

3rd Quarter 2015 Results

November 12, 2015 | Investor Relations

Disclaimer

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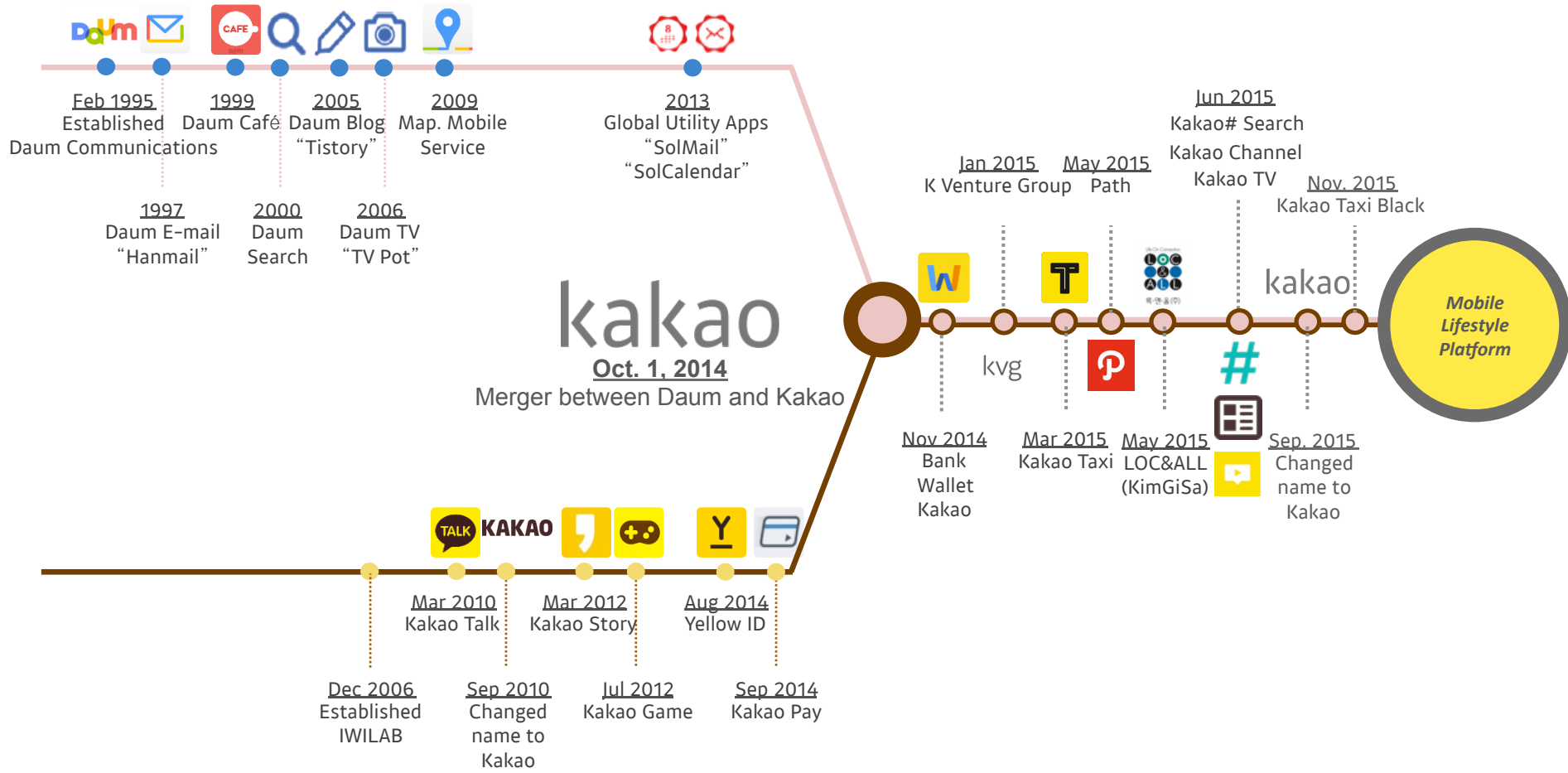
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1. About: Milestone



