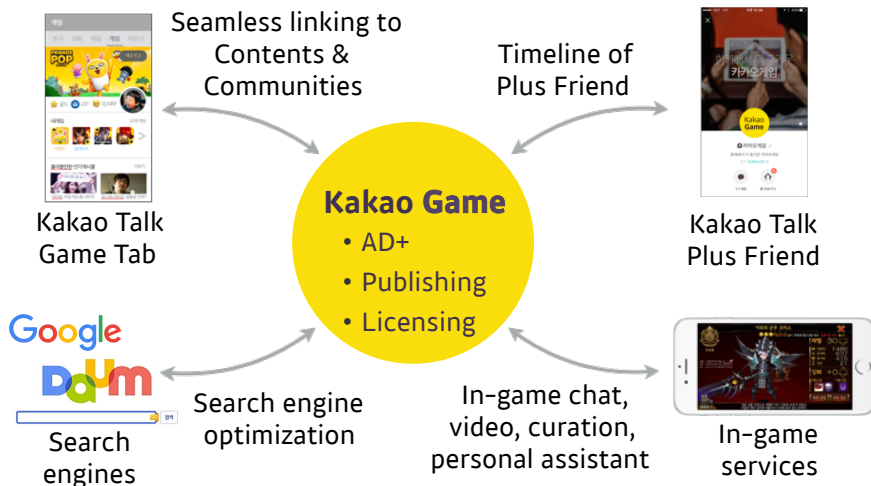
Games



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

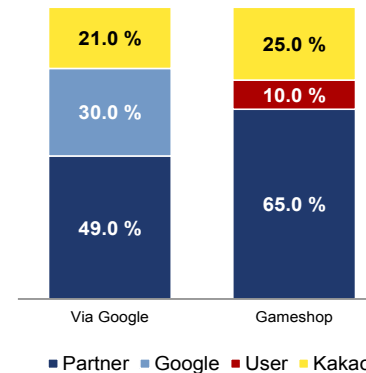
New Challenge and Change for Kakao Game in 2016



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

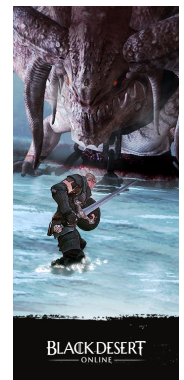
Revenue Sharing Scheme



- 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
- More than 50 games from 26 developers available

Black Desert Online

- Daum Game published Black Desert, a MMORPG developed by Korean game studio Pearl Abyss, in Korea in December 2014, and North America and Europe in March 2016
- Black Desert is a free-to-play in Korea, while in North America and Europe is a buy-to-play model
- Massively-successful in the European and North American markets with sales of 400,000 copies in the first month and an average of 100,000 concurrent users

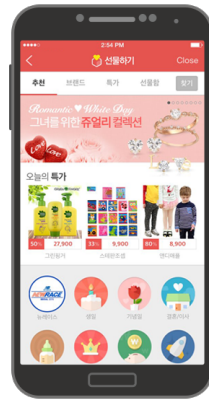


Commerce



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
- Gifts range from coffee vouchers, to electronics and fine jewelry for package delivery



MAKERS with kakao

- Makers with Kakao is our first social impact business launched in February 2016, bringing contributonal changes to society with sustainable and profitable business model
- Makers with Kakao is the post-order production platform where only the exact number of required products are produced, bringing the manufacturer's inventory to zero
 - Through the Makers with Kakao, manufacturer of unique goods first shows a sample if the product through Kakao Talk and received orders for the good prior to production. Actual production occurs only when the pre-designed minimum order quantity is reached
 - New product lineup every Tuesday 10 AM. Additional encore product lineups revealed every Thursday 10 AM

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



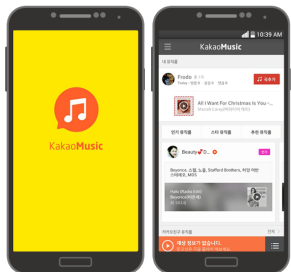
Kakao Page

- A mobile content distribution platform that helps the circulation and distribution of mobile optimized content including comics, web novels, educational content and more
- Continues to experiment with new tools and mechanisms that could help monetize content



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**



23M

Downloads

660K

Music albums created

70+

Celebrity music rooms



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
- Provides personalization features, helping users find video content of choice in the fastest manner.



