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Confirmation of your representation: The attached document is delivered to you at your request and on the basis that you have confirmed to Citigroup Global Markets Inc. and Goldman Sachs International (the "Initial Purchasers") and Kakao Corp. (the "Company") that you are either (a) located outside the United States and not a U.S. person (as defined in Regulation S under the Securities Act), or (b) a QIB.

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Neither the Initial Purchasers nor any of their respective affiliates accepts any responsibility whatsoever for the contents of the document or for any statement made or purported to be made by any of them, or on any of their behalf, in connection with the Company or the offer. The Initial Purchasers and their respective affiliates accordingly disclaim all and any liability whether arising in tort, contract, or otherwise which they might otherwise have in respect of the document or any such statement. No representation or warranty express or implied, is made by any of the Initial Purchasers or their respective affiliates as to the accuracy, completeness, verification or sufficiency of the information set out in the document.

The Initial Purchasers are acting exclusively for the Company and no one else in connection with the offer. They will not regard any other person (whether or not a recipient of this document) as its client in relation to the offer and will not be responsible to anyone other than the Company for providing the protections afforded to its clients nor for giving advice in relation to the offer or any transaction or arrangement referred to herein.

You are responsible for protecting against viruses and other destructive items. Your receipt of the electronic transmission is at your own risk, and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

OFFERING CIRCULAR

Kakao Corp.

(a corporation with limited liability incorporated under the laws of the Republic of Korea)

8,261,731 Global Depositary Shares Representing 8,261,731 Common Shares (par value Won 500 per share)

We are offering 8,261,731 global depositary shares (the "GDSs") representing 8,261,731 shares of our common stock, par value Won 500 per share (the "common shares"). Each GDS represents one common share. The GDSs will be evidenced by global depositary receipts (the "GDRs") in the form of a master Rule 144A global depositary receipt (the "Master Rule 144A GDR") and a master Regulation S global depositary receipt (the "Master Regulation S GDR" and, together with the Master Rule 144A GDR, the "Master GDRs"), which will initially be registered (i) in the case of the Master Rule 144A GDR, in the name of Cede & Co. as nominee of The Depository Trust Company ("DTC") (for the accounts of participants of DTC ("DTC Participants")) and (ii) in the case of the Master Regulation S GDR, in the name of a nominee of a common depositary (the "Common Depositary") of Euroclear Bank SA/NV ("Euroclear") and Clearstream Banking S.A. ("Clearstream") (for the accounts of accountholders in Euroclear or Clearstream ("Euroclear Participants" and "Clearstream Participants," respectively, and together with the DTC Participants, "Participants")), in each case, so long as the GDSs are eligible for entry into the applicable book-entry settlement system.

The common shares are listed on the KRX KOSPI Market of the Korea Exchange (the "Korea Exchange") under the code "035720." On January 17, 2018, the closing price of the common shares on the Korea Exchange was Won 134,000 per share, equivalent to a price of approximately US$125.73 per share based on the market average exchange rate of Won 1,065.8 to US$1.00 announced by Seoul Money Brokerage Services, Ltd. on January 18, 2018 in Korea. The offering price for the GDSs represents a 3.7% discount from such closing price of the common shares on the Korea Exchange.

Prior to this offering, there has been no market for the GDSs. Approval in-principle has been received from the Singapore Exchange Securities Trading Limited (the "SGX-ST") for the listing and quotation of the GDSs on the SGX-ST. Notwithstanding their listing on the SGX-ST, the GDSs will be traded over-the-counter. The SGX-ST assumes no responsibility for the correctness of any of the statements made, opinions expressed or reports contained in this offering circular. Approval in-principle from, admission to the Official List of, and listing and quotation of the GDSs on, the SGX-ST are not to be taken as an indication of our merits or the merits of the GDSs or the common shares.

Investing in the GDSs involves risks. See "Risk Factors" beginning on page 11.

Offering Price: US$121.04 per GDS

Delivery of the GDSs will be made through the facilities of DTC against payment therefor on or about January 23, 2018.

The GDSs and the underlying common shares have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "Securities Act"). Neither the GDSs nor the underlying common shares may be offered or sold within the United States or to U.S. persons, except to qualified institutional buyers in reliance on the exemption from registration provided by Rule 144A under the Securities Act ("Rule 144A"), and to certain non-U.S. persons in offshore transactions in reliance on Regulation S under the Securities Act ("Regulation S"). You are hereby notified that sellers of the GDSs and the underlying common shares may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. The GDSs and the underlying common shares are not transferable except in accordance with the restrictions described under "Notice to Investors."

Joint Global Coordinators and Bookrunners

Citigroup **Goldman Sachs International**

The date of this offering circular is January 17, 2018.

kakao

“Connect Everything”
Innovating the Way We Connect for a Better Tomorrow

3 Leading Online Platforms of Korea

Kakao Talk

Messaging

Sharp (#) Search

Channel

Voice Talk & Face Talk

Daum

Search Engine

Online Communities

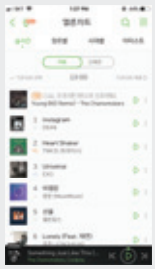
E-Mail Accounts

Online Content

MelOn

Online Music Streaming and Downloading

Music-Related Content



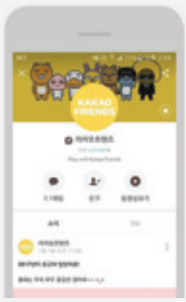
Key Products and Services

Advertising

Search Advertising

Display Advertising

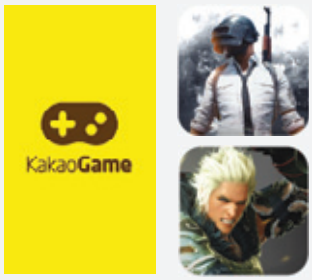
Kakao Advertising



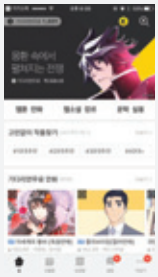
Content

Online Music

Mobile and PC Games



Web-Comics & Novels



Others

E-Commerce

Smart Mobility

Fintech

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You should rely only on the information contained in this offering circular or to which we have referred you. We have not authorized anyone to provide you with information that is different. This offering circular may only be used where it is legal to sell these securities. The information in this offering circular may only be accurate on the date of this offering circular.

This offering circular is confidential. You are authorized to use this offering circular solely for the purpose of considering the subscription or purchase of the GDSs and the underlying common shares described in this offering circular. In making your investment decision, you should rely only on the information contained in this offering circular. Neither we nor any Initial Purchaser (as defined in "Plan of Distribution") has authorized anyone to provide you with any other information. If you receive any other information, including forward-looking statements regarding our operating results that we have released to the investment community from time to time in the past, you should not rely on it. We are offering to sell the GDSs and the underlying common shares only in places where offers and sales of these securities are permitted.

This offering circular does not constitute an offer to sell or a solicitation of an offer to buy any GDSs or the underlying common shares by any person except in transactions conducted in compliance with all applicable laws and regulations. No representation or warranty, express or implied, is made by the Initial Purchasers or any of their affiliates or advisers as to the accuracy or completeness of the information contained herein, and nothing contained in this offering circular is, or shall be relied upon as, a promise or representation by the Initial Purchasers or their affiliates or advisers. Each person receiving this offering circular acknowledges that such person has not relied on the Initial Purchasers or any person affiliated with the Initial Purchasers in connection with its investigation of the accuracy of such information or its investment decision. Neither the delivery of this offering circular nor any sale made hereunder shall under any circumstances imply that the information herein is correct as of any date subsequent to the date hereof or constitute a representation that there has been no change or development reasonably likely to involve a material adverse change in our affairs since the date hereof.

The distribution of this offering circular and this offering of the GDSs and the underlying common shares in certain jurisdictions may be restricted by law. This offering circular may not be used for or in connection with any offer to, or solicitation by, anyone in any jurisdiction in which it is unlawful to make such an offer or solicitation. We and the Initial Purchasers require persons into whose possession this document may come to inform themselves about, and to observe, such restrictions. No action is being taken in any jurisdiction to permit an offering to the general public of the GDSs or the underlying common shares, or the distribution of this offering circular in any jurisdiction where action would be required for such purposes. Persons to whom a copy of this offering circular has been delivered may not circulate to any other person, reproduce or otherwise distribute this offering circular or any information herein for any purpose whatsoever nor permit or cause the same to occur.

The GDSs and the underlying common shares have not been recommended by any U.S. federal or state or other securities commission or regulatory authority. Furthermore, the foregoing authorities have not reviewed or passed on the accuracy or adequacy of this offering circular. Any representation to the contrary may be a criminal offense.

As a prospective purchaser, you should be aware that you may be required to bear the financial risks of this investment for an indefinite period of time. The GDSs and the underlying common shares are subject to restrictions on transferability and may not be transferred or resold except as permitted under applicable U.S. federal or state securities laws, pursuant to a registration statement or an exemption from registration, and the applicable laws of other relevant jurisdictions. See "Notice to Investors."

In making an investment decision, prospective investors must rely on their own examination of us and the terms of the offering of the GDSs and the underlying common shares, including the merits and risks involved. We are not making any representation to any purchaser of the GDSs and the underlying common shares regarding the legality of an investment in the GDSs and the underlying common shares by such purchaser under any legal investment or similar laws or regulations. Neither this offering circular nor any information supplied in connection with the issue of the GDSs and the underlying common shares should be considered as a recommendation or constituting an invitation or

offer by us that any recipient of this offering circular should purchase any GDSs or the underlying common shares. The contents of this offering circular should not be construed as providing legal, business, accounting or tax advice.

NOTICE TO PROSPECTIVE INVESTORS IN KOREA

THE GDSs MAY NOT BE OFFERED FOR RESALE OR RESOLD OR OTHERWISE TRANSFERRED, DIRECTLY OR INDIRECTLY, IN KOREA OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, ANY RESIDENT OF KOREA, EXCEPT AS PERMITTED BY APPLICABLE KOREAN LAW. A SECURITIES REGISTRATION STATEMENT IN RESPECT OF THE UNDERLYING COMMON SHARES HAS BEEN FILED WITH THE FINANCIAL SERVICES COMMISSION OF KOREA PURSUANT TO THE FINANCIAL INVESTMENT SERVICES AND CAPITAL MARKETS ACT OF KOREA (THE "FSCMA") AND IS EXPECTED TO BECOME EFFECTIVE PRIOR TO THE CLOSING DATE OF THE OFFERING.

CERTAIN DEFINED TERMS AND CONVENTIONS

Market data, industry forecasts and certain statistical information used in this offering circular were obtained from internal surveys, market research, publicly available information and industry publications published by various sources, including Nielsen Koreanclick, the Korea Onlinead Association, the Korea Internet & Security Agency, the Korea Broadcast Advertising Corporation, International Digital Contents Market Research, Statistics Korea, the Korea Institute for Industrial Economics and Trade, the Korea Exchange and other third-party sources that we believe are reliable. Such information has been accurately reproduced herein and, as far as we are aware and are able to ascertain from information published by such third parties, no facts have been omitted that would render the reproduced information inaccurate or misleading. Industry publications generally state that the information that they contain has been obtained from sources believed to be reliable but that the accuracy and completeness of that information is not guaranteed. Similarly, internal surveys, industry forecasts and market research, while believed to be reliable, have not been independently verified, and neither we nor the Initial Purchasers make any representation as to the accuracy or completeness of this information.

In this offering circular, references to "we," "us," "our," "ourselves," "our company," "the Company" or "the Issuer" are to Kakao Corp. and, unless otherwise specified or the context otherwise requires, its consolidated subsidiaries.

All references to "LOEN" are to LOEN Entertainment, Inc., our consolidated subsidiary, and, unless otherwise specified or the context otherwise requires, its consolidated subsidiaries.

All references to the "Kakao Group" are to a group of companies affiliated with Kakao Corp. The Kakao Group is not a legal entity but a reference to a group of such affiliated companies for purposes of the Monopoly Regulation and Fair Trade Act of Korea.

All references to "Korea" are to the Republic of Korea. All references to the "Government" are to the government of the Republic of Korea or its sub-divisions, as applicable. All references to "U.S." or the "United States" are to the United States of America.

All references to "Won" or "₩" are to the lawful currency of the Republic of Korea, and all references to "U.S. dollars" or "US$" are to the lawful currency of the United States of America. We publish our financial statements in Won. Solely for the reader's convenience, certain Won amounts in this offering circular have been translated into U.S. dollars at the market average exchange rate announced by Seoul Money Brokerage Services, Ltd. in Seoul, between Won and U.S. dollars, rounded to the nearest tenth of one Won (the "Market Average Exchange Rate"). For historical information regarding the rate of exchange between the Won and U.S. dollars, see "Exchange Rates." No representation is made that the Won or U.S. dollar amounts referred to in this offering circular could have been or could be converted into U.S. dollars or Won, as the case may be, at any particular rate or at all. On January 18, 2018, the Market Average Exchange Rate in effect was Won 1,065.8 to US$1.00.

Any discrepancies in the tables included herein between totals and sums of the amounts listed are due to rounding.

The information on our website, http://www.kakaocorp.com, or any website directly or indirectly linked to such website is not incorporated by reference into this offering circular and should not be relied upon.

PRESENTATION OF FINANCIAL INFORMATION

Our audited consolidated financial statements as of December 31, 2015 and 2016 and for the years ended December 31, 2014, 2015 and 2016 and our unaudited consolidated interim financial statements as of September 30, 2017 and for the three and nine months ended September 30, 2016 and 2017 included in this offering circular are prepared in accordance with International Financial Reporting Standards as adopted by Korea ("K-IFRS") and K-IFRS 1034, "Interim Financial Reporting," respectively, which differ in certain significant respects from generally accepted accounting principles

in other countries, including the United States, as well as International Financial Reporting Standards as issued by the International Accounting Standards Board. We have made no attempt to identify or quantify the impact of these differences. All financial information, descriptions and other information in this offering circular regarding our activities, financial condition and results of operations are, unless otherwise indicated or required by context, presented on a consolidated basis.

SUMMARY

The following summary highlights information appearing elsewhere in this offering circular and does not contain all of the information you should consider in making your investment decision. You should read this summary together with the more detailed information, including the financial statements and related notes, appearing elsewhere in this offering circular. You should carefully consider, among other things, the matters discussed in "Risk Factors." Certain capitalized terms used but not defined in this summary have the meanings ascribed to them elsewhere in this offering circular.

Our Company

We operate Korea's leading mobile platform as well as other leading online platforms in Korea, which we utilize to provide users and advertisers with a diverse and expanding array of products and services. Our products and services allow users to engage in more aspects of their daily affairs using their mobile and other connected devices and personal computers ("PCs") at their convenience, while enabling advertisers to access our large and growing user base across our Kakao ecosystem. Among other things, we offer users the ability to communicate, access entertainment, search content, shop and make payments online, as well as innovative services such as mobile transportation applications. We also offer advertisers the ability to promote their brands, products and services in a variety of online formats and to better target their marketing to their desired audiences among our users. Our products and services are offered primarily through or in conjunction with the following major online platforms, which serve as the backbone of our Kakao ecosystem.

- **Kakao Talk.** Our Kakao Talk platform, which is based on our free instant messaging service, serves as the central entry point through which we introduce many of our users to our other mobile service offerings. Kakao Talk is Korea's leading mobile instant messaging service based on user usage time in September 2017, according to Nielsen Koreanclick, and its average monthly active user base in Korea was approximately 43 million in the third quarter of 2017, representing substantially all of the smartphone users in Korea during such period.

- **Daum.** Daum is one of Korea's leading Internet portals and serves as a platform for a variety of portal-related services including web-based searching, e-mail, online communities and provision of online content. Our Daum search engine was the second most utilized web-based search engine in Korea based on search time and number of queries in the third quarter of 2017, according to Nielsen Koreanclick.

- **Melon.** Melon, our online music streaming and downloading service, serves as our platform for subscription-based access to music and related content. Melon is Korea's leading online music service based on unique visitors in September 2017, according to Nielsen Koreanclick. Melon had 4.4 million paying subscribers as of September 30, 2017 and, according to Nielsen Koreanclick, had a market share of approximately 58% of the Korean online retail music market in the third quarter of 2017 based on the number of average monthly unique visitors.

We believe that the integration of our products and services through such platforms provides our users with a smoother and richer connection experience that contributes to higher user loyalty and user base growth, which in turn enhance our ability to accumulate and analyze substantial amounts of user-related data to better understand user preferences and to improve our product and service offerings, including the effectiveness of online advertising through such platforms and related applications. Leveraging our content, our user base and their interconnectivity, our platforms have evolved into diversified online gateways that are fundamentally changing social interactions and lifestyle patterns in Korea. We believe that our platforms and related applications have become integrated into numerous aspects of our users' daily lives. Users add value to the overall Kakao ecosystem each time they engage with other users, advertisers or content or service providers. Increases in user engagement enable us to grow our scale by attracting more users, advertisers and content and service providers. In turn, growth in our scale in terms of the number of users, advertisers and content and service providers and the interactions among them enhances the value we deliver to all of our constituencies and leads to greater monetization opportunities.

On October 1, 2014, the former Kakao Corp. (the "Former Kakao") merged with and into Daum Communications Co., Ltd. ("Daum Communications"), our predecessor company, in connection with which the Former Kakao was recognized as the acquiring company for accounting purposes. Founded in December 2006 as IWILAB Co., Ltd., the Former Kakao launched Kakao Talk and changed its name to Kakao Corp. in 2010. Daum Communications was established in February 1995 and introduced Korea's first free e-mail service in 1997. We operate Melon through LOEN, a leading music entertainment company in Korea that offers a wide range of services covering key components of the music industry value chain. Seoul Record, the predecessor company to LOEN, was founded in 1978. In March 2016, we completed our acquisition of 61.4% and 15.0% interests in LOEN (the "LOEN Acquisition") from Star Invest Holdings Limited (an affiliate of Affinity Equity Partners), and SK Planet Co., Ltd. (a wholly-owned subsidiary of SK Telecom), respectively, as a result of which LOEN became a consolidated subsidiary of our company.

We generate revenue by leveraging the numerous affiliations and interests that connect the people and entities that constitute our user base and prompting our users to actively and repeatedly engage and interact with the wide variety of products, services and content we provide through our online platforms. Our revenue is primarily generated from advertising services, content offerings, including games, music, web-comics and Emoticons, and other services, including e-commerce and character merchandising. Our revenue amounted to Won 499 billion in 2014, Won 932 billion in 2015 and Won 1,464 billion in 2016, and Won 1,010 billion in the first nine months of 2016 and Won 1,428 billion in the first nine months of 2017. Our profit for the period amounted to Won 150 billion in 2014, Won 79 billion in 2015 and Won 65 billion in 2016, and Won 38 billion in the first nine months of 2016 and Won 107 billion in the first nine months of 2017. We had total assets of Won 6,494 billion and total equity of Won 4,445 billion as of September 30, 2017.

Strengths

Since its launch in 2010, Kakao Talk has helped to effect a transformation in social patterns in Korea, having grown significantly beyond a medium of communication into a holistic mobile lifestyle platform that affects how people communicate and connect, how people consume information, content and media, how people move and how people engage in finance.

We believe the following competitive strengths contribute to our unique value proposition and continued success:

- One-of-a-kind platform encompassing all aspects of a mobile lifestyle
- Unrivaled access to user data and insight across our ecosystem
- Mobile content leader with vertically integrated capabilities
- Successful track record of systematically rolling out new products and services
- Innovative business models with unique value to customers
- Entrepreneurial management and partners to drive future growth

Strategies

As the operator of the leading mobile platform in Korea, our goal is to further solidify our leadership position and strategically expand into related industries and markets, while pursuing robust monetization and strong profitability. To realize our vision, we seek to pursue the following strategies:

- Further solidify the market leadership of our products and services
- Expand globally with our content
- Broaden the scope of our lifestyle products and services

- Further optimize the integration of our products and services through artificial intelligence
- Flexibly adopt organic, inorganic and partnership models for our new businesses
- Further improve financial performance and profitability

THE OFFERING

Issuer	Kakao Corp., a corporation with limited liability incorporated in the Republic of Korea.
Joint Global Coordinators and Bookrunners	Citigroup Global Markets Inc. and Goldman Sachs International.
Offering	We are offering 8,261,731 GDSs representing 8,261,731 common shares outside Korea, (i) in the United States to qualified institutional buyers in reliance on Rule 144A and (ii) outside of the United States to non-U.S. persons in reliance on Regulation S.
Offering Price	US$121.04 per GDS.
Global Depositary Shares	Each GDS represents one common share. The GDSs will be issued pursuant to deposit agreements (the "Deposit Agreements") by and among us, Citibank, N.A., as depositary (the "Depositary"), and holders and beneficial owners from time to time of the applicable GDSs. Rule 144A GDSs will be issued pursuant to a Rule 144A Deposit Agreement and Regulation S GDSs will be issued pursuant to a Regulation S Deposit Agreement (each as defined herein). See "Description of Global Depositary Shares."
Common Shares	Common stock, par value Won 500 per share of our company. See "Description of Capital Stock."
Common Shares Outstanding After the Offering	Immediately prior to this offering, there were 67,903,339 common shares and no GDSs issued and outstanding. Upon completion of this offering, a total of 76,165,070 common shares will be issued and outstanding, of which 8,261,731 common shares will be represented by 8,261,731 GDSs. The GDSs issued pursuant to the offering will represent 10.8% of our total issued and outstanding common shares after the completion of this offering.
Listing	Approval in-principle has been received from the SGX-ST for the listing and quotation of the GDSs on the SGX-ST. Listing and quotation of the GDSs on the SGX-ST will only occur after or concurrently with the listing of the underlying common shares on the Korea Exchange, which is expected to occur six business days after the closing of this offering. Notwithstanding their listing on the SGX-ST, the GDSs will be traded over-the-counter.
Expected Closing Date	January 23, 2018.
Korea Exchange Code for the Common Shares	035720.
Settlement	Application will be made to DTC for acceptance of the Rule 144A GDSs in its book-entry settlement system. Application will be made to Euroclear and Clearstream for acceptance of the Regulation S GDSs in their respective book-entry settlement systems. So long as the GDSs are

	eligible for such systems, all GDSs offered hereby will be evidenced by a single Master Rule 144A GDR (in the case of Rule 144A GDSs) or a single Master Regulation S GDR (in the case of Regulation S GDSs), registered in the name of Cede & Co. as nominee of DTC or in the name of the nominee of the Common Depositary, respectively. Investors' interests in such book-entry GDSs will be represented through financial institutions acting on their behalf as DTC Participants, in the case of Rule 144A GDSs, or Euroclear Participants or Clearstream Participants, in the case of Regulation S GDSs. DTC settlement practices are applicable to GDSs held through DTC. The settlement practices of Euroclear, Clearstream and the Common Depositary are applicable to GDSs held through Euroclear and Clearstream.
Delivery of GDSs	The GDSs sold in this offering are expected to be delivered against payment therefor on or about January 23, 2018.
Depositary	Citibank, N.A.
Dividends	Dividends on the common shares are subject to recommendation by our board of directors and approval at a general meeting of our shareholders (in the case of annual dividends) or a resolution of our board of directors (in the case of interim dividends). Holders of GDSs will be entitled to the full amount of distributions on the underlying common shares, after deduction of fees and expenses and taxes pursuant to the applicable Deposit Agreement. Cash distributions will be paid to the Depositary in Won. The Deposit Agreements provide that, except in certain circumstances, cash distributions received by the Depositary will be converted by the Depositary into U.S. dollars and distributed to the holders of GDSs, less Korean withholding tax, other governmental charges and the Depositary's fees and expenses. See "Dividends," "Description of Global Depositary Shares — Dividends and Distributions," "Korean Foreign Exchange and Securities Regulations" and "Taxation — Korean Taxation."
Lock-up	We and Beom Su Kim and K Cube Holdings Co., Ltd., our shareholders, have each agreed with the Initial Purchasers that, subject to certain exceptions, we will not, for a period of 90 days after the date of this offering circular, take, directly or indirectly, any of the following actions with respect to any Lock-up Securities (as defined in "Plan of Distribution"), without the prior written consent of the Initial Purchasers: (i) offer, issue, sell, contract to sell, pledge, grant any option to purchase, make any short sale or otherwise transfer or dispose of, or file with the U.S. Securities and Exchange Commission a registration statement under the Securities Act relating to, any Lock-up Securities; (ii) enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of ownership of the Lock-up Securities, whether any such transaction is to be settled by delivery of securities, in cash or otherwise; or

	(iii) publicly disclose the intention to take any such action specified in (i) and (ii) above. See "Plan of Distribution."
Use of Proceeds	We estimate that the aggregate net proceeds from the offering of the GDSs will be approximately US$984 million (net of underwriting commissions but prior to deducting other offering expenses). We plan to use the net proceeds from this offering primarily for general corporate purposes, including to fund future acquisitions and investments. See "Use of Proceeds."
Deposit and Withdrawal of Common Shares	Pursuant to the Deposit Agreements, holders of common shares may deposit common shares with the Custodian (as defined in "Description of Global Depositary Shares") as agent for the Depositary in Korea and obtain GDSs, and holders of GDSs may surrender GDSs to the Depositary and receive common shares, subject, in each case, to the satisfaction of certain conditions set forth in the Deposit Agreements. Under current Korean laws and regulations, the Depositary is required to obtain our prior consent for the number of common shares to be deposited in any given proposed deposit that exceeds the difference between (i) the aggregate number of common shares deposited by us for the issuance of GDSs (including deposits in connection with the initial and all subsequent offerings of GDSs and stock dividends or other distributions related to the GDSs) and (ii) the number of common shares on deposit with the Depositary at the time of such proposed deposit. It is possible that we may not give such consent. See "Risk Factors — If you surrender your GDSs to withdraw the common shares, you may not be allowed to deposit the common shares again to obtain GDSs." Until the listing on the Korea Exchange of the common shares represented by the GDSs offered in this offering, you will not be able to withdraw or otherwise sell the common shares represented by your GDSs. The listing of the common shares represented by the GDSs on the Korea Exchange is expected to occur within approximately six business days after the closing of this offering.
Transfer Restrictions	The GDSs and the underlying common shares will be subject to certain restrictions on transfer. For more information, see "Notice to Investors."
Security Codes	Rule 144A GDSs: ISIN: US48312K1079 CUSIP: 48312K 107 Regulation S GDSs: Common Code: 174903328 ISIN: US48312K2069 CUSIP: 48312K 206

SUMMARY HISTORICAL AND PRO FORMA FINANCIAL INFORMATION AND OTHER OPERATING INFORMATION

Our Summary Historical Consolidated Financial and Other Operating Information

The following tables set forth our summary historical financial and other operating information. Such information should be read in conjunction with our consolidated financial statements and related notes, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and other financial information appearing elsewhere in this offering circular.

Our summary historical consolidated financial information as of September 30, 2017 and for the nine months ended September 30, 2016 and 2017 set forth below has been derived from our unaudited consolidated interim financial statements as of such date and for such periods prepared in accordance with K-IFRS 1034, "Interim Financial Reporting," and included elsewhere in this offering circular. Our summary historical consolidated financial information as of December 31, 2015 and 2016 and for the years ended December 31, 2014, 2015 and 2016 set forth below has been derived from our audited consolidated financial statements as of such dates and for such periods prepared in accordance with K-IFRS and included elsewhere in this offering circular.

Mergers and acquisitions that we have effected in recent years may affect the direct comparability of our consolidated financial statements and historical financial and other operating information as of and for different dates and periods included in this offering circular. In particular, in October 2014, the Former Kakao merged with and into Daum Communications, our predecessor company, in connection with which the Former Kakao was recognized as the acquiring company for accounting purposes. Accordingly, our consolidated financial statements and historical financial and other operating information include the assets and liabilities and results of operations of Daum Communications commencing from October 1, 2014, and not as of any date or for any period prior to such date. In addition, in March 2016, we completed the LOEN Acquisition, as a result of which LOEN became a consolidated subsidiary of our company. Accordingly, our consolidated financial statements and historical financial and other operating information include the assets and liabilities of LOEN commencing as of March 31, 2016 (the effective date of the LOEN Acquisition for accounting purposes) and its results of operations commencing from April 1, 2016, and not as of any date or for any period prior to such dates. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Our results of operations for the nine months ended September 30, 2017 may not be indicative of our results of operations for the full year 2017.

Summary Historical Consolidated Statements of Comprehensive Income Information

	For the Year Ended December 31,			For the Nine Months Ended September 30,	
	2014	2015	2016	2016	2017
	(In billions of Won)				
Revenue	₩ 499	₩ 932	₩ 1,464	₩ 1,010	₩ 1,428
Operating expenses	322	844	1,348	932	1,297
Operating income	176	89	116	78	130
Other non-operating income	2	25	25	9	22
Other non-operating expenses	13	26	31	17	31
Finance income	7	30	25	15	21
Finance costs	0	4	24	20	17
Share of net loss of associates	(3)	(4)	(10)	(7)	(8)
Profit before income tax	169	110	100	59	117
Income tax expense	19	31	35	21	10
Profit for the period	₩ 150	₩ 79	₩ 65	₩ 38	₩ 107

Summary Historical Consolidated Statements of Financial Position Information

	As of December 31,		As of September 30,
	2015	2016	2017
	(In billions of Won)		
Total assets	₩ 3,188	₩ 5,484	₩ 6,494
Current assets	970	1,217	2,144
Cash and cash equivalents	397	642	954
Short-term financial instruments	373	237	440
Trade receivables	89	174	186
Non-current assets	2,218	4,267	4,351
Property and equipment	219	254	265
Intangible assets	1,856	3,733	3,704
Total liabilities	₩ 603	₩ 1,781	₩ 2,049
Current liabilities	316	806	1,061
Trade and other payables	90	263	264
Short-term borrowings[1]	22	204	155
Other current liabilities	162	282	501
Non-current liabilities	287	975	988
Long-term borrowings[2]	200	796	794
Deferred income tax liabilities	49	143	136
Total equity	₩ 2,585	₩ 3,703	₩ 4,445
Share capital	30	34	34
Share premium	2,274	3,105	3,553
Retained earnings	256	304	391

(1) Including redeemable convertible preferred shares issued by our subsidiaries.
(2) Including corporate bonds.

Operating Information

	For the Year Ended December 31,			For the Nine Months Ended September 30,	
	2014	2015	2016	2016	2017
	(In billions of Won)				
Net cash inflow from operating activities	₩ 220	₩ 162	₩ 317	₩ 184	₩ 256
Net cash inflow (outflow) from investing activities	172	(414)	(1,000)	(900)	(360)
Net cash inflow from financing activities	35	197	924	793	420
EBITDA[1]	199	164	230	160	225

(1) EBITDA is a metric used by our management to measure operating performance. EBITDA represents our operating income, excluding depreciation and amortization, for the relevant period. EBITDA is not a standard measure under K-IFRS and should not be considered in isolation or construed as an alternative to cash flows, operating income, net income or any other measure of our operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities. EBITDA has been presented herein because we believe EBITDA is a useful supplement to cash flow data as a measure of our performance and our ability to generate cash flows from operations to cover debt service and taxes. Our EBITDA presented herein may not be comparable to similarly titled measures presented by other companies, because not all use the same definition of EBITDA.

A reconciliation of our operating income to EBITDA is as follows:

	For the Year Ended December 31,			For the Nine Months Ended September 30,	
	2014	2015	2016	2016	2017
	(In billions of Won)				
Operating income	₩ 176	₩ 89	₩ 116	₩ 78	₩ 130
Depreciation	17	49	56	42	45
Amortization	6	26	58	40	50
EBITDA	₩ 199	₩ 164	₩ 230	₩ 160	₩ 225

Summary Historical Consolidated Financial Information of LOEN

The following tables set forth the summary historical consolidated financial information of LOEN. Such financial information should be read in conjunction with LOEN's consolidated financial statements and related notes appearing elsewhere in this offering circular.

The summary historical consolidated financial information of LOEN as of September 30, 2017 and for the nine months ended September 30, 2016 and 2017 set forth below has been derived from its unaudited consolidated interim financial statements as of such date and for such periods prepared in accordance with K-IFRS 1034, "Interim Financial Reporting," and included elsewhere in this offering circular. The summary historical consolidated financial information of LOEN as of December 31, 2015 and 2016 and for the years ended December 31, 2014, 2015 and 2016 set forth below has been derived from its audited consolidated financial statements as of such dates and for such periods prepared in accordance with K-IFRS and included elsewhere in this offering circular

LOEN's results of operations for the nine months ended September 30, 2017 may not be indicative of its results of operations for the full year 2017.

Summary Historical Consolidated Statements of Comprehensive Income Information

	For the Year Ended December 31,			For the Nine Months Ended September 30,	
	2014	2015	2016	2016	2017
	(In billions of Won)				
Operating revenue	₩ 323	₩ 358	₩ 451	₩ 317	₩ 420
Operating expenses	265	294	371	258	344
Operating income	58	63	80	60	76
Other income	0	1	1	1	1
Other expenses	3	2	1	0	1
Finance income	4	4	3	3	3
Finance costs	0	0	0	0	0
Profit before income tax	60	66	83	62	79
Income tax expense	14	16	21	15	20
Profit for the period	₩ 46	₩ 50	₩ 62	₩ 47	₩ 58

Summary Historical Consolidated Statements of Financial Position Information

	As of December 31,		As of September 30, 2017
	2015	2016	
	(In billions of Won)		
Total assets	₩ 363	₩ 454	₩ 524
Current assets	271	344	416
Cash and cash equivalents	83	92	136
Other financial assets	104	151	159
Trade and other receivables	58	75	85
Non-current assets	92	110	108
Available-for-sale financial assets	16	7	6
Property and equipment	12	37	37
Intangible assets	47	44	41
Total liabilities	₩ 117	₩ 151	₩ 186
Current liabilities	112	148	181
Trade and other payables	76	101	116
Other current liabilities	26	33	50
Non-current liabilities	5	3	4
Total equity	₩ 246	₩ 302	₩ 339
Share capital	13	13	13
Share premium	48	48	48
Retained earnings	165	227	261

Our Summary Pro Forma Consolidated Statement of Comprehensive Income Information

In March 2016, we completed the LOEN Acquisition, as a result of which LOEN became a consolidated subsidiary of our company and its results of operations were included in our consolidated statements of comprehensive income commencing from April 1, 2016. The following table sets forth our summary unaudited pro forma consolidated statement of comprehensive income information for the year ended December 31, 2016, which gives effect to the LOEN Acquisition as if it had occurred on January 1, 2016. Such information has been compiled for illustrative purposes only and is subject to a number of assumptions and qualifications, including those described in the notes below.

Our summary unaudited pro forma consolidated statement of comprehensive income information set forth below should be read in conjunction with our and LOEN's consolidated financial statements and related notes appearing elsewhere in this offering circular. Such information is not necessarily indicative of what our actual results of operations for 2016 would have been had the LOEN Acquisition occurred on January 1, 2016, nor does it purport to indicate our results of operations for the full year 2017. We therefore caution you not to place undue reliance on such information.

Summary Pro Forma Consolidated Statement of Comprehensive Income Information for the Year Ended December 31, 2016

	Historical			Pro Forma Consolidated
	Year Ended December 31, 2016 for Kakao Corp.	Three Months Ended March 31, 2016 for LOEN[1]	Pro Forma Adjustments	Year Ended December 31, 2016
	(In billions of Won, except per share data)			
Revenue	₩ 1,464	₩ 97	₩ —	₩ 1,561
Operating expenses	1,348	78	3[2]	1,429
Operating income	116	18	(3)	132
Other non-operating income	25	0	—	26
Other non-operating expenses	31	0	(1)[3]	31
Finance income	25	1	—	26
Finance costs	24	0	—	24
Share of net loss of associates	(10)	—	—	(10)
Profit before income tax	100	20	(2)	118
Income tax expense	35	5	(1)[4]	39
Profit for the period	65	15	(2)	79
Other comprehensive income (loss) for the period, net of tax	(1)	(3)	—	(3)
Total comprehensive income for the period	₩ 65	₩ 12	₩ (2)	₩ 76
Earnings per share to the equity holders of the parent company				
Basic	₩ 874			₩ 1,027
Diluted	₩ 850			₩ 998
Weighted average number of ordinary shares				
Basic	66,014,260			66,014,260
Diluted	68,019,744			68,019,744

(1) Based on LOEN's consolidated statement of comprehensive income for the three months ended March 31, 2016.
(2) Amortization expense for three months with respect to identifiable intangible assets of LOEN recognized at the time of the LOEN Acquisition.
(3) Reversal of transaction costs directly attributable to the LOEN Acquisition.
(4) Changes in income tax expense relating to additional amortization expense on intangible assets and transaction costs.

RISK FACTORS

You should carefully consider the risks described below and all other information contained in this offering circular before making an investment decision. If any of the following risks, as well as other risks and uncertainties that are not currently known or that we currently think are immaterial, are actually realized, our business, financial condition and results of operations could be materially and adversely affected. In that event, the trading price of the GDSs could decline, and you may lose part or all of your investment.

Risks Relating to Our Business

If we fail to retain existing users, add new users or maintain or increase the level of engagement of the user base of our online platforms and related applications, our business and performance may be adversely affected.

Our business is dependent on our ability to attract and retain active users and derive revenue from user traffic, and the size of our active user base and the level of its engagement are critical to our success. We currently generate a substantial majority of our revenue in Korea, and we expect to continue to do so in the foreseeable future. Accordingly, our financial performance has been and will continue to be significantly determined by our success in securing and engaging active users in Korea. A number of providers of Internet portal services, mobile applications and online services that achieved early popularity have seen the size of their user bases or levels of engagement subsequently decline, in some cases precipitously. If we fail to develop or provide products and services that are compatible with current and future mobile devices and technologies popular in Korea, or if the products and services we develop or provide are not widely accepted and used by Korean mobile or Internet users, we may not be able to attract or retain users or otherwise maintain or increase the frequency, duration or level of their engagement, which may render our products and services less attractive.

Our user retention, growth or engagement levels could also be negatively affected if:

- we are unable to continue providing a compelling, convenient and intuitive user experience and environment, particularly relating to the quality, volume, design and layout of the content that we offer through our Kakao Talk, Daum and Melon platforms;
- we fail to maintain our brand image or our reputation is damaged;
- we are unable to make new or upgraded products and services available in a timely and reliable manner;
- we fail to provide adequate and satisfactory customer service to users or advertisers or maintain relationships with key platform partners such as mobile and PC game developers and publishers, content providers and online retailers;
- adverse changes in our products or services are mandated by legislation, regulatory authorities or legal proceedings;
- user concerns increase in relation to privacy and information sharing, safety or security;
- technical or other problems prevent us from delivering our products and services in a rapid and reliable manner or otherwise negatively affect user experience; or
- users increasingly engage with other competing products or services, particularly alternative communication tools or information or entertainment channels.

If we fail to retain existing users, add new users or maintain or increase the level of engagement of the user base of our online platforms and related applications, our business, financial condition and results of operations may be adversely affected.

We operate in a rapidly evolving environment and may not be able to launch new products and services in a timely and cost-effective manner, and any new products and services we develop or provide may expose us to new risks.

We operate in highly competitive industries characterized by rapidly changing consumer demand, evolving industry and regulatory standards and continual improvements in product and service features. Rapidly evolving user preferences may lead to certain products and services becoming less competitive, or even obsolete. Accordingly, our success depends greatly on our ability to anticipate and respond to emerging user demand and market trends by ensuring continuing and timely development of new, as well as enhancements to the quality and user experience of existing, products and services. For example, in recent years, users' preference in terms of accessing online services and content, including games, music, videos, shopping and news, has shifted from PCs to mobile and other connected devices, leading to declining user growth and traffic for PC-based services and the need to develop increasingly sophisticated services and content, advertising models and payment systems for mobile applications. In order to respond to changes in market preferences and demands, we may develop and introduce new products and services, including in areas where we have little or no prior development or operating experience. We plan to continue to invest in product and service development and enhancement, but there is no guarantee that these efforts will be operationally or financially successful.

Some of our strategic initiatives may not immediately generate revenue, but we expect they will enhance our attractiveness to users, advertisers and platform and other business partners as well as contribute to increasing engagement of our user base. Our new products and services may bring us into contact, directly or indirectly, with entities that are not within our traditional customer or supplier base or result in competition with entities that are our existing platform and other business partners. Such business activities may expose us to new risks, including additional regulatory scrutiny as well as credit-related and other operational risks. There can be no assurance that we will succeed in developing new or enhanced products and services that eventually become widely accepted, or that we will be able to timely release products and services that are commercially viable. Our inability to do so would have an adverse impact on our business, financial condition and results of operations.

We operate in a highly competitive market, and our failure to compete successfully could adversely affect our business and performance.

We face significant competition in almost every aspect of our business. We primarily compete for the time, attention and spending of our users with providers of other forms of mobile, online and in-home communication, entertainment and information services. We face competition from mobile telecommunications companies, game companies, e-commerce companies, music and video service companies, financial service companies and other Internet-related companies that offer products and services that may compete with specific features of our products and services, including those offered through our Kakao Talk, Daum and Melon platforms and related applications. In particular, we compete directly with other major Korean Internet portal services, such as Naver, to provide comprehensive mobile and online services to users. In addition, we compete with international competitors, such as Facebook and Google, which offer a wide range of information and communication services and products as well as online advertising services. Furthermore, we compete with offline and online media and advertising businesses for a share of advertisers' budgets and in the development of tools and systems for managing and optimizing advertising campaigns.

There is intense competition for users, traffic and advertisers in the Korean market for Internet portals and related services, as a result of which we have historically experienced, and expect to continue to experience, difficulty in maintaining or increasing the market share and revenue of our Daum portal-related services. In addition, although we operate the leading mobile messaging service in Korea, the mobile messaging markets outside Korea are dominated by various other companies, many of which have greater financial resources and substantially larger user bases. For example, our Kakao Talk service faces competition from other well-established mobile messaging services, such as Facebook's Whatsapp, Tencent's WeChat and Naver's LINE Messenger. As Kakao Talk serves as the central entry point through which we introduce many of our users to our mobile service offerings, a decline in the popularity of Kakao Talk (and the related strength of our "Kakao" brand) due to competition from other mobile messaging service providers or otherwise may adversely affect the competitiveness of our other products and services, as well as our overall competitive position in Korea

and elsewhere. Competition in the mobile game market in Korea is also intense, and it may become more challenging for us to retain existing users and attract new users as competition from other online game operators, based in Korea as well as overseas, is likely to increase in the future.

In our online music services business, the principal competitors of Melon include M.net, Genie, Bugs! and Soribada. Melon also competes with illegal online music content channels, such as unauthorized peer-to-peer file-sharing websites, due to the prevalence of music piracy. In our music content distribution business, the principal competitors of LOEN Music are M.net and KT Music. In our music content production business, our production companies compete mainly with other production companies in Korea in signing and managing recording artists, as well as actors and other entertainment industry personnel, and in producing and marketing music content to music distributors.

Our competitors in each of our business areas may develop products or services that are similar to ours or that achieve greater market acceptance, may undertake more far-reaching and successful product or service development efforts or marketing campaigns, or may adopt more aggressive pricing policies. Global scale, financial or technological strength, business affiliations or other advantages may allow our competitors to respond more effectively than us to the rapidly evolving environment in the mobile and Internet industries, including industry consolidation that may result in enhanced capabilities of our competitors. In addition, our platform and other business partners that are also our competitors may use information shared by our users through our Kakao Talk, Daum and Melon platforms in order to develop products or services that compete with ours. Certain of our competitors could also use strong positions in one or more segments or markets to gain competitive advantages over us in areas where we operate, by integrating competing mobile applications or features into products or services they control such as social networking services or mobile operating systems for smartphones and tablets; by making strategic acquisitions; or by making access to our products and services more difficult. Furthermore, as we introduce new products and services and our existing offerings evolve, and as other companies introduce new products and services, we may become subject to additional competition. If we fail to compete successfully, our user numbers, traffic and revenue could decrease, which may negatively affect our business, financial condition and results of operations.

Many of the products and services that we currently offer are free, and we may not be successful in our efforts to monetize our products and services.

Our ability to successfully monetize our user base and its engagement is critical to our business and financial performance. Many of the products and services that we currently offer are free. For example, the mobile messaging services of Kakao Talk, the taxi services of Kakao T, our mobile transportation application, as well as a majority of our Daum portal-related services, can currently be used free of charge by our users. In addition, most of the mobile games that we currently offer are free to play, and for such games, we are only able to generate revenue when our players purchase in-game items that enhance or accelerate game play or augment or customize a particular player's experience. Such item-based revenue model for mobile games requires us to design and introduce games and ongoing enhancements that incentivize players not only to spend time playing our games, but also to purchase in-game items. A relatively small portion of our players account for a large portion of our mobile games revenue. Accordingly, we must constantly seek new ways to convert non-paying players into paying players and attract and retain paying players.

As part of our business strategy, we are seeking ways to increase our revenue by selectively introducing commissions and other charges and adding advertising channels with respect to our existing products and services that are currently offered for free, as well as developing new revenue-generating products and services. See "Business — Strategy." However, there is no guarantee that our efforts to further monetize our products and services will be successful in generating significant new revenue or profits. Furthermore, our monetization efforts could have a negative effect on user engagement and user base growth if such efforts discourage users from using our products and services. In addition, our competitors may introduce new revenue models in the future, and if such new revenue models are perceived as offering a better value proposition to users than the models that we currently use or plan to implement, our customers may switch to our competitors' products and services. We may be required to expend significant time and resources to develop and launch new revenue models, and we may be unable to launch them in a timely or cost-effective manner, or at all. If

our monetization efforts are not as successful as we anticipate, we may not be able to maintain or grow our revenue, and our business, financial condition and results of operations could be adversely affected.

Our quarterly financial results may be subject to significant fluctuations and may not meet our or market expectations.

Our quarterly financial results have fluctuated in the past and are likely to fluctuate in the future. As a result, you should not rely upon our past quarterly financial results as indicators of future performance. You should also take into account the risks and uncertainties frequently encountered by companies in rapidly evolving high-technology industries. Our financial results in any given quarter or fiscal period can be influenced by numerous factors occurring in a particular period, many of which are difficult to predict or are outside of our control, including:

- our ability to attract and retain users, advertisers and platform or other business partners;
- the development and introduction of new products or services by us or our competitors;
- changes in revenue sources as well as adjustments in pricing models and fees charged to users and advertisers;
- increases in marketing, sales and other operating expenses that we may incur to grow and expand our operations and to remain competitive;
- seasonal fluctuations in spending by our advertisers, especially in Korea where advertising spending is traditionally stronger in the second and fourth quarters;
- impairment and write-offs of intangible assets, including goodwill, as well as our investments;
- non-recurring transactions, including mergers, acquisitions, investments and divestments, and related accounting and tax implications therefrom;
- unforeseen contingencies, such as adverse litigation judgments, settlements or other litigation-related costs, as well as regulatory penalties;
- fluctuations in currency exchange rates and changes in the proportion of our revenue and expenses denominated in foreign currencies; and
- changes in business or macroeconomic conditions.

We may not be able to effectively manage our growth, which would harm our business and profitability.

We continue to experience rapid growth in our operations, both organically and through acquisitions, which will continue to place significant demands on our management and operational and financial infrastructure. We face significant competition for talent, particularly software and systems engineers, developers and designers, from other Internet and high-growth technology companies as well as music entertainment companies, and we may not be able to hire new employees quickly enough to meet our needs. As we continue to grow, we are subject to the risks of over-hiring, overcompensating our employees and over-expanding our operating infrastructure, and to the challenges of integrating, developing and motivating a rapidly growing employee base in Korea and elsewhere. As our organization continues to grow and we are required to implement more complex organizational management structures, we may find it increasingly difficult to maintain the strengths of our corporate culture, including our ability to innovate and quickly develop and launch new products and services. If we fail to effectively manage our hiring needs and successfully integrate our new hires, our employee morale, productivity and retention could suffer.

We also expect to continue to invest in our infrastructure in order to enable us to provide our products and services rapidly and reliably to users around the world, including in countries where we do not expect significant near-term monetization. Continued growth could strain our ability to maintain

reliable service levels for our users, advertisers and platform partners, develop and improve our operational, financial, legal and management controls, and enhance our reporting systems and procedures. Managing our growth will require significant expenditures and allocation of valuable management resources. If we fail to achieve and maintain the necessary level of efficiency and productivity in our organization as it grows, our business, financial condition and results of operations could be harmed.

We may fail to fully realize the anticipated benefits of our mergers, acquisitions and investments.

From time to time, we strategically acquire or invest in, or merge with, companies in relevant industries, aiming to capitalize on the combined strengths of our existing business and those of the target entities, including in terms of technologies, user base and cost efficiencies, as well as expand into new businesses or markets. For example, the Former Kakao merged with and into Daum Communications, our predecessor company, in October 2014. In addition, in March 2016, we acquired a 76.4% interest in LOEN, a leading music entertainment company in Korea, which became our consolidated subsidiary. We also make investments in businesses that we believe to be strategically important. For example, we currently own a 10% equity interest in Kakao Bank, the largest Internet-only bank in Korea in terms of asset size which was launched in July 2017 by a consortium including us, Korea Investment Holdings, Kookmin Bank, eBay and Tencent Holdings Limited. We continually evaluate opportunities for, and engage in discussions with counterparties with respect to, potential merger, acquisition and investment transactions, and we may announce or enter into significant transactions in the future.

The success of our mergers, acquisitions and investments will depend, in part, on our ability to identify and evaluate any material risks involved in any particular transaction and realize the potential growth opportunities and anticipated synergies therefrom. The realization of anticipated benefits from such transactions may be impeded, delayed or reduced as a result of numerous factors, some of which are outside our control, including the following:

- inability to maintain existing users, customers or suppliers of the merged, acquired or invested entity;
- difficulties in managing the integration of the merged, acquired or invested entity, including the harmonization of information technology systems and corporate cultures, as well as in the implementation of a coordinated business plan, including challenges associated with the integration of product and service development and sales and marketing functions;
- inability to eliminate overlapping or redundant businesses, operations, systems, assets and personnel;
- unforeseen or latent risks or liabilities in the operations of the merged, acquired or invested entity;
- diversion of management time and focus from operating our business in order to address merger, acquisition, investment and integration challenges;
- difficulties in integrating management teams and retaining key personnel;
- the possibility of labor unrest;
- unanticipated write-offs or charges; and
- litigation or other claims arising in connection with the transaction, including claims from terminated employees, customers, suppliers, former shareholders or other third parties.

We carry significant amounts of intangible assets on our statement of financial position as a result of mergers, acquisitions and other investments that we have pursued in the past, including goodwill of Won 3,031 billion as of September 30, 2017. Under K-IFRS, goodwill and other intangible assets that have indefinite useful lives are tested for impairment annually by comparing their

recoverable amount to their carrying amount. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies—Impairment of Goodwill." We also account for certain investments under the equity method and regularly evaluate our investment portfolio to test for impairment of our investments.

If we face difficulties in integrating or managing our merged, acquired or invested entities, we may not achieve the anticipated benefits in connection with the mergers, acquisitions or investments, and may recognize impairment charges. If we fail to achieve the anticipated benefits, or if the costs of achieving them are substantially greater than we anticipate, our business, financial condition and results of operations may be adversely affected.

If we are not able to maintain and enhance our Kakao, Melon and Daum brands, or if events occur that damage our reputation and brands, our relationships with our users, advertisers and platform and other business partners may be harmed.

We believe that our Kakao, Melon and Daum brands are well recognized in Korea and that our Kakao Friends character business has earned significant brand recognition. Our new users are often referred by existing users, and we believe that maintaining and enhancing our brands is critical to expanding our user base and obtaining new advertisers and platform and other business partners. Maintaining and enhancing our brands will depend largely on our ability to continue to provide engaging and entertaining products and services, which we may not do successfully. We may introduce new products and services and changes to our existing products and services that users do not welcome, including new revenue generation models, which may negatively affect our brands.

We have in the past experienced, and we may continue to experience, media, legislative or regulatory scrutiny of our decisions regarding user and data privacy or other issues, including our measures to protect minors, which may adversely affect our reputation and brands. We may also fail to provide adequate customer service, which could erode confidence in our brands. Our brands may also be adversely affected by negative campaigns from our competitors, by negative publicity about the actions of users that are deemed to be hostile, illegal or inappropriate to other users, by third-party content providers acting inappropriately with respect to our products and services, by users acting under false identities, by any regulatory developments designed to address such risks, or due to legal proceedings. Maintaining and enhancing our brands may require us to make substantial investments, and these investments may not be successful. If we fail to successfully promote and maintain our brands or if we incur excessive expenses in this effort, our business, financial condition and results of operations may be adversely affected.

We generate a significant portion of our revenue from our advertising products and services, and the loss of our advertisers, a reduction in spending by our advertisers or our failure to achieve market acceptance of new advertising products and services could adversely affect our business and performance.

A significant portion of our revenue is generated from advertising products and services offered to clients through our Kakao Talk, Daum and Melon platforms and related applications. Revenue from advertising accounted for 44.7% of our total revenue in 2014, 64.4% in 2015, 36.5% in 2016 and 30.6% in the first nine months of 2017. Demand for our advertising products and services is primarily driven by the advertising spending levels of our advertising clients in Korea, which are influenced by the level of overall economic activity and business cycles in Korea. Economic uncertainty, volatility in the financial markets or a contraction in the availability of credit may make it more difficult for businesses to meet their working capital requirements and could lead them to seek to change their commercial relationships with their vendors, including us. In the past, some advertisers have responded to weak economic and financial market conditions by reducing their advertising budgets, which include discretionary components that are relatively easier to reduce in the short term than other operating expenses. For example, unfavorable economic conditions in Korea following the Sewol ferry accident that occurred in April 2014 had a negative impact on the general advertising spending level of Korean companies in the remainder of 2014.

Furthermore, the segment of advertising services involving the Internet and mobile media, which is subject to continual development and integration of interactive media technologies, is relatively nascent and continues to evolve. As a result, we may need to incur significant development

and acquisition costs or hire new personnel in order to keep pace with new technology and market trends in Internet and mobile advertising. In addition, some of our advertisers may view our existing or new advertising products and services as experimental or unproven. If we fail to develop and introduce compelling new advertising products and services on a timely and cost-effective basis, the market acceptance of our advertising products and services may decrease and we may not be able to attract advertisers.

As is customary in the industry, we generally do not have exclusive or long-term agreements with our advertisers. Many of our advertisers spend only a relatively small portion of their overall advertising budget with us. Advertisers may reduce or discontinue their use of our advertising products and services, or they may reduce the prices they are willing to pay for such products and services, if we do not deliver advertisements and other commercial content in an effective manner, or if they do not believe that their investment in our advertising products and services will generate a sufficient return relative to alternative methods of advertising. The attractiveness of our advertising products and services may decline due to a variety of factors, including:

- decreases in the number of our active users and their engagement levels;
- our inability to improve our analytics and measurement solutions that demonstrate the value of advertising through our Kakao Talk, Daum and Melon platforms and related applications;
- our inability to adapt to the evolving online and mobile advertising market and create new products or services that sustain or increase the value of advertising with us;
- product or service changes we may make that reduce the frequency or relative prominence of advertisements and other commercial content delivered through our advertising products and services;
- our inability to increase the relevance or delivery of targeted ads to users;
- the degree to which users decline or opt out of certain types of targeted ads;
- the impact of new technologies that could block or obscure the display of some types of advertisements and other commercial content;
- loss of advertising market share to our competitors;
- adverse regulatory developments relating to online or mobile advertising;
- changes in the way we price our advertising products and services; and
- unfavorable macroeconomic conditions or conditions in the advertising industry in general.

These or other developments could result in reduced demand for and revenue from our advertising products and services, which may negatively affect our business, financial condition and results of operations.

The continued success of our online games business depends to a large extent on our ability to continue to publish and offer new games and enhance our existing games that attract and retain a significant number of players.

We operate our mobile and PC games business through our subsidiary Kakao Games Corp., in which we own a 75.5% interest. Revenue from mobile and PC games accounted for 17.7% of our total revenue in the first nine months of 2017. Our games span a variety of genres, including action role-playing games, strategy role-playing games, massively multiplayer online role-playing games (“MMORPGs”), casual games, shooting games, simulation games and miscellaneous other games.

The continued success of our games business depends to a large extent on our ability to maintain a robust pipeline of new games and game updates, including the internal development or

procurement from third-party game developers of entertaining and engaging new online games for publishing in appropriate markets, and to launch them in a timely manner so that they achieve significant popularity. It is difficult to anticipate player preferences or demand, particularly as we launch new online games in emerging genres or previously untapped markets. We may not be able to anticipate changing consumer tastes and preferences, adopt new technologies, attract, retain and motivate talented online game developers and effectively execute our games business strategy. The launch and continued publishing of a new game often require significant acquisition or development fees for third-party developers, marketing and sales expenses and server hosting-related fees. In addition, it is possible that players could lose interest in the types of online games published by us over time due to a variety of reasons, including the emergence of new formats that players find more engaging, changes in player tastes and preferences, increased popularity of other game titles, lack of sustained interest or loss of interest in particular games or genres of games and the failure to introduce successful enhancements on an ongoing basis. Our newly-launched games could also cause our players to reduce their playing time and purchases of in-game items in our existing games. If we fail to offer attractive in-game items, make unpopular changes to existing in-game items or offer games that do not encourage purchases of in-game items or upgrades of game versions, or if we fail to successfully launch and publish new games that attract and retain a significant number of players, our games revenue will decrease, and our business, financial condition and results of operations could be materially harmed.

We rely on a variety of third-party content providers for certain products and services offered through our Kakao Talk and Daum platforms.

We aim to provide our users with an expanding array of products and services that enhance their quality of life by enabling them to conduct more aspects of their daily affairs online, including by using their mobile and other connected devices and PCs at their convenience. Among other things, we offer users the ability to access entertainment, search content and shop online, and the breadth and variety of the digital content offered through our Kakao Talk and Daum platforms are key elements in maintaining and increasing the size and level of engagement of our user base. We rely on a number of third-party content providers to supply a substantial amount of the digital content and products offered through our Kakao Talk and Daum platforms, as well as on other business partners. For example:

- third-party game developers and publishers supply some of the games offered through our Kakao Game and Daum Game services;

- third-party content providers supply web-comics and web-novels offered through our Kakao Page, Daum Webtoon and Piccoma online content services and video content made available through our Kakao TV mobile video service, as well as news and other information offered through our Daum portal; and

- online retailers and other merchants supply products offered on our Kakao Talk Gift Shop and Kakao Style mobile shopping service as well as our Shopping How online shopping mall.

Accordingly, our business is dependent upon our commercial relationships with leading platform and other business partners, and the loss of key relationships could result in the loss of our exclusive and non-exclusive rights to distribute content or products through our Kakao Talk and Daum platforms. There can be no assurance that our existing relationships with platform and other business partners will result in successful service offerings with high user traffic on our Kakao Talk and Daum platforms, that we will be able to sustain such relationships in the long term, or that we will be able to enter into new relationships with additional third-party platform and other business partners, on commercially acceptable terms, or at all. For example, certain leading third-party mobile game publishers in Korea that previously relied on us to distribute their games through our Kakao Game service have started to decrease their reliance in recent years and have started to distribute and market many of their popular games directly to end-users. In addition, a substantial majority of the content and products supplied to us by our third-party platform and other business partners are supplied on a non-exclusive basis and are also available to other mobile and Internet service providers. If such other service providers offer the same or similar content or products in a superior manner, our user base and traffic on our Kakao Talk and Daum platforms could decrease.

Our ability to enter into additional business relationships will depend on the availability of suitable platform and other business partners on commercially acceptable terms and our ability to attract these partners. The benefits of a business relationship may take considerable time to realize, and we cannot be certain that any particular relationship will produce its intended benefits. Our products and services resulting from such business relationships may fail to gain acceptance among users, and we may not be able to maintain satisfactory relationships with our partners. Any of such developments could adversely affect our business, financial condition and results of operations.

We rely on third parties for various aspects of our music entertainment business.

Through LOEN, a leading music entertainment company in Korea in which we hold a 76.4% interest, we offer a wide range of services that cover key components of the music industry value chain, including online music services, music content distribution and music content production. We rely on content providers and other third parties for various aspects of our music entertainment business, and our failure to maintain or expand our business relationships with such third parties may adversely impact our business, financial condition and results of operations.

With respect to our Melon online music service, we believe that the breadth and variety of Melon's music content offerings are critical to maintaining and increasing the size and level of engagement of our Melon platform user base. We rely on a number of third parties (in addition to our music content distribution operations) to supply music content in order to make Melon more attractive to users. There is no guarantee that our existing relationships with third-party music content providers will be maintained or result in sustainable business partnerships, successful service offerings and an acceptable level of user traffic on our Melon platform. Furthermore, most of such third-party music content is also supplied by these music content providers to, and available from, other music streaming and downloading service companies. If other online music streaming and downloading service providers present the same or similar content in a superior manner, our user base and traffic for our Melon platform could decrease.

In connection with our music content distribution business, we enter into arrangements with various production companies (including those that are a part of our music content production operations) for the online and offline distribution of music content. Our music content distribution business is dependent upon our commercial relationships with Korea's leading music production companies, and the loss of key relationships could result in the loss of our rights to distribute recordings of artists represented by such production companies. There is no guarantee that we will be able to maintain our existing distribution relationships with music production companies, or enter into new relationships with additional music production companies, on commercially acceptable terms, or at all.

Our music content production business is dependent on identifying promising recording artists and entering into management contracts with them for their training and development, collaborating with such artists to produce audio and video recordings of their work, and marketing and selling such recordings to music distributors. We also provide general management services for artists, including in respect of advertising, merchandising, sponsorships, concerts and other promotional activities. Accordingly, our competitive position as a music producer is dependent on our ability to continue to attract and develop artists whose work can achieve a high degree of mass appeal. Our music content production business may be adversely affected if we are unable to identify and retain such artists under terms that are economically attractive to us.

There is no guarantee that our revenue from the sales of an artist's recordings and our management activities with respect to the artist will be sufficient to cover the various costs incurred by us with respect to the artist, even if the artist is successful. In addition, our expected revenue stream with respect to an artist we have identified and trained may be cut short as a result of a sudden decline in the artist's popularity, an interruption to his or her career due to unforeseen circumstances or the termination by the artist of his or her contract prior to its expiration.

We plan to continue expanding our operations geographically into markets in which we have limited or no operating experience, which may expose us to new or increased risks.

We have a sizeable user base for certain mobile services, such as web-comics, games and social networking services, in certain overseas markets, including Japan, Southeast Asia, China,

Europe and the United States. We plan to continue to expand our operations geographically into markets outside of Korea, including by making some of our mobile service offerings available in additional languages. However, the expansion of our operations abroad may be difficult due to the presence of established competitors in such markets. In addition, overseas expansion and managing our operations on a global scale will require considerable management resources and attention and will be subject to the particular challenges of supporting a growing business in an environment of multiple languages, cultures, customs, legal and regulatory systems and commercial markets. Global expansion may require us to make significant expenditures for research and development and marketing and sales, and there can be no assurance that we will successfully achieve our overseas growth objectives.

Operating globally will subject us to new risks and may increase risks that we currently face, including those associated with:

- providing an engaging user experience while operating in different languages and cultures, and localizing our products, services, content and features to ensure that they are culturally attuned to the markets where they are offered;
- increased competition from mobile and Internet services and music entertainment companies that have strong positions globally or in particular markets and may continue to seek to expand their geographic footprint;
- different and potentially lower levels of user growth, user engagement and demand for online advertising in new and emerging geographies, resulting in greater difficulty in monetizing our products and services;
- recruiting and retaining talented and capable employees in foreign countries and maintaining our corporate culture across all of our offices;
- different levels of telecommunications infrastructure and technological standards in developing countries that may create challenges in offering our products and services;
- developing or integrating local payment processing systems;
- compliance with applicable foreign laws and regulations, including laws and regulations with respect to economic sanctions and export controls, anti-bribery, privacy and consumer protection, as well as Korean laws and regulations that may conflict with local customs and practices in some jurisdictions in which we operate, and the risk of penalties if our practices are deemed not to be in compliance;
- political, social and economic instability in some countries;
- double taxation of our overseas earnings and potentially adverse tax consequences due to the tax laws of Korea or other jurisdictions in which we operate; and
- higher costs of conducting business globally, including increased labor, accounting, travel, infrastructure and legal compliance costs.

It is also possible that governments or relevant regulators of one or more countries may seek to censor content offered through our products and services in their country, restrict access to our products and services in their country entirely, or impose other restrictions that may affect the accessibility of our products and services in their country for an extended period of time or indefinitely. In the event that access to our products and services is restricted, in whole or in part, in one or more countries, our ability to increase our user base and user engagement may be adversely affected and we may not be able to grow our revenue as anticipated in such country. If we are unable to manage the complexity of our increasingly global operations successfully, our business, financial condition and results of operations could be adversely affected.