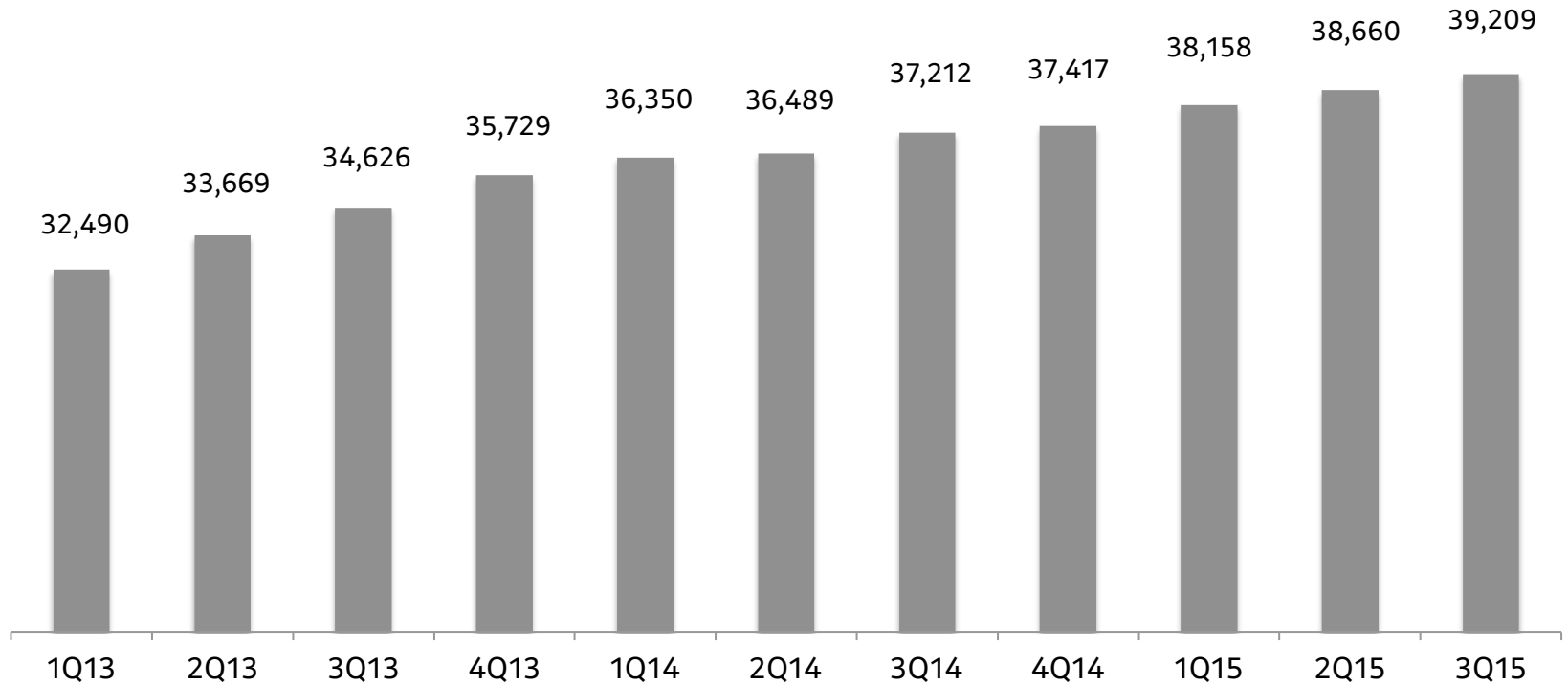
1. About: Service Portfolio



2. Kakao Talk Monthly Active Users (MAUs)

- Continue to grow our domestic active users: qoq +549K
- Total countries serviced: 230+ (based on country codes), in 15 languages

(000)



Korea	32,490	33,669	34,626	35,729	36,350	36,489	37,212	37,417	38,158	38,660	39,209
Global	40,096	46,132	48,916	50,619	50,386	48,769	48,411	48,254	48,207	48,073	48,464

Average of monthly MAUs. Global includes domestic MAUs.

3. Summary Results

- Total revenue for 3Q2015 was 229.6bn Won, up 4% yoy and up 1% qoq
- Mobile revenue accounted for 56% of total revenue, up 15% yoy and up 9% qoq

(in million KRW)

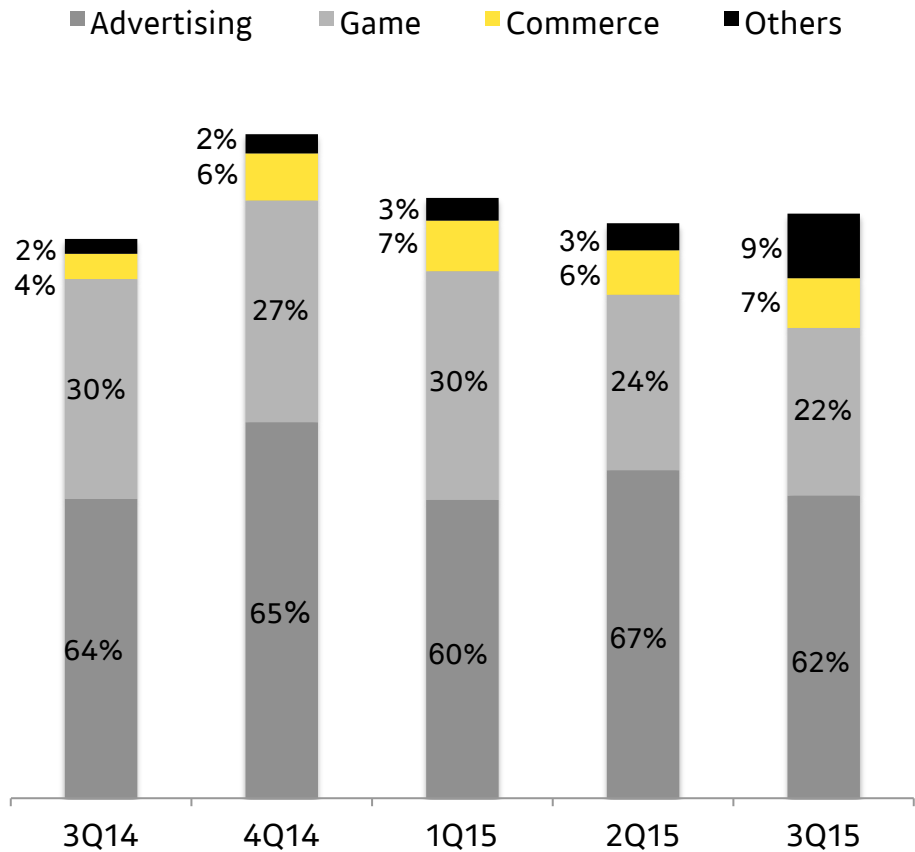
	3Q15	2Q15	Diff.	QoQ	3Q14	Diff.	YoY
Total Revenue	229,580	226,482	3,098	1%	221,803	7,777	4%
Advertising	142,949	150,736	-7,788	-5%	141,915	1,033	1%
Game	51,383	53,984	-2,601	-5%	67,464	-16,081	-24%
Commerce	15,339	13,678	1,661	12%	7,756	7,583	98%
Others	19,909	8,084	11,825	146%	4,668	15,241	327%
Operating Expense	213,396	215,049	-1,652	-1%	191,044	22,352	12%
Operating Income	16,184	11,434	4,750	42%	30,759	-14,575	-47%
<i>% of Revenue</i>	7%	5%	2%p	-	14%	-7%p	-
EBIT	21,782 ¹⁾	24,863 ²⁾	-3,082	-12%	3,730	18,051	484%
Net Income	14,767 ³⁾	21,369	-6,603	-31%	-6,316	21,082	-
EBITDA	35,657	29,678	5,979	20%	44,013	-8,356	-19%

