

# **Kakao Corp. and Subsidiaries**

**Consolidated Financial Statements  
December 31, 2019 and 2018**

**Kakao Corp. and Subsidiaries**  
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**December 31, 2019 and 2018**

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## **Independent Auditor's Report**

(English Translation of a Report Originally Issued in Korean)

To the Shareholders and Board of Directors of  
Kakao Corp.

### **Opinion**

We have audited the accompanying consolidated financial statements of Kakao Corp. and its subsidiaries (collectively the "Company"), which comprise the consolidated statements of financial position as at December 31, 2019 and 2018, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards as adopted by the Republic of Korea (Korean IFRS).

### **Basis for Opinion**

We conducted our audits in accordance with Korean Standards on Auditing. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements of the Republic of Korea that are relevant to our audit of the consolidated financial statements and we have fulfilled our other ethical responsibilities in accordance with the ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

## ***A. Recognition of revenue from Search and Moment advertising***

### **Key Audit Matter**

We considered its size of an amount and complexity of Search and Moment advertising amounting to ₩ 471.9 billion incurred in 2019. Revenue from Search and Moment advertising depends on the terms of the contracts with a number of advertisers and advertising agency, and the amount of revenue from Search and Moment advertising of the Company is determined and recorded in a financial system through a complex process based on large amounts of data including a number of customer information and various contract terms aggregated in the sales system (Note 2). There is a potential risk that the amount of revenue was improperly recognized due to such complex process and large amounts of data. As a result, we determined that there is a significant risk in relation to the occurrence of the revenue from Search and Moment advertising.

### **How our audit addressed the Key Audit Matter**

We have performed the following audit procedures to assess the appropriateness of accounting for recognition of revenue from Search and Moment advertising of the Company:

- Obtained understanding of and evaluated accounting policies and controls of the Company regarding recognition of revenue from Search and Moment advertising
- Examined the appropriateness of control activity procedures for general computer control activities on the operating system (program change, security, computer operation, and other)
- Examined the appropriateness of the control for monitoring the non-charged amounts in the operating system by testing samples
- Examined the accuracy of the charged amounts in the operating system through an independent re-execution
- Examined the appropriateness of the control in relation to a pre-approval in the change of data by testing samples and investigating the relevant evidence documents
- Reconciled the amount of revenue recorded in the operating system to the amount of revenue recognized in the financial accounting system
- Examined the accuracy of recognized amount of operating income through screening of evidence documents

## ***B. Impairment of goodwill of cash-generating units of internet portal service including other services and music service***

### **Key Audit Matter**

As at December 31, 2019, goodwill of cash-generating unit of internet portal service and other services amounts to ₩ 1,081,856 million and goodwill of cash-generating units of music service amounts to ₩ 868,551 million (Note 19). The Company performed the impairment tests on the above goodwill using value-in-use calculations based on the discounted cash flow (Note 3). We determined accounting for the above goodwill as a key audit matter due to its significant size (₩1,950,407 million) and because

the value-in-use involves management's significant judgements and estimates about discount rate, growth rate and future cash flow forecasts.

### **How our audit addressed the Key Audit Matter**

We performed the following key audit procedures for the impairment tests on the above goodwill

- Obtained an understanding of the Company's policy, procedures and internal controls in relation to accounting for impairment on goodwill
- Evaluated the adequacy of valuation model used by management to estimate value-in-use
- Evaluated the eligibility and independence of an external specialist hired by the company
- Evaluated internal control for the management's review and approval in relation to future cash flow estimates and evaluation for impairment tests
- Evaluated whether future cash flow is reasonably estimated based on a business plan reported to management
- Evaluated the reasonableness of key assumptions used to estimate value-in-use
- Evaluated the results of a sensitivity analysis on the discount rates and the perpetual growth rates performed by management to assess the impact of changes in key assumptions on the impairment tests

### **Other Matter**

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

### **Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements**

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

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

## **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Korean Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Korean Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Company audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Bum-Tak Lee, Certified Public Accountant.

Seoul, Korea  
March 17, 2020

This report is effective as at March 17, 2020, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

**Kakao Corp. and Subsidiaries**  
**Consolidated Statements of Financial Position**  
**December 31, 2019 and 2018**

(in millions of Korean won)

	Notes	2019	2018
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	4,5,7,8,37 ₩	1,918,225	₩ 1,247,013
Short-term financial instruments	4,5,7,8	207,767	924,215
Financial assets at fair value through profit or loss	5,7,10	49,512	25,781
Derivative financial assets	4,5,7,10,26	1,112	1,174
Trade receivables	4,5,7,10	157,221	193,669
Other current financial assets	4,5,7,10	252,486	207,656
Inventories	15	49,450	35,836
Other current assets	14	193,921	223,605
		<u>2,829,694</u>	<u>2,858,950</u>
<b>Non-current assets</b>			
Long-term financial instruments	4,5,7,8	50,062	50,689
Financial assets at fair value through profit or loss	4,5,7,10	127,148	104,846
Financial assets at fair value through other comprehensive income	4,5,7,10	419,265	329,345
Investments in associates and joint venture	16	978,944	305,188
Other non-current financial assets	4,5,7,10	92,355	58,321
Property and equipment	17	349,818	314,812
Intangible assets	19	3,548,416	3,865,265
Investment property	18	2,843	-
Right-of-use assets	20,42	227,458	-
Other non-current assets	14	50,548	16,412
Deferred income tax assets	24	60,703	55,716
		<u>5,907,561</u>	<u>5,100,592</u>
<b>Total assets</b>		<u>₩ 8,737,256</u>	<u>₩ 7,959,542</u>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Trade and other payables	4,5,7,12 ₩	578,567	₩ 460,813
Short-term borrowings	4,5,7,21	448,596	609,480
Deposits received	4,5,7,13	299,564	129,889
Other current financial liabilities	4,5,7,13	25,256	20,526
Income tax payable		68,348	71,040
Provisions	25	7,081	3,636
Derivative financial liabilities	5,7,26	18,290	13,916
Short-term lease liabilities	4,20,42	68,077	-
Other current liabilities	14	919,543	729,896
		<u>2,433,322</u>	<u>2,039,196</u>

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



**Kakao Corp. and Subsidiaries**  
**Consolidated Statements of Financial Position**  
**December 31, 2019 and 2018**

<i>(in millions of Korean won)</i>	<b>Notes</b>	<b>2019</b>	<b>2018</b>
<b>Non-current liabilities</b>			
Non-current trade and other payables	4,5,7,12	32,872	389
Long-term borrowings	4,5,7,21	72,269	44,995
Non-current provisions	25	14,844	7,611
Non-current derivative financial liabilities	5,7,26	7,372	-
Long-term lease liabilities	4,20,42	164,989	-
Net defined benefit liabilities	22	3,555	2,822
Other long-term employee benefits liabilities	23	43,592	40,156
Deferred income tax liabilities	24	141,056	151,228
Other non-current financial liabilities	4,5,7,13	62,843	45,869
Other non-current liabilities	14	20,424	118
		<u>563,816</u>	<u>293,188</u>
<b>Total liabilities</b>		<u>₩ 2,997,138</u>	<u>₩ 2,332,385</u>
<b>Equity</b>			
Share capital	1,27	₩ 43,161	₩ 41,744
Share premium	27	5,043,199	4,647,543
Other component of equity	29	7,238	1,492
Accumulated other comprehensive loss	30	(16,393)	(7,329)
Retained earnings	31	148,154	453,400
Equity attributable to owners of the Parent Company		<u>5,225,359</u>	<u>5,136,851</u>
Non-controlling interest		<u>514,759</u>	<u>490,307</u>
<b>Total equity</b>		<u>5,740,118</u>	<u>5,627,158</u>
<b>Total liabilities and equity</b>		<u>₩ 8,737,256</u>	<u>₩ 7,959,542</u>

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

**Kakao Corp. and Subsidiaries**  
**Consolidated Statements of Comprehensive Income**  
**Years Ended December 31, 2019 and 2018**

	Note	2019	2018
<i>(in millions of Korean won, except per share amounts)</i>			
<b>Revenue</b>	6 ₩	3,070,111	₩ 2,416,992
<b>Operating expenses</b>	32	2,861,514	2,340,959
Bad debt expense	41	1,811	3,084
<b>Operating income</b>		206,786	72,949
Other non-operating income	33	73,755	74,531
Other non-operating expenses	33	521,412	85,772
Finance income	34	70,386	112,453
Interest income		31,700	41,783
Other finance income		38,686	70,670
Finance costs	34	44,000	50,143
Share of income of associates and joint venture	16	11,490	32,257
Share of loss of associates and joint venture	16	31,261	25,605
<b>Profit (loss) before income tax</b>		(234,257)	130,670
Income tax expense	24	107,668	114,781
<b>Profit (loss) for the year</b>		(341,925)	15,889
<b>Profit (loss) is attributable to:</b>			
Equity holders of the Parent Company		(301,003)	47,886
Non-controlling interest		(40,922)	(31,997)
<b>Other comprehensive income (loss)</b>			
Items not to be reclassified subsequently to profit or loss:			
Remeasurement of net defined benefit liabilities		(6,452)	(2,680)
Gain (loss) on valuation of equity instruments at fair value through other comprehensive income		(532)	6,870
Revaluation surplus		222	-
Items to be reclassified subsequently to profit or loss:			
Gain on valuation of debt instruments at fair value through other comprehensive income		-	142
Share of other comprehensive loss of associates, net of tax		(3,547)	(36)
Foreign currency translation adjustments, net of tax		6,151	4,038
<b>Other comprehensive income (loss) for the year, net of tax</b>		(4,158)	8,334
<b>Total comprehensive income (loss) for the year</b>		₩ (346,082)	₩ 24,223
<b>Total comprehensive income (loss) for the year is attributable to:</b>			
Equity holders of the Parent Company	₩	(304,258)	₩ 59,297
Non-controlling interest		(41,825)	(35,074)
<b>Earnings (loss) per share to the equity holders of the Parent Company</b>			
Basic earnings (loss) per share	35 ₩	(3,776)	₩ 623
Diluted earnings (loss) per share	35	(3,776)	614

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

**Kakao Corp. and Subsidiaries**  
**Consolidated Statements of Changes in Equity**  
**Years Ended December 31, 2019 and 2018**

(in millions of Korean won)	Note	Attributable to equity holders of the Parent Company						Non-controlling Interest	Total Equity
		Share Capital	Share Premium	Other Components of Equity	Accumulated Other Comprehensive Income (loss)	Retained Earnings	Total		
<b>Balance at January 1, 2018</b>		₩ 34,004	₩ 3,603,587	₩ (6,026)	₩ (4,968)	₩ 402,542	₩ 4,029,139	₩ 433,783	₩ 4,462,923
<b>Cumulative effect of change in accounting policy</b>		-	-	-	(13,773)	13,022	(751)	532	(219)
<b>Balance at January 1, 2018 (adjusted)</b>		₩ 34,004	₩ 3,603,587	₩ (6,026)	₩ (18,741)	₩ 415,565	₩ 4,028,389	₩ 434,316	₩ 4,462,704
<b>Comprehensive income :</b>									
Profit (loss) for the year		-	-	-	-	47,886	47,886	(31,997)	15,889
Foreign currency translation adjustments, net of tax	30	-	-	-	3,817	-	3,817	221	4,038
Share of other comprehensive loss of associates, net of tax	30	-	-	-	(36)	-	(36)	-	(36)
Gain (loss) on valuation of equity instruments at fair value through other comprehensive income	30	-	-	-	9,654	-	9,654	(2,784)	6,870
Gain on valuation of debt instruments at fair value through other comprehensive income	30	-	-	-	142	-	142	-	142
Remeasurement of employee benefits	22,30	-	-	-	(2,165)	-	(2,165)	(515)	(2,680)
<b>Total comprehensive income for the year</b>		-	-	-	11,411	47,886	59,297	(35,074)	24,223
<b>Transactions with equity holders:</b>									
Exercise of stock options	27,28	50	1,053	(228)	-	-	875	3,045	3,920
Share-based compensation	28	-	-	7,983	-	-	7,983	4,189	12,172
Proceeds from issues of shares		4,131	1,046,772	-	-	-	1,050,902	-	1,050,902
Conversion of convertible bonds	21,27	13	2,976	-	-	-	2,989	-	2,989
Cash dividends and distribution of investments		-	-	-	-	(10,050)	(10,050)	(3,420)	(13,470)
Change in ownership interest over subsidiaries		-	(3,534)	-	-	-	(3,534)	30,908	27,374
Merger with subsidiary		3,546	(3,310)	(236)	-	-	-	-	-
Change in scope of consolidation		-	-	-	-	-	-	56,343	56,343
<b>Total transactions with equity holders</b>		7,740	1,043,957	7,518	-	(10,050)	1,049,165	91,066	1,140,231
<b>Balance at December 31, 2018</b>		₩ 41,744	₩ 4,647,543	₩ 1,492	₩ (7,329)	₩ 453,400	₩ 5,136,851	₩ 490,307	₩ 5,627,158

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

**Kakao Corp. and Subsidiaries**  
**Consolidated Statements of Changes in Equity**  
**Years Ended December 31, 2019 and 2018**

(in millions of Korean won)	Note	Attributable to equity holders of the Parent Company						Non-controlling Interest	Total Equity
		Share Capital	Share Premium	Other Components of Equity	Accumulated Other Comprehensive Income (loss)	Retained Earnings	Total		
<b>Balance at January 1, 2019</b>		₩ 41,744	₩ 4,647,543	₩ 1,492	₩ (7,329)	₩ 453,400	₩ 5,136,851	₩ 490,307	₩ 5,627,158
<b>Comprehensive income :</b>									
Loss for the year		-	-	-	-	(301,003)	(301,003)	(40,922)	(341,925)
Foreign currency translation adjustments, net of tax	30	-	-	-	5,409	-	5,409	742	6,151
Share of other comprehensive loss of associates, net of tax	30	-	-	-	(3,600)	-	(3,600)	53	(3,547)
Changes in revaluation surplus	30	-	-	-	222	-	222	-	222
Gain (loss) on valuation of financial instruments at fair value through other comprehensive income	30	-	-	-	217	-	217	(749)	(532)
Reclassification of gain on valuation of financial instruments at fair value through other comprehensive income	30	-	-	-	(5,809)	5,809	-	-	-
Remeasurement of employee benefits	22,30	-	-	-	(5,502)	-	(5,502)	(950)	(6,452)
<b>Total comprehensive income for the year</b>		-	-	-	(9,064)	(295,194)	(304,258)	(41,825)	(346,082)
<b>Transactions with equity holders:</b>									
Exercise of stock options	27,28	192	34,788	(4,615)	-	-	30,364	745	31,108
Share-based compensation	28	-	-	10,361	-	-	10,361	11,083	21,444
Proceeds from issues of shares	27	1,089	298,847	-	-	-	299,936	-	299,936
Conversion of convertible bonds	21,27	137	32,399	-	-	-	32,536	-	32,536
Cash dividends	36	-	-	-	-	(10,053)	(10,053)	(200)	(10,253)
Change in ownership interest over subsidiaries		-	29,622	-	-	-	29,622	94,400	124,021
Change in scope of consolidation		-	-	-	-	-	-	(39,750)	(39,750)
<b>Total transactions with equity holders</b>		1,417	395,655	5,746	-	(10,053)	392,766	66,277	459,043
<b>Balance at December 31, 2019</b>		₩ 43,161	₩ 5,043,199	₩ 7,238	₩ (16,393)	₩ 148,154	₩ 5,225,359	₩ 514,759	₩ 5,740,118

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

**Kakao Corp. and Subsidiaries**  
**Consolidated Statements of Cash Flows**  
**Years Ended December 31, 2019 and 2018**

(in millions of Korean won)

	Note	2019	2018
<b>Cash flows from operating activities</b>			
Cash generated from operations	37 ₩	831,143 ₩	608,033
Interest received		38,171	35,898
Interest paid		(11,381)	(11,532)
Dividend received		5,329	381
Income tax paid		(110,595)	(141,310)
<b>Net cash inflow from operating activities</b>		<b>752,667</b>	<b>491,470</b>
<b>Cash flows from investing activities</b>			
Decrease (increase) in short-term financial instruments		593,555	(514,098)
Decrease (increase) in long-term financial instruments		1	(38,432)
Purchase of property and equipment		(106,364)	(97,197)
Disposal of property and equipment		7,109	11,926
Purchase of intangible assets		(62,337)	(49,084)
Disposal of intangible assets		7,011	3,724
Acquisition of financial assets at fair value through profit or loss		(88,952)	(60,769)
Disposal of financial assets at fair value through profit or loss		168,679	12,016
Acquisition of financial assets at fair value through other comprehensive income		(331,689)	(240,039)
Disposal of financial assets at fair value through other comprehensive income		3,910	1,486
Acquisition of associates and joint ventures		(453,986)	(155,618)
Disposal of associates and joint ventures		38,965	13,973
Acquisition of subsidiaries and in scope of consolidation, net of cash acquired		(111,221)	(114,638)
Disposal of subsidiaries and in scope of consolidation, net of cash acquired		(27,227)	(5,659)
Increase in other financial assets		(23,716)	(2,419)
Decrease in other financial assets		5,626	4,768
Increase in other non-current financial assets		(35,430)	(14,997)
Decrease in other non-current financial assets		2,414	7,401
Other cash outflow from investing activities		(536)	(23,066)
<b>Net cash outflow from investing activities</b>		<b>(414,187)</b>	<b>(1,260,722)</b>
<b>Cash flows from financing activities</b>			
Proceeds from short-term borrowings		318,131	33,053
Repayments of short-term borrowings		(344,379)	(172,403)
Proceeds from long-term borrowings		38,043	7,987
Repayments of long-term borrowings		(1,124)	(4,758)
Proceeds from exchangeable bonds		8,040	-
Repayments of bonds		(110,000)	-
Principal elements of lease payments		(43,045)	-
Proceeds from issues of shares		299,936	1,050,902
Exercise of stock options		31,108	3,920
Payments of dividends		(10,253)	(12,044)
Acquisition of treasury shares		-	(236)
Acquisition of non-controlling interests		-	(226,963)
Distribution of investments		-	(1,426)
New shares issued by subsidiaries (to non-controlling interest shareholders)		135,218	212,509
Other cash flows from financing activities		529	(24)
<b>Net cash inflow from financing activities</b>	₩	<b>322,204 ₩</b>	<b>890,517</b>

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

**Kakao Corp. and Subsidiaries**  
**Consolidated Statements of Cash Flows**  
**Years Ended December 31, 2019 and 2018**

<i>(in millions of Korean won)</i>	<b>Note</b>	<b>2019</b>	<b>2018</b>
<b>Net increase in cash and cash equivalents</b>	₩	660,684	₩ 121,265
Effect of exchange rate changes on cash and cash equivalents		10,528	8,955
Cash and cash equivalents at the beginning of year		1,247,013	1,116,793
<b>Cash and cash equivalents at the end of year</b>	₩	<u>1,918,225</u>	<u>₩ 1,247,013</u>

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

# Kakao Corp. and Subsidiaries

## Notes to the Consolidated Financial Statements

### December 31, 2019 and 2018

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#### 1. General Information

Kakao Corp. (the “Parent Company”) has prepared the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the Republic of Korea (“Korean IFRS”) 1110, *Consolidated Financial Statements*, and its consolidated subsidiaries include Daum Global Holdings and 101 entities.

##### 1.1 The Company

General information about Kakao Corp. and its subsidiaries (collectively, the “Company”) is as follows:

The Parent Company was incorporated in February 1995 and provides advertising services, contents offerings including Emoticons, games and music, and other online services through its online platforms.

The Parent Company was listed on the KOSDAQ market in Korea on November 9, 1999 and was transferred to the KOSPI market in Korea on July 10, 2017.

The Parent Company’s headquarter is located in Youngpyong-dong, Jeju City, in Jeju Province, Korea. As at December 31, 2019, the Parent Company’s share capital amounted to ₩ 43,161 million and the Parent Company’s shareholders are as follows:

	Number of shares	Percentage of ownership (%)
Kim Bum Soo	12,514,461	14.5
K Cube Holdings Co., Ltd.	9,939,467	11.5
National Pension Service	7,907,180	9.2
MAXIMO PTE. LTD.	5,599,849	6.5
Other related parties	221,981	0.3
Others	45,806,206	53.1
	81,989,144	95.1
Treasury shares	4,233,492	4.9
	86,222,636	100.0

# Kakao Corp. and Subsidiaries

## Notes to the Consolidated Financial Statements

### December 31, 2019 and 2018

Details of the consolidated subsidiaries as at December 31, 2019, are as follows:

(in millions of Korean won, except  
number of shares)

Subsidiaries	Share Capital	Primary Business	Location	Fiscal Year End	Number of shares	Percentage of ownership (%)
Daum Global Holdings	₩ 2,554	Holding company	Korea	December 31	510,810	100.0
PATH MOBILE INC. PTE. LTD.	59,734	Service operations	Singapore	December 31	82,284,405	100.0
PT. Path Mobile Indonesia <sup>16</sup>	11,214	Service operations	Indonesia	December 31	9,903,818	100.0
KnWorks Co., Ltd. (formerly, DK Service) <sup>29</sup>	511	Service operations	Korea	December 31	102,136	100.0
DK Techin	1,500	Service operations	Korea	December 31	300,000	100.0
DK CHINA Co., Ltd	1,093	Service operations	China	December 31	1	100.0
DK CHINA Sanhe Co., Ltd <sup>2</sup>	175	Service operations	China	December 31	1	100.0
Buzzpia Company	194	Mobile services	Korea	December 31	38,878	100.0
Beijing KAKAO Co., Ltd.	20,483	Software development and services	China	December 31	18,839,700	99.9
Acciio Inc.	198	Software development and services	Korea	December 31	200,323	50.5
KIWI PLUS	1,907	Software development and sales	Korea	December 31	2,113,526	53.1
Kakao Commerce Corp.	2,425	Wholesale and retail sales and services	Korea	December 31	24,188,513	99.7
LOC&ALL. INC.	611	Software development and services	Korea	December 31	122,231	100.0
LINKAGE LAB Co., Ltd.	149	Services	Korea	December 31	29,851	100.0
KAKAO_CCVC Jeju Creative Economy Innovative Fund	2,000	Investment/Holding company	Korea	December 31	190	95.0
KAKAO BRAIN Corp.	213	Software development	Korea	December 31	400,000	93.9
KAKAO JAPAN Corp.	51,984	Software development and services	Japan	December 31	876,620	99.4
DK CORPORATION <sup>3</sup>	30	Telemarketing and information service and others	Japan	December 31	300	100.0
Piccomics corp.(formerly, ZUBON Inc.) <sup>3</sup>	618	Electronic publication design, manufactures and sales and others	Japan	December 31	11,000	100.0
Kakao Investment Co., Ltd.	22,016	Investment/Holding company	Korea	December 31	2,201,614	100.0
K Venture Group CO., LTD. <sup>4</sup>	100	Investment/Holding company	Korea	December 31	10,000	100.0
Kids Note Co., Ltd. <sup>4</sup>	117	Software development and services	Korea	December 31	30,069	88.1
TNK Factory <sup>4</sup>	1,180	Mobile advertisement platform operations	Korea	December 31	2,360,390	71.5
KI SG PTE. LTD <sup>4</sup>	1,313	Holding company	Singapore	December 31	1,100,000	100.0
STAGEFIVE CO., LTD. (formerly, Pinplay) <sup>4</sup>	4,375	Software development and services	Korea	December 31	468,172	53.5
Kakao Ventures Corp.	18,511	Holding company	Korea	December 31	3,702,216	100.0
K Cube Venture Fund no.1 <sup>6</sup>	2,312	Investment/Holding company	Korea	December 31	140	60.6
KAKAO Venture Fund <sup>6,27</sup>	27,000	Investment/Holding company	Korea	December 31	102	36.7
Kakao digital contents Fund <sup>6,27</sup>	34,874	Investment/Holding company	Korea	December 31	150	40.4
Kakao Game Growth Share Fund <sup>6</sup>	30,000	Investment/Holding company	Korea	December 31	300	100.0
KAKAO IX Corp.	1,600	Contents sales	Korea	December 31	160,000	100.0
KAKAO IX JAPAN Corp. <sup>7</sup>	5,214	Wholesale and retail sales	Japan	December 31	100,000	100.0
KAKAO IX CHINA Co.,LTD. <sup>7</sup>	5,152	Wholesale and retail sales	China	December 31	4,500,000	100.0
Kakao Page Corp. <sup>28</sup>	9,724	Software development and services	Korea	December 31	12,355,363	63.6
Kakao PAGE PTE. LTD. <sup>8</sup>	825	Mobile marketing service	Singapore	December 31	985,443	100.0
SamyangCNC Co.,Ltd. <sup>8</sup>	50	Publishing and e-commerce	Korea	December 31	7,000	70.0
NeoBazar Inc. <sup>8</sup>	892	Software development and services	Korea	December 31	160,082	87.5
PT. Neo Bazar Indonesia <sup>9</sup>	1,814	Software development and services	Indonesia	December 31	1,597	99.8



# Kakao Corp. and Subsidiaries

## Notes to the Consolidated Financial Statements

### December 31, 2019 and 2018

(in millions of Korean won, except  
number of shares)

Subsidiaries	Share Capital	Primary Business	Location	Fiscal Year End	Number of shares	Percentage of ownership (%)
Daon Creative inc <sup>8</sup>	283	Publishing, video production, broadcasting communication and information service	Korea	December 31	39,748	70.2
Beijing Da Yun cultural Communication Co.,LTD. <sup>10</sup>	173	Electronic publication and services	China	December 31	200,000	100.0
Kakao Games Corp. <sup>28</sup>	5,583	Game development and services	Korea	December 31	33,730,000	60.6
NGLE CORPORATION <sup>12</sup>	205	Game development and services	Korea	December 31	210,000	51.2
Friendsgames Co.,Ltd. <sup>11</sup>	795	Game development and services	Korea	December 31	6,937,430	82.4
SONNORI CORP. <sup>12</sup>	280	Services	Korea	December 31	525,410	66.7
Toonnori Corp. <sup>13</sup>	510	Services	Korea	December 31	52,000	51.0
Kakao Games Europe B.V. <sup>11</sup>	1,296	Game development and services	Netherlands	December 31	1,000,000	100.0
Kakao Games USA. Inc. <sup>14</sup>	2,305	Game development and services	USA	December 31	500,000	100.0
Kakao Games Japan Corp. <sup>11</sup>	2,024	Game development and services	Japan	December 31	2,000,000	100.0
Kakao VX <sup>11</sup>	9,427	Service operations	Korea	December 31	1,885,333	89.7
TAESIK MAUMGOLF CO.,LTD. <sup>15</sup>	578	Service operations	China	December 31	1	100.0
GSWING SPORTING GOODS CO., LTD. <sup>15</sup>	574	Service operations	China	December 31	1	100.0
Kakao M Corp.	3,857	Manufactures and services	Korea	December 31	6,927,740	89.8
STARSHIP ENTERTAINMENT CORP. <sup>16,28</sup>	62	Entertainment management	Korea	December 31	7,464	59.7
HIGHLINE ENTERTAINMENT <sup>17</sup>	100	Entertainment management	Korea	December 31	154,000	77.0
Play M Entertainment Corp. (formerly, PLAN A ENTERTAINMENT) <sup>16</sup>	50	Entertainment management	Korea	December 31	10,000	100.0
E&T Story Entertainment <sup>16</sup>	25	Entertainment management	Korea	December 31	30,000	60.0
Cre.ker Entertainment Co., Ltd. <sup>16</sup>	200	Entertainment management	Korea	December 31	32,000	80.0
GRAYGO (formerly, Krispy Studio Corporation) <sup>16</sup>	425	Mobile video contents production	Korea	December 31	850,000	100.0
Mega Monster Corporations <sup>16</sup>	13,700	Software development and services	Korea	December 31	24,400,000	89.1
J,WIDE-COMPANY <sup>16</sup>	53	Services	Korea	December 31	105,883	100.0
READY ENTERTAINMENT <sup>16</sup>	450	Services	Korea	December 31	90,000	100.0
READY ENTERTAINMENT (Shanghai) CO., LTD. <sup>19</sup>	83	Entertainment	China	December 31	500,000	100.0
BH Entertainment <sup>16</sup>	574	Services	Korea	December 31	114,815	100.0
SOOP ENTERTAINMENT CO., LTD <sup>16,30</sup>	1,410	Entertainment	Korea	December 31	280,200	99.4
Kakao Mobility Corp. <sup>28</sup>	2,394	Software development and services	Korea	December 31	16,590,000	69.3
Parking Square Inc. <sup>20</sup>	50	Software development and services	Korea	December 31	162,502	100.0
Kakaopay Corp. <sup>28</sup>	9,494	Software development and services	Korea	December 31	11,563,447	60.9
Kakao G Corp.	10,065	Software development and services	Japan	December 31	10,000,000	100.0
Ground X Corp. <sup>23</sup>	6,063	Software development	Japan	December 31	9,278,662	92.8
Ground1 Corp. <sup>24</sup>	4,967	Wholesale and retail sales and e-commerce	Korea	December 31	10,000,000	100.0
Panzea Pte. Ltd. <sup>23</sup>	1,143	Software development	Singapore	December 31	1,026,000	100.0
Klaytn Pte. Ltd. <sup>25</sup>	1,033	Software development	Singapore	December 31	100,000	100.0
KAKAO IX UK, LTD. <sup>1,7</sup>	997	Retail sales	UK	December 31	660,000	100.0
KAKAO IX USA, LTD. <sup>1,7</sup>	1,182	Retail sales	USA	December 31	1,000,000	100.0
KAKAO IX HK, LTD. <sup>1,7</sup>	53	Retail sales	Hong Kong	December 31	350,000	100.0
Life MMO Corp. <sup>1,31</sup>	1,000	Services	Korea	December 31	199,999	100.0

# Kakao Corp. and Subsidiaries

## Notes to the Consolidated Financial Statements

### December 31, 2019 and 2018

(in millions of Korean won, except  
number of shares)

Subsidiaries	Share Capital	Primary Business	Location	Fiscal Year End	Number of shares	Percentage of ownership (%)
Add Page Corp. <sup>1,32</sup>	5,000	Software development and services	Korea	December 31	1,000,000	100.0
AWINS <sup>5</sup>	136	Wholesale toys and hobbies and playthings	Korea	December 31	20,000	73.3
Partner Co.,Ltd. <sup>26</sup>	32	Software development and services	Korea	December 31	322,816	100.0
AWESOMEENT CO. LTD.. <sup>16</sup>	500	Management service	Korea	December 31	100,000	100.0
moonlight film <sup>16,27</sup>	1	Movies, videos, and broadcast programs production	Korea	December 31	820	41.0
sanai pictures <sup>16</sup>	2	Movies, videos, and broadcast programs production	Korea	December 31	1,620	81.0
VAST.CO.,Ltd. <sup>16</sup>	50	Management service	Korea	December 31	10,000	100.0
FLEX M Corp <sup>1,16</sup>	50	Management service	Korea	December 31	100,000	100.0
SHOWNOTE Inc. <sup>17</sup>	324	Performance planning	Korea	December 31	64,883	100.0
Mezondbaha Corp. <sup>18</sup>	10	Management service	Korea	December 31	2,000	100.0
CMNP Corp. <sup>1,20</sup>	559	Software development and services	Korea	December 31	1,117,000	100.0
TJ Partners Corp. <sup>1,20</sup>	762	Taxi service	Korea	December 31	1,524,000	100.0
KM Solution Corp. (formerly, Tago Solutions Corp) <sup>20</sup>	25	Commodity brokerage	Korea	December 31	5,067	100.0
Jinhwa Corp. <sup>21</sup>	693	Taxi service	Korea	December 31	138,671	100.0
KM ONE Corp. <sup>1,21</sup>	69	Taxi service	Korea	December 31	138,000	100.0
KM Two Corp. <sup>1,21</sup>	82	Taxi service	Korea	December 31	164,000	100.0
KM Three Corp. <sup>1,21</sup>	80	Taxi service	Korea	December 31	160,000	100.0
KM Four Corp. <sup>1,21</sup>	71	Taxi service	Korea	December 31	142,000	100.0
KM Five Corp. <sup>1,21</sup>	71	Taxi service	Korea	December 31	142,000	100.0
KM SIX Corp. <sup>1,21</sup>	93	Taxi service	Korea	December 31	186,000	100.0
KM Seven Corp. <sup>1,21</sup>	61	Taxi service	Korea	December 31	122,000	100.0
Donggo Taxi Corp. <sup>21</sup>	103	Taxi service	Korea	December 31	20,696	100.0
INBYU <sup>22</sup>	350	Insurance and pension service	Korea	December 31	38,980	52.5
RS MEDIA Co., Ltd. <sup>8</sup>	325	Business and intangible property rights brokerage	Korea	December 31	46,625	71.8
Soundist Entertainment.Co.,Ltd. <sup>8</sup>	3,060	Production and distribution of video and audio records	Korea	December 31	367,219	60.0
Kakao Enterprise Corp. <sup>1</sup>	6,762	Software development and services	Korea	December 31	13,524,223	100.0

<sup>1</sup> Newly established in 2019.

<sup>2</sup> As a subsidiary of Daum Service CHINA Co., Ltd., the number of shares and the percentage of ownership represent Daum Service CHINA Co., Ltd.'s ownership as at December 31, 2019.

<sup>3</sup> As a subsidiary of KAKAO JAPAN Corp., the number of shares and the percentage of ownership represent KAKAO JAPAN Corp.'s ownership as at December 31, 2019.

<sup>4</sup> As a subsidiary of Kakao Investment Co., Ltd., the number of shares and the percentage of ownership represent Kakao Investment Co., Ltd.'s ownership as at December 31, 2019.

<sup>5</sup> As a subsidiary of Kids Note Co., Ltd., the number of shares and the percentage of ownership represent Kids Note Co., Ltd.'s ownership as at December 31, 2019.

<sup>6</sup> As a subsidiary of Kakao Ventures Corp., the number of shares and the percentage of ownership represent Kakao Ventures Corp.'s ownership as at December 31, 2019.

<sup>7</sup> As a subsidiary of KAKAO IX Corp., the number of shares and the percentage of ownership represent KAKAO IX Corp.'s ownership as at December 31, 2019.