Our intellectual property rights are valuable, and our inability to protect them could reduce the value of our products, services and brands.

Our trade secrets, trademarks, copyrights, patents and other intellectual property rights are important assets for us. We rely on, and expect to continue to rely on, a combination of confidentiality and license agreements with our employees, consultants and third parties with whom we have relationships, as well as trademark, trade dress, domain name, copyright, trade secret and patent laws, to protect our brands and other intellectual property rights. However, various events outside of our control may pose a threat to our intellectual property rights, as well as to our products, services and technologies. For example, we may fail to obtain effective intellectual property protection, or effective intellectual property protection may not be available, in every country in which our products and services are available. Also, the efforts we have taken to protect our intellectual property rights may not be sufficient or effective, and any of our intellectual property rights may be challenged, which could result in them being narrowed in scope or declared invalid or unenforceable. There can be no assurance that our intellectual property rights will be sufficient to protect against others offering products or services that are substantially similar to ours and compete with our business.

We also rely on non-patented proprietary information and technology, such as trade secrets, confidential information, know-how and technical information. While in certain cases we have agreements in place with employees and third parties that place restrictions on the use and disclosure of such intellectual property, these agreements may be breached, or such intellectual property may otherwise be disclosed or become known to our competitors, which could cause us to lose competitive advantages resulting from such intellectual property. We are also pursuing registration of trademarks and domain names in Korea and in many jurisdictions outside of Korea. Effective protection of trademarks, domain names and other intellectual property is expensive and difficult to maintain, both in terms of application and registration costs as well as the costs of defending and enforcing those rights.

We are party to numerous agreements that grant licenses to third parties to use our intellectual property, including our trademarks. For example, many third parties distribute their content through our products and services, embed our content in their products and services or make use of our trademarks in connection with their products and services. If the licensees of our trademarks are not using our trademarks properly, our ability to protect our trademarks may become limited and our trademarks could ultimately be declared invalid or unenforceable. There can be no assurance that we will be able to protect against the unauthorized use of our brands, trademarks or other intellectual property. There is also a risk that one or more of our trademarks could become generic, which could result in them being declared invalid or unenforceable.

We also seek to obtain patent protection for some of our technology, and we have filed various applications in Korea and elsewhere for protection of certain aspects of our intellectual property and currently hold a number of issued patents in multiple jurisdictions. We may be unable to obtain patent or trademark protection for our technologies and brands, and our existing patents and trademarks, and any patents or trademarks that may be issued in the future, may not provide us with competitive advantages or distinguish our products and services from those of our competitors. In addition, any patents and trademarks may be contested, circumvented, or found unenforceable or invalid, and we may not be able to prevent third parties from infringing, diluting or otherwise violating them. Significant infringements of our intellectual property rights, and limitations on our ability to assert our intellectual property rights against others, could harm our ability to compete and our business, financial condition and results of operations could be adversely affected.

If our security measures are breached, or if our products and services are subject to attacks that disrupt or deny the ability of users to access our products and services, our reputation, business and performance may be harmed.

Our products and services involve the storage and transmission of large amounts of users' and advertisers' confidential information, including credit card, bank account and other financial information, and security breaches expose us to a risk of loss of such information, which may lead to improper use or disclosure of such information, ensuing litigation and regulatory investigations, potential liability and regulatory penalties, any of which could harm our reputation and adversely affect our business. Although there has been no material instance where an unauthorized party was able to obtain access to our data or our users' or advertisers' data, there can be no assurance that we will not be vulnerable

to cyberattacks in the future. Our security measures may also be breached due to employee error, malfeasance or other reasons. Given the rapid development and scope of the products and services we offer, including those developed in conjunction with third parties, instituting appropriate access controls and safeguards across all our offerings is challenging. Furthermore, outside parties may attempt to fraudulently induce employees, users or advertisers to disclose sensitive information in order to gain access to our data or our users' or advertisers' data or accounts, or may otherwise obtain access to such data or accounts. In addition, our platform partners may store information provided by our users through our products and services. If these third parties fail to adopt or adhere to adequate data security practices or fail to comply with our terms and policies, or in the event of a breach of their networks, our users' data may be improperly accessed or disclosed.

Since our users and advertisers may use their accounts to establish and maintain online identities, unauthorized communication from users' accounts that have been compromised may damage their reputation and brands as well as ours. Any such breach or unauthorized access could result in significant legal and financial exposure, damage to our reputation and a loss of confidence in the security of our products and services. Because the techniques used to obtain unauthorized access, disable or degrade service or sabotage systems change frequently and often are not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventive measures. If an actual or perceived breach of our security occurs or the market perception of the effectiveness of our security measures is harmed, we could lose users and advertisers, and we may incur significant financial exposure, including legal claims and regulatory penalties, which could have an adverse effect on our business, financial condition and results of operations.

Privacy concerns relating to our technology could damage our reputation and deter current and potential users from using our products and services.

From time to time, concerns have been expressed about whether our products and services or processes compromise the privacy of users and others. Concerns about our practices with regard to the collection, use, disclosure or security of personal information or other privacy related matters, even if unfounded, could damage our reputation and adversely affect our operating results. Regulatory authorities around the world are considering a number of legislative and regulatory proposals concerning data protection, including measures to ensure that our encryption of users' data does not hinder law enforcement agencies' access to that data. In addition, the interpretation and application of consumer and data protection laws in Korea and elsewhere are often uncertain and subject to change. It is possible that these laws may be interpreted and applied in a manner that is inconsistent with our data practices. If so, in addition to the possibility of regulatory penalties, this could result in an order requiring that we change our data practices, which could have an adverse effect on our business, financial condition and results of operations. Complying with these various laws could cause us to incur substantial costs or require us to change our business practices in a manner adverse to our business.

We may become party to intellectual property rights claims in the future that may be expensive and time consuming to defend, and such claims, if resolved adversely, could have a significant impact on our business.

Technology companies own large numbers of patents, copyrights, trademarks, licenses and trade secrets, and frequently enter into litigation based on allegations of infringement, misappropriation or other violations of intellectual property or other rights. Many such companies, including many of our competitors, have substantially larger intellectual property portfolios than we do, which could make us a target for litigation, as we may not be able to assert counterclaims against parties that sue us for intellectual property infringement. In addition, various "non-practicing entities" that own intellectual property rights often attempt to aggressively assert claims in order to extract payments from companies like us. From time to time, we have received, and may receive in the future, claims from third parties which allege that we have infringed upon their intellectual property rights. Furthermore, from time to time, we may introduce or acquire new products, services or content, including in areas where we currently do not compete, which could increase our exposure to intellectual property claims from competitors and non-practicing entities. Some of our agreements with advertisers and platform and other business partners require us to indemnify them for certain intellectual property claims against them, which could require us to incur considerable costs in defending such claims, and may require us to pay significant damages in the event of an adverse ruling or settlement. Such advertisers, platform partners and other business partners may also discontinue use of our products, services and

technologies as a result of injunctions or other reasons, which could result in loss of revenue and adversely impact our business.

As we face increasing competition and gain an increasingly high profile, the number and scope of intellectual property claims against us may grow. There may be intellectual property or other rights held by others, including issued or pending patents, that cover significant aspects of our products and services, and we cannot be certain that we are not infringing or violating, and have not infringed or violated, any third-party intellectual property rights or that we will not be held to have done so or be accused of doing so in the future. Any claim or litigation alleging that we have infringed or otherwise violated intellectual property or other rights of third parties, with or without merit, and whether or not settled out of court or determined in our favor, could be time consuming and costly to address and resolve, and could divert the time and attention of our management and technical personnel. Some of our competitors have substantially greater resources than we do and are able to sustain the costs of complex intellectual property litigation to a greater degree and for longer periods of time than we may be able to. The outcome of any litigation is inherently uncertain, and there can be no assurance that favorable final outcomes will be obtained. In addition, plaintiffs may seek, and we may become subject to, preliminary or provisional rulings in the course of any such litigation, including potential preliminary injunctions requiring us to cease some or all of our operations. If any litigation to which we are a party is resolved adversely, we may be subject to an unfavorable judgment that may not be reversed upon appeal. The terms of any such judgment or any settlement may require us to cease some or all of our operations, pay substantial amounts to the other party or seek licensing arrangements. If we are required or choose to enter into royalty or licensing arrangements, such arrangements may not be available on commercially reasonable terms, or at all, and may significantly increase our operating costs and expenses. The development or procurement of alternative non-infringing technology could require significant effort and expense or may not be feasible. Accordingly, an unfavorable resolution of any intellectual property rights claims could adversely affect our business, financial condition and results of operations.

Our business and performance may be harmed by a disruption in our services due to failures in or changes to our systems or those of third parties, or by our failure to timely and effectively expand and upgrade our technology and infrastructure.

Our reputation and ability to attract, retain, and serve our users, advertisers and platform and other business partners are dependent in large part upon the reliable performance of our products and services and the underlying technical infrastructure. Our systems may not be adequately designed with the necessary reliability and redundancy to avoid performance delays or outages that could be harmful to our business. We have experienced, and may in the future experience, service disruptions, outages and other performance problems due to a variety of factors, including infrastructure changes, human or software errors, hardware failure, capacity constraints due to an overwhelming number of people accessing our products and services simultaneously, computer viruses, denial of service, fraud and security attacks. Our technical infrastructure is also vulnerable to the risk of damage from natural and other disasters, such as floods, fires, earthquakes and typhoons, as well as from acts of terrorism and other criminal acts. Our products and services also incorporate software that is highly technical and complex. Our software has in the past contained, and may currently or in the future contain, undetected errors, bugs or vulnerabilities. Some errors in our software code may only be discovered after the relevant product or service has been released.

As the number of our users increases and as our users access, download, generate and transmit increasing volumes of content, including music, photos and videos, we may be required to expand and upgrade our technology and infrastructure to continue to reliably store, deliver and service such content. It may become increasingly difficult to maintain and improve the performance of our products and services, especially during peak usage times, as our products and services become more complex and our user traffic increases. In addition, we cannot provide assurance that we will be able to expand and upgrade our technology and infrastructure to meet user demand in a timely manner, or on favorable economic terms. If our users are unable to readily access our products and services or access is disrupted, users may seek other service providers instead, and may not return to our products and services or use our products and services as often in the future. This would negatively impact our ability to attract users, advertisers and platform and other business partners as well as increase engagement of our users. We expect to continue to make significant investments to maintain and improve the capacity, capability and reliability of our technology and infrastructure. To the extent

that we do not effectively address capacity constraints, upgrade our systems as needed or continually develop our technology and infrastructure to accommodate actual and anticipated changes in our users' needs, our business, financial condition and results of operations may be harmed.

In addition, our products and services offered through our Kakao Talk, Daum and Melon platforms, depend on the ability of users to access mobile telecommunications services and the Internet. Currently, this access is provided by companies that have significant market power in the mobile and Internet access marketplaces, including mobile telecommunications companies, telephone, cable and broadband companies, government-owned service providers, device manufacturers and operating system providers, any of which could take actions that degrade, disrupt or increase the cost of user access to our services, which would, in turn, negatively impact our business. Furthermore, the infrastructure, systems and services of these companies are subject to disruption or failure due to technical issues, capacity constraints, natural disasters and other events. As mobile devices and the Internet continue to experience growth in the number of users, frequency of use and amount of data transmitted, the mobile telecommunications and Internet infrastructure that our users rely on may be unable to support the demands placed upon them. The disruption or failure of the operations of mobile telecommunications, Internet and other service providers that our users rely on to access our products and services, even for a short period of time, could undermine users' confidence in and dependence on our products and services and, if prolonged, could adversely affect our business, financial condition and results of operations.

Our user growth and engagement on mobile and other connected devices and PCs, which are required to access and use most of our products and services, depend upon their effective operation with third-party mobile operating systems and web browsers.

We are dependent on the interoperability of our mobile and Internet applications with popular mobile operating systems, such as Android and iOS, as well as web browsers, such as those for Windows and Mac OS, that are developed and supplied by third parties. Any changes in such operating systems or web browsers that degrade the functionality of our products or services or give preferential treatment to our competitors' products or services could adversely affect usage of our products and services. In addition, an expansion in the number of operating systems for which we are required to develop our products or services may result in an increase in our operating expenses. In order to deliver high quality products and services, it is important that our products and services work well with a range of widely used mobile operating systems and web browsers provided by third parties.

We may not be successful in developing or maintaining relationships with key participants in the information technology and mobile telecommunications industries or in developing products or services that operate effectively with mobile operating systems, web browsers, networks or standards. In the event that it becomes more difficult for our users to access and use our products and services, particularly on their mobile devices, our user growth and user engagement could be harmed, and our business, financial condition and results of operations could be adversely affected.

We rely primarily on Apple App Store and Google Play as the channels for downloads of our mobile applications as well as processing of certain payments, and any deterioration in our relationship with either of them may negatively impact our business.

We rely primarily on Apple App Store and Google Play as the channels for downloads of our mobile applications as well as the processing of payments for certain products and services offered through our Kakao Talk, Daum and Melon platforms, and we expect that we will continue to do so. Accordingly, we believe that maintaining good business relationships with Apple and Google is critical to our continued success.

The operating policies of Apple and Google have an impact on the accessibility of our mobile applications. In addition, our pricing strategy for certain products and services is impacted by changes in the payment processing fees charged by Apple and Google. If we fail to maintain cooperative relationships with Apple or Google, our ability to continue to offer our mobile applications or effect payment processing for certain products and services may be negatively impacted, which in turn could have an adverse effect on our business, financial condition and results of operations.

The listing or sale by merchants using our e-commerce services of goods and services that allegedly infringe the intellectual property rights of rights owners, including pirated or counterfeit items, may harm our business.

The listing or sale through our e-commerce services, including by online retailers or other merchants through our Kakao Talk Gift Shop and Kakao Style mobile shopping service or our Shopping How online shopping mall, of unlawful, counterfeit or stolen goods or unlawful services, or the sale of products or services in an unlawful manner, may result in allegations of civil or criminal liabilities for unlawful activities against us. Any such allegations relating to infringement of intellectual property rights, including but not limited to counterfeit items, may result in threatened and actual litigation from time to time by rights owners, and we may be required to pay substantial amounts in connection with resolving trademark and copyright claims. Such legal proceedings may also force us to modify our business practices in a manner that increases costs, lowers revenue, makes our products and services less convenient for users or requires us to spend substantial resources to take additional protective measures or discontinue certain service offerings in order to combat these practices. In addition, we may receive significant media attention relating to the listing or sale of illegal or counterfeit items, which could damage our reputation, diminish the value of our brands or make users reluctant to use our products and services.

We are subject to contingent liabilities, including those associated with litigation, regulatory proceedings and other disputes.

During the course of normal operations, we may become involved in legal and regulatory proceedings. We are subject to claims and actions from our customers, platform and other business partners, employees, regulatory authorities and other third parties, alleging operational concerns, nuisance, negligence or failure to comply with applicable laws and regulations. These claims, even if successfully disposed of without direct financial consequences, could have a material adverse effect on our reputation and divert our management resources from more beneficial uses. While we do not believe that the final outcome of any of the claims or actions to which we are currently subject will have a material adverse effect on us, there is no guarantee that this will be the case or that we will not be subject to significant future claims. Successful claims against us may result in substantial costs and business disruptions and adversely affect our business, financial condition and results of operations. See “Business — Legal Proceedings.”

In addition, we are exposed to other contingent liabilities, such as those pursuant to payment and performance guarantees we have provided to creditors and other third parties on behalf of our affiliates and business partners in the ordinary course of business. For a further description of our commitments and contingencies, see Note 16 of the notes to our unaudited consolidated interim financial statements and Note 35 of the notes to our annual consolidated financial statements appearing elsewhere in this offering circular. If such contingent liabilities materialize, our business, financial condition and results of operations could be adversely affected.

Certain of our user metrics are subject to inherent uncertainties in measurement, and real or perceived inaccuracies in such metrics may harm our reputation and negatively affect our business.

We use our internal data to calculate Kakao Talk’s monthly active users and Melon’s paying subscribers. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Factors Affecting Our Results of Operations and Financial Condition — User Growth and Engagement” for definitions of such user metrics. While these figures are based on what we believe to be reasonable estimates of our active user and paying subscriber base for the applicable period of measurement, there are inherent challenges in measuring usage of our products and services across a large and growing mobile and online user base.

We regularly review and may adjust our processes for calculating our internal metrics to improve their accuracy. Our measures of user growth and user engagement may differ from estimates published by third parties or from similarly titled metrics of our competitors due to differences in calculation methodology. If advertisers, platform partners or prospective investors do not perceive our user metrics to be accurate representations of our user base or user engagement, or if material inaccuracies in our user metrics are discovered, our reputation may be harmed, and platform partners and advertisers may be less willing to allocate their budgets or resources to our products and services.

Risks Relating to Regulatory Matters

Our business is subject to complex and evolving laws and regulations.

We are subject to a variety of laws and regulations in Korea and elsewhere that involve matters central to our business, including privacy and data protection, rights of publicity, content and pricing regulation, advertising, protection of personal information, intellectual property, protection of minors, consumer protection, competition and taxation. For example, we are subject to regulation in Korea as an additional communications service provider under the Telecommunications Business Act, as a location-based service provider under the Act on Protection and Utilization of Location Information and as an electronic financial business operator under the Electronic Financial Transactions Act, while our advertising services are subject to regulation under the Act on Fair Labeling and Advertising. In addition, aspects of our online music services are subject to regulation by the Ministry of Culture, Sports and Tourism, which establishes regulatory guidelines with respect to payments by online music service providers to music distributors (for the benefit of artists, producers and other music industry participants) of specified minimum royalty fees and profit-sharing fees for music downloaded or streamed by subscribers. See "Regulation" for a summary of certain laws and regulations in Korea that are applicable to us.

Existing and new laws and regulations in Korea and elsewhere can be costly to comply with and can delay or impede the development of new products and services, result in negative publicity, significantly increase our operating costs, require significant time and attention of management and technical personnel and subject us to inquiries or investigations, claims or other remedies, including fines and demands that we modify or cease existing business practices. In addition, many of these laws and regulations are still evolving and could be interpreted or applied in ways that could limit our business, particularly in the new and rapidly evolving industries in which we operate. The introduction of new services or products in Korea and the expansion of our business to other countries may subject us to additional laws and regulations. For example, as part of our efforts to diversify the payment options available to our users, we launched Kakao Pay, a mobile payment service application, in September 2014**,** which subjects us to a variety of laws and regulations governing money transmission, payment settlement, electronic funds transfers and anti-money laundering. We continually seek ways to improve our products and services, which may from time to time involve upgrades or changes in the technology and infrastructure supporting our products and services and could also result in greater regulation. If we are required to comply with amended, new or additional laws and regulations in Korea or elsewhere, our business could be affected in many ways and areas, including the following:

- the cost and general impact of compliance could be substantial, may require significant investments and organizational changes and may erode or eliminate our pricing advantage over competitors and, potentially, our ability to compete effectively;
- compliance may require us to make certain fundamental and potentially detrimental changes to the products and services we offer and the way we conduct business in certain areas, including ceasing particular businesses or withdrawing from markets; and
- we may need to terminate or restructure partnerships and other commercial agreements.

From time to time, we receive formal and informal inquiries from governmental authorities and regulators regarding our compliance with laws and regulations. We may become subject to investigations, inquiries, actions and audits in Korea and other jurisdictions, particularly in the areas of privacy and data protection, as we continue to grow and expand our operations. Orders issued by, or inquiries or enforcement actions initiated by, governmental or regulatory authorities could cause us to incur substantial costs, expose us to unanticipated civil and criminal liability or regulatory penalties (including substantial monetary fines), or require us to change our business practices in a manner materially adverse to our business. Additionally, if third parties we work with, such as advertisers and platform and other business partners, violate applicable laws or our policies, such violations may result in joint or secondary liability for us. Due to these and other factors, there is no guarantee that the laws and regulations to which we are or become subject will not have a material adverse effect on our business, financial condition or results of operations.

In addition, our business may be affected from time to time by changes in laws and regulations applicable to operators of the telecommunications and Internet infrastructure through which users

access our products and services, including mobile telecommunications companies, telephone, cable and broadband companies and other Internet service providers. For example, in December 2017, the U.S. Federal Communications Commission issued a ruling and order reversing the "net neutrality" standards adopted in 2015 that were intended to prevent differential treatment of online content providers, in terms of access to service, access speeds and charging for preferential service, by Internet service providers in the United States. In the event that the Government were to similarly scale back or weaken the net neutrality standards currently applicable in Korea, Internet service providers may seek to block access to, or slow down access speeds for, our products and services in favor of those of our competitors, or may seek to charge fees to us or our users for providing preferential access to our products and services, which could hurt our competitive position, reduce user demand for our products and services, increase our costs and adversely affect our business, financial condition and results of operations.

Transactions with our subsidiaries, affiliates and other member companies of the Kakao Group are restricted under Korean fair trade regulations.

On April 1, 2016, we and a group of companies affiliated with us were designated as a large business group by the Korea Fair Trade Commission. As a result, our business relationships and transactions with our subsidiaries and affiliates within the Kakao Group are subject to ongoing scrutiny by the Korea Fair Trade Commission as to, among other things, whether such relationships and transactions constitute undue financial support among companies of the same business group. We are also subject to fair trade regulations limiting cross-guarantees of debt and cross-shareholdings among member companies of the Kakao Group. See "Regulation — Regulations under the Monopoly Regulation and Fair Trade Act." In addition, our material business transactions with our subsidiaries and affiliates within the Kakao Group are subject to approval by our board of directors and require more stringent and expedited public disclosure. Any future determinations by the Korea Fair Trade Commission that we have engaged in transactions that violate Korean fair trade laws and regulations may result in fines or other punitive measures and may have a material adverse effect on our reputation and our business.

Our transactions with related parties are subject to close scrutiny by the Korean tax authorities.

Under Korean tax law, there is an inherent risk that our transactions with our subsidiaries, affiliates or any other person or company that is related to us may be challenged by the Korean tax authorities if such transactions are viewed as having been made on terms that were not on an arm's-length basis. If the Korean tax authorities determine that any of our transactions with related parties was not on an arm's-length basis, we would not be permitted to deduct as expenses, or would be required to include as taxable income, the amount equivalent to such undue financial support, which may have adverse tax consequences for us.

Risks Relating to Korea

If economic conditions in Korea deteriorate, our current business and future growth could be materially and adversely affected.

We are incorporated in Korea, and a substantial majority of our operations are conducted in Korea. As a result, we are subject to political, economic, legal and regulatory risks specific to Korea. The economic indicators in Korea in recent years have shown mixed signs of growth and uncertainty, and future growth of the Korean economy is subject to many factors beyond our control, including developments in the global economy.

In recent years, adverse conditions and volatility in the worldwide financial markets, fluctuations in oil and commodity prices and the general weakness of the global economy have contributed to the uncertainty of global economic prospects in general and have adversely affected, and may continue to adversely affect, the Korean economy. The value of the Won relative to major foreign currencies has fluctuated significantly and, as a result of adverse global and Korean economic conditions, there has been volatility in the stock prices of Korean companies in recent years. Future declines in the Korea Composite Stock Price Index (the "KOSPI") and large amounts of sales of Korean securities by foreign investors and subsequent repatriation of the proceeds of such sales may

adversely affect the value of the Won, the foreign currency reserves held by financial institutions in Korea and the ability of Korean companies to raise capital. Any future deterioration of the Korean or global economy could adversely affect our business, financial condition and results of operations.

Developments that could have an adverse impact on Korea's economy include:

- declines in consumer confidence and a slowdown in consumer spending in the Korean or global economy;
- deterioration in economic or diplomatic relations between Korea and its trading partners or allies, including deterioration resulting from territorial or trade disputes or disagreements in foreign policy (such as the ongoing controversy between Korea and China regarding the deployment of a Terminal High Altitude Area Defense system in Korea by the United States commencing in March 2017 and the ensuing economic and other retaliatory measures imposed by China against Korea);
- adverse conditions in the economies of countries and regions that are important export markets for Korea, such as China, the United States, Europe and Japan, or in emerging market economies in Asia or elsewhere, as well as increased uncertainties in the wake of a referendum in the United Kingdom in June 2016, in which the majority of voters voted in favour of an exit from the European Union ("Brexit");
- adverse changes or volatility in foreign currency reserve levels, commodity prices (including oil prices), exchange rates (including fluctuation of the U.S. dollar, the Euro or the Japanese Yen exchange rates or revaluation of the Chinese Renminbi and the overall impact of Brexit on the value of the Won), interest rates, inflation rates or stock markets;
- increased sovereign default risk in select countries and the resulting adverse effects on the global financial markets;
- investigations of large Korean business groups and their senior management for bribery, embezzlement and other possible misconduct;
- a continuing rise in the level of household debt and increasing delinquencies and credit defaults by retail and small- and medium-sized enterprise borrowers in Korea;
- social and labor unrest;
- decreases in the market prices of Korean real estate;
- the economic impact of any pending or future free trade agreements or changes in existing free trade agreements;
- a decrease in tax revenue or a substantial increase in the Government's expenditures for fiscal stimulus measures, unemployment compensation and other economic and social programs that would lead to an increased government budget deficit;
- financial problems or lack of progress in the restructuring of Korean business groups, other large troubled companies (including those in the shipbuilding and shipping sectors), their suppliers or the financial sector;
- loss of investor confidence arising from corporate accounting irregularities or corporate governance issues at certain Korean companies;
- increases in social expenditures to support an aging population in Korea or decreases in economic productivity due to the declining population size in Korea;
- geo-political uncertainty and the risk of further attacks by terrorist groups around the world;
- the occurrence of severe health epidemics in Korea or other parts of the world (such as the Middle East Respiratory Syndrome outbreak in Korea in 2015);

- natural or man-made disasters that have a significant adverse economic or other impact on Korea (such as the sinking of the Sewol ferry in 2014, which significantly dampened consumer sentiment in Korea) or its major trading partners;

- political uncertainty or increasing strife among or within political parties in Korea;

- hostilities or political or social tensions involving oil producing countries in the Middle East and North Africa and any material disruption in the global supply of oil or sudden increase in the price of oil;

- increased reliance on exports to service foreign currency debts, which could cause friction with Korea's trading partners;

- the continued growth of the Chinese economy, to the extent its benefits (such as increased exports to China) are outweighed by its costs (such as competition in export markets or for foreign investment and the relocation of the manufacturing base from Korea to China);

- political or social tensions involving Russia and any resulting adverse effects on the global supply of oil or the global financial markets; and

- an increase in the level of tensions or an outbreak of hostilities between North Korea and Korea or the United States.

Escalations in tensions with North Korea could have an adverse effect on us and the market value of our GDSs.

Relations between Korea and North Korea have been tense throughout Korea's modern history. The level of tension between the two Koreas has fluctuated and may increase abruptly as a result of current and future events. In particular, there have been heightened security concerns in recent years stemming from North Korea's nuclear weapon and long-range missile programs as well as its hostile military actions against Korea. Some of the significant incidents in recent years include the following:

- North Korea renounced its obligations under the Nuclear Non-Proliferation Treaty in January 2003 and conducted six rounds of nuclear tests since October 2006, including claimed detonations of hydrogen bombs, which are more powerful than plutonium bombs, and warheads that can be mounted on ballistic missiles. Over the years, North Korea has also conducted a series of ballistic missile tests, including missiles launched from submarines and intercontinental ballistic missiles that it claims can reach the United States mainland. In response, the Government has repeatedly condemned the provocations and flagrant violations of relevant United Nations Security Council resolutions. In February 2016, the Government also closed the inter-Korea Gaesong Industrial Complex in response to North Korea's fourth nuclear test in January 2016. Internationally, the United Nations Security Council has passed a series of resolutions condemning North Korea's actions and significantly expanding the scope of sanctions applicable to North Korea, most recently in response to North Korea's sixth nuclear test in September 2017. The United States and the European Union have also expanded their sanctions applicable to North Korea , most recently in December 2017 in response to North Korea's intercontinental ballistic missile test in November 2017.

- In August 2015, two Korean soldiers were injured in a landmine explosion near the Korean demilitarized zone. Claiming the landmines were set by North Koreans, the Korean army re-initiated its propaganda program toward North Korea utilizing loudspeakers near the demilitarized zone. In retaliation, the North Korean army fired artillery rounds on the loudspeakers, resulting in the highest level of military readiness for both Koreas.

- In March 2010, a Korean naval vessel was destroyed by an underwater explosion, killing many of the crewmen on board. The Government formally accused North Korea of causing the sinking, while North Korea denied responsibility. Moreover, in November 2010, North Korea fired more than one hundred artillery shells that hit Korea's Yeonpyeong Island near

the Northern Limit Line, which acts as the de facto maritime boundary between Korea and North Korea on the west coast of the Korean peninsula, causing casualties and significant property damage. The Government condemned North Korea for the attack and vowed stern retaliation should there be further provocation.

North Korea's economy also faces severe challenges, which may further aggravate social and political pressures within North Korea.

There can be no assurance that the level of tensions affecting the Korean peninsula will not escalate in the future. Any further increase in tensions, which may occur, for example, if North Korea experiences a leadership crisis, high-level contacts between Korea and North Korea break down or further military hostilities occur, could have a material adverse effect on the Korean economy and on our business, financial condition and results of operations.

Class action lawsuits related to securities transactions may expose us to additional litigation risk.

The Securities-related Class Action Act of Korea permits class action lawsuits to be instituted by one or more representative plaintiffs on behalf of 50 or more persons who collectively hold 0.01% or more shares of a listed company in Korea and who claim to have been damaged in a capital markets transaction involving securities issued by the company. Applicable causes of action with respect to such lawsuits include, among others, claims for damages caused by misleading information contained in a securities registration statement or prospectus, the filing of a misleading business report, insider trading or market manipulation and claims instituted against auditors for damages caused by accounting irregularities. There can be no assurance that we will not become subject to class action lawsuits in the future. If such class action suits are instituted against us, it could result in substantial costs and divert our management's attention and resources from our core business.

There are special risks involved with investing in securities of Korean companies, including the possibility of restrictions being imposed by the Government in emergency circumstances as well as accounting and corporate disclosure standards that differ from those in other jurisdictions.

You should carefully consider the risk factors listed in this section, together with all of the other information included in this offering circular, before you decide to purchase our GDSs. As we are a Korean company, there are risks associated with investing in our securities that are not typical for investments in securities of U.S. or European companies. As a Korean company, we operate in a business and cultural environment that is different from that of other countries.

Under the Korean Foreign Exchange Transaction Law, if the Government determines that certain emergency circumstances, including sudden fluctuations in interest rates or exchange rates, extreme difficulty in stabilizing the balance of payments or substantial disturbance in the Korean financial and capital markets, are likely to occur, it may impose any necessary restriction such as requiring Korean or foreign investors to obtain prior approval from the Minister of Strategy and Finance for the acquisition of Korean securities or for the repatriation of interest, dividends or sales proceeds arising from Korean securities or from disposition of such securities or other transactions involving foreign exchange.

In addition, we prepare and present our financial statements in accordance with K-IFRS, which differ in many material respects from accounting principles applicable to companies in certain other countries. We also make public disclosures regarding other aspects of our business in accordance with the rules and regulations of the Korea Exchange and accepted practice in Korea. These disclosure rules and practices differ in many material respects from those applicable to companies in certain other countries. There may also be less publicly available information about Korean companies, such as us, than is regularly made available by public or non-public companies in other countries. In making an investment decision, investors must rely upon their own examination of our company, the terms of the offering and the financial information contained in this offering circular.

We are incorporated in Korea, and it may be more difficult to enforce judgments obtained in courts outside Korea.

We are incorporated in Korea. All of our directors are non-U.S. residents, and a substantial majority of our assets and the personal assets of our directors and executive officers are located outside the United States. As a result, when compared to a U.S. company, it may be more difficult for investors to effect service of process in the United States upon us or to enforce against us, our directors or executive officers, judgments obtained in U.S. courts predicated upon civil liability provisions of the federal or state securities laws of the United States or similar judgments obtained in other courts outside Korea. There is doubt as to the enforceability in Korean courts, in original actions or in actions for enforcement of judgments of U.S. courts, of civil liabilities predicated solely upon the federal and state securities laws of the United States.

Risks Relating to the Offering

There has been no prior market for the GDSs and the market price of the GDSs may decrease after the offering.

Prior to this offering, there has been no public market for the GDSs. While approval in-principle has been received from the SGX-ST for the listing and quotation of the GDSs on the SGX-ST, the GDSs will be traded over the counter and we cannot provide any assurance that an active public market for the GDSs will develop or be sustained. The offering price of the GDSs was determined through negotiations between the Initial Purchasers and us, and it may not necessarily be indicative of the market price after the offering is completed. The prices at which the GDSs will trade after the offering will be determined by the marketplace and may be influenced by many factors including:

- fluctuation in the trading price of our common shares and the common shares of LOEN on the KRX KOSPI Market and the KRX KOSDAQ Market, respectively;
- our financial results;
- the history of, and the prospects for, our company and the industries in which we operate;
- an assessment of our management, our past and present operations, and the prospects for, and timing of, our future revenue and costs;
- our ability to successfully expand into new markets;
- future announcements by us of significant merger, acquisition, investment or divestment transactions;
- the valuation of our currently unlisted subsidiaries and investees, including Kakao Games Corp., Kakao Mobility Corporation and Kakao Bank;
- the valuation of publicly traded companies that are engaged in business activities similar to ours; and
- any volatility in the Korean and international securities markets.

Following the offering, the price at which our GDSs will trade may be volatile. Korean and international securities markets have from time to time experienced significant price and volume fluctuations that have affected the market prices of securities. These fluctuations often have been unrelated or disproportionate to the operating performance of publicly traded companies. In the past, following periods of volatility in the market price of a particular company's securities, securities litigation has sometimes been brought against such company. If similar litigation were instituted against us, it could result in substantial costs and divert management's attention and resources from our core business.

Future sales of the common shares or similar securities may depress the price of the GDSs and the common shares and make it difficult for you to recover the full value of your investment.

We and Beom Su Kim and K Cube Holdings Co., Ltd., our shareholders, have each agreed with the Initial Purchasers that, subject to certain exceptions, we will not, for a period of 90 days after the date of this offering circular, take, directly or indirectly, any of the following actions with respect to any Lock-up Securities (as defined in "Plan of Distribution"), without the prior written consent of the Initial Purchasers: (i) offer, issue, sell, contract to sell, pledge, grant any option to purchase, make any short sale or otherwise transfer or dispose of, or file with the U.S. Securities and Exchange Commission a registration statement under the Securities Act relating to, any Lock-up Securities; (ii) enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of ownership of the Lock-up Securities, whether any such transaction is to be settled by delivery of securities, in cash or otherwise; or (iii) publicly disclose the intention to take any such action specified in (i) and (ii) above, subject to certain exceptions. See "Plan of Distribution – "Lock-up Arrangements." However, once these lock-up restrictions expire, terminate or are waived, there will be no restriction on our or our shareholders' ability to issue or sell GDSs or common shares. Furthermore, immediately after the completion of the offering, there will be 53,671,142 common shares, or approximately 70.5% of our common shares issued and outstanding, that are not subject to any lock-up. Among those common shares, MAXIMO PTE. LTD., an affiliate of Tencent Holdings Limited, and Star Invest Holdings Limited, an affiliate of Affinity Equity Partners, own 5,599,849 shares and 2,777,986 shares, respectively. See "Principal Shareholders." In addition, these lock-up restrictions do not prohibit (1) our issuance of stock options to our directors, officers and employees pursuant to stock option plans existing at the date of this offering circular and (2) our issuance of common shares upon the exercise of stock options, or the conversion of convertible bonds, outstanding at the date of this offering circular, all of which may dilute the equity interest of holders of GDSs, and there is no guarantee that the holders of such common shares will not dispose of them in the public market following their issuance. Future issuances or sales of substantial amounts of GDSs or common shares in the public market after the completion of this offering, or the perception that substantial issuances or sales could occur, could adversely affect the market price of the GDSs and the common shares and make it difficult for you to recover the value of your investment.

We may amend the Deposit Agreements without your consent and for any reason, and, if you disagree with our amendments, your choices will be limited to selling the GDSs or withdrawing the underlying common shares.

We may agree with the Depositary to amend the Deposit Agreements without your consent and for any reason. If an amendment increases fees to be charged to GDS holders or prejudices a material right of GDS holders, it will not become effective until 30 days after the Depositary notifies GDS holders of the amendment. At the time an amendment becomes effective, you are considered, by continuing to hold your GDSs, to have agreed to the amendment and to be bound by the amended Deposit Agreement for your GDSs. If you do not agree with an amendment to such Deposit Agreement, your choices will be limited to selling the GDSs or withdrawing the underlying common shares. No assurance can be given that a sale of GDSs could be made at a price satisfactory to you in such circumstances.

If you surrender your GDSs to withdraw the underlying common shares, you may not be allowed to deposit the common shares again to obtain GDSs.

Under the Deposit Agreements, holders of the common shares may deposit those shares with the Depositary's custodian in Korea and obtain GDSs, and holders of GDSs may surrender GDSs to the Depositary and receive the underlying common shares, subject to the limitations specified in the Deposit Agreements. However, under current Korean laws and regulations, the Depositary is required to obtain our prior consent for the number of common shares to be deposited in any given proposed deposit that exceeds the difference between (i) the aggregate number of common shares deposited by us for the issuance of GDSs (including deposits in connection with the initial and all subsequent offerings of GDSs and stock dividends or other distributions related to these GDSs) and (ii) the number of common shares on deposit with the Depositary at the time of such proposed deposit. It is possible that we may not give such consent. As a result, if you surrender GDSs and withdraw the underlying common shares, you may not be able to deposit such common shares again to obtain GDSs.

You may not be able to exercise preemptive rights for additional common shares and may suffer dilution of your equity interest in us.

The Korean Commercial Code and our articles of incorporation require us, with some exceptions, to offer shareholders the right to subscribe for new shares in proportion to their existing ownership percentage whenever new shares are issued. If we issue new shares to persons other than our shareholders, a holder of GDSs will experience dilution of such holding. If none of the exceptions is available, we will be required to grant preemptive rights when issuing additional common shares under Korean law. Under the Deposit Agreements, if we offer any rights to subscribe for additional common shares or any rights of any other nature, the Depositary, after consultation with us, may make the rights available to you or use reasonable efforts to dispose of the rights on your behalf and make the net proceeds available to you. The Depositary, however, is not required to make available to you any rights to purchase additional common shares, unless it deems that doing so is lawful and practicable and:

- a registration statement filed by us under the Securities Act is in effect with respect to those common shares; or
- the offering and sale of those common shares is exempt from or is not subject to the registration requirements of the Securities Act.

We are under no obligation to file any registration statement under the Securities Act to enable you to exercise preemptive rights in respect of the common shares underlying the GDSs, and we cannot assure you that any registration statement would be filed or that an exemption from the registration requirement under the Securities Act would be available. Accordingly, if a registration statement is required for you to exercise preemptive rights but is not filed by us, you may not be able to exercise your preemptive rights for additional common shares and may suffer dilution of your equity interest in us.

We may be required to issue common shares to satisfy certain contractual obligations, the issuance of which would result in an immediate dilution of your equity interest in us.

In April 2016, we issued convertible bonds in the aggregate principal amount of Won 250 billion which will mature in April 2021. For a discussion of the convertible bonds issued by us, see Note 9 of the notes to our unaudited consolidated interim financial statements and Note 18 of the notes to our annual consolidated financial statements appearing elsewhere in this offering circular. Under the terms of the convertible bonds, holders of our convertible bonds may (i) exercise a right of early redemption at par value on April 14, 2019 and 2020, or (ii) convert the convertible bonds into common shares to be newly issued by us at a conversion price of Won 120,014 per share at any time from April 14, 2017 to March 14, 2021. As of December 31, 2017, approximately Won 6 billion of the convertible bonds had been converted into common shares. In the event that additional amounts of the convertible bonds are converted into common shares, you may suffer dilution of your equity interest in us.

We have significant discretion as to how we will use the net proceeds of this offering and you may not necessarily agree with how we use them.

The net proceeds to be received by us from this offering will be approximately US$984 million, net of underwriting commissions but prior to deducting other offering expenses. Our management may spend the net proceeds from the offering in ways you may not agree with or that do not yield a favorable return to our shareholders. We plan to use the net proceeds from the offering primarily for general corporate purposes, including to fund future acquisitions and investments. See “Use of Proceeds.” However, our management will have discretion as to the actual application of the net proceeds. You are entrusting your funds to our management, upon whose judgment you must depend, for the specific uses we will make of the net proceeds from the offering.

Holders of GDSs will not be able to exercise dissenters’ rights unless they have withdrawn the underlying common shares and become our direct shareholders.

In some limited circumstances, including the transfer of the whole or any significant part of our business and our merger or consolidation with another company, dissenting shareholders have the

right to require us to purchase their shares under Korean law. A holder of GDSs will not be able to exercise dissenters' rights unless such holder has withdrawn the underlying common shares and become our direct shareholder. See ''Description of Capital Stock — Rights of Dissenting Shareholders.''

Holders of GDSs may not have the same voting rights as a holder of the common shares

You may exercise voting rights with respect to the common shares underlying your GDSs in the manner described in "Description of Global Depositary Shares — Voting Rights." You may instruct the Depositary as to how to exercise the voting rights for the common shares which underlie your GDSs in accordance with the Deposit Agreements. After timely receiving voting materials from us, the Depositary will notify the GDS holders of any shareholder meeting or solicitation of consents or proxies. This notice will describe how you may instruct the Depositary to exercise the voting rights for the common shares which underlie your GDSs, subject to applicable law and our articles of incorporation. For instructions to be valid, the Depositary must receive them on or before the date specified. The Depositary will endeavor, insofar as reasonably practicable and permitted under applicable law and our articles of incorporation, to vote or to have its agents vote the common shares or other deposited securities represented by your GDSs as you instruct. The Depositary will not itself exercise any voting discretion. GDSs for which no voting instructions have been received will not be voted. You may only exercise the voting rights in respect of a number of GDSs representing an integral number of the common shares. There is no guarantee that you will receive notice with sufficient time to enable you to return voting instructions to the Depositary in a timely manner.

Fluctuations in the exchange rate between the Won and the U.S. dollar may have a material adverse effect on the value of the GDSs or the common shares in U.S. dollar terms.

Cash dividends, if any, in respect of the common shares represented by the GDSs will be paid to the Depositary in Won and then converted by the Depositary into U.S. dollars, subject to certain conditions. Accordingly, fluctuations in the exchange rate between the Won and the U.S. dollar will affect, among other things, the amounts a holder will receive from the Depositary in respect of dividends, the U.S. dollar value of the proceeds that a holder would receive upon sale in Korea of the common shares obtained upon surrender of the GDSs and the secondary market price of the GDSs.

Risks Relating to Forward-Looking Statements

This offering circular contains forward-looking statements that are our management's present expectations of future events and are subject to certain factors and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements.

In addition to the risks, uncertainties and assumptions discussed above, additional factors could adversely impact our business and financial performance. The forward-looking statements contained in this offering circular involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from those expressed or implied by the forward-looking statements. Such factors include:

- our ability to attract and retain users and increase the level of engagement of our users;
- our ability to further monetize our products and services;
- our ability to attract advertisers and increase the amount that advertisers spend with us;
- our ability to successfully enter new markets and manage our business expansion;
- our ability to compete in the mobile and portal-related services and music entertainment industries in Korea and elsewhere;
- our ability to develop or acquire new products and services, improve our existing products and services and increase the value of our products and services in a timely and cost-effective manner;

- our ability to maintain good relationships with platform and other business partners and attract new partners;
- our ability to increase our revenue and our revenue growth rate;
- our ability to timely and effectively scale and adapt our existing technology and network infrastructure;
- our ability to successfully acquire and integrate companies and assets;
- our future business development, results of operations and financial condition; and
- the regulatory environment in which we operate.

We have based the forward-looking statements contained in this offering circular largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs. New risk factors and uncertainties may emerge from time to time and it is not possible for our management to predict all risk factors and uncertainties, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

We caution you not to place undue reliance on the forward-looking statements, which speak only as of the date of this offering circular. Except as required by law, we are not under any obligation, and expressly disclaim any obligation, to update or alter any forward-looking statements, whether as a result of new information, future events or other reasons. All subsequent forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section.

USE OF PROCEEDS

We estimate that the aggregate net proceeds from the offering of the GDSs will be approximately US$984 million (net of underwriting commissions but prior to deducting other offering expenses). We plan to use the net proceeds from this offering primarily for general corporate purposes, including to fund:

- acquisitions of mobile-focused global content and platform companies; and
- investments in domestic and overseas technology companies and in research and development of advanced technologies, including in the area of artificial intelligence.

DIVIDENDS

The following table sets forth dividends declared and paid on the outstanding common shares to our shareholders of record in respect of the periods indicated, as well as the number of outstanding common shares entitled to such dividends. The dividends set forth for each of the years below were paid in the immediately following year.

	As of and for the Year Ended December 31,		
	2014	2015	2016
Number of outstanding common shares[1]	57,978,263	60,090,900	67,610,527
Dividends per common share (in Won)	₩ 173	₩ 167	₩ 148
Total amount of dividends declared and paid in the following year (in millions of Won)	₩ 10,030	₩ 10,035	₩ 10,006

(1) Excludes 5,188 treasury shares held by us.

Our dividend policy is to declare annual dividends, if any, in amounts that take into consideration various factors, including our profitability and financial condition, as well as legal requirements for such declaration. Annual dividends, if any, on the common shares are recommended by our board of directors and must be approved at our annual general meeting of shareholders. This meeting is generally held within three months after December 31, and the annual dividend is generally paid shortly thereafter to the shareholders or registered pledgees of record as of the end of the preceding fiscal year. We may distribute annual dividends in cash or in shares.

We may also pay interim dividends to shareholders or registered pledgees of record as of June 30 of a given fiscal year. Interim dividends, if any, must be approved by a resolution of our board of directors within 45 days from June 30 of such fiscal year. We have not declared any interim dividends to date.

Under the Korean Commercial Code, we may pay dividends only out of the excess of our net assets, on a separate basis, over the sum of (i) our stated capital, (ii) the total amount of our capital surplus reserve and earned surplus reserve accumulated up to the end of the relevant dividend period, (iii) the earned surplus reserve to be set aside for the annual dividend and (iv) the unrealized gain equivalent to the increased net assets on our balance sheet, based on our evaluation of assets and liabilities, that are not subject to set-off against unrealized losses. The declaration of annual dividends is subject to the discretion of our board of directors and our shareholders. The declaration of interim dividends is subject to the discretion of our board of directors. Consequently, no assurance can be given as to the amount of future dividends on the common shares or that any such dividends will be declared**.** See “Description of Capital Stock — Dividends.

The GDSs will have the same dividend rights as the underlying common shares. Cash dividends declared on the common shares represented by the GDSs will be paid to the Depositary in Won. The Deposit Agreements provide that, except in certain circumstances, cash dividends received by the Depositary will be converted by the Depositary into U.S. dollars and distributed to the holders of GDSs, less Korean withholding tax, other governmental charges and the Depositary’s fees and expenses. See “Description of Global Depositary Shares —Dividends and Distributions,” “Korean Foreign Exchange and Securities Regulations” and “Taxation — Korean Taxation.”

EXCHANGE RATES

The table below sets forth, for the periods and dates indicated, information concerning the Market Average Exchange Rate. We do not intend to imply that the Won or U.S. dollar amounts referred to herein could have been or could be converted into U.S. dollars or Won, as the case may be, at any particular rate, or at all.

Year Ended December 31,	At End of Period	Average Rate[1]	High	Low
		(Won per US$1.00)		
2013	₩ 1,055.3	₩ 1,095.0	₩ 1,159.1	₩ 1,051.5
2014	1,099.2	1,053.2	1,118.3	1,008.9
2015	1,172.0	1,131.5	1,203.1	1,068.1
2016	1,208.5	1,160.5	1,240.9	1,093.2
2017	1,071.4	1,130.8	1,208.5	1,071.4
July	1,119.1	1,134.4	1,155.8	1,112.5
August	1,122.8	1,130.8	1,146.3	1,118.0
September	1,146.7	1,131.6	1,146.7	1,122.7
October	1,125.0	1,131.6	1,145.7	1,124.7
November	1,082.4	1,105.0	1,121.2	1,082.4
December	1,071.4	1,085.8	1,093.4	1,071.4
2018 (through January 18)	1,065.8	1,066.1	1,071.4	1,061.3
January (through January 18)	1,065.8	1,066.1	1,071.4	1,061.3

Source: Seoul Money Brokerage Services, Ltd.

(1) Represents the average of the daily Market Average Exchange Rates over the relevant period.

MARKET PRICE DATA

Our common shares were listed on the KRX KOSPI Market of the Korea Exchange on July 10, 2017. Prior to such date, our common shares were listed on the KRX KOSDAQ Market of the Korea Exchange. The following table sets forth the high and low closing prices and the average daily volume of trading activity on the KRX KOSPI Market or the KRX KOSDAQ Market, as applicable, for the common shares for the periods indicated.

Period	Closing Price		Average Daily Trading Volume
	High	Low	
	(In Won)		(Number of shares)
2013[1]	₩109,700	₩ 78,300	65,342
2014[1]	177,100	68,700	427,352
2015	120,800	100,400	622,357
2016	119,800	71,300	313,287
2017	161,000	76,100	709,933
First Quarter	89,500	76,100	416,950
January	84,300	76,100	360,339
February	89,500	77,300	303,080
March	86,600	82,200	372,357
Second Quarter	109,800	84,500	758,205
April	92,600	84,500	1,098,896
May	99,700	92,600	532,276
June	109,800	98,000	638,148
Third Quarter	144,000	98,300	762,202
July	120,000	98,300	682,554
August	123,000	108,500	758,305
September	144,000	119,500	845,932
Fourth Quarter	161,000	126,000	919,115
October	159,500	140,000	1,054,402
November	161,000	136,500	1,014,255
December	144,000	126,000	695,025
2018 (through January 17)	159,500	134,000	1,560,717
First quarter (through January 17)	159,500	134,000	1,560,717
January (through January 17)	159,500	134,000	1,560,717

Source: The Korea Exchange

(1) For periods prior to October 1, 2014, reflects data for the common shares of Daum Communications, our predecessor company.

The trading price and the daily closing price of the common shares are available on the Korea Exchange's website at http://eng.krx.co.kr. For the avoidance of doubt, none of the information contained on the Korea Exchange's website is incorporated by reference into this offering circular and should not be considered a part of this offering circular.

CAPITALIZATION

The following table sets forth our short-term debt and our capitalization (defined as the sum of our long-term debt, excluding the current portion, and equity) as of September 30, 2017,

- on an actual basis; and
- as adjusted to reflect (i) the issuance of the GDSs in this offering (without deduction for underwriting commissions or other expenses), and (ii) our repayment of Won 150 billion of short-term borrowings in October 2017.

You should read the information set forth below in conjunction with "Selected Historical Consolidated Financial Information and Other Operating Information" and our unaudited consolidated interim financial statements and related notes included elsewhere in this offering circular.

	As of September 30, 2017	
	Actual	As Adjusted[4]
	(In billions of Won)	
Short-term debt:		
Short-term borrowings[1]	₩ 155	₩ 5
Current portion of long-term borrowings	0	0
Total short-term debt	₩ 155	₩ 5
Long-term debt:		
Long-term borrowings[2]	₩ 794	₩ 794
Total long-term debt	794	794
Equity:		
Share capital[3]	34	38
Share premium	3,553	4,615
Other components of equity	(8)	(8)
Accumulated other comprehensive income	8	8
Retained earnings	391	391
Equity attributable to owners of the parent company	3,978	5,044
Non-controlling interest	467	467
Total equity	4,445	5,511
Total capitalization	₩ 5,239	₩ 6,305

(1) Including redeemable convertible preferred shares issued by our subsidiaries.
(2) Including corporate bonds.
(3) Par value Won 500 per share; 150,000,000 shares authorized, 67,833,911 shares issued and outstanding, on an actual basis, and 76,095,642 shares issued and outstanding, on an as adjusted basis.
(4) Calculated based on a translation of the offering price of the GDSs into Won at the Market Average Exchange Rate of Won 1,065.8 to US$1.00 announced by Seoul Money Brokerage Services, Ltd. on January 18, 2018 in Korea.

Other than as described above, there has been no material change in our capitalization since September 30, 2017.

DILUTION

As of September 30, 2017, our net tangible assets were Won 742 billion, or Won 10,933 per common share. Net tangible assets per share represents the amount of total tangible assets (which equals total assets minus total intangible assets) minus total liabilities, divided by the number of common shares outstanding. Dilution in the net tangible assets per share represents the difference between the amount per common share paid by purchasers of the GDSs in this offering and the net tangible assets per share after giving effect to the offering.

After giving effect to the sale by us of the GDSs in this offering at the offering price of US$121.04 per GDS, or Won 129,004 per common share converted based on the ratio of one common share per GDS and the Market Average Exchange Rate reported on January 18, 2018, and after deducting the underwriting commissions (but prior to deducting estimated expenses payable by us), our net tangible assets as of September 30, 2017 would have been Won 1,791 billion, or Won 23,533 per common share. This represents an immediate increase in net tangible assets of Won 12,599 per common share to existing shareholders and an immediate dilution in net tangible assets of Won 105,472 per common share to new investors purchasing the GDSs at the aforementioned offering price.

The following table illustrates this dilution on a per common share basis:

Price per common share	₩	129,004
Net tangible assets per common share as of September 30, 2017	₩	10,933
Increase in net tangible assets per common share attributable to the sale of the GDSs in this offering	₩	12,599
Net tangible assets per common share after giving effect to this offering	₩	23,533
Dilution per common share to new investors	₩	105,472

The offering price per GDS in the offering does not bear any relation to our net asset value and has been decided after a book-building process.

SELECTED HISTORICAL FINANCIAL INFORMATION AND OTHER OPERATING INFORMATION

Our Selected Historical Consolidated Financial and Other Operating Information

The following tables set forth our selected historical financial and other operating information. Such information should be read in conjunction with our consolidated financial statements and related notes, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and other financial information appearing elsewhere in this offering circular.

Our selected historical consolidated financial information as of September 30, 2017 and for the nine months ended September 30, 2016 and 2017 set forth below has been derived from our unaudited consolidated interim financial statements as of such date and for such periods prepared in accordance with K-IFRS 1034, "Interim Financial Reporting," and included elsewhere in this offering circular. Our selected historical consolidated financial information as of December 31, 2015 and 2016 and for the years ended December 31, 2014, 2015 and 2016 set forth below has been derived from our audited consolidated financial statements as of such dates and for such periods prepared in accordance with K-IFRS and included elsewhere in this offering circular.

Mergers and acquisitions that we have effected in recent years may affect the direct comparability of our consolidated financial statements as of and for different dates and periods included in this offering circular. In particular, in October 2014, the Former Kakao merged with and into Daum Communications, our predecessor company, in connection with which the Former Kakao was recognized as the acquiring company for accounting purposes. Accordingly, our consolidated financial statements as of and for the year ended December 31, 2014 include the assets and liabilities and results of operations of Daum Communications commencing from October 1, 2014, and not as of any date or for any period prior to such date. In addition, in March 2016, we completed the LOEN Acquisition, as a result of which LOEN became a consolidated subsidiary of our company. Accordingly, our consolidated financial statements and historical financial and other operating information include the assets and liabilities of LOEN commencing as of March 31, 2016 (the effective date of the LOEN Acquisition for accounting purposes) and its results of operations commencing from April 1, 2016, and not as of any date or for any period prior to such dates. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Our results of operations for the nine months ended September 30, 2017 may not be indicative of our results of operations for the full year 2017.

Selected Historical Consolidated Statements of Comprehensive Income Information

	For the Year Ended December 31,			For the Nine Months Ended September 30,	
	2014	2015	2016	2016	2017
	(In billions of Won)				
Revenue	₩ 499	₩ 932	₩ 1,464	₩ 1,010	₩ 1,428
Operating expenses	322	844	1,348	932	1,297
Operating income	176	89	116	78	130
Other non-operating income	2	25	25	9	22
Other non-operating expenses	13	26	31	17	31
Finance income	7	30	25	15	21
Finance costs	0	4	24	20	17
Share of net loss of associates	(3)	(4)	(10)	(7)	(8)
Profit before income tax	169	110	100	59	117
Income tax expense	19	31	35	21	10
Profit for the period	₩ 150	₩ 79	₩ 65	₩ 38	₩ 107

Selected Historical Consolidated Statements of Financial Position Information

	As of December 31,		As of September 30,
	2015	2016	2017
	(In billions of Won)		
Total assets	₩ 3,188	₩ 5,484	₩ 6,494
Current assets	970	1,217	2,144
Cash and cash equivalents	397	642	954
Short-term financial instruments	373	237	440
Trade receivables	89	174	186
Non-current assets	2,218	4,267	4,351
Property and equipment	219	254	265
Intangible assets	1,856	3,733	3,704
Total liabilities	₩ 603	₩ 1,781	₩ 2,049
Current liabilities	316	806	1,061
Trade and other payables	90	263	264
Short-term borrowings[1]	22	204	155
Other current liabilities	162	282	501
Non-current liabilities	287	975	988
Long-term borrowings[2]	200	796	794
Deferred income tax liabilities	49	143	136
Total equity	₩ 2,585	₩ 3,703	₩ 4,445
Share capital	30	34	34
Share premium	2,274	3,105	3,553
Retained earnings	256	304	391

(1) Including redeemable convertible preferred shares issued by our subsidiaries.
(2) Including corporate bonds.

Operating Information

	For the Year Ended December 31,			For the Nine Months Ended September 30,	
	2014	2015	2016	2016	2017
	(In billions of Won)				
Net cash inflow from operating activities	₩ 220	₩ 162	₩ 317	₩ 184	₩ 256
Net cash inflow (outflow) from investing activities	172	(414)	(1,000)	(900)	(360)
Net cash inflow from financing activities	35	197	924	793	420
EBITDA[1]	199	164	230	160	225

(1) EBITDA is a metric used by our management to measure operating performance. EBITDA represents our operating income, excluding depreciation and amortization, for the relevant period. EBITDA is not a standard measure under K-IFRS and should not be considered in isolation or construed as an alternative to cash flows, operating income, net income or any other measure of our operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities. EBITDA has been presented herein because we believe EBITDA is a useful supplement to cash flow data as a measure of our performance and our ability to generate cash flows from operations to cover debt service and taxes. Our EBITDA presented herein may not be comparable to similarly titled measures presented by other companies, because not all use the same definition of EBITDA.

A reconciliation of our operating income to EBITDA is as follows:

	For the Year Ended December 31,			For the Nine Months Ended September 30,	
	2014	2015	2016	2016	2017
	(In billions of Won)				
Operating income	₩ 176	₩ 89	₩ 116	₩ 78	₩ 130
Depreciation	17	49	56	42	45
Amortization	6	26	58	40	50
EBITDA	₩ 199	₩ 164	₩ 230	₩ 160	₩ 225

Selected Historical Consolidated Financial Information of LOEN

The following tables set forth the selected historical consolidated financial information of LOEN. Such financial information should be read in conjunction with LOEN's consolidated financial statements and related notes appearing elsewhere in this offering circular.

The selected historical consolidated financial information of LOEN as of September 30, 2017 and for the nine months ended September 30, 2016 and 2017 set forth below has been derived from its unaudited consolidated interim financial statements as of such date and for such periods prepared in accordance with K-IFRS 1034, "Interim Financial Reporting," and included elsewhere in this offering circular. The selected historical consolidated financial information of LOEN as of December 31, 2015 and 2016 and for the years ended December 31, 2014, 2015 and 2016 set forth below has been derived from its audited consolidated financial statements as of such dates and for such periods prepared in accordance with K-IFRS and included elsewhere in this offering circular

LOEN's results of operations for the nine months ended September 30, 2017 may not be indicative of its results of operations for the full year 2017.

Selected Historical Consolidated Statements of Comprehensive Income Information

	For the Year Ended December 31,			For the Nine Months Ended September 30,	
	2014	2015	2016	2016	2017
	(In billions of Won)				
Operating revenue	₩ 323	₩ 358	₩ 451	₩ 317	₩ 420
Operating expenses	265	294	371	258	344
Operating income	58	63	80	60	76
Other income	0	1	1	1	1
Other expenses	3	2	1	0	1
Finance income	4	4	3	3	3
Finance costs	0	0	0	0	0
Profit before income tax	60	66	83	62	79
Income tax expense	14	16	21	15	20
Profit for the period	₩ 46	₩ 50	₩ 62	₩ 47	₩ 58

Selected Historical Consolidated Statements of Financial Position Information

	As of December 31,		As of September 30, 2017
	2015	2016	
	(In billions of Won)		
Total assets	₩ 363	₩ 454	₩ 524
Current assets	271	344	416
Cash and cash equivalents	83	92	136
Other financial assets	104	151	159
Trade and other receivables	58	75	85
Non-current assets	92	110	108
Available-for-sale financial assets	16	7	6
Property and equipment	12	37	37
Intangible assets	47	44	41
Total liabilities	₩ 117	₩ 151	₩ 186
Current liabilities	112	148	181
Trade and other payables	76	101	116
Other current liabilities	26	33	50
Non-current liabilities	5	3	4
Total equity	₩ 246	₩ 302	₩ 339
Share capital	13	13	13
Share premium	48	48	48
Retained earnings	165	227	261

PRO FORMA FINANCIAL INFORMATION

In March 2016, we completed the LOEN Acquisition, as a result of which LOEN became a consolidated subsidiary of our company, and its results of operations were included in our consolidated statements of comprehensive income commencing from April 1, 2016.

The following table sets forth our unaudited pro forma consolidated statement of comprehensive income information for the year ended December 31, 2016, which gives effect to the LOEN Acquisition as if it had occurred on January 1, 2016. Such information has been compiled for illustrative purposes only and is subject to a number of assumptions and qualifications, including those described in the related notes. Our unaudited pro forma consolidated statement of comprehensive income information set forth below should be read in conjunction with our and LOEN's consolidated financial statements and related notes appearing elsewhere in this offering circular. Such information is not necessarily indicative of what our actual results of operations for 2016 would have been had the LOEN Acquisition occurred on January 1, 2016, nor does it purport to indicate our results of operations for the full year 2017. We therefore caution you not to place undue reliance on such information.

Unaudited Pro Forma Consolidated Statement of Comprehensive Income for the Year Ended December 31, 2016

	Historical		Pro Forma Adjustments	Pro Forma Consolidated
	Year Ended December 31, 2016 for Kakao Corp.	Three Months Ended March 31, 2016 for LOEN[1]		Year Ended December 31, 2016
	(In billions of Won, except per share data)			
Revenue	₩ 1,464	₩ 97	₩ —	₩ 1,561
Operating expenses	1,348	78	3[2]	1,429
Operating income	116	18	(3)	132
Other non-operating income	25	0	—	26
Other non-operating expenses	31	0	(1)[3]	31
Finance income	25	1	—	26
Finance costs	24	0	—	24
Share of net loss of associates	(10)	—	—	(10)
Profit before income tax	100	20	(2)	118
Income tax expense	35	5	(1)[4]	39
Profit for the period	65	15	(2)	79
Other comprehensive income (loss) for the period, net of tax	(1)	(3)	—	(3)
Total comprehensive income for the period	₩ 65	₩ 12	₩ (2)	₩ 76
Earnings per share to the equity holders of the parent company				
Basic	₩ 874			₩ 1,027
Diluted	₩ 850			₩ 998
Weighted average number of ordinary shares				
Basic	66,014,260			66,014,260
Diluted	68,019,744			68,019,744

(1) Based on LOEN's consolidated statement of comprehensive income for the three months ended March 31, 2016.
(2) Amortization expense for three months with respect to identifiable intangible assets of LOEN recognized at the time of the LOEN Acquisition.
(3) Reversal of transaction costs directly attributable to the LOEN Acquisition.
(4) Changes in income tax expense relating to additional amortization expense on intangible assets and transaction costs.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with our consolidated financial statements and related notes appearing elsewhere in this offering circular and "Selected Historical Financial Information and Other Operating Information." This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in such forward-looking statements as a result of certain factors, including those set forth in "Risk Factors" and elsewhere in this offering circular.