1) Gain on valuation of subsidiaries stocks and net gain on disposition of equity method stocks (5.4bn Won)

2) Net gain from sale of equity method stocks owned by K-cube Venture Fund and Kakao Venture Fund (9.1bn Won), impairment loss from OnNet Co., Ltd.'s online game (7.1bn Won), and gain from sale of Eastsoft shares owned by Daum Global Holdings Corp. (14.6bn Won) were reflected

3) Additional tax 3.5bn Won of total estimated additional annual tax of 6.0bn Won reflected in 3Q

4. Revenue

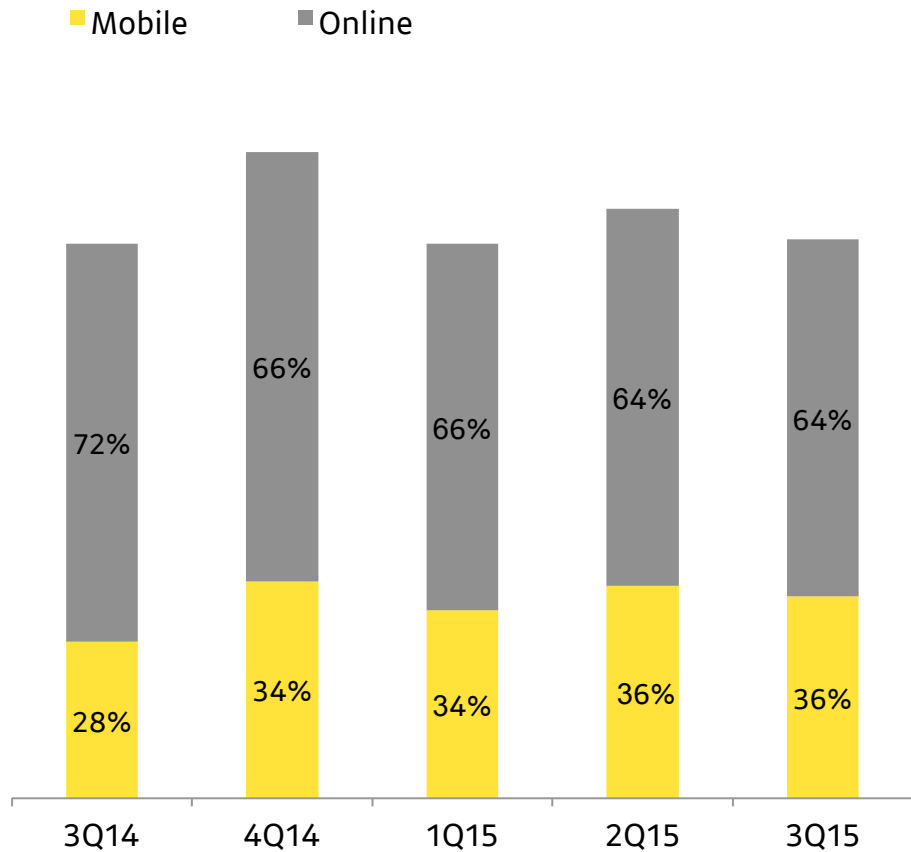


(in million KRW)

Total	221,803	254,046	234,392	226,482	229,580
Online	111,247	119,143	105,550	109,272	101,908
Mobile	110,556	134,903	128,842	117,210	127,672

Advertising	Daum online•mobile ad. Plus Friend(Kakao Talk) Yellow ID(Kakao Talk) Brand Emoticon(Kakao Talk) Kakao Story ad. Kakao Talk PC version ad.
Game	Kakao Game(Kakao Talk) Daum Game Kakao Game Shop
Commerce	Gift Shop(Kakao Talk) Kakao Style Kakao Friends Brand
Others	B2C Emoticon(Kakao Talk) Kakao Music Kakao Page Kakao Pay(Kakao Talk) Bank Wallet Kakao & Miscellaneous

4. Revenue: Advertising platforms



(in million KRW)

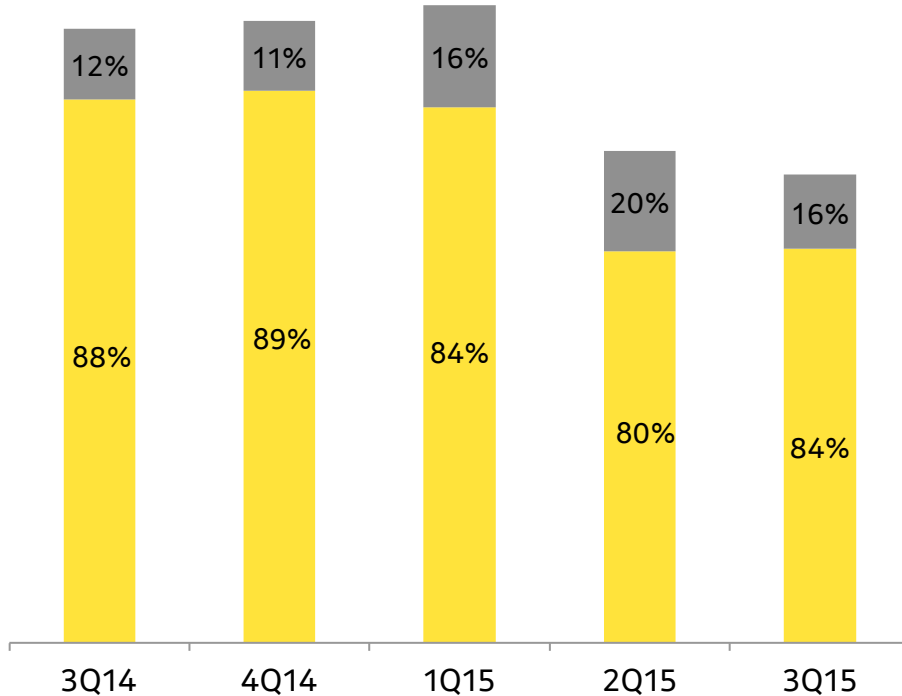
Total	141,915	165,363	141,753	150,736	142,949
Online	101,928	109,822	93,961	96,382	91,359
Mobile	39,987	55,541	48,092	54,354	51,589