# **Kakao Corp. and Subsidiaries**

## **Notes to the Consolidated Financial Statements**

### **December 31, 2019 and 2018**

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<sup>8</sup> As a subsidiary of Kakao Page Corp., the number of shares and the percentage of ownership represent Kakao Page Corp.'s ownership as at December 31, 2019.

<sup>9</sup> As a subsidiary of NeoBazar Inc., the number of shares and the percentage of ownership represent NeoBazar Inc.'s ownership as at December 31, 2019.

<sup>10</sup> As a subsidiary of DA'ON CREATIVE, the number of shares and the percentage of ownership represent DA'ON CREATIVE's ownership as at December 31, 2019.

<sup>11</sup> As a subsidiary of Kakao Games Corp., the number of shares and the percentage of ownership represent Kakao Games Corp.'s ownership as at December 31, 2019.

<sup>12</sup> As a subsidiary of Friendsgames Co., Ltd., the number of shares and the percentage of ownership represent Friendsgames Co.,Ltd.'s ownership as at December 31, 2019.

<sup>13</sup> As a subsidiary of SONNORI CORP., the number of shares and the percentage of ownership represent SONNORI CORP.'s ownership as at December 31, 2019.

<sup>14</sup> As a subsidiary of Kakao Games Europe B.V., the number of shares and the percentage of ownership represent Kakao Games Europe B.V.'s ownership as at December 31, 2019.

<sup>15</sup> As a subsidiary of Kakao VX, the number of shares and the percentage of ownership represent Kakao VX's ownership as at December 31, 2019.

<sup>16</sup> As a subsidiary of Kakao M Corp., the number of shares and the percentage of ownership represent Kakao M Corp.'s ownership as at December 31, 2019.

<sup>17</sup> As a subsidiary of STARSHIP ENTERTAINMENT CORP., the number of shares and the percentage of ownership represent STARSHIP ENTERTAINMENT CORP.'s ownership as at December 31, 2019.

<sup>18</sup> As a subsidiary of GRAYGO (formerly, Krispy Studio Corporation), the number of shares and the percentage of ownership represent GRAYGO (formerly, Krispy Studio Corporation)'s ownership as at December 31, 2019.

<sup>19</sup> As a subsidiary of READY ENTERTAINMENT, the number of shares and the percentage of ownership represent READY ENTERTAINMENT's ownership as at December 31, 2019.

<sup>20</sup> As a subsidiary of Kakao Mobility Corp., the number of shares and the percentage of ownership represent Krispy Kakao Mobility Corp.'s ownership as at December 31, 2019.

<sup>21</sup> As a subsidiary of TJ Partners Corp., the number of shares and the percentage of ownership represent TJ Partners Corp.'s ownership as at December 31, 2019.

<sup>22</sup> As a subsidiary of Kakaopay Corp., the number of shares and the percentage of ownership represent Kakaopay Corp.'s ownership as at December 31, 2019.

<sup>23</sup> As a subsidiary of Kakao G Corp., the number of shares and the percentage of ownership represent Kakao G Corp.'s ownership as at December 31, 2019.

<sup>24</sup> As a subsidiary of Ground X Corp., the number of shares and the percentage of ownership represent Ground X Corp.'s ownership as at December 31, 2019.

<sup>25</sup> As a subsidiary of PANZEA PTE. LTD., the number of shares and the percentage of ownership represent PANZEA PTE. LTD.'s ownership as at December 31, 2019.

<sup>26</sup> As a subsidiary of Kakao Enterprise Corp., the number of shares and the percentage of ownership represent Kakao Enterprise Corp.'s ownership as at December 31, 2019.

<sup>27</sup> Classified as a subsidiary although the ownership is less than 50% as the Company is considered to have a control over the investees.

# Kakao Corp. and Subsidiaries

## Notes to the Consolidated Financial Statements

### December 31, 2019 and 2018

<sup>28</sup> In accordance with the agreements with non-controlling interests of some of the above subsidiaries, the Company should obtain a pre-approval from investors, when the Company wants to dispose of the investments in subsidiaries within the period specified in the agreements through a transfer to the third party or others methods not determined in the agreements such as exercise of tag-along right.

<sup>29</sup> During 2019, it merged with DK Service, as an existing corporation and changed name to KnWorks Co., Ltd.

<sup>30</sup> The Parent Company's ownership in subsidiary may change depending on the outcome of the lawsuit in which SOOP ENTERTAINMENT CO., LTD is involved, a subsidiary, as a defendant.

<sup>31</sup> As a subsidiary of Kakao Games Corp. and Kakao Mobility Corp., the number of shares and the percentage of ownership represent Kakao Games Corp. and Kakao Mobility Corp.'s ownership as at December 31, 2019.

<sup>32</sup> As a subsidiary of Kakao Games Corp. and Kakao Page Corp., the number of shares and the percentage of ownership represent Kakao Games Corp. and Kakao Page Corp.'s ownership as at December 31, 2019.

Subsidiaries newly included in the consolidation for the year ended December 31, 2019:

Subsidiaries	Reason
KAKAO IX UK, LTD.	Newly established
KAKAO IX USA, LTD.	Newly established
KAKAO IX HK, LTD.	Newly established
Life MMO Corp.	Newly established
Add Page Corp.	Newly established
AWINS	Included to a subsidiary through acquisition of control
Partner Co.,Ltd.	Included to a subsidiary through acquisition of control
AWESOMEENT CO. LTD..	Included to a subsidiary through acquisition of control
Moonlight film	Included to a subsidiary through acquisition of control
Sanai pictures	Included to a subsidiary through acquisition of control
VAST.CO.,Ltd.	Included to a subsidiary through acquisition of control
FLEX M Corp	Newly established
SHOWNOTE Inc.	Included to a subsidiary through acquisition of control
Mezondbaha Corp.	Included to a subsidiary through acquisition of control
CMNP Corp.	Newly established
TJ Partners Corp.	Newly established
KM Solution Corp. (formerly, Tago Solutions Co., Ltd)	Included to a subsidiary from an associate through additional acquisition
Jinhwa Corp.	Included to a subsidiary through acquisition of control
KM ONE Corp.	Newly established
KM Two Corp.	Newly established
KM Three Corp.	Newly established
KM Four Corp.	Newly established
KM Five Corp.	Newly established
KM SIX Corp.	Newly established
KM Seven Corp.	Newly established
Donggo Taxi Corp.	Included to a subsidiary through acquisition of control
INBYU	Included to a subsidiary through acquisition of control
RS MEDIA Co., Ltd.	Included to a subsidiary through acquisition of control
Soundist Entertainment.Co.,Ltd.	Included to a subsidiary through acquisition of control
Kakao Enterprise Corp.	Newly established

# Kakao Corp. and Subsidiaries

## Notes to the Consolidated Financial Statements

### December 31, 2019 and 2018

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Subsidiaries excluded from the consolidation for the year ended December 31, 2019:

Company	Reason
CASTING BOM	Merged with READY ENTERTAINMENT, a subsidiary
K-Style CORPORATION	Merged with DK CORPORATION, a subsidiary
Web Assist CORPORATION	Merged with DK CORPORATION, a subsidiary
Fave Entertainment Co., Ltd.	Merged with Play M Entertainment Corp. (formerly, PLAN A ENTERTAINMENT), a subsidiary
Nylon korea media	Disposal of investments
WIDE-S COMPANY	Disposal of investments
MOVILL Co,Ltd	Included to an associate from a subsidiary due to the designation as a special company under Financial Law
Tide Square Co., Ltd.	Included to an associate from a subsidiary due to loss of control
Polarium CO., LTD.	Included to an associate from a subsidiary due to loss of control
SQAURE LAB	Included to an associate from a subsidiary due to loss of control
CC Partners	Included to an associate from a subsidiary due to loss of control
NEXT INTERNATIONAL CO., LTD.	Included to an associate from a subsidiary due to loss of control
Playwings	Included to an associate from a subsidiary due to loss of control
Ultra Caption Corp.	Liquidation
About-time	Liquidation
Mun Hwa In Co., Ltd.	Disposal of investments
J Comics	Merged with DA'ON CREATIVE, a subsidiary
Kakao Makers Corp.	Merged with Kakao Commerce Corp., a subsidiary
DK Business	Merged with KnWorks Co., Ltd. (formerly, DK Service), a subsidiary
ImageOn Corp.	Merged with KnWorks Co., Ltd. (formerly, DK Service), a subsidiary
MTECHCREW, INC.	Merged with KnWorks Co., Ltd. (formerly, DK Service), a subsidiary

# Kakao Corp. and Subsidiaries

## Notes to the Consolidated Financial Statements

### December 31, 2019 and 2018

The summarized financial information for consolidated subsidiaries as at and for the year ended December 31, 2019, is as follows:

(in millions of Korean won)

	2019					
	Assets	Liabilities	Equity	Revenue	Profit (loss) for the year	Comprehensive income (loss)
Kakao Commerce Corp.	₩ 1,037,006	₩ 683,282	₩ 353,723	₩ 296,154	₩ 57,505	₩ 57,209
Kakao M Corp.	701,175	164,358	536,817	212,869	8,962	8,969
Kakaopay Corp.	525,804	476,754	49,050	141,069	(62,479)	(62,689)
Kakao Games Corp.	520,512	95,493	425,019	322,392	33,361	22,529
Kakao Page Corp.	381,300	43,654	337,646	248,054	6,001	5,169
Kakao Mobility Corp.	252,690	37,842	214,848	97,306	(26,437)	(26,881)
Kakao Investment Co., Ltd.	251,707	8,129	243,578	85	30,047	23,921
KAKAO IX Corp.	134,927	49,098	85,829	145,005	2,692	2,925
KAKAO JAPAN Corp.	103,822	26,040	77,782	71,664	(10,185)	(5,948)
Kakao Enterprise Corp. <sup>1</sup>	78,120	20,047	58,073	4,779	(4,796)	(4,839)
TJ Partners Corp. <sup>1</sup>	76,087	159	75,928	-	(238)	(238)
STARSHIP ENTERTAINMENT CORP.	67,400	37,330	30,070	52,241	4,018	4,018
Kakao Games Europe B.V.	61,793	25,871	35,921	82,934	(3,472)	(2,899)
Kakao VX	53,372	40,788	12,585	40,806	(7,100)	(7,595)
Klaytn Pte. Ltd.	36,827	63,197	(26,370)	-	(26,658)	(26,635)
K Cube Venture Fund no.1	32,368	254	32,114	-	10,850	10,932
Friendsgames Co.,Ltd.	27,703	9,837	17,866	7,261	(2,601)	(2,877)
Kakao Ventures Corp.	26,268	1,387	24,881	5,511	2,553	2,553
	₩ 4,368,881	₩ 1,783,520	₩ 2,585,361	₩ 1,728,129	₩ 12,022	₩ (2,374)

<sup>1</sup> The above table represents financial information since the acquisition date.

## 2. Significant Accounting Policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### 2.1 Basis of Preparation

The Company maintains its accounting records in Korean won and prepares statutory financial statements in the Korean language (Hangul) in accordance with International Financial Reporting Standards as adopted by the Republic of Korea (Korean IFRS). The accompanying consolidated financial statements have been condensed, restructured and translated into English from the Korean language financial statements.

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

## **Kakao Corp. and Subsidiaries**

### **Notes to the Consolidated Financial Statements**

#### **December 31, 2019 and 2018**

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

The financial statements have been prepared on a historical cost basis, except for the following:

- Certain financial assets and liabilities (including derivative instruments), certain classes of property and equipment and investment property – measured at fair value
- assets held for sale – measured at fair value less costs to sell, and
- defined benefit pension plans – plan assets measured at fair value.

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

## **2.2 Changes in Accounting Policy and Disclosures**

### *(a) New and amended standards adopted by the Company*

The Company has applied the following standards and amendments for the first time for their annual reporting period commencing January 1, 2019.

#### **- Enactment of Korean IFRS 1116 *Leases***

Korean IFRS 1116 *Leases* replaces Korean IFRS 1017 *Leases*. Under the new standard, with implementation of a single lease model, lessee is required to recognize assets and liabilities for all lease which lease term is over 12 months and underlying assets are not low value assets. A lessee is required to recognize a right-of-use asset and a lease liability representing its obligation to make lease payments.

With implementation of Korean IFRS 1116 *Lease*, the Company has changed accounting policy. The Company has adopted Korean IFRS 1116 retrospectively, as permitted under the specific transitional provisions in the standard, and recognized the cumulative impact of initially applying the standard as at January 1, 2019, the date of initial application. The Company has not restated comparatives for the 2018 reporting period. The impact of the adoption of the leasing standard and the new accounting policies are disclosed in Note 42.

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- Amendment to Korean IFRS 1109 *Financial Instruments – Prepayment Features with Negative Compensation*

The narrow-scope amendments made to Korean IFRS 1109 *Financial Instruments* enable entities to measure certain prepayable financial assets with negative compensation at amortized cost. When a modification of a financial liability measured at amortized cost that does not result in the derecognition, a modification gain or loss shall be recognized in profit or loss. The amendment does not have a significant impact on the financial statements.

- Amendments to Korean IFRS 1019 *Employee Benefits – Amendment, Curtailment or Settlement of the Plan*

The amendments require that an entity shall calculate current service cost and net interest for the remainder of the reporting period after a plan amendment, curtailment or settlement based on updated actuarial assumptions from the date of the change. The amendments also require that a reduction in a surplus must be recognized in profit or loss even if that surplus was not previously recognized because of the impact of the asset ceiling. The amendment does not have a significant impact on the financial statements.

- Amendments to Korean IFRS 1028 *Investments in Associates and Joint Ventures – Long-term Interests in Associates and Joint Ventures*

The amendments clarify that an entity shall apply Korean IFRS 1109 to financial instruments in an associate or joint venture to which the equity method is not applied. The amendments also clarify that Korean IFRS 1109 requirements are applied to long-term interests that form part of the entity's net investment in an associate or joint venture before applying the impairment requirements of Korean IFRS 1028. The amendment does not have a significant impact on the financial statements.

- Enactment to Interpretation of Korean IFRS 2123 *Uncertainty over Income Tax Treatments*

The interpretation explains how to recognize and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment, and includes guidance on how to determine whether each uncertain tax treatment is considered separately or together. It also presents examples of circumstances where a judgement or estimate is required to be reassessed. The enactment does not have a significant impact on the financial statements.

- Annual Improvements to Korean IFRS 2015 – 2017 Cycle:

· Amendments to Korean IFRS 1103 *Business Combination*

The amendments clarify that when a party to a joint arrangement obtains control of a business that is a joint operation, and had rights to the assets and obligations for the liabilities relating to that joint operation immediately before the acquisition date, the transaction is a business



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combination achieved in stages. In such cases, the acquirer shall remeasure its entire previously held interest in the joint operation. The amendment does not have a significant impact on the financial statements.

- Amendments to Korean IFRS 1111 *Joint Agreements*

The amendments clarify that when a party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business. In such cases, previously held interests in the joint operation are not remeasured. The amendment does not have a significant impact on the financial statements.

- Amendments to Paragraph 57A of Korean IFRS 1012 *Income Tax*

The amendment is applied to all the income tax consequences of dividends and requires an entity to recognize the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events. The amendment does not have a significant impact on the financial statements.

- Korean IFRS 1023 *Borrowing Costs*

The amendments clarify that if a specific borrowing remains outstanding after the related qualifying asset is ready for its intended use (or sale), it becomes part of general borrowings. The amendment does not have a significant impact on the financial statements.

#### *2.2.2 New standards and interpretations not yet adopted by the Company*

The following new accounting standards and interpretations have been published that are not mandatory for December 31, 2019 reporting periods and have not been early adopted by the Company.

- Amendments to Korean IFRS 1001 *Presentation of Financial Statements* and Korean IFRS 1008 *Accounting policies, changes in accounting estimates and errors – Definition of Material*

The amendments clarify the explanation of the definition of material and amended Korean IFRS 1001 and Korean IFRS 1008 in accordance with the clarified definitions. Materiality is assessed by reference to omission or misstatement of material information as well as effects of immaterial information, and to the nature of the users when determining the information to be disclosed by the Company. These amendments should be applied for annual periods beginning on or after January 1, 2020, and earlier application is permitted. The Company does not expect that these amendments have a significant impact on the financial statements.

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#### **- Amendments to Korean IFRS 1103 *Business Combination – Definition of a Business***

To consider the integration of the required activities and assets as a business, the amended definition of a business requires an acquisition to include an input and a substantive process that together significantly contribute to the ability to create outputs and excludes economic benefits from the lower costs. An entity can apply a concentration test, an optional test, where substantially all of the fair value of gross assets acquired is concentrated in a single asset or a group of similar assets, the assets acquired would not represent a business. These amendments should be applied for annual periods beginning on or after January 1, 2020, and earlier application is permitted. The Company does not expect that these amendments have a significant impact on the financial statements.

#### **- IFRS Interpretations Committee (IFRS IC) Agenda Decision – *Lease Period***

The International Financial Reporting interpretations Commission (IFRIC) announced an interpretation of the “lease term and useful life of leasehold improvements” on December 16, 2019 that economic penalty resulting from the termination of a lease is considered when determining the enforceable period if the lessee and the lessor each has the right to terminate the lease without permission from the other party. The Company is analyzing the effect of changes in accounting policies on the consolidated financial statements for enforceable periods in accordance with the decision and will reflect the effect in the consolidated financial statements after the analysis is completed.

### **2.3 Consolidation**

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

#### **(a) Subsidiaries**

Subsidiaries are all entities over which the Parent Company has control. The Company controls the corresponding investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Consolidation of a subsidiary begins from the date the Company obtains control of a subsidiary and ceases when the Company loses control of the subsidiary.

The Company applies the acquisition method to account for business combinations. The consideration transferred is measured at the fair values of the assets transferred, and identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are initially measured at their fair values at the acquisition date. The Company recognizes any non-controlling interest in the acquiree on an acquisition-by-acquisition basis in the event of liquidation, either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of acquiree's identifiable net assets. All other non-controlling interests are measured at their acquisition-date fair values, unless another measurement basis is required by standards.

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Acquisition-related costs are expensed as incurred.

Goodwill is recognized as the excess of the aggregate of the consideration transferred, the amount of any non-controlling interest in the acquiree, and the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree over the identifiable net assets acquired. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss.

Balances of receivables and payables, income and expenses and unrealized gains on transactions between the Parent Company and its subsidiaries are eliminated during the consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Company.

In transactions with non-controlling interest, which do not result in loss of control, the Company recognizes directly in equity any difference between the amount of the non-controlling interests and the fair value of the consideration paid or received, and attributes it to the owners of the Parent Company.

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

#### **(b) Associates**

Associates are entities over which the Company has significant influence but not control or joint control. Investments in associates are accounted for using the equity method of accounting, after initially being recognized at cost. Unrealized gains on transactions between the Company and its associates are eliminated to the extent of the Company's interest in the associates. If the Company's share of losses of an associate equals or exceeds its interest in the associate (including long-term interests that, in substance, form part of the Company's net investment in the associate), the Company discontinues recognizing its share of further losses. After the Company's interest is reduced to zero, additional losses are provided for, and a liability is recognized, only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the associate. If there is an objective evidence of impairment for the investment in the associate, the Company recognizes the difference between the recoverable amount of the associate and its book amount as impairment loss. If an associate uses accounting policies other than those of the Company for like transactions and events in similar circumstances, if necessary, adjustments shall be made to make the associate's accounting policies conform to those of the Company when the associate's financial statements are used by the company in applying the equity method.

#### **(c) Joint arrangements**

A joint arrangement, wherein two or more parties have joint control, is classified as either a joint operation or a joint venture. A joint operator has rights to the assets, and obligations for the

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liabilities, relating to the joint operation and recognizes the assets, liabilities, revenues and expenses relating to its interest in a joint operation. A joint venturer has rights to the net assets relating to the joint venture and accounts for that investment using the equity method.

#### **2.4 Segment Reporting**

Information of each operating segment is reported in a manner consistent with the business segment reporting provided to the chief operating decision maker (Note 6). The chief operating decision maker is responsible for allocating resources and assessing performance of the operating segments.

#### **2.5 Foreign Currency Translation**

##### **(a) Functional and presentation currency**

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

##### **(b) Transactions and balances**

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognized in profit or loss. They are deferred in other comprehensive income if they relate to qualifying cash flow hedges and qualifying effective portion of net investment hedges, or are attributable to monetary part of the net investment in a foreign operation.

Foreign exchange gains and losses that relate to borrowings are presented in the statement of profit or loss, within finance costs. All other foreign exchange gains and losses are presented in the statement of profit or loss within 'other income or other expenses'.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognized in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities held at fair value through other comprehensive income are recognized in other comprehensive income.

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#### *(c) Translation into the presentation currency*

The results of operations and financial position of the Company's entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of the reporting period.
- Income and expenses for each statement of comprehensive income are translated at average rates; and
- Equity is translated at the historical exchange rate; and
- All resulting exchange differences are recognized in other comprehensive income.

## **2.6 Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand, deposits in banks, and other short-term highly liquid investments with original maturities of three months or less.

## **2.7 Financial Assets**

### *(a) Classification*

The Company classifies its financial assets in the following measurement categories:

- those to be measured at fair value through profit or loss
- those to be measured at fair value through other comprehensive income, and
- those to be measured at amortized cost.

The classification depends on the Company's business model for managing the financial assets and the contractual terms of the cash flows.

For financial assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in debt instruments, this will depend on the business model in which the investment is held. The Company reclassifies debt investments when, and only when its business model for managing those assets changes.

For investments in equity instruments that are not held for trading, this will depend on whether the Company has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income. Changes in fair value of the investments in equity instruments that are not accounted for as other comprehensive income are recognized in profit or loss.

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*(b) Measurement*

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

*A. Debt instruments*

Subsequent measurement of debt instruments depends on the Company's business model for managing the asset and the cash flow characteristics of the asset. The Company classifies its debt instruments into one of the following three measurement categories:

- **Amortized cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. A gain or loss on a debt investment that is subsequently measured at amortized cost and is not part of a hedging relationship is recognized in profit or loss when the asset is derecognized or impaired. Interest income from these financial assets is included in 'finance income' using the effective interest rate method.
- **Fair value through other comprehensive income:** Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through other comprehensive income. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment loss (reversal of impairment loss), interest income and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss. Interest income from these financial assets is included in 'finance income' using the effective interest rate method. Foreign exchange gains and losses are presented in 'other non-operating income or expenses' and impairment losses are presented in 'other non-operating expenses'.
- **Fair value through profit or loss:** Assets that do not meet the criteria for amortized cost or fair value through other comprehensive income are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented net in the statement of profit or loss within 'finance income and costs in the year in which it arises'.

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*B. Equity instruments*

The Company subsequently measures all equity investments at fair value. Where the Company's management has elected to present fair value gains and losses on equity investments, which held for long-term investment or strategic purpose, in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividend income from such investments continue to be recognized in profit or loss as 'finance income' when the right to receive payments is established.

Changes in the fair value of financial assets at fair value through profit or loss are recognized in 'finance income and costs' in the statement of profit or loss as applicable. Impairment loss (reversal of impairment loss) on equity investments measured at fair value through other comprehensive income are not reported separately from other changes in fair value.

*(c) Impairment*

The Company assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortized cost and fair value through other comprehensive income. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables and lease receivables, the Company applies the simplified approach, which requires expected lifetime credit losses to be recognized from initial recognition of the receivables.

*(d) Recognition and Derecognition*

Regular way purchases and sales of financial assets are recognized or derecognized on trade-date, the date on which the Company commits to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

If a transfer does not result in derecognition because the Company has retained substantially all the risks and rewards of ownership of the transferred asset, the Company continues to recognize the transferred asset in its entirety and recognizes a financial liability for the consideration received. The Company classified the financial liability as "borrowings" in the consolidated statement of financial position (Note 21).

*(e) Offsetting of financial instruments*

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

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or the counterparty.

#### **2.8 Derivative Instruments**

Derivatives are initially recognized at fair value on the date when a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of the derivatives that are not qualified for hedge accounting are recognized in the consolidated statement of comprehensive income as 'finance income (costs)' according to the nature of transactions.

#### **2.9 Trade Receivables**

Trade receivables are recognized initially at the amount of consideration that is unconditional, unless they contain significant financing components when they are recognized at fair value. Trade receivables are subsequently measured at amortized cost using the effective interest method, less loss allowance. See Notes 10 and 41 for further information about the Company's accounting for trade receivables.

#### **2.10 Inventories**

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the average method.

#### **2.11 Property and Equipment**

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

Depreciation on property and equipment, except land, is calculated using the straight-line method to allocate the difference between their cost and their residual values over their estimated useful lives, as follows:

	<b>Estimated useful lives</b>
Buildings	20 – 40 years
Structures	20 years
Machinery and equipment	4 – 6 years
Vehicles	4 – 6 years
Furniture	2 – 5 years

The depreciation method, residual values and useful lives of property and equipment are reviewed and adjusted at each financial year-end, if appropriate, accounted for as changes in accounting estimates.



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#### **2.12 Government Grants**

Government grants are recognized at their fair values when there is reasonable assurance that the grant will be received and the Company will comply with the conditions attached to it. Government grants related to assets are presented by deducting the grants in arriving at the carrying amount of the assets, and grants recognized as income are deferred and presented by deducting the expenses related to the purpose of the government grants.

#### **2.13 Intangible Assets**

##### **(a) Goodwill**

Goodwill arises on the acquisition of subsidiaries, associates and business combination are included in intangible assets. Goodwill represents the excess of the cost of an acquisition over the fair value of the Company's share of the net identifiable assets of the acquired subsidiary, associates, joint ventures and businesses at the date of acquisition. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss.

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Any impairment is recognized immediately as an expense and is not subsequently reversed.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the CGUs, or group of CGUs, that is expected to benefit from the synergies of the combination. Goodwill is monitored at the operating segment level. Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying amount of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell.

##### **(b) Membership and brand**

Membership and brand are regarded as intangible assets with indefinite useful life and not amortized because there is no foreseeable limit to the period over which the asset is expected to be utilized.

##### **(c) Other intangible assets**

Other intangible assets such as development costs and industrial property rights are initially recognized at its historical costs and amortized using the straight-line method over their estimated useful lives. Other intangible assets have definite useful life and are carried at cost less accumulated amortization.

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Their estimated useful lives of other Intangible assets are as follows:

	<b>Estimated useful lives</b>
Industrial property rights	5 – 10 years
Others	2 – 15 years
Development costs	5 years
Exclusive rights	Contractual period

The Company recognizes the cryptocurrency at fair value of the consideration at the acquisition date as it is satisfied in the definition and recognition criteria of the asset. If there is a market in which the asset is traded at a frequency and a size sufficient to provide pricing information continuously, the cryptocurrency is evaluated at prices available in such market at the end of each reporting period, and gain on valuation is presented within 'other comprehensive income' and loss on valuation is recognized within 'other non-operating expenses'. In addition, non-marketable cryptocurrency is recognized at its acquisition cost.

#### **2.14 Investment Property**

Investment property is property held to earn rentals or for capital appreciation or both. An investment property is measured initially at its cost. An investment property is measured after initial measurement at depreciated cost (less any accumulated impairment losses). After recognition as an asset, investment property is carried at cost less accumulated depreciation and impairment losses. The Company depreciates investment properties, except for land, using the straight-line method over their useful lives of 40 years.

#### **2.15 Impairment of Non-financial Assets**

Goodwill or intangible assets with indefinite useful lives are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Non-financial assets, other than goodwill, that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

#### **2.16 Trade and Other Payables**

These amounts represent liabilities for goods and services provided to the Company prior to the end of reporting period which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities, unless payment is not due within 12 months after the reporting period. They are recognized initially at their fair value and subsequently measured at amortized cost using the effective interest method.

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#### **2.17 Financial Liabilities**

##### *(a) Classification and measurement*

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

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

Preferred shares that require mandatory redemption at a particular date are classified as liabilities. Interest expenses on these preferred shares using the effective interest method are recognized in the statement of profit or loss as 'finance costs', together with interest expenses recognized from other financial liabilities.

##### *(b) Derecognition*

Financial liabilities are removed from the statement of financial position when it is extinguished; for example, when the obligation specified in the contract is discharged or cancelled or expired or when the terms of an existing financial liability are substantially modified. The difference between the carrying amount of a financial liability extinguished or transferred to another party and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss.

#### **2.18 Provisions**

Provisions for service warranties, make good obligation, and legal claims are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period, and the increase in the provision due to the passage of time is recognized as interest expense.

#### **2.19 Current and Deferred Income Tax**

Income tax expense for the period consists of current and deferred tax. Income tax is recognized as income or expense for the period in the consolidated statement of comprehensive income, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, income tax is also recognized in other comprehensive income or directly in

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equity, respectively. Income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period.

Deferred tax is recognized for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts as expected tax consequences at the recovery or settlement of the carrying amounts of the assets and liabilities. However, deferred tax assets and liabilities are not recognized if they arise from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting profit nor taxable profit (loss).

Deferred tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilized.

Deferred tax liability is recognized for taxable temporary differences associated with investments in subsidiaries, associates, and interests in joint ventures, except to the extent that the Company is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. In addition, deferred tax assets are recognized for deductible temporary differences arising from such investments to the extent that it is probable the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

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

#### **2.20 Employee Benefits**

##### **(a) Post-employment benefits**

The Company operates pension plans. The Company has both defined contribution plans and defined benefit plans.

A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. The contributions are recognized as employee benefit expenses when an employee has rendered service.

A defined benefit plan is a pension plan that is not a defined contribution plan. Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The liability recognized in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent

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actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds and that have terms to maturity approximating to the terms of the related pension obligation. The remeasurement of the net defined benefit liability are recognized in other comprehensive income.

If any plan amendments, curtailments, or settlements occur, past service costs or any gains or losses on settlement are recognized as profit or loss for the year.

#### **(b) Share-based payments**

Equity-settled share-based payments granted to employees are estimated at fair value of equity instruments at the grant date and recognized as employee benefit expenses over the vesting period. The number of equity instruments expected to vest is remeasured with consideration to non-market vesting conditions at the end of the reporting period, with any changes from the original measurement recognized in profit or loss for the year and equity.

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

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

#### **(c) Other long-term employee benefits**

The Parent Company and certain subsidiaries provide long-term employee benefits, which are entitled to employees with service period for at least three years. The expected costs of these benefits are accrued over the period of employment using the same accounting methodology as used for defined benefit pension plans. The Company recognizes service cost, net interest on other long-term employee benefits and remeasurement as profit or loss for the year. These liabilities are valued annually by independent and qualified actuaries.

### **2.21 Treasury shares**

Where the Company purchases its own equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs is deducted from equity attributable to the Company's equity until the shares are cancelled or reissued. Where such treasury shares are subsequently reissued, any consideration received is recognized in equity attributable to the Company's shareholders.

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#### **2.22 Revenue Recognition**

From January 1, 2018, the Company has applied Korean IFRS 1115 *Revenue from Contracts with Customers*. The operating revenue are mainly comprised of advertisement, content and others.

##### **(a) Advertising revenue**

The Company generally provides advertising services to a customer during the period of a contract and recognizes the allocated transaction price for a performance obligation over the period of service as revenue. However, in the case of a contract in which advertising services are settled based on the sum of the total number of advertising services provided other than the contracted period, the Company recognizes revenue when it satisfies its performance obligation.

##### **(b) Contents revenue and others**

The Company provides a variety of contents to a customer. Transaction prices of contents are immediately paid when a customer purchases contents online. The Company recognizes revenue at the time when contents are used as considered that the right to use contents are transferred and provided to a customer and there are no unfulfilled obligations of a customer that may affect the use of contents. For contents that have significant impacts on contents over the life of contents provided to a customer, revenue is recognized over the period over which contents are provided.

The Company pays the commission fees when a customer pays for the game service provided by the Company. The incremental costs are those commission fees that the Company incurs to acquire a contract with a customer that would not have been incurred if the contract had not been acquired. The Company recognizes the incremental costs as an asset and amortizes it over the certain period in accordance with the application of Korean IFRS 1115.

##### **(c) Commerce revenue and goods sales**

The Company sells goods or provides services as a principal or agent through KakaoTalk platforms and recognizes revenue when the performance obligation is completed.

##### **(d) Other revenue**

In relation to fintech business and cryptocurrency, the Company identifies the services provided by the Company as a distinct performance obligation and recognizes revenue when each performance obligation is completed in accordance with the application of Korean IFRS 1115.

For the costs incurred in relation to the sale contract of cryptocurrency and others that would not have been incurred if the contract had not been acquired, the Company recognizes the incremental costs as an asset and amortizes it over the certain period in accordance with the application of IFRS 1115.

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#### **2.23 Dividend**

Dividend to the Company's shareholders is recognized as a liability in the consolidated financial statements in the year in which the dividends are approved by the Company's shareholders.

#### **2.24 Lease**

As explained in Note 2.2 above, the Company has changed its accounting policy for leases. The impact of the new accounting policies is disclosed in Note 42.

As at December 31, 2018, leases of property and equipment where the Company, as lessee, had substantially all the risks and rewards of ownership were classified as finance leases. Finance leases were capitalized at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding lease payments, net of finance charges, were included in other short-term or long-term payables. Each lease payment was allocated between the liability and finance cost. The finance cost was charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property and equipment acquired under finance leases was depreciated over the asset's useful life, or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Company will obtain ownership at the end of the lease term.

Leases in which a significant portion of the risks and rewards of ownership were not transferred to the Company as lessee were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From January 1, 2019, leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Company.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments (including in-substance fixed payments), less any lease incentives receivable
- Variable lease payment that are based on an index or a rate
- Amounts expected to be payable by the Company (the lessee) under residual value guarantees
- The exercise price of a purchase option if the Company (the lessee) is reasonably certain to exercise that option, and

## **Kakao Corp. and Subsidiaries**

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- Payments of penalties for terminating the lease, if the lease term reflects the Company (the lessee) exercising that option

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs

The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Company is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT-equipment and small items of office furniture.

#### **(a) Variable lease payments**

Some machinery leases contain variable payment terms that are linked to usage. Variable payment terms are used for a variety of reasons, including minimizing the fixed costs base for machinery. Variable lease payments that depend on usage are recognized in profit or loss when machinery is used and when the usage is confirmed by the settlement.

#### **(b) Extension and termination options**

Extension and termination options are included in a number of property and infra leases across the Company. These terms are used to maximize operational flexibility in terms of managing contracts.