Mergers and acquisitions that we have effected in recent years may affect the direct comparability of our consolidated financial statements as of and for different dates and periods included in this offering circular. In particular, in October 2014, the Former Kakao merged with and into Daum Communications, our predecessor company, in connection with which the Former Kakao was recognized as the acquiring company for accounting purposes (the "Kakao-Daum Merger"). Accordingly, our consolidated financial statements as of and for the year ended December 31, 2014 include the assets and liabilities and results of operations of Daum Communications commencing from October 1, 2014, and not as of any date or for any period prior to such date. In addition, in March 2016, we completed the LOEN Acquisition, as a result of which LOEN became a consolidated subsidiary of our company. Accordingly, our consolidated financial statements and historical financial and other operating information include the assets and liabilities of LOEN commencing as of March 31, 2016 (the effective date of the LOEN Acquisition for accounting purposes) and its results of operations commencing from April 1, 2016, and not as of any date or for any period prior to such dates.

Overview

We operate Korea's leading mobile platform as well as other leading online platforms in Korea, which we utilize to provide users and advertisers with a diverse and expanding array of products and services. Our products and services allow users to engage in more aspects of their daily affairs using their mobile and other connected devices and PCs at their convenience, while enabling advertisers to access our large and growing user base across our Kakao ecosystem. Among other things, we offer users the ability to communicate, access entertainment, search content, shop and make payments online, as well as innovative services such as mobile transportation applications. We also offer advertisers the ability to promote their brands, products and services in a variety of online formats and to better target their marketing to their desired audiences among our users. Our products and services are offered primarily through or in conjunction with the following major online platforms, which serve as the backbone of our Kakao ecosystem.

- **Kakao Talk.** Our Kakao Talk platform, which is based on our free instant messaging service, serves as the central entry point through which we introduce many of our users to our other mobile service offerings.

- **Daum.** Our Daum Internet portal serves as a platform for a variety of portal-related services including web-based searching, e-mail, online communities and provision of online content.

- **Melon.** Melon, our online music streaming and downloading service, serves as our platform for subscription-based access to music and related content.

We generate revenue by leveraging the numerous affiliations and interests that connect the people and entities that constitute our user base and prompting our users to actively and repeatedly engage and interact with the wide variety of products, services and content we provide through our online platforms. Our revenue is primarily generated from advertising services, content offerings, including games, music, web-comics and Emoticons, and other services, including e-commerce and character merchandising.

Factors Affecting Our Results of Operations and Financial Condition

Our results of operations and financial condition have been and will continue to be materially affected by a number of factors, some of which are outside of our control, including the following:

- user growth and engagement;
- ability to monetize our products and services;
- business diversification and growth through mergers, acquisitions and investments;
- products and services innovation; and
- advertising and brand promotion.

User Growth and Engagement

Our business is dependent on our ability to attract and retain active users and derive revenue from user traffic, and the size of our active user base and the level of its engagement are critical to our success. We currently generate a substantial majority of our revenue in Korea, and we expect to continue to do so in the foreseeable future. Accordingly, our financial performance has been and will continue to be significantly determined by our success in securing and engaging active users in Korea.

Growth in and retention of our active users affect our revenue and financial performance by influencing the volume of transactions on our Kakao Talk, Daum and Melon platforms and related applications, the number of our advertisers and the rates we can charge such advertisers, as well as our expenses. We continue to pursue growth in and retention of our active user base by offering new and enhanced products and services while leveraging our brand recognition and market position. In the first nine months of 2017, Kakao Talk had approximately 49.5 million average monthly active users globally (including 42.7 million in Korea), compared to approximately 49.1 million average monthly active users globally (including 41.7 million in Korea) in 2016, approximately 48.2 million average monthly active users globally (including 39.0 million in Korea) in 2015 and approximately 49.0 million average monthly active users globally (including 36.8 million in Korea) in 2014. Monthly active users of Kakao Talk refer to the number of user accounts that logged into and accessed the Kakao Talk application from a mobile device at least once during such month. In addition, Melon had approximately 4.4 million paying subscribers as of September 30, 2017, compared to 4.0 million as of December 31, 2016. Paying subscribers of Melon refer to the number of user accounts subscribing to a music service.

Changes in user engagement also affect our revenue and financial performance. Growth in user engagement generally enhances transaction volumes on our online platforms and related applications, as well as our ability to introduce additional products and services, which in turn lead to greater monetization opportunities. Although there may be a certain degree of economies of scale, growth in user engagement also generally results in increases in our operating expenses and capital expenditures required to support user activity. On average, approximately eight billion messages per day were sent or received through Kakao Talk in September 2017. In addition, on a monthly average basis, Melon's subscribers streamed 3.7 billion songs and downloaded 52 million songs in the first nine months of 2017, compared to 3.1 billion songs and 50 million songs, respectively, in 2016. Such metrics of user engagement affect the attractiveness of our advertising products and services to advertisers, which in turn impacts our advertising revenue.

Ability to Monetize Our Products and Services

Our ability to successfully monetize our user base and its engagement is critical to our business and financial performance. Many of the products and services that we currently offer are free. For example, the mobile messaging services of Kakao Talk, the taxi services of Kakao T, our mobile transportation application, as well as a majority of our Daum portal-related services, can currently be used free of charge by our users. In addition, most of the mobile games that we currently offer are free to play, and for such games, we are only able to generate revenue when our players purchase in-game items that enhance or accelerate game play or augment or customize a particular player's experience.

Such item-based revenue model for mobile games requires us to design and introduce games and ongoing enhancements that incentivize players not only to spend time playing our games, but also to purchase in-game items. A relatively small portion of our players account for a large portion of our mobile games revenue. Accordingly, we must constantly seek new ways to convert non-paying players into paying players and attract and retain paying players.

Currently, our revenue is primarily generated from advertising services, content offerings, including games, music, web-comics and Emoticons, and other services, including e-commerce and character merchandising. As part of our business strategy, we are seeking ways to increase our revenue by selectively introducing commissions and other charges and adding advertising channels with respect to our existing products and services that are currently offered for free, as well as developing new revenue-generating products and services. Accordingly, our results of operations will continue to be impacted by our ability to successfully monetize our products and services.

Business Diversification and Growth through Mergers, Acquisitions and Investments

We believe that having a diversified and growing business portfolio helps mitigate the effects of volatility and risk in our financial and operating performance, while enabling us to realize operational and marketing synergies and respond more effectively to rapidly evolving user preferences. As part of our efforts to diversify and grow our business portfolio, from time to time, we strategically acquire or invest in, or merge with, companies in relevant industries, aiming to capitalize on the combined strengths of our existing business and those of the target entities, including in terms of technologies, user base and cost efficiencies, as well as expand into new businesses or markets. For example, the Former Kakao merged with and into Daum Communications, our predecessor company, in October 2014. In addition, in March 2016, we acquired a 76.4% interest in LOEN, a leading music entertainment company in Korea, which became our consolidated subsidiary. We also make investments in businesses that we believe to be strategically important. For example, we currently own a 10% equity stake in Kakao Bank, the largest Internet-only bank in Korea in terms of asset size which was launched in July 2017 by a consortium including us, Korea Investment Holdings, Kookmin Bank, eBay and Tencent Holdings Limited. We continually evaluate opportunities for, and engage in discussions with counterparties with respect to, potential merger, acquisition and investment transactions, and we may announce or enter into significant transactions in the future.

In connection with some of our merger and acquisition transactions, we have issued new common shares as consideration to shareholders of the target companies. For example, in addition to payment of cash consideration in the aggregate amount of Won 1,120 billion, we issued a total of 6,913,339 new common shares, representing 10.2% of our outstanding common shares after giving effect to such issuance, to the selling shareholders of LOEN in connection with our acquisition of LOEN in March 2016. We have also incurred additional borrowings to finance our acquisitions and investments in recent years, and our interest expenses increased from Won 1 billion in 2015 to Won 14 billion in 2016 and Won 9 billion in the first nine months of 2017. In order to pursue additional mergers, acquisitions and investment opportunities, we may need to issue additional shares or increase our reliance on borrowings and bonds in the future, depending on the availability and cost of other sources of capital to meet such funding requirements. Our results of operations may also fluctuate from period to period due to, among other things, the time lag between the recognition of costs required for the acquisition of new businesses and the ramp-up of revenue, synergies and cost savings generated by such businesses, which may in some cases result in operating losses during the initial period of operation of such new businesses. In addition, we typically recognize goodwill and other intangible assets related to many of our acquisitions of businesses, and we may incur impairment losses if our investments are not successful.

Products and Services Innovation

Our ability to maintain and increase the size of our active user base and its engagement, attract platform partners and advertisers and generate revenue depends in part on our ability to create successful new products and services, either independently or in conjunction with third parties. We operate in highly competitive industries characterized by rapidly changing consumer demand, evolving industry and regulatory standards and continual improvements in product and service features. Accordingly, our operating results depend greatly on our ability to anticipate and respond to emerging user demand and market trends by ensuring continuing and timely development of new, as well as

enhancements to the quality and user experience of existing, products and services. For example, in recent years, users' preference in terms of accessing online services and content, including games, music, videos, shopping and news, has shifted from PCs to mobile and other connected devices, leading to declining user growth and traffic for PC-based services and the need to develop increasingly sophisticated services and content, advertising models and payment systems for mobile applications.

In order to respond to changes in market preferences and demands, we plan to continue to invest in product and service development and enhancement, which may entail additional operating expenses as well as capital expenditures. Some of our new or enhanced products and services resulting from such investments may not immediately generate revenue, but we expect they will enhance our attractiveness to users, advertisers and platform and other business partners as well as contribute to increasing engagement of our user base.

Advertising and Brand Promotion

From time to time, we engage in advertising campaigns to promote our new, as well as existing, products and services and to further strengthen our Kakao, Daum, Melon and other brands. We utilize television commercials and Internet and mobile advertising as well as product placements in television shows, and promotional events. See "Business—Sales and Marketing."

Our advertising expenses, consisting primarily of costs related to advertising on mass media (primarily television advertising) and advertising on mobile applications (particularly for promotion of mobile and PC games), but excluding personnel-related costs of our marketing staff, amounted to Won 29 billion in 2014, Won 57 billion in 2015, Won 84 billion in 2016 and Won 80 billion in the first nine months of 2017. While we believe that our large user base as well as the brand power of our online platforms will remain key drivers of our growth, we expect to continue to invest significantly in advertising activities, as we seek to further strengthen our presence in Korea as well as selectively enter new markets. Our advertising expenses may not directly correspond to our revenue in the same period, and our quarterly advertising expenses have fluctuated in the past and are expected to continue to fluctuate in the future.

Components of Our Income and Expenses

Revenue

We generate revenue primarily through sales of advertising, digital content and other products and services. Specifically:

- **Advertising.** Revenue from advertising primarily consists of (i) fees from search advertising and banner display advertising products and services offered on our Daum platform, (ii) fees from advertising services offered on our Kakao Talk platform and related mobile applications, including search and banner display advertising, direct messaging through the Plus Friend function and use of Brand Emoticons, (iii) fees from advertisement placements on our Kakao Story social networking service and our Kakao Style mobile shopping service, (iv) commissions related to sales of products offered by retailers on our Shopping How online shopping mall and (v) fees from video advertisements placed in content.

  We typically recognize advertising revenue over the applicable advertising contract period. For certain advertising products that are displayed based on actions taken by our users, we typically charge advertisers a fixed fee per such action taken by our users and recognize such revenue in the period in which it is taken. For corporate sponsorship products such as Plus Friend and Brand Emoticons, we recognize fees in the period services are rendered.

- **Content.** Revenue from content is primarily generated from (i) online music services provided through our Melon platform, (ii) mobile and PC games mainly offered through our Kakao Talk and Daum platforms, (iii) web-comics and web-novels offered through the Kakao Page, Daum Webtoon and Piccoma functions and/or related mobile applications and (iv) Emoticons offered through our Kakao Talk application.

Music streaming and downloading services are generally offered on a subscription basis, typically for monthly periods, and related revenue is recognized over the subscription period. We recognize the amounts of total consideration paid by users as our revenue, and payment processing fees paid to third-party service providers and fees paid to third-party music content providers are recognized as part of our operating expenses as described below.

For mobile and PC games published by us, we recognize the amounts of total consideration paid by users as our revenue. For purchases of in-game items, revenue is recognized at the time our users purchase such items or over the estimated periods over which the benefits of such items are enjoyed by our users, depending on the durability of the items. See "Critical Accounting Policies – Revenue Recognition for In-game and In-app Items." Payment processing fees paid to third-party service providers are recognized as part of our operating expenses as described below.

For mobile and PC games published by third-party game companies and other content developed by third-party content providers that are offered through our Kakao Talk and Daum platforms and related mobile applications, revenue is recognized as our services are rendered based on the terms of the relevant contract. We recognize the net proceeds we receive from such games as our revenue, which is equivalent to the total consideration paid by users less payment processing fees paid to third-party service providers and the amounts paid to third-party game companies.

- **Others.** Revenue from other products and services is primarily generated from (i) online and offline commerce activities, including sales of Kakao Friends merchandise (typically on a total consideration basis) and sales of products offered on our Kakao Talk Gift Shop (typically on a commission basis if the product inventory is controlled by third-party retailers and on a total consideration basis if controlled by us), (ii) LOEN's online and offline music distribution business as well as its entertainment production business, (iii) commissions charged on transportation-related services offered through our Kakao T mobile transportation application (which currently consist mainly of commissions for designated driver service) and (iv) commissions charged on payments processed through our Kakao Pay mobile payment service.

Operating Expenses

The following are the principal components of our operating expenses:

- **Commissions.** Commissions consist primarily of (i) fees paid to third-party content providers for music content offered through our Melon platform and to third-party game developers for mobile and PC games published by us, (ii) payment processing fees paid to third-party service providers, including Google and Apple, related to sales of products and services on our online platforms, (iii) fees paid to network infrastructure service providers, including data center fees, and (iv) fees paid to other third-party service providers, including fees paid for consulting services and other outsourced services.

- **Salaries and other personnel-related expenses.** Salaries and other personnel-related expense include salaries and wages, welfare expenses, retirement benefit expenses and the compensation cost of share-based payments.

- **Depreciation and amortization.** Depreciation and amortization are primarily related to the depreciation of property and equipment (primarily servers and other network infrastructure-related assets) and the amortization of intangible assets.

- **Cost of goods.** Cost of goods mainly include purchasing costs for our Kakao Friends merchandise and CDs and DVDs of LOEN's offline music content distribution business.

- **Content fees.** Content fees consist primarily of fees paid to third-party content providers that supply digital content, offered through our Kakao Talk and Daum platforms and related mobile applications, for which we recognize the amounts of total consideration paid by users as our revenue, including fees paid to authors of web-comics and web-novels published by us.

- **Advertising expenses.** Advertising expenses are primarily related to (i) our advertising on mass media, primarily television advertising and (ii) our advertising on mobile applications, particularly for the promotion of mobile and PC games. To a lesser extent, we also incur advertising expenses related to promotional events. Our advertising expenses do not include compensation expenses for our marketing personnel, which are included in salaries and other personnel-related expenses.

- **Advertising agency fees.** Advertising agency fees consist primarily of sales commissions paid to third-party advertising agencies for sales of our advertising products and services.

Operating Income

Our operating income is our revenue less operating expenses. We view operating income and operating margin (which represents operating income as a percentage of revenue) as key measures of our operating performance.

Non-operating Income and Expenses

Our non-operating income and expenses consist of the following:

- **Other non-operating income.** Other non-operating income consists primarily of gain on disposal of equity method investments and miscellaneous non-operating income.

- **Other non-operating expenses.** Other non-operating expenses consist primarily of impairment losses on intangible assets, equity method investments and other assets, donations, service fees and miscellaneous non-operating losses.

- **Finance income.** Finance income consists primarily of interest income, gains on foreign currency translation and transactions, gain on valuation of derivatives and gain on disposal of available-for-sale securities.

- **Finance costs.** Finance costs consist primarily of interest expense, losses on foreign currency translation and transactions, loss on redemption of bonds, loss on valuation of derivative financial instruments, loss on disposal of available-for-sale securities and impairment losses on available-for-sale securities.

- **Share of net loss of associates.** Share of net loss of associates represents our share of the net loss of our associates accounted for under the equity method.

Income Tax Expense

Our income tax expense consists of current and deferred tax. See Note 13 of the notes to our unaudited consolidated interim financial statements, and Note 21 of the notes to our annual consolidated financial statements, appearing elsewhere in this offering circular.

Profit for the Period

Our profit for the period is our operating income plus non-operating income items less non-operating expense items and income tax expense. In addition to operating income and operating margin, we view profit for the period and profit margin (which represents profit for the period as a percentage of revenue) as key measures of our operating performance.

Critical Accounting Policies

We have identified the accounting policies summarized below as critical to the portrayal of our financial condition and results of operations, since they require our management to make difficult, complex and subjective judgments in selecting the appropriate estimates and assumptions that affect the amounts reported in our consolidated financial statements. By their nature, these judgments are subject to an inherent degree of uncertainty. These judgments are based among other things on our historical experience, terms of existing contracts, our observation of trends in the industry, information

provided by our customers and information available from other outside sources, as appropriate. While we believe our estimates and judgments to be reasonable under the circumstances, there can be no assurance that these estimates and judgments will prove correct or that actual results reported in future periods will not differ from our expectations reflected in our accounting treatment of certain items. In addition, other companies may utilize different accounting policies, which may impact the comparability of our results of operations to those of companies in similar businesses.

Revenue Recognition of In-game and In-app Items

We offer both consumable and durable in-game and in-app virtual items on our platforms and related applications. Consumable virtual items are virtual items that are consumed following a user's specific action and do not provide users with continuing benefits, whereas durable virtual items are virtual items that provide the user with continuing benefits over a specific period. We recognize revenue attributable to consumable virtual items upon their consumption by users. For revenue attributable to durable virtual items, revenue is recognized ratably over an estimated usage period. We develop an estimated usage period for durable virtual items considering historical data on purchase patterns and user usage behavior.

Upon launching a new game or application, we evaluate the nature of the virtual items, the behavior of users with respect to such items and the availability of supporting data in determining the related revenue recognition policy. If we do not have sufficient historical data to analyze user behavior, we consider the data from other existing internally-developed games or applications as well as industry data in determining the related revenue recognition policy to apply until sufficient historical data is accumulated. Once we have sufficient historical data, we assess the estimations (such as the estimated usage period and the estimated average playing period for paying users) for durable virtual items for each game or application.

We believe that revenue recognition for in-game and in-app items is a critical accounting estimate because significant management judgment is involved in determining the estimated usage period over which virtual items are expected to be used by users. If user behavior changes over time or deviates from our estimates, we may be required to change the timing of our revenue recognition. In this case, our results of operations could be materially affected.

Impairment

Non-financial Assets

Goodwill. Goodwill arises on acquisitions of subsidiaries and associates and business combinations and is reflected as 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 business at the date of the acquisition. Goodwill is tested annually for impairment and is carried at cost less accumulated impairment loss, if any. As of September 30, 2017, we held goodwill of Won 3,031 billion, of which Won 1,410 billion was recognized in connection with the Kakao-Daum Merger and Won 1,466 billion was recognized in connection with the LOEN Acquisition. The goodwill impairment test requires us to exercise judgment and assess whether the carrying value of the cash generating units to which goodwill has been allocated can be supported by the recoverable amount of such cash generating units. The recoverable amounts of a cash generating unit is determined based on value-in-use calculations that involve the use of estimates. Such calculation uses pre-tax cash flow projections based on our financial budgets approved by our management.

The key assumptions used for our value-in-use calculations are as follows:

	Key Assumptions
Operating income rate	4.0% to 31.1%
Revenue growth rate	4.2% to 65.0%
Perpetual growth rate	2.0%
After-tax discount rate	9.0% to 11.1%

We believe that determining the existence and impairment of goodwill is a critical accounting estimate because significant management judgment is involved in the evaluation of the value of goodwill, and any reasonably possible changes in the key assumptions on which the recoverable amount is based would cause a change in the recoverable amounts of goodwill. We recognized impairment losses on goodwill of Won 2 billion in 2014, Won 2 billion in 2015 and Won 7 billion in 2016.

Non-financial Assets Other than Goodwill. Intangible assets with indefinitive useful lives are not subject to amortization and are tested annually for impairment. Non-financial assets that are subject to amortization, such as property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. We evaluate both internal and external sources of information to assess whether impairment indicators exist. Some of the impairment indicators are evidence of obsolescence, significant adverse changes in the technological, market, economic or legal environment of the markets in which we operate. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent, if any, of the impairment loss. The determination of the assets' recoverable amounts involves the use of estimates by our management that can have a material impact on the respective values and ultimately the amount of any impairment. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of impairment at each reporting date.

Financial Assets

We classify our financial assets into (i) financial assets at fair value through profit or loss, (ii) available-for-sale financial assets, (iii) loans and receivables and (iv) held-to-maturity financial assets. We assess at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the financial asset and that loss event has an impact on the estimated future cash flows of the financial asset or a group of financial assets that can be reliably estimated. Impairment of loans and receivables is presented as a deduction in an allowance account and impairment of other financial assets is directly deducted from the book value of such assets. In addition, we write off financial assets when the assets are determined to be no longer recoverable.

We believe that determining the existence and degree of impairment of financial assets is a critical accounting estimate because significant management judgment is involved in the evaluation of the objective evidence of impairment as well as estimation of the future cash flows of the financial assets. Objective evidence that a financial asset is impaired includes significant financial difficulty of the relevant issuer, a significant delinquency in interest or principal payments, or the disappearance of an active market for such financial asset because of financial difficulties. For an investment in an equity security classified as an available-for-sale financial asset (such as our investment in Kakao Bank), a significant decline in the fair value of such financial asset from its cost or a prolonged decline below its cost for more than six months is also an objective evidence of impairment.

With respect to our financial assets measured at amortized cost, our management also considers the probability of default, time of recovery and past trend of losses when we estimate the future cash flows, and decides whether the actual loss, which reflects current economic and credit conditions, is more or less than past trends. We consider these estimates to be significant because any adjustments may significantly affect the amount of an impairment loss for the financial assets measured at amortized cost. Unforeseen circumstances such as adverse market conditions that deviate significantly from our estimates may require us to recognize losses on impairment of financial assets measured at amortized cost.

Fair Value of Financial Instruments

We hold various financial instruments. Depending on the accounting treatment specific to each type of financial instrument, an estimate of fair value is required to record the instrument on our consolidated financial statements. Our management uses its judgment to select a variety of methods and makes assumptions that are primarily based on market conditions existing at the end of each reporting period. We classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in measurements as follows:

- unadjusted quoted prices in active markets for identical financial instruments;
- fair value calculated using observable inputs other than quoted prices for the financial instruments, either directly or indirectly; and
- fair value calculated using valuation techniques incorporating unobservable inputs.

In particular, the fair value estimates using valuation techniques that incorporate unobservable inputs are based on the judgment and assumptions of our management, such as experience assumptions, and the use of specific numerical calculation models, such as discounted cash flow models. We base our fair value estimates on assumptions we believe to be reasonable, but which are unpredictable and inherently uncertain. The use of alternative estimates and assumptions could increase or decrease the estimated fair values of our financial instruments and potentially impact our results of operations.

Defined Benefit Plans

We operate defined benefit and defined contribution retirement pension plans for our employees. Our net obligation in respect of the defined benefit plan is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. Our defined benefit obligations are calculated annually by independent 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 the terms of the related pension obligation. The remeasurement of the net defined benefit liability is 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.

Due to the complexities involved in their valuation and their long-term nature, defined benefit obligations are highly sensitive to changes in the underlying assumptions. We determine the discount rate based on market returns of corporate bonds consistent with currencies and estimated payment terms applicable to the defined benefit obligations as of the reporting date in order to calculate the present value of the defined benefit obligations. Estimated future salary growth rate is based on historical salary increases and expected future inflation rates. The plans expose us to actuarial risks, including interest rate risk, salary increase risk and longevity risk. We used the following principal assumptions for our actuarial valuations related to defined benefit plans as of the dates indicated:

	December 31,		
	2014	**2015**	**2016**
Discount rate	3.2%	2.3% to 3.4%	2.2% to 3.5%
Salary growth rate	5.0% to 7.0%	5.0% to 7.0%	5.0% to 6.0%

If the discount rate or rate of future salary growth had been 1.0% higher or lower with all other variables held constant, the impact to our defined benefit obligations as of December 31, 2016 would have been as follows:

	As of December 31, 2016	
	1.0% increase	**1.0% decrease**
Discount rate impact	7% decrease	8% increase
Salary growth rate impact	8% increase	7% decrease

Income Taxes and Recovery of Deferred Tax Assets

Our income tax expense consists of current tax and deferred tax. Current tax is the expected tax payable or receivable on our taxable profit or loss for the year, using tax rates enacted or substantively enacted at the end of the reporting period and any adjustments to tax payable in respect of previous years. The statutory tax rate (including local income tax) was 24.2% for pre-tax income over Won 20 billion in 2017 and will increase to 27.5% for pre-tax income over Won 300 billion in 2018. The statutory tax rate (including local income tax) for pre-tax income over Won 20 billion but less than or equal to Won 300 billion will continue to be 24.2% in 2018. Deferred tax is recognized for temporary differences between the carrying value of an asset or liability for financial reporting purposes and the amounts used for taxation purposes.

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. We believe that recognition of deferred tax assets is a significant accounting policy that requires our management's estimates and assumptions regarding, among other things, the level of future taxable income, interpretation of the tax laws and tax planning. In particular, the estimation of future taxable

income is calculated based on business plans approved by our management, which are based on our management's subjective judgments. In addition, changes in tax laws, projected levels of taxable income and tax planning could affect the effective tax rate and tax balances recorded by us in the future. As of September 30, 2017, we recorded deferred income tax assets of Won 21 billion and deferred income tax liabilities of Won 136 billion.

Recent Accounting Changes

For a discussion of recent accounting changes under K-IFRS, see Note 2.2 of the notes to our unaudited consolidated interim financial statements, and Note 2.2 of the notes to our annual consolidated financial statements, appearing elsewhere in this offering circular.

Results of Operations – First Nine Months of 2017 Compared to First Nine Months of 2016

The following table presents our consolidated statements of comprehensive income information and changes therein for the first nine months of 2016 and the first nine months of 2017.

	For the nine months ended September 30,		Changes 9M 2016 versus 9M 2017	
	2016	2017	Amount	%
	(In billions of Won, except for percentages)			
Revenue	₩ 1,010	₩ 1,428	₩ 417	41.3%
Operating expenses	932	1,297	365	39.1
Operating income	78	130	52	67.2
Other non-operating income	9	22	13	137.8
Other non-operating expenses	17	31	14	78.8
Finance income	15	21	5	33.8
Finance costs	20	17	(3)	(16.1)
Share of net loss of associates	(7)	(8)	(2)	23.3
Profit before income tax	59	117	58	99.3
Income tax expense	21	10	(11)	(50.4)
Profit for the period	₩ 38	₩ 107	₩ 69	182.7%

Revenue

The following table presents a breakdown of our revenue and changes therein for the first nine months of 2016 and the first nine months of 2017.

	For the nine months ended September 30,		Changes 9M 2016 versus 9M 2017	
	2016	2017	Amount	%
	(In billions of Won, except for percentages)			
Advertising	₩ 394	₩ 436	₩ 43	10.8%
Content	480	720	239	49.8
Others	138	272	134	97.7
Revenue	₩ 1,010	₩ 1,428	₩ 417	41.3%

Our revenue increased by 41.3%, or Won 417 billion, from Won 1,010 billion in the first nine months of 2016 to Won 1,428 billion in the first nine months of 2017. The increase in revenue resulted primarily from increases in content revenue and other revenue and, to a lesser extent, advertising revenue. Specifically:

- Content revenue increased by 49.8%, or Won 239 billion, from Won 480 billion in the first nine months of 2016 to Won 720 billion in the first nine months of 2017, primarily due to the consolidation of the revenue of the Melon platform commencing from April 1, 2016 as well as an increase in the number of Melon paying subscribers following the LOEN Acquisition and, to a lesser extent, increases in revenue from web-comics, web-novels, mobile and PC games and Emoticons. Paying subscribers of Melon increased from approximately 4.0 million as of December 31, 2016 to approximately 4.4 million as of September 30, 2017, which mainly reflected our cross-marketing efforts with our Kakao Talk platform.

Our revenue from web-comics and web-novels increased in the first nine months of 2017 compared to the first nine months of 2016 as we continued to procure popular web-comics and web-novel content for Piccoma in Japan and Kakao Page in Korea. Our games revenue also increased due to a shift in our strategy to focus more on game publishing in addition to providing game distribution services for third-party publishers, as well as an increase in sales of in-game items for mobile and PC games offered on our Kakao Talk and Daum platforms. Our revenue from Emoticons also increased as we continued to develop and sell popular Emoticons.

- Other revenue increased by 97.7%, or Won 134 billion, from Won 138 billion in the first nine months of 2016 to Won 272 billion in the first nine months of 2017, primarily due to the consolidation of the revenue of LOEN's online and offline music distribution business and entertainment production business commencing from April 1, 2016 following the LOEN Acquisition, as well as increases in revenue from our Kakao Friends merchandising business and our Kakao Talk Gift Shop. Sales volume of Kakao Friends merchandise increased in the first nine months of 2017 compared to the first nine months of 2016 as we opened a number of new Kakao Friends offline stores in heavy traffic areas in Seoul and Busan and expanded our product offerings in such stores in the first nine months of 2017, while sales volume of products sold through Kakao Talk Gift Shop also increased in the first nine months of 2017 compared to the first nine months of 2016.

- Our advertising revenue increased by 10.8%, or Won 43 billion, from Won 394 billion in the first nine months of 2016 to Won 436 billion in the first nine months of 2017, primarily due to an increase in the volume of advertising products and services provided through our Kakao Talk platform, including direct messaging through the Plus Friend function, and on Kakao Style, as well as volume-driven increases in commissions related to sales of products through Shopping How. To a lesser extent, an increase in the volume of advertising products and services provided through our Daum platform on mobile devices also contributed to the increase in our advertising revenue.

Operating Expenses

The following table presents a breakdown of our operating expenses and changes therein for the first nine months of 2016 and the first nine months of 2017.

	For the nine months ended September 30,		Changes 9M 2016 versus 9M 2017	
	2016	2017	Amount	%
	(In billions of Won, except for percentages)			
Salaries	₩ 197	₩ 233	₩ 36	18.2%
Retirement benefit expense	18	18	1	3.3
Compensation cost of share-based payments	(0)	6	6	N.A.(2)
Welfare	39	39	0	0.6
Rental expense	15	21	5	34.7
Commissions	353	527	174	49.3
Advertising expense	48	80	33	68.8
Depreciation	42	45	3	7.9
Amortization	40	50	9	23.0
Advertising agency fees	61	65	4	6.8
Cost of goods	34	92	58	171.5
Content fees	60	87	27	45.0
Others(1)	26	34	8	32.0
Operating expenses	₩ 932	₩ 1,297	₩ 365	39.1%

(1) Includes travel and transportation expenses, taxes and dues, expenses for events and other miscellaneous expenses.
(2) N.A. means not applicable.

Our operating expenses increased by 39.1%, or Won 365 billion, from Won 932 billion in the first nine months of 2016 to Won 1,297 billion in the first nine months of 2017, primarily due to increases in commissions, cost of goods, salaries, advertising expense and content fees. Specifically:

- Commissions increased by 49.3%, or Won 174 billion, from Won 353 billion in the first nine months of 2016 to Won 527 billion in the first nine months of 2017, primarily due to the

consolidation of fees paid to third-party content providers for music content offered through the Melon platform, commencing from April 1, 2016 following the LOEN Acquisition, as well as increases in fees paid to third-party game developers for mobile and PC games published by us and payment processing fees paid to third-party service providers related to increases in sales of products and services on our online platforms as described above. Our fees paid to network infrastructure service providers, including data center fees, also increased following the LOEN Acquisition.

- Cost of goods increased by 171.5%, or Won 58 billion, from Won 34 billion in the first nine months of 2016 to Won 92 billion in the first nine months of 2017 primarily due to the expansion of our Kakao Friends merchandising business in the first nine months of 2017 as described above, as well as the consolidation of the purchasing cost of CDs and DVDs sold by LOEN, commencing from April 1, 2016 following the LOEN Acquisition.

- Salaries increased by 18.2%, or Won 36 billion, from Won 197 billion in the first nine months of 2016 to Won 233 billion in the first nine months of 2017 primarily due to an increase in the number of our employees, which was attributable mainly to the LOEN Acquisition and, to a lesser extent, continued expansion of our other business operations.

- Advertising expenses increased by 68.8%, or Won 33 billion, from Won 48 billion in the first nine months of 2016 to Won 80 billion in the first nine months of 2017, primarily reflecting an increase in our advertising on mobile applications, particularly for promotion of mobile and PC games in Korea and our Piccoma web-comics service in Japan.

- Content fees increased by 45.0%, or Won 27 billion, from Won 60 billion in the first nine months of 2016 to Won 87 billion in the first nine months of 2017, primarily due to an increase in fees paid to third-party content providers that supply digital content offered through our Kakao Talk and Daum platforms and related mobile applications, as well as fees paid to authors of web-comics and web-novels published by us.

Operating Income and Operating Margin

Due to the factors described above, our operating income increased by 67.2%, or Won 52 billion, from Won 78 billion in the first nine months of 2016 to Won 130 billion in the first nine months of 2017. Our operating margin increased from 7.7% in the first nine months of 2016 to 9.1% in the first nine months of 2017.

Other Non-Operating Income and Expenses

The following table presents a breakdown of our other non-operating income and changes therein for the first nine months of 2016 and the first nine months of 2017.

	For the nine months ended September 30,		Changes 9M 2016 versus 9M 2017	
	2016	2017	Amount	%
	(In billions of Won, except for percentages)			
Gain on disposal of equity method investments	₩ 3	₩ 12	₩ 9	271.6%
Gain on foreign currency transactions	0	1	1	146.4
Other income[1]	6	9	3	61.1
Other non-operating income	₩ 9	₩ 22	₩ 13	137.8%

(1) Includes gain on disposal of intangible assets, gain on foreign currency translation, gain on disposal of property and equipment, rent income, reversal of allowance for doubtful accounts, gain on exemption of debt, gain on disposal of other assets and other miscellaneous income.

Our other non-operating income increased by 137.8%, or Won 13 billion, from Won 9 billion in the first nine months of 2016 to Won 22 billion in the first nine months of 2017, primarily due to an increase in gain on disposal of equity method investments by 271.6%, or Won 9 billion, from Won 3 billion in the first nine months of 2016 to Won 12 billion in the first nine months of 2017. Such increase was attributable mainly to an increase in new shares issued by equity method investees to third-party shareholders, which in turn resulted in a decrease in our ownership interests and related recognition of gain on disposal of equity method investments in the first nine months of 2017.

The following table presents a breakdown of our other non-operating expenses and changes therein for the first nine months of 2016 and the first nine months of 2017.

	For the nine months ended September 30,		Changes 9M 2016 versus 9M 2017	
	2016	2017	Amount	%
	(In billions of Won, except for percentages)			
Impairment losses on intangible assets	₩ 2	₩ 8	₩ 6	289.1
Impairment losses on other assets	3	1	(2)	(74.4)
Impairment losses on equity method investments	0	8	7	N.M.(2)
Donations	3	4	1	45.8
Service fees	1	3	2	131.6
Loss on foreign currency transactions	1	2	1	109.5
Loss on foreign currency translation	0	2	2	607.2
Other expenses(1)	5	9	4	70.4
Other non-operating expenses	₩ 17	₩ 31	₩ 14	78.8%

(1) Includes loss on abandonment of property and equipment, loss on disposal of property and equipment, loss on disposal of intangible assets, loss on disposal of equity method investments and other miscellaneous losses.
(2) N.M. means not meaningful.

Our other non-operating expenses increased by 78.8%, or Won 14 billion, from Won 17 billion in the first nine months of 2016 to Won 31 billion in the first nine months of 2017, primarily due to increases in impairment losses on intangible assets as well as equity method investments. We recognized impairment losses on intangible assets of Won 8 billion in the first nine months of 2017 compared to Won 2 billion in the first nine months of 2016, which related mainly to impairment losses on goodwill of certain consolidated subsidiaries. In addition, we recognized impairment losses on equity method investments of Won 8 billion in the first nine months of 2017 primarily related to a decrease in the recoverable amounts of our equity in certain consolidated subsidiaries in connection with their reorganization, compared to no such impairment loss in the first nine months of 2016.

Finance Income and Finance Costs

The following tables present a breakdown of our finance income and finance costs and changes therein for the first nine months of 2016 and the first nine months of 2017.

	For the nine months ended September 30,		Changes 9M 2016 versus 9M 2017	
	2016	2017	Amount	%
	(In billions of Won, except for percentages)			
Interest income	₩ 7	₩ 9	₩ 1	19.7%
Gain on disposal of available-for-sale securities	0	9	9	N.M.(2)
Gain on foreign currency transactions	5	1	(5)	(89.1)
Gain on foreign currency translation	2	2	0	13.1
Others(1)	1	0	(1)	(77.3)
Finance income	₩ 15	₩ 21	₩ 5	33.8
Interest expense	₩ 11	₩ 9	₩ (2)	(17.5)%
Loss on foreign currency transactions	1	1	(0)	(43.7)
Loss on foreign currency translation	5	6	1	25.3
Loss on redemption of bonds	3	–	(3)	(100.0)
Others(3)	1	0	(1)	(100.0)
Finance costs	₩ 20	₩ 17	₩ (3)	(16.1)%

(1) Includes dividend income, gain on transactions of derivatives and gain on valuation of derivatives.
(2) N.M. means not meaningful.
(3) Includes loss on disposal of available-for-sale securities and other miscellaneous costs.

Our gain on disposal of available-for-sale securities increased from Won 0.2 billion in the first nine months of 2016 to Won 9 billion in the first nine months of 2017. Such increase was attributable mainly to gains realized on the disposal of certain available-for-sale securities by funds operated by us in the first nine months of 2017.

Our net loss on foreign currency translation increased from Won 3 billion in the first nine months of 2016 to Won 4 billion in the first nine months of 2017, and our net gain on foreign currency transactions decreased from Won 4 billion in the first nine months of 2016 to Won 0.04 billion in the first nine months of 2017. In terms of the Market Average Exchange Rate, the Won appreciated from Won 1,172.0 to US$1.00 as of December 31, 2015 to Won 1,096.3 to US$1.00 as of September 30, 2016 and appreciated from Won 1,208.5 to US$1.00 as of December 31, 2016 to Won 1,146.7 to US$1.00 as of September 30, 2017.

Share of Net Loss of Associates

Our share of net loss of associates increased by 23.3%, or Won 2 billion, from Won 7 billion in the first nine months of 2016 to Won 8 billion in the first nine months of 2017. See Note 6 of the notes to our unaudited consolidated interim financial statements appearing elsewhere in this offering circular.

Income Tax Expense

Our income tax expense decreased by 50.4%, or Won 11 billion, from Won 21 billion in the first nine months of 2016 to Won 10 billion in the first nine months of 2017. Although our profit before income tax expense increased by 99.3%, or Won 58 billion, from Won 59 billion in the first nine months of 2016 to Won 117 billion in the first nine months of 2017, our income tax expense decreased in the first nine months of 2017 primarily due to a refund of previously paid income tax pursuant to a tax appeal previously filed by us, which was offset in part by the non-recognition of deferred income tax assets during such period related to losses of our subsidiaries and associates. Our effective tax rate decreased from 35.8% in the first nine months of 2016 to 8.9% in the first nine months of 2017. See Note 13 of the notes to our unaudited consolidated interim financial statements appearing elsewhere in this offering circular.

Profit for the Period

Due to the factors described above, our profit for the period increased by 182.7%, or Won 69 billion, from Won 38 billion in the first nine months of 2016 to Won 107 billion in the first nine months of 2017. Our profit margin increased from 2.6% in the first nine months of 2016 to 7.3% in the first nine months of 2017.

Results of Operations – 2016 Compared to 2015

The following table presents our consolidated statements of comprehensive income information and changes therein for 2015 and 2016.

	For the year ended December 31,		Changes 2015 versus 2016	
	2015	2016	Amount	%
	(In billions of Won, except for percentages)			
Revenue	₩ 932	₩ 1,464	₩ 532	57.1%
Operating expenses	844	1,348	505	59.8
Operating income	89	116	28	31.1
Other non-operating income	25	25	0	0.2
Other non-operating expenses	26	31	5	20.9
Finance income	30	25	(5)	(17.5)
Finance costs	4	24	20	548.6
Share of net loss of associates	(4)	(10)	(6)	132.1
Profit before income tax	110	100	(9)	(8.4)
Income tax expense	31	35	4	13.2
Profit for the year	₩ 79	₩ 65	₩ (13)	(16.9)

Revenue

The following table presents a breakdown of our revenue and changes therein for 2015 and 2016.

	For the year ended December 31,		Changes 2015 versus 2016	
	2015	2016	Amount	%
	(In billions of Won, except for percentages)			
Advertising	₩ 601	₩ 534	₩ (67)	(11.1)%
Content	274	702	428	156.5
Others	58	228	170	294.6
Revenue	₩ 932	₩ 1,464	₩ 532	57.1%

Our revenue increased by 57.1%, or Won 532 billion, from Won 932 billion in 2015 to Won 1,464 billion in 2016. The increase in revenue resulted from increases in content revenue and other revenue, which were partially offset by a decrease in advertising revenue. Specifically:

- Content revenue increased by 156.5%, or Won 428 billion, from Won 274 billion in 2015 to Won 702 billion in 2016, primarily due to the consolidation of the revenue of the Melon platform commencing from April 1, 2016 following the LOEN Acquisition and, to a lesser extent, increases in revenue from mobile and PC games, web-comics, web-novels and general Emoticons.

  Our mobile and PC games revenue increased in 2016 compared to 2015 due to an increase in sales of in-game items for games offered on our Kakao Talk and Daum platforms, as well as a shift in our strategy to focus more on game publishing in 2016 in addition to providing game distribution services for third-party publishers. In 2016, we successfully launched the MMORPG Black Desert in Europe and published new mobile games developed by third-party developers, such as I Love Nikki and Kung Fu Panda 3. We also internally developed and launched mobile games featuring Kakao Friends characters, including Friends Popcorn and Friends Sachunsung. Our revenue from web-comics, web-novels and general Emoticons also increased as we continued to procure popular web-comics and web-novel content for Kakao Page and to develop and sell popular general Emoticons.

- Other revenue increased by 294.6%, or Won 170 billion, from Won 58 billion in 2015 to Won 228 billion in 2016, primarily due to increases in revenue from our Kakao Friends merchandising business and our Kakao Talk Gift Shop, as well as the consolidation of the revenue of LOEN's online and offline music distribution business and entertainment production business commencing from April 1, 2016 following the LOEN Acquisition. Sales volume of Kakao Friends merchandise increased in 2016 compared to 2015 as we opened a number of new Kakao Friends offline stores in heavy traffic areas in Seoul in 2016, and sales volume of products sold through Kakao Talk Gift Shop also increased in 2016 compared to 2015.

- Partially offsetting the above increases, our advertising revenue decreased by 11.1%, or Won 67 billion, from Won 601 billion in 2015 to Won 534 billion in 2016, primarily due to a decrease in the volume of search advertising and banner display products and advertising services provided through our Daum platform. Such decrease was partially offset by volume-driven increases in commissions related to sales of products through Shopping How, as well as fees from advertising products and services provided through our Kakao Talk platform, including direct messaging through the Plus Friend function, and Kakao Style.

Operating Expenses

The following table presents a breakdown of our operating expenses and changes therein for 2015 and 2016.

	For the year ended December 31,		Changes 2015 versus 2016	
	2015	2016	Amount	%
	(In billions of Won, except for percentages)			
Salaries	₩ 200	₩ 273	₩ 73	36.5%
Retirement benefit expense	18	25	6	35.4
Compensation cost of share-based payments	2	0	(1)	(74.9)
Welfare	51	54	3	6.0
Rental expense	13	22	9	72.4
Commissions	235	515	280	119.0
Advertising expense	57	84	27	47.4
Depreciation	49	56	7	14.5
Amortization	26	58	31	119.0
Advertising agency fees	106	84	(22)	(20.9)
Cost of goods	8	60	52	662.4
Content fees	48	80	32	65.5
Others[1]	31	38	8	25.7
Operating expenses	₩ 844	₩ 1,348	₩ 505	59.8%

(1) Includes travel and transportation expenses, taxes and dues, bad debt expense (reversal), expenses for events and other miscellaneous expenses.

Our operating expenses increased by 59.8%, or Won 505 billion, from Won 844 billion in 2015 to Won 1,348 billion in 2016, primarily due to increases in commissions, salaries and cost of goods, which were offset in part by a decrease in advertising agency fees. Specifically:

- Commissions increased by 119.0%, or Won 280 billion, from Won 235 billion in 2015 to Won 515 billion in 2016, primarily due to the consolidation of fees paid to third-party content providers for music content offered through the Melon platform, commencing from April 1, 2016 following the LOEN Acquisition, as well as increases in fees paid to third-party game developers for mobile and PC games published by us and in payment processing fees paid to third-party service providers related to increases in sales of products and services on our online platforms as described above. Our fees paid to network infrastructure service providers, including data center fees, also increased following the LOEN Acquisition.

- Salaries increased by 36.5%, or Won 73 billion, from Won 200 billion in 2015 to Won 273 billion in 2016 primarily due to an increase in the number of our employees, which was attributable mainly to the LOEN Acquisition and, to a lesser extent, continued expansion of our other business operations.

- Cost of goods increased by 662.4%, or Won 52 billion, from Won 8 billion in 2015 to Won 60 billion in 2016 primarily due to the expansion of our Kakao Friends merchandising business in 2016 as described above, as well as the consolidation of purchasing costs for CDs and DVDs sold by LOEN, commencing from April 1, 2016 following the LOEN Acquisition.

- Partially offsetting above increases, advertising agency fees decreased by 20.9%, or Won 22 billion, from Won 106 billion in 2015 to Won 84 billion in 2016, primarily reflecting a decrease in sales commissions paid to third-party advertising agencies resulting mainly from a decrease in the volume of our advertising products and services provided through our Daum platform as described above.

Operating Income and Operating Margin

Due to the factors described above, our operating income increased by 31.1%, or Won 28 billion, from Won 89 billion in 2015 to Won 116 billion in 2016. However, our operating margin decreased from 9.5% in 2015 to 7.9% in 2016.

Other Non-Operating Income and Expenses

The following table presents a breakdown of our other non-operating income and changes therein for 2015 and 2016.

	For the year ended December 31,		Changes 2015 versus 2016	
	2015	2016	Amount	%
	(In billions of Won, except for percentages)			
Gain on disposal of equity method investments	₩ 17	₩ 12	₩ (5)	(28.2)%
Gain on exemption of debt	–	3	3	N.A.[2]
Other income[1]	8	9	1	18.9
Other non-operating income	₩ 25	₩ 25	₩ 0	0.2%

(1) Includes gain on disposal of other assets, gain on foreign currency translation, gain on foreign currency transactions, gain on disposal of intangible assets, gain on disposal of property and equipment, rent income, reversal of allowance for doubtful accounts and other miscellaneous income.
(2) N.A. means not applicable.

Our other non-operating income remained stable at Won 25 billion in 2015 and 2016, as a 28.2%, or Won 5 billion, decrease in gain on disposal of equity method investments was partially offset by a Won 3 billion gain on exemption of debt in 2016, compared to no such gain in 2015. The decrease in our gain on disposal of equity method investments was attributable mainly to gains relating to share issuances by equity method investees to other third-party shareholders in 2015, which were not repeated in 2016. The gain on exemption of debt in 2016 was primarily related to the write-off of debt in connection with the dissolution of Aina Corporation, a subsidiary of Kakao Games Corp.

The following table presents a breakdown of our other non-operating expenses and changes therein for 2015 and 2016.

	For the year ended December 31,		Changes 2015 versus 2016	
	2015	2016	Amount	%
	(In billions of Won, except for percentages)			
Impairment losses on intangible assets	₩ 9	₩ 10	₩ 1	13.8
Impairment losses on other assets	–	4	4	N.A.[2]
Impairment losses on equity method investments	2	2	(0)	(5.9)
Donations	6	4	(2)	(31.4)
Service fees	4	2	(2)	(46.4)
Other expenses[1]	5	9	4	70.4
Other non-operating expenses	₩ 26	₩ 31	₩ 5	20.9%

(1) Includes loss on foreign currency transactions, loss on disposal of equity method investments, loss on foreign currency translation, loss on disposal of property and equipment, loss on abandonment of property and equipment, loss on disposal of intangible assets and other miscellaneous losses.
(2) N.A. means not applicable.

Our other non-operating expenses increased by 20.9%, or Won 5 billion, from Won 26 billion in 2015 to Won 31 billion in 2016, primarily due to an increase in impairment losses on other assets. We recognized impairment losses on other assets of Won 4 billion in 2016 primarily related to the production of certain content, compared to no such impairment loss in 2015.

Our impairment losses on intangible assets remained relatively stable at Won 10 billion in 2016 compared to Won 9 billion in 2015. Such impairment losses were mainly attributable to impairment losses on the goodwill of certain consolidated subsidiaries.

Finance Income and Finance Costs

The following tables present a breakdown of our finance income and finance costs and changes therein for 2015 and 2016.

	For the year ended December 31,		Changes 2015 versus 2016	
	2015	2016	Amount	%
	(In billions of Won, except for percentages)			
Interest income	₩ 11	₩ 9	₩ (1)	(13.3)%
Gain on valuation of derivatives	2	0	(2)	(99.1)
Gain on disposal of available-for-sale securities	15	0	(15)	(98.4)
Gain on foreign currency transactions	0	6	6	N.M.(2)
Gain on foreign currency translation	2	8	7	407.1
Others(1)	0	1	1	777.1
Finance income	₩ 30	₩ 25	₩ (5)	(17.5)
Interest expense	₩ 1	₩ 14	₩ 13	1,611.5%
Loss on valuation of derivatives	1	0	(1)	(77.8)
Loss on foreign currency transactions	0	2	1	400.0
Loss on foreign currency translation	0	5	5	1,941.9
Loss on redemption of bonds	–	3	3	N.A.(4)
Others(3)	1	0	(1)	(67.6)
Finance costs	₩ 3	₩ 24	₩ 21	548.6%

(1) Includes dividend income and gain on transactions of derivatives.
(2) N.M. means not meaningful.
(3) Includes loss on disposal of available-for-sale securities, impairment loss on available-for-sale securities and other miscellaneous costs.
(4) N.A. means not applicable.

Our gain on disposal of available-for-sale securities decreased by 98.4%, or Won 15 billion, from Won 15 billion in 2015 to Won 0.2 billion in 2016. Such decrease was attributable mainly to gain realized on the disposal of the shares of ESTsoft Corp. by a subsidiary, Daum Global Holdings, in 2015, which was not repeated in 2016.

Our interest expense increased by 1,611.5%, or Won 13 billion, from Won 1 billion in 2015 to Won 14 billion in 2016, mainly reflecting an increase in our borrowings to finance the LOEN Acquisition completed in March 2016, including the refinancing of short-term borrowings through the issuance in May 2016 of exchangeable bonds exchangeable into common shares of LOEN.

Our net gain (loss) on foreign currency transactions changed from a net loss of Won 0.3 billion in 2015 to a net gain of Won 4 billion in 2016, and our net gain on foreign currency translation increased from Won 1 billion in 2015 to Won 3 billion in 2016. In terms of the Market Average Exchange Rate, the Won depreciated from Won 1,099.2 to US$1.00 as of December 31, 2014 to Won 1,172.0 to US$1.00 as of December 31, 2015 and further depreciated, but to a lesser extent, to Won 1,208.5 to US$1.00 as of December 31, 2016.

Share of Net Loss of Associates

Our share of net loss of associates increased by 132.1%, or Won 6 billion, from Won 4 billion in 2015 to Won 10 billion in 2016. See Note 15 of the notes to our annual consolidated financial statements appearing elsewhere in this offering circular.

Income Tax Expense

Our income tax expense increased by 13.2%, or Won 4 billion, from Won 31 billion in 2015 to Won 35 billion in 2016. Although our profit before income tax expense decreased by 8.4%, or Won 9 billion, from Won 110 billion in 2015 to Won 100 billion in 2016, our income tax expense increased primarily due to an increase in tax expenses related to changes in valuation allowance of deferred income assets, which was offset in part by a decrease in tax expenses related to adjustments due to changes in estimates related to prior years. Accordingly, our effective tax rate increased from 28.1% in 2015 to 34.7% in 2016. See Note 21 of the notes to our annual consolidated financial statements appearing elsewhere in this offering circular.

Profit for the Year

Due to the factors described above, our profit for the year decreased by 16.9%, or Won 13 billion, from Won 79 billion in 2015 to Won 65 billion in 2016. Our profit margin decreased from 8.4% in 2015 to 4.5% in 2016.

Results of Operations – 2015 Compared to 2014

The following table presents our consolidated statements of comprehensive income information and changes therein for 2014 and 2015.

	For the year ended December 31,		Changes 2014 versus 2015	
	2014	2015	Amount	%
	(In billions of Won, except for percentages)			
Revenue	₩ 499	₩ 932	₩ 433	86.9%
Operating expenses	322	844	521	161.6
Operating income	176	89	(88)	(49.8)
Other non-operating income	2	25	24	1,426.2
Other non-operating expenses	13	26	13	97.6
Finance income	7	30	23	350.5
Finance costs	0	4	4	2,765.9
Share of net loss of associates	(3)	(4)	(2)	71.2
Profit before income tax	169	110	(59)	(35.1)
Income tax expense	19	31	12	61.9
Profit for the year	₩ 150	₩ 79	₩ (71)	(47.4)

Revenue

The following table presents a breakdown of our revenue and changes therein for 2014 and 2015.

	For the year ended December 31,		Changes 2014 versus 2015	
	2014	2015	Amount	%
	(In billions of Won, except for percentages)			
Advertising	₩ 223	₩ 601	₩ 378	169.2%
Content	250	274	24	9.5
Others	26	58	32	123.3
Revenue	₩ 499	₩ 932	₩ 433	86.9%

Our revenue increased by 86.9%, or Won 433 billion, from Won 499 billion in 2014 to Won 932 billion in 2015. The increase in revenue resulted primarily from increases in advertising revenue and, to a lesser extent, content revenue and other revenue. Specifically:

- Advertising revenue increased by 169.2%, or Won 378 billion, from Won 223 billion in 2014 to Won 601 billion in 2015, primarily due to the consolidation of the revenue from search advertising and banner advertising products and services provided through the Daum platform, as well as from commissions related to sales of products through Shopping How, commencing from October 1, 2014 following the Kakao-Daum Merger. In addition, volume-driven increases in fees from advertising products and services provided through our Kakao Talk platform, including direct messaging through the Plus Friend function, and Kakao Style contributed to an increase in our advertising revenue in 2015 compared to 2014.

- Content revenue increased by 9.5%, or Won 24 billion, from Won 250 billion in 2014 to Won 274 billion in 2015, primarily due to the consolidation of the revenue from mobile and PC games offered on the Daum platform commencing from October 1, 2014 following the Kakao-Daum Merger, which was partially offset by a decrease in sales of in-game items for games offered on our Kakao Talk platform.

- Other revenue increased by 123.3%, or Won 32 billion, from Won 26 billion in 2014 to Won 58 billion in 2015, primarily due to an increase in the sales volume of products sold through Kakao Talk Gift Shop in 2015 compared to 2014.

Operating Expenses

The following table presents a breakdown of our operating expenses and changes therein for 2014 and 2015.

	For the year ended December 31,		Changes 2014 versus 2015	
	2014	2015	Amount	%
	(In billions of Won, except for percentages)			
Salaries	₩ 96	₩ 200	₩ 104	108.9%
Retirement benefit expense	6	18	12	193.1
Compensation cost of share-based payments	6	2	(4)	(64.9)
Welfare	15	51	36	234.7
Rental expense	8	13	5	68.6
Commissions	78	235	157	202.1
Advertising expense	29	57	28	96.8
Depreciation	17	49	32	186.3
Amortization	6	26	20	345.2
Advertising agency fees	38	106	67	174.8
Cost of goods	5	8	3	70.2
Content fees	7	48	41	577.4
Others[1]	12	31	18	151.9
Operating expenses	₩ 322	₩ 844	₩ 521	161.6%

(1) Includes travel and transportation expenses, taxes and dues, bad debt expense (reversal), expenses for events and other miscellaneous expenses.

Our operating expenses increased by 161.6%, or Won 521 billion, from Won 322 billion in 2014 to Won 844 billion in 2015, primarily due to increases in commissions, salaries, advertising agency fees, content fees and welfare expenses. Specifically:

- Commissions increased by 202.1%, or Won 157 billion, from Won 78 billion in 2014 to Won 235 billion in 2015, primarily due to increases in payment processing fees paid to third-party service providers related to increases in sales of products and services on our Kakao Talk platform as described above, as well as the consolidation of such fees relating to the Daum platform commencing from October 1, 2014 following the Kakao-Daum Merger. Our fees paid to network infrastructure service providers, including data center fees, also increased following the Kakao-Daum Merger.

- Salaries increased by 108.9%, or Won 104 billion, from Won 96 billion in 2014 to Won 200 billion in 2015 primarily due to an increase in the number of our employees, which was attributable mainly to the Kakao-Daum Merger and, to a lesser extent, continued expansion of our other business operations.

- Advertising agency fees increased by 174.8%, or Won 67 billion, from Won 38 billion in 2014 to Won 106 billion in 2015, primarily due to the consolidation of the sales commissions paid to third-party advertising agencies for advertising products and services provided through the Daum platform commencing from October 1, 2014 following the Kakao-Daum Merger, as well as an increase in the volume of our advertising products and services provided through our Kakao Talk platform as described above.

- Content fees increased by 577.4%, or Won 41 billion, from Won 7 billion in 2014 to Won 48 billion in 2015, primarily due to the consolidation of the fees paid to third-party content providers that supply digital content offered through the Daum platform commencing from October 1, 2014 following the Kakao-Daum Merger.

- Welfare expenses increased by 234.7%, or Won 36 billion, from Won 15 billion in 2014 to Won 51 billion in 2015, primarily due to an increase in the number of our employees, which

was attributable mainly to the Kakao-Daum Merger, as well as an increase in welfare expenses related to the exercise of certain stock options following the Kakao-Daum Merger.

Operating Income and Operating Margin

Due to the factors described above, our operating income decreased by 49.8%, or Won 88 billion, from Won 176 billion in 2014 to Won 89 billion in 2015. Our operating margin decreased from 35.4% in 2014 to 9.5% in 2015.

Other Non-Operating Income and Expenses

The following table presents a breakdown of our other non-operating income and changes therein for 2014 and 2015.

	For the year ended December 31,		Changes 2014 versus 2015	
	2014	2015	Amount	%
	(In billions of Won, except for percentages)			
Gain on disposal of equity method investments	₩ 1	₩ 17	₩ 16	2,102.4%
Reversal of allowance for doubtful accounts	–	1	1	N.A.(2)
Other income(1)	1	7	7	749.2
Other non-operating income	₩ 2	₩ 25	₩ 24	1,426.2%

(1) Includes gain on foreign currency transactions, gain on foreign currency translation, gain on disposal of property and equipment, gain on disposal of other assets, gain on disposal of intangible assets, rent income and other miscellaneous income.
(2) N.A. means not applicable.

Our other non-operating income increased by 1,426.2%, or Won 24 billion, from Won 2 billion in 2014 to Won 25 billion in 2015, primarily due to an increase in gain on disposal of equity method investments. Such gain increased by 2,102.4%, or Won 16 billion, from Won 1 billion in 2014 to Won 17 billion in 2015, mainly reflecting gains relating to share issuances by equity method investees to other third-party shareholders in 2015 as described above.

The following table presents a breakdown of our other non-operating expenses and changes therein for 2014 and 2015.

	For the year ended December 31,		Changes 2014 versus 2015	
	2014	2015	Amount	%
	(In billions of Won, except for percentages)			
Impairment losses on intangible assets	₩ 3	₩ 9	₩ 6	165.2
Impairment losses on equity method investments	–	2	2	N.A.(2)
Donations	1	6	5	321.7
Service fees	4	4	(0)	(9.9)
Loss on disposal of equity method investments	2	–	(2)	(100.0)
Other expenses(1)	2	5	3	130.3
Other non-operating expenses	₩ 13	₩ 26	₩ 13	97.6%

(1) Includes loss on disposal of intangible assets, loss on foreign currency transactions, loss on abandonment of property and equipment, loss on disposal of property and equipment, loss on foreign currency translation and other miscellaneous losses.
(2) N.A. means not applicable.

Our other non-operating expenses increased by 97.6%, or Won 13 billion, from Won 13 billion in 2014 to Won 26 billion in 2015, primarily due to increases in impairment loss on intangible assets and donations. Impairment loss on intangible assets increased by 165.2%, or Won 6 billion, from Won 3 billion in 2014 to Won 9 billion in 2015, mainly reflecting impairment loss on development expenses and goodwill of a consolidated subsidiary. Donations increased by 321.7%, or Won 5 billion, from Won 1 billion in 2014 to Won 6 billion in 2015, mainly as a result of our efforts to increase our social contribution activities.

Finance Income and Finance Costs

The following tables present a breakdown of our finance income and finance costs and changes therein for 2014 and 2015.

	For the year ended December 31,		Changes 2014 versus 2015	
	2014	2015	Amount	%
	(In billions of Won, except for percentages)			
Interest income	₩ 6	₩ 11	₩ 5	82.7%
Gain on valuation of derivatives	0	2	2	521.6
Gain on disposal of available-for-sale securities	–	15	15	N.A.(2)
Gain on foreign currency transactions	0	0	0	500.0
Gain on foreign currency translation	0	2	2	553.2
Others(1)	–	0	0	N.A.(2)
Finance income	₩ 7	₩ 30	₩ 23	350.5
Interest expense	₩ 0	₩ 1	₩ 1	1,939.0%
Loss on valuation of derivatives	–	1	1	N.A.(2)
Loss on foreign currency transactions	0	0	0	1,633.3
Loss on foreign currency translation	0	0	0	288.7
Others(3)	0	1	1	N.M.(4)
Finance costs	₩ 0	₩ 4	₩ 4	2,765.9%

(1) Includes dividend income.
(2) N.A. means not applicable.
(3) Includes impairment loss on available-for-sale securities and loss on disposal of available-for-sale securities.
(4) N.M. means not meaningful.

We recognized a Won 15 billion gain on disposal of available-for-sale securities in 2015 principally in connection with the disposal of the shares of ESTsoft Corp. by Daum Global Holdings in 2015 as described above, compared to no such gain in 2014. In addition, our interest income increased by 82.7%, or Won 5 billion, from Won 6 billion in 2014 to Won 11 billion in 2015, which mainly reflected the consolidation of the interest income of Daum Communications commencing from October 1, 2014 following the Kakao-Daum Merger.

Our net gain on foreign currency translation increased from Won 0.2 billion in 2014 to Won 1 billion in 2015, while our net loss on foreign currency transactions increased from Won 0.02 billion in 2014 to Won 0.3 billion in 2015. In terms of the Market Average Exchange Rate, the Won depreciated from Won 1,055.3 to US$1.00 as of December 31, 2013 to Won 1,099.2 to US$1.00 as of December 31, 2014 and depreciated further to Won 1,172.0 to US$1.00 as of December 31, 2015.

Share of Net* Loss *of Associates

Our share of net loss of associates increased by 71.2%, or Won 2 billion, from Won 3 billion in 2014 to Won 4 billion in 2015. See Note 15 of the notes to our annual consolidated financial statements appearing elsewhere in this offering circular.

Income Tax Expense

Our income tax expense increased by 61.9%, or Won 12 billion, from Won 19 billion in 2014 to Won 31 billion in 2015. Although our profit before income tax expense decreased by 35.1%, or Won 59 billion, from Won 169 billion in 2014 to Won 110 billion in 2015, our income tax expense increased, primarily due to a decrease in tax expenses related to changes in valuation allowance of deferred income assets in 2014 compared to an increase in tax expenses related to such changes in 2015, as well as an increase in tax expenses related to adjustments due to changes in estimates related to prior years. Accordingly, our effective tax rate increased from 11.3% in 2014 to 28.1% in 2015. See Note 21 of the notes to our annual consolidated financial statements appearing elsewhere in this offering circular.

Profit for the Year

Due to the factors described above, our profit for the year decreased by 47.4%, or Won 71 billion, from Won 150 billion in 2014 to Won 79 billion in 2015. Our profit margin decreased from 30.0% in 2014 to 8.4% in 2015.