Total Ad Up 1% yoy, Down 5% qoq
Online Down 10% yoy, Down 5% qoq
Mobile Up 29% yoy, Down 5% qoq

- Decrease in mobile advertising revenue resulted from the impact of major UI(User Interface) changes made to the Kakao Talk, and seasonal effect
- Faster growth in mobile advertising platform revenue contributed to the growth in total revenue despite the decrease in PC traffic
- ❖ Advanced Advertising System, an integrated platform leading to effective cost management and diverse monetization programs, are being prepared to thrive in the growing mobile ad market

4. Revenue: Game platforms

■ Mobile ■ Online



(in million KRW)

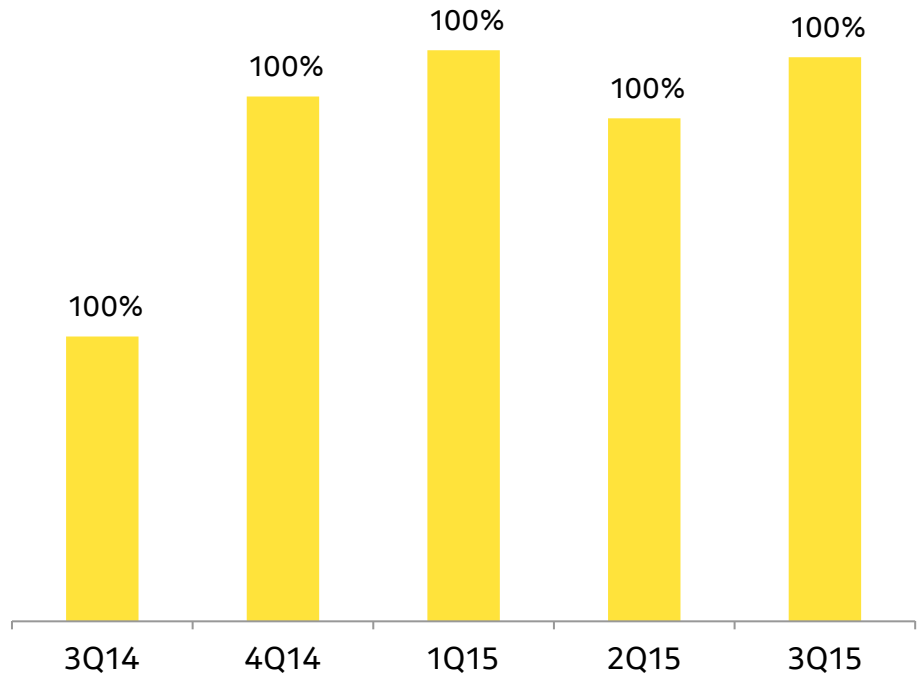
Total	67,464	68,289	69,991	53,984	51,383
Online	7,845	7,710	11,225	10,996	8,114
Mobile	59,619	60,579	58,766	42,989	43,269

Total Game Down 24% yoy, Down 5% qoq
Mobile Down 27% yoy, Up 1% qoq
Online Up 3% yoy, Down 26% qoq

- Improved performance of the existing 'for Kakao' games, and strong performance of the our own brand IP utilized game called "FriendsPop" in 3Q
- Disposal of shares in Onnet resulted in decrease in total game revenue

4. Revenue: Commerce platforms

■ Mobile



(in million KRW)

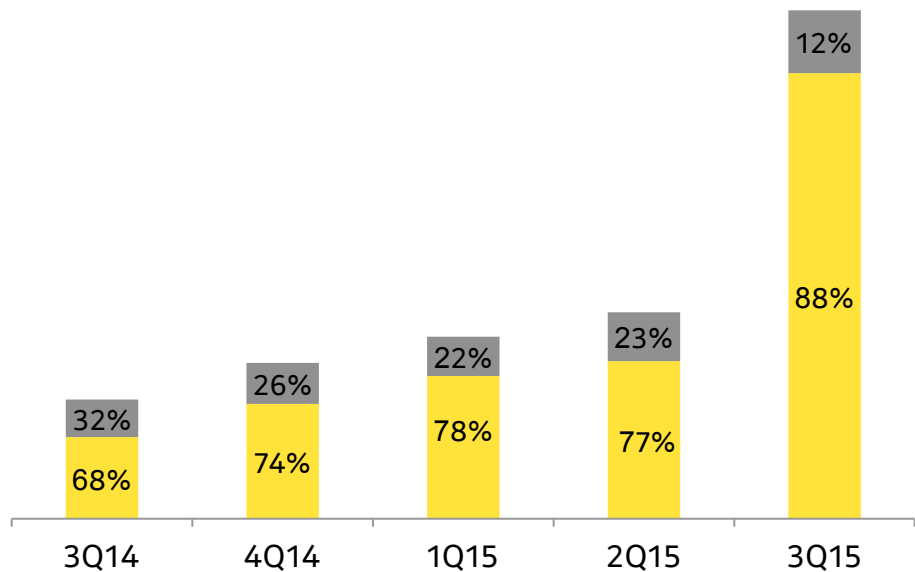
Total	7,756	14,284	15,526	13,678	15,339
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Commerce Up 98% yoy, Up 12% qoq

- Kakao Talk Gift Shop: Upward trend continues due to the increased product lineup, diversified commerce channels and enhanced UI(User Interface)
- Kakao Style: Continuously grow due to high Return on Ads Spend
- Kakao Friends:
 - Merchandise of the characters sold through-out online and offline brand stores are gaining popularity amongst all age levels
 - Creating a diverse set of business opportunities from collaboration products and services including foods, movie theater, cosmetics, franchise restaurants, based on the various business model