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#### **2.25 Earnings per share**

Basic earnings per share is calculated by dividing net profit for the year available to ordinary shareholders by the weighted-average number of ordinary shares outstanding during the year. Diluted earnings per share are calculated using the weighted-average number of ordinary shares outstanding adjusted to include the potentially dilutive effect of ordinary equivalent shares outstanding.

#### **2.26 Business Combinations between entities under a Common Control**

Book value method applies to a business combination under a common control. Related assets and liabilities are measured at book value of the consolidated financial statements. In addition, the difference between the sum of book values of the assets and liabilities transferred and the consideration paid is recognized as share premium.

#### **2.27 Compound Financial Instruments**

Compound financial instruments are convertible bonds that can be converted into equity instruments of the Parent Company at the option of the holder and exchangeable bond that can be converted into equity instruments of the subsidiary at the option of the holder.

The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have equity conversion rights and exchange rights. The equity component is recognized initially on the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

In accordance with the Interpretation Statements No.00094 issued by the Financial Supervisory Service in Korea, the Company recognized conversion rights and exchange rights (pre-emptive rights) as equity. This accounting treatment is applicable within Korean IFRS as defined in item1 of paragraph1 of Article 13 of Acts on External Audit for Stock Companies.

#### **2.28 Approval of Issuance of the Financial Statements**

The issuance of the financial statements 2019, of the Company was approved by the Board of Directors on February 25, 2020, which is subject to change with approval at the annual shareholders' meeting.

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### **3. Critical Accounting Estimates and Assumptions**

The preparation of financial statements requires the Company to make estimates and assumptions concerning the future. Management also needs to exercise judgement in applying the Company's accounting policies. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. As the resulting accounting estimates will, by definition, seldom equal the related actual results, it can contain a significant risk of causing a material adjustment.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below. Additional information of significant judgement and assumptions of certain items are included in relevant notes.

#### **(a) Estimated impairment of goodwill**

The Company tests annually whether goodwill has suffered any impairment. The recoverable amounts of cash-generating units are determined based on value-in-use calculations (Note 19).

#### **(b) Income taxes**

The Company's taxable income generated from these operations are subject to income taxes based on tax laws and interpretations of tax authorities in numerous jurisdictions. There are many transactions and calculations for which the ultimate tax determination is uncertain (Note 24).

If certain portion of the taxable income is not used for investments or increase in wages or dividends in accordance with the *Tax System for Recirculation of Corporate Income*, the Company is liable to pay additional income tax calculated based on the tax laws. Accordingly, the measurement of current and deferred income tax is affected by the tax effects from the new tax system. As the Company's income tax is dependent on the investments, increase in wages and dividends, there is an uncertainty measuring the final tax effects.

#### **(c) Fair value of financial instruments**

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Company uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period (Note 5).

#### **(d) Impairment of financial assets**

The provision for impairment for financial assets are based on assumptions about risk of default and expected loss rates. The Company uses judgement in making these assumptions and selecting the inputs to the impairment calculation based on the Company's past history, existing

## **Kakao Corp. and Subsidiaries**

### **Notes to the Consolidated Financial Statements**

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market conditions as well as forward looking estimates at the end of each reporting period (Note 41).

#### **(e) Provisions**

As at December 31, 2019, the Company recognizes provisions as explained in Notes 2.18. These provisions are estimated based on past experience.

#### **(f) Net defined benefit liabilities**

The present value of net defined benefit liabilities depends on a number of factors that are determined on an actuarial basis using a number of assumptions including the discount rate (Note 22).

#### **(g) Other long-term employee benefits liabilities**

The present value of other long-term employee benefits liabilities depends on a number of factors that are determined on an actuarial basis using a number of assumptions including the discount rate (Note 23).

#### **(h) Lease**

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

For leases of office, vehicles and equipment, the following factors are normally the most relevant:

- If there are significant penalties to terminate (or not extend), the Company is typically reasonably certain to extend (or not terminate).
- If any leasehold improvements are expected to have a significant remaining value, the Company is typically reasonably certain to extend (or not terminate).
- Otherwise, the Company considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

Most extension options in offices and vehicles leases have not been included in the lease liability, because the Company could replace the assets without significant cost or business disruption.

The lease term is reassessed if an option is actually exercised (or not exercised) or the Company becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee.

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#### **4. Financial Risk Management**

##### **4.1 Financial Risk Factors**

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance.

##### **4.1.1 Market risk**

###### **i) Interest rate risk**

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

As at December 31, 2019, if the market interest rate of floating rate deposits had increased/decreased by 100bp with other variables held constant, the effect on profit before income tax for the year ended December 31, 2019, would have been increased/decreased by ₩ 4,887 million (2018: ₩ 9,090 million) due to increased/decreased interest income of floating rate deposits.

###### **ii) Price risk**

The Company invests in debt and equity securities for managing liquidity, operational needs and others. The Company's investment portfolio consists of direct and indirect investments in listed and non-listed securities.

As at December 31, 2019, if all other variables were constant and the value of marketable equity had increased or decreased by 5.0%, gain and loss on valuation of equity securities at fair value (before income tax) and other comprehensive income (before income tax) would have been increased or decreased by ₩ 17,640 million (2018: ₩ 1,909 million).

Impacts of investment financial instruments of the Company on profit or loss and other comprehensive income are described in Note 10.

###### **iii) Foreign exchange risk**

Foreign exchange risk is defined as the risk that the fair value of financial instruments or future cash flows fluctuate because of changes in foreign exchange rates. Foreign exchange risk arises from financial instruments presented in currencies other than functional currency. Therefore, foreign exchange risk does not arise from non-monetary financial instruments or financial

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instruments presented in functional currency.

The Company's exposure to foreign currency risk at the end of the reporting period, expressed in Korean won, was as follows:

(in millions of Korean won)

	2019				
	USD	JPY	CNY	EUR	GBP
<b>Financial assets</b>					
Cash and cash equivalents	₩ 433,018	₩ 6,029	₩ 282	₩ -	₩ -
Short-term financial instruments	17,626	-	-	-	-
Trade receivables	8,519	5,164	1,777	65	190
	₩ 459,163	₩ 11,193	₩ 2,059	₩ 65	₩ 190
<b>Financial liabilities</b>					
Trade and other payables	₩ 11,692	₩ 3,623	₩ 1,564	₩ 11	₩ -
Non-current trade and other payables	3,176	-	-	-	-
	₩ 14,868	₩ 3,623	₩ 1,564	₩ 11	₩ -

If the Korean won has weakened/strengthened by 5% with all other variables held constant, the effect on profit before income tax for the year ended December 31, 2019, would have been increased/decreased by ₩ 22,630 million (2018: ₩ 19,908 million).

#### 4.1.2 Credit risk

Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks or financial institutions, as well as credit exposures to customers, including outstanding receivables (Note 41).

Details of the Company's level of maximum exposure to credit risk as at December 31, 2019 and 2018, are as follows:

(in millions of Korean won)	2019	2018
Cash and cash equivalents	₩ 1,918,225	₩ 1,247,013
Short-term financial instruments	207,767	924,215
Trade receivables	157,221	193,669
Derivative financial assets	1,112	1,174
Financial assets at fair value through profit or loss	74,226	36,812
Other current financial assets	252,486	207,656
Long-term financial instruments	50,062	50,689
Other non-current financial assets	92,355	58,321
	₩ 2,753,454	₩ 2,719,549

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#### 4.1.3 Liquidity risk

Cash flow forecasting is performed by the Company finance department. The Company finance department monitors rolling forecasts of the Company's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the Company does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. Such forecasting takes into consideration the Company's debt financing plans, covenant compliance, compliance with internal statement of financial position ratio targets and, if applicable external regulatory or legal requirements.

Details of the Company's liquidity risk analysis as at December 31, 2019 and 2018, are as follows:

(in millions of Korean won)

	2019			
	Less than 1 year	Between 1 and 2 years	Over 2 years	Total
Trade and other payables	₩ 578,573	₩ -	₩ -	₩ 578,573
Short-term and long-term borrowings <sup>1</sup>	448,929	68,520	30,261	547,710
Other current financial liabilities	25,256	-	-	25,256
Deposits received	299,564	-	-	299,564
Short-term lease liabilities	69,139	-	-	69,139
Non-current trade and other payables	-	13,344	20,397	33,740
Other non-current financial liabilities	-	62,507	336	62,843
Long-term lease liabilities	-	62,552	117,443	179,994
	₩ 1,421,462	₩ 206,922	₩ 168,437	₩ 1,796,820

<sup>1</sup> For convertible bonds and exchangeable bonds, total cash flow is disclosed with the contractual early repayment date as maturity.

(in millions of Korean won)

	2018			
	Less than 1 year	Between 1 and 2 years	Over 2 years	Total
Trade and other payables	₩ 460,813	₩ -	₩ -	₩ 460,813
Short-term and long-term borrowings <sup>1</sup>	611,849	3,900	43,661	659,410
Other current financial liabilities	20,526	-	-	20,526
Deposits received	129,889	-	-	129,889
Non-current trade and other payables	-	-	389	389
Other non-current financial liabilities	-	-	45,869	45,869
	₩ 1,223,077	₩ 3,900	₩ 89,919	₩ 1,316,896

<sup>1</sup> For convertible bonds and exchangeable bonds, total cash flow is disclosed with the contractual early repayment date as maturity.

The table above analyses the Company's non-derivative financial liabilities into relevant maturity. The amounts disclosed in the table are the contractual undiscounted cash flows including interest.

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#### 4.2. Capital Risk Management

The Company's objectives when managing capital are to maintain an optimal capital structure. The Company monitors financial ratios such as debt-to-capital ratio, which is calculated by dividing total liabilities by total equity.

The debt-to-capital ratios as at December 31, 2019 and 2018, are as follows:

<i>(in millions of Korean won)</i>		2019	2018
Total liabilities (A)	₩	2,997,138	2,332,385
Total equity (B)		5,740,118	5,627,158
Debt-to-capital ratio (A/B)		52.21%	41.45%

#### 4.3. Offsetting Financial Assets and Financial Liabilities

Details of the Company's recognized financial assets subject to offsetting, enforceable master netting arrangements or similar agreements as at December 31, 2019 and 2018, are as follows:

<i>(in millions of Korean won)</i>	2019				
	Gross assets	Gross liabilities offset	Net amounts presented in the statement of financial position	Amounts not offset	Net amount
Trade receivables <sup>1</sup>	₩ 46,714	₩ 6,393	₩ 40,321	₩ -	₩ 40,321
Non-trade receivables <sup>2</sup>	41,207	4,279	36,928	-	36,928

<i>(in millions of Korean won)</i>	2019				
	Gross liabilities	Gross assets offset	Net amounts presented in the statement of financial position	Amounts not offset	Net amount
Non-trade payables <sup>1</sup>	₩ 4,025	₩ 3,177	₩ 848	₩ -	₩ 848

<sup>1</sup> The amount presented includes the amount after offsetting trade receivables from media reps and agency fee.

<sup>2</sup> The amount presented includes the amount after offsetting settlement amounts from the transfer of the contract and non-trade receivables from the change of exclusive contract.

<i>(in millions of Korean won)</i>	2018				
	Gross assets	Gross liabilities offset	Net amounts presented in the statement of financial position	Amounts not offset	Net amount
Trade receivables <sup>1</sup>	₩ 45,258	₩ 6,776	₩ 38,481	₩ -	₩ 38,481

<sup>1</sup> The amount presented includes the amount after offsetting trade receivables from media reps and agency fee.

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**5. Fair Value**

**5.1 Fair Value of Financial Instruments**

Carrying amount and fair value of financial instruments as at December 31, 2019 and 2018, are as follows:

(in millions of Korean won)

	2019		2018	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>Financial assets</b>				
Cash and cash equivalents	₩ 1,918,225	₩ 1,918,225	₩ 1,247,013	₩ 1,247,013
Short-term financial instruments	207,767	207,767	924,215	924,215
Long-term financial instruments	50,062	50,062	50,689	50,689
Financial assets at fair value through profit or loss	176,661	176,661	130,627	130,627
Financial assets at fair value through other comprehensive income	419,265	419,265	329,345	329,345
Trade receivables	157,221	157,221	193,669	193,669
Derivative financial assets	1,112	1,112	1,174	1,174
Other current financial assets	252,486	252,486	207,656	207,656
Other non-current financial assets	92,355	92,355	58,321	58,321
	<u>₩ 3,275,154</u>	<u>₩ 3,275,154</u>	<u>₩ 3,142,709</u>	<u>₩ 3,142,709</u>
<b>Financial liabilities</b>				
Trade and other payables	₩ 578,567	₩ 578,567	₩ 460,813	₩ 460,813
Non-current trade and other payables	32,872	32,872	389	389
Short-term borrowings	448,596	452,290	609,480	605,039
Long-term borrowings	72,269	72,269	44,995	44,995
Current derivative financial liabilities	18,290	18,290	13,916	13,916
Non-current derivative financial liabilities	7,372	7,372	-	-
Deposits received	299,564	299,564	129,889	129,889
Other current financial liabilities	25,256	25,256	20,526	20,526
Other non-current financial liabilities	62,843	62,843	45,869	45,869
	<u>₩ 1,545,630</u>	<u>₩ 1,549,324</u>	<u>₩ 1,325,878</u>	<u>₩ 1,321,436</u>



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#### 5.2 Fair Value Hierarchy

The Company classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in measurements.

- Quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity can access at the measurement date (Level 1).
- All inputs other than quoted prices included in level 1 that are observable (either directly that is, prices, or indirectly that is, derived from prices) for the asset or liability (Level 2).
- Unobservable inputs for the asset or liability (Level 3).

Fair value hierarchy classifications of the financial assets and liabilities that are measured at fair value as at December 31, 2019 and 2018:

(in millions of Korean won)

	2019			
	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss	₩ 21,357	₩ -	₩ 155,303	₩ 176,661
Financial assets at fair value through other comprehensive income <sup>1,2</sup>	331,441	-	87,825	419,265
Derivative financial assets	-	-	1,112	1,112
	<u>₩ 352,798</u>	<u>₩ -</u>	<u>₩ 244,240</u>	<u>₩ 597,038</u>
Derivative financial liabilities	₩ -	₩ -	₩ 25,662	₩ 25,662

<sup>1</sup> KakaoBank of Korea Corp., which was classified as financial assets at fair value through other comprehensive income as at December 31, 2018, was reclassified as investments in associates exercising a call option that gives the right to acquire interests up to 34% of the total number of shares in 2019(Note 16).

<sup>2</sup> During 2019, the Company acquired shares of SK TELECOM CO.,LTD and HANJINKAL, and categorized them within Level 1.

(in millions of Korean won)

	2018			
	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss	₩ 32,069	₩ -	₩ 98,558	₩ 130,627
Financial assets at fair value through other comprehensive income	6,111	-	323,234	329,345
Derivative financial assets	-	-	1,174	1,174
	<u>₩ 38,180</u>	<u>₩ -</u>	<u>₩ 422,966</u>	<u>₩ 461,146</u>
Derivative financial liabilities	₩ -	₩ -	₩ 13,916	₩ 13,916

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#### 5.3 Valuation Technique and Inputs

The fair value of financial instruments traded in active markets is based on quoted market prices at the statement of financial position date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, a company in the same industry, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Company is the current bid price. These instruments are included in Level 1. Instruments included in Level 1 consist primarily of KOSPI and KOSDAQ equity investments classified as trading securities or available-for-sale.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

As at December 31, 2019, valuation technique and the inputs used for recurring and non-recurring fair value measurements and disclosed fair value that are categorized within Level 3 of the fair value hierarchy are as follows:

<i>(in millions of Korean won)</i>	<b>Fair value</b>	<b>Level</b>	<b>Valuation technique</b>	<b>Inputs</b>
<b>Financial assets at fair value through profit or loss</b>				
NEPTUNE Corp. (convertible bond)	₩ 16,170	3	Binomial tree model	Discount rate, dividend rate, increase and decrease rate
Lionheart Studio (redeemable convertible preferred shares)	4,385	3	Binomial tree model	Discount rate, dividend rate, increase and decrease rate
Daeheung Co., Ltd. (convertible bond)	3,938	3	Binomial tree model	Discount rate, dividend rate, increase and decrease rate
TransLink Capital Partners II, L.P.	2,969	3	Net asset value method	Net asset value
TransLink Capital Partners III, L.P.	6,665	3	Net asset value method	Net asset value
Collaborative Fund II, L.P.	3,901	3	Net asset value method	Net asset value
Altos Korea opportunity Fund	25,683	3	Net asset value method	Net asset value
KDBC FP Tech Next Fund	2,318	3	Net asset value method	Net asset value
ATU e-sports Growth PE Fund I	2,500	3	Net asset value method	Net asset value
KJ. & Game Investment Fund I	2,500	3	Net asset value method	Net asset value
Pathfinder8 Inc	2,850	3	Net asset value method	Net asset value
Others	9,834	3	Net asset value method	Net asset value
Compound financial instruments	43,698	3	Market value method	Price of the underlying asset
Others <sup>1</sup>	27,892	3	Acquisition cost, binominal tree method, DCF and others	Discount rate, dividend rate, increase and decrease rate and others
	<u>₩ 155,303</u>			

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<i>(in millions of Korean won)</i>	<b>Fair value</b>	<b>Level</b>	<b>Valuation technique</b>	<b>Inputs</b>
<b>Financial assets at fair value through other comprehensive income</b>				
SBS M&C	₩ 3,773	3	DCF	Estimated cash flow, discount rate
KRAFTON, Inc.	50,633	3	DCF	Estimated cash flow, discount rate
XLGAMES Inc.	6,820	3	DCF	Estimated cash flow, discount rate
JapanTaxi Co.,Ltd.	15,083	3	DCF	Estimated cash flow, discount rate
Others (binominal tree method and others) <sup>1</sup>	11,516	3	Acquisition cost, DCF and others	Discount rate, increase and decrease rate, estimated cash flow and others
	<u>₩ 87,825</u>			
<b>Derivative financial assets</b>				
Call option (Tide Square Co., Ltd.)	₩ 894	3	Binominal tree method and others	Probability of risk neutral, increase in risk neutral, decrease in risk neutral
Others	217	3	Binominal tree method and others	Probability of risk neutral, increase in risk neutral, decrease in risk neutral
	<u>₩ 1,112</u>			
<b>Derivative financial liabilities</b>				
Conversion right (Kakao VX)	₩ 6,876	3	Binominal tree method, DCF	Discount rate, increase and decrease rate, estimated cash flow
Right for convertible redemption (Friendsgames Co., Ltd.)	7,537	3	Binominal tree method, DCF	Discount rate, increase and decrease rate, estimated cash flow
Conversion right (TNK Factory)	3,877	3	Binominal tree method, DCF	Discount rate, increase and decrease rate, estimated cash flow
Put option (NeoBazar Inc.)	24	3	Binominal tree method, DCF	Discount rate, increase and decrease rate, estimated cash flow
Right for convertible redemption (stagefive Co., Ltd. (formerly, Pinplay))	7,347	3	Binominal tree method, DCF	Discount rate, increase and decrease rate, estimated cash flow
	<u>₩ 25,662</u>			

<sup>1</sup> For some investees, the acquisition cost was measured at fair value in accordance with the 'Guidelines for fair value assessment of unlisted equity securities' because no sufficient information for fair value measurement was available and there is no clear evidence of value changes in the previous or current period.

**Kakao Corp. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
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**5.4 Valuation Processes for Fair Value Measurements Categorized Within Level 3**

The financial division of the Company performs the fair value measurements required for financial reporting purposes, including level 3 fair values. This division reports to the Chief Financial Officer ("CFO") and the Audit Committee, and discusses valuation processes and results with CFO and Audit Committee at least once every year depending on the materiality.

The results of the sensitivity analysis for the effect on profit or loss (before income tax) or other comprehensive income (before income tax) from changes in fair value (1%) for each financial instrument for the year ended December 31, 2019, are as follows:

*(in millions of Korean won)*

	<b>2019</b>	
	<b>Favorable changes</b>	<b>Unfavorable changes</b>
Financial assets at fair value through profit or loss	₩ 1,553	₩ (1,553)
Financial assets at fair value through other comprehensive income	878	(878)
Derivative financial assets	11	(11)
	2,442	(2,442)
Derivative financial liabilities	257	(257)
	₩ 2,699	₩ (2,699)

# Kakao Corp. and Subsidiaries

## Notes to the Consolidated Financial Statements

### December 31, 2019 and 2018

#### 6. Segment Information

The Company is operated as single operating segment. The financial information reported to the chief operating decision-maker is consistent with the disclosed financial statements.

Breakdown of the Company's revenue for the years ended December 31, 2019 and 2018, is as follows:

<i>(in millions of Korean won)</i>	<b>2019<sup>1</sup></b>		
	<b>Platform</b>	<b>Contents</b>	<b>Total</b>
Revenue	₩ 1,682,122	₩ 1,913,138	₩ 3,595,260
Inter-company revenue	(247,373)	(277,775)	(525,148)
Net revenue	₩ 1,434,749	₩ 1,635,363	₩ 3,070,111

<sup>1</sup> The Company classified the type of revenue as advertising, contents, and others until 2018, but the Company changed the classification of operating revenue in consideration of future business growth and market understanding during 2019. Most of the platform revenue consist of advertising and other revenue as of the previous year.

<i>(in millions of Korean won)</i>	<b>2018</b>		
	<b>Platform</b>	<b>Contents</b>	<b>Total</b>
Revenue	₩ 1,192,588	₩ 1,647,078	₩ 2,839,666
Inter-company revenue	(153,273)	(269,400)	(422,673)
Net revenue	₩ 1,039,315	₩ 1,377,678	₩ 2,416,992

For the years ended December 31, 2019 and 2018, the Company's most of the revenue arise in Korea, and most of non-current assets held by the Company as December 31, 2019 and 2018 are located in Korea.

There was no external customer contributing more than 10% of the total revenue for the years ended December 31, 2019 and 2018.

**Kakao Corp. and Subsidiaries**  
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**7. Financial Instruments by Category**

Carrying amounts of financial assets and liabilities by category as at December 31, 2019 and 2018, are as follows:

<i>(in millions of Korean won)</i>	<b>2019</b>	<b>2018</b>
<b>Financial assets at fair value through profit or loss</b>	₩ 176,661	₩ 130,627
<b>Financial assets at fair value through other comprehensive income</b>	419,265	329,345
<b>Financial assets at amortized costs</b>		
Cash and cash equivalents	1,918,225	1,247,013
Trade receivables, net	157,221	193,669
Short-term financial instruments	207,767	924,215
Long-term financial instruments	50,062	50,689
Other current financial assets	252,486	207,656
Other non-current financial assets	92,355	58,321
	<u>2,678,116</u>	<u>2,681,563</u>
<b>Derivative financial assets</b>	1,112	1,174
	<u>₩ 3,275,154</u>	<u>₩ 3,142,709</u>
 <i>(in millions of Korean won)</i>	 <b>2019</b>	 <b>2018</b>
<b>Financial liabilities at amortized costs</b>		
Trade and other payables	₩ 578,567	₩ 460,813
Short-term borrowings	448,596	609,480
Deposits received	299,564	129,889
Other current financial liabilities	25,256	20,526
Non-current trade and other payables	32,872	389
Long-term borrowings	72,269	44,995
Other non-current financial liabilities <sup>1</sup>	62,843	45,869
	<u>1,519,968</u>	<u>1,311,961</u>
<b>Derivative financial Liabilities</b>		
Current derivative financial liabilities	18,290	13,916
Non-current derivative financial liabilities	7,372	-
	<u>25,662</u>	<u>13,916</u>
	<u>₩ 1,545,630</u>	<u>₩ 1,325,878</u>

<sup>1</sup> As at December 31, 2019, the Company recognized non-controlling interests in fund with maturity as financial liabilities amounting to ₩ 46,236 million (2018: ₩ 43,046 million).

# Kakao Corp. and Subsidiaries

## Notes to the Consolidated Financial Statements

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Gains or losses of financial instruments by category for the years ended December 31, 2019 and 2018 are as follows:

(in millions of Korean won)

	2019					
	Gain (loss) on valuation (other comprehensive income (loss))	Gain (loss) on valuation / disposal (profit or loss)	Interest income (expenses)	Dividend income	Impairment loss	Gain (loss) on foreign currency translation
<b>Financial assets</b>						
Financial assets at fair value through profit or loss	₩ -	₩ (3,262)	₩ -	₩ 1,287	₩ -	₩ -
Financial assets at fair value through other comprehensive income	(702)	-	-	-	-	-
Financial assets at amortized costs and other financial assets	-	-	31,700	-	(1,811)	13,447
Derivative financial assets	-	(2,667)	-	-	-	-
<b>Financial liabilities</b>						
Financial liabilities at amortized costs and other financial liabilities	-	-	(4,030)	-	-	(208)
Derivative financial liabilities	-	622	-	-	-	-

(in millions of Korean won)

	2018					
	Gain (loss) on valuation (other comprehensive income (loss))	Gain (loss) on valuation / disposal (profit or loss)	Interest income (expenses)	Dividend income	Impairment loss	Gain (loss) on foreign currency translation
<b>Financial assets</b>						
Financial assets at fair value through profit or loss	₩ -	₩ 7,401	₩ -	₩ 381	₩ -	₩ -
Financial assets at fair value through other comprehensive income	9,251	(272)	-	-	-	1
Loans and receivables	-	-	41,783	-	(6,641)	22,628
Derivative financial assets	-	988	-	-	-	-
<b>Financial liabilities</b>						
Financial liabilities at amortized costs	-	-	(9,202)	-	-	(205)
Derivative financial liabilities	-	(732)	-	-	-	-

# Kakao Corp. and Subsidiaries

## Notes to the Consolidated Financial Statements

### December 31, 2019 and 2018

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#### 8. Cash and Cash Equivalents, Short-term and Long-term Financial Instruments and Restricted Financial Instruments

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

Details of cash and cash equivalents and short-term and long-term financial instruments as at December 31, 2019 and 2018, are as follows:

<i>(in millions of Korean won)</i>	<b>2019</b>	<b>2018</b>
Bank deposits and cash on hand and others	₩ 1,918,225	₩ 1,247,013
Short-term financial instruments <sup>1</sup>	207,767	924,215
Long-term financial instruments – time deposits and others	50,062	50,689
	<u>₩ 2,176,054</u>	<u>₩ 2,221,917</u>

<sup>1</sup> See Note 38 for information about restricted deposits and payment guarantees.

As at December 31, 2019, the Company has received payment guarantees from KB Kookmin Bank for the exchangeable bonds (old). In connection with the said payment guarantees, the stock return rights for the remaining shares subject to exchange were provided as collateral. 1,793,755 treasury shares required for the exchange are deposited at Korea Securities Depository.

In addition, the Company's deposits of ₩ 6,191 million are pledged as collateral in relation to employees' bank loans (Note 38).

#### 9. Credit Quality of Financial Assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

Cash and cash equivalents are all deposited in the financial institutions with high credit ratings.



**Kakao Corp. and Subsidiaries**  
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**10. Financial Assets**

*(a) Financial assets at fair value through profit or loss and derivative financial assets*

Financial assets mandatorily measured at fair value through profit or loss and derivative financial assets include the following classes of financial assets:

<i>(in millions of Korean won)</i>	<b>2019</b>	<b>2018</b>
<b>Financial assets at fair value through profit or loss</b>		
<b>Non-current</b>		
Beneficiary securities and fund	₩ 60,943	₩ 36,925
Listed shares	20,925	31,637
NEPTUNE Corp.	20,925	31,552
Mr. Blue Corporation	-	52
SHOWBOX Corp.	-	33
Compound financial instruments	45,280	36,285
	<u>127,148</u>	<u>104,846</u>
<b>Current</b>		
Beneficiary securities	6,527	1,073
Listed shares	433	432
Compound financial instruments	42,553	24,276
	<u>49,512</u>	<u>25,781</u>
	<u>₩ 176,660</u>	<u>₩ 130,627</u>
<b>Derivative financial assets</b>		
Derivative financial assets	₩ 1,112	₩ 1,174

The amounts recognized in profit or loss are as follows:

<i>(in millions of Korean won)</i>	<b>2019</b>	<b>2018</b>
Gain (loss) on financial assets at fair value through profit or loss	₩ (1,975)	₩ 7,401
Gain (loss) on derivative financial assets	(2,667)	-

# Kakao Corp. and Subsidiaries

## Notes to the Consolidated Financial Statements

### December 31, 2019 and 2018

#### *(b) Financial Assets at Fair Value through Other Comprehensive Income*

Equity investments at fair value through other comprehensive income comprise the following individual investments:

<i>(in millions of Korean won)</i>	<b>2019</b>	<b>2018</b>
<b>Non-current</b>		
Listed equity securities	₩ 331,441	₩ 6,111
YD ONLINE CORP.	-	982
FNC ENTERTAINMENT	5,473	5,129
SK TELECOM CO., LTD. <sup>2</sup>	301,456	-
HANJINKAL.	24,511	-
Action Square Co., Ltd.	1	-
Unlisted equity securities <sup>1,3</sup>	87,825	323,234
	<u>₩ 419,265</u>	<u>₩ 329,345</u>

<sup>1</sup> See Note 5 for details of unlisted equity securities.

<sup>2</sup> The Company acquired 1,266,620 shares of SK TELECOM CO., LTD. by issuing 2,177,401 new shares through a capital increase by allotment to a third party to enter into a strategic partnership with SK TELECOM CO., LTD. during the year ended December 31, 2019.

<sup>3</sup> During the year ended December 31, 2019, the Company acquired shares of KakaoBank of Korea Corp. through a call option exercise and reclassified the financial assets as investments in associates due to changes in interests (Note 16).

Upon disposal of these equity investments, any balance within the accumulated other comprehensive income for these equity investments is reclassified to retained earnings and is not reclassified to profit or loss.

#### *(c) Trade Receivables, Other Current Financial Assets and Other Non-current Financial Assets*

Trade receivables and allowance for doubtful accounts as at December 31, 2019 and 2018, are as follows:

<i>(in millions of Korean won)</i>	<b>2019</b>	<b>2018</b>
Trade receivables	₩ 162,404	₩ 201,238
Less: allowance for doubtful accounts (Note 41)	(5,184)	(7,568)
Trade receivables, net	<u>₩ 157,221</u>	<u>₩ 193,669</u>

There is no collateral held by the Company.

**Kakao Corp. and Subsidiaries**  
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Details of other current financial assets and other non-current financial assets as at December 31, 2019 and 2018, are as follows:

<i>(in millions of Korean won)</i>	<b>2019</b>	<b>2018</b>
<b>Other current financial assets</b>		
Non-trade receivables	₩ 239,438	₩ 204,271
Accrued revenues	2,132	9,132
Short-term loans receivable	21,709	3,142
Short-term loans to employees	177	134
Others	33	-
	<u>263,488</u>	<u>216,680</u>
<b>Other non-current financial assets</b>		
Long-term non-trade receivables	39,832	32,332
Long-term accrued revenues	209	-
Long-term loans receivable	19,359	2,521
Leasehold deposits	65,343	56,183
Long-term loans to employees	203	17
Others	63	17
	<u>125,010</u>	<u>91,071</u>
	<u>388,498</u>	<u>307,751</u>
Less: allowance for doubtful accounts(Note 41)	<u>(43,657)</u>	<u>(41,774)</u>
Other current financial assets and other non-current financial assets, net	<u>₩ 344,841</u>	<u>₩ 265,976</u>

See Note 41 for the impairment of trade receivables, other current financial assets and other non-current financial assets at amortized cost and the Company's exposure to credit risk.

**Kakao Corp. and Subsidiaries**  
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**11. Contract Assets and Liabilities**

Details of incremental costs (other current assets and other non-current assets), costs to fulfil a contract (other non-current assets), contract assets (other current assets) and contract liabilities (other current liabilities), recognized in relation to contracts with customers, as at December 31, 2019 and 2018, are as follows:

<i>(in millions of Korean won)</i>	<b>2019</b>	<b>2018</b>
<b>Contract assets</b>		
Contract assets – platform	₩ 2,851	₩ -
Contract assets – contents	281	612
	<u>₩ 3,133</u>	<u>₩ 612</u>
<b>Incremental costs</b>		
Incremental costs – platform	₩ 376	₩ -
Incremental costs – contents	6,841	3,819
	<u>₩ 7,217</u>	<u>₩ 3,819</u>
<b>Costs to fulfil a contract</b>		
Costs to fulfil a contract - platform	₩ 6,543	₩ -
<b>Contract liabilities</b>		
Contract liabilities – platform	₩ 116,753	₩ 44,337
Contract liabilities – contents	167,017	156,013
	<u>₩ 283,770</u>	<u>₩ 200,350</u>

*Significant changes in incremental costs and contract liabilities*

Contract liabilities of the Company consist of deferred income from the settlement amount for paid game goods that were not used, permanent items and paid platform goods and cryptocurrency (Klaytn) as at the end of the reporting period, and costs to fulfil a contract are the capitalized those fees. Incremental costs are the capitalized fees paid to the open market (app market) in connection with the aforementioned settlement amount for paid game goods and transaction fees in connection with sales of cryptocurrency.

Compared to the beginning of the current period, incremental costs and contract liabilities as at December 31, 2019, have increased due to the increase in the amount of payments made for unused game goods, permanent items and paid platform goods, but it does not increase significantly.

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*Expenses and revenue recognized in relation to contract assets and contract liabilities*

The following table shows how much of the revenue and expenses recognized in the current reporting period relates to carried-forward contract assets and contract liabilities.