Liquidity and Capital Resources

Capital Requirements

Our principal cash requirements or uses have historically been for the following purposes:

- **Expansion of business.** We use cash in connection with acquisitions and investments. From time to time, we strategically acquire or invest in, or merge with, companies in relevant industries, aiming to capitalize on the combined strengths of our existing business and that of the target entities, including in terms of technologies, user base and cost efficiencies, as well as expanding into new businesses or markets. We also make investments in businesses that we believe to be strategically important. See "— Factors Affecting Our Results of Operations and Financial Condition — Business Diversification through Pursuing Mergers, Acquisitions and other Investment Opportunities." Our cash used in the acquisition of subsidiaries (net of cash acquired) and investments in associates and available-for-sale securities amounted to Won 11 billion in 2014, Won 135 billion in 2015, Won 1,158 billion in 2016 and Won 113 billion in the first nine months of 2017.

- **Cash required for our operations.** We use cash for our general operating activities, including for payment of commissions, salaries, advertising expenses, advertising agency fees, content fees and taxes. See Note 15 of the notes to our unaudited consolidated interim financial statements, and Note 34 of the notes to our annual consolidated financial statements, appearing elsewhere in this offering circular.

- **Capital expenditures for the expansion and upgrading of our network infrastructure and other facilities.** We use cash for capital expenditures primarily related to the expansion and upgrading of our network infrastructure and other facilities. Our cash used in the purchase of property and equipment, which includes such capital expenditures, amounted to Won 13 billion in 2014, Won 76 billion in 2015, Won 81 billion in 2016 and Won 58 billion in the first nine months of 2017.

- **Interest and principal payments on our borrowings.** We use cash for interest and principal payments on our short-term and long-term borrowings, including corporate and other bonds.

As of September 30, 2017, we had short-term borrowings and current portion of long-term borrowings of Won 155 billion. As of such date, we also had long-term borrowings of Won 794 billion. Our repayments of short-term and long-term borrowings including corporate and other bonds were nil in 2014, Won 0.1 billion in 2015, Won 1,002 billion in 2016 and Won 356 billion in the first nine months of 2017, and our interest expenses were Won 0.04 billion in 2014, Won 1 billion in 2015, Won 14 billion in 2016 and Won 9 billion in the first nine months of 2017. The maturities of our borrowings that were outstanding as of September 30, 2017 were as follows:

		Maturity by Period				
	Total	Less than 1 year	Between 1 to 2 years	Between 2 to 3 years	Between 3 to 4 years	More than 4 years
		(In billions of Won)				
Borrowings	₩ 949	₩ 155	₩ 279	₩ 0	₩ 515	₩ 0

In the ordinary course of our business and in accordance with market practice in Korea, we also routinely enter into commercial commitments for various aspects of our operations, including publishing, licensing and supply agreements with content providers for products and services offered on our Kakao Talk, Daum and Melon platforms and related applications. For further information regarding our commitments and contingencies, see Note 16 of the notes to our unaudited consolidated interim financial statements, and Note 35 of the notes to our annual consolidated financial statements, appearing elsewhere in this offering circular.

Capital Resources and Liquidity

We have historically financed our operations primarily through cash provided by operations and proceeds from borrowings, including from issuances of corporate and other bonds. In recent years,

we have also raised capital through proceeds from new shares issued by our subsidiaries as well as us to non-controlling interest shareholders, including private equity funds and strategic partners. We intend to meet our working capital and other capital requirements principally from cash provided by operations, while meeting the remainder of our requirements primarily through borrowings, including the issuance of corporate and other bonds. From time to time, we may also rely on additional equity offerings to raise capital, including through new shares issued by our subsidiaries and by us to non-controlling interest shareholders as well as initial public offerings of our subsidiaries. We currently anticipate that the cash flows that we generate from our operations, together with our existing cash and cash equivalents and credit sources including short-term borrowings, will be sufficient to meet our anticipated needs for working capital for the foreseeable future. However, we may need to raise additional capital sooner than we expect to fund our growth, respond to competitive pressures or acquire complementary businesses or investments.

We believe that we have various options to meet our financing needs, including short-term and long-term borrowing facilities and issuances of bonds. As of September 30, 2017, we maintained aggregate bank credit commitments of Won 15 billion, all of which remained unutilized. However, our ability to obtain debt and equity financing at a reasonable cost will depend on several factors, some of which may be outside our control, including general economic conditions, the liquidity of the Korean and international capital markets and the Government's policies regarding Won and foreign currency borrowings. These policies can affect our ability to borrow and gain access to domestic and international capital markets or restrict the use of proceeds of any financing, and can require us to incur indebtedness from other sources that entail higher interest rates or shorter maturities.

We also seek to maintain a sound capital structure, and we monitor our capital on the basis of our liabilities-to-equity ratio. The liabilities-to-equity ratio is calculated by dividing total liabilities by total equity. The following table sets forth our liabilities-to-equity ratio as of the dates indicated.

	As of December 31,			As of September 30,
	2014	2015	2016	2017
	(In billions of Won, except ratios)			
Total liabilities	₩ 305	₩ 603	₩ 1,781	₩ 2,049
Total equity	2,463	2,585	3,703	4,445
Liabilities-to-equity ratio	12.38%	23.33%	48.10%	46.10%

Cash Flows

The following table sets forth our cash flows for the periods indicated.

	For the Year Ended December 31,			For the Nine Months Ended September 30,	
	2014	2015	2016	2016	2017
	(In billions of Won)				
Net cash inflow from operating activities	₩ 220	₩ 162	₩ 317	₩ 184	₩ 256
Net cash inflow (outflow) from investing activities	173	(414)	(1,000)	(900)	(360)
Net cash inflow from financing activities	35	197	924	793	420
Net increase (decrease) in cash and cash equivalents	428	(55)	241	77	316
Cash and cash equivalents at the beginning of the period	23	451	397	397	642
Effect of exchange rate changes on cash and cash equivalents	(1)	1	3	(1)	(4)
Cash and cash equivalents at the end of the period	451	397	642	473	954

Cash Flows from Operating Activities

Our net cash inflow from operating activities was Won 220 billion in 2014, Won 162 billion in 2015, Won 317 billion in 2016 and Won 256 billion in the first nine months of 2017.

- Our net cash inflow from operating activities increased from Won 184 billion in the first nine months of 2016 to Won 256 billion in the first nine months of 2017. Our gross cash inflow from revenue from our operations increased in the first nine months of 2017 compared to the first nine months of 2016 as discussed above, in part due to an increase in revenue from our operations as a result of the LOEN Acquisition in March 2016. In addition, we

recorded cash inflow from tax refunds of Won 10 billion in the first nine months of 2017 compared to cash used for income tax payments of Won 55 billion in the first nine months of 2016. Partially offsetting such impact, our cash generated related to changes in trade payables and other payables decreased from Won 48 billion in the first nine months of 2016 to Won 10 billion in the first nine months of 2017, and cash generated related to changes in other current liabilities decreased from Won 71 billion in the first nine months of 2016 to Won 34 billion in the first nine months of 2017.

- Our net cash inflow from operating activities increased from Won 162 billion in 2015 to Won 317 billion in 2016. Our gross cash inflow from revenue from our operations increased in 2016 compared to 2015 as described above, in part due to an increase in revenue from our operations as a result of the LOEN Acquisition in March 2016. In addition, we were able to generate net cash inflow from better management of our trade payables and other payable in 2016 compared to net cash outflow in 2015. Our cash used related to changes in trade payables and other payables was Won 17 billion in 2015 compared to cash generated related to changes in trade payables and other payables of Won 105 billion in 2016. Partially offsetting such impact, our cash used for income tax payments increased from Won 35 billion in 2015 to Won 54 billion in 2016.

- Our net cash inflow from operating activities decreased from Won 220 billion in 2014 to Won 162 billion in 2015. Our gross cash inflow from revenue from our operations increased in 2015 compared to 2014 as described above, in part due to an increase in revenue from our operations as a result of the Kakao-Daum Merger in October 2014. However, our cash generated related to changes in trade payables and other payables was Won 31 billion in 2014 compared to cash used related to changes in trade payables and other payables of Won 17 billion in 2015. In addition, our cash used for income tax payments increased from Won 0.6 billion in 2014 to Won 35 billion in 2015.

Cash Flows from Investing Activities

Our net cash inflow from investing activities was Won 173 billion in 2014, while our net cash outflow from investing activities was Won 414 billion in 2015, Won 1,000 billion in 2016 and Won 360 billion in the first nine months of 2017.

- Our net cash outflow from investing activities decreased from Won 900 billion in the first nine months of 2016 to Won 360 billion in the first nine months of 2017. This decrease was primarily due to a decrease in cash outflow related to the acquisition of subsidiaries, net of cash acquired, from Won 1,037 billion in the first nine months of 2016 to Won 1 billion in the first nine months of 2017. In the first nine months of 2016, such amount related primarily to the LOEN Acquisition. Such decrease was offset in part by a change in net cash flow related to our investments in short-term financial instruments from a cash inflow of Won 290 billion in the first nine months of 2016 to a cash outflow of Won 201 billion in the first nine months of 2017. Our capital expenditures related to purchases of property and equipment decreased from Won 64 billion in the first nine months of 2016 to Won 58 billion in the first nine months of 2017.

- Our net cash outflow from investing activities increased from Won 414 billion in 2015 to Won 1,000 billion in 2016. This increase was primarily due to an increase in cash outflow related to the acquisition of subsidiaries, net of cash acquired, from Won 61 billion in 2015 to Won 1,044 billion in 2016. In 2016, such amount related primarily to the LOEN Acquisition. Such increase was offset in part by a change in net cash flow related to our investments in short-term financial instruments from a cash outflow of Won 187 billion in 2015 to a cash inflow of Won 254 billion in 2016, which mainly reflected a decrease in short-term financial instruments. We recorded capital expenditures related to purchases of property and equipment of Won 76 billion in 2015 and Won 81 billion in 2016.

- We recorded net cash inflow from investing activities of Won 173 billion in 2014 compared to net cash outflow from investing activities of Won 414 billion in 2015. In 2014, our net cash inflow from investing activities consisted primarily of net cash inflow of Won 187 billion related to cash held by Daum Communications that we acquired in the

Kakao-Daum Merger. In 2015, our net cash outflow from investing activities included Won 187 billion in increase in short-term financial instruments as well as capital expenditures of Won 76 billion related to purchase of property and equipment. We also recorded cash outflows in 2015 of Won 66 billion related to investments in associates and Won 61 billion related to the acquisition of subsidiaries, net of cash acquired.

Cash Flows from Financing Activities

Our net cash inflow from financing activities was Won 35 billion in 2014, Won 197 billion in 2015, Won 924 billion in 2016 and Won 420 billion in the first nine months of 2017.

- Our net cash inflow from financing activities decreased from Won 793 billion in the first nine months of 2016 to Won 420 billion in the first nine months of 2017. In the first nine months of 2017, we recorded proceeds from new shares issued by subsidiaries to non-controlling interest shareholders of Won 488 billion, relating mainly to new shares issued by Kakao Mobility Corporation to a consortium of investors including TPG Capital and Orix Corporation in connection with their minority investment in such subsidiary and new shares issued by Kakao Pay Corp. to Ant Financial Services Group (an affiliate of Alibaba Group Holding Limited) in connection with its minority investment in such subsidiary. Such cash inflows were offset in part by a net repayment of short-term borrowings of Won 52 billion (after reflecting proceeds from short-term borrowings) and payments of dividends of Won 16 billion. In the first nine months of 2016, we recorded net proceeds from the issuance of corporate bonds, convertible bonds and exchangeable bonds of Won 593 billion (after reflecting repayments of corporate bonds) and net proceeds from short-term borrowings of Won 200 billion (after reflecting repayments of short-term borrowings).

- Our net cash inflow from financing activities increased from Won 197 billion in 2015 to Won 924 billion in 2016. In 2016, we recorded net proceeds from the issuance of corporate bonds, convertible bonds and exchangeable bonds of Won 593 billion (after reflecting repayments of corporate bonds), net proceeds from short-term borrowings of Won 200 billion (after reflecting repayments of short-term borrowings) and proceeds from new shares issued by subsidiaries to non-controlling interest shareholders of Won 138 billion, relating mainly to new shares issued by Podotree Inc. to a consortium of investors including Anchor Equity Partners and GIC Private Limited in connection with their minority investment in such subsidiary. In 2015, our net cash inflow from financing activities consisted primarily of proceeds from the issuance of corporate bonds of Won 199 billion.

- Our net cash inflow from financing activities increased from Won 35 billion in 2014 to Won 197 billion in 2015, primarily due to proceeds from the issuance of corporate bonds of Won 199 billion in 2015. In 2014, we also raised Won 24 billion from the disposal of treasury shares.

Off-Balance Sheet Arrangements

As of September 30, 2017, we had no material off-balance sheet arrangements involving non-consolidated entities.

Market Risks

Market risk is the risk of loss related to adverse changes in market rates, including their impact on future cash flows or the value of the financial instruments that we hold. We strive to manage and control market risk exposure within acceptable parameters, while optimizing our returns. We are exposed to interest rate risk, securities price risk and exchange rate risk primarily associated with underlying assets and liabilities.

Our risk management policies are established to identify and analyze the risks faced by us, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and our activities. Through our training and management standards and procedures, we aim to maintain a disciplined and

constructive control environment in which all employees understand their roles and obligations. Our board of directors oversees how management monitors compliance with our risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by us.

Interest Rate Risk

We are subject to interest rate risk arising mainly from our floating rate interest-bearing assets and liabilities, particularly deposits. As of September 30, 2017, a substantial majority of our borrowings, including bonds, was incurred at fixed rates. Our profit for the period may be affected by fluctuations in interest rates and the impact such changes have on our interest income and expense as well as the market value of our financial assets and liabilities. An increase in interest rates would adversely affect our ability to service existing borrowings and incur new borrowings for our operations, capital expenditures and expansion plans.

We seek to mitigate our interest rate risk exposure through various policies, such as utilizing excess cash to minimize external borrowings, avoiding high rate borrowings, managing an appropriate ratio of fixed rate borrowings and floating rate borrowings, daily monitoring of fluctuations in domestic and overseas interest rates, establishing alternative financing options, and balancing floating rate short-term borrowings with floating rate deposits.

The following table sets forth the estimated effect on our profit before income taxes of a 1.0% interest rate increase or decrease on floating rate deposits as of the dates indicated:

	As of December 31,			
	2015		2016	
	Increase	Decrease	Increase	Decrease
	(In millions of Won)			
Profit before income taxes	₩ 3,927	₩ (3,927)	₩ 213	₩ (213)

Securities Price Risk

We hold investments in listed and unlisted debt and equity securities, which are classified on our statements of financial position as available-for-sale financial assets.

The following table sets forth the estimated effect on our other comprehensive income of a 5.0% increase or decrease in the prices of our holdings of marketable equity securities as of December 31, 2016:

	As of December 31, 2016	
	Increase	Decrease
	(In millions of Won)	
Other comprehensive income	₩ 954	₩ (954)

In addition, we issued convertible bonds and exchangeable bonds in 2016, the conversion or exchange of which are subject to conversion price for our common shares or the exchange price for LOEN's common shares, which are listed on the KRX KOSPI Market and KRX KOSDAQ Market of the Korea Exchange, respectively.

Exchange Rate Risk

Exchange rate risk is defined as the risk that the fair value of financial instruments or future cash flows will fluctuate because of changes in exchange rates. In order to mitigate exchange rate risk arising from our operating activities, we strive to naturally offset such risk by matching our foreign currency receivables with our foreign currency payables.

Inflation

The increase in the consumer price index in Korea was 1.3% in 2014, 0.7% in 2015 and 1.0% in 2016, according to Statistics Korea. We do not believe that inflation in Korea has had a material impact on our results of operations in recent years. It is possible that inflation in the future may have an adverse effect on our results of operations and financial condition.

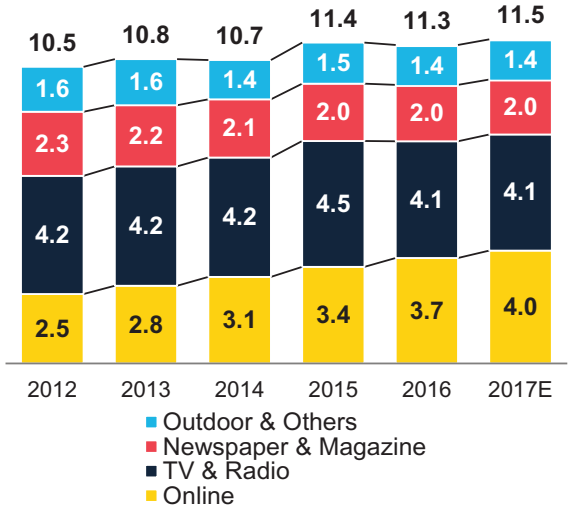
The following overview of industries and markets related to our principal businesses has been provided for background purposes only. Information presented in this section is derived from various third-party sources unless indicated otherwise. Such information, while believed to be reliable, has not been independently verified, and neither we nor the Initial Purchasers make any representation as to the accuracy or completeness of the information.

Online Advertising

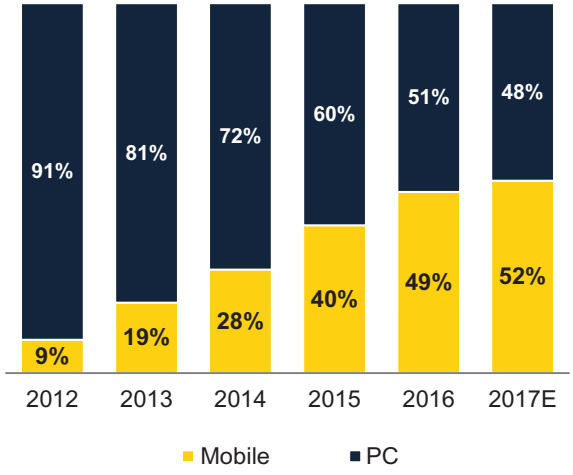
According to the Korea Broadcast Advertising Corporation, the Korean online advertising market grew at a compound annual growth rate ("CAGR") of 11.1% between 2012 and 2016, compared to a CAGR of 1.8% for the overall advertising market during the same period, reflecting an increase in the online advertising market penetration rate from 23% to 33%. The growth of the online advertising market has been mainly driven by (i) the transition of advertising spending from traditional media such as newspapers and radio to PC and mobile platforms backed by high Internet and smartphone penetration rates and (ii) increased time spent on mobile devices over the past decade owing to the development of mobile social network services ("SNS") and online-to-offline ("O2O") services.

Within the Korean online advertising market, the portion accounted for by mobile advertising increased from 9% in 2012 to 49% in 2016 according to the Korea Onlinead Association, leading the overall growth of the Korean online advertising market.

Size of Korean Advertising Market (Won trillion)



PC vs. Mobile Ads (within Online Advertising)

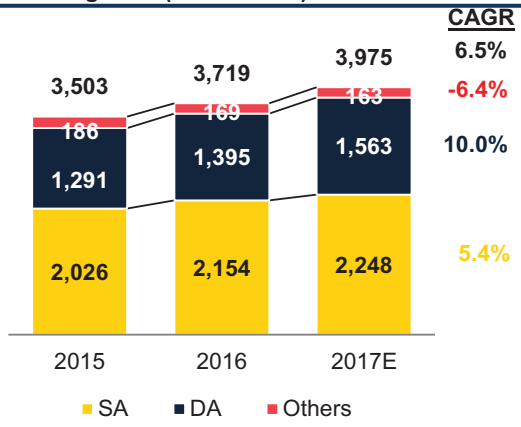


Source: Korea Broadcast Advertising Corporation, Korea Onlinead Association

According to the Korea Onlinead Association, the online advertising market can be classified into three sub-segments: search advertising ("SA"), display advertising ("DA") and others ("Others"). The following table sets forth a breakdown, based on advertising expenditure, of the Korean online advertising market by sub-segment for the periods indicated.

Korean Online Advertising Market by Sub-Segment (Won billion)

- **Search Advertising:** Places an online advertisement on web pages that show results from search engine queries
- **Display Advertising:** Includes banner, video, SNS and rewarded advertising, conveying a commercial message visually through various websites
- **Others:** Includes viral advertising and product placement through online blogs and other content

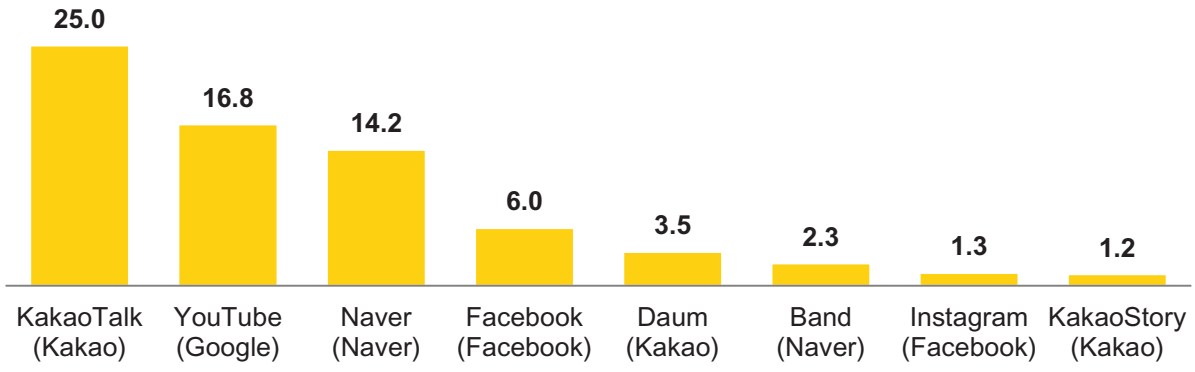


Source: Korea Internet & Security Agency

According to Nielsen Koreanclick, Naver is the market leader in the SA market in Korea with a market share of more than 70% in terms of the number of PC and mobile search queries due to its dominant search engine service. Other major players in the SA market include us and Google, which offer Daum and Google search engine services, respectively.

We, Facebook, Google and Naver are major players in the DA market in Korea owing to our respective popular products and services with high traffic volumes. Domestic players are relatively better positioned in the DA market with a presence across various services such as SNS, O2O and e-commerce. On the other hand, global players are leading the video advertising market, which is included in the DA market, with online platforms such as YouTube, Instagram and Facebook that offer rich global content.

Mobile Application Ranking Based on Total Time Spent by Users in Korea (billion minutes per month)



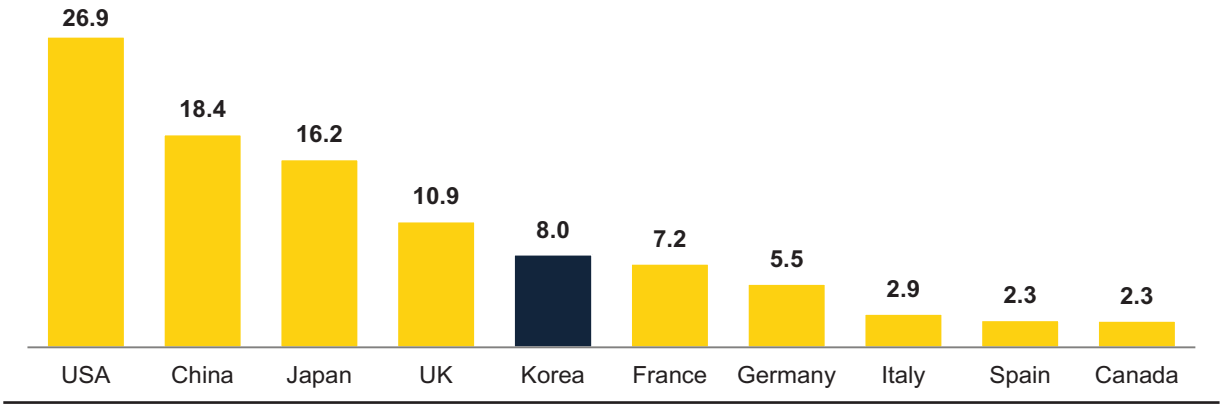
Source: Nielsen Koreanclick
Note: Monthly average for the six months from February 2017 to July 2017

Recently, mobile advertising has been gaining popularity compared to traditional advertising due to its effectiveness in targeting the desired audience based on user demographics and behavior. Also, mobile and other connected devices have become ubiquitous, and their use is rapidly becoming an aspect of everyday life, leading to increased user exposure and to mobile advertising. Most importantly, mobile advertising platforms enable interaction between users and advertisers, for example through the provision of gift cards or other subsidies to users responding to mobile advertising campaigns.

Games

Korea is the fifth largest game market globally with a market size of Won 10.7 trillion in 2015 in terms of revenue generated according to the 2016 White Paper on Korean Games published by the Korea Creative Content Agency.

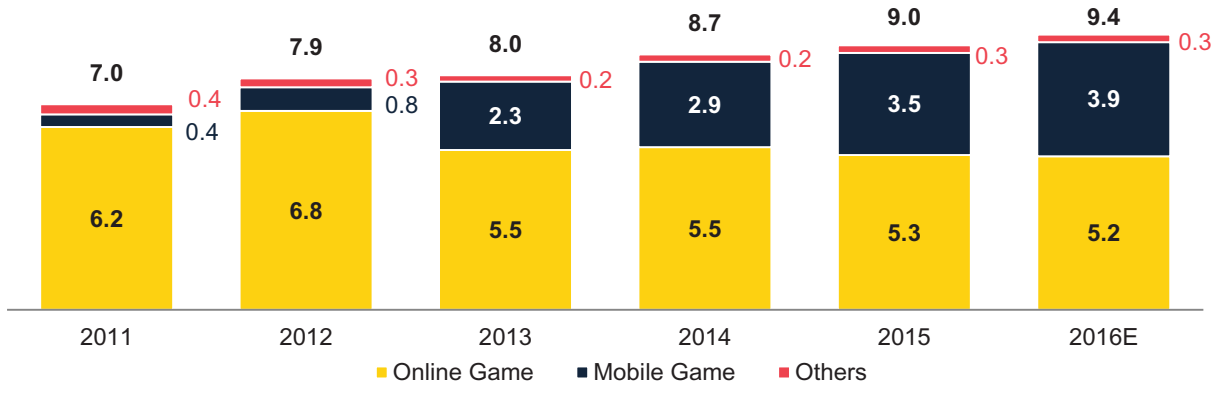
Top 10 Countries Based on Size of Game Market (2015, US$ billion)



Source: 2016 White Paper on Korean Games
Note: Excluding revenue from game distribution channels such as arcade game rooms and Internet cafés

According to the 2013 and 2016 White Paper on Korean Games, Korea's game market grew at a 5.0% CAGR from 2011 to 2015. While revenue from game distribution channels such as arcade game rooms and Internet cafés remains largely unchanged since 2011, the game development and publishing market has shown significant growth in recent years primarily driven by robust growth in the mobile game sector, which recorded a CAGR of 69.4% from 2011 to 2015.

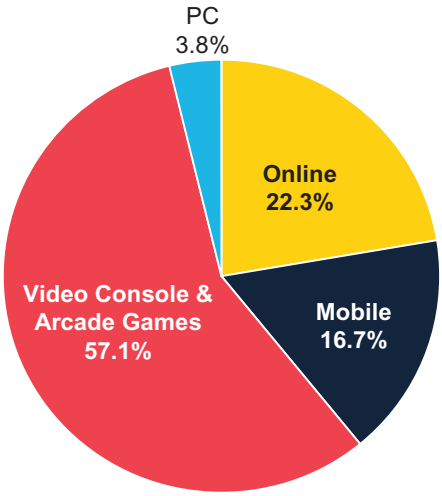
Korean Game Development and Publishing Breakdown (Won trillion)



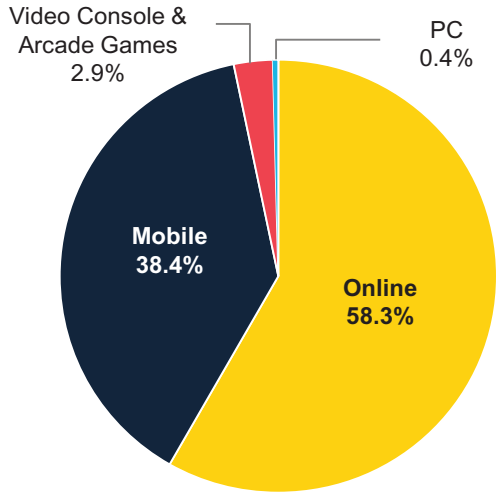
Source: 2013, 2015 and 2016 White Paper on Korean Games
Note: For purposes of the charts above, "Others" indicates games played on a personal computer without an Internet connection, video console games and arcade games, and "Online Game" indicates games played on a personal computer using an Internet connection.

Korea's game market is heavily skewed toward online and mobile segments which accounted for 58.3% and 38.4% of the total market size in 2015, respectively, while the same accounted for 22.3% and 16.7% of the global game market in 2015, according to the 2016 White Paper on Korean Games. Korea's online PC and mobile game market was ranked third globally following China and Japan in the same year. The dominance of online PC and mobile games in the Korean market is driven by well-established infrastructure for both game developers and users, mainly through (i) high Internet and smartphone penetration rates and (ii) the proliferation of Internet cafés where players can play online PC games with premium computers at an affordable price. Accordingly, game developers have been able to develop high quality games with rich graphics and heavy content, which became the basis for the long-term success of the Korean online PC and mobile game market.

Global Game Market by Segment (2015)



Korean Game Market by Segment (2015)



Source: 2016 White Paper on Korean Games

Note: For purposes of the charts above, "PC" indicates games played on a personal computer without an Internet connection, and "Online" indicates games played on a personal computer using an Internet connection.

Korean game companies are generally segmented into two categories, large players with publishing capabilities and smaller independent players focusing on game development. Large players such as NCSOFT Corporation, Nexon Korea Corporation, our subsidiary Kakao Games Corp., Netmarble Games Corporation and Com2uS Corporation internally develop games via in-house teams or subsidiary game studios and publish both internally and externally developed games. Publishing typically includes production, marketing and all aspects of advertising. Smaller independent players with limited resources focus on game development and rely on the large players' publishing capacity and share a portion of the revenue generated by the games developed by them. For example, PlayerUnknown's Battlegrounds was developed by Bluehole, Inc., and Kakao Games Corp. is in charge of advertising and marketing in Korea as its publisher.

Music

The music industry value chain encompasses album production, wholesale distribution and retail distribution. At the beginning of this sequence, entertainment management companies take the responsibility of producing music content with artists. After such production, wholesale distribution companies engage in the distribution of the music content to online music service providers. Finally, online music platforms such as Melon, Genie and M.net engage in retailing the music to customers.

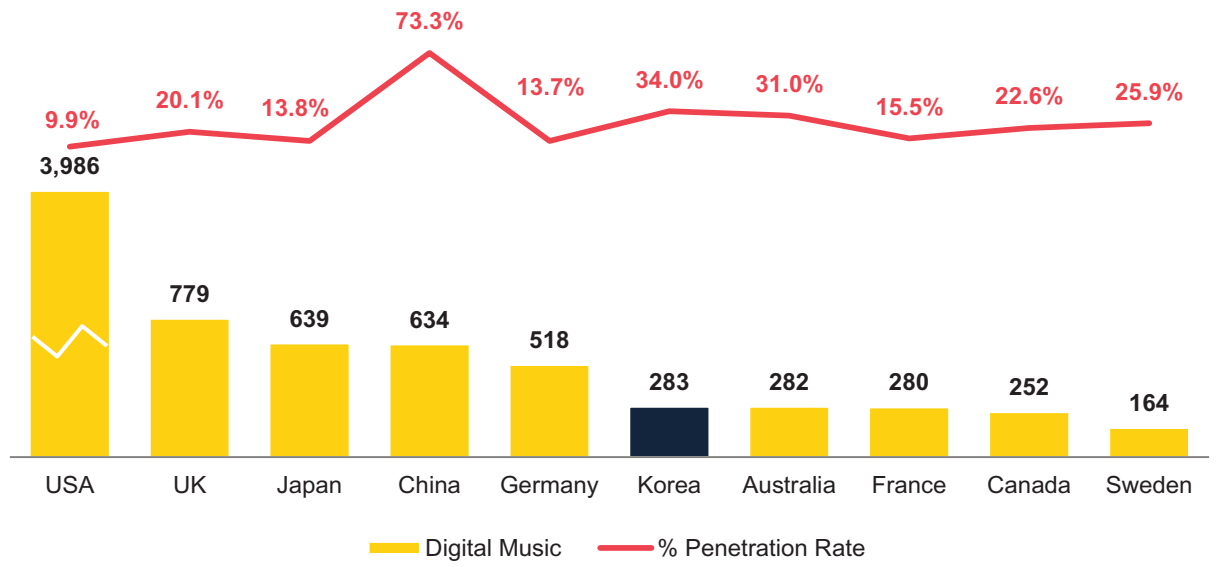
Korean Music Industry Value Chain

The music industry generally comprises three categories of consumer spending: physical recorded music, digital recorded music and performance rights.

- **Physical recorded music:** covers any retail or online sales of physical albums (e.g., CDs), single sound recordings and music videos
- **Digital recorded music:** covers sales of licensed music distributed digitally to connected devices, and is split between streaming and downloading
- **Performance rights:** includes consumer spending on tickets and sales from live music events

According to PwC data provided to the 2016 Music Industry White Paper, Korea has the tenth largest music market globally, amounting to US$833 million in 2015, compared to US$15,183 million for the United States, which had the largest music market globally. However, among the three categories of consumer spending in the music industry, Korea has a relatively large exposure to the digital recorded music market amounting to US$283 million in 2015, as compared to US$3,986 million for the United States, according to PwC data provided to 2016 International Digital Contents Market Research.

Digital Recorded Music Market and Penetration Rate by Country (2015, US$ million)

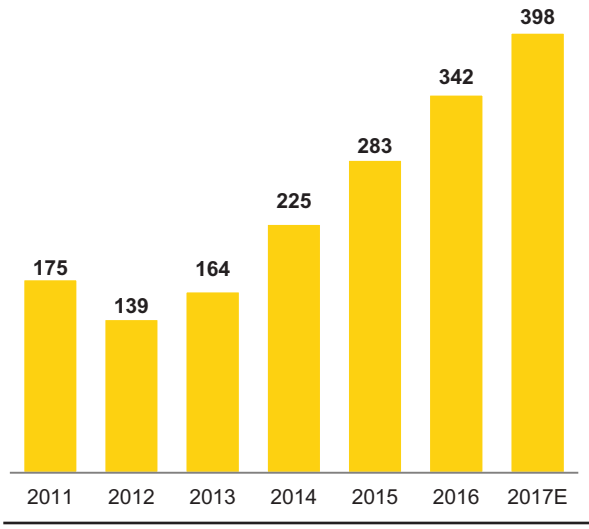


Source: PwC data provided to the 2016 Music Industry White Paper and 2016 International Digital Contents Market Research
Note: Penetration rate is calculated by dividing the digital market size by the total market size.

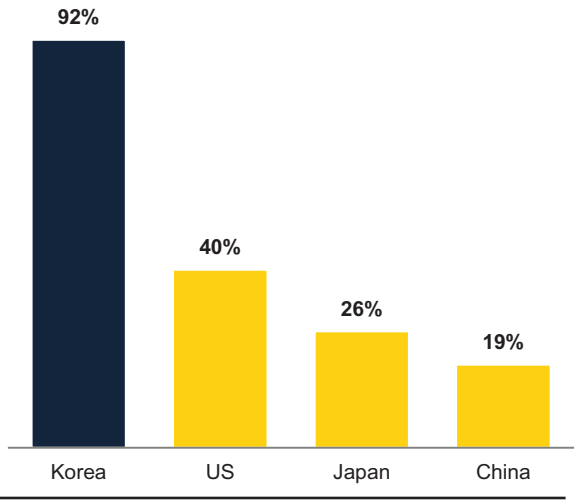
According to PwC data provided to 2016 International Digital Contents Market Research, the digital recorded music market in Korea grew at a CAGR of 12.8% from 2011 to 2015, surpassing that of the global digital recorded music market which recorded a CAGR of 6.4% during the same period. The global success of K-pop and widely-used streaming subscription services have driven continuous growth of the Korean digital recorded music market.

In Korea, a majority of the digital recorded music market revenue is generated from paid streaming services. In 2015, paid streaming services were estimated to account for as much as 92% of the digital recorded music revenue in Korea, according to PwC data provided to 2016 International Digital Contents Market Research. Korea's paid streaming market has been able to thrive for the following reasons. First, Korea has a long history of offering paid music streaming services. We believe that LOEN's music application, Melon, was one of the first in the world to introduce a business model where streaming services were offered at a flat monthly rate starting in the mid-2000s. Second, the growth of smartphone users in the 2010s effectively established the infrastructure that enabled online music platforms to become a major distribution channel. A vast majority of people in Korea have been using smartphones since the early 2010s, and 75% of smartphone users listened to music on smartphones in Korea from October 2015 to March 2016 according to the International Federation of Phonographic Industry.

Size of Korea's Digital Recorded Music Market (US$ million)



Streaming as a Percentage of Digital Recorded Music Revenue (2015)



Source: PwC data provided to 2016 International Digital Contents Market Research

There are a number of players which provide digital music streaming and downloading services in Korea. Among them, Melon commanded an estimated 58% market share in the Korean online retail music market in the third quarter of 2017 in terms of the number of average monthly unique visitors according to Nielsen Koreanclick. Since the advent of the smartphone era, Melon has built a reputation as the premier online music streaming service in the Korean music market. According to Nielsen Koreanclick, Melon is the most widely accessed online music streaming platform with 3,317 billion minutes of total time spent by users from July 2017 to September 2017, compared to 776 billion minutes for Genie, 637 billion minutes for Bugs! and 328 billion minutes for M.net during the same period.

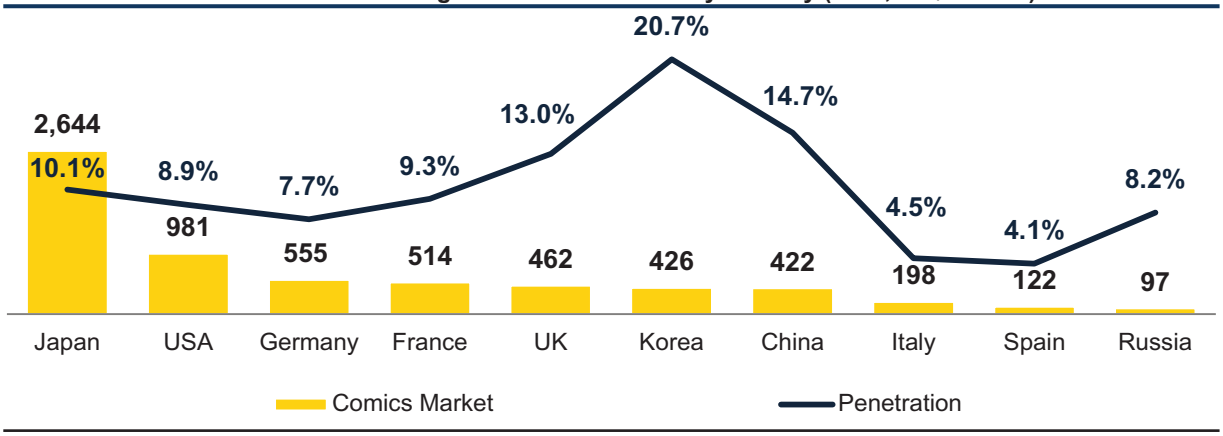
Web-comics

Web-comics are digital comics shared through portal sites and other online platforms, including on mobile devices. Historically, the comics industry prospered as a major content market by accomplishing steady growth through print-published comics. Nonetheless, the spread of the Internet and mobile devices has triggered a change to this trend, leading to digitalization in the comics market since the early 2000s.

According to PwC data provided to the 2016 Graphic Novel Industry White Paper published by the National IT Industry Promotion Agency, Japan had the largest comics market in 2015, followed by the United States, Germany, France, the United Kingdom and Korea. In terms of digitalization, Korea has been more active than other countries, showing a digital penetration rate of 20.7% in 2015 according to PwC data provided to 2016 International Digital Contents Market Research. This trend of digitalization has become a global trend among the leading comics markets including Japan, China and the United Kingdom.

In 2015, the web-comics market size in Japan amounted to US$2,644 million, over sixfold of Korea's market size, according to PwC data provided to the 2016 Graphic Novel Industry White Paper. Recently, within the Japanese web-comics market, Korea-owned platforms have been performing strongly. We believe that Kakao's Piccoma, Naver's Comico and Line's Line Manga are major players among Japanese web-comics mobile applications in terms of revenue generated in Japan on Google Play.

Comics Market and Digital Penetration Rate by Country (2015, US$ million)



Source: PwC data provided to the 2016 Graphic Novel Industry White Paper and 2016 International Digital Contents Market Research

The Korean digital comics market has shown rapid growth in the past on the back of wide-spread use of the Internet and smartphones, improvements in the one-source multi-use business model (the "OSMU") and supportive government policies, as described below. According to the 2016 Graphic Novel Industry White Paper, the market is expected to continue its growth in the future.

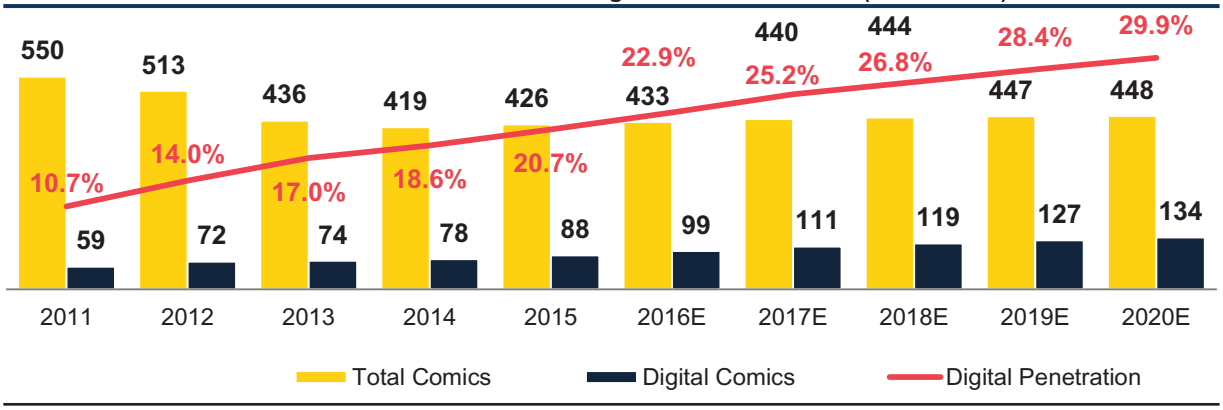
- **Wide-spread use of the Internet and smartphones:** Availability of faster Internet and wider use of smartphones create an advanced digital infrastructure, supporting the accessibility of web-comics.

- **Improvements in OSMU:** Improvements in the OSMU have led to higher utilization of web-comics-based content, including in movies and TV series, enabling additional growth in the secondary publishing market. The already-sizeable secondary market's portion in relation to the primary market has continued to increase with such improvements in OSMU.

- **Supportive government policies:** Supportive government policies for both authors and distributors have also induced the development of web-comics in Korea. Key policies include provision of educational courses and programs, investments into IT infrastructure, support for overseas exhibitions and support through subsidy programs.

The industry has evolved into a structure with diverse business models, including advertising, subscriptions and secondary markets such as TV series, movies and characters.

Korean Comics Market Size and Digital Penetration Rate (US$ million)



Source: PwC data provided to the 2016 Graphic Novel Industry White Paper and 2016 International Digital Contents Market Research

The Korean web-comics market is led by a few select online platforms, with multiple emerging web-comics-only players. Naver (via Naver Webtoon) and we (via Daum Webtoon and Kakao Page) are the leading players, trailed by various web-comics-only players including Lezhin Comics and Ktoon.

Web-novels

Web-novels are novels that are published on the Internet and viewed by users through a webpage, downloadable file or other electronic format. Similar to the trend in web-comics, the popularity of web-novels directly correlates to the increasing usage of mobile and other connected devices.

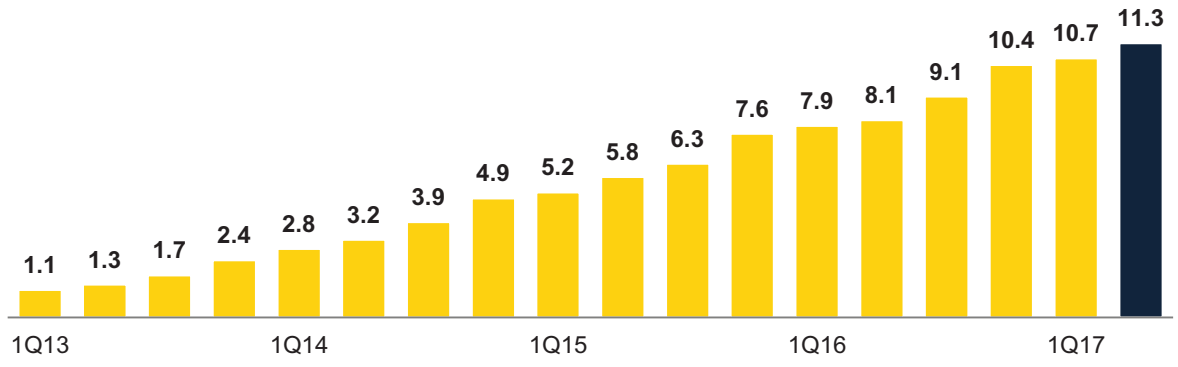
Historically, the business model for web-novels was based on PC usage. As readers were increasingly able to convey their preferences to authors through interaction over the Internet, a new type of literature known as the web-novel began to gain traction. Currently, with the proliferated use of mobile and other connected devices, the web-novel continues to gain popularity as accessibility is enhanced with an increase in the number of mobile platforms. Furthermore, similar to the web-comics market, improvements in the OSMU have contributed to growth in the secondary publishing market, as more web-novels are adapted as TV dramas, movies and comics, such as “Love in the Moonlight” and “Sungkyunkwan Scandal.”

Payment Solutions (Mobile Payment)

Mobile payment is a mode of payment using electronic devices, such as PCs, smartphones and tablets, which are operated as payment vehicles. Instead of using physical payment methods such as cash, credit cards or checks, a customer can use a mobile device to transfer money from a bank account or access a credit card to pay for goods and services in both online and offline stores.

According to Statistics Korea, the value of transactions processed through mobile payments in Korea was estimated to total Won 11.3 trillion (approximately US$10 billion) in the second quarter of 2017, up from Won 1.1 trillion (approximately US$1 billion) in the first quarter of 2013. The following chart sets forth the gross value of quarterly mobile payment transactions in Korea since the first quarter of 2013.

Quarterly Mobile Payment Transaction Value in Korea (Won trillion)



Source: Statistics Korea

The Korean mobile payment industry has grown rapidly over the past five years as a result of (i) increased penetration of smartphones, (ii) growth of the e-commerce industry, (iii) advanced IT infrastructure and (iv) evolving consumer preferences toward quick and cash-free transactions.

A payment gateway (a "PG") acts as an intermediary in the online payment industry value chain, among consumers, merchants and credit card companies. In an online payment system, once consumers submit their orders on online websites, they provide their personal and transaction information to PGs that subsequently transmit the information to credit card companies, which then finalize the online payment process. PGs facilitate this process by conveying encrypted personal information such as credit card numbers and self-identification numbers.

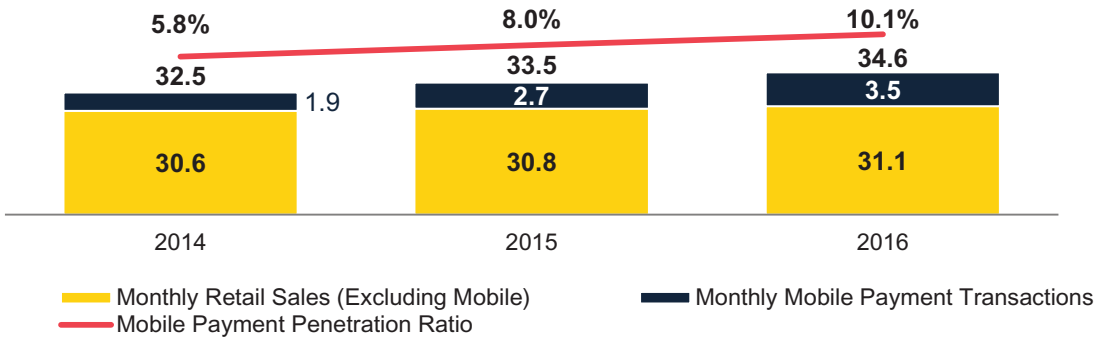
Online Payment Industry Value Chain

Recently, the transaction process has become more streamlined with mobile payments. Mobile payment services such as Kakao Pay and Ali Pay have constructed a user interface that secures sensitive information, such as credit card numbers and self-identification numbers, enabling a simpler payment system that does not require inputting such information for every transaction. Furthermore,

mobile payment services have been seeking to create a payment process that does not have to engage with and pass through PGs and VANs, which would make transactions more simple and efficient.

According to Statistics Korea, in December 2016, mobile payments represented approximately 10.1% of the value of total retail sales in Korea, up from 5.8% in December 2014, replacing traditional payment methods such as cash and credit cards. The following chart sets forth the penetration ratio of mobile payment transactions, defined as the ratio of monthly mobile payment transaction value to monthly total retail sales, from December 2014 to December 2016.

Monthly Mobile Payment Transaction Value and Penetration Ratio in Korea
(December, Won trillion)



Source: Statistics Korea

Mobile payments have been evolving quickly, with more recognizable brands entering the industry by offering applications and services that appeal to consumers and businesses. Mobile payment services are expanding their domain across the payment value chain to encompass payment network services, including payment gateway services.

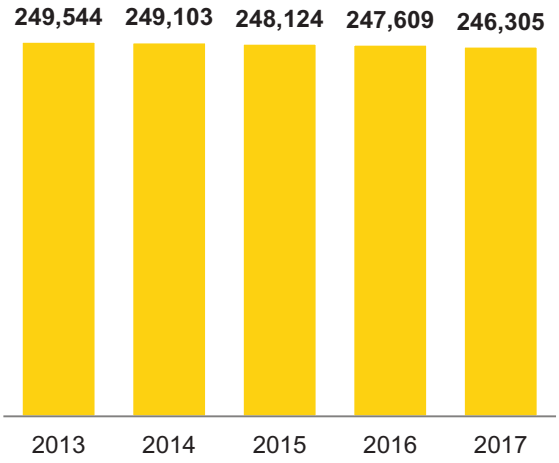
In Korea, the industry is led by non-financial institutions, including services offered by Internet-based companies (e.g., Naver Pay, Kakao Pay, Syrup Pay and Pay Co), online and offline retailers (e.g., SSG Pay and L Pay) and smartphone manufacturers (e.g., Samsung Pay).

Mobile Transportation Applications

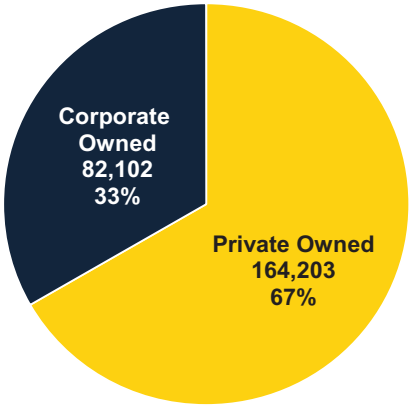
Taxi Service

The size of the Korean taxi industry has remained relatively stable for the past 10 years with the number of registered taxis totaling around 240,000 to 250,000 nationwide. According to the Korea National Joint Conference of Taxi Association, there were a total of 246,305 registered taxis as of July 31, 2017. Of such taxis, 164,203 (67%) were privately owned and 82,102 (33%) were corporate owned. By type of registered taxis, there were 243,576 (98%) regular taxis, 1,886 (1%) deluxe taxis, and 843 others such as executive limos and vans (less than 1%). In terms of taxi distribution by region, Seoul had the highest figure, with 69,837 registered taxis (28%), followed by Gyeonggi province with 36,816 (15%).

Number of Taxis Trend in Korea (As of July 31)



Number of Taxis by Ownership (As of July 31, 2017)



Source: Korea National Joint Conference of Taxi Association

The traditional model of the taxi business in Korea was mainly based on taxi hailing on streets with a minor contribution from taxi hailing through call centers. In recent years, the introduction of mobile taxi applications connecting users and taxi drivers by leading O2O players such as us with advanced mobile and location-based-technology has transformed the traditional model by minimizing the time and effort required for taxi hailing by riders and maximizing efficiency and revenue for drivers.

Designated Driver Services

Designated driver services refer to a business whereby a designated driver provides a one-time pay-per-trip driving service to a customer using the customer's vehicle. Traditionally, designated driver services have been provided by diverse small-scale service providers that assign drivers to customers via phone calls. The designated driver service industry is well-developed in Korea owing mainly to the urban lifestyle and social gathering culture of Korea. While measuring the precise market size is difficult due to the industry's fragmented and loose structure and the proliferation of unregistered participants, the Korea Institute for Industrial Economics and Trade estimates the market size to be around Won 2 to 3 trillion, with approximately 8,326 registered service providers in 2015.

Recently, a number of Korean IT companies including us and SK Telecom have made designated driver services available through online platforms, providing an advanced and systemized approach to meeting the existing demand. Migration of the traditional business model to mobile applications has enhanced transparency as well as convenience to customers by enabling them to share driver feedback and to utilize multiple means of payment.

BUSINESS

Overview

We operate Korea's leading mobile platform as well as other leading online platforms in Korea, which we utilize to provide users and advertisers with a diverse and expanding array of products and services. Our products and services allow users to engage in more aspects of their daily affairs using their mobile and other connected devices and PCs at their convenience, while enabling advertisers to access our large and growing user base across our Kakao ecosystem. Among other things, we offer users the ability to communicate, access entertainment, search content, shop and make payments online, as well as innovative services such as mobile transportation applications. We also offer advertisers the ability to promote their brands, products and services in a variety of online formats and to better target their marketing to their desired audiences among our users. Our products and services are offered primarily through or in conjunction with the following major online platforms, which serve as the backbone of our Kakao ecosystem.

- **Kakao Talk.** Our Kakao Talk platform, which is based on our free instant messaging service, serves as the central entry point through which we introduce many of our users to our other mobile service offerings. Kakao Talk is Korea's leading mobile instant messaging service based on user usage time in September 2017, according to Nielsen Koreanclick, and its average monthly active user base in Korea was approximately 43 million in the third quarter of 2017, representing substantially all of the smartphone users in Korea during such period.

- **Daum.** Daum is one of Korea's leading Internet portals and serves as a platform for a variety of portal-related services including web-based searching, e-mail, online communities and provision of online content. Our Daum search engine was the second most utilized web-based search engine in Korea based on search time and number of queries in the third quarter of 2017, according to Nielsen Koreanclick.

- **Melon.** Melon, our online music streaming and downloading service, serves as our platform for subscription-based access to music and related content. Melon is Korea's leading online music service based on unique visitors in September 2017, according to Nielsen Koreanclick. Melon had 4.4 million paying subscribers as of September 30, 2017 and, according to Nielsen Koreanclick, had a market share of approximately 58% of the Korean online retail music market in the third quarter of 2017 based on the number of average monthly unique visitors.

We believe that the integration of our products and services through such platforms provides our users with a smoother and richer connection experience that contributes to higher user loyalty and user base growth, which in turn enhance our ability to accumulate and analyze substantial amounts of user-related data to better understand user preferences and to improve our product and service offerings, including the effectiveness of online advertising through such platforms and related applications. Leveraging our content, our user base and their interconnectivity, our platforms have evolved into diversified online gateways that are fundamentally changing social interactions and lifestyle patterns in Korea. We believe that our platforms and related applications have become integrated into numerous aspects of our users' daily lives. Users add value to the overall Kakao ecosystem each time they engage with other users, advertisers or content or service providers. Increases in user engagement enable us to grow our scale by attracting more users, advertisers and content and service providers. In turn, growth in our scale in terms of the number of users, advertisers and content and service providers and the interactions among them enhances the value we deliver to all of our constituencies and leads to greater monetization opportunities.

On October 1, 2014, the Former Kakao merged with and into Daum Communications, our predecessor company, in connection with which the Former Kakao was recognized as the acquiring company for accounting purposes. Founded in December 2006 as IWILAB Co., Ltd., the Former Kakao launched Kakao Talk and changed its name to Kakao Corp. in 2010. Daum Communications was established in February 1995 and introduced Korea's first free e-mail service in 1997. We operate Melon through LOEN, a leading music entertainment company in Korea that offers a wide range of services covering key components of the music industry value chain. Seoul Record, the predecessor

company to LOEN, was founded in 1978. In March 2016, we completed our acquisition of 61.4% and 15.0% interests in LOEN from Star Invest Holdings Limited (an affiliate of Affinity Equity Partners), and SK Planet Co., Ltd. (a wholly-owned subsidiary of SK Telecom), respectively, as a result of which LOEN became a consolidated subsidiary of our company.

We generate revenue by leveraging the numerous affiliations and interests that connect the people and entities that constitute our user base and prompting our users to actively and repeatedly engage and interact with the wide variety of products, services and content we provide through our online platforms. Our revenue is primarily generated from advertising services, content offerings, including games, music, web-comics and Emoticons, and other services, including e-commerce and character merchandising. Our revenue amounted to Won 499 billion in 2014, Won 932 billion in 2015 and Won 1,464 billion in 2016, and Won 1,010 billion in the first nine months of 2016 and Won 1,428 billion in the first nine months of 2017. Our profit for the period amounted to Won 150 billion in 2014, Won 79 billion in 2015 and Won 65 billion in 2016, and Won 38 billion in the first nine months of 2016 and Won 107 billion in the first nine months of 2017. We had total assets of Won 6,494 billion and total equity of Won 4,445 billion as of September 30, 2017.

Strengths

Since its launch in 2010, Kakao Talk has helped to effect a transformation in social patterns in Korea, having grown significantly beyond a medium of communication into a holistic mobile lifestyle platform that affects how people communicate and connect, how people consume information, content and media, how people move and how people engage in finance.

We believe the following competitive strengths contribute to our unique value proposition and continued success:

One-of-a-Kind Platform Encompassing All Aspects of a Mobile Lifestyle

We believe we offer one of the most far-reaching mobile ecosystems globally in terms of user engagement and reach and scope of services.

Our core platform is Kakao Talk, which is the dominant mobile messaging service and a primary communication tool in Korea. According to Nielsen Koreanclick, Kakao Talk has maintained a market share of approximately 94% since 2013 in terms of total monthly usage hours for mobile messaging services in Korea, with the number of its average monthly active users reaching approximately 43 million in Korea in the third quarter of 2017, accounting for more than 80% of the Korean population. Based on this dominant market position, Kakao Talk has attained an unparalleled level of user engagement with an average of 55 sessions of usage per day per user in the first quarter of 2015, the highest among all mobile messaging applications globally in such period, as compared to 37 sessions for WhatsApp and 29 sessions for WeChat, according to Internet Trends 2015 published by Kleiner, Perkins, Caufield and Byers.

Leveraging the prominence of Kakao Talk and its strong brand equity which ranked first across 220 industry sectors in Korea according to Korea Brand Power Index 2017 published by the Korea Management Association Consultants, we have created a one-of-a-kind ecosystem that encompasses all aspects of a mobile lifestyle. We offer a variety of leading online products and services in Korea, including mobile messaging (Kakao Talk), online music streaming and downloading (Melon), web-comics and web-novels (Kakao Page and Daum Webtoon), mobile game publishing and development (Kakao Games), mobile taxi-hailing (Kakao T), mobile payment (Kakao Pay) and mobile-only banking (through Kakao Bank, in which we own a 10% equity interest), representing a scope and reach that we believe is one of the broadest and deepest among our global peers.

Unrivaled Access to User Data and Insight Across Our Ecosystem

We believe our market-leading position among mobile platforms in Korea provides us with access to data and insight that we can utilize to better serve our users.

In addition to the social behavior data that is gathered via our services, our ecosystem allows accumulation of a substantially more comprehensive database encompassing content and information consumption (through Melon, Kakao Page, Daum Webtoon, Kakao Games, the Channel function on Kakao Talk and our Daum portal), location and mobility (through Kakao T) and financial patterns

(through Kakao Pay and Kakao Bank) of our users. In addition, throughout our ecosystem, our users can easily access substantially all of our products and services with a single Kakao ID, which provides our users with a seamless mobile lifestyle experience while enhancing the appeal of our products and services to users. We analyze the vast amounts of user data compiled across various applications to create a more personalized experience catering to the individual user's preferences and thereby to construct an ecosystem closer to our users' lifestyles. For example, our database captures an individual user's preferences within one of our services, which can then be leveraged to make recommendations to the same user for other products and services.

We believe that our comprehensive database and data analysis capabilities differentiate our platforms and related applications from other individual competing products and services and enable a virtuous cycle between the loyalty of our users and the value proposition of our products and services.

Mobile Content Leader with Vertically Integrated Capabilities

We believe in the power of our broad and attractive content offerings to enrich the lives of our users.

Our market leadership in the mobile content categories of online music, web-comics and web-novels, and PC and mobile games not only enhances our relationship with our users but also enables a profitable business model with proven and steady revenue streams. Moreover, our strategy towards vertical integration in each of our content value chains has allowed us to evolve into an effective producer and distributor of content with significant market influence.

Key highlights of our content businesses are as follows:

- **Online Music.** LOEN, our 76.4%-owned subsidiary, operates Melon, the leading digital music platform in Korea with a market share of approximately 58% of the Korean online retail music market in the third quarter of 2017 based on the number of average monthly unique visitors according to Nielsen Koreanclick. Melon had 4.4 million paying subscribers as of September 30, 2017. We believe Melon has an unmatched brand value in the online music industry. In addition, LOEN is vertically integrated across the entire music value chain with capabilities ranging from talent management and music production to online and offline distribution.

- **Mobile and PC Games.** We engage in our mobile and PC games business through Kakao Games Corp., our 75.5%-owned subsidiary. Previously focusing on mobile game distribution for third-party publishers through our Kakao Talk platform leveraging our large user base, we have been revamping our games business into a full-fledged vertically integrated game company with strong publishing and development capabilities.

- **Web-Comics and Web-Novels.** We operate two of the leading web-comics and web-novels platforms in Korea – Kakao Page and Daum Webtoon – through Podotree Inc., our 57.0%-owned subsidiary. On the basis of an attractive content library, our web-comics and web-novels business has generated strong results by successfully monetizing content through innovative business models. In addition, we are a pioneer in expanding the business format to key overseas markets, as evidenced by the popularity of Piccoma, our mobile web-comics application that was launched in Japan in April 2016, as well as our partnership with Tencent DongMan, a leading web-comics platform in China, since August 2017, which shares certain of our web-comics content and our "wait or pay" business model in China.

Successful Track Record of Systematically Rolling Out New Products and Services

We have expertise in successfully introducing new products and services into our ecosystem, as evidenced by the multitude of our popular services that began with Kakao Talk in 2010, Kakao Page in 2013 and Kakao Pay in 2014, and more recently continued with the rapid rise of Kakao Bank and Kakao T to market leading positions.

With operation commencement in July 2017, Kakao Bank, in which we own a 10% equity interest, has quickly become the largest Internet-only bank in Korea in terms of asset size and serves as a paradigm-shifting alternative to traditional banking. As of November 30, 2017, Kakao Bank had approximately 4.65 million holders of deposit accounts and Won 4.05 trillion of total outstanding loans.

Initially launched as Kakao Taxi in March 2015 and rebranded as Kakao T in October 2017, our smart mobility services have grown into an extensive transportation platform addressing various needs ranging from taxi-hailing to parking to navigation. As of September 30, 2017, Kakao T served more than 50% of the economically active population in Korea with 16 million registered users and generated an average of 1.1 million taxi-hailing orders per day in the third quarter of 2017. According to Nielsen Koreanclick, we had a 97% market share among Korean taxi-hailing mobile applications in terms of unique users in October 2017.

As demonstrated by our strong track record, we believe we possess a compelling and systematic formula for successfully launching new businesses based on the following:

- **Dominant Reach and Engagement of Kakao Talk.** As we typically use our Kakao Talk platform as the main entry point for our new applications, we generally do not incur substantial user acquisition costs and efforts to attract users in launching additional products and services. Furthermore, the strong brand equity of Kakao Talk has helped us engage not only users but also suppliers for our products and services.

- **Strong Ecosystem Identity through Kakao Friends.** Kakao Friends serves as an integral part of our ecosystem as its visual identity. Initially a set of characters created for the Emoticons offered on Kakao Talk, our Kakao Friends characters ranked the highest for "likeability" among characters in Korea in 2016, according to a survey by Korea Creative Content Agency. We are able to promote our new products and services using Kakao Friends characters to offer a sense of familiarity to our users, and leverage them as a cost-effective marketing tool.