4. Revenue: Other platforms

■ Mobile ■ Online



(in million KRW)

Total	4,668	6,110	7,122	8,084	19,909
Online	1,475	1,611	1,540	1,895	2,435
Mobile	3,193	4,499	5,582	6,189	17,474

Others Up 327% yoy, Up 146% qoq

Mobile Up 447% yoy, Up 182% qoq

- Change in revenue recognition method for Kakao Page and revenue recognition period for Kakao Music have been retroactively applied in 3Q
- Mobile content platforms:
 - Continued growth in B2C Emoticon sales
 - Diversifying Kakao Music service including BGM, streaming, Brand Music-Room etc.
 - Kakao Page reached over 7.7 million downloads with over 50% paying ratio
- Kakao Pay:
 - Accumulated 5.6 million users
 - Expanding channels including automatic, phone-bill, consolidated memberships, in addition to credit card

5. Expense

- Total operating expenses in 3Q2015 was 213.4bn Won, up 12% yoy and down 1% qoq
- Advertising expense for 3Q2015 and YTD were 6.8bn Won and 43.7bn Won respectively

(in million KRW)

	3Q15	2Q15	Diff.	QoQ	3Q14	Diff.	YoY
OP Expenses	213,396	215,049	-1,652	-1%	191,044	22,352	12%
Labor costs	56,455	54,590	1,865	3%	64,834	-8,380 ¹⁾	-13%
Fringe benefits	12,813	17,337	-4,524 ²⁾	-26%	9,460	3,353	35%
Depreciation	12,375	12,333	42	-	9,975	2,399	24%
Rental fees	4,666	4,363	303	7%	3,880	786	20%
Commissions	62,876	56,381	6,495 ³⁾	12%	49,532	13,344	27%
Advertising	6,843	19,662	-12,818	-65%	11,314	-4,471	-40%
Bad Debt Exp.	8	394	-385	-98%	-15	23	-
Amortization	7,099	5,911	1,187	20%	3,279	3,820	117%
Content fees	15,626	11,398	4,229 ⁴⁾	37%	7,826	7,800	100%
Ad agency fees	27,068	26,576	492	2%	25,360	1,708	7%
Event fees	148	312	-163	-52%	307	-159	-52%
Others	7,420	5,794	1,627	28%	5,292	2,128	40%

1) Merger related special compensation paid in 3Q2014

2) Adjusted health insurance expenses for the exercise of employee stock options in 2014 recognized in 2Q2015

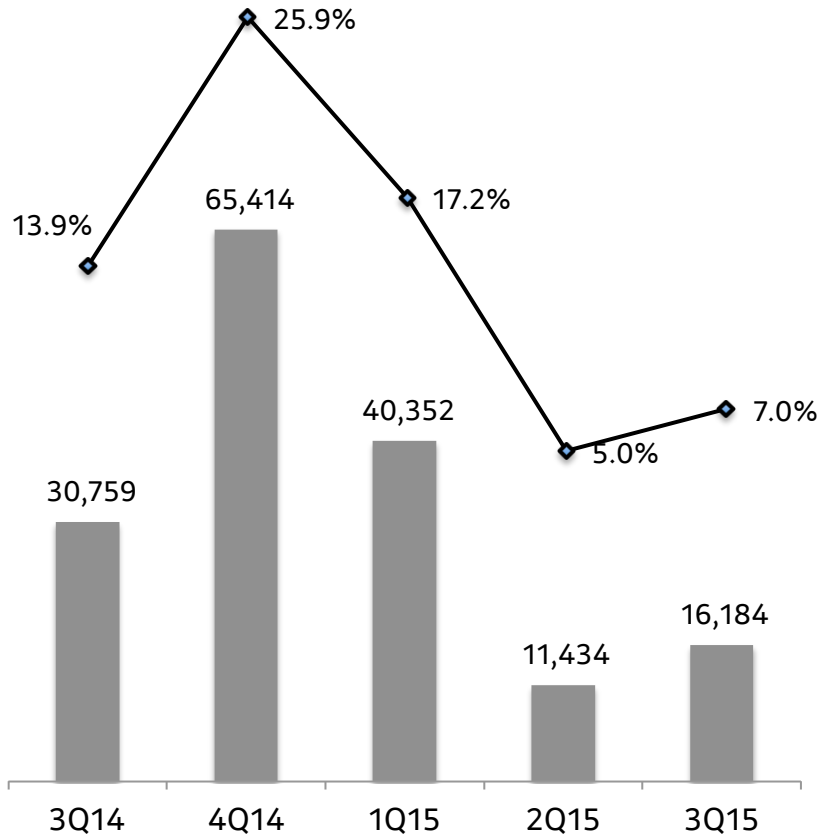
3) Increase in infrastructure cost for new services, and retroactive recognition of payments fee for Kakao Page due to its change in revenue recognition method

4) Increased content acquisition costs for sporting events, and Kakao Music due to its change in revenue recognition period (account name change has been made from 'Outsourcing fees')