Loen Entertainment

- Kakao acquired 76.4% stake in LOEN Entertainment in March 2016 to strengthen competitiveness on the content platform.
- LOEN Entertainment is the leading player in the Korean music business. Loen's business portfolio also includes a record label, a production company, talent management and commerce
- The company's B2C digital music service platform **MelOn** is a dominant music streaming service in Korea with 28mn registered members



#2 player

#3 player

UV (Unique Visitor, in person)	8,158,115	1,342,073	2,483,024
PV (Page View, in thousand)	34,051	9,735	9,487
Total Time Spent (in thousand minutes)	3,848,873	866,799	851,853

Source: Korean Click



Kakao Taxi



**Kakao Taxi
Registered Drivers**



**Daily
Calls**



**Accumulated
Calls**



**Kakao
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 100mn, 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 Driver (2Q16)

- 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 Hairshop (2Q16)

- 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

KakaoPay

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
- Added automatic credit card billing and carrier billing as means of payment, membership management, public bill payment, and the money transfer within messenger, 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



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 fintech 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
- 60% of all Korean kindergartens and daycare centers, more than 30,000 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
- 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, currently available in 3 cities including Busan and Jeonju
- 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 global coverage in 2016

1Q16 Summary Results

- 1Q2016 total revenue was 242.5bn Won, up 3.5% yoy
- 1Q2016 Mobile revenue was 152.1bn Won, accounted for 63% of total revenue, up 17% yoy and up 8% qoq

(in million KRW)

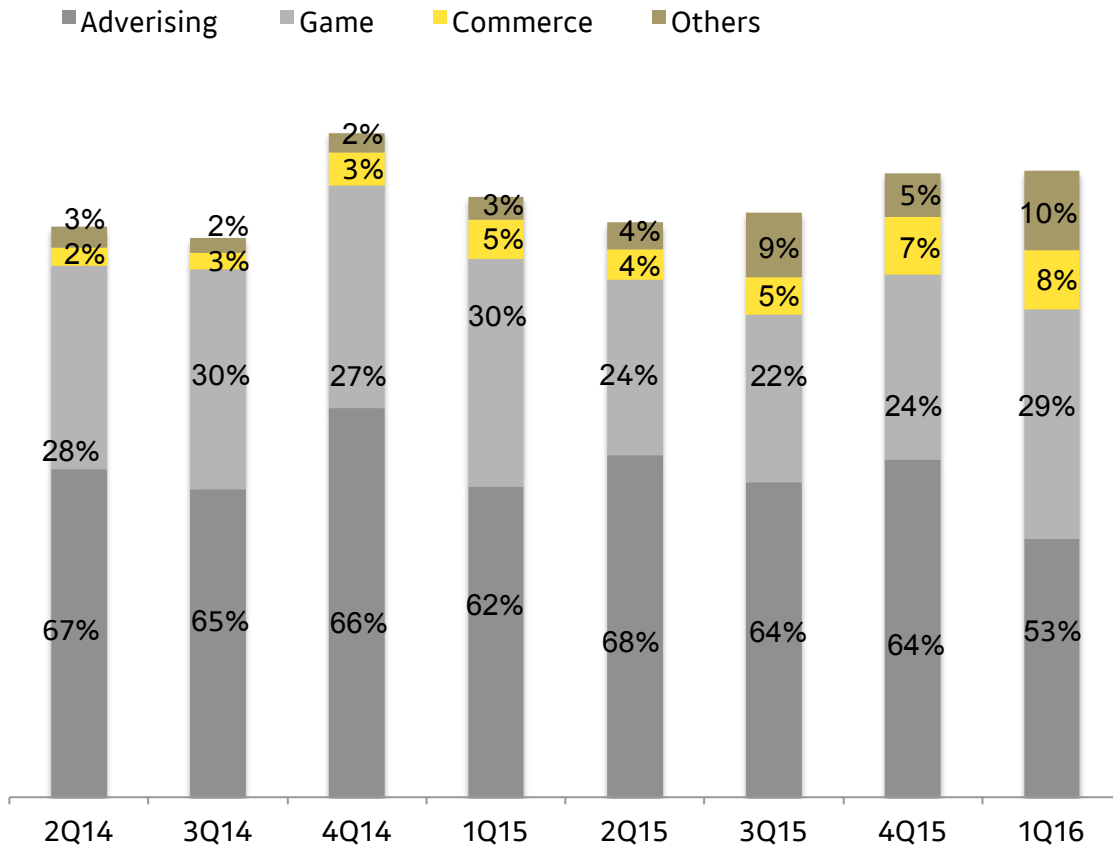
	1Q16	4Q15	QoQ Δ	QoQ %	1Q15	YoY Δ	YoY %
Total Revenue	242,483	241,698	786	0.3%	234,392	8,092	3.5%
Advertising ¹⁾	129,385	153,560	-24,175	-15.7%	145,459	-16,074	-11.1%
Game	70,315	57,019	13,296	23.3%	69,991	324	0.5%
Commerce	18,296	17,542	755	4.3%	11,819	6,477	54.8%
Others ²⁾	24,487	13,577	10,910	80.4%	7,122	17,365	243.8%
Operating Expense	221,394	221,079	315	0.1%	194,040	27,354	14.1%
Operating Income	21,090	20,619	471	2.3%	40,352	-19,262	-47.7%
<i>% of Revenue</i>	9%	9%	-	-	17%	-8%p	-
EBIT	16,656	21,554	-4,898	-22.7%	41,344	-24,688	-59.7%
Net Income	10,941	11,782	-841	-7.1%	30,846	-19,905	-64.5%
EBITDA	42,578	40,902	1,676	4.1%	57,744	-15,166	-26.3%