- **Pluralistic and Flat Corporate Culture.** Within our company, we refer to our ecosystem as a "community" and view each of our businesses as an equal and independent constituent. Each business is assessed on its own merit, and through the open exchange of ideas and experiences among the business units within our community, we believe we provide an ideal environment for nurturing creativity and innovation.

Innovative Business Models with Unique Value to Customers

We have pioneered many innovative business models and believe that our products and services often generate new demand that previously did not exist among users.

For example, the novel mobile gifting feature of Kakao Talk Gift Shop, which is offered on our Kakao Talk application, has recorded robust growth in total transaction value since its introduction in 2010. By enhancing the Kakao Talk user experience through the ability to quickly and easily share gifts among "friends," we believe that our Kakao Talk Gift Shop was able to address previously unmet demand for richer social mobile interactions, thereby differentiating its value proposition to users from typical e-commerce services.

Our content business through Kakao Page has risen to industry leadership through business model innovation. By introducing a "wait or pay" model for viewing web-comics and web-novels, pursuant to which users either wait for a specified period of time, or pay a fee or view certain compensatory advertisements, to be allowed to view or read an episode or chapter, our Kakao Page service has been able to generate enhanced revenue compared to traditional services and achieve strong growth.

Moreover, our taxi-hailing service offered through Kakao T has evolved into an efficient medium for matching supply and demand among riders and drivers. For example, in April 2017, a Coldplay concert was scheduled in the Jamsil area of Seoul where we anticipated a higher-than-usual demand for taxis at the end of the concert. To alleviate the mismatch of supply and demand, we

notified the taxi drivers participating in our service of the expected surge in demand two days prior to the event. A substantial number of our registered drivers reacted to the notification and addressed the demand, effectively resulting in more than three times the number of taxi matchings during peak hours compared to a normal day in the same area.

Accordingly, we have been able to capitalize on opportunities to make our users' lives more efficient and convenient through new mobile products and services and thereby generate new demand. We believe that our proven ability to introduce innovative business models within the Internet economy is one of our key competitive strengths.

Entrepreneurial Management and Partners to Drive Future Growth

We believe we have the optimal combination of an entrepreneurial management team and strong platform and other business partners to drive our future.

We benefit from our management team's extensive experience in the Internet and content industry in Korea, which has been instrumental in formulating and executing our visionary strategies. In particular, Beom Su Kim, our founder and chairman, has almost 20 years of experience in the Korean Internet industry. Prior to launching Kakao Talk in 2010, he founded Hangame Communications Corp., one of the first online game companies in Korea, in 1998 and headed NHN Corporation, the predecessor company of Naver, from 2001 to 2007. In September 2017, Mr. Kim was recognized as the "Best CEO in the Internet/IT industry" by Insight Korea, a leading social network-based media company in Korea.

Moreover, we benefit greatly from our shareholders and platform and other business partners, who we believe help us maximize the potential of our various businesses. For example, we received an equity investment from Tencent Holdings Limited in 2012 and have undertaken numerous partnership initiatives with such company, including a content and business model partnership for web-comics in China and a joint shareholding in Kakao Bank. In addition, we entered into a strategic alliance with Ant Financial Services Group, an affiliate of Alibaba Group Holding Limited, for our Kakao Pay business in February 2017. Through such partnership with one of the largest global fintech companies, we have gained access to the Korean and global merchant network of Ant Financial Services Group. We are one of the few companies globally that have received investments from both Tencent Holdings Limited and Alibaba Group Holding Limited, attesting to the value of our ecosystem.

In 2017, we also attracted an investment in our subsidiary Kakao Mobility Corporation from TPG Capital, one of the leading global private equity funds. With its extensive investment track record in innovative technology companies including Airbnb, Spotify and Uber, we believe our partnership with TPG Capital will provide us with invaluable market insight and industry expertise.

Strategies

As the operator of the leading mobile platform in Korea, our goal is to further solidify our leadership position and strategically expand into related industries and markets, while pursuing robust monetization and strong profitability. To realize our vision, we seek to pursue the following strategies:

Further Solidify the Market Leadership of Our Products and Services

We intend to continue to solidify our market leadership by further enhancing the engagement level of our users and introducing novel and innovative products and services.

For our flagship Kakao Talk platform, we seek to build on the mobile social interactions of our users. We plan to continue introducing new products and services within our Kakao Talk application, including new Emoticons and e-commerce services that will increase user engagement. We also plan on enhancing our user interface to be more intuitive and convenient, so that our users can enjoy a more interactive dynamic between our mobile messaging and other services within the Kakao Talk platform, which will enable a more seamless experience across our Kakao ecosystem. Based on the foregoing, we are exploring options to create diverse monetization models by providing additional value to our users through new and convenient services across our Kakao ecosystem.

Moreover, we aim to maximize the potential of our advertising business through a new innovative one-stop platform for audience-targeting advertising that we plan to launch in 2018. The

platform will provide advertisers with targeted advertising services across the Kakao ecosystem that include archetypal audience targeting based on user demographics and behavior, as well as targeting in a more interactive and engaging manner by capturing the right "moment" and "place" for ads. For example, we will be able to offer time-based "moment" advertising for advertisers to promote breakfast menus to potential customers who have the spending pattern of frequently having breakfast, and offer distance-based "place" advertising for advertisers by allowing them to send out discount coupons for new cosmetics products to potential customers who are located near their stores and have previously shown interest in personal beauty products through searches on the Channel function on Kakao Talk and our Daum platform or the Plus Friend function on Kakao Talk.

We also plan to pursue vertical integration within our existing service areas of content and lifestyle and selectively expand our exposure into related segments. We intend to further augment the depth and breadth of the content offered through our platforms as well as seek to replicate our success in existing businesses in attractive yet currently underserved markets.

Expand Globally with Our Content

We plan to pursue strategic expansion into overseas markets through our content offerings by focusing on regions that offer attractive market potential with growing demand for Korean content.

For our music entertainment business operated through LOEN, our strategy is to continue attracting global audiences for K-pop through online channels including 1theK and to selectively enter into markets that have a high interest in and receptivity towards Korean music content. In addition, we plan to partner with leading music and entertainment players in other countries in order to pursue the creation of a pan-regional music content alliance.

With respect to our mobile and PC games business, we plan to expand our presence in the global market through the robust localization of Korean-sourced games and effective marketing efforts, in collaboration with global business partners where necessary. Also, in order to secure the publishing rights to promising new games, we intend to acquire or invest in game development studios with strong capabilities.

To expand our web-comics and web-novels business, we plan to secure or acquire desirable local content by identifying talented creators in individual markets who can address the specific user preferences of each market. In terms of distribution, we intend to build our own platform in certain markets where we believe our innovative business model can be successfully replicated, as we have done with Piccoma in Japan, or cooperate with global business partners in markets where the strengths of an existing platform can be effectively leveraged to accelerate our penetration into such geographies, as we have done with Tencent DongMan in China.

Broaden the Scope of Our Lifestyle Products and Services

As part of our vision to connect all aspects of our users' daily lives through our Kakao ecosystem, we plan to further enhance our existing lifestyle products and services and roll out complementary businesses.

In general, we seek to enhance our existing product and service offerings by expanding our coverage and implementing technology-driven solutions in each segment. For smart mobility, we intend to expand our business by replicating the taxi services of Kakao T in other business areas and rolling out other mobility-related services. In fintech, our goal is to create a proprietary risk model leveraging our Kakao ecosystem, which we believe will be able to bring innovation to the financial industry utilizing insights that traditional business models are not able to capture.

In addition, we plan to selectively focus on areas that offer high synergy potential within our Kakao ecosystem. We are currently exploring multiple lifestyle segments that we believe will further expand and complement our existing product and service offerings.

Further Optimize the Integration of Our Products and Services through Artificial Intelligence

We will seek to optimize the integration and delivery of our products and services to our users. In achieving our goal of becoming an all-encompassing one-stop online platform, we believe that

artificial intelligence technology will play a pivotal role and plan on continuing to enhance our artificial intelligence capabilities.

We currently have two major initiatives in this area, including Kakao I, our artificial intelligence service which connects and integrates various services offered on our platforms and related applications for our users, and Kakao Brain, an entity that focuses on the research and development of proprietary artificial intelligence technologies. As a first step towards our vision of an artificial intelligence-empowered ecosystem using Kakao I, we launched Kakao Mini, an intelligent personal assistant device, in October 2017. Operating through voice recognition and natural language processing, Kakao Mini is designed to directly interact with users and perform various functions across our products and services including Kakao Talk, Melon, Kakao T and our Daum search engine. We intend to continuously broaden the range of products and services connected to Kakao Mini and also add features that can anticipate our users' needs based on machine learning.

Ultimately, we envision that Kakao Mini will evolve into a ubiquitous interface and operating system that not only integrates the myriad aspects of our Kakao ecosystem but also serves as a fully-functioning life companion to our users, leveraging the vast amounts of data and insights accumulated through our online platforms.

Flexibly Adopt Organic, Inorganic and Partnership Models for Our New Businesses

We intend to continue diversifying into new businesses to ensure the future success of our Kakao ecosystem. In doing so, we plan to flexibly implement models that are optimal for each business in order to maximize and expedite the realization of its full growth potential, whether in the form of organic, inorganic or strategic partnership models.

Many of the key elements of our ecosystem have been acquired by us through various investments and partnerships, and we believe that identifying and executing on attractive investment opportunities and successfully capitalizing upon such investments are a critical driver of our growth, as evidenced by the LOEN Acquisition in March 2016 and the significant synergies we have realized therefrom. We intend to continue to selectively invest in key areas to maintain our position as the leading mobile platform operator in Korea. More specifically, we plan to seek investment opportunities in products and services that (1) have a unique value proposition and market leadership in their respective business areas, (2) offer high synergy potential with our ecosystem and (3) have significant potential in terms of technological advances.

Furthermore, we plan to internally develop new businesses when we believe we have the appropriate resources in terms of technology, talent and management. We also plan to strategically spin off new businesses as independent entities when there are compelling reasons to enter into an alliance with strategic partners or in order to timely take advantage of opportunities to raise capital from financial investors, as we have done with respect to several of our subsidiaries, including Podotree Inc., Kakao Pay Corp. and Kakao Mobility Corporation. We believe that the successful execution of such a spin-off strategy will enable us to accelerate growth, enhance operating leverage and realize value through raising capital at the subsidiary level, as well as increase accountability for the management of each entity to enhance its operational and financial performance.

Further Improve Financial Performance and Profitability

We constantly seek new ways to strengthen our financial performance, and as part of such efforts, we intend to continue developing new business models that can effectively monetize our user traffic and engagement while avoiding compromising user experience. For example, we are formulating plans to accomplish a smooth transition to monetization of our Kakao T services. By referencing the current revenue models of our Kakao Driver and Kakao Parking services, we are currently exploring multiple options to take advantage of potentially attractive monetization channels. Among other things, we plan to implement a new revenue model with respect to corporate customers of Kakao T's taxi services in early 2018, and intend to gradually expand the scope of monetization in a way that we believe will be beneficial to all stakeholders of Kakao T's services. Moreover, we are exploring various other monetization models including offering new paid value-added services within our Kakao Talk platform and other related services.

In addition, we intend to continue to improve our profitability. Over the past few quarters, we have been able to increase our profit margins as (1) our business continues to evolve into an optimal

corporate structure, (2) our new businesses become financially sustainable, and (3) our strong brand equity enables us to effectively manage marketing costs. Along with efficient expense management and increasing economies of scale, our goal is to create a financial profile that is consistently profitable and cash flow-positive to support our future investments and growth.

Major Platforms

Our Kakao Talk instant messaging service, Daum Internet portal and Melon music service comprise our major online platforms, which we leverage to offer a wide variety of products and services to users through mobile and other connected devices and PCs, as well as to advertisers. These platforms currently constitute some of the most widely used online platforms in Korea and serve as the backbone of our Kakao ecosystem.

Kakao Talk

Kakao Talk provides application-based instant messaging services on mobile and other connected devices and PCs and serves as the central entry point through which we introduce many of our users to our other mobile service offerings. Launched in March 2010 as a mobile instant messaging service, Kakao Talk is now available for downloading in 230 countries in 16 languages, and on average, approximately eight billion messages per day were sent or received through Kakao Talk in September 2017.

At registration, user accounts are associated with a user's mobile phone number. Registered users are able to use their Kakao Talk accounts to seamlessly access substantially all of the products and services we offer through our Kakao Talk, Daum and Melon platforms, as well as a growing number of partner applications and websites. We seek to differentiate Kakao Talk by providing our expanding user base with a centralized mobile communications channel that conveniently integrates multiple functions.

- **Messaging.** Kakao Talk's messaging service provides users a free, efficient and reliable tool for communicating with each other individually or in group chats. Users selectively manage their own closed group of "friends" with whom they want to communicate, which typically consists primarily of other individual users but may also be expanded to businesses, organizations and celebrities using the Plus Friend function, an advertising product through which advertisers connect to our users. See "— Products and Services — Advertising — Other Advertising – Plus Friend." Users are also able to initiate chats with others by providing a link, forgoing the step of adding them to such users' friends list and sharing personal information. Users can customize how messages appear and how they are alerted of new received messages by choosing from a wide selection of background themes and alerts or by importing their own images and sounds. In addition to text messages, users can also send Emoticons, images, videos, documents, voice messages, location information and gift vouchers using Kakao Talk.

- **Sharp (#) Search.** The Sharp (#) Search function is an in-chat search function available to our Kakao Talk application users. Users may initiate a search within a chat room by tapping on a sharp (#) symbol and then typing in their queries. The results can also be shared with other chat room participants. Sharp (#) Search query results are customized to the mobile environment and we seek to optimize our results to be mobile friendly.

- **Channel.** The Channel function within the Kakao Talk application is a mobile social content hub that connects users with articles and media covering a variety of topics, such as entertainment, sports, fashion and beauty, that are curated from our own proprietary content as well as hosted content. Users are able to indicate "like" on an article while viewing social content and can utilize the Channel function to recommend applicable content to their Kakao Talk friends.

- **Voice Talk, Face Talk and Group Call.** In addition to messaging, our users can communicate with each other through voice calls (Voice Talk) and video calls (Face Talk) made using our Kakao Talk application. Users can also initiate multi-party Group Calls from within a group chat room. Calls can be connected to other Kakao Talk users worldwide through mobile and other connected devices as well as PCs.

Daum

Our Daum webpage, www.daum.net, and our Daum mobile application serve as a platform for a variety of portal-related online services optimized for PCs and mobile devices, respectively. Through our Daum portal, we provide comprehensive access to our search engine, online communities, e-mail accounts, online content and online shopping services. The layouts of our Daum webpage and Daum mobile application are intended to facilitate users' navigation through our service offerings, while allowing us to achieve persistent branding by featuring the Daum logo prominently on every page. Our portal-related services are also accessible through mobile web browsers on mobile devices. In addition, certain portal-related services are accessible through standalone mobile applications, such as our Daum Café and Daum Webtoon mobile applications.

- **Search Engine.** Our Daum search engine helps users locate and access the information and services they want quickly and easily. Our search engine sorts through a vast and growing amount of information to deliver relevant and useful search results in response to user queries. Search results for a particular item not only include applicable websites but also related images, videos, maps, media articles, blogs, Q&A postings by users on the Daum portal, links to our advertisers' websites and links to relevant items currently being sold on our online shopping mall, Shopping How. Users may also elect to conduct searches limited to certain categories, websites or time periods. We strive to improve the accuracy of our search engine's search results through investments in research and development as well as information technology infrastructure, and aim to provide more targeted and context-specific information to our users.

- **Online Communities.** We believe Daum was one of the first truly community-focused Internet portals in Korea. Launched in May 1999, our online communities, which we call Daum Cafés, have become one of the most popular features on the Daum portal. As of September 30, 2017, there were approximately 10 million Daum Cafés with approximately 32 million members. We believe the existence of active online communities contributes to greater awareness and use of our portal. Our users generally create online communities around a common hobby or topic of interest, such as sports, cinema, relationships, music, politics, religion, academic affiliations or geographic background. Users can create communities that are open to the public or communities where access is restricted to a closed group of users. Members of an online community can post messages for general viewing, and users who are not registered with a particular community can also access the message boards to learn about a community and determine whether to join. In addition to using the message board, community members can host or join real-time chats in one-on-one or group settings. Registered users can also become bloggers on the Daum portal by posting writings periodically on the blogs they create. Registered users can subscribe to these blogs and add their comments to the blogs.

- **E-mail Accounts.** We offer free, personalized e-mail accounts, known as daum.net or hanmail accounts, to users who register on the Daum portal. We had approximately 23 million active registered daum.net users as of September 30, 2017. Our e-mail service is a core feature of our portal which we have integrated with other services. For example, an e-mail is sent to users to let them know that a new article has been posted on the blog they subscribe to and to alert them about upcoming events planned by the online communities to which they belong.

- **Online Content.** The Daum portal provides users with a variety of news and information in Korean that is supplied to us by leading content providers. Content available through our portal include headline news, weather information, stock quotes, real estate and other financial information, video clips of television programs, games, web-comics, health and medical information, dictionaries, movie, book and music reviews, consumer reports and product reviews, fashion, cooking and other lifestyle content, and maps and driving directions. See "— Products and Services — Content."

Melon

We operate Melon, our platform for music-related content as well as subscription-based access to online music streaming and downloading services, through our subsidiary LOEN, in which

we own a 76.4% interest. Melon currently offers a variety of music-related content, including the Melon Top 100 chart that ranks the most frequently played songs of Melon subscribers on a real-time basis, as well as a selection of more than 20 million songs and possesses what we believe to be the largest active user base among online music services in Korea. As of September 30, 2017, Melon had 4.4 million paying subscribers. On a monthly average basis, Melon's subscribers streamed 3.1 billion songs and downloaded 50 million songs in 2016, and streamed 3.7 billion songs and downloaded 52 million songs in the first nine months of 2017. Approximately 70% of Melon's current subscribers consist of those between the ages of 19 and 35 years. We offer Melon services in various formats that are specifically designed for mobile and other connected devices, PCs and televisions.

Melon offers a broad selection of Korean and international music, both in streaming and download formats, as well as a variety of features designed to enhance the experience of users. For example, users of streaming services are able to indicate "like" with respect to a song as it is being played, and Melon makes music recommendations based on data collected from users. Melon also highlights the latest music releases by popular artists in Korea and abroad.

Such features on Melon enable us to accumulate user information, including their preference for music genres and artists as well as their purchasing patterns. We continuously monitor and analyze such data to better understand demand trends for various user segments. We also develop analytical models based on such customer data to identify and recommend songs of a particular genre or artist to users who are likely to make additional purchases. Through such analyses, we are also able to identify the types of offers and promotions to which select users will likely respond, which enables us to more effectively design and target our marketing activities. We obtain music content for our Melon online music service both internally from our content distribution business as well as from third-party music distributors in Korea and abroad, and pay fees for such content based on our sales. See "— Products and Services — Other Products and Services — Music Distribution and Production Services — Content Distribution."

We offer a wide range of payment plans that seek to address the individual needs of our Melon users. For downloading digital music and music videos, we charge for each download based on the file format, as well as offer an option to purchase monthly subscription packages that provide a discount for higher volume downloads of music. For Melon's streaming services, we charge monthly subscription fees. Subscribers are also able to combine streaming services with downloading music in DRM (digital rights management) format that restricts access after a 30-day period. Subscribers may also combine streaming services with packages that enable downloads of music in unrestricted MP3 format.

Products and Services

Leveraging our online platforms, we provide a diverse and expanding array of advertising, content and other products and services to users and advertisers in Korea and elsewhere.

Advertising

We offer a broad range of advertising products and services in a variety of online formats, including search advertising and banner display advertising (such as advertising on our website pages, mobile applications and online video content), which may also incorporate targeting and interactive functions. Advertisers use our advertising products and services to promote their brands, products and services and better target their marketing for a more productive connection with their desired audiences from among our user base. Advertisers can choose to subscribe to a single product or service or take advantage of our packaged advertising model, which gives them access to multiple products and services across our platforms. Our advertising clients include companies from a variety of industries, including food and beverage, entertainment, retail and online services. Total revenue from advertising amounted to Won 223 billion in 2014, Won 601 billion in 2015, Won 534 billion in 2016 and Won 436 billion in the first nine months of 2017.

Search Advertising

Our search advertising products and services, offered through our Daum search engine and the Sharp (#) Search function of our Kakao Talk application, enable advertisers to present ads to users

at the precise moment those users are looking for information related to what the advertiser has to offer. Our search advertising model encompasses both cost per click and cost per time products. We believe our search advertising products attract advertisers that are seeking to efficiently obtain high levels of exposure with their advertising budgets.

Our flagship search advertising product applies a cost per click pricing model, where an advertiser competes against other advertisers in an auction and bids for a given advertisement spot, typically based on a search keyword. Advertisers can add or delete search keywords, increase or decrease bids for keywords and initiate or discontinue advertisements at any time. Advertisements are ranked for display based on a combination of the maximum cost per click set by the advertiser, click-through rates and other factors used to determine the relevance of the advertisement. This favors advertisements that are the most relevant to users, improving the experience for both users looking for information and advertisers looking for interested customers. If an advertisement does not attract sufficient user clicks, it moves to a less prominent position on the page, even if the advertiser offers to pay a higher amount. Because we generate revenue only when users click on the advertisement, we believe that cost per click products align our interests with those of our advertisers as well as our users.

Banner Display Advertising

Our banner display advertising products and services enable advertisers to display their ads through our Daum platform as well as through our Kakao Talk platform and related mobile applications. For example, banner display ad placements are available through Kakao Story, our mobile social networking service that enables users to upload photos and video clips, write short posts and engage in other ways to share their experiences and interests among a closed group of friends selected and organized by such users. Postings by people within a user's closed group are regularly updated onto such user's personal Kakao Story newsfeed in the order in which they were posted, and banner display ads can be placed within such newsfeed. Similarly, banner display ads can be placed in the Channel function of the Kakao Talk application within the displayed articles and media.

Banner display advertisements are typically visually engaging and designed to reach a large number of consumers within a particular user segment. Our banner display advertising products are charged at either cost per time or per impression, with pricing differentiated based on placement, or at cost per click through a bidding system similar to that for our flagship search advertising product. Our targeting algorithm enables advertisers to select ad placements based on their desired audiences among our user base.

Kakao and Other Advertising

In addition to traditional search and banner display advertising products and services, our mobile service offerings enable us to offer advertisers more creative ways to connect with their target audiences, including through our Kakao products and services.

Plus Friend. The Plus Friend function within the Kakao Talk application enables users to connect with advertisers, such as businesses, organizations and celebrities, by adding them as Kakao Talk friends, which in turn allows such advertisers to send messages directly to such users. Through the Plus Friend function, users can easily stay apprised of the latest news and information regarding the advertisers that interest them. On the other hand, Plus Friend provides advertisers with a communications channel that we believe enables them to promote their products, services and content more efficiently and relevantly than other advertising channels, through direct messaging to their respective target audiences. We charge advertisers fees based on a combination of factors, such as the number of times the advertiser is featured as a recommended friend on Kakao Talk and the number of messages sent by the advertiser to Kakao Talk users.

Brand Emoticons. Emoticons are pictorial icons depicting feelings, expressions or actions, often using the persona of our proprietary characters, other fictional characters created by third-parties, or real life celebrities. Users can enrich text-based communications by inserting Emoticons into their messages sent through our Kakao Talk, Daum and Melon platforms. Emoticons can also be used to convey a message quickly when typing out a message may be inconvenient. While our Emoticons are generally offered to users for purchase through our Kakao Talk application, Brand Emoticons are

offered by advertisers to their target audience through our platforms as a method of advertising. Brand Emoticons may be designed to highlight the products, services and brands of a particular advertiser. We charge advertisers fees based on a combination of factors, including the number of Brand Emoticons offered by the advertiser, the period the Brand Emoticons offered by the advertiser is available to users and the method by which the Brand Emoticons are provided to users (e.g., by adding the advertiser as a Kakao Talk friend, downloading the advertiser's mobile application, or using a specific feature of the advertiser's product or service). We offer both stationary and animated Brand Emoticons.

Kakao TV. Kakao TV is a social mobile video service that enables users to interact through the medium of video. Offered through the Kakao Talk application as well as a standalone Kakao TV Live mobile application, Kakao TV offers users a selection of video content, including clips from popular television programs, movies and sports games, as well as live video streaming by our users and news and other media organizations. Kakao TV's integration with our platforms enables it to offer distinctive features to users. For example, users can chat and view video content, including live sports games, simultaneously through our Kakao TV Live mobile application. Through Kakao TV, we offer video advertisements which play at the start of a video clicked on by users. Our video advertising products on Kakao TV are charged at cost per impression.

Kakao Style. Accessible within the Kakao Talk application and as a standalone mobile application, Kakao Style offers merchants a way to highlight the latest fashion trends through their merchandise in the format of a curated pictorial blog. Users are able to indicate their likes and dislikes and share such information with their Kakao Talk friends. Kakao Style offers unique fashion items which users can purchase from participating merchants, many of which are small- and medium-sized retailers. Users are able to browse through the products as if viewing an online magazine, and then click through to the applicable retailer's website for purchases. We receive fees from participating retailers on either a cost per impression or per click basis.

Shopping How. Through our Daum platform, we operate a comprehensive online shopping mall, called Shopping How, in association with leading online retailers and service providers in Korea. In Shopping How, users are able to compare the products and services that are available on each participating retailer's website in a consistent format, and then click through to the applicable retailer's website for purchases. We receive a commission based on the purchase price for sales that originate from Shopping How.

Content

Through our Kakao Talk, Daum and Melon platforms and related mobile applications, we offer mobile and portal-related services that provide access to a wide range of digital content supplied by Korea's leading content providers, including music, games, web-comics and web-novels. We seek to develop and source new and compelling content that attract new users and increase user engagement on our platforms and related services. Total revenue from our content amounted to Won 250 billion in 2014, Won 274 billion in 2015, Won 702 billion in 2016 and Won 720 billion in the first nine months of 2017.

Online Music

We offer users access to music and related content through Melon, our online music streaming and downloading service. See "— Platforms — Melon."

Mobile and PC Games

We are one of the global pioneers in social mobile gaming, and we operate our mobile and PC games business through our subsidiary Kakao Games Corp., in which we own a 75.5% interest. As of September 30, 2017, we offered approximately 1,100 mobile and PC games globally through our Kakao Game and Daum Game services. Our games are designed to appeal to a broad base of players across demographics and geographies and span a variety of genres, including action role-playing games, strategy role-playing games, MMORPGs, casual games, shooting games, simulation games and miscellaneous other games.

Mobile Games. With advancements in smartphone technology and telecommunications infrastructure, it has become possible to play mobile games almost anywhere at any time, including during commutes, office breaks and other situations where such games were previously inaccessible. Leveraging the user base of Kakao Talk, players of our mobile games are able to invite their Kakao Talk friends to play and compete against them. Players can see and compare how their scores for a particular game rank against those of any of their Kakao Talk friends who have also played such game, and players can interact with each other by sending and requesting in-game items. Combined with the relatively short and simple gameplay on entry-level games optimized for mobile devices, these social features of our mobile games have created an organically growing and loyal user base that is increasingly shifting to more advanced high-engagement games.

Our mobile games typically can be downloaded and played for free, and such games generate revenue when players purchase in-game items that enhance, prolong or accelerate game play or augment or customize a particular player's experience. These items enable players to enhance their gaming experience by improving game character performance and skills and making more game features accessible. We also operate Kakao Game Shop, an independent mobile game marketplace for game downloads accessible through both mobile and PC-based web browsers.

Historically, we had generated a majority of our mobile game revenue by entering into contractual arrangements with third-party mobile game publishers for the exclusive distribution of their games within a particular market through our Kakao Game and Daum Game services. However, in order to more effectively respond to rapidly changing industry trends, we adjusted our strategy in recent years to focus more on game publishing in addition to providing game distribution services for third-party publishers. To further enhance our mobile game publishing capabilities, we acquired NZIN Corp., a mobile game publishing company, and merged it with our existing online game publishing subsidiary, Daum Games Co., Ltd., in April 2016. The merged entity was renamed Kakao Games Corp. in July 2016 and, following a corporate reorganization of our game-related businesses in August 2017, conducts all of our game operations, including game development, publishing and distribution for both mobile and PC games.

PC Games. Our PC games can be downloaded onto a PC or played directly in the web browser of a PC and are either free to play, similar to our mobile games, or are subscription-based, which provide users with continual access to the game content during the duration of the user's subscription. In-game items for purchase may be offered in both free-to-play games and subscription-based games. Users can use their Kakao ID to log on and play games. Certain of our PC games are also available through retail distribution channels, such as Internet cafés, including the shooting game PlayerUnknown's Battlegrounds, which was launched in Korea in November 2017. PlayerUnknown's Battlegrounds was developed by Bluehole Studio Inc., in which we own a minority interest.

While the wide adoption of mobile devices globally and the free-to-play business model for mobile games platforms has increased demand for such games, revenue from PC games continues to constitute a significant portion of our game revenue, especially as such games gain success overseas. The MMORPG Black Desert, which we launched in Korea in 2015, has continued to attract players globally, including in Europe and North America.

Web-comics and Web-novels

We offer a broad range of web-comics and web-novels that can be accessed by users through our Kakao Talk and Daum platforms or through dedicated mobile applications. Generally, users may access such content under our "wait or pay" model, pursuant to which users either wait for a specified period of time, or pay a fee or view certain compensatory advertisements, to be allowed to view or read an episode or chapter. In April 2017, we entered into an agreement with an affiliate of our shareholder MAXIMO PTE. LTD. for the use of our "wait or pay" model on Tencent DongMan, a leading web-comics and animation platform in China. We also share certain content with Tencent DongMan, which we believe has helped to expand the audience for our Korean content to the Chinese market.

Kakao Page. Through the Kakao Page function within the Kakao Talk application and the standalone mobile application, users can access a wide variety of web-comics and web-novels aggregated from leading content providers and optimized for mobile devices. As of September 30, 2017, Kakao Page had a library of approximately 20,000 titles of web-comics and web-novels. We also

engage in web-comics and web-novels publishing, pursuant to which we acquire the publishing rights to select titles offered through Kakao Page. We operate our Kakao Page service through our subsidiary, Podotree Inc., in which we own a 57.0% interest. In December 2016, a consortium of investors including Anchor Equity Partners and GIC Private Limited made a Won 125 billion equity investment in Podotree Inc. for a minority interest in the company.

Daum Webtoon. Through Daum Webtoon, the webpage and standalone mobile application that form a part of our Daum platform, we offer users access to web-comics from leading and up-and-coming authors. We also offer amateur authors the opportunity to publish their work through our annual Daum Webtoon League competition. As of September 30, 2017, Daum Webtoon had a library of approximately 500 web-comic titles by approximately 300 authors.

Piccoma. Through our wholly-owned subsidiary Kakao Japan Corp., we operate Piccoma, a mobile web-comics application targeted towards users in Japan, which is currently the largest comics market in the world. Following the global trend of digitalization of comics, Japanese users are increasingly using their mobile and other connected devices to view web-comics, and we launched our Piccoma service in April 2016 to take advantage of potential growth opportunities in Japan. Piccoma offers users access to web-comics provided by both Japanese and non-Japanese authors.

Emoticons

In addition to Brand Emoticons offered to users for advertising purposes, users may also purchase Emoticons through our Kakao Talk application in a price range typically between Won 2,000 and Won 3,000 per set. See "— Products and Services — Advertising — Other Advertising – Emoticons." Users may use such purchased Emoticons across our Kakao Talk, Daum and Melon platforms.

Other Products and Services

E-commerce

As part of our effort to promote our Kakao Talk platform as a medium for commercial activity, we offer e-commerce services which we believe enrich the user experience and contribute to user loyalty for such platform.

Kakao Talk Gift Shop. Through Kakao Talk Gift Shop, which is offered on our Kakao Talk application, we offer our users a distinctive gifting feature that allows them to purchase and send gifts from leading online retailers and service providers in Korea that register as sellers with us. Such gifts may take the form of a mobile coupon sent via a Kakao Talk notification, which the recipient can show at a participating seller's offline store to collect the gift. For physical gifts that are directly delivered to the recipient, the delivery details are provided by the intended recipient of the gift upon receipt of a Kakao Talk notification so that an order may be placed by a Kakao Talk user without the recipient's delivery address or phone number. Users have one-stop access to products and services that are also available on each participating seller's website. However, instead of linking such services to the sellers' own websites, we store the database for their products and services on our own servers. Maintaining the database on our own servers allows us to keep better records of users' purchasing patterns and preferences, to present all the products and services to our users in a consistent format and to address quickly any technical problems on Kakao Talk Gift Shop without having to rely on the sellers to resolve such problems.

When users purchase a product or service through Kakao Talk Gift Shop, we are responsible for collecting payment for the product or service purchased, while the sellers are responsible for packaging, delivery and customer service. We retain a commission from the purchase price and remit the balance to the seller. Users can pay for their purchases through a variety of methods, including by using Kakao Pay or with credit cards. From time to time, we also act as a principal to directly offer and sell merchandise in various product categories through Kakao Talk Gift Shop. To enhance customer loyalty and promote shopping activities, we have partnered with certain merchandisers to offer reward programs and promotional discounts.

Kakao Friends Merchandising. Through our wholly-owned subsidiary Kakao Friends Corp., we engage in character marketing using originally-designed Kakao characters, in order to promote

brand awareness and appeal and to further foster affinity and engagement by our user base. We sell official Kakao merchandise, such as stationery goods, plush toys, action figures and limited edition collaboration items, at both permanent and "pop-up" Kakao stores, as well as on Kakao Talk Gift Shop. From time to time, we license our proprietary Kakao characters to third parties for production and sale of merchandise.

Smart Mobility

Through our subsidiary Kakao Mobility Corporation, in which we own a 72.4% interest, we offer a mobile transportation application, Kakao T, which was launched in October 2017. Kakao T combines our transportation-related services that were previously offered through standalone mobile applications. Kakao Mobility Corporation was established in June 2017 and received a series of equity investments totaling Won 450 billion from a consortium of investors including TPG Capital and Orix Corporation for a minority interest in the company.

Taxi. Originally offered through the Kakao Taxi mobile application that was launched in March 2015, Kakao T's taxi service is the leading mobile taxi application in Korea servicing both taxi drivers and taxi passengers. On mobile devices, users are able to enter a current location and an intended destination to search for and hail the nearest available taxi. Users can send pick-up time and location, drop-off location, vehicle and estimated ride time information as Kakao Talk notifications to friends. In order to improve service quality, taxi drivers and customers are asked to mutually rate each other at the end of each trip. Taxi fares are paid directly to the taxi driver by the passenger. In November 2015, we launched a premium service option that connects passengers with luxury car drivers. Payments for such premium service may be automatically processed through Kakao Pay at the end of a trip.

Designated Driver. Originally offered through the Kakao Driver mobile application that was launched in May 2016, Kakao T's designated driver service enables users to locate the nearest available designated drivers for their vehicles. On mobile devices, users enter their current location and intended destination and have the option to search for designated drivers based on the user's proposed fee amount or a fee amount to be calculated based on the time and length of the trip. Payments for Kakao T's designated driver service are automatically processed through Kakao Pay at the end of a trip.

Parking. We launched a mobile parking service in October 2017, which is offered through Kakao T. On mobile devices, users can search for parking lots near their destination, obtain information on the specific availability of spaces and parking fees, reserve spaces prior to their arrival and pay their parking fees through Kakao Pay upon exit.

Navigation. Kakao T also incorporates a mobile navigation service that provides point-to-point driving directions with estimates for driving time based on real-time traffic conditions.

Fintech

Kakao Pay. Kakao Pay is a mobile payment service that simplifies the online payment process by enabling users to store their credit card or bank account information and make online payments by entering a six digit Kakao Pay password. We have partnered with all ten of the major Korean credit card companies for credit card payments using Kakao Pay. We operate Kakao Pay through our subsidiary Kakao Pay Corp., in which we own a 60.9% interest. In February 2017, we entered into a strategic alliance with Ant Financial Services Group, an affiliate of Alibaba Group Holding Limited that manages Alipay and Alibaba's digital banking business, pursuant to which Ant Financial Services Group made a US$200 million investment in Kakao Pay Corp. in June 2017 and currently owns a 39.1% interest. Under the strategic alliance, we are pursuing cooperation in technology sharing as well as access to retailers in Korea and overseas.

Music Distribution and Production Services

In addition to online music services offered through our Melon platform, we offer a wide range of services that cover key components of the music industry value chain, including music distribution and production, through our subsidiary LOEN, a leading music entertainment company in Korea in which we own a 76.4% interest.

We believe that our vertically-integrated and comprehensive range of music-related services gives us a competitive advantage compared to other music entertainment companies in Korea, enabling us to gain greater insight into, and more effectively respond to, rapidly evolving trends in the music industry, as well as providing us with a more efficient cost structure. Leveraging our integrated services, strong brand power and substantial experience in the Korean music market, we aim to enhance our position as a leading music entertainment company in Korea and to take advantage of business opportunities offered by the increasing global popularity of Korean popular music ("K-pop").

Content Distribution. We enter into arrangements, generally on an exclusive basis, with various production companies (including those that are a part of our content production operations) for online and offline distribution of music content. See "— Content Production." Since the foundation of Seoul Record in 1978, we have accumulated close to four decades of experience in distributing music content in Korea that spans all major music genres. We believe we are Korea's leading music distributor, and we had a market share of approximately 25% of the Korean wholesale music distribution market in the first nine months of 2017 based on revenue, according to our internal estimates. We generally provide online and offline distribution services for more than 400 albums annually.

We generate sales from the distribution of new releases of current artists as well as existing recordings provided by production companies. Our music content distribution activities consist mainly of the following:

- **Online Distribution.** In Korea, there has been a proliferation of websites and mobile applications that sell digital music on a per-album or per-track basis or offer subscription and streaming services. In addition to Melon, we have music content distribution arrangements with a number of online music service providers, including M.net, Genie, Bugs! and Soribada, to make music content available for access in digital formats such as digital downloads, streaming and mobile ringtones. Such arrangements require the online music service providers to pay specified fees to us based on their sales of such content.

- **Offline Distribution.** Most of our sales of music content in CD or DVD format are made to physical wholesale or retail sellers in Korea, including music specialty stores, general entertainment specialty stores, discount stores, mass merchants and other traditional retailers. In addition, sales to both the online distribution arms of traditional retailers and online retailers have become an increasingly important sales channel for CDs and DVDs.

- **Global K-pop Content Channel.** In light of the increasing popularity of K-pop around the world, we operate 1theK, a global K-pop channel that streams music videos on YouTube and social network services. As of September 30, 2017, the channel had approximately 7.9 million subscribers on YouTube, a substantial majority of whom are non-Koreans living abroad.

Content Production. We operate a network of production companies in Korea for musicians, actors and other entertainment industry personnel. Our production companies include LOEN Entertainment, Fave Entertainment, Cre.ker Entertainment, Starship Entertainment and Plan A Entertainment, each of which generally focuses on a specific entertainment market. Services provided by us through our music production companies encompass all stages of the production process for music content, including identifying promising recording artists and entering into management contracts with them for their training and development, collaborating with such artists to produce audio and video recordings of their work, and marketing and selling such recordings to music distributors. We also provide general management services for artists, including in respect of advertising, merchandising, sponsorships, concerts and other promotional activities. Our artists include singer IU, girl group Apink and actors Kwang-soo Lee and Yeon-suk Yoo.

Recording artists' contracts define the commercial relationship between the recording artist and the production company. We negotiate agreements with artists that define our rights to use the artists' copyrighted recordings. While the duration of the contracts may vary, our contracts with our recording artists typically grant us the right to use the artists' recordings for the duration of the copyright. In accordance with the terms of the contract, the artists receive royalties based on sales and other forms of utilization of the artists' recorded works and performances. A substantial majority of the

contracts are “expanded-rights” arrangements, pursuant to which we share in the concert, merchandising, sponsorship/endorsement, fan club and other non-traditional music revenue associated with our artists.

Our contracts with established recording artists generally provide for greater advances and higher royalty rates, and entitle us to fewer albums, compared to our contracts with new artists. It is not unusual for us to renegotiate contract terms with a successful artist during the term of the existing contract, sometimes in return for an increase in the number of albums or other content that the artist is required to deliver.

Artificial Intelligence

In October 2017, we launched an intelligent personal assistant device called Kakao Mini. Kakao Mini incorporates Kakao I, our artificial intelligence service, which enables users to utilize various services offered on our platforms and related applications through voice interaction, including sending and receiving Kakao Talk messages, music playback through Melon, hailing taxis through Kakao T, searching the Internet through the Daum search engine, managing their calendars and accessing weather, traffic and other real time information, such as news and stock prices.

In addition, we expect that Kakao I can be utilized in the future to enable users to control certain elements in cars, homes and home appliances, such as navigation, thermostats and lighting, through voice commands. In order to develop and commercialize such applications for Kakao I, we have entered into business partnerships with third parties, including Hyundai Motor Company, GS E&C Corp. and Samsung Electronics Co., Ltd.

Sales and Marketing

We believe that our large user base itself, as well as the brand power of our Kakao Talk, Daum and Melon platforms, are key drivers of our user base growth. We market many of our services through our platforms by stimulating user awareness and effectively capturing user interest. In our online community, “word of mouth” is an important driver for the adoption of value-added services, as positive feedback from users can be quickly communicated through various channels, including Kakao Talk and Daum Cafés. From time to time, we utilize television commercials and Internet and mobile advertising as well as product placements in television shows. We conduct a variety of online and offline marketing and promotional activities, including joint marketing activities with mobile game developers and distributors, as well as exhibitions featuring our widely-known Kakao Friends characters.

We market our advertising, e-commerce and fintech services through a dedicated sales force, as well as through third-party advertisement agencies. Leveraging our user base, we also offer targeted advertising solutions for our participating online shopping mall and e-commerce merchants to reach their target users and increase online sales. This enables our participating merchants to lower their marketing costs and achieve higher returns using our user targeting technology. We also invest in customer support for our users, platform partners and advertisers.

Marketing and promotional activities are also critical aspects of our music entertainment business and have significantly contributed to the enhancement of the brand image of Melon, as well as our other music entertainment brands. The proliferation and diversity of available marketing channels, including the continual development and adoption of new interactive technologies and media, have made it more difficult and complex for music service providers to reach their target audiences in an effective and efficient manner. Leveraging our long experience in the Korean music industry and our deep understanding of evolving demand trends across different customer segments, we seek to utilize an optimal mix of channels to market our music-related products and services to target audiences, including television, the Internet (including social network services), radio and print media. We also sponsor various promotional events, including concert performances and celebrity appearances, which we believe have contributed to enhancing our music entertainment brand recognition. For example, we sponsor the Melon Awards, which are weekly awards conferred based on online voting by Melon subscribers. We also host a major offline music award event held every December.

Melon's VIP Program, a customer rewards program, is also an important component of our marketing and brand loyalty strategy. The VIP Program is designed to recognize and reward Melon's most loyal customers based on the length of their subscription. Program members are able to participate in various promotional events based on their tier status within the VIP Program.

Competition

We face significant competition in almost every aspect of our business. We primarily compete for the time, attention and spending of our users with providers of other forms of mobile, online and in-home communication, entertainment and information services. We face competition from mobile telecommunications companies, game companies, e-commerce companies, music and video service companies, financial service companies and other Internet-related companies that offer products and services that may compete with specific features of our products and services, including those offered through our Kakao Talk, Daum and Melon platforms and related applications. In particular, we compete directly with other major Korean Internet portal services, such as Naver, to provide comprehensive mobile and online services to users. In addition, we compete with international competitors, such as Facebook and Google, which offer a wide range of information and communication services and products as well as online advertising services. Furthermore, we compete with offline and online media and advertising businesses for a share of advertisers' budgets and in the development of tools and systems for managing and optimizing advertising campaigns.

There is intense competition for users, traffic and advertisers in the Korean market for Internet portals and related services, as a result of which we have historically experienced, and expect to continue to experience, difficulty in maintaining or increasing the market share and revenue of our Daum portal-related services. In addition, although we operate the leading mobile messaging service in Korea, the mobile messaging markets outside Korea are dominated by various other companies, many of which have greater financial resources and substantially larger user bases. For example, our Kakao Talk service faces competition from other well-established mobile messaging services, such as Facebook's Whatsapp, Tencent's WeChat and Naver's LINE Messenger. We plan to selectively target new categories and markets outside of Korea where we may be able to leverage our strengths and exclusive content offerings in order to obtain a competitive advantage. Competition in the mobile game market in Korea is also intense, and it may become more challenging for us to retain existing users and attract new users as competition from other online game operators, based in Korea as well as overseas, is likely to increase in the future.

The key areas in which we compete include:

- **Users and User Engagement.** We compete to attract, engage and retain users. We believe that our ability to compete effectively for users depends on several factors, including the utility, ease of use, performance, quality and reliability of our products, content and services, as well as our ability to establish and maintain relationships with platform partners.

- **Advertising.** A significant portion of our revenue is generated from the sale of advertising services, and we compete to attract and retain advertisers. We believe that our ability to compete effectively for advertiser spending depends on many factors, including the size and composition of our user base, as well as the reach, relevance and engagement capabilities of our advertising targeting tools.

- **Talent.** We compete for highly skilled personnel, including senior management, engineers, developers, designers and service managers. Competition for highly skilled personnel is intense, and we face competition for qualified personnel from other mobile and online businesses, other companies in the technology industry and traditional media businesses. We believe that our ability to compete effectively for highly skilled personnel depends on many factors, including a work environment that fosters and rewards creativity and innovation, as well as attractive compensation packages.

In our online music services business, the principal competitors of Melon include M.net, Genie, Bugs! and Soribada. In our music content distribution business, the principal competitors of LOEN Music are M.net and KT Music. In our music content production business, our production companies

compete mainly with other production companies in Korea in signing and managing recording artists, as well as actors and other entertainment industry personnel, and in producing and marketing music content to music distributors.

Intellectual Property

We own various trademarks, service marks and related logos, including “Kakao,” “Kakao Talk,” “Daum,” “LOEN Entertainment,” “LOEN Music” and “Melon.” We believe that our brand names are some of the best-recognized mobile and online brands in Korea. We regard our patents, copyrights, trademarks and other intellectual property as critical to our success. To establish and protect our proprietary rights, we rely on a combination of patents, trademarks, copyrights, trade secrets (including know-how), license agreements, confidentiality procedures, non-disclosure agreements with third parties, employee disclosure and invention assignment agreements, and other contractual and implicit rights. We also enter into confidentiality and invention assignment agreements with our employees, contractors and platform partners, and we control access to our proprietary technology and information.

As of September 30, 2017, we had 320 issued patents in Korea and 47 issued patents in other countries primarily relating to telecommunications, social networking, web technologies and infrastructure technologies. We also pursue registrations of copyrights, domain names, designs, trademarks and service marks in Korea and elsewhere where we deem appropriate.

As of September 30, 2017, we had 2,295 registered trademarks and service marks in Korea and 309 registered trademarks and service marks in other countries. While most of the intellectual property we use is developed by us, from time to time we acquire certain rights to proprietary intellectual property from third parties.

Technology

We operate a media research center in Jeju Island and a research and development center in Pangyo, near Seoul, and we have assembled a team of highly skilled engineers and computer scientists whose expertise spans a broad range of technical areas. We compete aggressively for talent, and our engineers and computer scientists drive our innovation, technology development and operations. We strive to hire the best personnel to help us solve significant challenges across systems design, machine learning, data mining, networking, software engineering, distribution systems, cluster design and other areas. In particular, we have made significant investments in scalable infrastructure to support large-scale systems, data management and analysis technology, web search technology, online advertising technology and voice and video call quality solutions.

Scalable Infrastructure to Support Large-Scale Systems

Many of our products and services are built on distributed computing architecture. We use a combination of off-the-shelf and custom software running on clusters of commodity computers to amass substantial computing capability. We intend to continue to develop server infrastructure that is operationally efficient, scalable and reliable, which is designed to do the following:

- adapt to meet the needs from user base growth and increasing activities on our online platforms and related applications, through decentralized data networks;
- improve the functionality of servers through automated server management technology, thereby reducing cost and improving operational agility;
- automatically detect and respond to errors in our infrastructure components, including application servers, storage infrastructure and system networks; and
- maintain reliable redundant systems for our infrastructure components to reduce the possibility of service interruptions.

Our infrastructure enables the storage and processing of large datasets and deployment of our services and products to our users on a global basis. As our user base grows and the level of

engagement and activities on our online platforms and related applications continue to increase, we plan to continue to expand our computing infrastructure to sustain and further improve our operating efficiency and to provide our products and services quickly and reliably to all users in Korea and elsewhere around the world.

Data Management and Analytics Technology

In order to provide each user with a personalized experience, we process and analyze a vast and growing amount of content shared by our users, platform partners and advertisers. Accordingly, we have invested in developing technology and analytics in areas including the following:

- a storage infrastructure that enables us to securely store large amounts of data generated by our users;
- increased storage capacity for more efficient data distribution;
- a high-volume business intelligence system that enables large-scale data analysis; and
- a data warehouse infrastructure that provides tools to enable easy data summarization, *ad hoc* querying and analysis of large datasets.

Web Search Technology

Our web search technology uses a combination of techniques to determine the significance of a web page independent of a particular search query as well as to determine the relevance of that page to a particular search query. In particular, we employ:

- a page ranking technique that determines the significance of a web page by examining the link structure of the web;
- text-matching techniques that compare search queries with the content of web pages to help determine relevance. Many aspects of a page's content are factored into the equation, including the proximity of individual search terms to each other on a given web page; and
- deep learning techniques that improve speech and image recognition, search capabilities and natural-language understanding.

Online Advertising Technology

We offer advertisers powerful online media through which they can effectively reach our large user base in a targeted manner. Our online advertising technology enables thousands of relevant, targeted advertisements each day based on search terms our users enter or content they view on our online platforms and related applications. The key elements of our advertising technology include:

- advertising auction system technology that enables advertisers to compete against other advertisers in an auction and bid for a given advertisement spot, typically based on a search keyword, as well as automatically deliver relevant, targeted advertising;
- contextual advertising technology that employs techniques that consider factors such as keyword analysis, word frequency and the overall link structure of the web to analyze the content of individual web pages and to match advertisements to them almost instantaneously; and
- systems to better analyze user preferences and content consumption patterns in order to provide more personalized advertisements allowing advertisers to effectively manage their advertising budgets.

Audio and Video Quality Solutions

We believe that audio and video quality is critical to the enjoyment of the audio and video services of our Kakao Talk, Daum and Melon platforms and related applications, and we have made

significant engineering and development efforts to improve our audio and video quality. Key areas of our investments include the following:

- proprietary audio and video communications technology that can reliably process large amounts of audio/video data transfer and calls on a daily basis; and

- high performance codec and data transmission technology and routing algorithms to improve overall audio/video quality and user experience.

Properties

As of September 30, 2017, we had Won 265 billion of property and equipment, which primarily consisted of our head office building in Jeju Island and our servers and networking equipment. As of September 30, 2017, we also leased various office facilities in Korea and other countries, including Japan.

Employees

Our employees are critical to our success. We seek employees who are motivated to develop new and innovative products and services for our rapidly growing user base as well as for our platform partners and advertisers. Many of our new hires have prior experience in the Internet, mobile services, music or related industries, and we strive to hire and retain employees with diverse backgrounds in addition to relevant work experience in order to achieve our objective to continue our growth.

On a consolidated basis, we had 3,221, 4,100, 5,159 and 5,640 full-time employees, which includes regular employees and contract-based employees, as of December 31, 2014, 2015 and 2016 and September 30, 2017, respectively. From time to time, we also employ part-time employees to enhance our operational efficiency. The following table sets forth a breakdown of our full-time employees by entity as of September 30, 2017:

Entity	Number of full-time employees
Kakao Corp.	2,538
LOEN	591
Others	2,511
Total	5,640

We review the salaries of our full-time employees annually. Salaries are adjusted based on individual and team performance, industry standards and inflation. As an incentive, a discretionary bonus may be paid based on the performance of individuals as well as the overall performance of the relevant team or company. We also provide a wide range of fringe benefits to our employees, including medical insurance, periodic health examinations, subsidies for significant personal events (such as marriage, childbirth or death of a family member) and meal subsidies.

None of our employees are members of a labor union. We and LOEN each have a joint labor-management committee for our respective employees, which periodically meets to discuss employee welfare and benefits issues. We have not experienced any material strikes or labor disputes in the past with our employees and consider labor relations with our work force to be good. Under applicable Korean labor laws, we are restricted from involuntarily terminating a full-time employee except under certain limited circumstances.

Our full-time employees in Korea, including executive officers as well as non-executive employees, are subject to a pension insurance system pursuant to the National Pension Act of Korea, under which we make monthly contributions to the pension accounts of the employees, and upon retirement, such employees are paid from their pension accounts. We contribute an amount equal to 4.5% of an employee's standard monthly wages, and each employee contributes 4.5% of his or her standard monthly wages, into his or her personal pension account. In addition, in accordance with the Guarantee of Worker's Retirement Benefits Act of Korea, we have adopted retirement pension plans for our employees. Contributions under the retirement pension plans are deposited annually into a financial institution, and an employee may elect to receive a monthly pension or a lump-sum amount upon retirement, pursuant to a defined benefit plan or a defined contribution plan. The defined benefit

plan guarantees a certain payout at retirement, according to a fixed formula based on the employee's average salary and the number of years for which the employee has been a plan member. The defined contribution plan, in which the employer's contribution is determined in advance on an annual basis, is managed directly by the employees through their individual accounts under the plan. For further information regarding our retirement pension obligations with respect to our employees, see Notes 19 and 20 of the notes to our annual consolidated financial statements appearing elsewhere in this offering circular.

Legal and Regulatory Proceedings

We are subject to a number of claims and are a party to a number of legal and regulatory proceedings that are incidental to the normal course of our business. We are not currently involved in any litigation, administrative proceeding or arbitration, the outcome of which would, in the reasonable judgment of our management, have a material adverse effect on our financial condition or results of operations.

Investments

In addition to our operating subsidiaries such as Kakao Mobility Corporation, Kakao Games Corp. and LOEN, we have investments in a number of entities, some of which are accounted for as consolidated subsidiaries and others as associates or available-for-sale securities. See Notes 1.1, 9 and 15 of the notes to our annual consolidated financial statements, and Notes 1.1, 1.2, 1.3 and 6 to our unaudited consolidated interim financial statements, appearing elsewhere in this offering circular.

In particular, we own a 10% equity interest in Kakao Bank, which interest is accounted for as available-for-sale securities. Kakao Bank commenced operations in July 2017 and is largest Internet-only bank in Korea in terms of asset size. Internet-only banks generally operate without branches and conduct their operations primarily through electronic means, which enable them to minimize costs and offer customers higher interest rates on deposits as well as lower lending rates. As of November 30, 2017, Kakao Bank had approximately 4.65 million holders of deposit accounts.

Other major shareholders of Kakao Bank include Korea Investment Holdings Co., Ltd., the parent company of Korea Investment & Securities Co., Ltd., a major securities company in Korea, and the largest shareholder with a 58.0% equity interest, and Kookmin Bank, one of the leading commercial banks in Korea with a 10.0% interest. Under the Bank Act of Korea, non-financial business group companies such as us may not acquire beneficial ownership of shares of a nationwide bank in excess of 4% of that bank's outstanding voting shares, unless they satisfy certain requirements set forth by the Enforcement Decree of the Bank Act, obtain the approval of the Financial Services Commission and agree not to exercise voting rights in respect of shares in excess of the 4% limit, in which case they may acquire beneficial ownership of up to 10% of a nationwide bank's outstanding voting shares. Accordingly, we have agreed with the Financial Services Commission not to exercise voting rights in respect of our shares in Kakao Bank in excess of the 4% limit. Under the shareholders' agreement we entered into with the other shareholders of Kakao Bank, we have the right to increase our ownership interest in Kakao Bank to up to 30% and thereby become its largest shareholder, by purchasing a portion of the shares currently owned by Korea Investment Holdings. In order for us to exercise such right, the Bank Act would have to be amended to remove or relax the restrictions on ownership of bank shares by non-financial group companies.

REGULATION

As a general matter, we and our Korean subsidiaries, including LOEN, are subject to rules and regulations applicable to corporations established under the Korean Commercial Code. Our business operations, including those of LOEN, are also regulated by a number of other Korean laws and regulations, including in particular those described below. In addition to the foregoing, we may be subject to government regulations of other jurisdictions where we undertake business activities.

Regulations Relating to Online Services in General

Under the Telecommunications Business Act (the "TBA"), telecommunications services are divided into two categories: telecommunications services such as telephone and online connection (including the business of leasing telecommunications line facilities) and additional communications services. The online services and the online content services we provide are classified as additional communications services under the TBA, and we are registered as an additional communications services business operator.

Additional communications services offered by us are recognized as an online service provider's additional communications services for the purpose of transmitting of intellectual properties among different individuals, and are subject to the Copyright Act. Under the Copyright Act, if requested by the proprietor of the relevant intellectual property, we must take necessary measures including technical measures to block any illegal transmission of the relevant intellectual property. In addition, a telecommunications business operator is a provider of information and communications services under the Act on Promotion of Information and Communications Network Utilization and Information Protection, Etc., and we are obligated to protect users' personal information in accordance with such Act.

Regulations Relating to Online News Services

In order to electronically publish online newspapers or offer online news services, we are required to be registered under the Act on Promotion of Newspapers, Etc. and we have completed our registration in connection with our offering of online news services. As an online news service operator, we are required to distinguish between the news we publish and the news for which we act solely as an intermediary. If any of the news for which we act solely as an intermediary is retransmitted to us by the original publisher due to changes in the title, content or other circumstances, we are required to immediately update the news using the retransmitted versions.

Regulations Relating to Location Information Business

In relation to online mapping and location-based services, we offer services for collecting and providing location information, and location-based services using location information collected, which are subject to the Act on Protection and Utilization of Location Information (the "PULI Act"). The PULI Act is a special act enacted for the purpose of protecting sensitive personal location information. Under the PULI Act, a location-based service provider is required to make a filing with the Korea Communications Commission if, among other things, any of the following occurs: (i) any change in the name of the business entity, the address and the location of the information system, (ii) any change in standardized contractual terms and conditions for the services, (iii) suspension or closing of the business, or (iv) merger or acquisition of the business. Further, under the PULI Act, we are required to obtain consent from the proprietor of the relevant personal location information when utilizing or providing the personal location information, and if we wish to provide such personal location information to a third party designated by the proprietor of the respective personal location information, we must immediately notify the proprietor. We are prohibited from utilizing or providing personal location information beyond the scope set out in or as agreed to by the proprietor in the standardized contractual terms and conditions for the applicable services. We must immediately delete all relevant information including personal location information once we have fulfilled the purpose for which we collected such information.

Regulations Relating to Online Advertising Services

We are subject to the Act on Fair Labeling and Advertising in respect of our online advertising services. The Fair Trade Commission of Korea may issue a public notice pertaining to matters

necessary to protect consumers and maintain fair transactions, requiring business operators to disclose such items in their advertisements ("Material Information") which (i) frequently have harmful effects on consumers if absent from the relevant advertisement or (ii) may affect consumers' decisions on the purchasing of goods or have harmful or dangerous effects on the life, body or personal property of the consumer if not properly forewarned. If any of the above are applicable, a business operator is required to include such Material Information in its advertisements.

Regulations Relating to Mobile Game Services

Among other applicable laws, the Game Industry Promotion Act (the "GIPA") and the Juvenile Protection Act (the "JPA") regulate mobile game businesses. Game production and distribution businesses are regulated under an advance registration scheme. The GIPA requires that a person who intends to engage in the game production or distribution business register with the relevant government authority. An amendment of important business matters must be registered as well. We are a registered game developer and a registered game distributor under the GIPA. The GIPA requires game companies to take certain measures to prevent gamers' excessive preoccupation with and addiction to games.

The JPA requires online game companies to restrict those under the age of 16 from accessing their online game websites between midnight and 6:00 a.m. (known as the "shutdown" system). In addition, the JPA requires that juveniles under the age of 16 obtain parental/guardian consent before purchasing an online game subscription. The JPA also requires game companies to publish basic information including the nature, rating, and fee-charging policy of the game offered, hours of permissible game use and payment information.

Regulations Relating to Mobile Content and Mobile Commerce Businesses

Among other applicable laws, the Act on Consumer Protection in Electronic Commerce, Etc. and the Electronic Financial Transactions Act apply in connection with electronic financial businesses such as the mobile commerce and mobile content businesses.

Under the Act on Consumer Protection in Electronic Commerce, Etc., a business entity considering providing information on the sale of goods or services by means of mail, electronic communication or similar means and selling such goods or services (with an exception for solicitation by phone which is governed by the Act on Door-to-Door Sales, Etc.) is required to file for registration of a mail order distributorship with any of the Fair Trade Commission of Korea, a relevant provincial governor, a mayor, a municipal governor (*gunsu*) or a head of a borough (*gucheongjang*), as applicable. We have completed the relevant mail order distributorship registration.

In connection with (a) the issuance and management of an electronic prepayment means (i.e., any certificate, or information on such certificate, of transferable monetary values stored and issued in electronic form, which meets all requirements of the following items: (i) to be used to purchase goods or services from a third party and pay the prices thereof and (ii) to be used to purchase goods or services included in not less than two business categories), and (b) electronic payment settlement agency service (i.e., any service rendered to transmit or receive payment settlement information in connection with the purchasing of goods or using services in an electronic form or to undertake duties as an agent or mediate the settlement of prices thereof), we are registered with the FSC in accordance with the Electronic Financial Transactions Act (the "EFTA") and are subject to such Act.

The FSS monitors electronic financial business operators' compliance with the EFTA or the administrative orders issued pursuant to the EFTA. If the FSS believes that an electronic financial business operator will likely violate the EFTA or the aforementioned administrative orders, the FSS may take any one of the following measures: an order for the remedying of the violation, a warning, a warning to an executive and/or an employee, an order for the reprimanding of an executive and/or an employee or a request for removal of an executive or suspension of duty.

Regulations Governing Music Related Businesses

Among other applicable laws, online music services and related businesses are governed by the Copyright Act and the Music Industry Promotion Act, which were enacted to promote music related businesses and to protect the rights of the music writers.

The Copyright Act was recently amended to enforce the Korea-EU and Korea-U.S. free trade agreements in Korea. Major changes include: (i) increasing the protection of a music writer's property rights to 70 years (previously 50 years) after the death of the music writer; (ii) increasing the protection of neighboring rights (pertaining to musical performance and music recordings) to 70 years (previously 50 years) effective from August 1, 2013, while any neighboring rights acquired during the period between July 1, 1987 and June 30, 1994 will be protected for 50 years; and (iii) the introduction of a legal remedy for the claim of damages. Such amendments are anticipated to enhance the protection of music-related copyrights in Korea and to further contribute to the growth of the online music service industry in general.

The Music Industry Promotion Act was enacted in 2006 to replace the previously repealed Act on Music Record/Video and Game Materials. The Act provides a legal framework and guidelines for digital music sources and development of relevant technology, and generally encompasses protection of copyrights, promotion of the music industry, online music streaming and musical performances, among other things.

The royalties for digital music copyrights payable to music distributors and copyright holders are governed by the royalty collection regulations (the "Royalty Regulation") approved by the Ministry of Culture, Sports and Tourism. The Royalty Regulation was amended in February 2016 to promote the copyright holders' rights, and in particular, raise the profit distribution ratio for copyright holders, prohibit unreasonable discounts and raise applicable royalty rates. As a result, all online music service providers in Korea recently raised their subscription fees to accommodate such changes in the Royalty Regulation.

Since the purpose of the Royalty Regulation is to protect the copyright holders' rights, the Royalty Regulation may be amended again from time to time based on discussions among interested parties and the approval of the Ministry of Culture, Sports and Tourism.

Regulations Relating to Protection of Personal Information

We are subject to the Act on Use and Protection of Credit Information, which regulates companies utilizing databases of personal credit information for its business. We are also subject to the Personal Information Protection Act, which regulates the collection, utilization and provision of personal information, and the procedure for obtaining consents on handling personal information.

In the course of our business, we acquire a large amount of personal and financial information related to our users. In addition, certain third-party vendors may provide services to us using personal and financial information of their customers. As required by the above-described laws, we take precautionary measures, including the implementation of internal compliance procedures, to prevent and detect misuse or unauthorized disclosure of users' personal information.

Regulations under the Monopoly Regulation and Fair Trade Act

We are part of the Kakao Group and thus are subject to certain restrictions, including the following, under the Monopoly Regulation and Fair Trade Act:

- **Restrictions on debt guarantees among affiliates.** Any affiliate within the Kakao Group may not guarantee the debt of another domestic affiliate to domestic financial institutions, except for certain guarantees prescribed in the Monopoly Regulation and Fair Trade Act, such as, among others, those relating to the debt of a company acquired for purposes of industrial rationalization, bid deposits for overseas construction work and technology development funds.