6. Profits

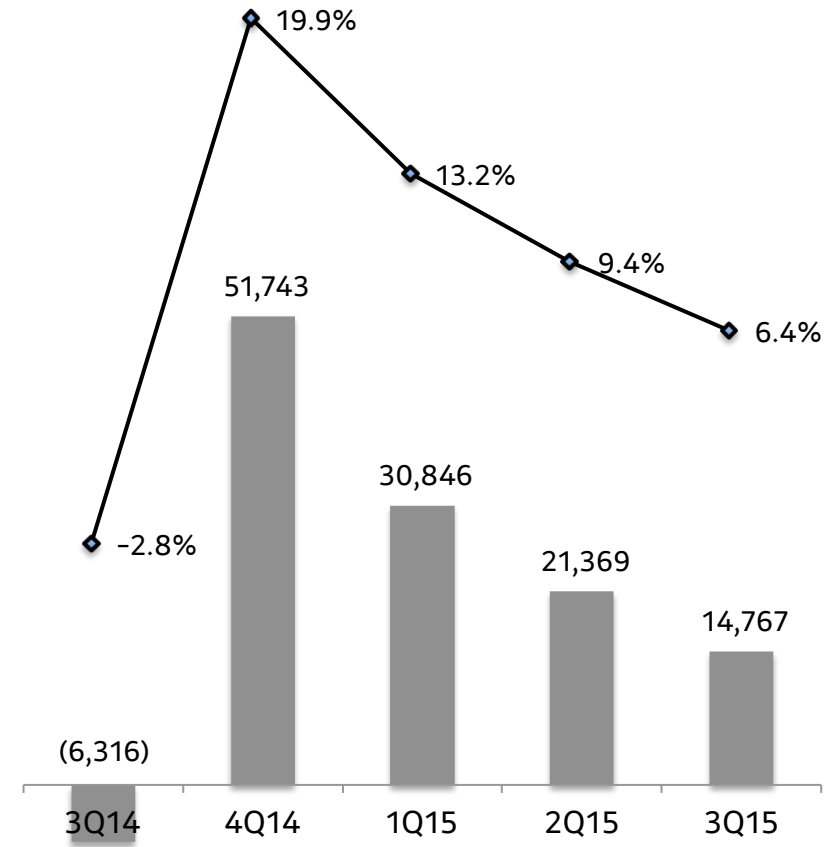
Operating Profits

3Q2015 16.2bn Won, down 47% yoy and up 42% qoq
(in million Won)



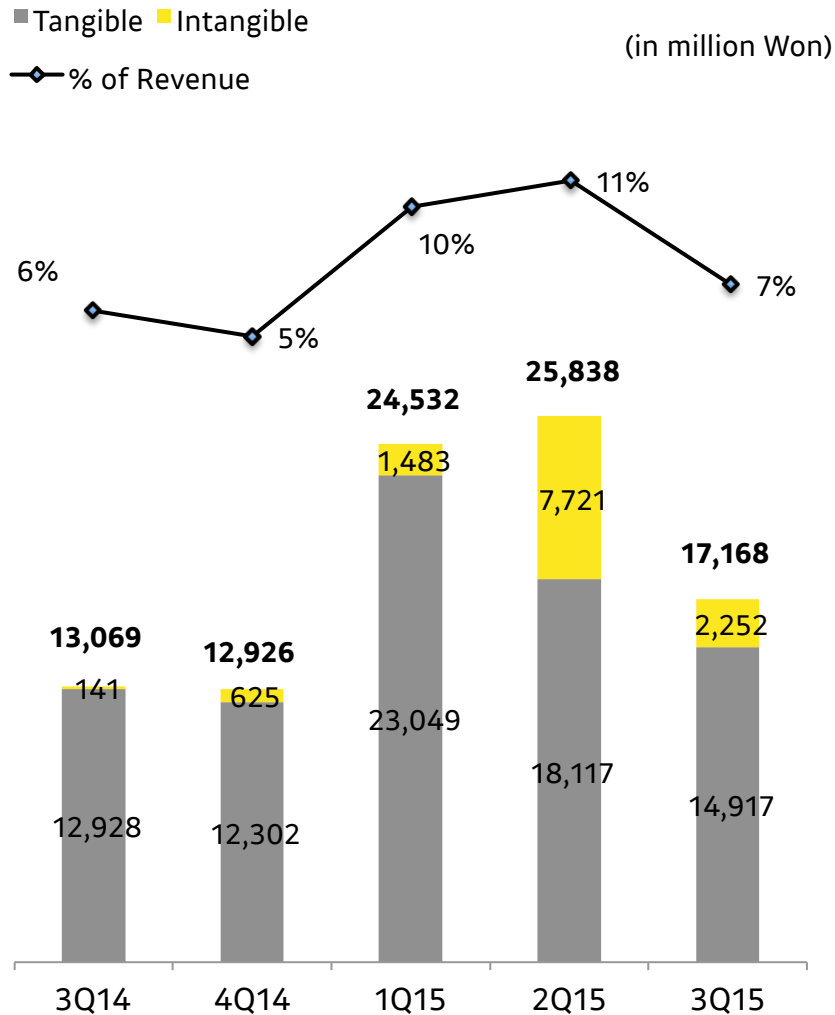
Net Profits

3Q2015 14.8bn Won, down 31% qoq
(in million Won)