<i>(in millions of Korean won)</i>	<b>2019</b>	<b>2018</b>
Expenses recognized that was included in the contract liability balance at the beginning of the year		
Incremental costs - contents	₩ 3,819	₩ 2,747
Revenue recognized that was included in the contract liability balance at the beginning of the year		
Contract liabilities - platform	44,308	39,835
Contract liabilities – contents	117,908	48,831
	<u>₩ 162,216</u>	<u>₩ 88,666</u>

Classification of revenue from contracts with customers

<i>(in millions of Korean won)</i>	<b>2019</b>	<b>2018</b>
Timing of revenue recognition		
At a point in time	₩ 1,947,450	₩ 1,731,483
Over a period	1,122,662	685,509
	<u>₩ 3,070,111</u>	<u>₩ 2,416,992</u>

**Kakao Corp. and Subsidiaries**  
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**12. Trade and Other payables**

Trade and other payables as at December 31, 2019 and 2018, are as follows:

<i>(in millions of Korean won)</i>	<b>2019</b>	<b>2018</b>
<b>Trade and other payables</b>		
Trade payables	₩ 28,950	₩ 29,359
Non-trade payables	546,630	431,454
Withhold deposits received	2,987	-
	<u>578,567</u>	<u>460,813</u>
<b>Non-current trade and other payables</b>		
Long-term non-trade payables	32,849	389
Withhold deposits received	23	-
	<u>32,872</u>	<u>389</u>
	<u>₩ 611,439</u>	<u>₩ 461,202</u>

**13. Other Financial Liabilities**

Other financial liabilities as at December 31, 2019 and 2018, are as follows:

<i>(in millions of Korean won)</i>	<b>2019</b>	<b>2018</b>
<b>Other current financial liabilities</b>		
Accrued expenses	₩ 25,256	₩ 20,526
<b>Deposits received</b>		
Deposits received	299,565	129,889
<b>Other non-current financial liabilities</b>		
Long-term accrued expenses	62,843	45,869
	<u>₩ 387,664</u>	<u>₩ 196,284</u>

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**14. Other Assets and Liabilities**

Other assets as at December 31, 2019 and 2018, are as follows:

<i>(in millions of Korean won)</i>	<b>2019</b>	<b>2018</b>
<b>Other current assets</b>		
Advance payments	₩ 151,586	₩ 107,872
Prepaid expenses	32,378	37,119
Prepaid value added tax	7,836	75,901
Corporate tax refund receivable	1,994	1,883
Others	127	830
	<u>193,921</u>	<u>223,605</u>
<b>Other non-current assets</b>		
Long-term advance payments	36,529	8,499
Long-term prepaid expenses	13,765	7,813
Other investments	100	100
Others	154	-
	<u>50,548</u>	<u>16,412</u>
	<u>₩ 244,469</u>	<u>₩ 240,017</u>

Other liabilities as at December 31, 2019 and 2018, are as follows:

<i>(in millions of Korean won)</i>	<b>2019</b>	<b>2018</b>
<b>Other current liabilities</b>		
Advances from customers	₩ 613,860	₩ 505,403
Deferred revenues	167,722	68,437
Withholdings	32,374	32,793
Value added tax payable	41,035	98,801
Government grants	565	565
Accrued expenses – short-term employee benefits liabilities	63,987	23,898
	<u>919,543</u>	<u>729,896</u>
<b>Other non-current liabilities</b>		
Deferred revenues	19,623	-
Long-term employee benefits liabilities	801	118
	<u>20,424</u>	<u>118</u>
	<u>₩ 939,967</u>	<u>₩ 730,014</u>

**Kakao Corp. and Subsidiaries**  
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**15. Inventories**

<i>(in millions of Korean won)</i>	<b>2019</b>	<b>2018</b>
Merchandise	₩ 53,690	₩ 34,250
(Valuation allowance for merchandise)	(5,777)	(727)
Finished goods	922	799
(Valuation allowance for finished goods)	(456)	(451)
Raw materials	409	1,485
(Valuation allowance for raw materials)	(102)	(105)
Others	763	586
	<u>₩ 49,450</u>	<u>₩ 35,836</u>

Inventories recognized as an expense during the year ended December 31, 2019, amounted to ₩ 288,646 million (2018: ₩ 205,734 million). These were included in 'operating expenses'.

Loss on valuation of inventories to net realizable value amounted to ₩ 13,165 million (2018: ₩ 285 million). These were recognized as an expense during the year ended December 31, 2019, and included in 'operating expenses' in profit or loss.



# Kakao Corp. and Subsidiaries

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#### 16. Investments in Associates and Joint Venture

Investments in associates and joint venture as at December 31, 2019 and 2018, are as follows:

(in millions of Korean won)

(in millions of Korean won)

		2019				2018	
		Percentage of ownership (%)	Acquisition cost	Net assets value	Book value	Book value	
Name <sup>1</sup>	Location						
Associates							
Addcredit Corp. <sup>3</sup>	Korea	17.7	₩ 300	₩ 93	₩ 93	₩ 112	
DMS Network, Inc. <sup>3</sup>	USA	19.7	2,357	-	-	-	
Tapas Media, Inc.	USA	20.4	2,101	1,042	1,125	177	
NBT Inc. <sup>3</sup>	Korea	10.5	1,782	1,220	1,220	2,246	
DAUM Venture Fund	Korea	39.5	8,024	9,664	9,664	7,925	
Dunamu Inc.	Korea	22.4	5,019	55,640	59,385	61,717	
Oscar Entertainment.	Korea	20.0	1,997	(64)	-	15	
CNT TECH CO., LTD. <sup>3</sup>	Korea	18.0	5,001	3,684	5,670	6,457	
Korea Credit Data	Korea	28.7	4,256	2,192	5,360	4,776	
MANNACEA	Korea	23.8	10,000	3,877	3,877	5,319	
Left Right Co., Ltd.	Korea	40.0	400	(30)	2	224	
SCI VENTURE, INC.	Philippines	39.5	1,239	(415)	-	1,170	
SHOELAB CO., LTD. <sup>3</sup>	Korea	16.6	500	-	-	-	
LUXROBO CO., LTD. <sup>3</sup>	Korea	13.1	5,287	2,224	6,081	5,298	
Deleo Korea Co., Ltd. <sup>3</sup>	Korea	9.9	3,000	877	877	759	
Skelter Labs, Inc. <sup>3</sup>	Korea	17.0	2,501	851	1,674	2,044	
TOROOO Inc.	Korea	20.9	2,500	701	845	744	
Dreamcide SPC LTD.	Korea	49.0	5	(6)	-	-	
DIGISONIC CO., LTD. <sup>3</sup>	Korea	12.6	100	51	52	76	
D&C MEDIA CO.,LTD. <sup>3</sup>	Korea	18.2	12,614	7,494	15,026	14,475	
K Cube NEO Fund <sup>3</sup>	Korea	15.6	2,520	1,975	1,977	1,974	
BUNJANG Corp. <sup>3</sup>	Korea	9.0	203	151	280	247	
Supergene Inc. <sup>3</sup>	Korea	5.0	498	1,493	1,448	1,229	
InnoSignal CO., LTD. <sup>3</sup>	Korea	15.4	100	90	165	162	
PoteNit Co., Ltd. <sup>3</sup>	Korea	12.1	2,096	(645)	-	-	
Doctorbrain SPC Ltd.	Korea	49.0	5	(14)	-	-	
CLAIR, Inc. <sup>3</sup>	Korea	2.7	500	651	586	681	
KIF-Kakao Wooribank Technology Financing Fund <sup>3</sup>	Korea	19.7	15,000	13,603	13,603	7,554	
13MILE.CO.LTD	Korea	31.7	4,435	(252)	3,321	2,945	
ADSOTA CORP.	Vietnam	49.0	2,260	1,330	2,413	1,419	
CARDOC Inc.	Korea	27.3	6,381	3,895	3,895	4,100	
Kakao Kids	Korea	44.3	2,794	8,074	8,074	8,215	
Action Square Co., Ltd. <sup>5</sup>	Korea	-	-	-	-	3,807	
NOWBUSKING COMPANY <sup>3</sup>	Korea	16.2	3,000	-	2,160	2,724	
LINEWALKS Inc.	Korea	35.5	3,000	602	2,869	3,002	
CHEQUER Inc.	Korea	23.3	400	153	453	376	
Hasys co.,Ltd	Korea	47.2	17,729	2,028	15,419	17,133	
mycelebs, inc <sup>3</sup>	Korea	15.8	5,000	1,136	5,038	5,000	
DAIWAON. C. I. INC <sup>3</sup>	Korea	19.8	15,048	2,459	9,244	15,048	
Haksan Publinshing Co., Ltd. <sup>3</sup>	Korea	19.8	14,653	2,881	11,337	14,653	
PEOPLETUND COMPANY <sup>3</sup>	Korea	9.4	3,836	(1,949)	2,636	3,836	
SEOUL MEDIA.INC.	Korea	22.2	10,000	3,016	8,520	10,000	
UBCARE CO., LTD. <sup>3</sup>	Korea	18.1	37,993	18,844	40,228	45,856	
GC Social Marketing Inc. <sup>2</sup>	Korea	27.3	1,018	252	951	-	
LEEMITELEESYUN CULTURE INDUSTRIAL	Korea	49.0	5	4	4	-	
JEONMUNHOESA INC. <sup>2</sup>							
KM Solution Corp. (formerly, Tago Solutions Co., Ltd) <sup>9</sup>	Korea	-	-	-	-	3,000	

# Kakao Corp. and Subsidiaries

## Notes to the Consolidated Financial Statements

### December 31, 2019 and 2018

(in millions of Korean won)

(in millions of Korean won)

		2019				2018
		Percentage of ownership (%)	Acquisition cost	Net assets value	Book value	Book value
Name <sup>1</sup>	Location					
Associates						
Sixshop <sup>2</sup>	Korea	20.0	2,000	454	1,987	-
Tide Square Co., Ltd. <sup>7</sup>	Korea	28.9	26,464	12,331	18,828	-
Glohow Holdings PTE. LTE <sup>2</sup>	Singapore	20.0	1,489	356	1,480	-
MOVILL Co.Ltd <sup>6</sup>	Korea	70.0	1,400	(666)	804	-
EASYGO CO., LTD. <sup>2</sup>	Korea	20.0	100	98	98	-
G&G ENTERPRISE CO.,LTD. <sup>2,3</sup>	Korea	11.5	2,924	4,379	3,060	-
KakaoBank of Korea Corp. <sup>8</sup>	Korea	33.5	621,105	560,200	615,559	-
KW Books, Inc. <sup>2</sup>	Korea	20.0	8,000	1,089	8,000	-
325 E&C <sup>2</sup>	Korea	40.0	2,400	250	2,400	-
UNION K-Culture Contents Investment Fund <sup>2</sup>	Korea	33.3	2,500	2,478	2,478	-
EDAM Entertainment Corp <sup>2</sup>	Korea	40.0	11,000	37	11,000	-
Daeyoung Chaevi CO., Ltd <sup>2,3</sup>	Korea	10.0	5,000	576	5,000	-
Ocean Drive Studio Co., Ltd. <sup>2</sup>	Korea	22.2	10,003	2,216	10,003	-
Un7qi3 Corp.	Korea	21.7	2,831	344	2,703	468
Socialbean Co., Ltd <sup>2,3</sup>	Korea	2.9	999	128	961	-
DOZEN CO.,LTD <sup>2,3</sup>	Korea	9.9	495	50	495	-
KASA NETWORK PTE. LTD <sup>3</sup>	Singapore	4.3	1,086	1,086	1,086	-
Others (61 companies) <sup>4</sup>		2.6~35.7	43,522	13,589	30,087	34,121
			960,777	747,867	961,600	301,085
Joint Venture						
DAUM KAKAO PHILIPPINES CORP.	Philippines	50.0	5,609	4,385	4,385	4,103
Asankakao Medical Data Co., Ltd. <sup>2</sup>	Korea	50.0	5,000	4,862	4,862	-
PINPLAY JAPAN Co., Ltd. <sup>2</sup>	Japan	50.0	2,036	1,962	1,962	-
PHI digital healthcare Inc. <sup>2</sup>	Korea	50.0	6,250	3,944	6,130	-
The Bridges of Madison County Co., Ltd. <sup>2</sup>	Korea	50.0	5	(9)	5	-
			18,900	15,144	17,344	4,103
			₩ 979,678	₩ 763,012	₩ 978,944	₩ 305,188

<sup>1</sup> All investments in associates and joint venture are all unlisted securities excluding UBCARE CO., LTD., D&C MEDIA CO., LTD. and Action Square Co., Ltd.

<sup>2</sup> Newly acquired and established during 2019.

<sup>3</sup> Although the Company holds less than 20% of equity shares, the Company is considered to have a significant influences as the Company holds voting power to participate in the investee's Board of Directors.

<sup>4</sup> Small-sized entities invested by K Cube Venture Fund no.1, KAKAO Venture Fund, Kakao Digital Contents Fund, Kakao Game Growth Share Fund and KAKAO\_CCVC Jeju Creative Economy Innovative Fund with the ownership percentage of 2.6%~35.7% and classified as associates as the Company is considered to have a significant influence.

<sup>5</sup> Disposed during 2019.

<sup>6</sup> Reclassified to an associate from a subsidiary due to the designation as a special company under Financial Law.

<sup>7</sup> Reclassified to an associate due to loss of control from changes in option contract.

<sup>8</sup> The entity is classified as an associate by exercising a call option that gives the right to acquire interests up to 34% of the total number of shares.

<sup>9</sup> As the Company obtained control over the entities in 2019, the entities are reclassified as subsidiaries from investments in associates.

**Kakao Corp. and Subsidiaries**  
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Changes in carrying amounts of investments in associates and joint venture for the years ended December 31, 2019 and 2018 are as follows:

(in millions of Korean won)

(in millions of Korean won)

	2019													
Name	Beginning balance	Changes in scope of consolidation		Acquisition	Disposal and impairment		Reclassification	Gain (loss) on valuation of equity-method investments	Share in other comprehensive income (loss) of associates	Others	Ending balance			
Associates														
Addcredit Corp.	₩ 112	₩	-	₩	-	₩	-	₩ (19)	₩	-	₩ 93			
DMS Network, Inc.	-		-		-		-	-		-	-			
Tapas Media, Inc. <sup>1</sup>	177		-		-		-	(313)	109	1,152	1,125			
NBT Inc.	2,246		-		-		-	(1,014)	(12)	-	1,220			
DAUM Venture Fund	7,925		-		-		-	1,749	(11)	-	9,664			
Dunamu Inc. <sup>1,6</sup>	61,717		-		(4,484)		-	2,705	201	(754)	59,385			
Oscar Entertainment	15		-		-		-	(15)	-	-	-			
CNT TECH CO.,LTD.	6,457		-		-		-	(780)	(7)	-	5,670			
Korea Credit Data <sup>1,5</sup>	4,776		-		(144)		-	(2,341)	-	3,069	5,360			
MANNACEA	5,319		-		-		-	(1,661)	220	-	3,877			
Left Right Co., Ltd. <sup>2</sup>	224		-		(195)		-	(27)	-	-	2			
SCI VENTURE INC. <sup>2</sup>	1,170		-		(524)		-	(844)	149	49	-			
LUXROBO Co., Ltd.	5,298		-		-		-	(808)	(1)	1,592	6,081			
Deleo Korea Co.,Ltd.	759		-		-		-	(361)	-	479	877			
Skelter Labs, Inc.	2,044		-		-		-	(2,723)	-	2,353	1,674			
TOROO Inc.	744		-		-		-	(1,087)	-	1,188	845			
Dreamcide SPC Ltd.	-		-		-		-	-	-	-	-			
DIGISONIC Co., Ltd.	76		-		-		-	(42)	-	18	52			
D&C MEDIA CO.,LTD. <sup>1</sup>	14,475		-		-		-	758	(83)	(124)	15,026			
K Cube NEO Fund <sup>4,6</sup>	1,974		-	750	(480)		-	(268)	2	(1)	1,977			
BUNJANG Corp. <sup>5</sup>	247		-		(350)		-	(171)	-	554	280			
Supergene Inc. <sup>5</sup>	1,229		-		(1,448)		-	1,667	-	-	1,448			
InnoSignal Co.,Ltd.	162		-		-		-	(3)	-	7	165			
CLAIR, Inc.	681		-		-		(65)	(29)	-	-	586			
KIF-Kakao Wooribank Technology Financing Fund <sup>4</sup>	7,554		-	7,200	-		-	(1,216)	66	-	13,603			
13MILE.CO.LTD <sup>4</sup>	2,945		-	1,000	-		-	(624)	-	-	3,321			
ADSOTA CORP <sup>4</sup>	1,419		-	1,180	-		-	(50)	(136)	-	2,413			
CARDOC Inc. <sup>1,4</sup>	4,100		-	900	-		-	(1,102)	-	(3)	3,895			
Kakao Kids	8,215		-		-		-	(142)	-	-	8,074			
Action Square Co., Ltd. <sup>5</sup>	3,807		-		(3,807)		-	-	-	-	-			
NOWBUSKING COMPANY	2,724		-		-		-	(564)	-	-	2,160			
LINEWALKS Inc.	3,002		-		-		-	(133)	-	-	2,869			

**Kakao Corp. and Subsidiaries**  
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(in millions of Korean won)

Name	2019							
	Beginning balance	Changes in scope of consolidation	Acquisition	Disposal and impairment	Reclassification	Gain (loss) on valuation of equity-method investments	Share in other comprehensive income (loss) of associates	Ending balance
CHEQUER Inc.	376	-	-	-	-	(37)	1	453
Hasys Co., Ltd.	17,133	-	-	-	-	(1,712)	(2)	15,419
mycelebs, inc <sup>1</sup>	5,000	-	-	-	-	(1,155)	(1)	5,038
DAIWAON. C. I. INC <sup>2</sup>	15,048	-	-	(6,121)	-	322	(5)	9,244
Haksan Publinshing Co., Ltd. <sup>2</sup>	14,653	-	-	(3,237)	-	(79)	-	11,337
PEOPLEFUND COMPANY	3,836	-	-	-	-	(1,487)	-	2,636
SEOUL MEDIA.INC. <sup>2</sup>	10,000	-	-	(1,499)	-	19	-	8,520
UBCARE CO., LTD. <sup>1,5,6</sup>	45,856	-	-	(4,371)	(3,856)	2,372	188	40,228
GC Social Marketing Inc. <sup>3</sup>	-	-	1,018	-	-	(71)	4	951
LEEMITELEESYUN CULTURE INDUSTRIAL	-	-	5	-	-	(1)	-	4
JEONMUNHOESA INC <sup>3</sup>	-	-	-	-	-	-	-	-
KM Solution Corp. (formerly, Tago Solutions Co., Ltd)	3,000	(814)	-	-	-	(635)	-	(1,551)
Sixshop <sup>3</sup>	-	-	2,000	-	-	(13)	-	1,987
Tide Square Co., Ltd. <sup>2,7</sup>	-	26,464	-	(4,424)	-	(3,103)	(109)	18,828
Glohow Holdings PTE. LTE <sup>3</sup>	-	-	1,489	-	-	(9)	-	1,480
MOVILL Co.Ltd	-	1,400	-	-	-	(596)	-	804
EASYGO CO., LTD. <sup>3</sup>	-	-	100	-	-	(2)	-	98
G&G ENTERPRISE CO.,LTD. <sup>3</sup>	-	-	2,924	-	-	136	-	3,060
KakaoBank of Korea Corp. <sup>1,8</sup>	-	-	378,000	-	243,105	(714)	(3,589)	615,559
KW Books, Inc. <sup>3</sup>	-	-	8,000	-	-	-	-	8,000
325 E&C <sup>3</sup>	-	-	2,400	-	-	-	-	2,400
UNION K-Culture Contents Investment Fund <sup>3</sup>	-	-	2,500	-	-	(22)	-	2,478
EDAM Entertainment Corp <sup>3</sup>	-	-	11,000	-	-	-	-	11,000
Daeyoung Chaevi CO., Ltd <sup>3</sup>	-	-	5,000	-	-	-	-	5,000
Ocean Drive Studio Co., Ltd. <sup>3</sup>	-	-	10,003	-	-	-	-	10,003
Un7qi3 Corp. <sup>4</sup>	468	-	2,301	-	-	(66)	-	2,703
Socialbean Co., Ltd <sup>3</sup>	-	-	999	-	-	(38)	-	961
DOZEN CO.,LTD <sup>3</sup>	-	-	495	-	-	-	-	495
KASA NETWORK PTE. LTD <sup>3</sup>	-	-	1,086	-	-	-	-	1,086
Others <sup>1,2,3,4,5</sup> (61 companies)	34,121	-	345	(11,716)	(283)	(3,532)	(2,048)	30,087
<b>Joint Venture</b>								
DAUM KAKAO PHILIPPINES CORP.	4,103	-	-	-	-	(8)	291	4,385
Asankakao Medical Data Co., Ltd. <sup>3</sup>	-	-	5,000	-	-	(138)	-	4,862

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Name	2019								Ending balance
	Beginning balance	Changes in scope of consolidation	Acquisition	Disposal and impairment	Reclassification	Gain (loss) on valuation of equity-method investments	Share in other comprehensive income (loss) of associates	Others	
PINPLAY JAPAN Co., Ltd. <sup>3</sup>	-	-	2,036	-	-	(168)	94	-	1,962
PHI digital healthcare Inc <sup>1</sup>	-	-	6,250	-	-	427	-	(547)	6,130
The Bridges of Madison County Co., Ltd. <sup>3</sup>	-	-	5	-	-	-	-	-	5
	₩ 305,188	₩ 27,050	₩ 453,986	₩ (42,802)	₩ 238,901	₩ (19,771)	₩ (4,679)	₩ 21,071	₩ 978,944

<sup>1</sup> Others include gain or loss on disposal from changes in percentage of ownership with maintaining significant influence during 2019.

<sup>2</sup> During 2019, the Company recognized impairment loss for investments in Left Right Co., Ltd. and other nineteen associates amounting to ₩ 25,876 million as their recoverable amounts are considered less than their book values as at December 31, 2019.

<sup>3</sup> Newly acquired and established during 2019.

<sup>4</sup> Additionally acquired during 2019.

<sup>5</sup> Disposed during 2019.

<sup>6</sup> The Company received dividend income from Dunamu Inc., UBCARE CO., LTD. and K Cube NEO Fund amounting to ₩ 5,329 million and deducted it from the carrying amount of investments in associates.

<sup>7</sup> The fair value of the call option to controlling shareholders of Tide Square Co., Ltd. held by the Company amounting to ₩ 6,748 million was reclassified to derivative assets during 2019 and the entity is reclassified to an associate due to loss of control from changes in option contract.

<sup>8</sup> The entity is classified as an associate by exercising a call option that gives the right to acquire interests up to 34% of the total number of shares.

**Kakao Corp. and Subsidiaries**  
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Name	2018							
	Beginning balance	Changes in scope of consolidation	Acquisition	Disposal and impairment	Gain (loss) on valuation of equity-method investments	Share in other comprehensive income (loss) of associates	Others	Ending balance
<b>Associates</b>								
AD Credits	₩ 92	₩ -	₩ -	₩ -	₩ 20	₩ -	₩ -	₩ 112
Tapas Media, Inc. <sup>2,3</sup>	2,999	-	-	(2,344)	(738)	143	117	177
NBT Corp.	2,012	-	-	-	234	-	-	2,246
DAUM Venture Fund	8,656	-	-	(791)	3	57	-	7,925
Dunamu Inc. <sup>1,2</sup>	33,376	-	570	(2,195)	28,883	448	635	61,717
OSKAR Entertainment Co.,LTD.	745	-	-	-	(706)	-	(23)	15
CNT TECH CO.,LTD.	5,994	-	-	-	472	(9)	-	6,457
Korea Credit Data <sup>2</sup>	4,658	-	-	-	(241)	-	359	4,776
MannaCEA <sup>2</sup>	3,835	-	-	-	(1,357)	(307)	3,148	5,319
NeoBazar Inc. <sup>1,2</sup>	738	(3,850)	-	-	(1,382)	-	4,495	-
Left Right CO., LTD.	291	-	-	-	(67)	-	-	224
SCI VENTURE INC. <sup>2</sup>	1,293	-	-	-	(11)	(98)	(14)	1,170
SONNORI CORP. <sup>1,7</sup>	3,767	(5,929)	-	-	(1,626)	-	3,788	-
JOH&Company <sup>1</sup>	8,673	(13,334)	-	-	(582)	-	5,243	-
LUXROBO CO., LTD.. <sup>2,3</sup>	5,222	-	-	-	(1,193)	(2)	1,271	5,298
Leferi Inc.	171	-	-	-	88	-	-	260
Deleo Korea Co.,Ltd. <sup>2</sup>	807	-	-	-	(244)	-	196	759
Skelter Labs, Inc. <sup>2</sup>	2,658	-	-	-	(2,475)	-	1,862	2,044
TOROO Inc.	2,400	-	-	-	(1,655)	-	-	744
Dreamcide SPC Ltd.	4	-	-	-	(4)	-	-	-
DIGISONIC Co., Ltd.	83	-	-	-	(8)	-	-	76
D&C MEDIA CO., LTD. <sup>2</sup>	16,291	-	-	-	785	(123)	(2,478)	14,475
K Cube NEO Fund <sup>7</sup>	711	-	1,500	-	(237)	-	-	1,974
BUNJANG Corp.	958	-	-	(571)	(123)	(17)	-	247
Supergene Inc.	994	-	-	-	235	-	-	1,229
InnoSignal Co., Ltd. <sup>2</sup>	86	-	-	-	3	-	72	162
PoteNit Co.,Ltd. <sup>2,7</sup>	2,000	-	96	-	(1,931)	(87)	(77)	-
Doctorbrain SPC Ltd.	2	-	-	-	(2)	-	-	-
CLAIR, Inc. <sup>2</sup>	500	-	-	-	75	-	106	681
KIF-Kakao Wooribank Technology Financing Fund <sup>7</sup>	3,000	-	4,800	-	(246)	-	-	7,554
13MILE.CO., LTD <sup>4</sup>	-	-	3,435	-	(490)	-	-	2,945
ADSOTA CORP. <sup>4</sup>	-	-	1,080	-	156	183	-	1,419
CARDOC Inc. <sup>2,5</sup>	-	5,481	-	-	(739)	-	(642)	4,100
Kakao Kids (formerly, BLUEPIN Inc.) <sup>2,5</sup>	-	2,794	-	-	(310)	296	5,436	8,215

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Name	2018							
	Beginning balance	Changes in scope of consolidation	Acquisition	Disposal and impairment	Gain (loss) on valuation of equity-method investments	Share in other comprehensive income (loss) of associates	Others	Ending balance
<b>Associates</b>								
Action Square Co., Ltd. <sup>2,3,4</sup>	-	-	20,000	(15,168)	(992)	57	(90)	3,807
WAY2BIT <sup>4,8</sup>	-	-	2,990	(2,990)	-	-	-	-
NOWBUSKING COMPANY <sup>4</sup>	-	-	3,000	-	(276)	-	-	2,724
LINEWALKS Inc. <sup>4</sup>	-	-	3,000	-	2	-	-	3,002
CHEQUER Inc. <sup>4</sup>	-	-	400	-	(34)	10	-	376
READY ENTERTAINMENT <sup>4</sup>	-	(4,761)	4,761	-	467	-	(467)	-
BH Entertainment <sup>4</sup>	-	(8,100)	8,100	-	364	-	(364)	-
J,WIDE-COMPANY <sup>4</sup>	-	(2,550)	2,550	-	(174)	-	174	-
Hasys Co., Ltd. <sup>5</sup>	-	17,729	-	-	(598)	2	-	17,133
mycelebs, inc <sup>4</sup>	-	-	5,000	-	-	-	-	5,000
DAIWAON. C. I. INC <sup>4</sup>	-	-	15,048	-	-	-	-	15,048
Haksan Publinshing Co.Ltd. <sup>4</sup>	-	-	14,653	-	-	-	-	14,653
easi6 Inc. <sup>4</sup>	-	-	700	(700)	-	-	-	-
PEOPLEFUND COMPANY <sup>4</sup>	-	-	3,836	-	-	-	-	3,836
SEOUL MEDIA.INC. <sup>4</sup>	-	-	10,000	-	-	-	-	10,000
Allstay Co., LTD <sup>4</sup>	-	1,424	-	-	-	-	-	1,424
UBCARE CO., LTD.	-	-	42,000	-	-	-	3,856	45,856
Others <sup>2,6</sup> (63 companies)	44,820	1,977	8,098	(18,959)	(6,707)	(63)	6,739	35,905
<b>Joint Venture</b>								
DAUM KAKAO PHILIPPINES CORP.	4,115	-	-	-	12	(25)	-	4,103
	₩ 161,950	₩ (9,118)	₩ 155,618	₩ (43,718)	₩ 6,652	₩ 465	₩ 33,340	₩ 305,188

<sup>1</sup> As the Company obtained control over the entity in 2018, the entities are reclassified as subsidiaries from investments in associates.

<sup>2</sup> Others include gain or loss on disposal from changes in percentage of ownership with maintaining significant influence during 2018.

<sup>3</sup> During 2018, the Company recognized impairment loss for investments in Action Square Co., Ltd. and other nineteen associates amounting to ₩ 36,747 million as their recoverable amounts are considered less than their book values as at December 31, 2018.

<sup>4</sup> Newly acquired during 2018.

<sup>5</sup> Reclassified to an associate from a subsidiary due to loss of control.

<sup>6</sup> Newly acquired N42 corp. and other nine associates in 2018.

<sup>7</sup> Additionally acquired during 2018.

<sup>8</sup> Disposed during 2018.

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Fair value of investments in associates that has a quoted market price as at December 31, 2019 and 2018, is as follows:

(in millions of Korean won)	Company	2019		2018	
		Fair value	Book value	Fair value	Book value
Associates	D&C MEDIA CO.,LTD.	₩ 43,296	₩ 15,026	₩ 31,498	₩ 14,475
	UBCARE CO., LTD.	54,305	40,228	45,856	45,856
	Action Square Co., Ltd.	-	-	4,832	3,807

The tables below provide a reconciliation of the summarized financial information presented to the carrying amount of its interest in material associates and joint venture.

(in millions of Korean won)

	2019				
	Net assets at the end of the year (a)	The Company's share in % (b)	The Company's share in KRW (a*b)	Goodwill and etc.	Book value
KakaoBank of Korea Corp.	₩ 1,670,973	33.5%	₩ 560,200	₩ 55,359	₩ 615,559
Dunamu Inc.	248,006	22.4%	55,640	3,745	59,385
UBCARE CO., LTD.	103,970	18.1%	18,844	21,383	40,228
Tide Square Co., Ltd.	42,683	28.9%	12,331	6,497	18,828
D&C MEDIA CO.,LTD.	41,135	18.2%	7,494	7,532	15,026
Hasys Co., Ltd.	4,299	47.2%	2,028	13,390	15,419



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	2018				
	Net assets at the end of the year (a)	The Company's share in % (b)	The Company's share in KRW (a*b)	Goodwill and etc.	Book value
Dunamu Inc.	₩ 255,862	22.7%	₩ 58,082	₩ 3,635	₩ 61,717
UBCARE CO., LTD.	103,005	20.0%	20,570	25,286	45,856
D&C MEDIA CO.,LTD.	36,904	18.5%	6,843	7,632	14,475
Hasys Co., Ltd.	5,696	47.2%	2,688	14,445	17,133

A summary of financial information on the associates and joint venture for the years ended December 31, 2019 and 2018, is as follows:

(in millions of Korean won)

	2019							
	Current asset	Non-current asset	Current liability	Non-current liability	Revenue	Profit (loss)	Other comprehensive income (loss)	Comprehensive income (loss)
KakaoBank of Korea Corp.	₩ 19,743,144	₩ 2,980,964	₩ 21,030,991	₩ 14,396	₩ 664,940	₩ 13,733	₩ 2,433	₩ 16,166
Dunamu Inc.	413,429	115,995	248,978	102,917	140,251	9,456	-	3,760
UBCARE CO., LTD.	98,050	40,786	30,182	1,400	110,808	8,802	(1,234)	7,568
Tide Square Co., Ltd.	52,631	20,807	24,222	4,952	40,057	(11,141)	503	(10,638)
D&C MEDIA CO.,LTD.	48,386	4,957	11,286	748	42,140	4,640	-	4,640
Hasys co.,ltd	7,678	1,713	2,038	3,053	12,856	(1,394)	-	(1,394)
	<u>₩ 20,363,317</u>	<u>₩ 3,165,221</u>	<u>₩ 21,347,697</u>	<u>₩ 127,466</u>	<u>₩ 1,011,053</u>	<u>₩ 24,095</u>	<u>₩ 1,702</u>	<u>₩ 21,496</u>

**Kakao Corp. and Subsidiaries**  
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(in millions of Korean won)

	2018							
	Current asset	Non-current asset	Current liability	Non-current liability	Revenue	Profit (loss)	Other comprehensive income (loss)	Comprehensive income (loss)
Dunamu Inc.	₩ 560,455	₩ 68,158	₩ 362,683	₩ 9,056	₩ 479,587	₩ 137,541	₩ -	₩ 137,541
UBCARE CO., LTD. <sup>1</sup>	75,808	39,444	9,783	2,445	63,758	4,682	-	4,682
D&C MEDIA CO.,LTD.	39,228	4,545	6,181	573	32,082	5,414	-	5,414
Hasys co.,ltd <sup>1</sup>	7,615	2,210	1,229	2,899	9,720	(399)	21	(378)
	<u>₩ 683,106</u>	<u>₩ 114,357</u>	<u>₩ 379,876</u>	<u>₩ 14,972</u>	<u>₩ 585,147</u>	<u>₩ 147,239</u>	<u>₩ 21</u>	<u>₩ 147,259</u>

<sup>1</sup> The above table represents financial information since the acquisition date.

**Kakao Corp. and Subsidiaries**  
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**17. Property and Equipment**

Changes in property and equipment for the years ended December 31, 2019 and 2018 are as follows:

(in millions of Korean won)

	2019							
	Land	Buildings	Structures	Machinery and equipment	Vehicles	Furniture	Construction in progress	Total
Beginning balance	₩ 57,233	₩ 55,268	₩ 752	₩ 132,372	₩ 1,845	₩ 61,019	₩ 6,324	₩ 314,812
Acquisition	7,803	1,162	32	59,949	3,974	37,406	2,693	113,018
Changes in scope of consolidation	2,219	725	-	48	3,694	981	(3,751)	3,917
Disposals	(65)	(2,471)	(11)	(1,663)	(815)	(1,259)	(140)	(6,423)
Depreciation	-	(1,580)	(274)	(53,004)	(817)	(27,317)	-	(82,992)
Impairment	-	-	-	-	-	(57)	-	(57)
Transfer	-	-	-	469	-	3,877	(2,433)	1,912
Others <sup>1</sup>	-	350	-	149	-	5,132	-	5,631
Ending balance	₩ 67,191	₩ 53,454	₩ 499	₩ 138,319	₩ 7,881	₩ 79,781	₩ 2,693	₩ 349,818
December 31, 2019								
Acquisition cost	₩ 67,191	₩ 61,406	₩ 860	₩ 336,427	₩ 11,390	₩ 156,720	₩ 2,693	₩ 636,685
Government grants	-	-	-	(44)	-	(308)	-	(352)
Accumulated depreciation	-	(7,952)	(360)	(198,006)	(3,508)	(76,573)	-	(286,400)
Accumulated impairment	-	-	-	(58)	-	(57)	-	(115)
Net book value	₩ 67,191	₩ 53,454	₩ 499	₩ 138,319	₩ 7,881	₩ 79,781	₩ 2,693	₩ 349,818

<sup>1</sup> Others include currency translation effects.