- **Restrictions on cross-shareholding.** A member company of the Kakao Group may not newly acquire or hold shares in an affiliate belonging to the Kakao Group that owns shares in such member company except for certain cases prescribed by the Monopoly Regulation and Fair Trade Act, such as the acquisition of shares in the context of a merger of companies or a transfer of business and exercise of security interests. Existing cross-shareholdings are required to be publicly disclosed.

- **Public notice of board resolutions on large-scale transactions with specially-related persons.** If a member of the Kakao Group engages in certain transactions with a specially-related person in the amount of (i) 5% or more of its total capital and paid-in capital, whichever is greater, or (ii) Won 5 billion or more, the transaction must be approved by a resolution of such member's board of directors in advance, and such member must publicly disclose the transaction.

In August 2013, the Monopoly Regulation and Fair Trade Act was amended to strengthen restrictions on transactions between certain affiliated group entities, which amendments became effective in February 2014. In particular, the amendments explicitly provide that a company belonging to an enterprise group subject to the limitations on cross-investment among affiliates (as defined in the Monopoly Regulation and Fair Trade Act) is restricted from providing profits to its specially-related persons (including the de facto controlling person of such company or his or her respective relatives (as defined in the Korean Civil Code)) by, among other things, engaging in the following transactions with its specially-related persons or affiliated companies in which such specially-related person has an ownership interest of, in the case of listed companies, 30% or more or, in the case of non-listed companies, 20% or more:

- transactions with terms that are significantly more favorable than terms of transactions with non-affiliates;

- the company passes to such specially-related persons or affiliated companies its business opportunities that would bring substantial profits or other benefits to the company if such transactions were entered into by the company itself or another company under such company's control;

- transactions with specially-related persons in cash or involving financial instruments under terms that are significantly more favorable than arms' length terms; or

- transactions of a substantial scale with certain specially-related persons or affiliated companies, unless the company underwent an appropriate arms' length selection process of choosing its counterparty, such as the assessment of business capacity, financial status, credit ratings and quality of products or services of the counterparty as well as the terms and conditions of the transaction. Such restriction does not apply if (i) the aggregate transaction amount for goods and services between the relevant parties in that year neither exceeds Won 20 billion nor 12% of the average revenue of the counterparty or (ii) such affiliated transactions are inevitable in order to achieve certain specific purposes, such as efficiency, security or urgency for the company.

Violation of the above restrictions may subject the company to a corrective order or a fine imposed by the Fair Trade Commission up to 5% of such company's average revenue during the immediately preceding three fiscal years or, in certain cases (including where the company has no revenue), Won 2 billion.

Board of Directors

Our board of directors has ultimate responsibility for the administration of our affairs. Our articles of incorporation currently provide for a board of directors consisting of not more than 11 directors. We currently have seven directors, three of whom are standing directors and four of whom are outside directors. Standing directors are directors who are full-time executive officers of our company, while outside directors are non-standing directors elected from among those persons who do not have a special relationship with us that would interfere with the exercise of their independent judgment. Directors are elected at a general meeting of shareholders by a majority vote of those present or represented so long as the affirmative votes also represent no less than 25% of the issued and outstanding shares with voting rights. Our outside directors are elected at a general meeting of shareholders from among those candidates recommended by our Nomination Committee. The term of office for our directors is a period of less than three years determined at a general meeting of shareholders. However, the term of office will be extended to the close of the annual general meeting of shareholders if the term of office for the director ends before the close of the annual general meeting of shareholders convened with respect to the last fiscal year within such term of office.

The representative director is a director elected by a majority of the board of directors and is empowered to make decisions regarding our day-to-day business as our chief executive officer. Ji Hoon Rim, our chief executive officer, currently serves as our representative director.

The tables below set forth our directors and executive officers, and their years of birth and positions, as of the date of this offering circular. The business address of each of our directors and executive officers is at our registered office at 242, Cheomdan-ro, Jeju-si, Jeju-do, Korea.

Directors

Name	Year of Birth	Position	End of Current Term	Other Positions
Ji Hoon Rim	1980	Chief executive officer and representative director	March 30, 2018	Non-standing director, K Cube Ventures
Beom Su Kim	1966	Chairman of the board of directors	March 31, 2020	Non-standing director, K Cube Holdings; Non-standing director, K Cube Ventures; Representative director, Kakao Brain; Non-standing director, Kakao Japan Corp.
Jiho Song	1960	Standing director and chief financial officer	March 30, 2018	Standing director, Path Mobile Inc.; Non-standing director, LOEN; Standing director, Kakao Mobility Corp., Standing director, Kakao Pay Corp.
Minsick Cho	1966	Outside director; Chairman of the Audit Committee	March 30, 2018	Startup accelerator
Jae Hong Choi	1962	Outside director; Member of the Audit Committee	March 30, 2018	Professor of computer science engineering, Gangneung-Wonju National University
Piao Yanli	1980	Outside director	March 30, 2018	Vice president, Tencent Games; Non-standing director, Netmarble Games Corporation
Kyu Jin Cho	1973	Outside director; Member of the Audit Committee	March 30, 2018	Professor of mechanical and aerospace engineering, Seoul National University

Ji Hoon Rim has served as our chief executive officer and representative director since September 2015. Mr. Rim is the co-founder and previously served as the chief executive officer of K Cube Ventures and had also served as a principal at Softbank Ventures Korea. He has a bachelor's degree in industrial engineering from Korea Advanced Institute of Science and Technology.

Beom Su Kim has served as chairman of our (and the Former Kakao's) board of directors since January 2007. Mr. Kim is the co-founder of K Cube Ventures and the founder of Hangame Communications Corp. (currently part of NHN Entertainment Corp.) and formerly served as co-chief executive officer of NHN Corporation. Mr. Kim has a master's degree in industrial engineering from Seoul National University.

Jiho Song has served as our (and the Former Kakao's) standing director since July 2009. He also serves as the representative director of Path Mobile Inc. Mr. Song previously served as our chief financial officer and has a master of business administration degree from the University of Texas at Austin.

Minsick Cho has served as our (and the Former Kakao's) outside director and chairman of the Audit Committee since March 2014. Mr. Cho formerly served as head of financial advisory services at Samjong KPMG and is a certified public accountant. He has a master's degree in business management from Seoul National University.

Jae Hong Choi has served as our (and the Former Kakao's) outside director and Audit Committee member since March 2014. Mr. Choi is a professor of computer science engineering at Gangneung-Wonju National University and has a master's degree in electronic engineering from Hanyang University.

Piao Yanli has served as our (and the Former Kakao's) outside director since April 2012. Ms. Yanli serves as vice president at Tencent Games. She previously served as the representative director of Tencent Korea and Tencent Japan and has a bachelor's degree in economic laws from Hei Long Jiang University.

Kyu Jin Cho has served as our outside director and Audit Committee member since March 2017. Mr. Cho is a professor of mechanical and aerospace engineering at Seoul National University and has a Ph.D. in mechanical engineering from the Massachusetts Institute of Technology.

Executive Officer (Other than Directors)

Name	Year of Birth	Title and Responsibilities	Executive Officer Since	With Company Since
Sung Hun Park	1973	Chief Strategy Officer, Kakao Corp.; Representative director, LOEN	2015	2015

Sung Hun Park has served as our chief strategy officer since April 2015. Mr. Park is the representative director of LOEN. He previously served as a vice president of CJ Group and had also served as a partner at Boston Consulting Group and Bain & Company. He has a bachelor's degree in business administration from Seoul National University.

Board Practices

Our articles of incorporation provide for the establishment of the following committees under our board of directors:

- Audit Committee;
- Compensation Committee;
- Nomination Committee; and
- other committees as deemed necessary by our board of directors.

Our board of directors appoints the members of these committees, except for members of our Audit Committee, who are appointed at a general meeting of shareholders.

Audit Committee

Under the Korean Commercial Code and our articles of incorporation, we are required to have an Audit Committee consisting of three or more directors. Our articles of incorporation currently provide that all members of the Audit Committee must be outside directors. The committee reviews all audit and compliance-related matters and makes recommendations to our board of directors. Our Audit Committee's primary responsibilities include:

- engaging independent auditors;
- approving audit and non-audit services and fees of independent auditors;
- reviewing audit results and reports, including comments and recommendations to the management;
- reviewing our systems of controls and policies, including those covering conflicts of interest and business ethics;
- considering significant changes in accounting practices; and
- examining improprieties or suspected improprieties.

In connection with the annual general meeting of shareholders, our Audit Committee examines the agenda for, and financial statements and other reports to be submitted by the board of directors at, the meeting. Our Audit Committee holds meetings semi-annually and additional meetings as necessary.

Currently, our Audit Committee consists of three outside directors: Minsick Cho, Jae Hong Choi and Kyu Jin Cho. Minsick Cho is the chairman of the committee.

Compensation Committee

Our Compensation Committee is responsible for reviewing and determining the operation of our compensation program. Our Compensation Committee's primary responsibilities include determining and approving the level and structure of compensation of directors, executive officers and employees as well as other matters relating to compensation including performance evaluation.

Currently, our Compensation Committee consists of three members: Jae Hong Choi, Minsick Cho and Beom Su Kim. Jae Hong Choi is the chairman of the committee.

Nomination Committee

Under Korean law and our articles of incorporation, we are required to have a Nomination Committee consisting of two or more directors, at least half of whom must be outside directors. Our Nomination Committee is responsible for reviewing and recommending candidates for directors at the general meeting of shareholders.

Currently, our Nomination Committee consists of three members: Kyu Jin Cho, Minsick Cho and Beom Su Kim. Kyu Jin Cho is the chairman of the committee.

Compensation of Directors

Remuneration

The aggregate remuneration paid and benefits in kind granted to our directors was Won 911 million in 2015, Won 1,485 million in 2016 and Won 679 million in the first nine months of 2017. As of September 30, 2017, there were no loans granted by us to any of our directors or executive officers. We do not have service contracts with any of our directors or executive officers.

Stock Options

Under Korean law and our articles of incorporation, subject to certain exceptions, we may, by special resolution of our shareholders, grant to our directors, officers and employees who have contributed or are expected to contribute to our management, options to purchase up to an aggregate of 15% of the total number of our issued and outstanding shares.

We have granted both cash-settled stock options and equity-settled stock options to our directors, officers and employees, including share-based payment transactions with cash alternatives which we have the discretion to settle by the issuance of new common shares, distribution of treasury shares or payment of cash at the time of their exercise. As of September 30, 2017, we had outstanding stock options for an aggregate of 1,554,904 common shares, of which 187,404 were exercisable. For further information regarding our stock options, see Note 11 of the notes to our unaudited consolidated interim financial statements appearing elsewhere in this offering circular.

Interests of Directors and Executive Officers

As of September 30, 2017, there were no outstanding transactions other than in the ordinary course of business undertaken by us in which our directors or executive officers were interested parties.

In addition to the equity-settled stock options discussed above, certain of our directors and executive officers have direct or indirect beneficial interests in our common shares. However, other than as set forth in “Principal Shareholders,” none of them holds more than 5% of the outstanding common shares. Certain of our directors and executive officers have direct or beneficial interests in companies with which we have engaged in transactions, including those in the ordinary course of business. As a result, potential conflicts of interest between their duties to us and their private interests could arise.

PRINCIPAL SHAREHOLDERS

The following table sets forth information regarding beneficial ownership of our common shares as of September 30, 2017, by each person or entity known to us to own beneficially more than 5% of the outstanding common shares:

Shareholder	Number of Shares	Percentage
Beom Su Kim	12,544,461	18.49%
K Cube Holdings Co., Ltd.(1)	9,949,467	14.67
MAXIMO PTE. LTD.	5,599,849	8.26
Star Invest Holdings Limited(2)	5,555,972	8.19
National Pension Service	3,428,167	5.05
Others	30,795,995	45.40
Total	67,833,911	100.00%

(1) K Cube Holdings Co., Ltd. is wholly owned by Beom Su Kim.

(2) Star Invest Holdings Limited sold a portion of its common shares in November 2017 and currently owns 2,777,986 common shares.

Other than as set forth above, no other person or entity or group of persons or entities known by us to be acting in concert, directly or indirectly, owned 5% or more of the outstanding common shares or exercised control or could exercise control over us as of the date of this offering circular. Our major shareholders do not have different voting rights from our other shareholders.

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

We engage from time to time in various transactions with related parties, including our associates, joint ventures and affiliates. We believe that we have conducted our transactions with related parties as we would in comparable arm's-length transactions with a non-related party, on a basis substantially as favorable to us as would be obtainable in such transactions.

Under the Monopoly Regulation and Fair Trade Act of Korea, in the event that (i) we provide funds, securities or assets to, or enter into a transaction (or series of transactions) with, a "specially-related" party, which includes affiliates, and (ii) the value of such transaction (or series of transactions) or provision is greater than either (x) 5% of the greater of our paid-in capital and total capital or (y) Won 5 billion, we are required to obtain approval for such transaction or provision by resolution of our board of directors and to disclose the main terms and conditions of such transaction or provision to the public. We are currently required to disclose any such transaction or provision within one day following adoption of the relevant board resolution.

Under the Korean Commercial Code, in the event that we plan to enter into a transaction with (i) a major shareholder who owns or beneficially owns more than 10% of the total number of our issued and outstanding shares (other than non-voting shares), (ii) a director, (iii) a spouse or lineal ascendant or descendent of the persons described in (i) and (ii), (iv) a company in which half or more of the total number of issued and outstanding voting shares is held by a person falling under (i) through (iii), solely or jointly with others, or his/her subsidiary company, or (v) a company in which half or more of the total number of issued and outstanding voting shares is held by a person falling under (i) through (iii) together with a company falling under (iv), we are required to obtain prior approval by more than two thirds of our board of directors. In connection with the approval by the board of directors, the major terms of the transaction must be disclosed, and the terms and conditions as well as the procedure of the transaction are required be structured and conducted in a fair manner.

Furthermore, as a publicly listed company in Korea, we are restricted under the Korean Commercial Code (subject to certain exceptions) from providing any loan, guarantee or collateral to or for the benefit of any of our major shareholders or their specially-related parties, directors, executive officers or auditors. In addition, as a company listed on the Korea Exchange with total assets of not less than Won 2 trillion as of the end of the most recent fiscal year, if we intend to engage in any of the following transactions with our largest shareholder (or such shareholder's specially-related parties) or with any of our other specially-related parties, the Korean Commercial Code generally requires us to obtain approval of our board of directors for such transaction and report relevant information (such as the purpose of the transaction, the identities of the counterparties, the terms and conditions of the transaction, and the estimated value of the transaction) at the first regular general meeting of shareholders held after the board meeting approving such transaction, unless certain exceptions apply: (i) any single transaction the value of which amounts to 1% or more of our total assets or total revenue as of the end of the most recent fiscal year; or (ii) a series of transactions executed during a fiscal year the aggregate value of which amounts to 5% or more of our total assets or total revenue as of the end of the most recent fiscal year.

Transactions with NBT Inc.

Our sales to NBT Inc., an associate in which we hold a 10.5% interest as of September 30, 2017, primarily consist of sales of advertising services and amounted to Won 274 million in 2014, Won 1,462 million in 2015, Won 2,298 million in 2016 and Won 726 million in the first nine months of 2017.

Our purchases from NBT Inc. primarily consist of purchases of advertising services and amounted to nil in 2014, Won 1,184 million in 2015, Won 2,401 million in 2016 and Won 1,471 million in the first nine months of 2017.

Transactions with WishLink

Our sales to WishLink, our associate, amounted to nil in 2014, Won 7,551 million in 2015 and nil in 2016 and the first nine months of 2017.

Our purchases from WishLink amounted to nil in 2014, Won 15,050 million in 2015, Won 693 million in 2016 and Won 251 million in the first nine months of 2017.

Transactions with Other Related Parties

For further information regarding our related party transactions, see Note 18 of the notes to our unaudited consolidated interim financial statements and Note 37 of the notes to our annual consolidated financial statements appearing elsewhere in this offering circular.

Transactions with Directors and Officers

Certain of our directors and executive officers also serve or have served as directors and executive officers of companies with which we conduct business. None of our directors or executive officers has or had any interest in any of our business transactions that are or were unusual in their nature or conditions or significant to our business.

DESCRIPTION OF CAPITAL STOCK

This section provides information relating to our common shares. The following discussion is subject to, and is qualified in its entirety by reference to our articles of incorporation and the applicable provisions of the FSCMA and the Korean Commercial Code.

General

Under our articles of incorporation, our authorized share capital is 150,000,000 common shares with a par value per share of Won 500. We may also issue class shares, which include shares of voting and non-voting preferred stock, redeemable preferred stock, convertible stock and hybrid securities comprising one or more elements of the foregoing types of shares. Class shares may be issued up to a maximum of 50% of the issued shares.

Immediately prior to this offering, there were 67,903,339 common shares issued and outstanding and no class shares outstanding. All of the issued and outstanding common shares are fully-paid and non-assessable and are in registered form. We issue share certificates in denominations of 1, 5, 10, 50, 100, 500, 1,000 and 10,000 shares.

We are registered under the laws of Korea under the commercial registry number 110111-1129497120.

Dividends

We distribute dividends to our shareholders in proportion to the number of shares owned by each shareholder, following the approval thereof at the annual general meeting of shareholders that is generally held within three months after the end of each fiscal year. There can be no assurance that we will pay dividends in the future. The underlying common shares represented by the GDSs have the same dividend rights as other outstanding common shares.

We may distribute our annual dividends in cash or in shares to shareholders or share pledgees listed on our shareholders' register as of December 31 of each year. A dividend in shares must be distributed at par value. Pursuant to the FSCMA, in the case of listed companies, if the market price of the shares is less than par value, a dividend in shares may not exceed one-half of the annual dividends. We may also pay interim dividends to shareholders or registered pledgees of record as of June 30 of a given fiscal year. Interim dividends, if any, must be approved by a resolution of our board of directors within 45 days from June 30 of such fiscal year. We have no obligation to pay any annual cash dividend unclaimed for five years from the payment date, at which time rights to such dividends lapse. Unclaimed cash dividends revert to us.

Under the Korean Commercial Code, we may pay our dividends only out of the excess of our net assets, on a separate basis, over the sum of (i) our stated capital, (ii) the total amount of our capital surplus reserve and earned surplus reserve accumulated up to the end of the relevant dividend period, (iii) the earned surplus reserve required to be set aside for the annual dividend and (iv) the unrealized gain equivalent to the increased net assets on our balance sheet, based on our evaluation of assets and liabilities, that are not subject to set-off against unrealized losses. In addition, we may not pay any dividend unless we have set aside as a legal reserve an amount equal to at least 10% of the cash portion of the dividend or unless we have accumulated a legal reserve of not less than one-half of our stated capital. We may also set aside certain amounts as "other reserves" for certain purposes with the approval of shareholders at the annual general meeting of shareholders instead of distributing such amounts as dividends. We may not use legal reserve to pay cash dividends but may transfer amounts from legal reserve to stated capital or use legal reserve to reduce an accumulated deficit. If the total amount of the capital surplus reserve and earned surplus reserve exceeds 150% of the stated capital, we may convert such excess amount to retained earnings, which then may be used for dividend payments.

Distribution of Free Shares

In addition to paying dividends in shares out of our retained or current earnings, we may distribute to our shareholders an amount transferred from our capital surplus or legal reserve to our stated capital in the form of free shares. We must distribute such free shares to all of our shareholders in proportion to their existing shareholdings.

Preemptive Rights and Issuance of Additional Shares

We may issue authorized but unissued shares at the time and, unless otherwise provided in the Korean Commercial Code, on the terms our board of directors may determine. Subject to the limitation described below, all of our shareholders are generally entitled to subscribe for any newly-issued shares in proportion to their existing shareholdings. We must offer new shares on uniform terms to all shareholders who have preemptive rights and are listed on our shareholders' register as of the relevant record date. Under the Korean Commercial Code, we may vary, subject to certain limitations, the terms of these preemptive rights for different classes of shares. We must give public notice of the preemptive rights regarding new shares and their transferability at least two weeks (excluding any time period during which the shareholders' register is closed) before the relevant record date. Our board of directors may determine how to distribute shares for which preemptive rights have not been exercised or forfeited or where fractions of shares occur.

Under our articles of incorporation, we may issue new shares pursuant to a board resolution to persons other than existing shareholders, who in these circumstances will not have preemptive rights, if the new shares are:

- issued in a general public offering in accordance with the FSCMA, provided that the total number of shares issued does not exceed 50% of our total issued and outstanding capital stock;
- issued upon the exercise of stock options in accordance with the Korean Commercial Code;
- issued upon issuance of depositary receipts;
- issued abroad to be listed on any foreign stock exchange or automated quotation system; or
- issued to specified persons (including existing shareholders) for the purpose of achieving certain management purposes, including the introduction of new technology and improvement of our financial condition.

In addition, under the FSCMA, each member of an employee stock ownership association, whether or not they are shareholders, has a preemptive right, subject to certain exceptions, to subscribe for up to 20% of any shares we publicly offer. This right is exercisable only so long as the total number of shares so acquired and held by the members does not exceed 20% of the total number of shares then outstanding.

In case we issue new shares to persons other than the existing shareholders, we must notify the shareholders or give public notice of the major terms of the new share issuance by no later than two weeks prior to the date of payment of the subscription price for such new shares.

General Meeting of Shareholders

We hold our annual general meeting of shareholders within three months after the end of each fiscal year. Subject to a board resolution or court approval, we may hold an extraordinary general meeting of shareholders as necessary.

We must give shareholders written or electronic notice setting out the date, place and agenda of the meeting at least two weeks before the date of the general meeting of shareholders. However, we may give notice to holders of no more than 1% of the total number of our issued and outstanding voting shares by posting such notice on the electronic disclosure system operated by the Korea Exchange or the Financial Supervisory Service at least two weeks in advance of the meeting or by placing at least two public notices in The Seoul Economic Daily and The Herald Business, both daily newspapers published in Seoul. Shareholders not on the shareholders' register as of the record date are not entitled to receive notice of the general meeting of shareholders or attend or vote at the meeting.

Our general meetings of shareholders are held at our principal office or at a place adjacent to the principal office.

Voting Rights

Holders of our voting shares are entitled to one vote for each voting share, except that voting rights of voting shares held by us, or by a corporate shareholder for which more than 10% of the outstanding shares of capital stock is directly or indirectly owned by us and/or our subsidiaries, individually or in the aggregate, may not be exercised.

Holders of GDSs will exercise their voting right through the Custodian and the Custodian will be the record holder of the underlying common shares. Subject to the Deposit Agreements, GDS holders will be entitled to instruct the Depositary as to how to vote the underlying common shares.

In the case of listed companies, for the purpose of electing or dismissing a statutory auditor or a member of the Audit Committee who is not an independent director, if the number of shares with voting right held by any of the following shareholders exceeds, in the aggregate, 3% of the total number of our share with voting right, then such shareholder may not exercise its voting right with respect to the shares held in excess of the 3%:

- the largest shareholder;
- a shareholder specially related to the largest shareholder;
- any shareholder who holds our common shares for the account of the largest shareholder or a person specially related to the largest shareholder; or
- any shareholder who appoints the largest shareholder or a person specially related to the largest shareholder as a proxy for the exercise of voting rights.

In addition, in the case of listed companies with total assets of Won 2 trillion or more as of the end of the latest fiscal year, if the aggregate number of shares with voting rights held by any shareholder exceeds 3% of the total number of issued and outstanding shares with voting rights, then such shareholder may not exercise its voting rights with respect to the shares it holds in excess of such 3% threshold for the purpose of electing a member of the Audit Committee who is an independent director. While the articles of incorporation of a company may prescribe a threshold shareholding percentage that is lower than 3%, our articles of incorporation do not provide for a lower threshold shareholding percentage.

The Korean Commercial Code permits cumulative voting, under which each shareholder would have multiple voting rights corresponding to the number of directors to be appointed at the general meeting of shareholders and may exercise all voting rights cumulatively to elect one director. However, our shareholders have decided not to adopt cumulative voting.

Our shareholders may adopt a resolution at a general meeting by an affirmative majority vote of the voting shares present or represented at the meeting, where the affirmative votes also represent at least one-fourth of our total voting shares then issued and outstanding. However, under the Korean Commercial Code, the following matters, among others, require approval by the holders of at least two-thirds of the voting shares present or represented at a meeting, where the affirmative votes also represent at least one-third of our total voting shares then issued and outstanding:

- amending our articles of incorporation;
- removing a director;
- effecting any dissolution, merger or consolidation;
- transferring the whole or any significant part of our business;
- effecting our acquisition of the whole or part of the business of another company that may have a material effect on our business;

- issuing any new common shares at a price lower than their par value; or
- reducing capital.

Shareholders may exercise their voting rights by proxy.

Rights of Dissenting Shareholders

In some limited circumstances, including the transfer of the whole or any significant part of our business and our merger or consolidation with another company, dissenting shareholders may have the right to require us to purchase their shares. In order for a dissenting shareholder to be entitled to such right, the common shares must have been acquired before the relevant resolution of the board of directors was disclosed to the public or the legal action resulting in the acquisition of the shares must have been taken no later than the date immediately following the date on which the resolution was disclosed. To exercise this right, shareholders must submit to us a written notice of their intention to dissent before the general meeting of shareholders. Within 20 days after the relevant resolution is passed at a meeting, the dissenting shareholders must request us in writing to purchase their shares. We are obligated to purchase the shares of dissenting shareholders within one month after the expiration of the 20-day period.

The purchase price for the common shares is required to be determined through negotiation between the dissenting shareholders and us. Under the FSCMA, if a listed company cannot agree on a price through negotiation with the dissenting shareholders, the purchase price will be the average of (1) the weighted average of the daily common share price on the Korea Exchange for the two-month period before the date of the adoption of the relevant board resolution, (2) the weighted average of the daily common share price on the Korea Exchange for the one-month period before the date of the adoption of the relevant resolution, and (3) the weighted average of the daily common share price on the Korea Exchange for the one-week period before the date of the adoption of the relevant resolution. However, if either the company or the relevant shareholder objects to the purchase price calculated using the method above, then the objecting party may ask the court to determine the purchase price. Holders of GDSs will not be able to exercise dissenter's rights unless they have withdrawn the underlying common shares and become our direct shareholders before the relevant date.

Register of Shareholders and Record Dates

Our transfer agent, Kookmin Bank, maintains the register of our shareholders at its office at 26, Gukjegeumyung-ro 8-gil, Yeongdeungpo-gu, Seoul, Korea. It registers transfers of our common shares on the register of shareholders on presentation of the share certificates.

The record date for annual dividends is December 31. For the purpose of determining the shareholders or the share pledgees entitled to the rights pertaining to the shares for an extraordinary shareholders' meeting or other necessary circumstances, we may, on at least two weeks' public notice and upon a board's resolution, set a record date or close the register of shareholders for not more than three months. The trading of shares and the delivery of share certificates may continue while the register of shareholders is closed.

Annual Report

At least one week before our annual general meeting of shareholders, we must make our annual report and audited financial statements available for inspection at our principal office and at all of our branch offices. In addition, copies of annual reports, the audited financial statements and any resolutions adopted at the general meeting of shareholders will be available to our shareholders.

We must file with the Financial Services Commission and the Korea Exchange (1) an annual business report within 90 calendar days after the end of our fiscal year and (2) interim reports with respect to the three month period, six month period and nine month period from the beginning of each fiscal year within 45 calendar days following the end of each period under the FSCMA. Copies of these reports are or will be available for public inspection at the Financial Services Commission and the Korea Exchange.

Transfer of Common Shares

Under the Korean Commercial Code, the transfer of common shares is effected by delivery of share certificates. However, to assert shareholders' rights against us, the transferee must have his name and address registered on our shareholders' register. For this purpose, a shareholder is required to file his name, address and seal or specimen signature with our transfer agent. In addition, a non-resident shareholder must appoint an agent authorized to receive notice on his behalf in Korea and file a mailing address in Korea. The above requirements do not apply to the holders of GDSs.

Under current Korean regulations, Korean brokers, dealers and collective investment managers ("financial investment firms") and foreign exchange banks in Korea (including licensed branches of non-Korean financial investment firms and banks), internationally recognized foreign custodians and the Korea Securities Depository may act as agents and provide related services for foreign shareholders. Certain foreign exchange controls and securities regulations apply to the transfer of common shares by non-residents of Korea or non-Koreans. See "Korean Foreign Exchange and Securities Regulations."

Liquidation Rights

In the event of our liquidation, after payment of all debts, liquidation expenses and taxes, our remaining assets will be distributed among shareholders in proportion to their shareholdings.

DESCRIPTION OF GLOBAL DEPOSITARY SHARES

Citibank, N.A. has agreed to act as the depositary for the GDSs (the "Depositary"). Citibank's depositary offices are located at 388 Greenwich Street, New York , New York 10013, USA. The GDSs we are selling in the United States are referred to and will be issued as Rule 144A GDS, and the GDSs we are selling outside the United States are referred to and will be issued as Regulation S GDSs. GDSs represent ownership interests in securities that are on deposit with the Depositary. Unless otherwise stated, you should assume that the term "GDSs" encompasses both Rule 144A GDSs and Regulation S GDSs. GDSs are represented by certificates that are commonly known as "Global Depositary Receipts" or "GDRs."

The Depositary has appointed a custodian to safekeep the securities on deposit. In this case, the custodian is Korea Securities Depositary, having its principal office at 40, Munhyeongeumyung ro, Namgu, Busan 48400, Korea (the "Custodian").

We will appoint Citibank as Depositary pursuant to two separate Deposit Agreements, one for the Rule 144A GDSs (the "Rule 144A Deposit Agreement"), and one for the Regulation S GDSs (the "Regulation S Deposit Agreement"). Copies of the Deposit Agreements and any supplements or amendments thereto may be obtained from the Depositary. This is a summary description of the material terms of the GDSs and of your material rights as an owner of GDSs. Please remember that summaries by their nature lack the precision of the information summarized and that the rights and obligations of an owner of GDSs will be determined by reference to the terms of the applicable Deposit Agreement and not by this summary. We urge you to review the Deposit Agreements in their entirety.

Each GDS represents the right to receive one common share on deposit with the Custodian. A GDS will also represent the right to receive any other property received by the Depositary or the Custodian on behalf of the owner of the GDS but that has not been distributed to the owners of GDSs because of legal restrictions or practical considerations.

If you become an owner of GDSs, you will become a party to the applicable Deposit Agreement and therefore will be bound to its terms and to the terms of the GDR that represents your GDSs. The Deposit Agreements and the GDRs specify our rights and obligations as well as your rights and obligations as owner of GDSs and those of the Depositary. As a GDS owner you appoint the Depositary to act on your behalf for the common shares represented by your GDSs, either upon (1) your specific instructions when we call a meeting of shareholders, distribute an elective dividend or make a rights offering, or (2) the specific terms of the applicable Deposit Agreement to receive any dividends we distribute in Won or common shares and to convert the Won received. The Deposit Agreements are governed by New York law. However, our obligations to the holders of common shares will continue to be governed by the laws of Korea, which may be different from the laws in the United States. In addition, we note that the laws and regulations of Korea may restrict the deposit and withdrawal of the common shares into or from the depositary receipt facilities.

EACH OF THE PARTIES TO THE DEPOSIT AGREEMENTS (INCLUDING, WITHOUT LIMITATION, EACH HOLDER AND BENEFICIAL OWNER OF GDSs) IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING AGAINST OUR COMPANY AND/OR THE DEPOSITARY ARISING OUT OF, OR RELATING TO, THE DEPOSIT AGREEMENTS, ANY GDR AND ANY TRANSACTIONS CONTEMPLATED THEREIN (WHETHER BASED ON CONTRACT, TORT, COMMON LAW OR OTHERWISE).

In addition, applicable laws and regulations may require you to satisfy reporting requirements and obtain regulatory approvals in certain circumstances. You are solely responsible for complying with such reporting requirements and obtaining such approvals. Neither the Depositary, the Custodian, us or any of their or our respective agents or affiliates shall be required to take any actions whatsoever on behalf of you to satisfy such reporting requirements or obtain such regulatory approvals under applicable laws and regulations.

Presently, you may hold your GDSs only through a brokerage or safekeeping account. As such, you must rely on the procedures of your broker or bank to assert your rights as a GDS owner. Please consult with your broker or bank to determine what those procedures are. When we refer to

"you," in this section of the offering circular, we assume the reader owns GDSs and will own GDSs at the relevant time. When we refer to a "holder" in this section of the offering circular, we assume the person owns GDSs and such person's agent (i.e., broker, custodian, bank, trust company) is the holder of the applicable GDR.

Distinctions between "Rule 144A GDSs" and "Regulation S GDSs"

The Rule 144A GDSs and the Regulation S GDSs are similar in many ways but are different primarily on account of the requirements of the U.S. securities laws. The Rule 144A GDSs are "restricted securities" under the U.S. securities laws and as such are subject to limitations on their issuance, transfer and cancellation. The Regulation S GDSs are not per se "restricted securities" under the U.S. securities laws, but we have imposed certain contractual restrictions on the Regulation S GDSs in an effort to prevent the transfer of Regulation S GDSs in violation of the U.S. securities laws. These restrictions we impose on the Regulation S GDSs will be in place for a period of 40 days after we close the offering of the Regulation S GDSs described in this offering circular. We will refer to this 40-day period as the "distribution compliance period."

The differences between the Regulation S GDSs and the Rule 144A GDSs and the restrictions imposed on the Rule 144A GDSs and the Regulation S GDSs cover primarily the following:

- The persons who may own and trade the GDSs:
  - only "qualified institutional buyers" (as defined in Rule 144A) and persons located outside of the United States other than "U.S. persons" (as defined in Regulation S) may own and trade Rule 144A GDSs, and
  - upon the expiration of the "distribution compliance period," any person may own and trade Regulation S GDSs, and
  - during the "distribution compliance period," only persons other than "U.S. persons" (as defined in Regulation S) may own and trade the Regulation S GDSs and only outside the United States.
- The persons who may create additional GDSs:
  - only persons other than "U.S. persons" (as defined in Regulation S) and who are located outside the United States may deposit common shares to receive Regulation S GDSs, and
  - only "qualified institutional buyers" (as defined in Rule 144A) and persons other than "U.S. persons" located outside the United States may deposit common shares to receive Rule 144A GDSs.
- The persons to whom you may transfer the GDSs, upon sale or otherwise:
  - you may transfer Rule 144A GDSs only to "qualified institutional buyers" (as defined in Rule 144A) or to persons located outside of the United States other than "U.S. persons" (as defined in Regulation S),
  - during the "distribution compliance period," you may transfer the Regulation S GDSs only in transactions outside the United States to persons other than "U.S. persons" (as defined in Regulation S) and otherwise in compliance with Regulation S or to "qualified institutional buyers" (as defined in Rule 144A) but in this latter case only after "converting" the Regulation S GDSs into Rule 144A GDSs, and
  - upon the expiration of the "distribution compliance period," you may transfer the Regulation S GDSs to any person.

- The restrictions on the transfers and withdrawal of the common shares represented by the GDSs:

  – please refer to "— Legends" below.

- The eligibility to book-entry transfer:

  – please refer to "— Settlement and Safekeeping" below.

These distinctions and the requirements of the U.S. securities laws may require us and the Depositary to treat the Regulation S GDSs and the Rule 144A GDSs differently at any time in the future. There can be no guarantee that holders of Rule 144A GDSs will receive the same entitlements as holders of Regulation S GDSs and vice versa.

Settlement and Safekeeping

Rule 144A GDSs

The Depositary has made arrangements with DTC to act as the securities depository for the Rule 144A GDSs. All Rule 144A GDSs issued in this offering will be registered in the name of Cede & Co. (DTC's nominee). One Master Rule 144A GDR will represent all Rule 144A GDSs issued to and registered in the name of Cede & Co. Transfers of ownership interests in Rule 144A GDSs are to be accomplished by entries made on the books of DTC and of the DTC Participants acting on behalf of the Rule 144A GDS owners. Owners of the Rule 144A GDSs will not receive physical certificates representing their ownership interests in the Rule 144A GDSs, except in the event that DTC no longer acts as security depositary and a successor securities depository cannot be appointed.

If at any time DTC ceases to make its book-entry settlement systems available for the Rule 144A GDSs, we and the Depositary will attempt to make other arrangements for book-entry settlement. If alternative book-entry settlement arrangements cannot be made, the Depositary will make available the Rule 144A GDSs in physical certificated form.

Regulation S GDSs

We and the Depositary have made arrangements with Euroclear, Clearstream, and the Common Depositary to act as the securities depositories for the Regulation S GDSs. All Regulation S GDSs issued in this offering will be registered in the name of the nominee of the Common Depositary. One Master Regulation S GDR will represent all Regulation S GDSs issued to and registered in the name of such nominee. Euroclear and Clearstream will hold the Regulation S GDSs on behalf of their Participants through the Common Depositary. Transfers of beneficial interests in the Regulation S GDSs are to be accomplished by entries made on the books of Euroclear, Clearstream and the Common Depositary with respect to interests of Euroclear Participants and Clearstream Participants and on the books of such Participants, acting on behalf of beneficial owners of the Regulation S GDSs. Beneficial owners of the Regulation S GDSs will not receive physical certificates representing their ownership interests in the Regulation S GDSs, except in the event that use of the Euroclear and Clearstream book-entry systems for the Regulation S GDSs is discontinued and the use of a substitute book-entry system is impracticable, as set forth in the Deposit Agreements.

If at any time Euroclear or Clearstream, as the case may be, ceases to make its respective book-entry settlement systems available for the Regulation S GDSs, we and the Depositary will attempt to make other arrangements for book-entry settlement. If alternative book-entry settlement arrangements cannot be made, the Depositary will make available the Regulation S GDSs in physical certificated form.

For a description of settlement and clearance of Rule 144A GDSs and Regulation S GDSs, see "Clearance and Settlement."

Restrictions upon Transfers

Rule 144A GDSs	*Regulation S GDSs*
The Rule 144A GDSs may be resold, pledged or otherwise transferred only: (i) outside the United States to a person other than a U.S. person (as defined in Regulation S) in accordance with Regulation S; or (ii) to a "qualified institutional buyer" (as defined in Rule 144A) in a transaction meeting the requirements of Rule 144A; or (iii) pursuant to Rule 144 under the Securities Act ("Rule 144"), if available; or (iv) pursuant to an effective registration statement under the Securities Act.	During the "distribution compliance period," Regulation S GDSs may be resold, pledged or otherwise transferred only: (i) outside the United States to a person other than a U.S. person (as defined in Regulation S) in accordance with Regulation S; or (ii) to a "qualified institutional buyer" (as defined in Rule 144A) in a transaction meeting the requirements of Rule 144A; or (iii) pursuant to Rule 144, if available; or (iv) pursuant to an effective registration statement under the Securities Act. If the Regulation S GDSs are transferred to a "qualified institutional buyers" (as defined in Rule 144A) in a transaction meeting the requirements of Rule 144A, the transferor is required to convert the Regulation S GDSs into Rule 144A GDSs and make delivery of the Rule 144A GDSs to the transferee. After the "distribution compliance period," the Regulation S GDSs shall be freely transferable.

Restrictions upon the Deposit of Common Shares

Rule 144A GDSs	*Regulation S GDSs*
Common shares will be accepted for deposit only if delivered by, or on behalf of, a person that is: (a) not us or an affiliate of us or a person acting on behalf of us or an affiliate of us, and (b) (i) a "qualified institutional buyer" (as defined in Rule 144A), or (ii) a person, other than a "U.S. person" (as defined in Regulation S), located outside the United States.	Common shares will be accepted for deposit under the Regulation S Deposit Agreement only if delivered by, or on behalf of, a person that is: (a) not us or an affiliate of us or a person acting on behalf of us or an affiliate of us. and (b) is a person, other than a "U.S. person" (as defined in Regulation S), located outside the United States.

Restrictions upon the Withdrawal of Common Shares

Rule 144A GDSs	*Regulation S GDSs*
Common shares may be withdrawn from the Rule 144A depositary receipt facility only by: (i) a person, other than a "U.S. person" (as defined in Regulation S), located outside the United States who will be the beneficial owner of the common shares upon withdrawal; or (ii) a "qualified institutional buyer" (as defined in Rule 144A) who (x) has sold the Rule 144A GDSs to another "qualified institutional buyer" (as defined in Rule 144A) in a transaction meeting the requirements of Rule 144A, or to a person, other than a "U.S. person" (as defined in Regulation S), located outside the United States, in accordance with Regulation S, or (y) will be the beneficial owner of the common shares and agrees to observe the transfer restrictions applicable to Rule 144A GDSs in respect of the common shares so withdrawn.	During the "distribution compliance period," common shares may be withdrawn from the Regulation S depositary receipt facility only by: (i) a person, other than a "U.S. person" (as defined in Regulation S), located outside the United States who will be the beneficial owner of the common shares upon withdrawal or who has sold the common shares to a person, other than a U.S. person, located outside the United States or to a "qualified institutional buyer" (as defined in Rule 144A) in which case delivery will be made in the form of Rule 144A GDSs, or (ii) a "qualified institutional buyer" (as defined in Rule 144A) who will cause the Regulation S GDSs to be exchanged for Rule 144A GDSs: After the "distribution compliance period," common shares may be withdrawn by any person and are freely transferable.

In addition to the other requirements set forth in the Deposit Agreements, deposits of common shares against issuances of GDSs may, in certain circumstances, require our prior written consent.

Cancellation of GDSs and withdrawal of common shares represented thereby may be delayed for a period of time after the closing of the offering until the common shares are listed for trading.

Dividends and Distributions

As a holder, you generally have the right to receive the distributions we make on the securities deposited with the Custodian. Your receipt of these distributions may be limited, however, by practical considerations and legal limitations. Holders will receive such distributions under the terms of the Deposit Agreements in proportion to the number of GDSs held as of a specified record date.

Distributions of Cash

Whenever we make a cash distribution for the securities on deposit with the Custodian, we will notify the Depositary and deposit the funds with the Custodian. Upon receipt of such notice and of confirmation of the deposit of the requisite funds, the Depositary will arrange for the funds to be converted into U.S. dollars and for the distribution of the U.S. dollars to the holders, subject to the laws and regulations of Korea.

The conversion into U.S. dollars will take place only if practicable and if the U.S. dollars are transferable to the United States. The amounts distributed to holders will be net of the fees, expenses,

taxes and governmental charges payable by holders under the terms of the Deposit Agreements. The Depositary will apply the same method for distributing the proceeds of the sale of any property (such as undistributed rights) held by the Custodian in respect of securities on deposit.

Distributions of Common Shares

Whenever we make a free distribution of common shares for the securities on deposit with the Custodian, we will notify the Depositary and deposit the applicable number of common shares with the Custodian. Upon receipt of confirmation of such deposit from the Custodian, the Depositary will either distribute to holders new GDSs representing the common shares deposited or, to the extent permitted by applicable law, modify the GDS-to-common shares ratio, in which case each GDS you hold will represent rights and interests in the additional common shares so deposited. Only whole new GDSs will be distributed. Fractional entitlements will be sold and the proceeds of such sale will be distributed as in the case of a cash distribution.

The distribution of new GDSs or the modification of the GDS-to-common shares ratio upon a distribution of common shares will be made net of the fees, expenses, taxes and governmental charges payable by holders under the terms of the Deposit Agreements. In order to pay such taxes or governmental charges, the Depositary may sell all or a portion of the new common shares so distributed.

No such distribution of new GDSs will be made if it would violate applicable laws (including U.S. securities laws) or if it is not operationally practicable. If the Depositary does not distribute new GDSs as described above, it will use its best efforts to sell the common shares received and will distribute the proceeds of the sale as in the case of a distribution of cash.

Distributions of Rights

Whenever we intend to distribute rights to purchase additional common shares, we will give timely prior notice to the Depositary and will indicate whether we wish the distribution of rights to be made available to you. In such case, we will assist the Depositary in determining whether it is lawful and reasonably practicable to distribute rights to purchase additional GDSs to holders.

The Depositary will establish procedures to distribute rights to purchase additional GDSs to holders and to enable such holders to exercise such rights if it is lawful and reasonably practicable to make the rights available to holders of GDSs and we provide all of the documentation contemplated in the applicable Deposit Agreement (such as opinions to address the lawfulness of the transaction). You may have to pay fees, expenses, taxes and other governmental charges to subscribe for the new GDSs upon the exercise of your rights. The Depositary is not obligated to establish procedures to facilitate the distribution and exercise by holders of rights to purchase new common shares other than in the form of GDSs.

The Depositary will not distribute the rights to you if:

- We do not timely request that the rights be distributed to you or we request that the rights not be distributed to you; or
- We fail to deliver satisfactory documents to the Depositary; or
- It is not reasonably practicable to distribute the rights.

If registration of the rights or the securities to which such rights relate may be required under the Securities Act or any other applicable law in order for us to offer such rights or such securities to holders and to sell the securities represented by such rights, the Depositary will not distribute rights to holders of GDSs unless and until a registration statement under the Securities Act covering such offering is in effect. We have no obligation under the Deposit Agreements to prepare and file a registration statement for any purpose.

The Depositary will sell the rights that are not exercised or not distributed if such sale is lawful and reasonably practicable. The proceeds of such sale will be distributed to holders as in the case of a cash distribution. If the Depositary is unable to sell the rights, it will allow the rights to lapse.

Elective Distributions

Whenever we intend to distribute a dividend payable at the election of shareholders either in cash or in additional common shares, we will give timely prior notice thereof to the Depositary and will indicate whether we wish the elective distribution to be made available to you. In such case, we will assist the Depositary in determining whether such distribution is lawful and reasonably practicable.

The Depositary will make the election available to you only if we timely request that it do so, it is reasonably practicable and we have provided all of the documentation contemplated in the Deposit Agreements. In such case, the Depositary will establish procedures to enable you to elect to receive either cash or additional GDSs, in each case as described in the Deposit Agreements.

If the election is not made available to you, you will receive either cash or additional GDSs, depending on what a shareholder in Korea would receive upon failing to make an election, as more fully described in the corresponding Deposit Agreement.

Other Distributions

Whenever we intend to distribute property other than cash, common shares or rights to purchase additional common shares, we will timely notify the Depositary in advance and will indicate whether we wish such distribution to be made to you. If so, we will assist the Depositary in determining whether such distribution to holders is lawful and reasonably practicable.

If we timely request that such distribution to be made to you, it is lawful and reasonably practicable to distribute such property to you and we provide all of the documentation contemplated in the Deposit Agreements, the Depositary will distribute the property to the holders in a manner it deems practicable.

The distribution will be made net of fees, expenses, taxes and governmental charges payable by holders under the terms of the Deposit Agreements. In order to pay such taxes and governmental charges, the Depositary may sell all or a portion of the property received.

The Depositary will not distribute the property to you and will sell the property if:

- We do not timely request that the property be distributed to you or if we ask that the property not be distributed to you; or
- We do not deliver satisfactory documents to the Depositary; or
- The Depositary determines that all or a portion of the distribution to you is not reasonably practicable.

The proceeds of such a sale will be distributed to holders as in the case of a cash distribution. If the Depositary is unable to sell such property, the Depositary may dispose of such property in any way it deems reasonably practicable under the circumstances.

Redemption

To the extent permitted by applicable laws, whenever we decide to redeem any of the securities on deposit with the Custodian, we will timely notify the Depositary. If we timely notify the depositary of such redemption, it is reasonably practicable and we provide all of the documentation contemplated in the Deposit Agreements, the Depositary will provide notice of the redemption to the holders.

The Custodian will be instructed to surrender the common shares being redeemed against payment of the applicable redemption price. The Depositary will convert the redemption funds received into U.S. dollars upon the terms of the Deposit Agreements and will establish procedures to enable holders to receive the net proceeds from the redemption upon surrender of their GDSs to the Depositary. You may have to pay fees, expenses, taxes and other governmental charges upon the redemption of your GDSs. If less than all GDSs are being redeemed, the GDSs to be retired will be selected by lot or on a pro rata basis, as the Depositary may determine.

Changes Affecting Common Shares

The common shares held on deposit for your GDSs are subject to change from time to time. For example, there may be a change in nominal or par value, a split-up, cancellation, consolidation or reclassification of such common shares or a recapitalization, reorganization, merger, consolidation or sale of assets.

If any such change were to occur, your GDSs would, to the extent permitted by law, represent the right to receive the property received or exchanged in respect of the common shares held on deposit. The Depositary may in such circumstances deliver new GDSs to you or call for the exchange of your existing GDSs for new GDSs. If the Depositary may not lawfully distribute such property to you, the Depositary may sell such property and distribute the net proceeds to you as in the case of a cash distribution.

Record Date

Whenever the Depositary shall receive notice of the fixing of a record date by us for the determination of holders of common shares entitled to receive any distribution (whether in cash, shares, rights or other distributions), or whenever for any reason the Depositary causes a change in the number of common shares that are represented by each GDS or whenever the Depositary shall receive notice of any meeting of, or solicitation of consents or proxies of, holders of common shares, or whenever the Depositary finds it necessary or convenient in connection with the giving of any notice, solicitation of any consent or any other matter, the Depositary shall fix a record date for the determination of the holders of GDSs who are entitled to receive such dividend or distribution, to give instructions for the exercise of voting rights at any such meeting, or to give or withhold such consent, or to receive such notice or solicitation or to otherwise take action, or to exercise the rights of holders of GDSs with respect to such changed number of common shares represented by each GDS. The Depositary shall make reasonable efforts to establish the record date as closely as possible to the applicable record date for the common shares (if any) set by us in Korea and provide notice of such record date in the corresponding notice of such meeting, distribution, change in GDS to common share ratio or other matter, to holders of GDSs as appropriate.

Issuance of GDSs upon the Deposit of Common Shares

Subject to limitations set forth in the Deposit Agreements and the GDRs, the Depositary may create GDSs on your behalf if you or your broker deposit common shares with the Custodian. The Depositary will deliver these GDSs to the person you indicate only after you pay any applicable issuance fees and any charges and taxes payable for the transfer of the common shares to the Custodian and you provide the applicable deposit certification. Your ability to deposit common shares and receive GDSs may be limited by U.S. and Korean legal considerations applicable at the time of deposit.

The Depositary will refuse to accept common shares for deposit whenever it is notified in writing that such deposit would result in any violation of applicable laws, including ownership restrictions under the laws of Korea. The Depositary will also refuse to accept certain common shares for deposit under the Rule 144A Deposit Agreement if notified in writing that the common shares are listed on a U.S. securities exchange or quoted on a U.S. automated inter-dealer quotation system, unless accompanied by evidence satisfactory to the Depositary that any common shares presented for deposit are eligible for resale pursuant to Rule 144A.

The issuance of GDSs may be delayed until the Depositary or the Custodian receives confirmation that all required approvals have been given and that the common shares have been duly transferred to the Custodian. The Depositary will only issue GDSs in whole numbers.

When you make a deposit of common shares, you will be responsible for transferring good and valid title to the Depositary. As such, you will be deemed to represent and warrant that:

- The common shares are duly authorized, validly issued, fully paid, non-assessable and legally obtained.

- All preemptive (and similar) rights, if any, with respect to such common shares have been validly waived or exercised.

- You are duly authorized to deposit the common shares.

- The common shares presented for deposit are free and clear of any lien, encumbrance, security interest, charge, mortgage or adverse claim and, in the case of a deposit of common shares under the Regulation S Deposit Agreement, are not, and the Regulation S GDSs issuable upon such deposit will not be, "restricted securities" (as defined in the corresponding Deposit Agreement).

- The common shares presented for deposit have not been stripped of any rights or entitlements.

If any of the representations or warranties are incorrect in any way, we and the Depositary may, at your cost and expense, take any and all actions necessary to correct the consequences of the misrepresentations.

When you deposit common shares to receive Rule 144A GDSs, you will be required to provide the Depositary with a deposit certification stating, inter alia, that:

- you acknowledge that the common shares and the Rule 144A GDSs have not been and will not be registered under the Securities Act or with any securities regulatory authority in any state or other jurisdiction in the United States; and

- you are not our "affiliate" and you are not acting on behalf of us or one of our "affiliates;" and

- you certify that you are, or are acting on behalf of, (i) a "qualified institutional buyer" (as defined in Rule 144A), or (ii) a person, other than a U.S. person (as defined in Regulation S), located outside the United States who will acquire the common shares to be deposited outside the United States; and

- you agree, as the owner of the Rule 144A GDSs, to offer, sell, pledge and otherwise transfer the Rule 144A GDSs or the common shares represented by the Rule 144A GDSs in accordance with the applicable U.S. state securities laws and only:

  (a) to a "qualified institutional buyer" (as defined in Rule 144A) in a transaction meeting the requirements of Rule 144A, or

  (b) outside the United States to a person other than a "U.S. person" (as defined in Regulation S) in accordance with Regulation S, or

  (c) in accordance with Rule 144, if available, or

  (d) pursuant to an effective registration statement under the Securities Act.

A copy of the form of deposit certification for Rule 144A GDSs is attached to the Rule 144A Deposit Agreement and may be obtained from the Depositary upon request.

When you deposit common shares to receive Regulation S GDSs, you will be required to provide the Depositary with a deposit certification stating, inter alia, that:

- you acknowledge that the common shares and the Regulation S GDSs have not been and will not be registered under the Securities Act or with any securities regulatory authority in any state or other jurisdiction in the United States; and

- you are not our "affiliate" and you are not acting on behalf of us or one of our "affiliates;" and

- you certify that you are, or are acting on behalf of, (i) a person, other than a U.S. person (as defined in Regulation S), located outside the United States and (ii) a person that is not in the business of buying and selling securities, or, if you or such person is in such business, you or such person did not acquire the common shares to be deposited from us or any affiliate of us in the initial distribution of Regulation S GDSs, common shares and Rule 144A GDSs; and

- you agree, as the owner of the Regulation S GDSs, to offer, sell, pledge and otherwise transfer the Regulation S GDSs or the common shares represented by the Regulation S GDSs in accordance with the applicable U.S. state securities laws and during the "distribution compliance period" only:

  (a) to a "qualified institutional buyer" (as defined in Rule 144A) in a transaction meeting the requirements of Rule 144A, in which case you are required to "convert" the Regulation S GDSs into Rule 144A GDSs prior to making delivery to the transferee, or

  (b) outside the United States to a person other than a "U.S. person" (as defined in Regulation S) in accordance with Regulation S, or

  (c) in accordance with Rule 144, if available, or

  (d) pursuant to an effective registration statement under the Securities Act.

A copy of the form of deposit certification for Regulation S GDSs is attached to the Regulation S Deposit Agreement and may be obtained from the Depositary upon request.

Withdrawal of Common Shares Upon Cancellation of GDSs

Subject always to the withdrawal of deposited property being permitted under the laws and regulations of Korea, as a holder, you will be entitled to present your GDSs to the Depositary for cancellation and then receive the corresponding number of underlying common shares at the Custodian's offices. Your ability to withdraw the common shares may be limited by U.S. and Korean law considerations applicable at the time of withdrawal.

Subject always to the withdrawal of deposited property being permitted under the laws and regulations of Korea, you may also request that the common shares represented by your GDSs be sold on your behalf. The Depositary may require that you deliver your request for sale in writing. Any sale of our common shares will be conducted according to applicable Korean law through a securities company in Korea on the Korea Exchange or in another manner as is permitted under applicable Korean law. Any sale will be at your risk and expense. You may also be required to enter into a separate agreement to cover the terms of the sale of our common shares.

Upon receipt of any proceeds from any sale, subject to any restrictions imposed by the laws and regulations of Korea, the Depositary shall convert the proceeds into U.S. dollars and distribute the

proceeds to you, net of any fees, expenses, taxes or governmental charges (including, without limitation, any Korean and U.S. taxes) incurred in connection with the sale. Sales of our common shares may be subject to Korean taxation on capital gains and will be subject to a securities transaction tax in Korea.

In order to withdraw or instruct the sale of the common shares represented by your GDSs, you will be required to pay to the Depositary the fees for cancellation of GDSs and any charges and taxes payable upon the transfer of the common shares being withdrawn and you will be required to provide to the Depositary the applicable withdrawal certification. You assume the risk for delivery of all funds and securities upon withdrawal. Once canceled, the GDSs will not have any rights under the corresponding Deposit Agreement.

If you hold a GDR registered in your name, the Depositary may ask you to provide proof of identity and genuineness of any signature and such other documents as the Depositary may deem appropriate before it will cancel your GDSs. The withdrawal of the common shares represented by your GDSs may be delayed until the Depositary receives satisfactory evidence of compliance with all applicable laws and regulations. Please keep in mind that the Depositary will only accept GDSs for cancellation that represent a whole number of securities on deposit.

When you request the withdrawal of the common shares represented by your Rule 144A GDSs, you will be required to provide the Depositary with a withdrawal certification stating, inter alia, that:

- you acknowledge that the common shares represented by your Rule 144A GDSs have not been and will not be registered under the Securities Act or with any securities regulatory authority in any state or other jurisdiction in the United States; and

- you certify that:

  (X) you are, or are acting on behalf of, a "qualified institutional buyer" (as defined in Rule 144A) who is the beneficial owner of the Rule 144A GDSs presented for cancellation, and

  (A) either:

  (i) you have sold or agreed to sell the common shares to a person located outside the United States other than a "U.S. person" (as defined in Regulation S) in accordance with Regulation S, or

  (ii) you have sold or agreed to sell the common shares to a "qualified institutional buyer" (as defined in Rule 144A) in a transaction meeting the requirements of Rule 144A, or

  (iii) you (or the person on whose behalf you are acting) will be the beneficial owner of the common shares upon withdrawal and you (or the person on whose behalf you are acting) will sell the common shares only:

  (a) to another "qualified institutional buyer" (as defined in Rule 144A) in a transaction meeting the requirements of Rule 144A, or

  (b) outside the United States to a person other than a "U.S. person" (as defined in Regulation S) in accordance with Regulation S, or

  (c) in accordance with Rule 144 (if available), or

  (d) pursuant to an effective registration statement under the Securities Act; and

(B) you (or the person on whose behalf you are acting) will not deposit the common shares in any depositary receipts facility that is not a "restricted" depositary receipts facility;

OR

(Y) you are a person, other than a "U.S. person" (as defined in Regulation S), located outside the United States and you acquired or agreed to acquire the Rule 144A GDSs or common shares outside the United States and will be the beneficial owner of the common shares upon withdrawal.

When you request the withdrawal of the common shares represented by your Regulation S GDSs at any time during the "distribution compliance period," you will be required to provide the Depositary with a withdrawal certification stating, inter alia, that:

- you acknowledge that the common shares represented by your Regulation S GDSs have not been and will not be registered under the Securities Act or with any securities regulatory authority in any state or other jurisdiction in the United States; and

- you certify that

(X) you are, or are acting on behalf of, a person other than a "U.S. person" (as defined in Regulation S) who is located outside the United States and acquired the common shares outside the United States and is the beneficial owner of the Regulation S GDSs presented for cancellation, and either:

(i) you have sold or agreed to sell the common shares to a person located outside the United States other than a "U.S. person" (as defined in Regulation S) in accordance with Regulation S, or

(ii) you have sold or agreed to sell the common shares to a "qualified institutional buyer" (as defined in Rule 144A) in a transaction meeting the requirements of Rule 144A, and will make delivery thereof in the form of Rule 144A GDSs, or

(iii) you (or the person on whose behalf you are acting) will be the beneficial owner of the common shares upon withdrawal and you (or the person on whose behalf you are acting) will at any time during the "distribution compliance period" sell the common shares only

(a) to a "qualified institutional buyer" (as defined in Rule 144A) in a transaction meeting the requirements of Rule 144A, or

(b) to a person located outside the United States other than a "U.S. person" (as defined in Regulation S) in accordance with Regulation S,

OR

(Y) you are a "qualified institutional buyer" (as defined in Rule 144A), you acquired or agreed to acquire the Regulation S GDSs or common shares in a transaction made in reliance on Rule 144A and you will take all action necessary to cause the common shares being withdrawn to be deposited under the Rule 144A Deposit Agreement for the purpose of receiving Rule 144A GDSs.

Voting Rights

As a holder, you generally have the right under the Deposit Agreements to instruct the Depositary to exercise the voting rights for the common shares represented by your GDSs. The voting rights of holders of common shares are described in "Description of Capital Stock — Voting Rights."

At our request, the Depositary will distribute to you any notice of a shareholders' meeting received from us together with information explaining how to instruct the Depositary to exercise the voting rights of the securities represented by GDSs.

If the Depositary timely receives voting instructions from a holder of GDSs, it will endeavor to vote the securities represented by the holder's GDSs in accordance with such voting instructions.

Please note that the ability of the Depositary to carry out voting instructions may be limited by practical and legal limitations and the terms of the securities on deposit. We cannot assure you that you will receive voting materials in time to enable you to return voting instructions to the Depositary in a timely manner. Securities for which no voting instructions have been received will not be voted.

Fees and Charges

As a GDS holder, you will be required to pay the following service fees to the Depositary under the terms of the Deposit Agreements:

Service	Fees
Issuance of GDSs upon deposit of common shares (e.g., an issuance upon a deposit of common shares, upon a change in the GDS(s)-to-common share(s) ratio, or for any other reason), excluding issuances as a result of distribution of common shares	Up to 5¢ per GDS issued
Cancellation of GDSs (e.g., a cancellation of GDSs for delivery of deposited property, upon a change in the GDS(s)-to-common share(s) ratio, or for any other reason)	Up to 5¢ per GDS cancelled
Distribution of cash dividends or other cash distributions (e.g., upon a sale of rights and other entitlements)	Up to 5¢ per GDS held
Distribution of GDSs pursuant to (i) stock dividends or other free stock distributions, or (ii) exercise of rights to purchase additional GDSs	Up to 5¢ per GDS held
Distribution of securities other than GDSs or rights to purchase additional GDSs (e.g., upon a spin-off)	Up to 5¢ per GDS held
GDS services	Up to 5¢ per GDS held on the applicable record date(s) established by the Depositary

As a GDS holder you will also be responsible to pay certain charges such as:

- Fees for the transfer and registration of common shares charged by the registrar and transfer agent for the common shares in Korea (i.e., upon deposit and withdrawal of common shares).

- Expenses incurred for converting foreign currency into U.S. dollars.

- Expenses for cable, telex and fax transmissions and for delivery of securities.

- Taxes and duties upon the transfer of securities (i.e., when common shares are deposited or withdrawn from deposit).

- Fees and expenses incurred in connection with the delivery or servicing of common shares on deposit.

- Fees and expenses incurred by the Depositary in connection with compliance with exchange control regulations and other regulatory requirements applicable to the common shares, deposited securities, GDSs and GDRs.

GDS fees and charges payable upon (i) the issuance of GDSs and (ii) the cancellation of GDSs are charged to the person to whom the GDSs are so issued (in the case of GDS issuances) and to the person for whom the GDSs are being cancelled (in the case of GDS cancellations). In the case of GDSs issued by the Depositary through DTC, Euroclear or Clearstream or presented to the Depositary through DTC, Euroclear or Clearstream, the GDS issuance and cancellation fees and charges are charged to the Participants receiving the GDSs or the Participants surrendering the GDSs for cancellation, as the case may be, on behalf of the beneficial owner(s) and will be charged by the Participants to the account(s) of the applicable beneficial owner(s) in accordance with the procedures and practices of the Participants as in effect at the time. GDS fees and charges in respect of distributions and the GDS services fee are charged to the holders as of the applicable GDS record date. In the case of distributions of cash, the amount of the applicable GDS fees and charges is deducted from the funds being distributed. In the case of (i) distributions other than cash and (ii) the GDS services fee, holders as of the GDS record date will be invoiced for the amount of the GDS fees and charges and such GDS fees and charges may be deducted from distributions made to holders of GDSs. For GDSs held through DTC, Euroclear or Clearstream, the GDS fees and charges for distributions other than cash and the GDS services fee may be deducted from distributions made through DTC, Euroclear or Clearstream, and may be charged to the Participants in accordance with the procedures and practices prescribed by DTC, Euroclear, Clearstream and the Common Depositary, as applicable, and the Participants may in turn charge the amount of such GDS fees and charges to the beneficial owners for whom they hold GDSs.