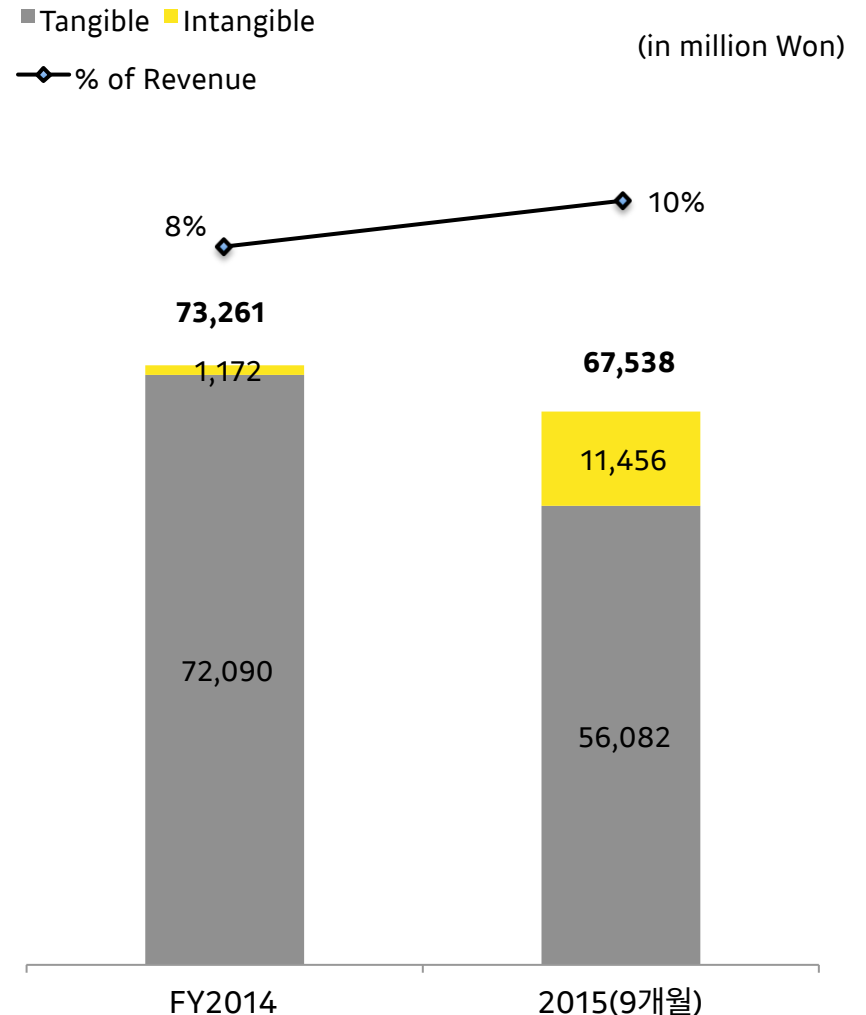


7. Capital Expenditure (CapEx)

Quarterly CapEx



YTD/Annual CapEx



Appendix

- Unaudited Consolidated Financial Statements: Pro-forma
- Unaudited Consolidated Financial Statements: K-IFRS
- Employees / Subsidiaries

Consolidated Financial Statements (Pro-forma)

Consolidated Statements of Income

(in million KRW)	3Q14	4Q14	1Q15	2Q15	3Q15
Sales Revenues	221,803	254,046	234,392	226,482	229,580
Advertising Platform	141,915	165,363	141,753	150,736	142,949
Game Platform	67,464	68,289	69,991	53,984	51,383
Commerce Platform	7,756	14,284	15,526	13,678	15,339
Others	4,668	6,110	7,122	8,084	19,909
Operating Expenses	191,044	188,632	194,040	215,049	213,396
Labor costs	64,834	47,242	51,803	54,590	56,455
Fringe benefits	9,460	8,782	9,970	17,337	12,813
Depreciation	9,975	10,596	11,455	12,333	12,375
Rental fees	3,880	4,287	5,034	4,363	4,666
Commissions	49,532	55,865	52,645	56,381	62,876
Advertising	11,314	9,116	17,221	19,662	6,843
Bad debt expenses	-15	1,583	-21	394	8
Amortization	3,279	5,692	5,937	5,911	7,099
Content fees	7,826	7,111	8,452	11,398	15,626
Ad Agency fees	25,360	30,154	24,418	26,576	27,068
Event fees	307	1,833	171	312	148
Others	5,292	6,371	6,955	5,794	7,420
Operating Profit	30,759	65,414	40,352	11,434	16,184
<i>Operating Profit Margin</i>	<i>13.9%</i>	<i>25.7%</i>	<i>17.2%</i>	<i>5.0%</i>	<i>7.0%</i>
Other Revenues	175	485	1,339	9,822	6,706
Other Expenses	29,943	6,345	2,715	12,925	4,611
Financial Income	3,612	3,574	3,252	18,240	3,543
Financial Expenses	-188	69	330	951	325
Equity-method Income	-1,060	-508	-553	-756	284
Gains on Equity method investments	-	181	35	591	2,972
losses on Equity method invest.	1,060	689	588	1,346	2,688
Profit before Income Tax Expenses	3,730	62,551	41,344	24,863	21,782
Income Tax Expenses	-1,744	10,809	10,498	3,494	7,015
Net Profit from Continued Operations	5,474	51,743	30,846	21,369	14,767
Net Profit from Discontinued Oper	-11,790	-	-	-	-
Net Profit	-6,316	51,743	30,846	21,369	14,767
Net Profit of Controlling Interests	-5,127	51,914	31,097	20,556	13,004
Net Profit of Non-controlling Int.	-1,189	-171	-250	814	1,762

Consolidated Statements of Financial Position

(in million KRW)	2014.12.31	2015.9.30
Current Assets	798,291	765,548
Cash and Cash Equivalents	451,228	307,643
Short-term Financial Instruments	184,548	266,912
Accounts Receivable	108,431	100,208
Other Current Financial Assets	25,843	50,199
Other Current Assets	24,709	37,006
Others	3,532	3,579
Non-Current Assets	1,969,734	2,165,339
Long-term Available for Sales	25,258	23,512
Equity Method Investments	18,712	87,815
Tangible Assets	196,894	220,897
Intangible Assets	1,688,974	1,786,790
Other Non-current Financial Assets	33,702	36,798
Other Non-current Assets	6,194	5,055
Total Assets	2,768,025	2,926,416
Liabilities	227,487	280,085
Trade Payables and Non-trade Payables	109,126	146,859
Accrued Expenses	5,443	10,325
Advances from Customers	34,488	37,613
Income Taxes Payable	20,680	25,957
Other Current Liabilities	57,751	59,355
Non-Current Liabilities	77,309	88,879
Non-Current Trade Payables and Non-trade Payables	3,362	14,939
Deferred Income Tax Liabilities	50,083	38,576
Other Non-Current Liabilities	23,864	35,364
Total Liabilities	304,797	368,965
Paid-in Capital	29,121	30,057
Capital Surplus	2,258,974	2,259,578
Capital Adjustments	-26,268	-8,960
Accum. Other Compreh. Inc.	2,114	1,526
Retained Earnings	190,678	245,304
Non-controlling Interests	8,609	29,946
Total Equity	2,463,228	2,557,451
Total Liabilities & Equity	2,768,025	2,926,416