1) Revenues from Kakao Style and Video have been retroactively reclassified to Advertising, from Commerce and Others respectively

2) Include revenue from newly acquired Podotree.

❖ Kakao closed on the acquisition of a 76.4 percent interest in Loen Entertainment on March 16, 2016. The financial results of the subsidiary will be consolidated from 2Q2016

Quarterly Revenue by Platforms



(in million KRW)

Total	225,172	221,803	254,046	234,392	226,482	229,580	241,698	242,483
Online	116,979	111,247	119,143	104,114	107,527	98,307	101,233	90,425
Mobile	108,193	110,556	134,903	130,278	118,955	131,273	140,465	152,058

Advertising	Daum online•mobile Plus Friend/Yellow ID Brand Emoticon Kakao Story Kakao Style Video Kakao Talk PC version
Game	Kakao Game Kakao Game Shop Daum Game
Commerce	Kakao Talk Gift Shop Kakao Friends
Others	B2C Emoticon Kakao Music Kakao Page Podotree Kakao Pay & Miscellaneous

Consolidated Financial Statements

Consolidated Statements of Income

(in million KRW)	1Q15	2Q15	3Q15	4Q15	1Q16
Revenues	234,392	226,482	229,580	241,698	242,483
Advertising Platform	145,459	154,966	146,677	153,560	129,385
Game Platform	69,991	53,984	51,383	57,019	70,315
Commerce Platform	11,819	9,448	11,611	17,542	18,296
Others	7,122	8,084	19,909	13,577	24,487
Operating Expenses	194,040	215,049	213,396	221,079	221,394
Labor Costs	51,803	54,590	56,455	55,588	63,665
Fringe Benefits	9,970	17,337	12,813	10,934	10,448
Depreciation	11,455	12,333	12,375	12,937	13,005
Rental Fees	5,034	4,363	4,666	4,491	5,340
Commissions	52,645	56,381	62,876	64,775	63,439
Advertising	17,221	19,662	6,843	13,113	7,709
Bad Debt Expenses	-21	394	8	1,123	817
Amortization	5,937	5,911	7,099	7,346	8,483
Content Fees	8,452	11,398	15,626	12,695	17,369
Ad Agency Fees	24,418	26,576	27,068	27,553	22,063
Event Fees	171	312	148	560	116
Others	6,955	5,794	7,420	9,964	8,940
Operating Profit	40,352	11,434	16,184	20,619	21,090
<i>Operating Profit Margin</i>	<i>17.2%</i>	<i>5.0%</i>	<i>7.0%</i>	<i>8.5%</i>	<i>8.4%</i>
Other Revenues	1,339	9,822	6,706	7,331	3,438
Other Expenses	2,715	12,925	4,611	5,727	5,839
Financial Income	3,252	18,240	3,543	4,870	3,756
Financial Expenses	330	951	325	2,090	3,276
Equity-method Income	-553	-756	284	-3,448	-2,513
Gains on Equity Method Invest.	35	591	2,972	-147	156
Losses on Equity Method Invest.	588	1,346	2,688	3,301	2,669
Profit before Income Tax Expenses	41,344	24,863	21,782	21,554	16,656
Income Tax Expenses	10,498	3,494	7,015	9,771	5,715
Net Profit from Continued Operations	30,846	21,369	14,767	11,782	10,941