We have agreed to pay certain other charges and expenses of the Depositary. Note that the fees and charges you may be required to pay may vary over time and may be changed by us and by the Depositary. You will receive prior notice of such changes. Certain of the Depositary fees and charges (such as the GDS services fee) may become payable shortly after the closing of the offering. In addition, the Depositary may reimburse us for certain expenses incurred by us in respect of the GDR programs established pursuant to the Deposit Agreements by making available a portion of the fees charged in respect of the GDR programs or otherwise, upon such terms and conditions as we and the Depositary may agree from time to time. We will pay to the Depositary such fees and charges and reimburse the Depositary for such out-of-pocket expenses as we and the depositary may agree from time to time. Responsibility for payment of such charges and reimbursements may from time to time be changed by agreement between us and the Depositary. The charges and expenses of the Custodian are for the sole account of the Depositary.

Amendments and Termination

We may agree with the Depositary to modify the Deposit Agreements at any time without your consent. We undertake to give holders 30 days' prior notice of any modifications that would materially prejudice any of their substantial rights under the Deposit Agreements. We will not consider to be materially prejudicial to your substantial rights any modifications or supplements that are reasonably necessary for the GDSs to be (i) registered under the Securities Act or (ii) settled in electronic book-entry form, in each case without imposing or increasing the fees and charges you are required to pay. In addition, we may not be able to provide you with prior notice of any modifications or supplements that are required to accommodate compliance with applicable provisions of law.

You will be bound by the modifications to the Deposit Agreements if you continue to hold your GDSs after the modifications to the applicable Deposit Agreement become effective. The Deposit Agreements cannot be amended to prevent you from withdrawing the common shares represented by your GDSs (except as permitted by law).

We have the right to direct the Depositary to terminate the Deposit Agreements. Similarly, the Depositary may in certain circumstances on its own initiative terminate the Deposit Agreements. In either case, the Depositary must give notice to the holders at least 30 days before termination.

After termination, the Depositary will continue to collect distributions received (but will not distribute any such property until you request the cancellation of your GDSs) and may sell the securities held on deposit. After the sale, the Depositary will hold the proceeds from such sale and any other funds then held for the holders of GDSs in a non-interest bearing account. At that point, the Depositary will have no further obligations to holders other than to account for the funds then held for the holders of GDSs still outstanding (after deduction of applicable fees, taxes and expenses).

Books of the Depositary

The Depositary will maintain GDS holder records at its depositary office. You may inspect such records at such office during regular business hours but solely for the purpose of communicating with other holders in the interest of business matters relating to the GDSs and the Deposit Agreements.

The Depositary will maintain in New York facilities to record and process the issuance, cancellation, combination, split-up and transfer of GDRs. These facilities may be closed from time to time, to the extent not prohibited by law.

Limitations on Obligations and Liabilities

The Deposit Agreements limit our obligations and the Depositary's obligations to you. Please note the following:

- We and the Depositary are obligated only to take the actions specifically stated in the Deposit Agreements without negligence or bad faith.

- The Depositary disclaims any liability for any failure to carry out voting instructions, for any manner in which a vote is cast or for the effect of any vote, provided it acts in good faith and in accordance with the terms of the Deposit Agreements.

- The Depositary disclaims any liability for any failure to determine the lawfulness or practicality of any action, for the content of any document forwarded to you on our behalf or for the accuracy of any translation of such a document, for the investment risks associated with investing in common shares, for the validity or worth of the common shares, for any tax consequences that result from the ownership of GDSs, for the credit-worthiness of any third party, for allowing any rights to lapse under the terms of the Deposit Agreements, for the timeliness of any of our notices or for our failure to give notice.

- We and the Depositary will not be obligated to perform any act that is inconsistent with the terms of the Deposit Agreements.

- We and the Depositary disclaim any liability if we are prevented or forbidden from acting on account of any law or regulation, any provision of our articles of incorporation, any provision of any securities on deposit or by reason of any act of God or war or other circumstances beyond our control.

- We and the Depositary disclaim any liability by reason of any exercise of, or failure to exercise, any discretion provided for the Deposit Agreements or in our articles of incorporation or in any provisions of securities on deposit.

- We and the Depositary further disclaim any liability for any action or inaction in reliance on the advice or information received from legal counsel, accountants, any person presenting common shares for deposit, any holder of GDSs or authorized representatives thereof, or any other person believed by either of us in good faith to be competent to give such advice or information.

- We and the Depositary also disclaim liability for the inability by a holder to benefit from any distribution, offering, right or other benefit which is made available to holders of common shares but is not, under the terms of the Deposit Agreements, made available to you.

- We and the Depositary may rely without any liability upon any written notice, request or other document believed to be genuine and to have been signed or presented by the proper parties.

- We and the Depositary also disclaim any liability for consequential or punitive damages for any breach of the terms of the applicable Deposit Agreements.

Pre-Release Transactions

The Depositary may, in certain circumstances, issue GDSs before receiving a deposit of common shares or release common shares before receiving GDSs for cancellation. These transactions are commonly referred to as "pre-release transactions." The Deposit Agreements limit the aggregate size of pre-release transactions, provided, however, that the Depositary reserves the right to change or disregard such limit from time to time as it deems appropriate. The Depositary Agreements impose a number of conditions on such pre-release transactions (e.g., the need to receive collateral, the type of collateral required, the representations required from brokers). The Depositary may retain the compensation received from the pre-release transactions. We and the Depositary may agree to additional restrictions on pre-release transactions from time to time, including the need for our consent to any pre-release transaction.

Taxes

You will be responsible for the taxes and other governmental charges payable on the GDSs and the securities represented by the GDSs. We, the Depositary and the Custodian may deduct from any distribution the taxes and governmental charges payable by holders and may sell any and all property on deposit to pay the taxes and governmental charges payable by holders. You will be liable for any deficiency if the sale proceeds do not cover the taxes that are due.

The Depositary may refuse to issue GDSs, to deliver, transfer, split and combine GDRs or to release securities on deposit until all taxes and charges are paid by the applicable holder. The Depositary and the Custodian may take reasonable administrative actions to obtain tax refunds and reduced tax withholding for any distributions on your behalf. However, you may be required to provide to the Depositary and to the Custodian proof of taxpayer status and residence and such other information as the Depositary and the Custodian may require to fulfill legal obligations. You are required to indemnify us, the Depositary and the Custodian for any claims with respect to taxes based on any tax benefit obtained for you.

Foreign Currency Conversion

The Depositary will arrange for the conversion of all foreign currency received into U.S. dollars if such conversion is practicable, and it will distribute the U.S. dollars in accordance with the terms of the Deposit Agreements. You may have to pay fees and expenses incurred in converting foreign currency, such as fees and expenses incurred in complying with currency exchange controls and other governmental requirements.

If the conversion of foreign currency is not practicable or lawful, or if any required approvals are denied or not obtainable at a reasonable cost or within a reasonable period, the Depositary may take the following actions in its discretion:

- Convert the foreign currency to the extent practicable and lawful and distribute the U.S. dollars to the holders for whom the conversion and distribution is lawful and practicable.

- Distribute the foreign currency to holders for whom the distribution is lawful and practicable.

- Hold the foreign currency (without liability for interest) for the applicable holders.

Legends

The Rule 144A GDR(s) issued to represent the Rule 144A GDSs offered for sale herein shall contain, and all owners of the Rule 144A GDSs shall be bound by the terms of, the following legend:

NEITHER THIS RULE 144A GDR, NOR THE RULE 144A GDSs EVIDENCED HEREBY, NOR THE COMMON SHARES REPRESENTED THEREBY HAVE BEEN OR WILL BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE OFFER, SALE, PLEDGE OR OTHER TRANSFER OF EACH OF THIS RULE 144A GDR, THE RULE 144A GDSs EVIDENCED HEREBY AND THE COMMON SHARES REPRESENTED THEREBY IS SUBJECT TO CERTAIN CONDITIONS AND RESTRICTIONS. THE HOLDERS AND THE BENEFICIAL OWNERS HEREOF, BY PURCHASING OR OTHERWISE ACQUIRING THIS RULE 144A GDR AND THE RULE 144A GDSs EVIDENCED HEREBY, ACKNOWLEDGE THAT SUCH RULE 144A GDR, THE RULE 144A GDSs EVIDENCED HEREBY AND THE COMMON SHARES REPRESENTED THEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT AND AGREE FOR THE BENEFIT OF THE COMPANY AND THE DEPOSITARY THAT THIS RULE 144A GDR, THE RULE 144A GDSs EVIDENCED HEREBY AND THE COMMON SHARES REPRESENTED THEREBY MAY BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY IN COMPLIANCE WITH THE SECURITIES ACT AND APPLICABLE LAWS OF THE STATES, TERRITORIES AND POSSESSIONS OF THE UNITED STATES GOVERNING THE OFFER AND SALE OF SECURITIES AND ONLY (1) OUTSIDE THE UNITED STATES TO A PERSON OTHER THAN A U.S. PERSON (AS SUCH TERMS ARE DEFINED IN REGULATION S UNDER THE SECURITIES ACT) IN ACCORDANCE WITH RULE 903 OR 904 OF REGULATION S UNDER THE SECURITIES ACT, (2) TO A PERSON WHOM THE HOLDER AND THE BENEFICIAL OWNER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ANOTHER QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (3) PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE), OR (4) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT. EACH HOLDER AND BENEFICIAL OWNER, BY ITS ACCEPTANCE OF THIS RULE 144A GDR OR A BENEFICIAL INTEREST IN THE RULE 144A GDSs EVIDENCED HEREBY, AS THE CASE MAY BE, REPRESENTS THAT IT UNDERSTANDS AND AGREES TO THE FOREGOING RESTRICTIONS.

THE BENEFICIAL OWNER OF COMMON SHARES RECEIVED UPON CANCELLATION OF ANY RULE 144A GDS MAY NOT DEPOSIT OR CAUSE TO BE DEPOSITED SUCH COMMON SHARES INTO ANY DEPOSITARY RECEIPT FACILITY ESTABLISHED OR MAINTAINED BY A DEPOSITARY BANK, OTHER THAN A RULE 144A RESTRICTED DEPOSITARY RECEIPT FACILITY, SO LONG AS SUCH COMMON SHARES ARE "RESTRICTED SECURITIES" WITHIN THE MEANING OF RULE 144(a)(3) UNDER THE SECURITIES ACT. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR RESALE OF THE COMMON SHARES OR THE RULE 144A GDSs.

The Regulation S GDR(s) issued to represent the Regulation S GDSs offered for sale herein shall contain, and all owners of Regulation S GDSs shall be bound by the terms of, the following legend:

NEITHER THIS REGULATION S GDR, NOR THE REGULATION S GDSs EVIDENCED HEREBY, NOR THE COMMON SHARES REPRESENTED THEREBY HAVE BEEN OR WILL BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE OFFER, SALE, PLEDGE OR OTHER TRANSFER OF THIS REGULATION S GDR, THE REGULATION S GDSs EVIDENCED HEREBY AND THE COMMON SHARES REPRESENTED THEREBY EACH IS SUBJECT TO CERTAIN CONDITIONS AND RESTRICTIONS. THE HOLDERS AND THE BENEFICIAL OWNERS HEREOF, BY PURCHASING OR OTHERWISE ACQUIRING THIS REGULATION S GDR AND THE

REGULATION S GDSs EVIDENCED HEREBY, ACKNOWLEDGE THAT SUCH REGULATION S GDR, THE REGULATION S GDSs EVIDENCED HEREBY AND THE COMMON SHARES REPRESENTED THEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT AND AGREE FOR THE BENEFIT OF THE COMPANY AND THE DEPOSITARY THAT THIS REGULATION S GDR, THE REGULATION S GDSs EVIDENCED HEREBY AND THE COMMON SHARES REPRESENTED THEREBY MAY BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY IN COMPLIANCE WITH THE SECURITIES ACT AND APPLICABLE LAWS OF THE STATES, TERRITORIES AND POSSESSIONS OF THE UNITED STATES GOVERNING THE OFFER AND SALE OF SECURITIES AND, PRIOR TO THE EXPIRATION OF THE DISTRIBUTION COMPLIANCE PERIOD (DEFINED AS 40 DAYS AFTER THE LATER OF (I) THE COMMENCEMENT OF THE OFFERINGS OF (A) REGULATION S GDSs OUTSIDE THE UNITED STATES IN RELIANCE ON REGULATION S AND ANY OTHER APPLICABLE LAW IN TRANSACTIONS EXEMPT FROM REGISTRATION UNDER THE SECURITIES ACT, (B) RULE 144A GDSs IN THE UNITED STATES TO QUALIFIED INSTITUTIONAL BUYERS AND (C) COMMON SHARES IN KOREA IN RELIANCE ON REGULATION S AND (II) THE FINAL CLOSING DATE WITH RESPECT TO THE REGULATION S GDRs) ONLY (1) OUTSIDE THE UNITED STATES TO A PERSON OTHER THAN A U.S. PERSON (AS SUCH TERMS ARE DEFINED IN REGULATION S UNDER THE SECURITIES ACT) IN ACCORDANCE WITH RULE 903 OR 904 OF REGULATION S UNDER THE SECURITIES ACT, OR (2) TO A PERSON WHOM THE HOLDER AND BENEFICIAL OWNER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ANOTHER QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (3) PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE), OR (4) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT; PROVIDED THAT IN CONNECTION WITH ANY TRANSFER UNDER (2) ABOVE, THE TRANSFEROR SHALL, PRIOR TO THE SETTLEMENT OF SUCH SALE, WITHDRAW THE COMMON SHARES IN ACCORDANCE WITH THE TERMS AND CONDITIONS OF THE REGULATION S DEPOSIT AGREEMENT AND INSTRUCT THAT SUCH COMMON SHARES BE DELIVERED TO THE CUSTODIAN UNDER THE RULE 144A DEPOSIT AGREEMENT FOR ISSUANCE, IN ACCORDANCE WITH THE TERMS AND CONDITIONS THEREOF, OF RULE 144A GLOBAL DEPOSITARY SHARES TO OR FOR THE ACCOUNT OF SUCH QUALIFIED INSTITUTIONAL BUYER.

UPON THE EXPIRATION OF THE DISTRIBUTION COMPLIANCE PERIOD, THIS REGULATION S GDR, THE REGULATION S GDSs EVIDENCED HEREBY AND THE COMMON SHARES REPRESENTED BY REGULATION S GDSs SHALL NO LONGER BE SUBJECT TO THE RESTRICTIONS ON TRANSFER SET FORTH IN THIS LEGEND, PROVIDED THAT AT THE TIME OF SUCH EXPIRATION THE OFFER AND SALE OF THE REGULATION S GDSs EVIDENCED HEREBY AND THE COMMON SHARES REPRESENTED THEREBY BY THE HOLDER THEREOF IN THE UNITED STATES WOULD NOT BE RESTRICTED UNDER THE SECURITIES LAWS OF THE UNITED STATES OR ANY STATE, TERRITORY OR POSSESSION OF THE UNITED STATES.

EACH HOLDER AND BENEFICIAL OWNER, BY ITS ACCEPTANCE OF THIS REGULATION S GDR OR A BENEFICIAL INTEREST IN THE REGULATION S GDSs EVIDENCED HEREBY, AS THE CASE MAY BE, AT ANY TIME DURING THE DISTRIBUTION COMPLIANCE PERIOD, REPRESENTS THAT IT UNDERSTANDS AND AGREES TO THE FOREGOING RESTRICTIONS AND LIMITATIONS.

INFORMATION RELATING TO THE DEPOSITARY

Citibank, N.A. ("Citibank") has been appointed as Depositary pursuant to the Deposit Agreements. Citibank is a commercial bank that, along with its subsidiaries and affiliates, offers a wide range of banking and trust services to its customers throughout the United States and the world.

Citibank was originally organized on June 16, 1812, and is now a national banking association organized under the National Bank Act of 1864 of the United States of America. Citibank is primarily regulated by the United States Office of the Comptroller of the Currency. Its principal executive office is at 388 Greenwich Street, New York, NY 10013. Citibank's telephone number is (212) 559-1000.

Citibank's Consolidated Balance Sheets are set forth in Citigroup Inc.'s most recent Annual Report (audited balance sheet) and Quarterly Report (unaudited balance sheet), each on file on Form 10-K and Form 10-Q, respectively, with the U.S. Securities and Exchange Commission.

Citibank's Articles of Association and By-laws, each as currently in effect, together with Citigroup Inc.'s most recent Annual Report on Form 10-K and Quarterly Report on Form 10-Q are available for inspection at the Depositary Receipt office of Citibank, 388 Greenwich Street, New York, New York 10013 and may be accessed on the website of the U.S. Securities and Exchange Commission at www.sec.gov.

KOREAN FOREIGN EXCHANGE AND SECURITIES REGULATIONS

General

The Foreign Exchange Transaction Act of Korea and the Presidential Decree and regulations under that Act and Decree, which we refer to collectively as the Foreign Exchange Transaction Laws, regulate investments in Korean securities by non-residents and issuances of securities outside Korea by Korean companies. Non-residents may invest in Korean securities pursuant to the Foreign Exchange Transaction Laws. The Financial Services Commission has also adopted, pursuant to its authority under the FSCMA, regulations that regulate investments by foreigners in Korean securities and issuances of securities outside Korea by Korean companies.

Subject to certain limitations, the Ministry of Strategy and Finance has the authority to take the following actions under the Foreign Exchange Transaction Laws for a period of up to six months, or longer under extraordinary circumstances:

- if the Government deems it necessary on account of war, armed conflict, natural disaster or grave and sudden and significant changes in domestic or foreign economic circumstances or similar events or circumstances, the Ministry of Strategy and Finance may temporarily suspend performance under any or all foreign exchange transactions, in whole or in part, to which the Foreign Exchange Transaction Laws apply (including suspension of payment and receipt of foreign exchange) or impose an obligation to deposit, safe-keep or sell any means of payment to The Bank of Korea, a foreign exchange equalization fund or certain other governmental agencies or financial institutions; and

- if the Government concludes that the international balance of payments and international financial markets are experiencing or are likely to experience significant disruption or that the movement of capital between Korea and other countries is likely to adversely affect its currency policies, exchange rate policies or other macroeconomic policies, the Ministry of Strategy and Finance may take action to require any person who intends to effect a capital transaction to obtain permission or to require any person who effects a capital transaction to deposit a portion of the means of payment acquired in such transactions with The Bank of Korea, a foreign exchange equalization fund or certain other governmental agencies or financial institutions, in each case subject to certain limitations.

However, such authority of the Ministry of Strategy and Finance is not applicable to foreign investments made pursuant to the Foreign Investment Promotion Act of Korea.

Government Review of Issuance of GDSs

In order for us to issue GDSs in an amount exceeding US$30 million outside Korea, we are required, pursuant to the Foreign Exchange Transaction Laws, to file a prior report of the issuance with the Strategy and Finance Minister.

In order for the Depositary to accept for deposit any existing common shares from holders of the common shares, other than from us, for the purpose of issuing GDSs representing such common shares, the Depositary would be required to obtain our prior consent if the number of such delivered GDSs exceeds that of the common shares already withdrawn from the GDS facility.

Reporting Requirements for Holders of Substantial Interests

Under the FSCMA, any person whose direct or beneficial ownership of a listed company's shares with voting rights, equity-related debt securities including convertible bonds, bonds with warrants, exchangeable bonds, certificates representing the rights to subscribe for shares, derivatives-linked securities and depository receipts for the aforementioned securities, which we refer to collectively as equity securities, together with the equity securities directly or beneficially owned by certain related persons or by any person acting in concert with the person, accounts for 5% or more of the total outstanding equity securities of such listed company is required to report the status and purpose (in terms of whether the purpose of the shareholding is to participate in the management of

the issuer) of the holdings and the material contents of the agreements relating to the equity securities and other matters prescribed by the Presidential Decree under the FSCMA to the Financial Services Commission and the Korea Exchange within five business days after reaching the 5% ownership interest.

In addition, (A) any change in the number of the owned equity securities that equals or exceeds 1% of the total outstanding equity securities or (B) any change in (i) the purpose of the shareholding or in the ownership of the equity securities, (ii) the major terms and conditions of the agreements relating to the equity securities owned (such as trust agreements and collateral agreements) to the extent the number of relevant equity securities is 1% or more of the total outstanding equity securities or (iii) the type of the ownership (direct ownership or holdings) to the extent the number of relevant equity securities is equal to or exceeds 1% of the total outstanding equity securities, subsequent to the report, must be reported to the Financial Services Commission and the Korea Exchange within five business days from the date of such change (or by the tenth day of the month following the month in which the change described in (A) above occurs, in the case of a person (other than certain professional investors designated by the Financial Services Commission) with no intent to seek management control). Notwithstanding the foregoing, certain professional investors designated by the Financial Services Commission may report the 5% ownership status and the changes described in (A) above to the Financial Services Commission and the Korea Exchange by the tenth day of the month immediately following the end of the quarter in which such 5% ownership interest is reached or the change occurs.

When filing a report to the Financial Services Commission and the Korea Exchange in accordance with the reporting requirements described above, a copy of such report must also be sent to the relevant listed company.

Violation of these reporting requirements may subject a person to sanctions such as prohibition on the exercise of voting rights with respect to the equity securities for which the reporting requirement was violated, or fines and/or imprisonment. Furthermore, the Financial Services Commission may order the disposal of the equity securities for which the reporting requirement was violated.

A person reporting to the Financial Services Commission and the Korea Exchange that his purpose of holding the equity securities is to participate in the management of the listed company is prohibited from acquiring additional equity securities of the listed company and exercising voting rights during the period commencing from the date on which the event triggering the reporting requirement occurs and ending on the fifth day from the date on which the report is made.

In addition to the reporting requirements described above, any person whose direct or beneficial ownership of our voting stock and/or depository receipts for our voting stock accounts for 10% or more of the total issued and outstanding voting stock, whom we refer to as a major shareholder, must file a report to the Securities and Futures Commission of Korea and to the Korea Exchange within five business days after the date on which the person reached such shareholding limit. In addition, such person must file a report to the Securities and Futures Commission of Korea and to the Korea Exchange regarding any subsequent change in his/her shareholding. Such report on subsequent change in shareholding must be filed within five business days of the occurrence of any such change. Violation of these reporting requirements may subject a person to criminal sanctions such as fines and/or imprisonment.

Restrictions Applicable to GDSs

No Korean governmental approval is necessary for the sale and purchase of the GDSs in a secondary market outside Korea. Also, no approval is necessary for the withdrawal of common shares underlying the GDSs and the delivery inside Korea of common shares in connection with the withdrawal, provided that a foreigner who intends to withdraw common shares underlying the GDSs must obtain an investment registration card from the Financial Supervisory Service as described in " — Restrictions Applicable to Common Shares" below. The acquisition of common shares by a foreigner must be reported by the foreigner or his standing proxy in Korea immediately to the governor of the Financial Supervisory Service.

Persons who have acquired common shares as a result of the withdrawal of common shares underlying the GDSs may exercise their preemptive rights for new common shares, participate in free distributions and receive dividends on common shares without any further governmental approval.

Restrictions Applicable to Common Shares

As a result of amendments to the Foreign Exchange Transaction Laws and Financial Services Commission regulations adopted in connection with the stock market opening from January 1992, which we refer to collectively as the Investment Rules, foreigners may invest, with limited exceptions and subject to procedural requirements, in shares of all Korean companies listed on the KRX KOSPI Market or the KRX KOSDAQ Market unless prohibited by specific laws. Foreign investors may trade shares listed on the KRX KOSPI Market or the KRX KOSDAQ Market only through the KRX KOSPI Market or the KRX KOSDAQ Market, except in limited circumstances, including:

- odd lot trading of shares;
- acquisition of shares, which we refer to as converted shares, by exercise of warrants, conversion rights or exchange rights under bonds with warrants, convertible bonds or exchangeable bonds or withdrawal rights under depositary receipts issued outside of Korea by a Korean company;
- acquisition of shares as a result of inheritance, donation, bequest or exercise of shareholders' rights, including preemptive rights or rights to participate in free distributions and receive dividends;
- over-the-counter transactions between foreigners of a class of shares for which the ceiling on aggregate acquisition by foreigners, as explained below, has been reached or exceeded;
- shares acquired by way of direct investment and/or the disposal of such shares by the investor;
- the disposal of shares pursuant to the exercise of appraisal rights of dissenting shareholders;
- the acquisition or disposal of shares in connection with a tender offer;
- the acquisition of underlying shares by a foreign depositary in connection with the issuance of depositary receipts;
- the acquisition and disposal of shares through overseas stock exchange market if such shares are simultaneously listed on the KRX KOSPI Market or the KRX KOSDAQ Market and such overseas stock exchange; and
- arm's length transactions between foreigners, if all of such foreigners belong to the investment group managed by the same person.

For over-the-counter transactions of shares between foreigners outside the KRX KOSPI Market or the KRX KOSDAQ Market for shares with respect to which the limit on aggregate foreign ownership has been reached or exceeded, an investment broker licensed in Korea must act as an intermediary. Odd-lot trading of shares outside the KRX KOSPI Market or the KRX KOSDAQ Market must involve an investment dealer licensed in Korea as the other party. Foreign investors are prohibited from engaging in margin transactions by borrowing shares from investment brokers or investment dealers with respect to shares that are subject to a foreign ownership limit.

The Investment Rules require a foreign investor who wishes to invest in or dispose of shares on the KRX KOSPI Market or the KRX KOSDAQ Market (including shares being issued or sold for initial listing on the KRX KOSPI Market or the KRX KOSDAQ Market) to register its identity with the Financial Supervisory Service prior to making any such investment or disposal unless it has previously registered. However, the registration requirement does not apply to foreign investors who (i) acquire

shares by exercising rights attached to securities offered by Korean companies outside Korea (including convertible bonds, bonds with warrants, exchangeable bonds, depositary receipts, distribution depositary securities and any other similar securities or certificates) with the intention of selling such shares within three months from the date of acquisition of the shares or (ii) acquire or dispose of shares outside the KRX KOSPI Market or the KRX KOSDAQ Market in connection with a foreign direct investment under the Foreign Investment Promotion Act of Korea. Upon registration, the Financial Supervisory Service will issue to the foreign investor an investment registration certificate which must be presented each time the foreign investor opens a dealing account or a brokerage account with an investment dealer or an investment broker licensed in Korea. Foreigners eligible to obtain an investment registration certificate include foreign nationals who have not been residing in Korea for a consecutive period of six months or more, foreign governments, foreign municipal authorities, foreign public institutions, international financial institutions or similar international organizations, corporations incorporated under foreign laws and any person in any additional category designated by a decree promulgated under the FSCMA. The offices of a foreign corporation in Korea are not subject to investment registration and are treated as a Korean national separately from the offices of the corporation outside Korea for the purpose of investment registration. A foreign corporation or depositary issuing depositary receipts may obtain one or more investment registration certificates in its name in certain circumstances as described in the relevant regulations.

Upon a foreign investor's purchase of shares through the KRX KOSPI Market or the KRX KOSDAQ Market, no separate report by the investor is required because the investment registration certificate system is designed to control and oversee foreign investment through a computer system. However, a foreign investor's acquisition or sale of shares outside the KRX KOSPI Market or the KRX KOSDAQ Market (as discussed above) must be reported by the foreign investor or his standing proxy to the governor of the Financial Supervisory Service at the time of each such acquisition or sale; provided, however, that a foreign investor must ensure that any acquisition or sale by it of shares outside the KRX KOSPI Market or the KRX KOSDAQ Market in the case of trades in connection with a tender offer, odd-lot trading of shares or trades of a class of shares for which the aggregate foreign ownership limit has been reached or exceeded, is reported to the governor of the Financial Supervisory Service by the investment dealer or investment broker engaged to facilitate such transaction. A foreign investor may appoint a standing proxy from among the Korea Securities Depository, foreign exchange banks (including domestic branches of foreign banks), investment dealers, investment brokers and collective investment companies ("financial investment firms") (including licensed domestic branches of foreign financial investment firms) and internationally recognized custodians which will act as a standing proxy to exercise shareholders' rights or perform any matters related to the foregoing activities if the foreign investor does not perform these activities itself. Generally, a foreign investor may not permit any person, other than its standing proxy, to exercise rights relating to its shares or perform any tasks related thereto on its behalf. However, a foreign investor may be exempted from complying with these standing proxy rules with the approval of the governor of the Financial Supervisory Service in cases deemed inevitable by reason of conflict between the laws of Korea and the home country of the foreign investor.

Certificates evidencing shares of Korean companies must be kept in custody with an eligible custodian in Korea. Only foreign exchange banks (including domestic branches of foreign banks), financial investment firms (including domestic branches of foreign financial investment firms), the Korea Securities Depository and internationally recognized custodians are eligible to act as a custodian of shares for a foreign investor; provided, however, that a foreign investor may have the certificate evidencing shares released from such custody when it is necessary to exercise its rights to such shares or to inspect and confirm the presence of the certificate(s) of such shares. The custodian of a foreign investor must deposit such foreign investor's shares with the Korea Securities Depository. However, a foreign investor may be exempted from complying with this deposit requirement with the approval of the governor of the Financial Supervisory Service in circumstances where compliance with that requirement is made impracticable, including cases where compliance would contravene the laws of the home country of such foreign investor.

Under the Investment Rules, with certain exceptions, foreign investors may own shares of a Korean company without being subject to any foreign investment ceiling. As one such exception, designated public corporations are subject to a 40% ceiling on the acquisition of shares by foreigners in the aggregate, and the designated public service corporations may set a ceiling on the acquisition of shares by a single person in their articles of incorporation. Currently, KEPCO is the only designated

public service corporation which has set a ceiling on the acquisition of shares by a single person regardless of its nationality within 3% of the total number of shares by its articles of incorporation, although it has no ceiling specifically set for foreign shareholders.

Under the Foreign Exchange Transaction Laws, a foreign investor who wishes to trade shares without obtaining separate governmental approvals or submitting separate reports to the Government must designate a foreign exchange bank and open a foreign currency account and a Korean Won account with the bank exclusively for stock investments. No approval is required for remittance of foreign currency funds into Korea or for deposit of foreign currency funds in the foreign currency account. Foreign currency funds may be transferred from the foreign currency account to a Korean Won account opened with an investment dealer or an investment broker at the time the foreign investor is required to place a deposit for, or settle the purchase price of, a stock purchase transaction to an investment dealer or investment broker's Won account. Funds in the foreign currency account may be remitted abroad without any governmental approval.

Furthermore, an investment by a foreign investor in 10% or more of the outstanding shares of voting stock of a Korean company is defined as a foreign direct investment under the Foreign Investment Promotion Act of Korea. Generally, foreign direct investments must be reported to a delegate institution of the Ministry of Trade, Industry and Energy prior to such investment (or within 30 days from the date of such investment, if the investment is made through acquisition of outstanding shares of a Korean company listed on the Korea Exchange). The acquisition of shares of a Korean company by a foreign investor may also be subject to certain industry-specific or business-specific foreign or other shareholding restrictions.

Dividends on shares of Korean companies are paid in Korean Won. No governmental approval is required for foreign investors to receive dividends on, or the Korean Won proceeds of the sale of, any shares to be paid, received and retained in Korea. Dividends paid on, and the Korean Won proceeds of the sale of, any shares held by a non-resident of Korea may be deposited either in a Korean Won account with the investor's investment dealer or investment broker or his Korean Won account. Funds in the investor's Korean Won account may be transferred to his foreign currency account or withdrawn for local living expenses, provided that any withdrawal of local living expenses in excess of a certain amount must be reported to the governor of the Financial Supervisory Service by the foreign exchange bank at which the Korean Won account is maintained. Funds in the Korean Won account in Korea may also be used for future investment in shares or for payment of the subscription price of new shares obtained through the exercise of preemptive rights.

Investment dealers and investment brokers are allowed to open foreign currency accounts with foreign exchange banks exclusively for accommodating foreign investors' stock investments in Korea. Through these accounts, investment dealers and investment brokers may enter into foreign exchange transactions on a limited basis, such as conversion of foreign currency funds and Korean Won funds, either as a counterparty to or on behalf of foreign investors, without the investors having to open their own accounts with foreign exchange banks.

KOREAN SECURITIES MARKET

The Korea Exchange

On January 27, 2005, the Korea Exchange was established pursuant to the Korea Securities and Futures Exchange Act by consolidating the Korea Stock Exchange, the Korea Futures Exchange, the KOSDAQ Stock Market, Inc., or the KOSDAQ, and the KOSDAQ Committee of the Korea Securities Dealers Association, which had formerly managed the KOSDAQ. On July 1, 2013, the Korea Exchange launched the Korea New Exchange (KONEX), a new securities exchange that focuses on small- and medium-sized enterprises. There are four different markets operated by the Korea Exchange: the KRX KOSPI Market, the KRX KOSDAQ Market, the KONEX Market and the KRX Derivatives Market. The Korea Exchange has three trading floors located in Seoul, one for the KRX KOSPI Market, one for the KRX KOSDAQ Market and one for the KONEX Market, and one trading floor in Busan for the KRX Derivatives Market. The Korea Exchange is a stock corporation ("chusik hoesa" in Korean), the shares of which are held by (i) investment brokers and investment dealers that were formerly members of the Korea Futures Exchange or the Korea Stock Exchange and (ii) the stockholders of the KOSDAQ. Currently, the Korea Exchange is the only stock exchange in Korea and is operated by membership, having as its members most of the Korean investment brokers and investment dealers and some Korean branches of foreign investment brokers and investment dealers.

According to data published by the Korea Exchange, as of December 31, 2016, the aggregate market value of equity securities listed on the KRX KOSPI Market was approximately Won 1,308 trillion, and the average daily trading volume of equity securities in 2016 was approximately 377 million shares with an average daily transaction value of Won 4,523 billion.

The Korea Exchange has the power in some circumstances to suspend trading in the shares of a specific company or to de-list a security pursuant to the Regulation on Listing on the Korea Exchange. The Korea Exchange also restricts share price movements. All listed companies are required to file accounting reports annually, semi-annually and quarterly and to release immediately certain information that may affect trading in a security.

The Korea Exchange publishes the KOSPI every ten seconds, which is an index of all equity securities listed on the KRX KOSPI Market. On January 1, 1983, the method of computing KOSPI was changed from the Dow Jones method to the aggregate value method. In the new method, the market capitalizations of all listed companies are aggregated, subject to certain adjustments, and this aggregate is expressed as a percentage of the aggregate market capitalization of all listed companies as of the base date, January 4, 1980.

Movements in KOSPI are set out in the following table:

	Opening	High	Low	Closing
1985	139.53	163.37	131.40	163.37
1986	161.40	279.67	153.85	272.61
1987	264.82	525.11	264.82	525.11
1988	532.04	922.56	527.89	907.20
1989	919.61	1,007.77	844.75	909.72
1990	908.59	928.77	566.27	696.11
1991	679.75	763.10	586.51	610.92
1992	624.23	691.48	459.07	678.44
1993	697.41	874.10	605.93	866.18
1994	879.32	1,138.75	860.47	1,027.37
1995	1,013.57	1,016.77	847.09	882.94
1996	888.85	986.84	651.22	651.22
1997	653.79	792.29	350.68	376.31
1998	385.49	579.86	280.00	562.46
1999	587.57	1,028.07	498.42	1,028.07
2000	1,059.04	1,059.04	500.60	504.62
2001	520.95	704.50	468.76	693.70
2002	724.95	937.61	584.04	627.55
2003	635.17	822.16	515.24	810.71
2004	821.26	936.06	719.59	895.92
2005	893.71	1,379.37	870.84	1,379.37
2006	1,389.27	1,464.70	1,203.86	1,434.46
2007	1,435.26	2,064.85	1,355.79	1,897.13
2008	1,853.45	1,888.88	938.75	1,124.47
2009	1,157.40	1,718.88	1,018.81	1,682.77
2010	1,696.14	2,051.00	1,552.79	2,051.00
2011	2,070.08	2,228.96	1,652.71	1,825.74
2012	1,826.37	2,049.28	1,769.31	1,997.05
2013	2,031.10	2,059.58	1,780.63	2,011.34
2014	1,967.19	2,082.61	1,886.85	1,915.59
2015	1,926.44	2,173.41	1,829.81	1,961.31
2016	1,918.76	2,068.72	1,835.28	2,026.46
2017	2,026.16	2,557.97	2,026.16	2,467.49
2018 (through January 17)	2,479.65	2,521.74	2,466.46	2,515.43

Source: The Korea Exchange

Shares are quoted “ex-dividend” on the trading day immediately preceding the last trading day of the relevant company’s accounting period. Since the calendar year is the accounting period for the majority of listed companies, this may account for the drop in KOSPI between the closing price of the second trading day preceding the last trading day of one calendar year and the opening price of the trading day immediately preceding the last trading day of such calendar year.

With certain exceptions, principally to take account of a share being quoted “ex-dividend” and “ex-rights,” permitted upward and downward movements in share prices of any category of shares on any trading day are limited under the rules of the Korea Exchange to 30% of the previous trading day’s closing price of the shares, rounded down as set out below:

Previous trading day’s closing price (Won)	Rounded Down to (Won)
Less than 1,000	1
1,000 to less than 5,000	5
5,000 to less than 10,000	10
10,000 to less than 50,000	50
50,000 to less than 100,000	100
100,000 to less than 500,000	500
500,000 or more	1,000

As a consequence, if a particular closing price is the same as the price set by the fluctuation limit, the closing price may not reflect the price at which persons would have been prepared, or would be prepared to continue, if so permitted, to buy and sell shares. Orders are executed on an auction system with priority rules to deal with competing bids and offers.

Due to deregulation of restrictions on brokerage commission rates, the brokerage commission rate on equity securities transactions may be determined by the parties, subject to commission schedules being filed with the Korea Exchange by the investment brokers and the investment dealers.

In addition, a securities transaction tax (including agricultural and fishery special surtax thereon) of 0.3% of the sales price will generally be imposed on the transfer of shares or certain securities representing rights to subscribe for shares on the Korea Exchange. See "Taxation — Korean Taxation."

The number of companies listed on the KRX KOSPI Market, the corresponding total market capitalization at the end of the periods indicated and the average daily trading volume for those periods are set forth in the following table:

	Market Capitalization on the Last Day of Each Period		Average Daily Trading Volume, Value	
Year	Number of Listed Companies	(Billions of Won)	Thousands of Shares	(Millions of Won)
1981	343	₩ 2,959	10,565	₩ 8,708
1982	334	3,000	9,704	6,667
1983	328	3,490	9,325	5,941
1984	336	5,149	14,847	10,642
1985	342	6,570	18,925	12,315
1986	355	11,994	31,755	32,870
1987	389	26,172	20,353	70,185
1988	502	64,544	10,367	198,364
1989	626	95,477	11,757	280,967
1990	669	79,020	10,866	183,692
1991	686	73,118	14,022	214,263
1992	688	84,712	24,028	308,246
1993	693	112,665	35,130	574,048
1994	699	151,217	36,862	776,257
1995	721	141,151	26,130	487,762
1996	760	117,370	26,571	486,834
1997	776	70,989	41,525	555,759
1998	748	137,799	97,716	660,429
1999	725	349,504	278,551	3,481,620
2000	704	188,042	306,163	2,602,211
2001	689	255,850	473,241	1,997,420
2002	683	258,681	857,245	3,041,598
2003	684	355,363	542,010	2,216,636
2004	683	412,588	372,895	2,232,108
2005	702	655,075	467,629	3,157,662
2006	731	704,588	279,096	3,435,180
2007	745	951,900	363,732	5,539,588
2008	763	592,635	355,205	5,189,643
2009	770	887,935	485,657	5,795,426
2010	777	1,141,885	380,859	5,619,768
2011	791	1,041,999	353,759	6,863,146
2012	784	1,154,294	486,480	4,823,643
2013	777	1,185,974	328,325	3,993,422
2014	773	1,119,253	278,082	3,983,580
2015	770	1,242,832	455,256	5,351,734
2016	779	1,308,440	376,773	4,523,044
2017	774	1,605,821	340,457	5,325,760
2018 (through January 17)	776	1,634,772	360,972	6,855,645

Source: The Korea Exchange

The Korean securities markets are principally regulated by the Financial Services Commission under the regulations set forth in the FSCMA. In August 2007, the National Assembly of Korea enacted the FSCMA. The FSCMA, which came into effect on February 4, 2009, comprehensively regulates the Korean capital markets, the financial investment businesses (including collective investment businesses and trust businesses) and financial investment products (such as securities and derivatives). The FSCMA imposes, among others, restrictions on insider trading and price manipulation, requires specified information to be made available by listed companies to investors and establishes rules regarding margin trading, proxy solicitation, takeover bids, acquisition of treasury shares and reporting requirements for shareholders holding substantial interests. The FSCMA regulates the operation and monitoring of the securities and derivatives markets.

Protection of Customer's Interest in Case of Insolvency of Investment Brokers or Investment Dealers

Under Korean law, the relationship between a customer and an investment broker or an investment dealer in connection with a securities sell or buy order is deemed to be a consignment and

the securities acquired by a consignment agent (i.e., the investment broker or the investment dealer) through such sell or buy order are regarded as belonging to the customer insofar as the customer and the consignment agent's creditors are concerned. Therefore, in the event of a bankruptcy or reorganization procedure involving an investment broker or an investment dealer, the customer of the investment broker or the investment dealer is entitled to claim the securities acquired by the investment broker or the investment dealer for the customer's account.

Under the FSCMA, the Korea Exchange is obliged to indemnify any loss or damage incurred by a counterparty as a result of a breach by members of the KRX KOSPI Market or the KRX KOSDAQ Market. If an investment broker or an investment dealer that is a member of the KRX KOSPI Market or the KRX KOSDAQ Market breaches its obligation in connection with a buy order, the Korea Exchange is obliged to pay the purchase price on behalf of the breaching member. Therefore, the customer can acquire the securities subject to the buy order that it has placed with the breaching member.

When a customer places a buy order with a non-member company and the non-member company places a buy order with a member company, the customer has the legal right to the securities received by the non-member company from the member company because the purchased securities are regarded as belonging to the customer insofar as the customer and the non-member company's creditors are concerned.

As cash deposited with an investment broker or an investment dealer is regarded as belonging to the investment broker or investment dealer, which is liable to return the same at the request of its customer, the customer cannot take back deposited cash from the investment broker or the investment dealer if a bankruptcy or rehabilitation procedure is instituted in respect of the investment broker or the investment dealer and, therefore, can suffer a loss or damage as a result. However, the Depositor Protection Act provides that the Korea Deposit Insurance Corporation will, upon the request of an investor, pay the investor up to Won 50 million of cash deposited with an investment broker or an investment dealer in case of the investment broker or the investment dealer's bankruptcy, liquidation, cancellation of investment broker or investment dealer license or other insolvency events. Investment brokers and investment dealers pay premiums to the Korea Deposit Insurance Corporation for this insurance. Pursuant to the FSCMA, investment brokers or investment dealers are required to deposit cash received from its customers at the Korea Securities Finance Corporation, a special entity established pursuant to the FSCMA. Set-off or attachment of any such cash deposits by investment brokers or investment dealers is prohibited.

Clearance and Settlement

The settlement of trades on the Korea Exchange is required to be handled by a settlement agency of the Korea Exchange. The Korea Securities Depository is the institution commissioned by the Korea Exchange to handle all such settlement of trades.

The settlement of trades on the Korea Exchange takes place through a clearance and settlement procedure. The Korea Exchange has adopted the multilateral netting system and carries out the clearance of the trades by netting the sales and purchases of each Korea Securities Depository participant. The Korea Exchange is required to provide the daily net settlement results of the trades to the Korea Securities Depository by 7 p.m. on the business day immediately prior to the settlement date. The Korea Securities Depository then handles settlement of the securities and the funds based on the information received from the Korea Exchange. The securities are settled through book-entry changes in the accounts of Korea Securities Depository participants and the funds are settled by transfer to accounts at a bank designated by the Korea Securities Depository. Settlement of trades is generally required to take place on the third trading day following the day of the sale and purchase contract (with the day of the sale and purchase contract being the first trading day).

TAXATION

The following summary is based upon the tax laws, regulations, rulings, decreases, treaties, administrative practice and judicial decisions of Korea and the United States as in effect on the date of this offering circular, all of which are subject to change, possibly with retroactive effect. Such changes could affect the statements and conclusions set forth herein. This summary is not exhaustive of all possible tax considerations which may apply to a particular investor and potential investors are advised to consult their own tax advisers as to the tax consequences of the acquisition, ownership and disposition of the GDSs or the common shares, including, in particular, the effect of any national, state or local tax laws.

Korean Taxation

The following summary of Korean tax considerations applies to you so long as you are not:

- a resident of Korea;
- a corporation with its head office, principal place of business or place of effective management in Korea (a Korean corporation); or
- engaged in a trade or business in Korea through a permanent establishment or a fixed base to which the relevant income is attributable or with which the relevant income is effectively connected.

Taxation of Dividends on Common Shares or GDSs

We will deduct Korean withholding tax from dividends (whether in cash or in shares) paid to you at a rate of 22% (including local income surtax). If you are a qualified resident and a beneficial owner of the dividends in a country that has entered into a tax treaty with Korea, you may qualify for a reduced rate of Korean withholding tax. See "— Tax Treaties" below for a discussion of treaty benefits. If we distribute to you free shares representing a transfer of certain capital reserves or asset revaluation reserves into paid-in capital, such distribution may be subject to a Korean withholding tax.

Taxation of Capital Gains from Transfer of Common Shares or GDSs

As a general rule, capital gains earned by non-residents upon transfer of our common shares or GDSs are subject to a Korean withholding tax at the lower of (i) 11% (including local income surtax) of the gross proceeds realized or (ii) 22% (including local income surtax) of the net realized gain, subject to the production of satisfactory evidence of acquisition costs and certain direct transaction costs associated with common shares or GDSs, unless exempt from Korean income taxation under an applicable tax treaty between Korea and the country of your tax residence. See "— Tax Treaties" below for a discussion on treaty benefits. Even if you do not qualify for the exemption under a tax treaty, you will not be subject to the foregoing withholding tax on capital gains if you meet certain requirements for the exemption under the domestic tax laws discussed in the following paragraphs.

You will not be subject to Korean income taxation on capital gains realized upon a transfer of our common shares through the Korea Exchange if you (i) have no permanent establishment in Korea and (ii) do not own and have never owned (together with any shares owned by any entity with which you have a special relationship and possibly shares represented by the GDSs) 25% or more of our total issued and outstanding shares at any time during the calendar year in which the sale occurs and during the five consecutive calendar years prior to the calendar year in which the sale occurs.

Under the tax law amendments effective for capital gains recognized or to be recognized from the disposition of GDSs on or after January 1, 2008, GDSs are viewed as common shares for capital gains tax purposes. Accordingly, capital gains from the sale or disposition of GDSs are taxed (if taxable) as if such gains are from the sale or disposition of our common shares. It should be noted that (i) capital gains earned by you (regardless of whether you have a permanent establishment in Korea) from a transfer of GDSs outside Korea will generally be exempt from Korean income taxation by virtue of the Special Tax Treatment Control Law of Korea (the "STTCL"), provided that the issuance of GDSs is deemed to be an overseas issuance under the STTCL, but (ii) in the case where an owner of the

underlying common shares transfers GDSs after conversion of the underlying shares into GDSs, the exemption under the STTCL described in (i) will not apply. In the case where an owner of the underlying common shares transfers the GDSs after conversion of the underlying common shares into GDSs, such person is obligated to file corporate income tax returns and pay tax unless a purchaser or a financial investment company with a brokerage license, as applicable, withholds and pays the tax on capital gains derived from the transfer of GDSs, as discussed below.

If you are subject to tax on capital gains with respect to a sale of common shares or GDSs, the purchaser or, in the case of a sale of common shares on the Korea Exchange or through a financial investment company with a brokerage license in Korea, the financial investment company is required to withhold Korean tax from the sales proceeds in an amount equal to 11% (including local income surtax) of the gross realization proceeds and to remit the withheld tax to the Korean tax authority, unless you establish your entitlement to an exemption under an applicable tax treaty or domestic tax law or produce satisfactory evidence of your acquisition costs and certain direct transaction costs associated with common shares or GDSs. See the discussion under "— Tax Treaties" below for an explanation of claiming treaty benefits.

Tax Treaties

Korea has entered into a number of income tax treaties with other countries, including the United States, which reduce or exempt Korean withholding tax on the income derived by residents of such treaty countries. For example, under the income tax treaty between Korea and the United States dated June 4, 1976 (the "Treaty"), reduced rates of Korean withholding tax on dividends of 16.5% or 11.0%, respectively (including local income surtax), depending on your shareholding ratio, and an exemption from Korean withholding tax on capital gains is generally available to residents of the United States that are beneficial owners of the relevant dividend income or capital gains. However, under Article 17 (Investment or Holding Companies) of the Treaty, such reduced rates and exemption do not apply if (i) you are a United States corporation, (ii) by reason of any special measures the tax imposed on you by the United States with respect to such dividends or capital gains is substantially less than the tax generally imposed by the United States on corporate profits, and (iii) 25% or more of your capital is held of record or is otherwise determined, after consultation between competent authorities of the United States and Korea, to be owned directly or indirectly by one or more persons who are not individual residents of the United States. Also, under Article 16 (Capital Gains) of the Treaty, the exemption on capital gains does not apply if (a) you have a permanent establishment in Korea and any common shares in which you hold an interest and which give rise to capital gains are effectively connected to such permanent establishment, (b) you are an individual and you maintain a fixed base in Korea for a period or periods aggregating 183 days or more during the taxable year and your common shares, or GDSs, giving rise to capital gains are effectively connected to such fixed base or (c) you are an individual and you are present in Korea for a period or periods of 183 days or more during the taxable year.

You should inquire for yourself whether you are entitled to the benefit of an income tax treaty with Korea. It is the responsibility of the party claiming the benefits of an income tax treaty in respect of dividend payments or capital gains to submit to us, the purchaser, the financial investment company or other withholding agent, as the case may be, a certificate as to his tax residence. In the absence of sufficient proof, we, the purchaser, the financial investment company or other withholding agent, as the case may be, must withhold tax at the normal rates. Furthermore, in order for you to claim the benefit of a tax rate reduction or tax exemption on certain Korean source income (e.g., dividends or capital gains) under an applicable tax treaty as the beneficial owner of such Korean source income, Korean tax law requires you (or your agent) to submit an application (in the case for reduced withholding tax rate, an "application for entitlement to reduced tax rate," and in the case for exemption from withholding tax, an "application for tax exemption") with a certificate of your tax residency issued by the competent authority of your country of tax residence, subject to certain exceptions (together, the "BO application"). For example, a U.S. resident would be required to provide a Form 6166 as a certificate of tax residency with the application for entitlement to reduced tax rate or the application for tax exemption, as the case may be. Subject to certain exceptions, where the relevant income is paid to an overseas investment vehicle that is not the beneficial owner of such income (an "OIV"), a beneficial owner claiming the benefit of an applicable tax treaty with respect to such income must submit its BO application to such OIV, which in turn must submit an OIV report and a schedule of beneficial owners to the withholding agent prior to the payment date of such income. In the case of a tax exemption application, the

withholding agent is required to submit such application (together with the applicable OIV report in the event the income will be paid to an OIV) to the relevant district tax office by the ninth day of the month following the date of the payment of such income.

Inheritance Tax and Gift Tax

If you die while holding GDSs or donate GDSs, it is unclear whether, for Korean inheritance and gift tax purposes, you would be treated as the owner of the common shares underlying the GDSs. If the tax authority interprets depositary receipts as the underlying share certificates, you may be treated as the owner of the common shares and your heir or the donee (or in certain circumstances, you as the donor) will be subject to Korean inheritance or gift tax, which ranges from 10% to 50% recently, assessable based on the value of the GDSs or common shares and the identity of the individual against whom the tax is assessed.

If you die while holding common shares or donate subscription rights or common shares, your heir or donee (or in certain circumstances, you as the donor) will be subject to Korean inheritance or gift tax at the same rate as indicated above.

At present, Korea has not entered into any tax treaty relating to inheritance or gift taxes.

Securities Transaction Tax

If you transfer common shares through the Korea Exchange, you will be subject to a securities transaction tax at the rate of 0.15% and an agriculture and fishery special surtax at the rate of 0.15% of the sales price of the common shares. If your transfer of common shares is not made through the Korea Exchange, subject to certain exceptions, you will be subject to a securities transaction tax at the rate of 0.5% but will not be subject to an agriculture and fishery special surtax.

Depositary receipts, which the GDSs constitute, are included in the scope of securities transfers subject to securities transaction tax effective starting with transfers occurring on or after January 1, 2011. Nonetheless, transfer of depositary receipts listed on a foreign securities exchange similar to the Korea Exchange (e.g., the SGX-ST) will not be subject to the securities transaction tax.

In principle, the securities transaction tax, if applicable, must be paid by a transferor of common shares. When a transfer is effected through a securities settlement company, such settlement company is generally required to withhold and remit the tax to the tax authorities. When such transfer is made through a financial investment company only, such financial investment company is required to withhold and remit the tax. Where a transfer is effected by a non-resident who has no permanent establishment in Korea by a method other than through a securities settlement company or a financial investment company, the transferee is required to withhold the securities transaction tax.

Non-reporting or underreporting of securities transaction tax will generally result in the imposition of penalties equal to 20% to 60% of the non-reported or 10% to 60% of the underreported tax amount and a failure to timely pay securities transaction tax due will result in penalties of 10.95% per annum of the due but unpaid tax. The penalty is imposed on the party responsible for paying the securities transaction tax or, if the securities transaction tax is to be withheld, on the party that has the withholding obligation.

United States Federal Income Tax Considerations

The following is a summary of certain U.S. federal income tax considerations that are likely to be relevant to the purchase, ownership and disposition of our common shares or GDSs by a U.S. Holder (as defined below).

This summary is based on provisions of the Internal Revenue Code of 1986, as amended (the "Code"), and regulations, rulings and judicial interpretations thereof, in force as of the date hereof, and the Treaty. Those authorities may be changed at any time, perhaps retroactively, so as to result in U.S. federal income tax consequences different from those summarized below.

This summary is not a comprehensive discussion of all of the tax considerations that may be relevant to a particular investor's decision to purchase, hold, or dispose of common shares or GDSs. In

particular, this summary is directed only to U.S. Holders that purchase GDSs in this offering and that hold common shares or GDSs as capital assets and does not address tax consequences to U.S. Holders who may be subject to special tax rules, such as banks, brokers or dealers in securities or currencies, traders in securities electing to mark to market, financial institutions, life insurance companies, tax exempt entities, entities that are treated as partnerships for U.S. federal income tax purposes (or partners therein), holders that own or are treated as owning 10% or more of our voting common shares or GDSs, persons holding common shares or GDSs as part of a hedging or conversion transaction or a straddle, or persons whose functional currency is not the U.S. dollar. Moreover, this summary does not address state, local or foreign taxes, the U.S. federal estate and gift taxes, the Medicare contribution tax applicable to net investment income of certain non-corporate U.S. Holders, or alternative minimum tax consequences of acquiring, holding or disposing of common shares or GDSs.

For purposes of this summary, a "U.S. Holder" is a beneficial owner of common shares or GDSs that is for United States income tax purposes (i) an individual citizen or resident of the United States, (ii) a corporation (or other entity taxable as a corporation) created or organized in or under the laws of the United States, any state thereof or the District of Columbia, or (iii) that otherwise is subject to U.S. federal income taxation on a net income basis in respect of such common shares or GDSs and that, in each case, is fully eligible for benefits under the Treaty.

In general, if you are a U.S. Holder of GDSs, you will be treated, for U.S. federal income tax purposes, as the beneficial owner of the underlying common shares that are represented by those GDSs. Deposits and withdrawals of common shares by U.S. Holders in exchange for GDSs will not result in the realization of gain or loss for U.S. federal income tax purposes.

You should consult your own tax advisors about the consequences of the acquisition, ownership, and disposition of the common shares or GDSs, including the relevance to your particular situation of the considerations discussed below and any consequences arising under foreign, state, local or other tax laws.

Except where specifically discussed below, this discussion assumes that we are not, and will not become, a passive foreign investment company (a "PFIC"), as described below under "— Passive Foreign Investment Company Status."

Taxation of Dividends

The gross amount of any distribution of cash or property with respect to our common shares or GDSs (prior to withholding or deduction for any Korean taxes) that is paid out of our current or accumulated earnings and profits (as determined for U.S. federal income tax purposes) will generally be includible in your taxable income as ordinary dividend income on the day on which you receive the dividend, in the case or common shares, or the date the Depositary receives the dividends, in the case of GDSs, and will not be eligible for the dividends-received deduction allowed to corporations under the Code.

We do not expect to maintain calculations of our earnings and profits in accordance with U.S. federal income tax principles. U.S. Holders therefore should expect that distributions generally will be treated as dividends for U.S. federal income tax purposes.

If you are a U.S. Holder, dividends paid in a currency other than U.S. dollars generally will be includible in your income in a U.S. dollar amount calculated by reference to the exchange rate in effect on the day you receive the dividends, in the case of common shares, or the date the Depositary receives the dividends, in the case of common shares represented by GDSs, regardless of whether such currency is converted into U.S. dollars at that time. U.S. Holders should consult their own tax advisors regarding the treatment of foreign currency gain or loss, if any, on any foreign currency received that is not converted into U.S. dollars when it is received.

Subject to certain exceptions for short-term positions, the U.S. dollar amount of dividends received by a non-corporate U.S. Holder with respect to the common shares or GDSs will be eligible for taxation at a preferential rate if the dividends are "qualified dividends." Dividends paid on the common shares or GDSs will be treated as qualified dividends if (i) we are eligible for the benefits of a

comprehensive income tax treaty with the United States that the Internal Revenue Service has approved for the purposes of the qualified dividend rules and (ii) we were not, in the year prior to the year in which the dividend was paid, and are not, in the year in which the dividend is paid, a PFIC.

The U.S. Treasury has determined that the Treaty meets the requirements for the qualified dividend rules, and we believe we are eligible for the benefits of the Treaty. Based on our audited financial statements and relevant market and shareholder data, we believe that we were not treated as a PFIC for U.S. federal income tax purposes with respect to our prior taxable year. In addition, based on our audited financial statements and our current expectations regarding the value and nature of our assets, the sources and nature of our income, and relevant market and shareholder data, we do not anticipate becoming a PFIC for our current taxable year or in the next taxable year. Holders should consult their own tax advisors regarding the availability of the qualified dividend tax rate in light of their own particular circumstances.

Dividend distributions with respect to our common shares or GDSs generally will be treated as "passive category" income from sources outside the United States for purposes of determining a U.S. Holder's U.S. foreign tax credit limitation. Subject to the limitations and conditions provided in the Code and the applicable U.S. Treasury Regulations, a U.S. Holder may be able to claim a foreign tax credit against its U.S. federal income tax liability in respect of any Korean income taxes withheld at the appropriate rate applicable to the U.S. Holder from a dividend paid to such U.S. Holder. Alternatively, the U.S. Holder may deduct such Korean income taxes from its U.S. federal taxable income, provided that the U.S. Holder elects to deduct rather than credit all foreign income taxes for the relevant taxable year. The rules with respect to foreign tax credits are complex and involve the application of rules that depend on a U.S. Holder's particular circumstances. Accordingly, U.S. Holders are urged to consult their tax advisors regarding the availability of the foreign tax credit to them.

U.S. Holders that receive distributions of additional GDSs or common shares or rights to subscribe for GDSs or common shares as part of a pro rata distribution to all our shareholders generally will not be subject to U.S. federal income tax in respect of the distributions, unless the U.S. Holder has the right to receive cash or property, in which case the U.S. Holder will be treated as if it received cash equal to the fair market value of the distribution. Korean taxes withheld from a distribution of additional shares that is not subject to U.S. tax, if any, will be treated for U.S. foreign tax credit purposes as imposed on "general category" income.

Taxation of Dispositions of GDSs or Common Shares

For U.S. federal income tax purposes, you will recognize taxable gain or loss on any sale, exchange, or other disposition of GDSs or common shares in an amount equal to the difference between the amount realized for such GDSs or common shares and your tax basis in such GDSs or common shares. Such gain or loss will be capital gain or loss and generally will be long-term capital gain or loss if the GDSs or common shares have been held for more than one year. Long-term capital gain realized by non-corporate U.S. Holders (including individuals) generally is subject to taxation at a preferential rate. The deductibility of capital losses is subject to limitations.

Gain, if any, realized by a U.S. Holder on the sale or other disposition of the GDSs or common shares generally will be treated as U.S. source income for U.S. foreign tax credit purposes. Consequently, if an otherwise creditable Korean withholding tax is imposed on the sale or disposition of the GDSs or common shares, a U.S. Holder that does not receive significant foreign source income from other sources may not be able to derive effective U.S. foreign tax credit benefits in respect of such Korean taxes. Any Korean securities transaction tax or agriculture and fishery community special tax that you pay will not be creditable for U.S. foreign tax credit purposes; however such taxes may reduce the amount realized from the sale or other taxable disposition of GDSs. The rules governing foreign tax credits are complex, and U.S. Holders should consult their own tax advisors regarding the application of the foreign tax credit rules to their investment in, and disposition of, the GDSs or common shares, including the creditability of any Korean withholding tax on a sale or disposition of the GDSs or common shares in light of exemptions available under the Treaty.

If a U.S. Holder sells or otherwise disposes of our common shares or GDSs in exchange for currency other than U.S. dollars, the amount realized generally will be the U.S. dollar value of the currency received at the spot rate on the date of sale or other disposition (or, if the shares are traded

on an established securities market at such time, in the case of cash basis and electing accrual basis U.S. holders, the settlement date). An accrual basis U.S. Holder that does not elect to determine the amount realized using the spot exchange rate on the settlement date will recognize foreign currency gain or loss equal to the difference between the U.S. dollar value of the amount received based on the spot exchange rates in effect on the date of the sale or other disposition and the settlement date. A U.S. Holder will have a tax basis in the currency received equal to the U.S. dollar value of the currency received at the spot rate on the settlement date. Any currency gain or loss realized on the settlement date or the subsequent sale, conversion, or other disposition of the non-U.S. currency received for a different U.S. dollar amount generally will be U.S.-source ordinary income or loss, and will not be eligible for the reduced tax rate applicable to long-term capital gains. If an accrual basis U.S. Holder makes the election described in the first sentence of this paragraph, it must be applied consistently from year to year and cannot be revoked without the consent of the IRS. A U.S. Holder should consult its own tax advisors regarding the treatment of any foreign currency gain or loss realized with respect to any currency received in a sale or other disposition of the common shares or GDSs.

Passive Foreign Investment Company Status

Special U.S. tax rules apply to companies that are considered to be passive foreign investment companies. A non-U.S. corporation, such as our company, will be classified as a PFIC in a particular taxable year if either 75 percent or more of its gross income for the taxable year is passive income; or the average quarterly percentage of the value of its assets that produce or are held for the production of passive income is at least 50 percent. Cash balances, even if held as working capital, are considered to be assets that produce passive income. Investments in companies in which we own less than 25 percent of the stock (by value) are considered to be assets that produce passive income.

We do not believe that we were a PFIC for our 2017 year, and expect to derive sufficient active revenues and to hold sufficient active assets, so that we will not be classified as a PFIC in our current taxable year or the foreseeable future. However, because PFIC status depends on the composition and market value of our income and assets from time to time and the nature of our investments, as well as on our market capitalization at the close of each quarter, there can be no assurance that we will not be a PFIC for any taxable year. While we have no reason to believe we will be or become a PFIC in the current taxable year or future taxable years, the determination of whether we are or will become a PFIC will depend in part upon the value of our goodwill and other unbooked intangibles (which will depend upon the market price of our common shares from time to time, which may be volatile). In the event that, contrary to our expectation, we are classified as a PFIC in any year, and a U.S. Holder does not make a mark-to-market election, as described in the following paragraph, that U.S. Holder will be subject to a special tax at ordinary income tax rates on “excess distributions,” including certain distributions by us, and on gain that such a U.S. Holder recognizes on the sale of its common shares or GDSs. The amount of income tax on any excess distributions will be increased by an interest charge to compensate for tax deferral, calculated as if the excess distributions were earned ratably over the period a U.S. Holder holds its GDSs or common shares. Classification as a PFIC may also have other adverse tax consequences, including, in the case of individuals, the denial of a step-up in the basis of a U.S. Holder’s shares or GDSs at death.

Alternatively, if we were a PFIC, a U.S. Holder could, if certain conditions are met, make a mark-to-market election with respect to our ADSs that would result in tax treatment different from the general tax treatment for PFICs described above. Because a mark-to-market election cannot be made for any lower-tier PFICs that a PFIC may own, a U.S. Holder who makes a mark-to-market election with respect to our GDSs will generally continue to be subject to the foregoing rules with respect to such U.S. Holder’s indirect interest in any investments held by us that are treated as an equity interest in a PFIC for U.S. federal income tax purposes. If a U.S. Holder makes this mark-to-market election, it will be required in any year in which we are a PFIC to include as ordinary income the excess of the fair market value of its shares or GDSs at year-end over its basis in those shares or GDSs. In addition, any gain it recognizes upon the sale of its shares or GDSs will be taxed as ordinary income in the year of sale.