**Kakao Corp. and Subsidiaries**  
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(in millions of Korean won)

	2018							
	Land	Buildings	Structures	Machinery and equipment	Vehicles	Furniture	Construction in progress	Total
Beginning balance	₩ 57,220	₩ 53,771	₩ 215	₩ 119,162	₩ 520	₩ 38,423	₩ 1,733	₩ 271,044
Acquisition	8	1,040	567	59,707	825	35,155	3,891	101,193
Changes in scope of consolidation	(28)	10,029	18	1,285	878	3,506	3,890	19,578
Disposals	-	(9,501)	(6)	(509)	(95)	(1,224)	-	(11,335)
Depreciation	-	(1,619)	(39)	(47,279)	(52)	(18,661)	-	(67,650)
Transfer	33	1,559	-	6	(150)	3,819	(3,191)	2,077
Others <sup>1</sup>	-	(11)	(3)	-	(80)	-	-	(95)
Ending balance	₩ 57,233	₩ 55,268	₩ 752	₩ 132,372	₩ 1,845	₩ 61,019	₩ 6,324	₩ 314,812
December 31, 2018								
Acquisition cost	₩ 57,233	₩ 61,740	₩ 847	₩ 300,936	₩ 3,166	₩ 119,165	₩ 6,324	₩ 549,411
Government grants	-	-	-	(28)	-	(286)	-	(314)
Accumulated depreciation	-	(6,473)	(95)	(168,536)	(1,321)	(57,860)	-	(234,285)
Net book value	₩ 57,233	₩ 55,268	₩ 752	₩ 132,372	₩ 1,845	₩ 61,019	₩ 6,324	₩ 314,812

<sup>1</sup> Others include currency translation effects.

Certain land and buildings are provided as collateral in relation to loans agreement (Note 38).

**Kakao Corp. and Subsidiaries**  
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**18. Investment Properties**

Changes in investment properties for the year ended December 31, 2019, are as follows:

<i>(in millions of Korean won)</i>	<b>Land</b>		<b>Buildings</b>		<b>Total</b>
Beginning balance	₩	-	₩	-	₩ -
Changes in scope of consolidation		2,146		701	2,848
Depreciation		-		(5)	(5)
Ending balance	₩	2,146	₩	697	₩ 2,843
December 31, 2019					
Acquisition cost	₩	2,146	₩	734	₩ 2,880
Accumulated depreciation		-		(37)	(37)
Net book value	₩	2,146	₩	697	₩ 2,843

During the year, rental income earned from operating leases of investment property is ₩ 29 million, and direct operating expenses (including repairs and maintenance) from property that generated rental income are ₩ 2 million.

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**19. Intangible Assets**

Changes in intangible assets for the years ended December 31, 2019 and 2018 are as follows:

(in millions of Korean won)

	2019						
	Goodwill <sup>1</sup>	Development costs	Industrial property rights	Exclusive rights	Membership / Brand	Other intangible assets <sup>2,3</sup>	Total
Beginning balance	₩ 3,175,610	₩ 8,861	₩ 39,467	₩ 7,388	₩ 356,875	₩ 277,064	₩ 3,865,265
Acquisition	-	242	1,242	926	3,652	56,250	62,312
Transfer	-	-	-	12,945	-	6,178	19,123
Changes in scope of consolidation	114,193	-	61	15,643	344	(7,950)	122,290
Disposal	-	-	(5)	(16)	(386)	(10,883)	(11,290)
Amortization	-	(4,760)	(5,767)	(9,520)	-	(59,631)	(79,679)
Impairment	(374,639)	(224)	(28)	-	(56)	(65,035)	(439,982)
Other	-	-	20	-	-	10,356	10,375
Ending balance	₩ 2,915,165	₩ 4,119	₩ 34,990	₩ 27,365	₩ 360,429	₩ 206,348	₩ 3,548,416
December 31, 2019							
Acquisition cost	₩ 3,302,966	₩ 24,592	₩ 41,783	₩ 37,460	₩ 360,524	₩ 382,185	₩ 4,149,509
Accumulated amortization	-	(18,274)	(5,183)	(10,094)	-	(119,757)	(153,309)
Government grants	-	(5)	(1)	-	-	(17)	(23)
Accumulated impairment	(387,801)	(2,195)	(1,609)	-	(95)	(56,062)	(447,762)
Net book value	₩ 2,915,165	₩ 4,119	₩ 34,990	₩ 27,365	₩ 360,429	₩ 206,348	₩ 3,548,416

<sup>1</sup> The impairment loss on goodwill is recognized from cash-generating unit goodwill related to music services arising from the M&A of Kakao M Corp. (formerly, LOEN ENTERTAINMENT, INC.), a subsidiary. Due to changes in the market environment and deteriorated in profitability from changes in the regulation on collection of rights costs, the recoverable amount became less than the carrying amount at the end of the reporting period and ₩ 352.7 billion of goodwill was recognized as an impairment loss.

<sup>2</sup> The impairment loss on intangible assets is recognized from customer relationships recognized by the Company at the acquisition of Kakao M Corp. (formerly, LOEN ENTERTAINMENT, INC.). The Company estimated the recoverable amount as at December 31, 2019, and recognized the difference between the recoverable amount and its book value as impairment loss amounting to ₩ 52.4 billion as the Company determined that the recognized customer relationships and future economic benefit are less than their book value.

<sup>3</sup> As at December 31, 2019, the Company owns marketable cryptocurrency of ₩ 182 million and non-marketable cryptocurrency of ₩ 2,768 million.

**Kakao Corp. and Subsidiaries**  
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	2018						
	Goodwill <sup>1</sup>	Development costs <sup>2</sup>	Industrial property rights <sup>2</sup>	Exclusive rights <sup>2</sup>	Membership / Brand <sup>2</sup>	Other intangible assets <sup>2,3</sup>	Total
Beginning balance	₩ 3,020,579	₩ 16,231	₩ 37,187	₩ 6,500	₩ 350,404	₩ 258,681	₩ 3,689,582
Acquisition	-	519	442	4,328	7,493	45,400	58,183
Transfer	-	-	-	-	-	214	214
Changes in scope of consolidation	162,782	2,338	8,936	300	-	29,759	204,115
Disposal	(7,102)	(2,579)	-	(413)	(1,022)	(1,734)	(12,850)
Amortization	-	(5,769)	(5,261)	(3,194)	-	(53,154)	(67,379)
Impairment	(898)	(1,872)	(1,901)	(133)	(1)	(3,514)	(8,320)
Other	251	(7)	64	-	-	1,411	1,719
Ending balance	₩ 3,175,610	₩ 8,861	₩ 39,467	₩ 7,388	₩ 356,875	₩ 277,064	₩ 3,865,265
December 31, 2018							
Acquisition cost	₩ 3,194,834	₩ 23,991	₩ 44,071	₩ 8,752	₩ 356,875	₩ 358,336	₩ 3,986,859
Accumulated amortization	-	(13,247)	(3,094)	(1,364)	-	(79,120)	(96,826)
Government grants	-	(5)	(1)	-	-	(2)	(8)
Accumulated impairment	(19,223)	(1,878)	(1,509)	-	-	(2,151)	(24,761)
Net book value	₩ 3,175,610	₩ 8,861	₩ 39,467	₩ 7,388	₩ 356,875	₩ 277,064	₩ 3,865,265

<sup>1</sup> The impairment loss on goodwill is recognized for Nylon Korea Media and certain other subsidiaries, as the recoverable amount decreased and became less than the carrying amount due to slump in sales and etc.

<sup>2</sup> The impairment loss on intangible assets is recognized from PATH MOBILE INC. PTE. LTD. and certain other subsidiaries. The Company estimated the recoverable amount as at December 31, 2018, and recognized the difference between the recoverable amount and its book value as impairment loss considering limited future economic benefit from the projects being developed.

<sup>3</sup> As at December 31, 2018, the Company owns marketable cryptocurrency of ₩ 2,053 million and non-marketable cryptocurrency of ₩ 4,721 million.

Management reviews operation performance based on region and type of operation, and manages goodwill at the operating segment level.

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The following is a summary of goodwill allocation for cash generating units ("CGU"s) operated by management for the years ended December 31, 2019 and 2018:

(in millions of Korean won)

	2019					
	Beginning balance	Increase <sup>1</sup>	Changes in scope of consolidation	Impairment	Other adjustments <sup>2</sup>	Ending balance
Internet portal service and other service	₩ 1,080,385	₩ 4,957	₩ -	₩ (3,485)	₩ -	₩ 1,081,856
Music service	1,221,284	-	-	(352,733)	-	868,551
Other mobile service	261,858	81,170	(10,278)	(9,187)	(18,193)	305,370
Game business	41,461	-	-	(4,322)	(729)	36,410
Commerce service	277,901	-	-	-	-	277,901
Entertainment service	292,722	76,997	-	(4,912)	(19,731)	345,077
	<u>₩ 3,175,610</u>	<u>₩ 163,124</u>	<u>₩ (10,278)</u>	<u>₩ (374,639)</u>	<u>₩ (38,653)</u>	<u>₩ 2,915,165</u>

<sup>1</sup> It is the amount increased by the acquisition of shares in 14 companies including Moonlight Film and the transfer of business with 8 companies including CMNP Corp. during 2019.

<sup>2</sup> It includes the amount transferred as an identifiable asset from the purchase price allocation amount related to the business combination which was not determined and presented at a provisional amount in 2018 because the purchase price allocation amount has been determined in 2019.



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(in millions of Korean won)

	2018							
	Beginning balance	Increase <sup>1</sup>	Transfer <sup>2,3</sup>	Disposal	Changes in scope of consolidation	Impairment	Other adjustments <sup>4</sup>	Ending balance
Internet portal service and other service	₩ 1,410,206	₩ -	₩ (329,821)	₩ -	₩ -	₩ -	₩ -	₩ 1,080,385
Music service	1,446,307	-	(228,714)	-	-	-	3,691	1,221,284
Other mobile service	117,287	116,305	51,920	(7,102)	(8,672)	-	(7,881)	261,858
Game business	33,668	7,793	-	-	-	-	-	41,461
Commerce service	-	-	277,901	-	-	-	-	277,901
Entertainment service	13,111	56,552	228,714	-	-	-	(5,655)	292,722
	<u>₩ 3,020,579</u>	<u>₩ 180,650</u>	<u>₩ -</u>	<u>₩ (7,102)</u>	<u>₩ (8,672)</u>	<u>₩ -</u>	<u>₩ (9,845)</u>	<u>₩ 3,175,610</u>

<sup>1</sup> It is the amount increased by the acquisition of shares in 19 companies including luxi Co., Ltd. during 2018.

<sup>2</sup> In 2018, the commerce business division was transferred to Kakao Commerce Corp., a subsidiary, through the split off and ₩ 329,821 million of goodwill of existing internet portal service, and other service was also transferred.

<sup>3</sup> The Company invested in cash to the video / music contents business of Kakao M Corp. and also transferred ₩ 228,714 million of goodwill of existing music service.

<sup>4</sup> It includes the amount transferred as an identifiable asset from the purchase price allocation amount related to the business combination which was not determined and presented at a provisional amount before the prior year because the purchase price allocation amount has been determined in 2018.

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The Company annually tests impairment of its goodwill. The recoverable amounts of CGU or CGUs have been determined based on value-in-use calculations. These calculations use cash flow projections after tax based on financial budgets approved by management covering a five-year period.

The following table sets out major assumption, operating income rate, revenue growth rate, perpetual growth rate and after-tax discount rate used in the value-in-use calculations for those CGUs that have significant goodwill allocated to them.

<b>2019</b>			
	<b>Internet portal service and other service<sup>1</sup></b>	<b>Music Service<sup>2</sup></b>	<b>Other mobile service, game business, commerce service, other contents service, entertainment service and others</b>
Operating income rate	13.9%~ 19.3%	16.8% ~ 17.6%	(-)11.7% ~ 17.0%
Revenue growth rate	5.5%~18.5%	4.3% ~ 23.6%	(-)18.1% ~ 261.1%
Perpetual growth rate	2.0%	1.0%	1.0% ~ 2.0%
After-tax discount rate	10.4%	10.4%	8.0% ~ 18.7%
<b>2018</b>			
	<b>Internet portal service and other service</b>	<b>Music Service</b>	<b>Other mobile service, game business, commerce service, other contents service, entertainment service and others</b>
Operating income rate	8.8% ~ 19.8%	18.7% ~ 20.3%	1.5% ~22.54%
Revenue growth rate	6.5% ~ 20.3%	11.0% ~ 39.3%	3.9% ~ 44.0%
Perpetual growth rate	2.0%	2.0%	1.0%
After-tax discount rate	10.6%	9.1%	9.1% ~ 17.2%

These assumptions were used for each cash flow generation unit within the operating segment.

The after-tax discount rate is the discount rate that reflects the specific risk associated with the segment to which the CGUs (group) belongs.

<sup>1</sup> When estimating the recoverable amount, if a perpetual growth rate applied to CGU is lower than the management's estimate by 0.5%, the recoverable amount will be reduced by 3.9%.

If after-tax discount rate applied to the estimation is higher than the management's estimate by 1%, the recoverable amount will decrease by 10.7%.

<sup>2</sup> When estimating the recoverable amount, if a perpetual growth rate applied to CGU is lower than the management's estimate by 0.5%, the recoverable amount will be reduced by 3.6%.

If after-tax discount rate applied to the estimation is higher than the management's estimate by

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**Notes to the Consolidated Financial Statements**  
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1%, the recoverable amount will decrease by 9.5%.

**20. Leases**

*(a) Amounts recognized in the consolidated statement of financial position*

The consolidated statement of financial position shows the following amounts relating to leases:

<i>(in millions of Korean won)</i>	<b>December 31, 2019</b>	<b>January 1, 2019</b>
Right-of-use assets		
Properties	₩ 179,781	₩ 176,750
Machinery	42,242	18,910
Vehicles	5,436	4,132
	<u>₩ 227,458</u>	<u>₩ 199,792</u>
<i>(in millions of Korean won)</i>	<b>December 31, 2019</b>	<b>January 1, 2019</b>
Lease liabilities		
Current	₩ 68,077	₩ 42,514
Non-current	164,989	156,261
	<u>₩ 233,065</u>	<u>₩ 198,775</u>

Additions to the right-of-use assets during the 2019 financial year were ₩ 83,598 million.

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(b) Amounts recognized in the consolidated statement of profit or loss

The consolidated statement of profit or loss shows the following amounts relating to leases:

(in millions of Korean won)

**2019**

Depreciation of right-of-use assets

Properties	₩	37,994
Machinery		15,492
Vehicles		2,643
	₩	56,129

Interest expense relating to lease liabilities (included in finance cost)	₩	6,370
Expense relating to short-term leases (included in operating expenses)		11,142
Expense relating to leases of low-value assets that are not short-term leases (included in operating expenses)		927
Expense relating to variable lease payments not included in lease liabilities (included in operating expenses)		22,957
Income from subleases of right-of-use assets		69

The total cash outflow for leases in 2019 was ₩ 78,071 million.

## 21. Borrowings, Bonds and Lease Liabilities

Short-term borrowings and lease liabilities as at December 31, 2019 and 2018, are as follows:

(in millions of Korean won)

Classification	Lender	Interest rate as at December 31, 2019	2019	2018
Current portion of long-term borrowings	8 <sup>th</sup> non-guarantee private bonds <sup>1</sup>	-	₩ -	₩ 50,000
	9-1 <sup>st</sup> non-guarantee public bonds <sup>2</sup>	-	-	60,000
	Discount on issuance of bonds		-	(28)
	Net		-	109,972
Convertible bonds <sup>3,5</sup>	THE KUMAMOTO DAI-ICHI SHINKIN BANK and others	0.90 ~ 4.30%	177	-
	10 <sup>th</sup> non-guarantee private convertible bonds	-	208,400	241,000
	Discount on issuance of bonds		(269)	(552)
	Net		208,131	240,448
Exchangeable bonds <sup>3,4</sup>	11 <sup>th</sup> guaranteed private convertible bonds	-	230,000	230,000
	Discount on issuance of bonds		(880)	(1,524)
	Net		229,120	228,476
Short-term lease liabilities <sup>6</sup>	Properties and others	1.45% ~ 5.92%	69,139	-
	Present value discounts		(1,062)	-
	Net		68,077	-

# Kakao Corp. and Subsidiaries

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(in millions of Korean won)

Classification	Lender	Interest rate as at December 31, 2019	2019	2018
Loans for operation capital	KB Kookmin Bank	-	-	20,000
Facility loan	Woori Bank	-	-	1,000
Facility loan	Woori Bank	-	-	4,000
Loans for operation capital	Employees of subsidiaries	-	450	190
Loans for operation capital	KB Kookmin Bank and others	2.81%~5.98%	7,079	3,937
Redeemable convertible preferred shares	Preferred shareholders	-	3,638	1,457
			<u>₩ 516,672</u>	<u>₩ 609,480</u>

<sup>1</sup> The Company repaid all of outstanding bonds (₩ 50 billion) as the 8<sup>th</sup> non-guarantee private bonds matured in 2019.

<sup>2</sup> The Company repaid all of outstanding bonds (₩ 60 billion) as the 9-1<sup>st</sup> non-guarantee public bonds matured in 2019.

<sup>3</sup> Reclassified as short-term borrowings as the period of early redemption right is within a year as at December 31, 2019.

<sup>4</sup> As Kakao M Corp., a subsidiary, merged with the Company during 2018, shares subject to exchange was changed from ordinary shares of Kakao M Corp. to ordinary shares of the Parent Company.

<sup>5</sup> 274,439 private convertible bonds issued by the Company were converted into ordinary shares of the Company during 2019 (Note 27).

<sup>6</sup> The Company recognized lease liabilities as at January 1, 2019 in accordance with the application of Korean IFRS 1116.

Long-term borrowings and long-term lease liabilities as at December 31, 2019 and 2018, are as follows:

(in millions of Korean won)

Classification	Lender	Interest rate as at December 31, 2019	2019	2018
Bonds	Public offering (9-2 <sup>th</sup> non-guaranteed public bonds)	2.30%	₩ 40,000	₩ 40,000
	Discount on issuance of bonds		(35)	(61)
	Net		39,965	39,939
Long-term lease liabilities <sup>1</sup>	Properties and others	1.45%~5.92%	179,994	-
	Present value discounts		(15,005)	-
	Net		164,989	-
Long-term borrowings	THE KUMAMOTO DAI-ICHI	0.90%~4.30%	7,418	1,672
	SHINKIN BANK			
	Shinhan Bank	-	-	500
	Industrial Bank of Korea	-	-	500
Redeemable convertible preferred shares and exchangeable bonds	Preferred shareholders		24,886	2,384
			<u>₩ 237,258</u>	<u>₩ 44,995</u>

<sup>1</sup> The Company recognized lease liabilities as at January 1, 2019 in accordance with the application of Korean IFRS 1116.

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Movements in the borrowings for the years ended December 31, 2019 and 2018, are as follows:

<i>(in millions of Korean won)</i>	<b>2019</b>	<b>2018</b>
Beginning balance	₩ 654,475	₩ 795,180
Changes in scope of consolidation	7,374	13,147
Additions	364,214	41,040
Repayments	(455,502)	(177,161)
Conversion and others	(32,600)	(19,831)
Amortization of present value discounts	1,151	2,100
Others <sup>1</sup>	(18,247)	-
Ending balance	₩ 520,865	₩ 654,475

<sup>1</sup> Some ordinary shares of TNK Factory, a subsidiary, were converted to redeemable convertible preferred shares during 2019. As conversion rights and early redemption rights embedded in the above redeemable convertible preferred shares meet the terms of separation of embedded derivatives, they are separately accounted for as derivative liabilities.

Movements in the lease liabilities for the year ended December 31, 2019, are as follows:

<i>(in millions of Korean won)</i>	<b>2019</b>
Changes in accounting policy (Note 42)	₩ 198,775
Changes in scope of consolidation	340
Increase	86,231
Repayments	(49,851)
Transfer	(8,800)
Amortization of present value discounts	6,370
Ending balance	₩ 233,065

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Details of exchangeable bonds issued by the Parent Company are as follows:

		Details
Type		11 <sup>th</sup> US dollar-settled zero coupon guaranteed exchangeable bonds denominated in Korean won
Principal amount		₩ 230,000 million
Interest rate	Coupon rate	0%
	Yield rate	0%
Date of maturity		May 11, 2021
Redemption		1) Redemption at maturity: Unless previously redeemed, repurchased and cancelled or exchanged, 100% of principal amount will be redeemed
		2) Early redemption : put or call option is exercised
Exchange detail	Exchange ratio	100%
	Exchange price	₩ 128,223 (per share)
	Exchange into	Ordinary shares of Kakao Corp.
	Exchange period	From and including June 21, 2016 up to and including April 30, 2021
	Exchange price adjustments	Subject to adjustment in certain circumstances as described in the agreement
Redemption at the option of the bondholders (Put Option)		Until and unless previously redeemed, repurchased and cancelled, or exchanged, on May 11, 2019, each of the bondholders has the right, at the option of such holder, to require the Company to redeem all or a portion of principal amount. And the bondholders may claim early redemption if: - a change of control occurs with respect to Kakao corp., or - the shares officially cease to be listed or admitted for trading or are suspended for a period of at least 30 consecutive trading days.
Redemption at the option of the issuer (Call Option)		The Company may, at its option at any time on or after May 11, 2019, until the 30 <sup>th</sup> six business day prior to the maturity date, redeem the bonds if the closing price of a share for each of 20 trading days in the period of 30 consecutive trading days ending on the trading day immediately prior to the date of our redemption notice, is at least 130% of the prevailing exchange price. And the Company may claim early redemption if: - at least 90% of the initial principal amount of the bonds have been redeemed, repurchased and cancelled, or exchanged, or - certain changes relating to taxation in Korea that the Company becomes obliged to gross up for any payments on the bonds

The entire amount of financial instruments was accounted for liability as the event of default of the exchangeable bonds is considered contingent settlement provisions.

As at December 31, 2019, the Company has received payment guarantees from KB Kookmin Bank for the exchangeable bonds. In connection with the said payment guarantees, the stock

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return rights for the remaining shares subject to exchange were provided as collateral. 1,793,755 treasury shares required for the exchange are deposited at Korea Securities Depository.

Details of convertible bonds issued by the Parent Company are as follows:

		Detail
Type		10 <sup>th</sup> non-guaranteed private convertible bonds
Principal amount		₩ 241,000 million
Interest rate	Coupon rate	0%
	Yield rate	0%
Date of maturity		April 14, 2021
Redemption at maturity		The bonds to be redeemed at their principal amount with 0% of yield to maturity on the maturity date
Conversion details	Conversion ratio	100%
	Conversion price	₩ 118,786 (per share)
	Conversion to	Ordinary shares of Kakao Corp.
	Conversion period	From and including April 14, 2017 up to and including March 14, 2021
	Conversion price adjustments	Adjusted in accordance with the agreement in the event of any occasions prescribed in the agreement
Investor's early redemption right (Put Option)		Bondholders may claim early redemption before the maturity date for either entire or partial amount of principal on every April 14th starting from 2019, three years after the issuance date.

The entire amount of financial instruments was accounted for liability as the event of default of the convertible bonds is considered contingent settlement provisions. During 2019, convertible bond of ₩ 32,546 million (principal amount of ₩ 32,600 million) has been converted into ordinary shares (Note 27).



# Kakao Corp. and Subsidiaries

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Details of redeemable convertible preferred shares issued by subsidiaries as at December 31, 2019, are as follows:

	Issuer <sup>1</sup>		
	Friendsgames Co., Ltd.	TNK Factory (Series 1)	TNK Factory (Series 2)
Date of issue	May 4, 2018	April 9, 2019	April 9, 2019
Value at issue ( <i>in millions of Korean won</i> )	₩ 7,000	₩ 16,152	₩ 2,598
Dividend rate for preferred shares	1% of issue value	1% of standard value	1% of standard value
Guaranteed yield upon redemption	8%	5%	5%
Conversion period	From the day after issuance date to the day before 10 years from issuance date	From the issuance date to the day of 5 years from issuance date	From the issuance date to the day of 5 years from issuance date
Conversion rate	1 preferred share for 1 ordinary share : adjustable if (based on) a) IPO price	1 preferred share for 1 ordinary share : adjustable if (based on) a) IPO price b) anti-dilution	1 preferred share for 1 ordinary share : adjustable if (based on) a) anti-dilution
Redemption period	Redeemable from one year after issuance date	Redeemable during one year from four years after issuance date	Redeemable during one year from four years after issuance date

  

	Issuer <sup>1</sup>		
	stagefive Co., Ltd.	stagefive Co., Ltd.	INBYU
Date of issue	November 2, 2018	November 2, 2018	February 25, 2019 / March 26, 2019
Value at issue ( <i>in millions of Korean won</i> )	₩ 5,942	₩ 1,808	₩ 1,000
Dividend rate for preferred shares	1% of issue value	1% of standard value	0.1% of issue value
Guaranteed yield upon redemption	7%	3%	6%
Conversion period	From the day after issuance date to the day before 10 years from issuance date	From the issuance date to the day of 10 years from issuance date	From the issuance date to the day of 10 years from issuance date
Conversion rate	1 preferred share for 1 ordinary share : adjustable if (based on) a) IPO price b) anti-dilution	1 preferred share for 1 ordinary share : adjustable if (based on) a) IPO price b) anti-dilution	1 preferred share for 1 ordinary share : adjustable if (based on) a) IPO price
Redemption period	Redeemable from three year after issuance date	Redeemable from three year after issuance date	Redeemable from three year after issuance date

<sup>1</sup> As at December 31, 2019, conversion rights and early redemption rights in relation to the above redeemable convertible preferred shares meet the terms of separation of embedded derivatives and are considered as the one compound embedded derivatives, separate from the main contract, and derivative liabilities of ₩ 25,662 million are separately recognized.

Other than the above redeemable convertible preferred shares, KIWI PLUS and Kids Note Co., Ltd., subsidiaries, have issued six redeemable convertible preferred shares as at December 31, 2019 and they are recognized as ₩ 4,955 million of short-term and long-term borrowings.

# Kakao Corp. and Subsidiaries

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Details of convertible preferred shares issued by subsidiaries as at December 31, 2018, are as follows:

	Issuer <sup>1</sup>	
	Kakao VX	Kakao VX
Date of issue	October 4, 2018	December 3, 2018
Number of shares issued	107,633	107,732
Value at issue ( <i>in millions of Korean won</i> )	₩ 3,996	₩ 4,000
Conversion price adjustments	a) In the case of a paid-in capital increase at an issue price below the conversion price and others b) May be adjusted depending on IPO offering unit price	a) In the case of a paid-in capital increase at an issue price below the conversion price and others b) May be adjusted depending on IPO offering unit price
Conversion rate	1 preferred share for 1 ordinary share : adjustable if (based on) a) IPO price	1 preferred share for 1 ordinary share : adjustable if (based on) a) IPO price
Conversion period	From the issuance date to the day of 10 years from issuance date	From the issuance date to the day of 10 years from issuance date

<sup>1</sup> As at December 31, 2019, conversion rights in relation to the above convertible preferred shares meet the terms of separation of embedded derivatives and are considered as the one compound embedded derivatives, separate from the main contract.

The Company has been provided the guarantee by two financial institutions including Korea Technology Finance Corporation in relation to the borrowings above (Note 38).

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**22. Net Defined Benefit Liabilities**

Net defined benefit liabilities recognized in the consolidated statements of financial position as at December 31, 2019 and 2018, are as follows:

<i>(in millions of Korean won)</i>	<b>2019</b>	<b>2018</b>
Present value of funded defined benefit obligation	₩ 142,558	₩ 102,630
Fair value of plan assets	(139,003)	(99,808)
Liability in the consolidated statements of financial position	₩ 3,555	₩ 2,822

Changes in the defined benefit obligations for the years ended December 31, 2019 and 2018 are as follows:

<i>(in millions of Korean won)</i>	<b>2019</b>	<b>2018</b>
Beginning balance	₩ 102,630	₩ 85,720
Increase due to change in scope of consolidation	5,505	4,836
Current service cost	36,487	28,363
Interest cost	2,946	2,484
Remeasurement:		
Actuarial loss from change in demographic	2,420	556
Actuarial loss (gain) from change in financial	947	(2,701)
Actuarial loss from experience adjustments	5,399	4,912
Benefits paid	(13,779)	(21,542)
Others	2	4
Ending balance	₩ 142,558	₩ 102,630

Changes in the fair value of plan assets for the years ended December 31, 2019 and 2018 are as follows:

<i>(in millions of Korean won)</i>	<b>2019</b>	<b>2018</b>
Beginning balance	₩ 99,808	₩ 83,757
Increase due to change in scope of consolidation	205	2,793
Interest income	1,933	2,237
Contribution	48,976	29,542
Payments from plans	(11,129)	(17,755)
Remeasurement:		
Revenue from plan assets(excluding amounts included in interest income)	(791)	(769)
Others	-	3
Ending balance	₩ 139,003	₩ 99,808

The amounts recognized in the consolidated statements of comprehensive income for the years ended December 31, 2019 and 2018 are as follows:

<i>(in millions of Korean won)</i>	<b>2019</b>	<b>2018</b>
Current service cost	₩ 36,487	₩ 28,363
Net interest cost	1,013	246
	₩ 37,500	₩ 28,609

Total service cost from defined benefit plan amounting to ₩ 37,500 million and ₩ 28,609 million is included in operating expenses for the years ended December 31, 2019 and 2018,

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respectively. In addition, total service cost from defined contribution plan was ₩ 2,217 million and ₩ 1,787 million for the years ended December 31, 2019 and 2018, respectively.

Principal assumptions on actuarial valuation as at December 31, 2019 and 2018 are as follows:

	<b>2019</b>	<b>2018</b>
Discount rate	2.1% ~ 3.5%	2.3% ~ 3.9%
Salary growth rate	2.5% ~ 7.5%	4.5% ~ 7.5%

The sensitivity analysis of the defined benefit obligations as at December 31, 2019 to changes in the weighted principal assumptions is:

<b>Effect on defined benefit obligations</b>			
	<b>Changes in principal assumption</b>	<b>Increase in principal assumption</b>	<b>Decrease in principal assumption</b>
Discount rate	1%	3.3% decrease	11.8% increase
Salary growth rate	1%	11.6% increase	3.2% decrease

The Company is exposed to the most significant risk through changes in bond yields, which was used as a discount rate. A decrease in corporate bond yields will increase plan liabilities, although this will be partially offset by an increase in the value of the plans' bond holdings.

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. The sensitivity of the defined benefit obligation to changes in principal actuarial assumptions is calculated using the projected unit credit method, the same method applied when calculating the defined benefit obligations recognized on the consolidated statement of financial position.

Plan assets as at December 31, 2019 and 2018 consist of the following:

<i>(in millions of Korean won)</i>	<b>2019</b>	<b>2018</b>
Equity linked bond	₩ 12,448	₩ 17,967
Time deposits	38,990	20,381
Debt instruments	201	372
Financial instruments with fixed rate	65,179	46,472
Interest guarantee insurance	21,567	11,068
Others	618	3,548
	<u>₩ 139,003</u>	<u>₩ 99,808</u>

Expected contributions to post-employment benefit plans for the year ending December 31, 2020, are ₩ 43,039 million.

The weighted average duration of the defined benefit obligation is 4.1 ~ 12.7 years.