Net Profit	30,846	21,369	14,767	11,782	10,941
Net Profit of Controlling Interests	31,097	20,556	13,004	11,009	13,168
Net Profit of Non-controlling Int.	-250	814	1,762	773	-2,227

Consolidated Statements of Financial Position

(in million KRW)	2014.12.31	2015.12.31	2016.03.31
Current Assets	798,291	970,067	1,199,871
Cash and Cash Equivalents	451,228	397,177	661,677
Short-Term Financial Instruments	184,548	373,389	225,969
Accounts Receivable	108,431	88,822	149,137
Other Current Financial Assets	21,074	56,328	57,284
Other Current Assets	6,287	8,533	11,835
Others	26,725	45,818	93,969
Non-Current Assets	1,969,734	2,218,411	3,989,831
Long-Term Financial Instruments	25,258	30,951	53,902
Equity Method Investments	18,712	68,704	70,922
Tangible Assets	196,894	219,052	229,745
Intangible Assets	1,688,974	1,855,604	3,576,620
Other Non-current Fin. Assets	33,702	33,174	42,229
Other Non-current Assets	6,194	10,926	16,414
Total Assets	2,768,025	3,188,478	5,189,702
Liabilities	227,487	316,078	1,410,405
Trade and Non-trade Payables	109,126	89,506	182,118
Income Taxes Payable	20,680	29,448	47,336
Short-Term Debt	50	3,759	731,170
Derivative Liabilities	-	26,800	27,021
Other Current Liabilities	97,631	166,564	422,760
Non-Current Liabilities	77,309	286,925	362,567
Long-Term Debt	250	199,675	269,412
Deferred Income Tax Liabilities	50,083	48,636	46,084
Other Non-Current Liabilities	26,976	38,613	47,071
Total Liabilities	304,797	603,003	1,772,973
Paid-in Capital	29,121	30,098	33,770
Capital Surplus	2,258,974	2,274,186	3,035,853
Capital Adjustments	-26,268	-9,032	-10,857
Accum. Other Compreh. Inc.	2,114	829	1,930
Retained Earnings	190,678	256,313	259,446
Non-controlling Interests	8,609	33,081	96,588
Total Equity	2,463,228	2,585,475	3,416,729
Total Liabilities & Equity	2,768,025	3,188,478	5,189,702

Employees / Subsidiaries

	(in person)							
	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15	1Q16
Kakao	2,272	2,250	2,262	2,255	2,271	2,299	2,375	2,469
L Daum	1,593	1,525						
L Kakao	679	725						
Kakao Subsidiaries	1,089	1,217	1,269	1,348	1,413	1,447	1,725	1,812
Consolidated total	3,361	3,467	3,531	3,603	3,684	3,746	4,100	4,281

- 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., 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., PT. Path Mobile Indonesia, 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, NGL Corporation, BULLHOCsoft Corp., Podotree, Inc., About Time Corp., NAVIRO Co., Ltd., Linkage Lab Corp., Kakao Digital Content Fund, Kakao Game Growth Share Fund (Total **51** subsidiaries as of March 31, 2016)