Consolidated Financial Statements (K-IFRS)

Consolidated Statements of Income

(in million KRW)	3Q14	4Q14	1Q15	2Q15	3Q15
Sales Revenues	88,265	254,046	234,392	226,482	229,580
Advertising Platform	17,651	165,363	141,753	150,736	142,949
Game Platform	59,619	68,289	69,991	53,984	51,383
Commerce Platform	7,756	14,284	15,526	13,678	15,339
Others	3,238	6,110	7,122	8,084	19,909
Operating Expenses	58,136	188,632	194,040	215,049	213,396
Labor costs	29,154	47,242	51,803	54,590	56,455
Fringe benefits	2,335	8,782	9,970	17,337	12,813
Depreciation	2,407	10,596	11,455	12,333	12,375
Rental fees	1,415	4,287	5,034	4,363	4,666
Commissions	9,785	55,865	52,645	56,381	62,876
Advertising	6,395	9,116	17,221	19,662	6,843
Bad debt expenses	-	1,583	-21	394	8
Amortization	80	5,692	5,937	5,911	7,099
Content fees	-	7,111	8,452	11,398	15,626
Ad Agency fees	3,551	30,154	24,418	26,576	27,068
Event fees	144	1,833	171	312	148
Others	2,870	6,371	6,955	5,794	7,420
Operating Profit	30,129	65,414	40,352	11,434	16,184
<i>Operating Profit Margin</i>	<i>13.9%</i>	<i>25.7%</i>	<i>17.2%</i>	<i>5.0%</i>	<i>7.0%</i>
Other Revenues	79	485	1,339	9,822	6,706
Other Expenses	6,270	6,345	2,715	12,925	4,611
Financial Income	1,174	3,574	3,252	18,240	3,543
Financial Expenses	174	69	330	951	325
Equity-method Income	-707	-508	-553	-756	284
Gains on Equity method invest.	-	181	35	591	2,972
losses on Equity method invest.	707	689	588	1,346	2,688
Profit before Income Tax Expenses	24,232	62,551	41,344	24,863	21,782
Income Tax Expenses	251	10,809	10,498	3,494	7,015
Net Profit from Continued Operations	23,982	51,743	30,846	21,369	14,767
Net Profit from Discontinued Ope.	-	-	-	-	-
Net Profit	23,982	51,743	30,846	21,369	14,767
Net Profit of Controlling Interests	24,029	51,914	31,097	20,556	13,004
Net Profit of Non-controlling Int.	-48	-171	-250	814	1,762

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Consolidated Statements of Financial Position

(in million KRW)	2013.12.31	2014.12.31	2015.9.30
Current Assets	180,504	798,291	765,548
Cash and Cash Equivalents	23,417	451,228	307,643
Short-term Financial Instruments	105,039	184,548	266,912
Accounts Receivable	44,636	108,431	100,208
Other Current Financial Assets	4,953	25,843	50,199
Other Current Assets	2,459	24,709	37,006
Others	-	3,532	3,579
Non-Current Assets	36,696	1,969,734	2,165,339
Long-term Available for Sales	-	25,258	23,512
Equity Method Investments	10,484	18,712	87,815
Tangible Assets	20,316	196,894	220,897
Intangible Assets	1,370	1,688,974	1,786,790
Other Non-current Financial Assets	1,211	33,702	36,798
Other Non-current Assets	3,315	6,194	5,055
Total Assets	217,200	2,768,025	2,926,416
Liabilities	35,872	227,487	280,085
Trade and Non-trade Payables	21,419	109,126	146,859
Accrued Expenses	-	5,443	10,325
Advances from Customers	-	34,488	37,613
Income Taxes Payable	-	20,680	25,957
Other Current Liabilities	14,453	57,751	59,355
Non-Current Liabilities	4,072	77,309	88,879
Non-Current Trade and Non-trade Payables	3,406	3,362	14,939
Deferred Income Tax Liabilities	-	50,083	38,576
Other Non-Current Liabilities	665	23,864	35,364
Total Liabilities	39,944	304,797	368,965
Paid-in Capital	20,997	29,121	30,057
Capital Surplus	112,347	2,258,974	2,259,578
Capital Adjustments	6,257	-26,268	-8,960
Accum. Other Comprehen. Inc.	-2,917	2,114	1,526
Retained Earnings	40,573	190,678	245,304
Non-controlling Interests	-	8,609	29,946
Total Equity	177,257	2,463,228	2,557,451
Total Liabilities & Equity	217,200	2,768,025	2,926,416

Employees / Subsidiaries

(in person)

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

- Above number of employees include full-time and part-time employees
- Subsidiaries: Daum Global Holdings Corp, Kakao Singapore PTE. Ltd., DK CHINA Co., Ltd., DK CHINA YanJiao Co., Ltd., ImageOn Corp, Daum Game Co., Ltd., Dialod Corp., TNK Factory Co., Ltd., Buzzpia Co., Ltd. Thinkreals Corp., Lotiple Inc., Kakao Lab Corp., Sunnyloft Corp., Beijing Kakao Co., Ltd., Ultra Caption Corp., Ltd., Kakao JAPAN Corp., Kids Note Inc., K-cube Venture Fund, Kakao Venture Fund, K-cube Ventures, K Venture Group, Sellit Inc., LOCNALL Inc., KakaoFriends Inc., Daum Games Europe B.V., Ultra Interactive, Inc., Tangram Design Lab., Tangram Factory, Tangram Factory America, Inc., DK Business, DK Service, DK Techin, Path Mobile Inc., Valuepotion, Nzin, Cadac, Valuepotion Pte. LTD, Zinny Labs Corp., Aina
(Total 39 subsidiaries as of September 30, 2015)



<http://www.kakaocorp.com/ir/earnings>