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**23. Other Long-term Employee Benefits Liabilities**

Changes in other long-term employee benefits liabilities for the years ended December 31, 2019 and 2018 are as follows:

<i>(in millions of Korean won)</i>	<b>2019</b>	<b>2018</b>
Beginning balance	₩ 40,156	₩ 32,015
Increase due to change in scope of consolidation	36	150
Current service cost	13,049	10,354
Interest cost	787	837
Remeasurement of the benefit liabilities	(3,021)	3,056
Benefits paid	(7,415)	(6,256)
Ending balance	₩ 43,592	₩ 40,156

The amounts recognized on the consolidated statements of comprehensive income for the years ended December 31, 2019 and 2018 are as follows:

<i>(in millions of Korean won)</i>	<b>2019</b>	<b>2018</b>
Current service cost	₩ 13,049	₩ 10,354
Interest cost	787	837
Remeasurement of the benefit liabilities	(3,021)	(163)
	₩ 10,815	₩ 11,028

Principal assumptions on actuarial valuation in relation to other long-term employee benefits liabilities for the years ended December 31, 2019 and 2018 are as follows:

	<b>2019</b>	<b>2018</b>
Discount rate	1.8% ~ 2.8%	2.2% ~ 3.2%
Salary growth rate	4.0% ~ 7.5%	4.0% ~ 7.5%

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**24. Income Tax Expense and Deferred Tax**

Income tax expense for the years ended December 31, 2019 and 2018 consists of:

<i>(in millions of Korean won)</i>	<b>2019</b>	<b>2018</b>
Current tax:		
Current tax on profit for the year	₩ 99,410	₩ 106,077
Adjustments due to changes in estimates related to prior years	1,846	(3,692)
	<u>101,256</u>	<u>102,385</u>
Deferred tax:		
Changes in temporary differences	(15,159)	(29,624)
Changes in accounting policies	-	(665)
Increase (decrease) in temporary differences due to change in scope of consolidation	(209)	(4,402)
Deferred tax charged or credited directly to equity	21,780	47,087
	<u>6,412</u>	<u>12,396</u>
Income tax expense	<u>₩ 107,668</u>	<u>₩ 114,781</u>

Reconciliation between actual income tax expense and amount computed by applying the statutory tax rate to profit before income tax for the years ended December 31, 2019 and 2018 follows:

<i>(in millions of Korean won)</i>	<b>2019</b>	<b>2018</b>
Profit (loss) before income tax	₩ (234,257)	₩ 130,670
Income tax expense computed at statutory tax rate	(56,690)	31,622
Adjustments:		
Non-taxable income	(4,003)	(1,874)
Non-deductible expenses	6,892	28,880
Changes in valuation allowance of deferred income tax asset	169,418	51,467
Adjustments due to changes in estimates related to prior years	1,846	(3,692)
Effects of the tax system for recirculation of corporate income	(7,999)	11,478
Tax credits	(1,795)	(3,099)
Income tax expense	<u>₩ 107,668</u>	<u>₩ 114,781</u>

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Income tax effects related to components of other comprehensive income (expenses) for the years ended December 31, 2019 and 2018 are as follows:

<i>(in millions of Korean won)</i>	<b>2019</b>		
	<b>Before tax</b>	<b>Tax effect</b>	<b>After tax</b>
Other comprehensive income (expense):			
Gain on valuation of equity instruments at fair value through other comprehensive income	₩ (702)	₩ 170	₩ (532)
Gain on valuation of debt instruments at fair value through other comprehensive income	-	-	-
Remeasurement of the net defined benefit liabilities	(8,511)	2,060	(6,452)
Share of other comprehensive income of associates	(4,679)	1,132	(3,547)
	<u>₩ (13,893)</u>	<u>₩ 3,362</u>	<u>₩ (10,531)</u>

  

<i>(in millions of Korean won)</i>	<b>2018</b>		
	<b>Before tax</b>	<b>Tax effect</b>	<b>After tax</b>
Other comprehensive income (expense):			
Gain on valuation of equity instruments at fair value through other comprehensive income	₩ 9,064	₩ (2,193)	₩ 6,870
Gain on valuation of debt instruments at fair value through other comprehensive income	187	(45)	142
Remeasurement of the net defined benefit liabilities	(3,535)	856	(2,680)
Share of other comprehensive income of associates	(48)	12	(36)
	<u>₩ 5,668</u>	<u>₩ (1,372)</u>	<u>₩ 4,296</u>

The aggregate current and deferred tax relating to items that are reflected directly to equity for the years ended December 31, 2019 and 2018, is as follows:

<i>(in millions of Korean won)</i>	<b>2019</b>		
	<b>Before tax</b>	<b>Tax effect</b>	<b>After tax</b>
Other reserves:			
Goodwill (investment in kind)	₩ 83,720	₩ (18,418)	₩ 65,302

  

<i>(in millions of Korean won)</i>	<b>2018</b>		
	<b>Before tax</b>	<b>Tax effect</b>	<b>After tax</b>
Other reserves:			
Goodwill (investment in kind)	₩ 220,270	₩ (48,459)	₩ 171,811

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Deferred tax assets (liabilities) recognized in the consolidated statements of financial position as at December 31, 2019 and 2018, are as follows:

<i>(in millions of Korean won)</i>	<b>2019</b>	<b>2018</b>
Deferred tax assets		
Deferred tax assets to be recovered after more than 12 months	₩ 152,477	₩ 119,614
Deferred tax assets to be recovered within 12 months	<u>28,056</u>	<u>30,490</u>
	<u>180,533</u>	<u>150,104</u>
Deferred tax liabilities		
Deferred tax liabilities to be settled after more than 12 months	(257,222)	(235,077)
Deferred tax liabilities to be settled within 12 months	<u>(3,664)</u>	<u>(10,540)</u>
	<u>(260,886)</u>	<u>(245,617)</u>
Deferred tax liabilities, net	<u>₩ (80,353)</u>	<u>₩ (95,513)</u>

The gross movement in the deferred tax assets (liabilities) for the years ended December 31, 2019 and 2018 are as follows:

<i>(in millions of Korean won)</i>	<b>2019</b>	<b>2018</b>
Beginning balance	₩ (95,513)	₩ (125,136)
Changes in accounting policies	-	(665)
Changes in scope of consolidation	(209)	(4,402)
Deferred income tax charged to profit or loss	(6,412)	(12,396)
Deferred income tax charged to other comprehensive income	3,362	(1,372)
Deferred income tax charged to other equity	18,418	48,459
Ending balance	<u>₩ (80,353)</u>	<u>₩ (95,513)</u>



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Changes in deferred income tax assets and liabilities for the years ended December 31, 2019 and 2018 without taking into consideration the offsetting of balances within the same tax jurisdiction are as follows:

(in millions of Korean won)

	2019					
	Beginning balance	Changes in scope of consolidation	Statement of profit or loss	Other comprehensive income	Other equity	Ending balance
<b>Deferred tax liabilities</b>						
Accrued revenue	₩ (2,074)	₩ -	₩ 1,629	₩ -	₩ -	₩ (446)
Property and equipment	(6,502)	-	(1,028)	-	-	(7,530)
Intangible assets	(168,760)	(209)	19,367	-	-	(149,602)
Non-trade receivables	(4,408)	-	4,408	-	-	-
Financial assets at fair value through profit or loss	(6,533)	-	(10,186)	-	-	(16,719)
Financial assets at fair value through other comprehensive income	(3,258)	-	-	(50)	-	(3,307)
Plan assets	(24,434)	-	1,699	-	-	(22,735)
Non-refundable tax	(8,466)	-	8,466	-	-	-
Derivative instruments	-	-	(3,219)	-	-	(3,219)
Lease	-	-	(28,106)	-	-	(28,106)
Investments in subsidiaries and associates	10,188	-	(20,028)	1,132	-	(8,707)
Others	(21,184)	-	669	-	-	(20,514)
	(235,429)	(209)	(26,331)	1,083	-	(260,886)
<b>Deferred tax assets</b>						
Property and equipment	3,055	-	(391)	-	-	2,663
Advances from customers	6,352	-	4,965	-	-	11,317
Intangible assets	3,451	-	(472)	-	-	2,979
Allowance for doubtful accounts	6,936	-	(2,404)	-	-	4,532
Other payables	14,945	-	(5,619)	-	-	9,325
Provisions	1,602	-	5,924	-	-	7,526
Government grants	171	-	(34)	-	-	137
Defined benefit liabilities	23,188	-	(1,838)	2,060	-	23,409
Other long-term employee benefits liabilities	15,447	-	1,297	-	-	16,745

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	2019					
	Beginning balance	Changes in scope of consolidation	Statement of profit or loss	Other comprehensive income	Other equity	Ending balance
Financial assets at fair value through profit or loss	1,188	-	23	-	-	1,210
Financial assets at fair value through other comprehensive income	1,180	-	-	219	-	1,399
Derivative instruments	2,257	-	489	-	-	2,746
Lease	-	-	30,411	-	-	30,411
Goodwill	48,459	-	(9,692)	-	18,418	57,186
Others	11,686	-	(2,737)	-	-	8,949
	139,916	-	19,919	2,279	18,418	180,533
<b>Deferred tax assets (liabilities), net</b>	₩ (95,513)	₩ (209)	₩ (6,412)	₩ 3,362	₩ 18,418	₩ (80,353)

(in millions of Korean won)

(in millions of Korean won)

	2018						
	Beginning balance	Changes in accounting policies	Changes in scope of consolidation	Statement of profit or loss	Other comprehensive income	Other equity	Ending balance
<b>Deferred tax liabilities</b>							
Accrued revenue	₩ (614)	₩ -	₩ -	₩ (1,461)	₩ -	₩ -	₩ (2,074)
Property and equipment	(5,824)	-	-	(678)	-	-	(6,502)
Intangible assets	(154,345)	-	(3,370)	(11,045)	-	-	(168,760)
Non-trade receivables	(4,408)	-	-	-	-	-	(4,408)
Available-for-sale securities	(2,107)	2,107	-	-	-	-	-
Financial assets at fair value through profit or loss	-	(1,088)	-	(5,445)	-	-	(6,533)
Financial assets at fair value through other comprehensive income	-	(1,019)	(1,032)	-	(1,206)	-	(3,258)
Plan assets	(18,527)	-	-	(5,907)	-	-	(24,434)
Treasury shares	(85)	-	-	85	-	-	-
Tax system for recirculation of corporate income	(7,644)	-	-	(822)	-	-	(8,466)
Others	(12,421)	(665)	-	(8,098)	-	-	(21,184)

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	2018						
	Beginning balance	Changes in accounting policies	Changes in scope of consolidation	Statement of profit or loss	Other comprehensive income	Other equity	Ending balance
	(205,973)	(665)	(4,402)	(33,371)	(1,206)	-	(245,617)
<b>Deferred tax assets</b>							
Property and equipment	3,103	-	-	(48)	-	-	3,055
Advances from customers	1,794	-	-	4,558	-	-	6,352
Intangible assets	1,910	-	-	1,541	-	-	3,451
Allowance for doubtful accounts	3,164	-	-	3,772	-	-	6,936
Investments in subsidiaries and associates	10,850	-	-	(674)	12	-	10,188
Other payables	11,072	-	-	3,872	-	-	14,945
Provisions	1,043	-	-	559	-	-	1,602
Government grants	52	-	-	119	-	-	171
Defined benefit liabilities	17,863	-	-	4,469	856	-	23,188
Other long-term employee benefits liabilities	6,988	-	-	8,460	-	-	15,447
Available-for-sale securities	4,575	(4,575)	-	-	-	-	-
Financial assets at fair value through profit or loss	-	2,363	-	(1,175)	-	-	1,188
Financial assets at fair value through other comprehensive income	-	2,212	-	-	(1,032)	-	1,180
Derivative instruments	5,854	-	-	(3,597)	-	-	2,257
Goodwill (investment in kind)	-	-	-	-	-	48,459	48,459
Others	12,567	-	-	(882)	-	-	11,686
	80,836	-	-	20,974	(165)	48,459	150,104
<b>Deferred tax assets (liabilities), net</b>	₩ (125,136)	₩ (665)	₩ (4,402)	₩ (12,396)	₩ (1,372)	₩ 48,459	₩ (95,513)

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The Company did not recognize deferred income tax asset of ₩ 11,965 million as at December 31, 2019, related to the investments in subsidiaries and associates considering the possibility of realization. As at December 31, 2019, the deferred tax assets of unrecognized deductible temporary differences arising from subsidiaries' net loss carryforwards and others amount to ₩ 58,740 million.

## 25. Provisions

Changes in provisions for the years ended December 31, 2019 and 2018 are as follows:

(in millions of Korean won)	2019				
	Beginning balance	Changes in scope of consolidation	Increase	Decrease	Ending balance
<b>Current</b>					
Provision for mileage	₩ 406	₩ -	₩ 711	₩ (530)	₩ 587
Provision for restoration	73	-	53	(73)	53
Provision for returns	1,571	-	(657)	(133)	781
Provision for litigation <sup>1</sup>	-	-	2,649	-	2,649
Other provisions	1,586	-	1,632	(207)	3,011
	<u>3,636</u>	<u>-</u>	<u>4,388</u>	<u>(943)</u>	<u>7,081</u>
<b>Non-current</b>					
Provision for restoration	7,611	(100)	7,362	(28)	14,844
	<u>₩ 11,246</u>	<u>₩ (100)</u>	<u>₩ 11,750</u>	<u>₩ (972)</u>	<u>₩ 21,924</u>

<sup>1</sup> Kakao VX, a subsidiary, was sued for patent infringement in May 2016, and was sentenced to the first trial by the Seoul Central District Court in September 2019. Based on the judgment, the Company recognized indemnification payable of ₩ 2,649 million as a provision for litigation.

(in millions of Korean won)	2018				
	Beginning balance	Changes in scope of consolidation	Increase	Decrease	Ending balance
<b>Current</b>					
Provision for mileage	₩ 151	₩ -	₩ 722	₩ (467)	₩ 406
Provision for restoration	-	73	-	-	73
Provision for returns	1,783	93	441	(746)	1,571
Other provisions	-	107	3,916	(2,437)	1,586
<b>Non-current</b>					
Provision for restoration	4,211	138	3,261	-	7,611
	<u>₩ 6,145</u>	<u>₩ 412</u>	<u>₩ 8,339</u>	<u>₩ (3,650)</u>	<u>₩ 11,246</u>

# Kakao Corp. and Subsidiaries

## Notes to the Consolidated Financial Statements

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#### 26. Derivative Financial Instruments

The carrying amounts of derivative financial assets, liabilities and commitments as at December 31, 2019 and 2018, are as follows:

##### (a) Derivative financial assets

(in millions of Korean won)

	2019	2018
Call option (Tide Square Co., Ltd.)	₩ 894	₩ -
Option (KakaoBank of Korea Corp.)	-	957
Others	217	217
	<u>₩ 1,112</u>	<u>₩ 1,174</u>

##### (b) Derivative financial liabilities

(in millions of Korean won)

	2019	2018
Conversion right (Kakao VX) <sup>1</sup>	₩ 6,876	₩ 7,601
Redemption right and conversion right (Friendsgames Co., Ltd.) <sup>2</sup>	7,537	6,315
Redemption right and conversion right (TNK Factory) <sup>3</sup>	3,877	-
Put option (NeoBazar Inc.)	24	-
Redemption right and conversion right ((stagefive Co., Ltd. (formerly, Pinplay)) <sup>4</sup>	7,347	-
	<u>₩ 25,662</u>	<u>₩ 13,916</u>

<sup>1</sup> Conversion right granted to Kakao VX (Note 21).

<sup>2</sup> Redemption right and conversion right granted to Friendsgames Co., Ltd. (Note 21).

<sup>3</sup> Redemption right and conversion right granted to TNK Factory (Note 21).

<sup>4</sup> Redemption right and conversion right granted to stagefive Co., Ltd. (formerly, Pinplay) (Note 21).

# Kakao Corp. and Subsidiaries

## Notes to the Consolidated Financial Statements

### December 31, 2019 and 2018

#### 27. Share Capital and Share Premium

As at December 31, 2019, the Parent Company's total number of authorized shares is 150 million and the total number of issued and outstanding ordinary shares are 86,322,636 and 86,222,636, respectively.

The Parent Company may grant stock options to its employees and directors of the Parent Company and its affiliates who contribute or have capabilities to contribute to the establishment, management, overseas business and technical innovation of the Company, with the resolution of special shareholders meeting or board of directors up to 15% of total number of issued stocks. As at December 31, 2019, the number of outstanding stock options among granted is 1,960,405 shares (Note 28).

The Parent Company is authorized to issue convertible bonds and bonds with warrants into registered ordinary shares for up to the total par value of ₩ 500 billion to investors other than current shareholders, with the resolution of the board of directors. As at December 31, 2019, the Parent Company has issued convertible bonds amounting to ₩ 208,400 million (Note 21).

The Parent Company may issue various classes of shares which are different in respect of their particulars as to the dividend, voting rights, conversion and redemption rights up to 50% of the total number of shares issued. The Parent Company has only issued ordinary shares and no other classes having the above conditions as at December 31, 2019.

Changes in share capital and additional paid-in capital during the years ended December 31, 2019 and 2018 are as follows:

<i>(in millions of Korean won, except number of shares)</i>		Number of	Share	Additional	Total
	Description	ordinary shares	capital	paid-in capital	
At January 1, 2018	Beginning balance	68,008,527	₩ 34,004	₩ 3,046,516	₩ 3,080,520
At January 11, 2018	Exercise of stock options	52,832	26	445	472
At January 24, 2018	Issuance of global depository receipt (GDR)	8,261,731	4,131	1,046,772	1,050,902
At January 31, 2018	Exercise of conversion right	25,255	13	2,976	2,989
At February 12, 2018	Exercise of stock options	21,677	11	189	200
At March 5, 2018	Exercise of stock options	3,500	2	5	7
At April 12, 2018	Exercise of stock options	6,600	3	140	143
At May 8, 2018	Exercise of stock options	5,500	3	155	158
At July 6, 2018	Exercise of stock options	500	-	6	6
At August 13, 2018	Exercise of stock options	5,667	3	77	80
At September 3, 2018	Issuance of new shares <sup>1</sup>	7,092,884	3,546	883,064	886,611
At September 11, 2018	Exercise of stock options	1,000	1	8	8
At October 11, 2018	Exercise of stock options	600	-	4	4
At November 9, 2018	Exercise of stock options	1,500	1	24	25
At December 31, 2018	Ending balance	83,487,773	₩ 41,744	₩ 4,980,381	₩ 5,022,125
At January 1, 2019	Beginning balance	83,487,773	₩ 41,744	₩ 4,980,381	₩ 5,022,125
At March 22, 2019	Exercise of stock options	10,100	5	1,009	1,014
At April 22, 2019	Exercise of stock options	4,000	2	399	401
At May 23, 2019	Exercise of stock options	40,500	20	3,837	3,857
At June 21, 2019	Exercise of stock options	16,400	8	1,571	1,580

**Kakao Corp. and Subsidiaries**  
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<i>(in millions of Korean won, except number of shares)</i>		<b>Number of</b>	<b>Share</b>	<b>Additional</b>	
	<b>Description</b>	<b>ordinary</b>	<b>capital</b>	<b>paid-in capital</b>	<b>Total</b>
		<b>shares</b>			
At July 2, 2019	Exercise of conversion right	16,837	8	1,988	1,996
At July 17, 2019	Exercise of conversion right	8,418	4	994	998
At July 22, 2019	Exercise of conversion right	42,092	21	4,970	4,991
At July 19, 2019	Exercise of stock options	49,488	25	3,320	3,344
At August 2, 2019	Exercise of conversion right	126,277	63	14,907	14,970
At August 13, 2019	Exercise of conversion right	8,418	4	994	998
At August 19, 2019	Exercise of stock options	92,410	46	8,698	8,744
At September 5, 2019	Exercise of conversion right	1,683	1	193	194
At September 20, 2019	Exercise of stock options	65,550	33	6,399	6,432
At October 14, 2019	Exercise of conversion right	8,418	4	994	998
At October 22, 2019	Exercise of stock options	18,305	9	1,715	1,724
At November 6, 2019	Third party capital increase	2,177,401	1,089	298,847	299,936
At November 7, 2019	Exercise of conversion right	3,367	2	398	399
At November 15, 2019	Exercise of conversion right	16,837	8	1,989	1,997
At November 22, 2019	Exercise of conversion right	42,092	21	4,969	4,990
At November 25, 2019	Exercise of stock options	77,360	39	7,056	7,095
At December 23, 2019	Exercise of stock options	8,910	4	786	790
At December 31, 2019	Ending balance	86,322,636	₩ 43,161	₩ 5,346,415	₩ 5,389,576

The Parent Company retired its treasury shares of 100,000 shares by appropriating retained earnings. Therefore, the total par value of capital stocks issued differs from the total par value of capital stocks outstanding.

*(In millions of Korean won, except for number of shares and par value)*

<b>Capital stocks outstanding</b>				
	<b>Par value</b>		<b>Share</b>	
<b>Stocks issued</b>	<b>(in Korean won)</b>	<b>Total par value</b>	<b>capital</b>	<b>Difference</b>
86,222,636	₩ 500	₩ 43,111	₩ 43,161	₩ 50

In 2018, the Parent Company merged with Kakao M Corp. and issued new 4,228,304 shares for some shares owned by the Parent Company and treasury shares held by Kakao M Corp. and, as a result, treasury shares of the Company increased from 5,188 shares to 4,233,492 shares. As at December 31, 2019, the number of treasury shares of the Parent Company did not change compared to the previous period.

# **Kakao Corp. and Subsidiaries**

## **Notes to the Consolidated Financial Statements**

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#### **28. Share-based compensation**

Details of the Parent Company's stock options as at December 31, 2019, are as follows:

##### **(a) Equity-settled stock option**

- Type of shares issued through exercise of stock option: registered ordinary shares
- Grant method: Issuance of new ordinary shares
- Vesting period:
  - 10<sup>th</sup>, 12<sup>th</sup>, 14<sup>th</sup>, 16<sup>th</sup> tranches : The requisite service period is two years, exercisable from two to seven years after grant date.
  - 9<sup>th</sup>, 11<sup>th</sup>, 13<sup>th</sup> tranches: The requisite service period is two or three years, exercisable from two or three years to seven or eight years after grant date.

##### **(b) Cash-settled stock option**

- Vesting period:
  - 3<sup>rd</sup> – 5<sup>th</sup> tranches: The requisite service period is two years, exercisable from two years to seven years after grant date limited to 50% of granted quantity. The requisite service period of remaining 50% of granted quantity is three years, exercisable from three years to seven years after grant date.
  - 6<sup>th</sup> tranches: The requisite service period is two years, exercisable from two years to seven years after grant date limited to 50% of granted quantity. The requisite service period of remaining 50% of granted quantity is three years, exercisable from three years to seven years after grant date. It is exercisable only when it happens the average price of the shares calculated at the end of each month within two years to seven years from grant date exceeds 150% of exercise price.
  - 7<sup>th</sup> tranches: The requisite service period is two years, exercisable from two years to seven years after grant date limited to 30% of granted quantity. The requisite service period of remaining 30% of granted quantity is three years, exercisable from three years to seven years after grant date. The requisite service period of remaining 40% of granted quantity is four years, exercisable from four years to seven years after grant date.
  - 8<sup>th</sup> tranches: The requisite service period is two years, exercisable from two years to seven years after grant date limited to 30% of granted quantity. The requisite service period of remaining 30% of granted quantity is three years, exercisable from three years to seven years after grant date. The requisite service period of remaining 40% of granted quantity is four years, exercisable from four years to seven years after grant date. It is exercisable only when it happens the average price of the shares calculated at the end of each month within two years to seven years from grant date exceeds 150% of exercise price.



**Kakao Corp. and Subsidiaries**  
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(c) Share-based payment transactions with cash alternatives

- Grant method: Issuance of new ordinary shares, treasury shares or payment of cash.  
The Company will determine in its discretion grant method at the time of exercise and accounted as equity-settled stock option based on the assumption that it will be granted based on the issuance of new stock or grant of treasury shares in the future.
- Vesting period:  
18<sup>th</sup>, 21<sup>th</sup>-22<sup>th</sup>, 24<sup>th</sup> tranches: The requisite service period is two years, exercisable from two years to seven years after grant date limited to 50% of granted quantity. The requisite service period of remaining 50% of granted quantity is three years, exercisable from three years to seven years after grant date.  
19<sup>th</sup>-20<sup>th</sup>, 23<sup>th</sup>, 25<sup>th</sup>-26<sup>th</sup> tranches: The requisite service period is two years, exercisable from two years to seven years after grant date limited to 50% of granted quantity. The requisite service period of remaining 50% of granted quantity is three years, exercisable from three years to seven years after grant date. It is exercisable only when it happens the average price of the shares calculated at the end of each month within two years to four years from grant date exceeds 150% of exercise price. If the average price of the shares calculated at the end of each month within two years to four years from grant date exceeds 200% of exercise price, all of granted quantity could be exercisable.  
27<sup>th</sup> tranches: The requisite service period is two years, exercisable from two years to seven years after grant date limited to 30% of granted quantity. The requisite service period of remaining 30% of granted quantity is three years, exercisable from three years to seven years after grant date. The requisite service period of remaining 40% of granted quantity is four years, exercisable from four years to seven years after grant date. It is exercisable only when it happens the average price of the shares calculated at the end of each month within two years to seven years from grant date exceeds 150% of exercise price. If the average price of the shares calculated at the end of each month within two years to seven years from grant date exceeds 200% of exercise price, all of granted quantity could be exercisable.  
28<sup>th</sup> tranches: The requisite service period is two years, exercisable from two years to seven years after grant date limited to 30% of granted quantity. The requisite service period of remaining 30% of granted quantity is three years, exercisable from three years to seven years after grant date. The requisite service period of remaining 40% of granted quantity is four years, exercisable from four years to seven years after grant date.

**Kakao Corp. and Subsidiaries**  
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Details of the Parent Company's equity-settled stock options outstanding as at December 31, 2019, are as follows:

Tranche	Grant date	Exercise price (in Korean won)	Number of shares				Outstanding as at December 31, 2019	Exercisable as at December 31, 2019
			Outstanding as at January 1, 2019	Granted	Forfeited	Exercised		
9 <sup>th</sup>	January 20, 2012	₩ 7,714	10,000	-	-	10,000	-	-
10 <sup>th</sup>	March 30, 2012	10,285	2,000	-	2,000	-	-	-
11 <sup>th</sup>	March 30, 2012	10,285	500	-	-	500	-	-
12 <sup>th</sup>	August 31, 2012	12,857	6,054	-	-	6,054	-	-
13 <sup>th</sup>	August 31, 2012	12,857	2,000	-	-	1,000	1,000	1,000
14 <sup>th</sup>	December 14, 2012	12,857	11,432	-	-	11,432	-	-
16 <sup>th</sup>	March 28, 2013	32,143	19,942	-	-	8,777	11,165	11,165
18 <sup>th</sup>	March 2, 2017	85,350	302,500	-	4,000	228,950	69,550	34,775
19 <sup>th</sup>	March 2, 2017	85,350	506,000	-	20,000	77,100	408,900	204,450
20 <sup>th</sup>	March 17, 2017	84,650	100,000	-	-	36,460	63,540	31,770
21 <sup>st</sup>	May 2, 2017	88,600	297,000	-	28,000	2,750	266,250	133,125
22 <sup>nd</sup>	September 28, 2017	131,500	43,000	-	4,000	-	39,000	19,500
23 <sup>rd</sup>	September 28, 2017	131,500	15,000	-	-	-	15,000	-
24 <sup>th</sup>	August 31, 2018	123,380	311,000	-	40,000	-	271,000	-
25 <sup>th</sup>	August 31, 2018	123,380	190,000	-	-	-	190,000	-
26 <sup>th</sup>	October 31, 2018	100,580	120,000	-	-	-	120,000	-
27 <sup>th</sup>	May 16, 2019	124,400	-	135,000	10,000	-	125,000	-
28 <sup>th</sup>	May 16, 2019	124,400	-	392,000	12,000	-	380,000	-
			<u>1,936,428</u>	<u>527,000</u>	<u>120,000</u>	<u>383,023</u>	<u>1,960,405</u>	<u>435,785</u>

In addition to the aforementioned stock options, the Company granted equity-settled stock options in relation to the shares of its subsidiaries such as Kakao Page Corp., Kakao Games Corp., TNK Factory, Kakao Investment Co., Ltd., Kakao Mobility Corp, Kakao M Corp., Kakao Commerce Corp., KIWI PLUS, kidsnote, inc, and Kakaopay Corp.

# Kakao Corp. and Subsidiaries

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Compensation costs of the Parent Company's equity-settled stock options are calculated by applying a fair value approach using Black-Scholes model, Binomial model and LSMC (Least Square Monte-Carlo) model. The related assumptions are as follows:

Tranche	Fair value of option at grant date (in Korean won)	Stock price at grant date (in Korean won)	Expected volatility <sup>1</sup>	Expected dividends	Expected maturity	Risk free Interest rate
9 <sup>th</sup>	₩ 3,981	₩ 12,000	44%	0%	3 years	3.40%
10 <sup>th</sup>	3,984	16,000	40%	0%	2 years	3.52%
11 <sup>th</sup>	5,055	16,000	41%	0%	3 years	3.55%
12 <sup>th</sup>	4,991	20,000	41%	0%	2 years	2.77%
13 <sup>th</sup>	6,090	20,000	40%	0%	3 years	2.76%
14 <sup>th</sup>	5,188	20,000	43%	0%	2 years	2.86%
16 <sup>th</sup>	12,719	50,000	42%	0%	2 years	2.46%
18 <sup>th</sup>	15,086	85,300	11%	0%	2~3 years	2.14%
19 <sup>th</sup>	8,696	85,300	11%	0.17%	2~3 years	2.14%
20 <sup>th</sup>	7,931	84,000	11%	0.17%	2~3 years	2.09%
21 <sup>st</sup>	19,153	92,600	11%	0.16%	2~3 years	2.13%
22 <sup>nd</sup>	30,997	139,500	11%	0.11%	2~3 years	2.30%
23 <sup>rd</sup>	4,631	139,500	11%	0.11%	2~3 years	2.30%
24 <sup>th</sup>	27,259	125,000	14%	0.12%	2~3 years	2.25%
25 <sup>th</sup>	5,289	125,000	14%	0.12%	2~3 years	2.25%
26 <sup>th</sup>	14,052	91,600	13%	0.00%	2~3 years	2.18%
27 <sup>th</sup>	10,745	133,500	12%	0.00%	2~4 years	1.80%
28 <sup>th</sup>	29,998	133,500	12%	0.00%	2~4 years	1.80%

<sup>1</sup> The volatility measured at the standard deviation of continuously compounded share returns for 1st - 17th tranches granted prior to the Parent Company's listing in Korean stock market is based on statistical analysis of weekly share prices of listed corporations in the similar line of industry over expected maturity period.

Details of the Parent Company's cash-settled stock options outstanding as at December 31, 2019, are as follows:

(In Korean won, except number of shares)

Tranche	Grant date	Exercise price	Number of shares				Outstanding as at December 31, 2019	Exercisable as at December 31, 2019
			Outstanding as at January 1, 2019	Granted	Cancelled	Exercised		
3 <sup>rd</sup>	May 2, 2017	₩ 88,600	7,000	-	500	-	6,500	3,250
4 <sup>th</sup>	September 28, 2017	131,500	500	-	-	-	500	250
5 <sup>th</sup>	August 31, 2018	123,380	5,000	-	-	-	5,000	-
6 <sup>th</sup>	August 31, 2018	123,380	14,500	-	-	-	14,500	-
7 <sup>th</sup>	May 16, 2019	124,400	-	3,000	-	-	3,000	-
8 <sup>th</sup>	May 16, 2019	124,400	-	10,000	-	-	10,000	-
			27,000	13,000	500	-	39,500	3,500

In addition to the aforementioned stock options, the Company granted cash-settled stock options on shares of Kakaopay Corp. and Kakao Games Corp., its subsidiaries.

# Kakao Corp. and Subsidiaries

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The fair value of the Company's cash-settled stock options was determined using LSMC (Least Square Monte-Carlo) option pricing model.

Share-based compensation recognized as expenses for the years ended December 31, 2019 and 2018 are as follows:

<i>(in millions of Korean won)</i>	<b>2019</b>	<b>2018</b>
Equity-settled stock option <sup>1</sup>	₩ 21,444	₩ 12,172
Cash-settled stock option <sup>2</sup>	(740)	1,970
	<u>₩ 20,704</u>	<u>₩ 14,142</u>

<sup>1</sup> Amounts for 2019 include ₩ 11,083 million (2018: ₩ 4,189 million) of share-based compensation recognized as expenses for the shares of subsidiaries.

<sup>2</sup> Amounts for 2019 include ₩ (1,440) million (2018: ₩ 1,962 million) of share-based compensation recognized as expenses for the shares of subsidiaries.

## 29. Other Components of Equity

Other components of equity as at December 31, 2019 and 2018, are as follows:

<i>(in millions of Korean won)</i>	<b>2019</b>	<b>2018</b>
Other capital adjustments	₩ (5,430)	₩ (5,430)
Treasury shares	(1,034)	(1,034)
Losses on disposal of treasury shares	(5,941)	(5,941)
Stock options	19,643	13,897
	<u>₩ 7,238</u>	<u>₩ 1,492</u>

As at December 31, 2019, the Parent Company holds 4,233,492 shares of treasury shares in the amount of ₩ 1,034 million recognized as other components of equity.

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**30. Accumulated Other Comprehensive Income**

Accumulated other comprehensive income as at December 31, 2019 and 2018, consists of:

<i>(in millions of Korean won)</i>	<b>2019</b>		<b>2018</b>	
Translation adjustments, net of tax	₩	6,637	₩	1,228
Shares of other comprehensive income (loss) of associates, net of tax		(3,810)		(210)
Equity instruments at fair value through accumulated other comprehensive income, net of tax		(9,283)		(3,690)
Remeasurement of defined benefit obligation, net of tax		(10,463)		(4,961)
Revaluation surplus		526		304
	₩	<u>(16,393)</u>	₩	<u>(7,329)</u>

Changes in accumulated other comprehensive income for the year ended December 31, 2019 and 2018, are as follows:

<i>(in millions of Korean won)</i>	<b>January 1, 2019</b>		<b>Increase (Decrease)</b>		<b>Reclassification to retained earnings</b>		<b>December 31, 2019</b>	
Translation adjustments, net of tax	₩	1,228	₩	5,409	₩	-	₩	6,637
Shares of other comprehensive income (loss) of associates, net of tax		(210)		(3,600)		-		(3,810)
Equity instruments at fair value through accumulated other comprehensive income, net of tax		(3,690)		217		(5,809)		(9,283)
Remeasurement of defined benefit obligation, net of tax		(4,961)		(5,502)		-		(10,463)
Revaluation surplus		304		222		-		526
	₩	<u>(7,329)</u>	₩	<u>(3,255)</u>	₩	<u>(5,809)</u>	₩	<u>(16,393)</u>

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Other comprehensive income in the table above represent amount net of tax.

<i>(in millions of Korean won)</i>	<b>January 1, 2018</b>	<b>Changes in accounting policies</b>	<b>Increase (Decrease)</b>	<b>December 31, 2018</b>
Gain on valuation of available-for-sale securities, net of tax	₩ 591	₩ (591)	₩ -	₩ -
Translation adjustments, net of tax	(2,585)	-	3,813	1,228
Shares of other comprehensive income (loss) of associates, net of tax	(174)	-	(36)	(210)
Equity instruments at fair value through accumulated other comprehensive income, net of tax	-	(8,551)	4,861	(3,690)
Debt instruments at fair value through accumulated other comprehensive income	-	(142)	142	-
Equity instruments at fair value through Profit or loss	-	-	-	-
Remeasurement of defined benefit obligation, net of tax	(2,800)	-	(2,161)	(4,961)
Revaluation surplus	-	-	304	304
	<u>₩ (4,968)</u>	<u>₩ (9,283)</u>	<u>₩ 6,922</u>	<u>₩ (7,329)</u>

Other comprehensive income in the table above represent amount net of tax.

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**31. Retained Earnings**

Retained earnings as at December 31, 2019 and 2018, are as follows:

<i>(in millions of Korean won)</i>	<b>2019</b>	<b>2018</b>
Legal reserve <sup>1</sup>	₩ 8,432	₩ 7,427
Retained earnings before appropriation	139,722	445,973
	<u>₩ 148,154</u>	<u>₩ 453,400</u>

<sup>1</sup> The Commercial Code of the Republic of Korea requires the Parent Company to appropriate for each financial period, as a legal reserve, an amount equal to a minimum of 10% of cash dividends paid until such reserve equals 50% of its issued share capital. The reserve is not available for cash dividends payment, but may be transferred to share capital or used to reduce accumulated deficit.

**32. Operating Expenses**

Operating expenses for the years ended December 31, 2019 and 2018, are as follows:

<i>(in millions of Korean won)</i>	<b>2019</b>	<b>2018</b>
Salaries	₩ 538,486	₩ 420,326
Retirement benefit expense	39,717	30,396
Compensation cost of share-based payments	20,704	14,142
Welfare	88,776	66,997
Travel and transportation expense	12,106	8,522
Taxes and dues	6,667	4,786
Rental expense	9,363	37,390
Commission	360,117	314,379
Sales-related expenses	1,079,324	873,754
Cost of goods sold	288,646	205,734
Advertising expense	146,176	183,827
Depreciation	139,125	67,650
Amortization	79,679	67,379
Expenses for events	5,073	3,487
Others	47,556	42,189
	<u>₩ 2,861,514</u>	<u>₩ 2,340,959</u>

**Kakao Corp. and Subsidiaries**  
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**33. Other Non-Operating Income and Expenses**

Details of other non-operating income and expenses for the years ended December 31, 2019 and 2018 are as follows:

<i>(in millions of Korean won)</i>	<b>2019</b>	<b>2018</b>
<b>Other non-operating income</b>		
Gain on disposal of property and equipment	₩ 2,688	₩ 584
Gain on disposal of intangible assets	7,882	1,904
Gain on disposal of investment property	-	178
Gain on disposal of equity method investments	50,973	38,650
Gain on disposal of investments in subsidiaries	612	14,746
Gain on foreign currency transactions	1,523	2,398
Gain on foreign currency translation	861	123
Miscellaneous income	7,796	15,436
Rent income	293	10
Gain on disposal of other assets	-	295
Reversal of allowance for doubtful accounts (non-operating income)	62	204
Reversal of impairment loss on intangible assets	341	-
Gains on bargain purchase	694	-
Reversal of provision for restoration	28	-
Others	-	3
	<u>₩ 73,755</u>	<u>₩ 74,531</u>
<b>Other non-operating expenses</b>		
Loss on disposal of property and equipment	₩ 1,245	₩ 355
Loss on disposal of intangible assets	1,836	324
Loss on abandonment of property and equipment	578	623
Impairment losses on property and equipment	57	-
Impairment losses on intangible assets	440,323	8,320
Impairment losses on other assets	1,378	2,871
Impairment losses on equity method investments	25,876	36,747
Loss on disposal of equity method investments	4,678	2,165
Loss on disposal of investments in subsidiaries	32	565
Donations	4,651	6,493
Service fees	5,188	5,978
Loss on foreign currency transactions	1,804	1,607
Loss on foreign currency translation	924	81
Miscellaneous losses	28,004	15,831
Other bad debt expenses	2,073	3,761
Loss on disposal of trade receivables	3	-
Others	2,763	50
	<u>₩ 521,412</u>	<u>₩ 85,772</u>



**Kakao Corp. and Subsidiaries**  
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**34. Finance Income and Costs**

Finance income and costs for the years ended December 31, 2019 and 2018 are as follows:

<i>(in millions of Korean won)</i>	<b>2019</b>	<b>2018</b>
<b>Finance income</b>		
Interest income	₩ 31,700	₩ 41,783
Dividend income	1,287	381
Gain on valuation of derivatives	5,625	988
Gain on valuation of financial assets at fair value through profit or loss	11,489	23,830
Gain on disposal of financial assets at fair value through profit or loss	566	7,443
Gain on foreign currency transactions	5,102	15,138
Gain on foreign currency translation	14,616	16,645
Other finance income	-	6,245
	<u>₩ 70,386</u>	<u>₩ 112,453</u>
<b>Finance costs</b>		
Interest expense	₩ 12,808	₩ 9,356
Loss on valuation of derivative financial instruments	7,671	732
Loss on foreign currency transactions	2,116	2,502
Loss on foreign currency translation	4,021	7,690
Loss on valuation of financial assets at fair value through profit or loss	14,990	23,602
Loss on disposal of financial assets at fair value through profit or loss	328	269
Loss on disposal of financial assets at fair value through other comprehensive income	-	272
Other finance costs	2,068	5,720
	<u>₩ 44,000</u>	<u>₩ 50,143</u>

**35. Earnings per Share**

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Parent Company by the weighted average number of ordinary shares outstanding, excluding the treasury shares during the year.

Basic earnings per share for the years ended December 31, 2019 and 2018 is calculated as follows:

<i>(in millions of Korean won, except per share data)</i>	<b>2019</b>	<b>2018</b>
Profit (loss) attributable to equity holders of the Parent Company	₩ (301,003)	₩ 47,886
Weighted average number of ordinary shares outstanding	<u>79,715,891</u>	<u>76,863,184</u>
Basic earnings (loss) per share	<u>₩ (3,776)</u>	<u>₩ 623</u>

# Kakao Corp. and Subsidiaries

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Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has stock options, exchangeable bonds and convertible bonds as dilutive potential ordinary shares. For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the share options are exercised. The convertible bond and exchangeable bond are assumed to have been converted into ordinary shares, and the net profit is adjusted to eliminate the interest expense less the tax effect.

Diluted earnings per share for the years ended December 31, 2019 and 2018, is calculated as follows:

<i>(in millions of Korean won, except per share data)</i>	<b>2019</b>	<b>2018</b>
Profit (loss) attributable to equity holders of the Parent Company	₩ (301,003)	₩ 47,886
Interest cost for convertible bonds (net of tax)	-	1,788
	<u>(301,003)</u>	<u>49,673</u>
Weighted average number of ordinary shares outstanding	79,715,891	76,863,184
Adjustment for:		
Stock options	-	193,396
Convertible bonds	-	3,820,325
Weighted average number of diluted potential ordinary shares	-	4,013,721
Weighted average number of ordinary shares	79,715,891	80,876,905
for diluted earnings per share		
Diluted earnings (loss) per share	<u>₩ (3,776)</u>	<u>₩ 614</u>

Details of the potential ordinary share that may have a dilution effect in the future although it was not considered when calculating the diluted earnings per share due to the anti-dilution effect as at December 31, 2019, is as follows:

<i>(in millions of Korean won, except per share data)</i>	<b>Interest expense, net of tax</b>	<b>Number of ordinary shares to be issued</b>
Convertible bonds and exchangeable bonds	₩ 661	3,548,171
Stock option	-	352,125

# Kakao Corp. and Subsidiaries

## Notes to the Consolidated Financial Statements

### December 31, 2019 and 2018

#### 36. Dividends

Dividends paid by the Parent Company for the years ended December 31, 2019 and 2018, are ₩ 10,053 million (₩ 127 per share) and ₩ 10,050 million (₩ 148 per share), respectively.

The dividend to the shareholders of the Parent Company in respect of the year ended December 31, 2019, of ₩ 127 per share, amounting to total dividends of ₩ 10,413 million, is to be proposed at the annual general shareholders' meeting on March 25, 2020. The Company's consolidated financial statements as at December 31, 2019, do not reflect this dividend payable.

#### 37. Cash Generated from Operations

Details of cash generated from operations for the years ended December 31, 2019 and 2018 are as follows:

<i>(in millions of Korean won)</i>	<b>2019</b>	<b>2018</b>
Profit (loss) before income tax	₩ (234,257)	₩ 130,670
Adjustments :		
Bad debt expense	1,811	3,084
Depreciation	139,125	67,650
Amortization	79,679	67,379
Impairment losses on intangible assets	439,982	8,320
Gain on disposal of property and equipment	(1,443)	(229)
Loss on abandonment of property and equipment	578	623
Gain (loss) on disposal of intangible assets	(6,046)	(1,580)
Retirement benefit expense	37,500	28,609
Compensation cost of share-based payments	20,704	14,142
Interest income	(31,700)	(41,783)
Interest expense	12,808	9,356
Dividend income	(1,287)	(381)
Share of net loss (profit) of associates	19,771	(6,652)
Loss on disposal of equity method investments	-	2,165
Gain on disposal of equity method investments	(50,973)	(38,650)
Impairment losses on equity method investments	25,876	36,747
Gain on disposal of financial assets at fair value through profit or loss	(566)	(7,443)
Loss on disposal of financial assets at fair value through profit or loss	328	269
Gain on valuation of financial assets at fair value through profit or loss	(11,489)	(23,830)
Loss on valuation of financial assets at fair value through profit or loss	14,990	23,602
Loss on disposal of financial assets at fair value through other comprehensive income	-	272
Impairment losses on other assets	1,378	2,871
Gain on valuation of derivative financial instruments	(5,625)	(988)
Loss on valuation of derivative financial instruments	7,671	732
Other bad debt expenses	2,073	3,761
Others	(580)	-
Changes in operating assets and liabilities		
Trade receivables	39,192	(1,482)

**Kakao Corp. and Subsidiaries**  
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<i>(in millions of Korean won)</i>	<b>2019</b>	<b>2018</b>
Inventories	(19,188)	(8,951)
Other current financial assets	(40,544)	(63,994)
Other current assets	24,541	(91,627)
Other non-current assets	(43,181)	(6,758)
Trade payables and other payables	100,465	154,417
Other current liabilities	132,779	393,992
Other current financial liabilities and deposits received	205,815	(782)
Other non-current liabilities	8,916	882
Other non-current financial liabilities	16,892	(2,441)
Net defined benefit liabilities	(51,627)	(33,329)
Other long-term employee benefit liabilities	(1,656)	(2,887)
Other provisions	-	882
Others	(1,566)	(8,605)
Cash generated from operations	<u>₩ 831,143</u>	<u>₩ 608,033</u>

Significant transactions not affecting cash flows for the years ended December 31, 2019 and 2018 are as follows:

<i>(in millions of Korean won)</i>	<b>2019</b>	<b>2018</b>
Provision for restoration to specific property and equipment account	₩ 5,117	₩ 2,258
Write-offs of trade receivables	1,650	336
Change of other payables related to acquisition of property and equipment	6,655	5,628
Change of non-trade receivables related to disposal of property and equipment	179	-
Change of other payables related to acquisition of intangible assets	515	540
Change of advanced payments related to acquisition of intangible assets	4,336	8,636
Change of deferred revenues related to disposal of intangible assets	-	10,325
Transfer from advanced payments and long-term advanced payments to property and equipment	3,794	-
Transfer from advanced payments and long-term advanced payments to intangible assets	4,300	-
Conversion of convertible bonds	32,600	2,990
Conversion of redeemable convertible preferred shares	-	4,456
Transfer to current portion of long-term borrowings	1,054	575,931
Increase in right-of-use assets due to changes in accounting policies	198,775	-
Increase in lease liabilities due to changes in accounting policies	199,792	-
Change of non-trade receivables related to payment of lease liabilities	8,800	-
Transfer from financial assets at fair value through other comprehensive income to investments in associates	243,105	1,977

**Kakao Corp. and Subsidiaries**  
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Changes in net liabilities arising from financial activities for the years ended December 31, 2019 and 2018, are as follows:

<i>(in millions of Korean won)</i>	<b>Other assets</b>		<b>Liabilities from financing activities</b>				<b>Total</b>
	<b>Cash and cash equivalents</b>	<b>Short-term financial assets</b>	<b>Short-term borrowings</b>	<b>Long-term borrowings</b>	<b>Current lease liabilities</b>	<b>Non-current lease liabilities</b>	
At December 31, 2018	₩ 1,247,013	₩ 924,215	₩ (609,480)	₩ (44,995)	₩ -	₩ -	₩ 1,516,753
Changes in accounting policies	-	-	-	-	(42,514)	(156,261)	(198,775)
At January 1, 2019	1,247,013	924,215	(609,480)	(44,995)	(42,514)	(156,261)	1,317,978
Acquisition - lease	-	-	-	-	(4,044)	(82,187)	(86,231)
Cash flows	799,132	(593,555)	128,208	(36,919)	43,045	-	339,911
Exchange differences	10,528	(194)	(142)	(79)	-	-	10,112
Changes in consolidation scope	(138,448)	1,194	(4,128)	(3,246)	(340)	-	(144,967)
Transfer from/to current portion	-	-	(1,054)	1,054	(73,459)	73,459	-
Unwind of discount	-	-	(956)	(196)	-	-	(1,151)
Transfer	-	(124,322)	-	12,229	8,800	-	(103,293)
Conversion of convertible bond	-	-	32,600	-	-	-	32,600
Others	-	429	6,357	(117)	435	-	7,104
At December 31, 2019	₩ 1,918,225	₩ 207,767	₩ (448,596)	₩ (72,269)	₩ (68,077)	₩ (164,989)	₩ 1,372,062

<i>(in millions of Korean won)</i>	<b>Other assets</b>		<b>Liabilities from financing activities</b>		<b>Total</b>
	<b>Cash and cash equivalents</b>	<b>Short-term financial assets</b>	<b>Short-term borrowings</b>	<b>Long-term borrowings</b>	
At January 1, 2018	₩ 1,116,793	₩ 394,152	₩ (174,372)	₩ (620,808)	₩ 715,765
Cash flows	9,747	514,098	139,350	(3,229)	659,966
Exchange differences	30,483	8,305	(2)	-	38,786
Changes in consolidation scope	89,990	7,661	(5,309)	(7,838)	84,503
Transfer from/to current portion	-	-	(575,931)	575,931	-
Unwind of discount	-	-	(1,788)	(312)	(2,100)
Others (conversion of convertible bond, etc.)	-	-	8,572	11,261	19,833
At December 31, 2018	₩ 1,247,013	₩ 924,215	₩ (609,480)	₩ (44,995)	₩ 1,516,753

**Kakao Corp. and Subsidiaries**  
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**38. Commitments and Contingencies**

The Company has provided the following guarantees as at December 31, 2019 and 2018:

(in millions of Korean won)

Beneficiary	Guarantor	Amount		Guaranteed item
		2019	2018	
Employees <sup>1</sup>	Woori Bank	₩ 245	₩ 292	Employee loans
Customers <sup>2</sup>	Korea Investment Savings Bank, etc.	15,151	4,922	Guarantee for sales installment
Credit guarantee	Intercontinental Hongkong, etc.	-	1,144	Credit guarantee for LC
Housing loans to employees <sup>3</sup>	Executives of associates	440	-	Housing loans to employees
		<u>₩ 15,836</u>	<u>₩ 6,358</u>	

<sup>1</sup> The Company provided its employees payment guarantee with banks for the employees' bank loans related to their welfare and the Company's deposits of ₩ 6,191 million are pledged as collateral.

<sup>2</sup> Debt guarantee provided for the customer's installment amount for financial institutions among the purchase amount. In relation to such debt guarantee, one promissory note (₩ 300 million) and financial instruments of ₩ 100 million of the Company are provided as collateral.

<sup>3</sup> Financial instruments of ₩ 425 million of the Company are provided as collateral in relation to guarantees for housing loans to employees.

The Company has been provided the following guarantees by others as at December 31, 2019 and 2018:

(in millions of Korean won)

Guarantor	Details	Amount		Beneficiary
		2019	2018	
Seoul Guarantee Insurance and others	Performance guarantee and others	₩ 128,369	₩ 7,919	Korea Workers' Compensation & Welfare Service, Korea Electric Power Corporation, etc.
Korea Credit Guarantee Fund	Guarantee for borrowings and others	2,410	2,393	Industrial Bank of Korea, etc.
Shinhan Bank	Consumer protection under Act on Electronic Commerce	500	-	Customers
TRAVIX TRAVEL USA INC	Performance guarantee	-	112	Customers
		<u>₩ 131,279</u>	<u>₩ 10,424</u>	

In addition to the above, the Company has been received a payment guarantee from KB Kookmin Bank regarding the issuance of exchangeable bonds (Note 21).

# Kakao Corp. and Subsidiaries

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As at December 31, 2019, the Company is involved in 21 lawsuits amounting to ₩ 20,898 million as a defendant or co-defendant. The Company does not expect that these cases would have a material impact on its consolidated financial statements.

The Company's agreements with financial institutions and commitments as at December 31, 2019 and 2018, are as follows:

(in millions of Korean won)

Financial Institution	Agreements	2019	
		Maximum limit	Amount executed
Industrial Bank of Korea	General loans	₩ 100	₩ -
KEB Hana Bank	General loans	50	-
KEB Hana Bank	Trade receivable secured loan	1,000	-
KB Kookmin Bank	Purchasing loan	500	500
Industrial Bank of Korea	Purchasing loan	1,380	1,380
Shinhan Bank	Limit loans for operation capital	200,000	-
KB Kookmin Bank	Facility loans	7,800	7,800
THE KUMAMOTO DAI-ICHI SHINKIN BANK	Loans for operation capital	115	115
THE KUMAMOTO DAI-ICHI SHINKIN BANK	Loans for investments	1,365	1,365
Japan Finance Corporation	Loans for investments	16	16
Woori Bank	General borrowings	1,000	1,000
Shinhan Bank	General borrowings	1,500	1,500
Woori Bank	Retail Banking loans	700	699
KB Kookmin Bank	Loans for operation capital	200	200
Woori Bank	Loans for operation capital	100	100
Shinhan Bank	Limit loan	25,000	-
Korea Development Bank	Limit loan	40,000	-
KB Kookmin Bank	Limit loan	22,000	-
		<u>₩ 302,825</u>	<u>₩ 14,674</u>

(in millions of Korean won)

Financial Institution	Agreements	2018	
		Maximum limit	Amount executed
Industrial Bank of Korea	Loans for operation capital	₩ 2,000	₩ -
Industrial Bank of Korea	Loans for operation capital	200	-
Woori Bank	Credit limit of borrowings	958	958
Shinhan Bank	Credit limit of borrowings	500	500
Woori Bank	General borrowings	5,000	5,000
KB CAPITAL	General borrowings	22	22
Shinhan Bank	General loans (limit)	2,500	-
THE KUMAMOTO DAI-ICHI SHINKIN BANK	Loans for operation capital	172	172
THE KUMAMOTO DAI-ICHI SHINKIN BANK	Loans for investments	1,401	1,401
Japan Finance Corporation.	Loans for investments	26	26
Orix	Loans for operation capital	157	157
Woori Bank	General borrowings	916	916

# Kakao Corp. and Subsidiaries

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(in millions of Korean won)

Financial Institution	Agreements	2018	
		Maximum limit	Amount executed
KB Kookmin Bank	General borrowings	20,000	20,000
Shinhan Bank	General borrowings	770	770
Shinhan Bank	Loans for operation capital	50	50
Industrial Bank of Korea	Loans for operation capital	600	600
		<u>₩ 35,273</u>	<u>₩ 30,573</u>

In 2016, the Parent Company has entered into a securities lending agreement with each of two underwriters of the exchangeable bonds, Citigroup Global Markets Limited and Morgan Stanley & Co. International plc for up to an aggregate 2,191,885 shares of exchange target shares, equivalent to 100% of the total exchangeable shares. According to the agreement, the shares will be lend up to the date specified such as the date of the 5th anniversary of the issuance of the bonds, the date on which all of the bonds are redeemed, or exchanged through the underwriters' agent, NH Investment & Securities Co., Ltd. However, shares subject to the agreement became treasury shares of the Company due to the merge with Kakao M Corp. occurred in 2018. As a result, the number of treasury shares subject to the agreement became 1,793,755 shares with the percentage of merger.

In the past, the Company granted a right to a customer for reselling equipment to the Company at 50% of a price when it sells to a customer after a certain period of time (selling price: ₩ 3,072 million).

In accordance with the shareholder agreements in relation to Kakaopay Corp., a subsidiary, the right to request Kakaopay Corp., a subsidiary, to issue new shares for 9.9% that does not affect the Company's control through a capital increase is provided to non-controlling interest investors within three years after the initial investment. If a subsidiary issues new shares with the approval of the Board of Directors, non-controlling interest investors may take over those shares at \$150,000,000. In addition, in accordance with the shareholder agreements, if there are difficulties in management and operation under the above agreements due to changes in governance structure, the non-controlling interest investors of a subsidiary may request the Company to purchase those shares for a period of time in the agreements at fair value. The management of the Company believes that the Company can control prerequisites for investors to claim the purchase and therefore, as at December 31, 2019, the Company determines that there is no possibility for investors to claim the purchase.

In accordance with the agreements with non-controlling interests of some subsidiaries including Kakao Page Corp., the Company is required to obtain a consent from investors, when the Company intends to dispose of the investments in subsidiaries within the period specified in the agreements through a transfer or other methods to third party other than stipulated manners in the agreements such as exercise of tag-along right (Note 1).



**Kakao Corp. and Subsidiaries**  
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Financial instruments restricted as at December 31, 2019 and 2018:

(in millions of Korean won)

	2019		2018		Purpose of restriction
Short-term financial instruments	₩	20,000	₩	20,000	Withdrawal restriction in relation to firm banking <sup>1</sup>
		-		559	Related to legal procedure
		1,350		1,350	Pledged as collateral for Shinhan Card and etc. <sup>2</sup>
		5,466		9,286	Payment guarantee for employees' loan
		425		-	Pledged for housing loans to employees
		4,997		4,935	Payment guarantee for office lease
		1,700		1,150	Pledged as collateral for a franchise contract
		-		239,600	Pledged as collateral for overseas exchangeable bonds
		-		1,800	Performance guarantee
		-		1,000	Pledged as collateral for Shinhan Card
		100		250	Guarantee for instalment sales of a customer
		2		-	Deposit for checking account
Long-term financial instruments		300		500	Payment guarantee for employee's loan
		701		-	Payment guarantee for office lease
		10		-	Payment guarantee for vehicles lease
Investments in associates		-		42,000	Lock-up <sup>3</sup>
	₩	35,052	₩	322,431	

<sup>1</sup> The withdrawal is restricted in relation to the firm banking contract with DGB Daegu Bank.

<sup>2</sup> Pledged as collateral in relation to covering expected loss incurred to credit card companies about business cooperation agreements with Shinhan Card and other credit card companies for 'Automated Payment via Kakao Pay'.

<sup>3</sup> Lock-up of 10,421,421 ordinary shares for additional listing of UBCARE CO., LTD. was released during 2019.

The following assets are pledged as collateral in relation to guarantees for contract fulfilment and borrowings as at December 31, 2019:

(in millions of Korean won)

Asset	Book value	Collateralized amount	Type of Guarantee	Secured party
Promissory note	₩ -	₩ 300	Collateral for fulfillment of repurchase obligation	Daehan Savings Bank
Time deposits and installment deposits	100	100	Collateral for payment guarantees	ORIX Capital Korea Corporation
Time deposits and installment deposits	400	440	Collateral for housing loans to employees	Shinhan Bank
Buildings	677	150	Leasehold rights	Killing Mario
Land, buildings	7,794	4,800	Collateral for facility loans	KB Kookmin Bank
Land, buildings	2,843	3,360	Establishment of the right to collateral security for land and buildings	KB Kookmin Bank
	₩ 11,815	₩ 9,150		

## **Kakao Corp. and Subsidiaries**

### **Notes to the Consolidated Financial Statements**

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Although short-term financial instruments of the Parent Company regarding the payment guarantee received from KB Kookmin Bank for the exchangeable bonds are provided as collateral until 2018, the collateral was changed to the stock return rights for treasury shares held by the Parent Company for the remaining shares subject to exchange during 2019 (Note 21).

The Company issued new shares through a capital increase by allotment to a third party to enter into a strategic partnership with SK TELECOM CO., LTD. during the year ended December 31, 2019. 2,177,401 new shares issued are subject to a deposit contract (prohibition of withdrawal or sale of relevant securities for one year from the deposit date) with the Korea Securities Depository and the Company executes the deposit contract.

As at December 31, 2019, other commitments of the Company are as follows:

(1) The Company pledged shares held by some shareholders who have participated in the Company's paid-in capital increase as collateral.

(2) In accordance with the agreements between shareholders of some subsidiaries and associates including STARSHIP ENTERTAINMENT CORP., the Company is required to obtain written consent from interested parties and investors when the Company intends to dispose of all or part of investments in subsidiaries or associates by transfer, sale, providing collateral, or other means before certain period or conditions are met.

(3) In accordance with the agreements between shareholders of STARSHIP ENTERTAINMENT CORP., a subsidiary, if the listing of STARSHIP ENTERTAINMENT CORP. is not completed within five years from the date of the capital increase of STARSHIP ENTERTAINMENT CORP. in December 2019, the investors who participated in the capital increase can request the Company to purchase shares of STARSHIP ENTERTAINMENT CORP. In relation to this, the Company recognized the amount to purchase the additional shares as liabilities.

(4) After lending money to subsidiary's CEO, the Company has pledged all of shares of moonlight film and Kakao M Corp. held by the CEO as collateral and has been comprehensively delegated the voting rights of moonlight film for three years.

(5) For the shares of EDAM Entertainment, an associate, held by other shareholders, the Company can request to sell the number of shares to hold 51% of the total shares issued on a complete dilution basis to the Company or a third party designated by the Company through a written notice within one year after two years from the signed date of shareholders agreements.

(6) SOOP ENTERTAINMENT CO., LTD a subsidiary of the company, has been sued by Fantagio Corp. for the non-existence of the extraordinary shareholders' meeting held in July 2016 and nullification/non-existence of the issuance of new shares. The Company's interests in the subsidiary may change depending on the outcome of the above litigation.

(7) The Company has entered into an agreement between shareholders that grants put options in

**Kakao Corp. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
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---

relation to equity investments of STARSHIP ENTERTAINMENT CORP. and Kakao Page Corp., subsidiaries of the Company, and recognized the amount as financial liabilities.

(8) The Company has entered into an agreement between shareholders that holds call options and grants put options in relation to equity investments of moonlight film, a subsidiary of the Company.

(9) As at December 31, 2019, in relation to the acquisition of shares of SamyangCNC Co.,Ltd., Daon Creative inc, Soundist Entertainment.Co.,Ltd., NeoBazar Inc. and RS MEDIA Co., Ltd., the Company has an obligation to purchase shares held by the other parties for a price agreed at a certain point or a specified price when the other party expresses its intention to sell some of the shares. The Company recognizes the amount as financial liabilities.

(10) As at December 31, 2019, the Company has entered into a payment agreement for production and development expenses related to drama production of two cultural industry specialty companies (Doctorbrain SPC Ltd., Dreamside SPC Ltd.) that have been invested in accordance with Framework Act on the Promotion of Cultural Industries. The final amount will be determined after being proposed to the SPC Steering Committee. Meanwhile, the expected net production cost for Doctorbrain SPC Ltd., is 10.5 billion, and the Company should raise funds by investing on the schedule agreed between the parties or by attracting third party investment.

(11) The Company has entered into contracts with 23 companies to sell and exchange cryptocurrency in relation to its subsidiary's cryptocurrency business ("Klaytn").

# Kakao Corp. and Subsidiaries

## Notes to the Consolidated Financial Statements

### December 31, 2019 and 2018

#### 39. Business Combinations

In 2019, the Company acquired the shares of 14 companies including AWESOMEENT CO. LTD., which became its subsidiaries. Details of the percentage of ownership acquired, the consideration paid and goodwill recognized thereto are as follow:

<i>(in millions of Korean won)</i>				
Company	Percentage of ownership acquired (%)	Consideration	Goodwill	
AWESOMEENT CO. LTD..	100.0	₩ 10,000	₩ 6,255	
Moonlight Film <sup>3</sup>	41.0	23,719	20,388	
Sanai Pictures	81.0	18,630	16,943	
VAST. CO., Ltd.	100.0	11,000	5,275	
SHOWNOTE Inc.	100.0	26,767	16,516	
Others <sup>1,2</sup>	52.5 ~ 100.0	37,886	25,185	
		₩ 128,003	₩ 90,560	

<sup>1</sup> Presented at a provisional amount for certain subsidiaries as purchase price allocation amount related to the business combination is not determined.

<sup>2</sup> Represent the consideration paid and goodwill of Soundist Entertainment.Co.,Ltd., RS MEDIA Co., Ltd., Mezondbaha Corp., KM Solution Corp., Jinhwa Corp., Donggo Taxi Corp., AWINS , INBYU and Partner Co.,Ltd., of which the Company acquired interests during 2019.

<sup>3</sup> In accordance with call option provision on shareholder agreements of moonlight film, the Company is considered to have additional 40% interests substantially, and considering this, the Company measured and accounted for the consideration.

**Kakao Corp. and Subsidiaries**  
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Details of the consideration transferred, fair value of the acquired identifiable assets and liabilities at the acquisition date, and non-controlling interests in relation to business combinations in 2019, are as follows:

<i>(in millions of Korean won)</i>	<b>AWESOME ENT Co. Ltd.</b>	<b>moonlight Film</b>	<b>Sanai Pictures</b>	<b>VAST. CO., Ltd.</b>	<b>SHOWNOTE Inc.</b>	<b>Others</b>
Consideration transferred						
Cash and cash equivalents	₩ 10,000	₩ 8,200	₩ 18,630	₩ 11,000	₩ 26,767	₩ 37,886
Non-trade payables	-	15,519	-	-	-	-
Assets acquired and liabilities assumed						
Cash and cash equivalents	792	1,774	1,718	1,924	4,730	8,129
Trade receivables	173	20	1	230	1,144	1,615
Inventories	-	-	-	-	-	3,523
Property and equipment	1,049	5,844	124	558	1,681	2,391
Intangible assets	3,131	694	345	6,688	670	7,144
Other assets	6,878	1,658	572	3,256	6,337	4,741
Trade payables	(579)	(44)	(109)	(713)	(949)	(1,994)
Borrowings	-	-	-	-	-	(2,899)
Lease liabilities	-	-	-	-	-	(608)
Other liabilities	(7,698)	(5,834)	(568)	(6,218)	(3,361)	(7,671)
Net identifiable assets acquired	3,746	4,113	2,083	5,725	10,252	14,371
Non-controlling interest	-	(781)	(396)	-	-	(1,669)
Goodwill	₩ 6,255	₩ 20,388	₩ 16,943	₩ 5,275	₩ 16,516	₩ 25,185

# Kakao Corp. and Subsidiaries

## Notes to the Consolidated Financial Statements

### December 31, 2019 and 2018

In 2019, the Company took over the business of seven companies including Callmaner business of SN TECH CO., LTD. which became its subsidiaries. Details of the consideration transferred, fair value of the acquired identifiable assets and liabilities at the acquisition date, and non-controlling interests in relation to business combinations in 2019, are as follows:

<i>(in millions of Korean won)</i>	<b>CMNP Corp.</b>		<b>Others<sup>1</sup></b>	
Consideration transferred				
Cash and cash equivalents	₩	4,230	₩	40,459
Assets acquired and liabilities assumed				
Cash and cash equivalents		643		355
Trade receivables		131		23
Inventories		-		32
Property and equipment		2		2,225
Intangible assets		4,626		-
Other assets		530		1,483
Other liabilities		(4,078)		(2,399)
Net identifiable assets acquired		1,853		1,718
Non-controlling interest		-		-
Goodwill	₩	2,377	₩	38,740

<sup>1</sup> Represent the amount of the business transfer from KM One Corp., KM Two Corp., KM Three Corp., KM Four Corp., KM Five Corp., KM SIX Corp. and KM Seven Corp.

As at December 31, 2019, in relation to the purchasing of shares of two companies, including RS MEDIA Co., Ltd., the Company has an obligation to purchase certain shares held by the other party for a price agreed at a certain point when the other party expresses its intention to sell the shares, and the Company recognized the amount as financial liabilities.

# Kakao Corp. and Subsidiaries

## Notes to the Consolidated Financial Statements

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#### 40. Related Parties Transactions

The list of related parties as at December 31, 2019 and 2018, is as follows:

Relationship	2019 Related parties <sup>1</sup>
Associates	Addcredit Corp., DMS Network, Inc., Tapas Media, Inc., NBT Inc., NBT AMERICA INC., NBT BEIJING CO., LTD., DAUM Venture Fund, Dunamu Inc., Futurewiz, Dunamu Investment Management Co., Ltd., Dunamu&Partners, ROOTONESOFT, IGIS Networks, LAMBDA256, Oscar Entertainment, CNT TECH CO.,LTD., Korea Credit Data, MannaCEA , Manna Town, Farmit, Farmit2, Left Right Co., Ltd., SCI VENTURE, INC., Rebittance Inc., SHOELAB CO., LTD, LUXROBO Co., Ltd., Deleo Korea Co.,Ltd., Skelter Labs, Inc., TOROOC Inc., Dreamcide SPC Ltd., DIGISONIC Co., Ltd., D&C MEDIA CO.,LTD., D&C OF STORM CO.,LTD., K Cube NEO Fund, BUNJANG Corp., Supergene Inc., InnoSignal Co.,Ltd., PoteNit Co.,Ltd., Doctorbrain SPC Ltd., CLAIR, Inc., KIF-Kakao Wooribank Technology Financing Fund, 13MILE.CO.LTD, ADSOTA CORP., CARDOC Inc., LUFTT KOREA Inc., Kakao Kids, FOR YOUR KIDS CO.,LTD., Fixel Hub Co.,Ltd., NOWBUSKING COMPANY, LINEWALKS Inc., CHEQUER Inc., Hasys co.,ltd, mycelebs, inc, DAIWAON. C. I. INC, Haksan Publinshing Co.Ltd., PEOPLEFUND COMPANY, Seoul Media Comics, UBCARE CO., LTD., LEEMITELEESYUN CULTURE INDUSTRIAL JEONMUNHOESA INC., GC SOCIAL MEDIA MARKETING, INC., Sixshop, Glohow Holdings PTE. LTD., Tide Square Co., Ltd., MOVILL Co.Ltd, EASYGO CO., LTD., Ltd., G&G Enterprise Co.Ltd., KakaoBank of Korea Corp., DXM CO.,LTD, DOZEN CO.,LTD, UNION K-Culture Contents Investment Fund, Daeyoung Chaevi CO., Ltd, 325E&C Co., Ltd., Ocean Drive Studio Co., Ltd., KW books, EDAM Entertainment, Un7qi3 Corp., Tangram Factory, KASA NETWORK PTE. LTD, Socialbean Co., Ltd, Allstay Co.,LTD and other 61 companies
Joint venture	DAUMKAKAO PHILIPPINES CORP., AsanKakao Medical Data Co., Ltd., PINPLAY JAPAN Co., Ltd., PHI DIGITAL HEALTHCARE Inc., The Bridges of Madison County Co., Ltd.
Other related parties	K Cube Holdings Co., Ltd., T for Invest, New learn English Inc., Onyx K., Golf & Data System, PLUS 2 PERCENT, NPLUTO, GOLF&FRIEND CO.,LTD., LKMS Limited, LKMS Re, Daeheung Co., Ltd., kakao Impact Foundation, GAMERS FOUNDATION

**Kakao Corp. and Subsidiaries**  
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Relationship	2018	
	Related parties <sup>1</sup>	
Associates	Addcredit Corp., DMS Network, Inc., NBT Inc., Dunamu Inc., Futurewiz, IGIS Networks, Dunamu Investment Management Co., Ltd., Dunamu&Partners, ROOTONESOFT, Tapas Media, Inc., DAUM Venture Fund, NBT AMERICA INC., NBT BEIJING CO., Ltd., MannaCEA, Manna Town, , Farmit, Farmit2, Oscar Entertainment., Left Right Co., Ltd. , SCI VENTURE, INC., Tangram Factory, TANGRAMFACTORY AMERICA, INC., CNT TECH CO.,LTD., You Are the Designer, LUXROBO Co., Ltd., Leferi Inc., Deleo Korea Co.,Ltd., D&C MEDIA CO.,LTD., D&C OF STORM CO.,LTD., K Cube NEO Fund, Skelter Labs, Inc., TOROOC Inc., DIGISONIC Co., Ltd., Supergene Inc., BUNJANG Corp., (Dreamside SPC Ltd., InnoSignal Co.,Ltd., PoteNit Co.,Ltd., Korea Credit Data, Doctorbrain SPC Ltd., CLAIR, Inc., KIF-Kakao Wooribank Technology Financing Fund, 13MILE.CO.LTD, ADSOTA CORP., CARDOC Inc., Kakao Kids (formerly, BLUEPIN Inc.), Fixel Hub Co.,Ltd., Hasys co.,Ltd, FOR YOUR KIDS CO.,LTD., Action Square Co., Ltd., NOWBUSKING COMPANY, LINEWALKS Inc., CHEQUER Inc., LUFTT KOREA Inc., Rebittance Inc., mycelebs, inc, DAIWAON. C. I. INC, Haksan Publinshing Co.Ltd., PEOPLEFUND COMPANY, Seoul Media Comics, Allstay Co.,LTD, UBCARE CO., LTD. and other 67 companies	
Joint venture	DAUM KAKAO PHILIPPINES CORP.	
Other related parties	K Cube Holdings Co., Ltd., T for Invest, New learn English Inc., Onyx K., MODUDA, PLUS 2 PERCENT, NPLUTO, Daeheung Co., Ltd., kakao Impact Foundation, GAMERS FOUNDATION	

<sup>1</sup> Include associates and other related parties of KaKao Corp. and the entities that are not the related party in accordance with Korean IFRS 1024 but belong to the Large Enterprise Group to which the Company also belongs in accordance with the Monopoly Regulation and Fair Trade Act.

Transactions with the related parties for the years ended December 31, 2019 and 2018 and the receivables from and payables to the related parties as at December 31, 2019 and 2018, are as follows:

**Transactions**

(in millions of Korean won)	2019					
	Revenue and others			Operating expenses and others		
	Revenue	Interest income	Other income	Service fee	Advertising expense	Others
<b>Associates</b>						
FOR YOUR KIDS CO.,LTD.	₩ 1,083	₩ -	₩ -	₩ -	₩ -	-
K Cube NEO Fund	481	-	-	-	-	-
KIF-Kakao Wooribank Technology Financing Fund	1,504	-	-	-	-	-
Kakao Kids	122	-	-	-	-	16
Fixel Hub Co.,Ltd.	16	-	-	15	-	-
Hasys co.,Ltd	2,779	-	-	-	-	7
DAIWAON. C. I. INC	145	-	-	514	-	-



# Kakao Corp. and Subsidiaries

## Notes to the Consolidated Financial Statements

### December 31, 2019 and 2018

	2019					
	Revenue and others			Operating expenses and others		
	Revenue	Interest income	Other income	Service fee	Advertising expense	Others
(in millions of Korean won)						
Haksan Publinshing Co.Ltd.	-	-	-	2,088	-	-
CLAIR, Inc.	1	-	-	-	-	-
CARDOC Inc.	40	-	-	-	-	13
BUNJANG Corp.	-	326	2	-	-	223
SHOELAB CO., LTD.	1	-	-	-	-	-
MannaCEA	152	-	-	196	-	1
NBT Inc.	133	-	-	1,344	-	-
Leferi Inc.	88	-	-	-	-	-
Tangram Factory	1	-	-	-	-	-
LUFTT KOREA Inc.	1	-	-	-	-	-
G&G ENTERPRISE CO.,LTD.	16	-	-	-	-	-
KakaoBank of Korea Corp.	3,703	-	1	1,685	-	-
UBCARE CO., LTD.	-	-	-	-	-	106
MOVILL Co.Ltd	-	-	39	-	-	-
PEOPLEFUND COMPANY	1,276	-	-	-	-	-
13MILE.CO.LTD	-	-	21	5	-	-
DOZEN CO.,LTD	12	-	-	179	-	-
CNT TECH CO.,LTD.	803	-	-	653	-	-
Dunamu Inc.	896	-	-	227	-	-
Sixshop	26	-	-	18	-	-
Deleo Korea Co.,Ltd.	-	-	-	1	-	-
Seoul Media Comics	4	-	-	1,466	-	-
Tapas Media,. Inc.	133	-	-	-	-	-
D&C MEDIA CO.,LTD.	120	-	-	17,653	4	-
Doctorbrain SPC Ltd.	-	-	4	-	-	-
mycelebs, inc	100	-	-	608	-	-
KW Books, Inc.	-	-	-	-	-	-
Tide Square Co., Ltd.	1	-	300	-	-	-
NOWBUSKING COMPANY	-	-	-	4	-	1
Futurewiz	-	-	-	-	-	-
Korea Credit Data	2,021	-	-	-	-	-
Socialbean Co., Ltd	1	-	23	-	-	-
	<u>15,657</u>	<u>326</u>	<u>389</u>	<u>26,655</u>	<u>4</u>	<u>366</u>
<b>Other related parties</b>						
Kakao Impact Foundation	169	-	-	-	-	3,223
GAMERS FOUNDATION	-	-	2	-	-	-
	<u>169</u>	<u>-</u>	<u>2</u>	<u>-</u>	<u>-</u>	<u>3,223</u>
	<u>₩ 15,826</u>	<u>₩ 326</u>	<u>₩ 390</u>	<u>₩ 26,655</u>	<u>₩ 4</u>	<u>₩ 3,589</u>

<sup>1</sup> Received dividends of ₩ 5,329 million from Dunamu Inc., UBCARE CO., LTD. and K Cube NEO Fund in 2019, and the dividends amount is not included in the above table.

# Kakao Corp. and Subsidiaries

## Notes to the Consolidated Financial Statements

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#### Transactions

(in millions of Korean won)

	2018					
	Revenue and others			Operating expenses and others		
	Revenue	Interest income	Other income	Service fee	Advertising expense	Others
<b>Associates</b>						
MannaCEA	₩ 54	₩ -	₩ -	₩ 21	₩ -	₩ -
Dunamu Inc. <sup>2</sup>	1,454	-	-	134	-	-
You Are the Designer	1	-	-	-	-	-
CNT TECH CO.,LTD.	1,049	-	-	570	146	1
Leferi Inc.	57	-	-	-	-	-
CARDOC Inc.	39	-	-	-	-	-
BUNJANG Corp.	-	330	-	-	-	40
CLAIR, Inc.	-	-	-	-	-	507
Korea Credit Data	42	-	-	150	-	-
NOWBUSKING COMPANY	3	-	-	1	-	1
Kakao Kids <sup>1</sup>	499	-	-	63	-	17,666
Futurewiz	45	-	-	-	-	-
NBT Inc.	305	-	-	220	-	-
Fixel Hub Co.,Ltd.	3	-	-	100	-	-
Left Right Co., Ltd.	-	-	-	-	-	-
D&C MEDIA CO.,LTD.	57	-	-	12,004	-	37
Doctorbrain SPC Ltd.	4	-	-	-	-	-
K Cube NEO Fund	-	-	385	-	-	-
KIF-Kakao Wooribank Technology Financing Fund	-	-	1,368	-	-	-
DAIWAON. C. I. INC	4	-	-	4	-	1
Haksan Publinshing Co.Ltd.	-	-	-	9	-	-
FOR YOUR KIDS CO.,LTD.	479	-	-	-	-	-
LUFTT KOREA Inc.	-	-	-	-	-	-
13MILE.CO.LTD	-	4	-	2	-	-
PEOPLEFUND COMPANY	130	-	-	-	-	-
Tapas Media, Inc.	144	-	-	-	-	-
Hasys co.,ltd	2,054	-	-	-	-	-
Pinplay	5	-	-	-	-	-
WishLink	16	-	-	-	-	-
	<u>6,442</u>	<u>334</u>	<u>1,753</u>	<u>13,279</u>	<u>146</u>	<u>18,252</u>
<b>Other related parties</b>						
Kakao Impact Foundation	63	-	-	-	-	4,000
NPLUTO	-	-	-	-	-	197
Daeheung Co., Ltd.	-	42	-	-	-	-
	<u>63</u>	<u>42</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,197</u>
	<u>₩ 6,505</u>	<u>₩ 376</u>	<u>₩ 1,753</u>	<u>₩ 13,279</u>	<u>₩ 146</u>	<u>₩ 22,449</u>

<sup>1</sup> Includes purchases of investments in Pinplay from Kakao Kids (formerly, BLUEPIN Inc.) in 2018.

<sup>2</sup> Received dividends of ₩ 800 million from Dunamu Inc. in 2018.

# Kakao Corp. and Subsidiaries

## Notes to the Consolidated Financial Statements

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#### Receivables and Payables

(in millions of Korean won)

	2019				
	Receivables			Payables	
	Trade receivables	Loans	Other receivables	Non-trade payables	Other payables
<b>Associates</b>					
FOR YOUR KIDS CO.,LTD.	₩ 22	₩ -	₩ -	₩ 1	₩ 77
K Cube NEO Fund	120	-	-	-	-
KIF-Kakao Wooribank Technology Financing Fund	374	-	-	-	-
Kakao Kids	8	-	-	-	-
Fixel Hub Co.,Ltd.	-	-	1	3	-
Hasys co.,Ltd	234	-	669	790	-
DAIWAON. C. I. INC	39	-	462	243	-
Haksan Publinshing Co.Ltd.	-	-	2,326	399	-
G&G Enterprise Co.Ltd.	3	-	-	52	-
CLAIR, Inc.	-	-	-	35	-
Tangram Factory	-	-	-	-	-
KakaoBank of Korea Corp.	332	-	10,563	317	-
MANNACEA	21	-	-	27	-
BUNJANG Corp.	-	-	-	8	-
UBCARE CO., LTD.	-	-	-	69	-
MOVILL Co.Ltd	-	1,300	-	-	-
PEOPLEFUND COMPANY	200	-	-	-	-
13MILE.CO.LTD	-	450	4	-	-
DOZEN CO.,LTD	5	-	-	59	-
Sixshop	-	-	-	4	-
Deleo Korea Co.,Ltd.	-	-	-	-	-
Tapas Media., Inc.	36	-	-	-	11
NBT Inc.	2	-	68	89	-
D&C MEDIA CO.,LTD.	19	-	2,918	1,991	2
Dreamcide SPC Ltd.	-	-	400	-	-
Doctorbrain SPC Ltd.	1	-	400	-	-
mycelebs, inc	110	-	899	93	-
Seoul Media Comics	-	-	823	101	-
KWbooks	-	-	1,397	539	-
Dunamu Inc.	78	-	-	22	-
NOWBUSKING COMPANY	-	-	-	0	-
CNT TECH CO.,LTD.	39	-	-	326	-
Tide Square Co., Ltd.	-	-	-	-	-
CARDOC Inc.	-	-	-	6	-
LUFTT KOREA Inc.	-	-	-	7	-
Socialbean Co., Ltd	-	-	-	17	-
325E&C Co., Ltd.	-	-	2,235	207	16
EDAM Entertainment Corp	12	-	-	856	-
SHOELAB CO., LTD.	-	-	-	-	-
	<u>1,655</u>	<u>1,750</u>	<u>23,165</u>	<u>6,263</u>	<u>105</u>
<b>Other related parties</b>					
kakao Impact Foundation	17	-	-	-	-
LKMS INC.	-	-	2	28	116
K Cube Holdings Co., Ltd.	-	-	-	-	2,500
GAMERS FOUNDATION	-	-	-	-	-
	<u>17</u>	<u>-</u>	<u>2</u>	<u>28</u>	<u>2,616</u>
	<u>₩ 1,671</u>	<u>₩ 1,750</u>	<u>₩ 23,168</u>	<u>₩ 6,290</u>	<u>₩ 2,721</u>

**Kakao Corp. and Subsidiaries**  
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**Receivables and Payables**

(in millions of Korean won)

	2018				
	Receivables			Payables	
	Trade receivables	Loans	Other receivables	Non-trade payables	Other payables
<b>Associates</b>					
MannaCEA	₩ -	₩ -	₩ -	₩ 124	₩ -
CNT TECH CO.,LTD.	65	-	-	97	-
NOWBUSKING COMPANY	3	-	-	-	-
Dunamu Inc.	113	-	-	12	-
Kakao Kids	16	-	-	-	-
Fixel Hub Co.,Ltd.	1	-	2	7	-
Left Right Co., Ltd.	-	-	-	-	-
D&C MEDIA CO.,LTD.	11	-	2,316	634	-
Dreamcide SPC Ltd.	-	-	400	-	-
Doctorbrain SPC Ltd.	1	-	400	-	-
Haksan Publinshing Co.Ltd.	-	-	1,394	787	-
DAIWAON. C. I. INC	-	-	-	254	-
Seoul Media Comics	-	-	785	143	-
CLAIR, Inc.	-	-	-	33	-
NBT Inc.	9	-	-	5	-
FOR YOUR KIDS CO.,LTD.	113	-	-	-	-
You Are the Designer.	-	-	-	-	-
CARDOC Inc.	-	-	-	-	-
LUFTT KOREA Inc.	-	-	-	-	-
BUNJANG Corp.	-	-	-	11	-
13MILE.CO.LTD	-	450	4	2	-
PEOPLEFUND COMPANY	82	-	-	-	-
Hasys co.,Ltd	221	-	530	520	-
Allstay Co.,LTD	-	100	-	1	-
	₩ 635	₩ 550	₩ 5,832	₩ 2,631	₩ -
<b>Other related parties</b>					
kakao Impact Foundation	₩ 28	₩ -	₩ -	₩ -	₩ -
	₩ 663	₩ 550	₩ 5,832	₩ 2,631	₩ -

Loans arising from related parties for the years ended December 31, 2019 and 2018, are as follows:

(in millions of Korean won)

	2019				
	Beginning balance	Loans	Repayments	Changes in scope of consolidation	Ending balance
<b>Associates</b>					
13MILE.CO.LTD	₩ 450	₩ -	₩ -	₩ -	₩ 450
MOVILL Co.Ltd	-	1,300	-	-	1,300
Others	100	200	(100)	(200)	-
<b>Other related parties</b>					
Daeheung Co., Ltd.	4,000	-	-	-	4,000
	₩ 4,550	₩ 1,500	₩ (100)	₩ (200)	₩ 5,750

**Kakao Corp. and Subsidiaries**  
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(in millions of  
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	2018					
	Beginning balance	Loans	Acquisition from bonds	Repayments	Changes in scope of consolidation	Ending balance
<b>Associates</b>						
3Points Inc.	₩ 50	₩ -	₩ -	₩ -	₩ (50)	₩ -
SONNORI CORP.	-	1,500	-	-	(1,500)	-
BUNJANG Corp.	-	150	-	(150)	-	-
Allstay Co.,LTD	-	300	-	(500)	300	100
13MILE.CO.LTD	-	450	-	-	-	450
	50	2,400	-	(650)	(1,250)	550
<b>Other related parties</b>						
Daeheung Co., Ltd.	-	2,000	4,000	(2,000)	-	4,000
	₩ 50	₩ 4,400	₩ 4,000	₩ (2,650)	₩ (1,250)	₩ 4,550

During 2019 and 2018, the Company made contribution in cash to certain related parties (Note 16).

**Key management compensation**

The compensation paid or payable to key management for the years ended December 31, 2019 and 2018 consists of:

(in millions of Korean won)

	2019	2018
Salaries	₩ 1,830	₩ 2,159
Retirement benefit expense	111	48
Other long-term employee benefits	25	28
Share-based payments	884	473
	₩ 2,850	₩ 2,708

# **Kakao Corp. and Subsidiaries**

## **Notes to the Consolidated Financial Statements**

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#### **41. Credit Risk**

Credit risk arises from cash and cash equivalents, contractual cash flows of debt investments, favorable derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to corporate and individual customers, including outstanding receivables.

##### *(a) Risk management*

Credit risk is managed on a group basis. For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are accepted.

If corporate customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors.

There are no significant concentrations of credit risk, whether through exposure to individual customers, specific industry sectors and/or regions.

The Company's investments in debt instruments are considered to be low risk investments.

##### *(b) Security*

For some trade receivables, the Company may obtain security in the form of guarantees or letters of credit, etc. which can be called upon if the counterparty is in default under the terms of the agreement.

##### *(c) Impairment of financial assets*

The Company has following financial assets that are subject to the expected credit loss model:

- trade receivables for sales of goods and provision of services,
- other financial assets carried at amortized cost.

While cash equivalents are also subject to the impairment requirement, the identified impairment loss was immaterial.

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*A. Trade receivables*

The Company applies the simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. Allowance for doubtful accounts as at December 31, 2019, is as follows. The expected credit losses include forward looking information.

	2019					Total
	Current	Less than 3 months past due	Less than 6 months past due	Less than 9 months past due	Over 9 months	
<b>Trade receivables</b>						
Expected loss rate	0.23%	2.68%	19.82%	5.99%	88.18%	
Gross carrying amount	₩ 143,751	₩ 11,839	₩ 1,105	₩ 882	₩ 4,827	₩ 162,404
Allowance for doubtful accounts	337	317	219	53	4,257	5,184

Movements in the loss allowance provision for trade receivables and contract assets for the years ended December 31, 2019 and 2018, are as follows:

	2019	2018
<i>(in millions of Korean won)</i>		
<b>Beginning balance</b>	₩ 7,568	₩ 7,762
Amounts restated through beginning balance	-	567
Loss allowance as at January 1, 2019 – after adjustment	7,568	8,329
Changes in scope of consolidation	(91)	887
Increase in loss allowance recognized in profit or loss during the year	9	2,793
Unused amounts reversed	(404)	-
Receivables written off during the year as uncollectible	(1,669)	(4,441)
Transfer (reclassification of accounts)	(201)	-
Others (currency translation effects)	(28)	-
<b>Ending balance</b>	₩ 5,184	₩ 7,568

The maximum exposure to credit risk at the reporting date is the carrying amount of trade receivables.

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Amounts recognized as 'bad debt expense' in profit or loss in relation to impairment for the years ended December 31, 2019 and 2018, are as follows:

<i>(in millions of Korean won)</i>	<b>2019</b>	<b>2018</b>
Trade receivables		
Changes in loss allowance provision for trade receivables	₩ (395)	₩ 2,793
Other financial assets		
Changes in loss allowance provision for other financial assets	2,327	292
Other current assets		
Changes in loss allowance provision for other current assets	(121)	-
	₩ 1,811	₩ 3,084



# Kakao Corp. and Subsidiaries

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#### *B. Other financial assets measured at amortized cost*

Other financial assets at amortized cost include non-trade receivables, loans and other receivables.

Movements in loss allowance provision for other financial assets at amortized cost for the year ended December 31, 2019 and 2018, are as follows:

<i>(in millions of Korean won)</i>	<b>2019</b>		<b>2018</b>	
<b>Beginning balance</b>	₩	41,774	₩	36,720
Increase in loss allowance recognized in profit or loss as operating expenses during the year		2,327		292
Others (changes in scope of consolidation, currency translation effects and others)		(444)		4,763
<b>Ending balance</b>	₩	43,657	₩	41,774

## 42. Changes in Accounting Policies

The Company has adopted Korean IFRS 1116, retrospectively, from January 1, 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are, therefore, recognized in the consolidated statement of financial position on January 1, 2019.

### 42.1 Adjustments recognized on adoption of Korean IFRS 1116 Lease

On adoption of Korean IFRS 1116, the Company recognized lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of Korean IFRS 1017. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as at January 1, 2019. The lessee's weighted average incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 1.45% ~ 5.92%.

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(in millions of Korean won)

**January 1, 2019**

Operating lease commitments disclosed as at December 31, 2018	₩	222,020
Discounted using the lessee's incremental borrowing rate of at the date of initial application		206,143
Less: short-term leases not recognized as a liability		(6,224)
Less: low-value leases not recognized as a liability		(1,054)
others		(90)
<b>Lease liability recognized as at January 1, 2019</b>		<b>198,775</b>
Of which are:		
Current lease liabilities		42,514
Non-current lease liabilities		156,261
	₩	198,775

Right-of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the consolidated statement of financial position as at December 31, 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

(a) Amounts recognized in the consolidated statement of financial position

The consolidated statement of financial position shows the following amounts relating to leases:

(in millions of Korean won)

**December 31, 2019**

**January 1, 2019**

Right-of-use assets

Properties	₩	179,781	₩	176,750
Machinery		42,242		18,910
Vehicles		5,436		4,132
	₩	227,458	₩	199,792

(in millions of Korean won)

**December 31, 2019**

**January 1, 2019**

Lease liabilities

Current	₩	68,077	₩	42,514
Non-current		164,989		156,261
	₩	233,065	₩	198,775

Additions to the right-of-use assets during the 2019 financial year were ₩ 83,598 million.

**Kakao Corp. and Subsidiaries**  
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*(b) Amounts recognized in the consolidated statement of profit or loss*

The consolidated statement of profit or loss shows the following amounts relating to leases:

<i>(in millions of Korean won)</i>		<b>2019</b>
Depreciation of right-of-use assets		
Properties	₩	37,994
Machinery		15,492
Vehicles		2,643
	₩	<u>56,129</u>
Interest expense relating to lease liabilities (included in finance cost)	₩	6,370
Expense relating to short-term leases (included in operating expenses)		11,142
Expense relating to leases of low-value assets that are not short-term leases (included in operating expenses)		927
Expense relating to variable lease payments not included in lease liabilities (included in operating expenses)		22,957
Income from subleases of right-of-use assets		69

The total cash outflow for leases in 2019 was ₩ 78,071 million.

The change in accounting policy affected the following items in the consolidated statement of financial position on January 1, 2019:

- right-of-use assets: increase by ₩ 199,792 million
- lease liabilities: increase by ₩ 198,775 million
- prepaid expenses: decrease by ₩ 1,017 million

*(c) Practical expedients applied*

In applying Korean IFRS 1116 for the first time, the Company has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- reliance on previous assessments on whether leases are onerous
- the accounting for operating leases with a remaining lease term of less than 12 months as at January 1, 2019, as short-term leases

## **Kakao Corp. and Subsidiaries**

### **Notes to the Consolidated Financial Statements**

#### **December 31, 2019 and 2018**

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- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease

The Company has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date, the Company relied on its assessment made applying Korean IFRS 1017 and Interpretation 2104 *Determining whether an Arrangement contains a Lease*.

#### **42.2 The Company's leasing activities and how these are accounted for**

The Company leases various offices and machinery. Lease contracts are typically made for fixed periods of 1 to 9 years, but may have extension options as described in (b) below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until the 2018 financial year, leases of property and equipment were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From January 1, 2019, leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Company. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments (including in-substance fixed payments), less any lease incentives receivable
- Variable lease payment that are based on an index or a rate
- Amounts expected to be payable by the lessee under residual value guarantees
- The exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option

## **Kakao Corp. and Subsidiaries**

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The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT-equipment and small items of office furniture.

#### **(a) Variable lease payments**

Some machinery leases contain variable payment terms that are linked to usage. Some property leases contain variable payment terms that are linked to sales generated from a store. Variable payment terms are used for a variety of reasons, including minimizing the fixed costs base for machinery and newly established stores. Variable lease payments that depend on usage are recognized in profit or loss when the machinery is used and when the usage is determined by the settlement. Variable lease payments that depend on sales are recognized in profit or loss in the period in which the condition that triggers those payments occurs.

#### **(b) Extension and termination options**

Extension and termination options are included in a number of property and infra leases across the Company. These terms are used to maximize operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable by mutual consent between the respective lessor and the Company.

# Kakao Corp. and Subsidiaries

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#### 43. Information for Non-controlling Interests

##### 43.1 Changes in Accumulated Non-controlling Interests

The profit or loss allocated to non-controlling interests and accumulated non-controlling interests of subsidiaries that are material to the Company for the years ended December 31, 2019 and 2018, is as follows:

(in millions of Korean won)

	2019						
	Non-controlling interest rate (%)	Accumulated non-controlling interests at the beginning of the year	Profit or loss allocated to non-controlling interests	Dividends paid to non-controlling interests	Investment by non-controlling interests and disposal of shares	Others	Accumulated non-controlling interests at the end of the year
Kakao Games Corp.	39.5	₩ 159,822	₩ (1,127)	₩ -	₩ -	₩ 3,549	₩ 162,244
Kakaopay Corp.	39.1	43,318	(25,424)	-	-	890	18,784
Kakao Page Corp.	36.4	82,723	2,595	-	36,272	6,683	128,273
Kakao Mobility Corp.	30.7	75,831	(7,792)	-	-	1,429	69,468
Kakao M Corp.	10.2	(11)	639	-	54,174	9,845	64,646

(in millions of Korean won)

	2018						
	Non-controlling interest rate (%)	Accumulated non-controlling interests at the beginning of the year	Profit or loss allocated to non-controlling interests	Dividends paid to non-controlling interests	Investment by non-controlling interests and disposal of shares	Others	Accumulated non-controlling interests at the end of the year
Kakao Games Corp.	39.6	₩ 47,265	₩ 5,388	₩ -	₩ 99,077	₩ 8,093	₩ 159,822
Kakaopay Corp.	39.1	79,941	(36,552)	-	-	(70)	43,318
Kakao Page Corp.	36.2	71,820	1,896	-	-	9,007	82,723
Kakao Mobility Corp.	30.7	71,603	(5,637)	-	14,089	(4,224)	75,831
Kakao M Corp.	0.0	-	(11)	-	-	-	(11)

##### 43.2 Summarized Financial Information on Subsidiaries

Set out below is summarized financial information for each subsidiary that has non-controlling interests that are material to the Company. The amounts disclosed for each subsidiary are before inter-company eliminations.

**Kakao Corp. and Subsidiaries**  
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**Summarized consolidated statements of financial position**

<i>(in millions of Korean won)</i>	<b>2019</b>				
	<b>Kakao Games Corp.</b>	<b>Kakaopay Corp.</b>	<b>Kakao Page Corp.</b>	<b>Kakao Mobility Corp.</b>	<b>Kakao M Corp.</b>
Current assets	₩ 333,592	₩ 475,300	₩ 159,369	₩ 47,168	₩ 294,776
Non-current assets	258,160	49,326	218,203	227,761	528,784
Current liabilities	143,266	457,130	36,993	44,966	218,057
Non-current liabilities	31,105	20,883	24,722	14,364	64,613
Equity	₩ 417,380	₩ 46,614	₩ 315,857	₩ 215,600	₩ 540,889

<i>(in millions of Korean won)</i>	<b>2018</b>				
	<b>Kakao Games Corp.</b>	<b>Kakaopay Corp.</b>	<b>Kakao Page Corp.</b>	<b>Kakao Mobility Corp.</b>	<b>Kakao M Corp.</b>
Current assets	₩ 309,691	₩ 369,495	₩ 65,357	₩ 115,850	₩ 304,314
Non-current assets	236,002	17,836	186,787	145,458	355,795
Current liabilities	114,391	271,501	53,134	19,028	221,292
Non-current liabilities	14,697	4,963	971	2,548	3,136
Equity	₩ 416,606	₩ 110,867	₩ 198,039	₩ 239,732	₩ 435,681

**Summarized consolidated statements of comprehensive income**

<i>(in millions of Korean won)</i>	<b>2019</b>				
	<b>Kakao Games Corp.</b>	<b>Kakaopay Corp.</b>	<b>Kakao Page Corp.</b>	<b>Kakao Mobility Corp.</b>	<b>Kakao M Corp.</b>
Revenue	₩ 391,040	₩ 141,103	₩ 257,062	₩ 104,852	₩ 353,008
Profit (loss) for the year	8,866	(65,011)	6,095	(25,547)	8,910
Other comprehensive income	(10,401)	(210)	610	(422)	(365)
Total comprehensive income	₩ (1,535)	₩ (65,221)	₩ 6,705	₩ (25,969)	₩ 8,545

<i>(in millions of Korean won)</i>	<b>2018</b>				
	<b>Kakao Games Corp.</b>	<b>Kakaopay Corp.</b>	<b>Kakao Page Corp.</b>	<b>Kakao Mobility Corp.</b>	<b>Kakao M Corp.</b>
Revenue	₩ 420,805	₩ 69,526	₩ 187,578	₩ 53,634	₩ 53,987
Profit (loss) for the year	18,897	(93,483)	(4,205)	(18,531)	59
Other comprehensive income	(8,723)	(51)	1,353	(274)	558
Total comprehensive income	₩ 10,174	₩ (93,534)	₩ (2,852)	₩ (18,805)	₩ 617

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**Summarized consolidated statements of cash flows**

*(in millions of  
Korean won)*

	2019				
	Kakao Games Corp.	Kakaopay Corp.	Kakao Page Corp.	Kakao Mobility Corp.	Kakao M Corp.
Cash flows from operating activities	₩ 73,289	₩ 108,871	₩ 29,671	₩ (9,089)	₩ 26,410
Cash flows from investing activities	73,572	10,771	(55,837)	1,756	(113,356)
Cash flows from financing activities	(5,036)	(2,325)	79,353	(1,490)	77,745
Net increase (decrease) in cash and cash equivalents	141,825	117,317	53,187	(8,823)	(9,201)
Cash and cash equivalents at beginning of year	104,822	261,372	14,645	35,410	135,547
Effects of exchange rate changes on cash and cash equivalents	457	-	(33)	-	-
Cash and cash equivalents at end of year	₩ 247,105	₩ 378,689	₩ 67,799	₩ 26,586	₩ 126,346

*(in millions of  
Korean won)*

	2018				
	Kakao Games Corp.	Kakaopay Corp.	Kakao Page Corp.	Kakao Mobility Corp.	Kakao M Corp.
Cash flows from operating activities	₩ 73,399	₩ 81,007	₩ (1,396)	₩ (7,624)	₩ 2,294
Cash flows from investing activities	(191,173)	4,710	(30,451)	(156,227)	(23,414)
Cash flows from financing activities	162,105	-	17,850	(119)	156,666
Net increase (decrease) in cash and cash equivalents	44,330	85,717	(13,997)	(163,970)	135,547
Cash and cash equivalents at beginning of year	60,502	175,655	28,640	199,380	-
Effects of exchange rate changes on cash and cash equivalents	(11)	-	3	-	-
Cash and cash equivalents at end of year	₩ 104,822	₩ 261,372	₩ 14,645	₩ 35,410	₩ 135,547



# Kakao Corp. and Subsidiaries

## Notes to the Consolidated Financial Statements

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#### 43.3 Transactions with Non-controlling Interests

Effects of transactions with non-controlling interests on the equity attributable to owners of the Parent Company for the years ended December 31, 2019 and 2018, are as follows:

<i>(in millions of Korean won)</i>	<b>2019</b>	<b>2018</b>
Capital increase of a subsidiary <sup>1,2</sup>	₩ 42,395	₩ 55,430
Disposal of interests in a subsidiary <sup>4</sup>	-	35,911
Business combination of entities under a common control <sup>3</sup>	-	(118,811)
Others	3,665	33,324
Net effect on equity	₩ 46,060	₩ 5,854

<sup>1</sup> During 2019, Kakao M Corp., a subsidiary, decided to increase capital through allotment to a third party. Total amount of the capital increase is ₩ 96,569 million. As a result, the Company's interests in Kakao M Corp. decreased from 100% to 89.8%. Due to the above transaction, the non-controlling interest increased by ₩ 54,174 million as at the date of capital increase and the share capital attributed to the owners of the Parent Company increased by ₩ 42,395 million.

<sup>2</sup> During 2018, Kakao Games Corp., a subsidiary, decided to increase capital through allotment to a third party. Total amount of the capital increase is ₩ 139,996 million. As a result, the Company's interests in Kakao Games Corp. decreased from 74.9% to 60.4%. Due to the above transaction, the non-controlling interest increased by ₩ 93,143 million as at the date of capital increase and the share capital attributed to the owners of the Parent Company increased by ₩ 46,853 million.

<sup>3</sup> During 2018, the Company acquired treasury shares through merger with Kakao M Corp. (formerly, LOEN ENTERTAINMENT, INC.), a subsidiary. The acquisition amount of ₩ 222,672 million was deducted from the equity attributable to the owner. In addition, as the Company acquired additional non-controlling interests through the merger, share capital attributed to the owner increased by ₩ 103,861 million.

<sup>4</sup> During 2018, the Company disposed of 735,000 shares of Kakao Mobility Corp., a subsidiary, for ₩ 50,000 million to a third party. Due to the above transaction, the non-controlling interest increased by ₩ 35,911 million as at the disposal date and the share capital attributed to the owners of the Parent Company increased by ₩ 14,089 million.

## **Kakao Corp. and Subsidiaries**

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#### **44. Events After the Reporting Period**

In October 2018, Kakaopay Corp., a subsidiary, has entered into a contract to acquire 60% interests of BARO Investment & Securities and applied for a major shareholder qualification examination to Financial Services Commission in April 2019. After the approval of the examination on February 5, 2020, the acquisition of shares was completed on February 6, 2020.

In accordance with the resolution of the Board of Directors on February 11, 2020, Kakao Games Corp., a subsidiary, decided to increase capital by allotment to a third party. The number of new shares allocated is 1,375,661 shares and the amount is ₩ 24,641 million.

In accordance with the resolution of the Board of Directors on February 11, 2020, Kakao Games Corp., a subsidiary, acquired an additional 4,238,481 shares of XLGAMES Inc. on March 11, 2020. The investment amount is ₩ 118,092 million and the interests after the additional acquisition is 52.97%, and accordingly, it was newly included in subsidiaries.

In accordance with the resolution of the Board of Directors on March 16, 2020, Kakao M Corp., a subsidiary, decided to a third-party capital increase. The number of new shares allocated is 1,147,974 shares and the amount is ₩ 209,816 million.