A U.S. Holder that owns an equity interest in a PFIC must annually file IRS Form 8621, and may be required to file other IRS forms. A failure to file one or more of these forms as required may toll the running of the statute of limitations in respect of each of the U.S. Holder’s taxable years for which such form is required to be filed. As a result, the taxable years with respect to which the U.S. Holder fails to file the form may remain open to assessment by the IRS indefinitely, until the form is filed.

Prospective investors should consult their own tax advisors regarding the U.S. federal income tax considerations discussed above and the desirability of making a mark-to-market election.

Foreign Financial Asset Reporting

Certain U.S. Holders that own "specified foreign financial assets" with an aggregate value in excess of US$50,000 are generally required to file an information statement along with their tax returns, currently on Form 8938, with respect to such assets. "Specified foreign financial assets" include any financial accounts held at a non-U.S. financial institution, as well as securities issued by a non-U.S. issuer that are not held in accounts maintained by financial institutions. The understatement of income attributable to "specified foreign financial assets" in excess of US$5,000 extends the statute of limitations with respect to the tax return to six years after the return was filed. U.S. Holders who fail to report the required information could be subject to substantial penalties. Prospective investors are encouraged to consult with their own tax advisors regarding the possible application of these rules, including the application of the rules to their particular circumstances.

Backup Withholding and Information Reporting

Dividends paid on, and proceeds from the sale or other disposition of, the GDSs or common shares to a U.S. Holder generally may be subject to the information reporting requirements of the Code and may be subject to backup withholding unless the U.S. Holder provides an accurate taxpayer identification number and makes any other required certification or otherwise establishes an exemption. Backup withholding is not an additional tax. The amount of any backup withholding from a payment to a U.S. Holder will be allowed as a refund or credit against the U.S. Holder's U.S. federal income tax liability, provided the required information is furnished to the U.S. Internal Revenue Service in a timely manner.

A holder that is a foreign corporation or a non-resident alien individual may be required to comply with certification and identification procedures in order to establish its exemption from information reporting and backup withholding.

PLAN OF DISTRIBUTION

Under the terms and subject to the conditions contained in the purchase agreement (the "Purchase Agreement") dated January 17, 2018 by and between us and the initial purchasers named below (the "Initial Purchasers"), the Initial Purchasers, subject to the fulfillment of certain conditions, have severally agreed to purchase from us and we have agreed to sell to the Initial Purchasers, severally, the respective number of GDSs as set forth opposite its name in the following table, in this offering:

Name	Number of GDSs
Citigroup Global Markets Inc.	4,130,866
Goldman Sachs International	4,130,865
Total	**8,261,731**

The GDSs will be offered for resale at the offering price set forth on the cover page of this offering circular within the United States to qualified institutional buyers (as defined in Rule 144A) in reliance on Rule 144A and outside the United States to non U.S.-persons in reliance on Regulation S. See "Notice to Investors." After the initial offering, the Initial Purchasers may change the offering price and any other selling terms. The Initial Purchasers may offer and sell the GDSs through certain of their affiliates. We will pay to the Initial Purchasers underwriting commissions of approximately US$1.90 per GDS purchased by them.

The Purchase Agreement provides that we will indemnify the Initial Purchasers against certain liabilities, including liabilities under the Securities Act, or contribute to payments the Initial Purchasers may be required to make in respect thereof.

The GDSs are a new issue of securities for which there currently is no market. The Initial Purchasers have advised us that they intend to make a market in the GDSs as permitted by applicable laws and regulations. The Initial Purchasers are not obligated, however, to make a market in the GDSs and any such market-making may be discontinued at any time at the sole discretion of the Initial Purchasers. Accordingly, no assurance can be given as to the liquidity of, or trading market for, the GDSs.

Lock-up Arrangements

We have agreed with the Initial Purchasers that we will not, for a period of 90 days after the date of this offering circular, take, directly or indirectly, any of the following actions with respect to any of our GDSs or common shares or any securities convertible into or exchangeable or exercisable for any of our GDSs or common shares (the "Lock-up Securities"), without the prior written consent of the Initial Purchasers: (i) offer, issue, sell, contract to sell, pledge, grant any option to purchase, make any short sale or otherwise transfer or dispose of, or file with the U.S. Securities and Exchange Commission a registration statement under the Securities Act relating to, any Lock-up Securities; (ii) enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of ownership of the Lock-up Securities, whether any such transaction is to be settled by delivery of securities, in cash or otherwise; or (iii) publicly disclose the intention to take any such action specified in (i) and (ii) above, except for (1) the issuance of stock options to our directors, officers and employees pursuant to stock option plans existing at the date of this offering circular and (2) the issuance of common shares upon the exercise of stock options, or the conversion of convertible bonds, outstanding at the date of this offering circular.

In addition, each of Beom Su Kim and K Cube Holdings Co., Ltd., our shareholders, has agreed with the Initial Purchasers that he or it will not, for a period of 90 days after the date of this offering circular, take, directly or indirectly, any of the following actions with respect to any Lock-up Securities, without the prior written consent of the Initial Purchasers: (i) offer, issue, sell, contract to sell, pledge, grant any option to purchase, make any short sale or otherwise transfer or dispose of, or file with the U.S. Securities and Exchange Commission a registration statement under the Securities Act relating to, any Lock-up Securities; (ii) enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of ownership of the Lock-up Securities, whether any such transaction is to be settled by delivery of securities, in cash or otherwise; or (iii) publicly disclose the intention to take any such action specified in (i) and (ii) above; provided, however, that the

foregoing does not apply to pledges or other encumbrances existing on the date of this offering circular (or any renewals or extensions of such pledges or other encumbrances) that were provided in connection with borrowings with respect to a combined 4,114,156 common shares owned by Beom Su Kim and K Cube Holdings Co., Ltd. (the number of which may be subject to increase or decrease pursuant to a renewal or extension of the relevant pledge agreement or changes in the market price of the common shares).

Listing

Application has been made to the SGX-ST for the listing and quotation of the GDSs on the SGX-ST. The SGX-ST assumes no responsibility for the correctness of any of the statements made, reports contained or opinions expressed in this offering circular. Approval in-principle from, admission to the Official List of, and listing and quotation of the GDSs on, the SGX-ST are not to be taken as an indication of our merits or the merits of the GDSs or the common shares. Notwithstanding their listing on the SGX-ST, the GDSs will be traded over-the-counter.

Other Relationships

The Initial Purchasers and certain of their affiliates have performed certain investment banking and advisory services for us and our affiliates from time to time for which they have received customary fees and expenses and may, from time to time, engage in transactions with and perform services for us and our affiliates in the ordinary course of business.

In connection with the offering, the Initial Purchasers and any affiliate, acting as an investor for its own account, may take up GDSs and in that capacity may retain, purchase or sell for its own account such GDSs and any related investments and may offer or sell such GDSs or other investments otherwise than in connection with the offering. Accordingly, references in this offering circular to the GDSs being offered or placed should be read as including any offering or placement of GDSs to the Initial Purchasers and any affiliate acting in such capacity. The Initial Purchasers do not intend to disclose the extent of any such investment or transactions otherwise than to us and in accordance with any legal or regulatory obligation to do so. In addition, in connection with the offering, the Initial Purchasers or their affiliates may enter into financing arrangements with investors, such as share swap arrangements or lending arrangements where securities are used as collateral that could result in the Initial Purchasers or their affiliates acquiring shareholdings in us.

Selling Restrictions

General

No action has been taken or will be taken in any jurisdiction by us or the Initial Purchasers that would permit a public offering of the GDSs or the underlying common shares, or the possession, circulation or distribution of this offering circular or any amendment or supplement thereto issued in connection with the proposed resale of the GDSs or any other publicity material relating to the GDSs or the underlying common shares, in any country or jurisdiction where action for that purpose is required. Accordingly, no GDSs or underlying common shares may be offered or sold, directly or indirectly, and neither this offering circular nor any amendment or supplement thereto nor any other offering material or advertisements in connection with the GDSs or the underlying common shares may be distributed or published, in or from any country or jurisdiction except in compliance with any applicable rules and regulations of such country or jurisdiction.

United States

The GDSs and the underlying common shares have not been and will not be registered under the Securities Act or the securities laws of any state of the United States and may only be offered or sold in the United States or to U.S. persons pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and in compliance with any other applicable laws. Each Initial Purchaser will only offer or sell the GDSs to (i) “qualified institutional buyers” within the United States (as defined in Rule 144A) in compliance with Rule 144A; and (ii) non-U.S. persons outside the United States in offshore transactions in reliance on Regulation S. For the description of transfer restrictions on the GDSs and the underlying common shares, see “Notice to Investors.”

Until 40 days after the commencement of the offering of the GDSs and the underlying common shares, an offer or sale of the GDSs or the underlying common shares within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

United Kingdom

Each of the Initial Purchasers has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (the "FSMA")) received by it in connection with the issue or sale of any GDSs in circumstances in which Section 21(1) of the FSMA does not apply.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "Relevant Member State"), each Initial Purchaser, with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "Relevant Implementation Date"), has not made and will not make an offer of the GDSs which are the subject of the offering contemplated by this offering circular to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of the GDSs to the public in that Relevant Member State:

a) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;

b) at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) as permitted under the Prospectus Directive, subject to obtaining the prior consent of the Initial Purchasers for any such offer; or

c) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of GDSs referred to in (a) to (c) above shall require us or any Initial Purchaser to publish a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression "an offer of GDSs to the public" in relation to any in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the GDSs to be offered so as to enable an investor to decide to purchase or subscribe for the GDSs, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State. The expression "Prospectus Directive" means Directive 2003/71/EC (as amended, including by 2010/73/EU), and includes any relevant implementing measure in the Relevant Member State.

Switzerland

The GDSs may not be publicly offered, sold or advertised, directly or indirectly, in, into or from Switzerland and will not be listed on the SIX Swiss Exchange or on any other exchange or regulated trading facility in Switzerland. Neither this offering circular nor any other offering or marketing material relating to the GDSs constitutes a prospectus as such term is understood pursuant to article 652a or article 1156 of the Swiss Code of Obligations or a listing prospectus within the meaning of the listing rules of the SIX Swiss Exchange or any other regulated trading facility in Switzerland, and neither this offering circular nor any other offering or marketing material relating to the GDSs may be publicly distributed or otherwise made publicly available in Switzerland.

Netherlands

The GDSs are not, will not and may not be, directly or indirectly, offered in the Netherlands (and this offering circular shall not be circulated in the Netherlands) except to qualified investors (gekwalificeerde beleggers) within the meaning of Section 1:1 of the Dutch Act on Financial Supervision (Wet op het financieel toezicht), as amended from time to time.

Dubai International Financial Centre

This offering circular relates to an exempt offer in accordance with the Offered Securities Rules of the Dubai Financial Services Authority. This offering circular is intended for distribution only to persons of a type specified in those rules. It must not be delivered to, or relied on by, any other person. The Dubai Financial Services Authority has no responsibility for reviewing or verifying any documents in connection with exempt offers. The Dubai Financial Services Authority has not approved this offering circular nor taken steps to verify the information set out in it, and has no responsibility for it. The GDSs which are the subject of the offering contemplated by this offering circular may be illiquid and/or subject to restrictions on their resale. Prospective purchasers of the GDSs offered should conduct their own due diligence. If you do not understand the contents of this offering circular you should consult an authorized financial adviser.

United Arab Emirates (excluding the Dubai International Financial Centre)

This offering circular and the information contained herein does not constitute, and is not intended to constitute, a public offer of securities in the United Arab Emirates ("UAE") and accordingly should not be construed as such. The GDSs are only being made available to a limited number of sophisticated investors in the UAE who are willing and able to conduct an independent investigation of the risks involved in an investment in such GDSs, upon their specific request. The GDSs have not been approved or licensed or registered with the UAE Central Bank, the UAE Securities and Commodities Authority or any other relevant licensing authorities or governmental agencies in the UAE and no transaction will be concluded in the UAE. This offering circular is for the use of the named addressee only and should not be given or shown to any other person (other than employees, agents or consultants in connection with the addressee's consideration thereof).

Korea

Each of the Initial Purchasers has not and will not, directly or indirectly, offer, sell or deliver any GDSs in Korea or to, or for the account or benefit of, any resident of Korea, or to others for reoffering or resale, directly or indirectly, in Korea or to, or for the account or benefit of, any resident of Korea, except as otherwise permitted by applicable Korean laws and regulations.

Hong Kong

The GDSs have not been offered or sold and may not be offered or sold in Hong Kong by means of any document other than: (i) in circumstances which do not constitute an offer to the public within the meaning of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap.32, Laws of Hong Kong); (ii) to "professional investors" as defined in the Securities and Futures Ordinance (Cap.571, Laws of Hong Kong) and any rules made under that ordinance; or (iii) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap.32, Laws of Hong Kong). Further, no person shall issue or have in its possession for the purpose of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the GDSs, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to the GDSs which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the Securities and Futures Ordinance (Cap.571, Laws of Hong Kong) and any rules made under that ordinance. This offering circular and the information contained herein may not be used other than by the person to whom it is addressed and may not be reproduced in any form or transferred to any person in Hong Kong. This offering is not an offer for sale to the public in Hong Kong and it is not our intention that the GDSs be offered for sale to the public in Hong Kong.

Australia

We are not registered as a foreign company in Australia. The provision of this offering circular to any person does not constitute an offer of the GDSs to that person or an invitation to that person to apply for GDSs. Any such offer or invitation will only be extended to a person in Australia if that person is:

- a sophisticated or professional investor for the purposes of section 708 of the Corporations Act of Australia; and
- a wholesale client for the purposes of section 761G of the Corporations Act of Australia.

This offering circular is not intended to be distributed or passed on, directly or indirectly, to any other class of persons in Australia.

This offering circular is not a disclosure document under Chapter 6D of the Corporations Act or a product disclosure statement under Part 7.9 of the Corporations Act. It is not required to, and does not, contain all the information which would be required in a disclosure document or a product disclosure document. It has not been lodged with the Australian Securities and Investments Commission. Any person to whom a GDS is issued or sold must not, within 12 months after the offering, offer, transfer or assign that GDS to investors in Australia except in circumstances where disclosure to investors is not required under the Corporations Act.

No person referred to in this offering circular holds an Australian financial services license.

The information in this offering circular has been prepared without taking into account any investor's investment objectives, financial situation or particular needs. Before acting on the information the investor should consider its appropriateness having regard to their investment objectives, financial situation and needs.

This offering circular has not been prepared specifically for Australian investors. It:

- may contain references to dollar amounts which are not Australian dollars;
- may contain financial information which is not prepared in accordance with Australian law or practices;
- may not address risks associated with investment in foreign currency denominated investments; and
- does not address Australian tax issues.

This offering circular is issued by us. We are not licensed in Australia to provide financial product advice in relation to the GDSs. An investor in the GDSs will not have cooling off rights.

Singapore

This offering circular has not been and will not be registered as a prospectus with the Monetary Authority of Singapore under the Securities and Futures Act, Chapter 289 of Singapore (the "SFA"). Accordingly, this offering circular and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the GDSs may not be circulated or distributed, nor may the GDSs be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor under Section 274 of the SFA, (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the GDSs are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

- a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the GDSs pursuant to an offer made under Section 275 of the SFA except:

- to an institutional investor or to a relevant person defined in Section 275(2) of the SFA or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;
- where no consideration is or will be given for the transfer;
- where the transfer is by operation of law;
- as specified in Section 276(7) of the SFA; or
- as specified in Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

The restriction above applies to both primary and secondary markets and, for the avoidance of doubt, excludes retail participation in trading of the GDSs on the SGX-ST even beyond the six-month period contemplated under Section 276 of the SFA.

Japan

The GDSs offered hereby have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the "Financial Instruments and Exchange Act"). Accordingly, the GDSs which an Initial Purchaser subscribes will be subscribed by it as principal and that, in connection with the offering made hereby, it will not, directly or indirectly, offer or sell any GDSs in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan) or to others for reoffering or resale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Act and other relevant laws, regulations and ministerial guidelines of Japan.

Malaysia

No approval, authorization or recognition from, or registration with, the Securities Commission of Malaysia ("SC") has been applied for or will be obtained for the offer for subscription or purchase of, or invitation to subscribe for or purchase, the GDSs or any other securities under the Capital Markets and Services Act 2007. Neither this offering circular nor any prospectus or other offering document has been or will be approved by, or registered or lodged with, the SC or any other authority in connection with the offering or invitation in Malaysia. Accordingly, no offering or invitation in respect of the GDSs or any other securities is or will be made in Malaysia pursuant to this offering circular or any amendment or supplement hereto. This offering circular or any amendment or supplement hereto or any other offering document in relation to the GDSs may not be distributed in Malaysia directly or indirectly for the purpose of any offer of the GDSs and no person may offer for subscription or purchase any of the GDSs directly or indirectly to anyone in Malaysia.

Canada

The GDSs may be sold in any province of Canada only to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 Prospectus Exemptions or subsection 73.3(1) of the Securities Act (Ontario), and are permitted clients, as defined in National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations. Any resale of the GDSs must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this offering circular (including any amendment hereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for particulars of these rights or consult with a legal advisor.

Under Canadian securities law, National Instrument 33-105 Underwriting Conflicts (NI 33-105) provides disclosure requirements with respect to potential conflicts of interest between an issuer and underwriters, dealers or placement agents, as the case may be. To the extent any conflict of interest between us and any of the underwriters (or any other placement agent acting in connection with this offering) may exist in respect of this offering, the applicable parties to this offering are relying on the exemption from these disclosure requirements provided to them by section 3A.3 of NI 33-105 (Exemption based on U.S. disclosure).

Upon receipt of this document, each Canadian purchaser hereby confirms that it has expressly requested that all documents evidencing or relating in any way to the sale of the securities described herein (including for greater certainty any purchase confirmation or any notice) be drawn up in the English language only. *Par la réception de ce document, chaque acheteur canadien confirme par les présentes qu'il a expressément exigé que tous les documents faisant foi ou se rapportant de quelque manière que ce soit à la vente des valeurs mobilières décrites aux présentes (incluant, pour plus de certitude, toute confirmation d'achat ou tout avis) soient rédigés en anglais seulement.*

NOTICE TO INVESTORS

Because of the following restrictions, you are advised to consult legal counsel prior to making any offer, resale, pledge or other transfer of the GDSs or the common shares represented thereby.

The GDSs and the common shares represented thereby are subject to restrictions on transfer as summarized below. Each purchaser of GDSs, by accepting delivery of this offering circular, will be deemed to have made the following acknowledgements, representations to and agreements with us and the Initial Purchasers:

(1) Each purchaser of GDSs acknowledges that:

- the GDRs, the GDSs evidenced thereby and the common shares represented thereby have not been, and are not expected to be, registered under the Securities Act or any other securities laws and are being offered for resale in transactions that do not require registration under the Securities Act or any other securities laws;

- unless so registered, the GDSs or the common shares represented thereby may not be offered, sold or otherwise transferred except under an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act or any other applicable securities laws, and in each case in compliance with the conditions for transfer set forth in paragraph (4) or (5) below, as the case may be; and

- except in certain limited circumstances, interests in the GDSs may only be held through owning beneficial interests in the corresponding Master GDR, and such interests in the applicable Master GDR will be shown on, and transfers thereof will be effected only through, records maintained by DTC, Euroclear and Clearstream (and the Common Depositary) and the Participants, as applicable.

(2) Each purchaser of GDSs represents that it is not our affiliate (as defined in Rule 144), that it is not acting on our behalf and that either:

- it is a qualified institutional buyer (as defined in Rule 144A) and is purchasing the GDSs for its own account or for the account of another qualified institutional buyer, and it is aware that the Initial Purchasers are selling the GDSs to it in reliance on Rule 144A; or

- it is not a U.S. person (as defined in Regulation S) or purchasing for the account or benefit of a U.S. person, other than a distributor, and it is purchasing GDSs in an offshore transaction in accordance with Regulation S.

(3) Each purchaser of GDSs acknowledges that neither we nor the Initial Purchasers nor any person representing us or the Initial Purchasers has made any representation to it with respect to us or the offering of the GDSs, other than the information contained in this offering circular. Each purchaser of GDSs represents that it is relying only on this offering circular in making its investment decision with respect to the GDSs. It agrees that it has had access to such financial and other information concerning us and the GDSs as it has deemed necessary in connection with its decision to purchase GDSs, including an opportunity to ask questions of and request information from us.

(4) Each purchaser of Rule 144A GDSs represents that it is purchasing GDSs for its own account, or for one or more investor accounts for which it is acting as a fiduciary or agent, in each case not with a view to, or for offer or sale in connection with, any distribution of the GDSs in violation of the Securities Act, subject to any requirement of law that the disposition of its property or the property of that investor account or accounts be at all times within its or their control. Each purchaser of Rule 144A GDSs agrees on its own behalf and on behalf of any investor account for which it is purchasing Rule 144A GDSs, and each subsequent holder of the Rule 144A GDSs by its acceptance of the Rule 144A

GDSs will agree, that the Rule 144A GDSs may be offered, sold or otherwise transferred only:

(a) under a registration statement that has been declared effective under the Securities Act; or

(b) for so long as the GDSs are eligible for resale under Rule 144A, to a person the seller reasonably believes is a qualified institutional buyer that is purchasing for its own account or for the account of another qualified institutional buyer and to whom notice is given that the transfer is being made in reliance on Rule 144A; or

(c) to a person, other than a U.S. person, located outside the United States in a transaction meeting the requirements of Regulation S; or

(d) pursuant to an exemption from registration requirements of the Securities Act provided by Rule 144, if available;

subject in each of the above cases to any requirement of law that the disposition of the seller's property or the property of an investor account or accounts be at all times within the seller or account's control.

Each purchaser of Rule 144A GDSs also acknowledges that the Rule 144A GDRs will bear a legend substantially to the effect set forth in "Description of Global Depositary Shares — Legends," unless we and the Depositary determine otherwise in compliance with applicable law, and that it will observe the restrictions contained therein.

(5) Each purchaser of Regulation S GDSs represents that it is purchasing GDSs for its own account, or for one or more investor accounts for which it is acting as a fiduciary or agent, in each case not with a view to, or for offer or sale in connection with, any distribution of the GDSs in violation of the Securities Act, subject to any requirement of law that the disposition of its property or the property of that investor account or accounts be at all times within its or their control. Each purchaser of Regulation S GDSs agrees on its own behalf and on behalf of any investor account for which it is purchasing Regulation S GDSs, and each subsequent holder of the Regulation S GDSs by its acceptance of the Regulation S GDSs will agree, that prior to the expiration of the applicable distribution compliance period (defined as 40 days after the later of (i) the commencement of the offer of (A) Regulation S GDSs outside the United States in reliance on Regulation S and any other applicable law in transactions exempt from registration under the Securities Act and (B) Rule 144A GDSs in the United States to qualified institutional buyers and (ii) the final closing date with respect to the Regulation S GDSs), the Regulation S GDSs may be offered, sold or otherwise transferred only:

(a) under a registration statement that has been declared effective under the Securities Act; or

(b) for so long as the GDSs are eligible for resale under Rule 144A, to a person the seller reasonably believes is a qualified institutional buyer that is purchasing for its own account or for the account of another qualified institutional buyer and to whom notice is given that the transfer is being made in reliance on Rule 144A, in which case the transferor must withdraw the common shares underlying the Regulation S GDSs to be transferred, deposit the same in the Rule 144A GDS facility and transfer the Rule 144A GDSs issued against such deposit; or

(c) to a person, other than a U.S. person, located outside the United States in a transaction meeting the requirements of Regulation S; or

(d) pursuant to an exemption from registration requirements of the Securities Act provided by Rule 144, if available;

subject in each of the above cases to any requirement of law that the disposition of the seller's property or the property of an investor account or accounts be at all times within the seller or account's control.

Each purchaser of Regulation S GDSs also acknowledges that the Regulation S GDRs will bear a legend substantially to the effect set forth in "Description of Global Depositary Shares — Legends," unless we and the Depositary determine otherwise in compliance with applicable law, and that it will observe the restrictions contained therein.

(6) Each purchaser of GDSs acknowledges that any resale or other transfer, or attempted resale or other transfer, of the GDSs made other than in compliance with the above-stated restrictions will not be recognized by us or the Depositary.

(7) Prospective purchasers of Rule 144A GDSs are hereby notified that sellers of the GDSs may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

(8) Each purchaser of GDSs acknowledges that we, the Initial Purchasers, the Depositary and others will rely upon the truth and accuracy of the above acknowledgments, representations and agreements. Each purchaser of GDSs agrees that if any of the acknowledgments, representations or agreements that it is deemed to have made by its purchase of GDSs is no longer accurate, it will promptly notify us and the Initial Purchasers. If it is purchasing any GDSs as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each of those accounts and that it has full power to make the above acknowledgments, representations and agreements on behalf of each account.

CLEARANCE AND SETTLEMENT

Ownership of GDSs evidenced by a Master GDR will be limited to DTC Participants, Euroclear Participants, Clearstream Participants, the Common Depositary, or persons who hold interests through such Participants. Ownership of such GDSs will be shown on, and the transfer of that ownership will be effected only through, records maintained by DTC, Euroclear, Clearstream and the Common Depositary (with respect to interests of Participants) and records maintained by Participants (with respect to interests of persons other than Participants).

So long as DTC, or its nominee, is the registered holder of a Master GDR, DTC or such nominee, as the case may be, will be considered the holder of the GDSs evidenced thereby for all purposes under the applicable Deposit Agreement. So long as the Common Depositary, or its nominee, is the registered holder of a Master GDR, the Common Depositary or such nominee, as the case may be, will be considered the holder of the GDSs evidenced thereby for all purposes under the applicable Deposit Agreement. In addition, no owner of an interest in the GDSs evidenced by a Master GDR will be able to transfer that interest except in accordance with the procedures of DTC, Euroclear, Clearstream, Participants and the Common Depositary, as applicable. Clearstream has advised that it will not accept transfers by U.S. persons.

Transfers between DTC Participants will be effected through DTC. Transfers between Euroclear Participants and Clearstream Participants will be effected through Euroclear and Clearstream. The laws of some jurisdictions require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer interests in GDSs evidenced by a Master GDR to such persons may be limited. Because DTC, Euroclear and Clearstream can only act on behalf of their respective Participants, who in turn act on behalf of indirect participants, the ability of a person having an interest in GDSs evidenced by a Master GDR to pledge such interests to persons or entities that do not participate in the applicable system, or otherwise take action in respect of such interest, may be affected by the lack of individual definitive GDRs evidencing such interest.

Settlement for the GDSs will be made by the Initial Purchasers in immediately available funds. GDSs evidenced by the Master GDR registered in the name of DTC or its nominee will settle in DTC's Same-Day Funds Settlement System and secondary market trading activity in such GDSs will be required by DTC to settle in immediately available funds. GDSs evidenced by the Master GDR registered in the name of the Common Depositary, or its nominee, will settle in accordance with the settlement procedures applicable to equity securities in the Euromarket.

DTC, on the one hand, and Euroclear, Clearstream and the Common Depositary, on the other, will take any action permitted to be taken by an owner of GDSs only at the direction of one or more DTC Participants or Euroclear Participants or Clearstream Participants, as applicable, to whose account or accounts with DTC or Euroclear or Clearstream, as applicable, interests in the GDSs evidenced by a Master GDR are credited and only in respect of such portion of the number of GDSs as to which such applicable Participant or Participants has or have given such direction. Owners of indirect interests in securities evidenced by a Master GDR held through Participants have no direct rights to enforce such interests while the securities are in global form.

Although DTC, Clearstream, Euroclear and the Common Depositary have agreed to the foregoing procedures in order to facilitate the transfer of interests in the Master GDRs among their respective Participants, they are under no obligation to perform or continue to perform such procedures and such procedures may be discontinued at any time. None of us, the Depositary, the Custodian or any of their agents will have any responsibility for the performance by DTC, Clearstream, Euroclear or the Common Depositary, or their respective Participants or nominees, of their respective obligations under the rules and procedures governing their operations.

LEGAL MATTERS

Certain legal matters relating to this offering will be passed upon for us by Cleary Gottlieb Steen & Hamilton LLP, our special U.S. counsel, and Kim & Chang, our Korean counsel, and for the Initial Purchasers by Paul Hastings LLP, their special U.S. counsel, and Bae, Kim & Lee LLC, their Korean counsel. Cleary Gottlieb Steen & Hamilton LLP may rely as to all matters of Korean law on the opinion of Kim & Chang, and Paul Hastings LLP may rely as to all matters of Korean law on the opinion of Bae, Kim & Lee. Kim & Chang may rely as to all matters of New York law on the opinion of Cleary Gottlieb Steen & Hamilton LLP, and Bae, Kim & Lee LLC may rely as to all matters of New York law on the opinion of Paul Hastings LLP.

INDEPENDENT ACCOUNTANTS

The consolidated financial statements of our company as of December 31, 2015 and 2016 and for each of the three years in the period ended December 31, 2016, included in this offering circular, have been audited by Samil PricewaterhouseCoopers, independent accountants, as stated in their report appearing herein.

The consolidated financial statements of LOEN as of December 31, 2015 and 2016 and for each of the three years in the period ended December 31, 2016, included in this offering circular, have been audited by Samil PricewaterhouseCoopers, independent accountants, as stated in their report appearing herein.

With respect to the unaudited consolidated interim financial statements of our company as of September 30, 2017 and for the three and nine months ended September 30, 2016 and 2017 included herein, Samil PricewaterhouseCoopers reported that they have applied limited procedures in accordance with professional standards for a review of such information. However, their separate report dated November 13, 2017 appearing herein states that they did not audit and they do not express an opinion on such unaudited financial information. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied.

With respect to the unaudited consolidated interim financial statements of LOEN as of September 30, 2017 and for the three and nine months ended September 30, 2016 and 2017 included herein, Samil PricewaterhouseCoopers reported that they have applied limited procedures in accordance with professional standards for a review of such information. However, their separate report dated November 8, 2017 appearing herein states that they did not audit and they do not express an opinion on that unaudited financial information. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied.

AVAILABLE INFORMATION

To permit compliance with Rule 144A in connection with sales of the GDSs, we will be required to furnish, upon request of a holder of GDSs, to such holder and any prospective investor designated by such holder the information required to be delivered under Rule 144A(d)(4) under the Securities Act unless at the time of the request we are a reporting company under Section 13 or Section 15(d) of the Exchange Act, or exempt from the registration requirements of Section 12(g) of the Exchange Act pursuant to Rule 12g3-2(b) under the Exchange Act. Any such request should be directed to Kakao Corp., Attention: Investor Relations, 242, Cheomdan-ro, Jeju-si, Jeju-do, Korea (telephone: 82-1899-1326; fax: 82-31-737-7418).

You should rely only upon the information provided in this offering circular. We have not authorized anyone to provide you with different information. You should not assume that the information in this offering circular is accurate as of any date other than the date of this offering circular.

ENFORCEMENT OF CIVIL LIABILITIES

We are a corporation with limited liability incorporated in Korea. Substantially all of our directors and officers and other persons named in this offering circular reside in Korea, and all or a significant portion of the assets of the directors and officers and other persons named in this offering circular and a substantial part of our assets are located in Korea. As a result, it may not be possible for you to effect service of process within the United States upon such persons or to enforce against them or against us in U.S. courts judgments predicated upon the civil liability provisions of the federal securities laws of the United States. There is doubt as to the enforceability in Korea, either in original actions or in actions for enforcement of judgments of U.S. courts, of civil liabilities predicated on the U.S. federal securities laws.

GENERAL INFORMATION

a) The date of incorporation of Daum Communications, our legal predecessor, as registered with the Korean commercial registry under the registration number 120-81-47521, was February 16, 1995. According to Article 2 of our articles of incorporation, the scope of our business includes, among other things, development, manufacture and sale of computer and multimedia programs; e-commerce-related distribution; broadcasting; advertising; cartoon publishing; game software consulting, development and distribution; electronic prepayment and payment gateway business; cartography; Internet services; development and manufacture of content; licensing, manufacturing, distribution and sale of character merchandise; mail-order, online marketing and communications; telecommunications; electronic finance; location information and location based services; O2O services; and any and all other businesses incidental to the foregoing.

b) The offering of the GDSs and the issuance of the common shares underlying the GDSs have been authorized and approved by our board of directors at a meeting held on December 15, 2017. In accordance with the Korean Commercial Code, a shareholders' approval is not required in connection with this offering of the GDSs and the issuance of the common shares underlying the GDSs.

c) The Purchase Agreement is governed by the laws of the State of New York.

d) Other than as set forth in this offering circular, there has been no significant change in our financial or trading position or material information contained in announcements made by us to the Korea Exchange since September 30, 2017, the date of our latest unaudited consolidated interim financial statements.

e) We are not and have not been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which we are aware) which may have, or have had, during the 12 months preceding the date of this offering circular, a significant effect on our financial position or profitability.

f) All consents, approvals, authorizations or other orders of all regulatory authorities required by us under the laws of Korea have been obtained for the issuance of the GDSs and for us to perform our obligations under the Deposit Agreements.

g) A copy of the Depositary's charter, as amended, together with copies of the Depositary's most recent financial statements and annual report are available for inspection at the Depositary's offices located at 388 Greenwich Street, New York, New York 10013, USA so long as the GDSs are listed on the Official List of the SGX-ST. Holders of the GDSs can also contact the Depositary at (877) 248-4237.

h) The entity in charge of keeping the records of the GDSs is Citibank, N.A., located at 388 Greenwich Street, New York, New York 10013, USA.

i) The Rule 144A GDSs have been accepted for clearance and settlement through DTC. The CUSIP number for the Rule 144A GDSs is 48312K 107, and the ISIN number for the Rule 144A GDSs is US48312K1079.

j) The Regulation S GDSs have been accepted for clearance and settlement through Euroclear and Clearstream. The CUSIP number for the Regulation S GDSs is 48312K 206, and the ISIN number for the Regulation S GDSs is US48312K2069. The Common Code for the Regulation S GDSs is 174903328.

k) Approval in-principle has been received from the SGX-ST for the listing and quotation of the GDSs on the SGX-ST. Notwithstanding their listing on the SGX-ST, the GDSs will be traded over-the-counter. The SGX-ST assumes no responsibility for the correctness of any of the statements made, opinions expressed or reports contained in this offering circular. Approval in-principle from, admission to the Official List of, and listing and quotation of the GDSs on, the SGX-ST are not to be taken as an indication of our merits or the merits of the GDSs or the common shares.

l) The common shares underlying the GDSs are freely transferable, validly issued and free from any liens or encumbrances.

m) Delisting of the common shares underlying the GDSs would not necessarily affect the GDS program itself, and the GDS program may continue as an unlisted GDS program rather than be terminated.

n) Except as described under “Plan of Distribution – Selling Restrictions” and “Description of Global Depositary Shares – Restrictions upon Transfers,” the GDSs are freely transferable and free from all liens.

o) For so long as the GDSs are listed on the SGX-ST and the rules of the SGX-ST so require, we will comply with Rules 252 and 253 of the SGX-ST Mainboard Listing Manual.

p) Our common shares in which the GDSs represent an interest are listed or will be listed on the KRX KOSPI Market of the Korea Exchange concurrently with or prior to the listing of the GDSs on the SGX-ST.

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Independent Auditor's Report

To the Shareholders and Board of Directors of
Kakao Corp.

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 of December 31, 2016 and 2015 and the consolidated statements of comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2016, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the Republic of Korea ("Korean IFRS") and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with Korean Standards on Auditing. Those standards require that we comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements 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 Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Kakao Corp. and its subsidiaries as of December 31, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2016, in accordance with Korean IFRS.

Other Matters

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

/s/ Samil PricewaterhouseCoopers
Seoul, Korea
March 8, 2017

This report is effective as of March 8, 2017, 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
As of December 31, 2016 and 2015

(in millions of Korean won)	Notes	2016	2015
Assets			
Current assets			
Cash and cash equivalents	4,5,7,8	₩ 641,644	₩ 397,177
Short-term financial instruments	4,5,7	236,748	373,389
Derivative financial assets	4,5,7,23	3,942	5,241
Trade receivables	4,5,7,10	173,853	88,822
Other current financial assets	4,5,7,11	83,340	59,619
Inventories		12,555	5,353
Other current assets	14	64,876	40,466
		1,216,958	970,067
Non-current assets			
Long-term financial instruments	4,5,7	10,000	10,193
Available-for-sale securities	5,7,9	93,182	30,892
Investments in associates	15	117,076	68,704
Other non-current financial assets	4,5,7,11	35,269	23,040
Property and equipment	16	253,854	219,052
Intangible assets	17	3,733,166	1,855,604
Other non-current assets	14	6,584	9,592
Deferred income tax assets	21	18,028	1,334
		4,267,159	2,218,411
Total assets		₩ 5,484,117	₩ 3,188,478
Liabilities			
Current Liabilities			
Trade and other payables	4,5,7,12	₩ 263,130	₩ 89,506
Short-term borrowings	4,5,7,18	203,900	22,055
Current portion of long-term borrowings	4,5,7,18	42	100
Other current financial liabilities	4,5,7,13	17,228	3,673
Income tax payable		30,944	29,448
Provisions	22	1,350	1,149
Derivative financial liabilities	4,5,7,23	7,375	8,504
Other current liabilities	14	282,051	161,643
		806,020	316,078
Non-current liabilities			
Non-current trade and other payables	4,5,7,12	2,548	611
Long-term borrowings	4,5,7,18	795,927	199,675
Non-current provisions	22	4,099	3,402
Net defined benefit liabilities	19	1,440	8,311
Other long-term employee benefits liabilities	20	28,220	24,968
Deferred income tax liabilities	21	142,919	48,637
Other non-current financial liabilities	4,5,7,13	-	1,321
		975,153	286,925
Total liabilities		₩ 1,781,173	₩ 603,003

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
As of December 31, 2016 and 2015

(in millions of Korean won)	Notes	2016	2015
Equity			
Share capital	1,24	₩ 33,858	₩ 30,098
Share premium	24	3,105,014	2,274,186
Other component of equity	26	(11,232)	(9,032)
Accumulated other comprehensive income	27	920	829
Retained earnings	28	303,953	256,313
Equity attributable to owners of the Parent Company		3,432,513	2,552,394
Non-controlling interest		270,431	33,081
Total equity		3,702,944	2,585,475
Total liabilities and equity		₩ 5,484,117	₩ 3,188,478

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
For the Years ended December 31, 2016, 2015 and 2014

(in millions of Korean won, except per share amounts)	Note	2016	2015	2014
Revenue	6	₩ 1,464,233	₩ 932,152	₩ 498,858
Operating expenses	29	1,348,098	843,564	322,431
Operating income		116,135	88,588	176,427
Other non-operating income	30	25,257	25,198	1,651
Other non-operating expenses	30	31,406	25,977	13,146
Finance income	31	24,673	29,904	6,638
Finance costs	31	23,979	3,697	129
Share of net loss of associates	15	(10,384)	(4,473)	(2,611)
Profit before income tax		100,296	109,543	168,829
Income tax expense	21	34,841	30,778	19,008
Profit for the year		65,455	78,765	149,822
Profit is attributable to:				
Equity holders of the Parent Company		57,674	75,666	150,105
Non-controlling interest		7,781	3,099	(283)
Other comprehensive income (loss)				
Items not to be reclassified subsequently to profit or loss:				
Remeasurement of net defined benefit liabilities		3,312	(3,712)	(755)
Items to be reclassified subsequently to profit or loss:				
Gains (losses) on valuation of available-for-sale securities, net of tax		(3,895)	1,098	2,636
Share of other comprehensive income of associates, net of tax		561	429	3,091
Foreign currency translation adjustments, net of tax		(540)	893	81
Other comprehensive income (loss) for the year, net of tax		(562)	(1,292)	5,054
Total comprehensive income for the year		₩ 64,893	₩ 77,473	₩ 154,875
Total comprehensive income for the year is attributable to:				
Equity holders of the Parent Company		₩ 57,765	₩ 74,380	₩ 155,135
Non-controlling interest		₩ 7,128	₩ 3,093	₩ (260)
Earnings per share to the equity holders of the Parent Company	32			
Basic earnings per share		₩ 874	₩ 1,269	₩ 3,243
Diluted earnings per share		₩ 850	₩ 1,220	₩ 3,007

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
For the Years ended December 31, 2016, 2015 and 2014

(in millions of Korean won)	Note	Attributable to equity holders of the Parent Company							Non-controlling Interest	Total Equity
		Share Capital	Preferred Stock	Share Premium	Other Components of Equity	Accumulated Other Comprehensive Income (loss)	Retained Earnings	Total		
Balance at January 1, 2014		₩ 15,934	₩ 5,063	₩ 112,347	₩ 6,256	₩ (2,916)	₩ 40,573	₩ 177,257	₩ -	₩ 177,257
Comprehensive income :										
Profit for the year		-	-	-	-	-	150,105	150,105	(283)	149,822
Foreign currency translation adjustments, net of tax		-	-	-	-	58	-	58	23	81
Shares of other comprehensive income of associates, net of tax		-	-	-	-	3,091	-	3,091	-	3,091
Gain on valuation of available-for-sale securities, net of tax		-	-	-	-	2,636	-	2,636	-	2,636
Remeasurement of defined benefit obligation		-	-	-	-	(755)	-	(755)	-	(755)
Total comprehensive income (loss) for the year		-	-	-	-	5,030	150,105	155,135	(260)	154,875
Transactions with equity holders:										
Conversion of convertible preferred stocks		5,063	(5,063)	-	-	-	-	-	-	-
Exercise of stock options	24,25	1,293	-	14,632	(3,247)	-	-	12,678	-	12,678
Share-based compensation	25	-	-	-	2,876	-	-	2,876	72	2,948
Acquisition of treasury shares		-	-	-	(1,259)	-	-	(1,259)	-	(1,259)
Disposal of treasury shares		-	-	-	24,449	-	-	24,449	-	24,449
Issuance of ordinary shares due to merger		6,831	-	2,131,995	(55,343)	-	-	2,083,483	8,442	2,091,925
Change in ownership interest over subsidiaries		-	-	-	-	-	-	-	355	355
Total transactions with equity holders		13,187	(5,063)	2,146,627	(32,524)	-	-	2,122,227	8,869	2,131,096
Balance at December 31, 2014		₩ 29,121	₩ -	₩ 2,258,974	₩ (26,268)	₩ 2,114	₩ 190,678	₩ 2,454,619	₩ 8,609	₩ 2,463,228

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
For the Years ended December 31, 2016, 2015 and 2014

(in millions of Korean won)	Note	Attributable to equity holders of the Parent Company							Non-controlling Interest	Total Equity
		Share Capital	Preferred Stock	Share Premium	Other Components of Equity	Accumulated Other Comprehensive Income (loss)	Retained Earnings	Total		
Balance at January 1, 2015		₩ 29,121	₩ -	₩ 2,258,974	₩ (26,268)	₩ 2,114	₩ 190,678	₩ 2,454,619	₩ 8,609	₩ 2,463,228
Comprehensive income :										
Profit for the year		-	-	-	-	-	75,666	75,666	3,099	78,765
Foreign currency translation adjustments, net of tax		-	-	-	-	896	-	896	(3)	893
Share of other comprehensive income of associates, net of tax		-	-	-	-	422	-	422	7	429
Gain on valuation of available-for-sale securities, net of tax		-	-	-	-	1,098	-	1,098	-	1,098
Remeasurement of defined benefit obligation		-	-	-	-	(3,701)	-	(3,701)	(12)	(3,713)
Total comprehensive income (loss) for the year		-	-	-	-	(1,285)	75,666	74,381	3,091	77,472
Transactions with equity holders:										
Exercise of stock options	24,25	977	-	16,114	(3,441)	-	-	13,650	(540)	13,110
Share-based compensation	25	-	-	-	692	-	-	692	505	1,197
Cash dividends		-	-	-	-	-	(10,030)	(10,030)	(1,571)	(11,601)
Disposal of treasury shares		-	-	-	19,985	-	-	19,985	-	19,985
Donated stocks of a subsidiary from shareholders		-	-	14,592	-	-	-	14,592	(93)	14,499
Change in ownership interest over subsidiaries		-	-	(15,494)	-	-	-	(15,494)	(51)	(15,545)
Change in scope of consolidation		-	-	-	-	-	-	-	23,130	23,130
Total transactions with equity holders		977	-	15,212	17,236	-	(10,030)	23,395	21,380	44,775
Balance at December 31, 2015		₩ 30,098	₩ -	₩ 2,274,186	₩ (9,032)	₩ 829	₩ 256,314	₩ 2,552,395	₩ 33,080	₩ 2,585,475

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
For the Years ended December 31, 2016, 2015 and 2014

(in millions of Korean won)	Note	Attributable to equity holders of the Parent Company							Non-controlling Interest	Total Equity
		Share Capital	Preferred Stock	Share Premium	Other Components of Equity	Accumulated Other Comprehensive Income (loss)	Retained Earnings	Total		
Balance at January 1, 2016		₩ 30,098	₩ —	₩ 2,274,186	₩ (9,032)	₩ 829	₩ 256,314	₩ 2,552,395	₩ 33,080	₩ 2,585,475
Comprehensive income :										
Profit for the year		-	-	-	-	-	57,674	57,674	7,781	65,455
Foreign currency translation adjustments, net of tax		-	-	-	-	(571)	-	(571)	31	(540)
Share of other comprehensive income of associates, net of tax		-	-	-	-	292	-	292	269	561
Gain on valuation of available-for-sale securities, net of tax		-	-	-	-	(3,014)	-	(3,014)	(881)	(3,895)
Remeasurement of defined benefit obligation		-	-	-	-	3,384	-	3,384	(72)	3,312
Total comprehensive income for the year		-	-	-	-	91	57,674	57,765	7,128	64,893
Transactions with equity holders:										
Exercise of stock options	24,25	303	-	9,842	(2,241)	-	-	7,904	213	8,117
Issue of ordinary shares	24	3,457	-	754,226	-	-	-	757,683	-	757,683
Share-based compensation	25	-	-	-	41	-	-	41	1,733	1,774
Cash dividends		-	-	-	-	-	(10,035)	(10,035)	(1,303)	(11,338)
Change in ownership interest over subsidiaries		-	-	66,760	-	-	-	66,760	86,536	153,296
Change in scope of consolidation		-	-	-	-	-	-	-	143,044	143,044
Total transactions with equity holders		3,760	-	830,828	(2,200)	-	(10,035)	822,353	230,223	1,052,576
Balance at December 31, 2016		₩ 33,858	₩ -	₩ 3,105,014	₩ (11,232)	₩ 920	₩ 303,953	₩ 3,432,513	₩ 270,431	₩ 3,702,944

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
For the Years ended December 31, 2016, 2015 and 2014

(in millions of Korean won)	Note	2016	2015	2014
Cash flows from operating activities				
Cash generated from operations	34	₩ 370,705	₩ 187,360	₩ 213,969
Interest received		9,381	10,576	6,988
Interest paid		(9,131)	(728)	(1)
Dividend received		659	83	-
Income tax paid		(54,355)	(35,074)	(622)
Net cash inflow from operating activities		317,259	162,217	220,334
Cash flows from investing activities				
Decrease (increase) in short-term financial instruments		254,077	(186,579)	18,277
Decrease (increase) in long-term financial instruments		193	(10,029)	-
Purchase of property and equipment	16	(80,964)	(76,083)	(12,829)
Disposal of property and equipment		521	1,191	55
Purchase of intangible assets	17	(24,261)	(8,772)	(9,752)
Disposal of intangible assets		368	1,609	-
Acquisition of available-for-sale securities	9	(52,496)	(8,779)	(937)
Disposal of available-for-sale securities		6,912	21,587	117
Acquisition of associates	15	(60,750)	(65,749)	(5,000)
Disposal of associates		1,265	9,785	-
Acquisition of subsidiaries, net of cash acquired		(1,044,383)	(60,505)	(5,480)
Disposal of subsidiaries, net of cash acquired		970	4,431	-
Decrease in other non-current financial assets		10,009	20,049	2,720
Increase in other non-current financial assets		(13,070)	(11,714)	(1,874)
Decrease (increase) in short-term loan receivables		398	(817)	-
Increase in long-term loan receivables		(150)	-	-
Cash flows from business acquisition		-	(36,329)	187,299
Increase in long-term advanced payments		-	(3,948)	-
Acquisition of derivative financial instruments		(3,702)	(5,000)	-
Disposal of derivative financial instruments		5,093	-	-
Other cash inflow (outflow) from investing activities		(41)	1,411	3
Net cash inflow (outflow) from investing activities		(1,000,011)	(414,241)	172,599
Cash flows from financing activities				
Proceeds from short-term borrowings		1,000,000	3	-
Repayments of short-term borrowings		(800,350)	(50)	-
Repayments of current portion of long-term borrowings		(100)	(50)	-
Exercise of stock options		8,117	13,110	12,678
Issuance of corporate bonds, convertible bonds, and exchangeable bonds		794,549	199,366	-
Repayments of corporate bonds		(201,987)	-	-
Issuance of redeemable convertible preferred stock		-	12,000	-
Payments of dividends		(11,338)	(11,601)	-
Acquisition of non-controlling interests		(2,600)	(19,067)	-
New shares issued by subsidiaries (to non-controlling interest shareholders)		137,521	4,750	-
Distribution of investments		-	(1,231)	-
Acquisition of treasury shares		-	-	(1,259)
Disposal of treasury shares		-	-	23,963
Other cash inflow (outflow) from financing activities		(19)	3	-
Net cash inflow from financing activities		₩ 923,793	₩ 197,233	₩ 35,382

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
For the Years ended December 31, 2016, 2015 and 2014

(in millions of Korean won)	Note	2016	2015	2014
Net increase (decrease) in cash and cash equivalents		₩ 241,041	₩ (54,791)	₩ 428,315
Effect of exchange rate changes on cash and cash equivalents		3,426	740	(504)
Cash and cash equivalents at the beginning of year		397,177	451,228	23,417
Cash and cash equivalents at the end of year		₩ 641,644	₩ 397,177	₩ 451,228

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

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 58 entities.

1.1 The Company

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

Daum Communications Corporation was incorporated in February 1995 to develop computer programs and provide internet service such as online advertising services, online platform services and online transaction services.

Kakao Corp. was incorporated in November 2006 to develop and provide online mobile services related to electronic transactions and multi-media programs such as mobile payment services and messaging service, application development and mobile platform establishment.

On October 1, 2014, Daum Communications Corporation merged with Kakao Corp., with the approvals of the Board of Directors on May 23, 2014 and the shareholders on August 27, 2014. Daum Communications Corporation, the surviving company or the legal acquirer, merged with Kakao Corp., the merged company or the legal acquiree, and Daum Communications Corporation issued 1.5555137 shares of its common stock for each share of Kakao Corp.. However, Kakao Corp. was recognized as the acquiring company in a reverse merger for accounting purposes.

The Parent Company changed its name to Daum Kakao Corp. as ratified by the shareholders on October 31, 2014 and changed again to Kakao Corp. with the shareholders' approval on September 23, 2015.

The Parent Company's headquarter is located in Youngpyong-dong, Jeju City, in Jeju Province, Korea. As of December 31, 2016, the Parent Company's share capital amounted to ₩33,858 million and the Parent Company's shareholders are as follows:

	Number of shares	Percentage of ownership (%)
Kim Bum Soo	12,554,461	18.57
K Cube Holdings Co., Ltd.	9,949,467	14.71
MAXIMO PTE. LTD.	5,599,849	8.28
Star InvestHoldings Limited	5,555,972	8.22
Other related parties	1,950,612	2.88
Others	32,000,166	47.33
	67,610,527	99.99
Treasury shares	5,188	0.01
	67,615,715	100.00

Details of the consolidated subsidiaries as of December 31, 2016, 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	₩ 2,498	Holding company	Korea	December 31	499,560	100.0
PATH MOBILE INC. PTE. LTD. [1]	61,057	Service operations	Singapore	December 31	73,128,000	100.0
PT. PATH MOBILE INDONESIA [5, 15]	1,911	Service operations	Indonesia	December 31	1,700,000	100.0
DK Service	511	Service operations	Korea	December 31	102,136	100.0
DK Techin	993	Service operations	Korea	December 31	198,605	100.0
DK Business	1,074	Service operations	Korea	December 31	214,934	100.0
Daum Service CHINA Co., Ltd.	1,093	Service operations	China	December 31	1	100.0
Daum Service CHINA YanJiao Co., Ltd. [2]	175	Service operations	China	December 31	1	100.0
ImageOn Corp.	2,370	Contents development	Korea	December 31	474,000	100.0
Buzzpia Company	194	Mobile services	Korea	December 31	38,878	100.0
Thinkreals Corp.	42	Software development and services	Korea	December 31	83,750	100.0
Lotiple Inc.	74	Software development and services	Korea	December 31	148,120	100.0
Kakao Lab Corp.	743	Software development and services	Korea	December 31	1,485,520	99.9
Sunnyloft Corp.	413	Software development and services	Korea	December 31	82,590	100.0
KAKAO SINGAPORE PTE. Ltd.	299	Software development and services	Singapore	December 31	3,300	100.0
Beijing KAKAO Co., Ltd.	20,483	Software development and services	China	December 31	18,839,700	99.9
Ultra Caption Corp.	28	Software development and services	Korea	December 31	5,600	100.0
Ultra Interactive, Inc. [4]	18	Software development and services	USA	December 31	1,000,000	100.0
KAKAO JAPAN Corp.	1,291	Software development and services	Japan	December 31	322,824	100.0
Kids Note Co., Ltd.	100	Software development and services	Korea	December 31	26,367	100.0
K Venture Group	13,612	Holding company	Korea	December 31	1,361,239	100.0
TNK Factory [6,7]	1,633	Mobile advertisement platform operations	Korea	December 31	3,265,600	100.0
Sellit Inc. [7]	65	Software consultation	Korea	December 31	120,344	74.1
K CUBE VENTURES Co., Ltd.	18,511	Holding company	Korea	December 31	3,702,216	100.0
K Cube Venture Fund no.1 [8]	8,092	Investment/Holding company	Korea	December 31	490	60.6
KAKAO Venture Fund [8, 9]	30,000	Investment/Holding company	Korea	December 31	110	36.7
Locnall Inc.	391	Software development and services	Korea	December 31	122,231	100.0
Kakao Friends Corp.	1,600	Contents sales	Korea	December 31	160,000	100.0
Valuepotion [7]	99	Mobile marketing service	Korea	December 31	10,323	52.4
Valuepotion Pte.LTD [10]	404	Mobile marketing service	Singapore	December 31	476,541	100.0
CARDOC Inc. [7]	430	Online information service	Korea	December 31	313,100	72.8
Kakao Games Corp. (formerly, NZIN Corp.) [16]	250	Game development and services	Korea	December 31	37,455	69.4
Genie labs [3]	10	Game development and services	Korea	December 31	20,000	100.0
Aina Corporation [3]	754	Game development and services	Korea	December 31	1,055,157	70.0
NGLE CORPORATION[3]	205	Game development and services	Korea	December 31	210,000	51.2
Peoplug Inc.[3]	1	Game development and services	Korea	December 31	3,454	78.9

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

Subsidiaries	Share Capital	Primary Business	Location	Fiscal Year End	Number of shares	Percentage of ownership (%)
SuperNova11 Corp.[3]	₩ 133	Game development and services	Korea	December 31	760,001	57.3
Kakao Games Europe B.V.[3]	1,296	Game development and services	Netherlands	December 31	1,000,000	100.0
Kakao Games USA. Inc.[5, 19]	2,305	Game development and services	USA	December 31	1,000,000	100.0
About-time	11	Software development and services	Korea	December 31	22,223	100.0
Podotree Inc.	7,350	Software development and services	Korea	December 31	8,466,404	57.6
Kakao digital contents Fund[5, 8, 9]	18,550	Investment/Holding company	Korea	December 31	75	40.4
Kakao Game Growth Share Fund[5, 8]	22,500	Investment/Holding company	Korea	December 31	15,000	100.0
Linkage Lab[5]	100	Services	Korea	December 31	20,000	100.0
LOEN ENTERTAINMENT, INC.[12, 21]	12,646	Recording Media Reproduction	Korea	December 31	19,322,346	76.4
STARSHIP ENTERTAINMENT CORP.[13]	54	Entertainment management	Korea	December 31	7,000	64.8
PLAN A ENTERTAINMENT[13]	50	Entertainment management	Korea	December 31	7,000	70.0
MTECHCREW, INC.[5, 13]	50	Data processing business	Korea	December 31	10,000	100.0
Fave Entertainment Co., Ltd.[5, 13]	200	Entertainment management	Korea	December 31	32,000	80.0
Cre.ker Entertainment Co., Ltd.[5, 13]	200	Entertainment management	Korea	December 31	32,000	80.0
Mun Hwa In Co., Ltd.[5, 13]	148	Entertainment management	Korea	December 31	20,000	67.5
King Kong Entertainment Co., Ltd.[18]	50	Entertainment management	Korea	December 31	10,000	100.0
NAVIRO Co., Ltd. (formerly, DeNA Locations)[14]	3,319	Software development and services	Japan	December 31	41,500	100.0
Parking Square Inc.[11]	81	Software development and services	Korea	December 31	162,502	100.0
Numberworks Inc.[17]	102	Software development and services	Korea	December 31	1,023,076	100.0
KVG SG PTE.LTD[7]	1,313	Holding company	Singapore	December 31	1,100,000	100.0
KAKAO_CCVC Jeju Creative Economy Innovative Fund[5]	2,000	Investment/Holding company	Korea	December 31	190	95.0
BLUEPIN INC.[7, 20]	796	Software development and services	Korea	December 31	81,231	51.0

[1] During 2016, the Parent Company acquired 100.0% ownership of Daum Global Holdings. The number of shares and the percentage of ownership represent the Parent Company's ownership as of December 31, 2016.

[2] 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 of December 31, 2016.

[3] As a subsidiary of Kakao Games Corp. (formerly, NZIN Corp.), the number of shares and the percentage of ownership represent Kakao Games Corp.'s ownership as of December 31, 2016.

[4] As a subsidiary of Ultra Caption Corp., the number of shares and the percentage of ownership represent Ultra Caption Corp.'s ownership as of December 31, 2016.

[5] Newly established in 2016.

[6] During 2016, the Parent Company newly acquired 102,000 shares (100% ownership) and acquired additional 2,449,200 shares by capital increase without consideration.

[7] As a subsidiary of K Venture Group, the number of shares and the percentage of ownership represent K Venture Group's ownership as of December 31, 2016.

[8] As a subsidiary of K CUBE VENTURES Co., Ltd., the number of shares and the percentage of ownership represent K CUBE VENTURES Co., Ltd.'s ownership as of December 31, 2016.

[9] Classified as subsidiary although the ownership is less than 50% as the Company is considered to have a control over the investees.

[10] As a subsidiary of Valuepotion, the number of shares and the percentage of ownership represent Valuepotion's ownership as of December 31, 2016.

[11] During 2016, the Parent Company newly acquired 162,502 shares (100% ownership).

[12] During 2016, the Parent Company newly acquired 19,322,346 shares (76.4% ownership).

[13] As a subsidiary of LOEN ENTERTAINMENT, INC., the number of shares and the percentage of ownership represent LOEN ENTERTAINMENT, INC.'s ownership as of December 31, 2016.

[14] During 2016, it was reclassified to a subsidiary of Locnall Inc. from an investment in associates of Locnall Inc. As a subsidiary of Locnall Inc., the number of shares and the percentage of ownership represent Locnall Inc.'s ownership as of December 31, 2016.

[15] As a subsidiary of PATH MOBILE INC. PTE. LTD., the number of shares and the percentage of ownership represent PATH MOBILE INC. PTE. LTD.'s and the Parent Company's ownership as of December 31, 2016.

[16] During 2016, Daum Games and NZIN Corp., both subsidiaries of Kakao Corp., merged and changed their name to Kakao Games Co., Ltd.

[17] During 2016, the Parent Company newly acquired 1,023,076 shares (100% ownership).

[18] As a subsidiary of STARSHIP ENTERTAINMENT CORP., the number of shares and the percentage of ownership represent STARSHIP ENTERTAINMENT CORP.'s ownership as of December 31, 2016.

[19] 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 of December 31, 2016.

[20] During 2016, the Parent Company newly acquired 81,231 shares (51% ownership).

[21] 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 LOEN ENTERTAINMENT, INC., equivalent to 100% of the total exchangeable shares, 8.67% of the ownership. According to the agreement, the shares will be lend through the underwriters' agent, NH Investment & Securities Co., Ltd. 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. Since the Parent Company has retained rights as shareholder for the dividends, the Company has included the aforementioned number of shares to the number of shares in the table above.

Status of subsidiaries excluded from consolidation for the year ended December 31, 2016, is as follows:

Company	Reason
Tangram Design Lab Inc.	Disposal of investments in subsidiaries in 2016
Tangram Factory	Disposal of investments in subsidiaries in 2016
TANGRAM FACTORY AMERICA, INC.	Disposal of investments in subsidiaries in 2016
BULLHOC Soft	Disposal of investments in subsidiaries in 2016
Mmagnet	Disposal of investments in subsidiaries in 2016
Black Star Games Inc.	Merged with SuperNova11 Corp.
Red Star Games Inc.	Merged with SuperNova11 Corp.
Daum Games	Merged with Kakao Games Corp. (formerly, NZIN Corp.)

The summarized financial information for consolidated subsidiaries as of and for the year ended December 31, 2016, is as follows:

(in millions of Korean won)	2016					
	Assets	**Liabilities**	**Equity**	**Revenue**	**Net income (loss)**	**Comprehensive income (loss)**
Daum Global Holdings	₩ 1,775	₩ 238	₩ 1,537	₩ -	₩ (240)	₩ (240)
PATH MOBILE INC. PTE. LTD.	37,047	1,545	35,502	1,107	(13,702)	(13,247)
PT. PATH MOBILE INDONESIA	604	11	593	35	(1,389)	(1,353)
DK Service	2,393	1,766	627	12,828	136	(254)
DK Techin	1,809	845	964	7,252	(29)	(41)
DK Business	3,378	1,417	1,961	13,027	240	206
Daum Service CHINA Co., Ltd.	455	26	429	195	(5)	(12)
Daum Service CHINA YanJiao Co., Ltd.	969	369	600	3,133	167	153
ImageOn Corp.	2,895	346	2,549	3,840	356	385
Buzzpia Company	645	28	617	69	325	325
Thinkreals Corp.	202	1	201	-	(12)	(12)
Lotiple Inc.	150	1	149	-	(12)	(12)
Kakao Lab Corp.	37	1	36	100	(30)	(30)
Sunnyloft Corp.	8	-	8	-	(8)	(8)
KAKAO SINGAPORE PTE. Ltd.	81	-	81	-	(2)	(2)
Beijing KAKAO Co., Ltd.	10,089	707	9,382	1,116	(7,638)	(8,242)
Ultra Caption Corp.	284	1	283	-	(162)	(161)
KAKAO JAPAN Corp.	8,899	1,736	7,163	3,007	(4,656)	(4,470)
Kids Note Co., Ltd.	1,775	1,495	280	482	(1,473)	(1,473)
K Venture Group	137,459	1,258	136,201	7	(2,667)	(2,671)
TNK Factory	18,811	3,143	15,668	23,491	2,872	2,873
Sellit Inc.	736	1,090	(354)	2,491	(1,884)	(1,884)
K CUBE VENTURES Co., Ltd.	20,943	574	20,369	2,051	710	710
K Cube Venture Fund no.1	16,802	183	16,619	-	4,807	3,646
KAKAO Venture Fund	28,316	315	28,001	-	(2,012)	(487)
Locnall Inc.	6,789	8,561	(1,772)	476	(2,875)	(2,671)
Kakao Friends Corp.	61,348	19,392	41,956	70,506	18,492	18,524
Valuepotion	1,730	1,218	512	1,341	(864)	(864)
Valuepotion.Pte.LTD.	188	739	(551)	158	(744)	(737)
CARDOC Inc.	2,657	202	2,455	1,022	(1,525)	(1,525)
Daum Games	-	-	-	31,349	5,738	5,790
Kakao Games Corp. (formerly, NZIN Corp.)	107,022	39,527	67,495	77,669	(1,940)	(2,249)
Genie labs	31	-	31	144	(34)	(34)
Aina Corporation	11	117	(106)	26	3,687	3,687
NGLE CORPORATION	633	80	553	1,232	112	112
Peoplug Inc.	719	1,842	(1,123)	-	(556)	(556)
SuperNova11 Corp.	2,742	3,242	(500)	1,724	(4,619)	(4,619)
KAKAO Games Europe B.V.	29,898	13,557	16,341	87,449	16,118	15,921
KAKAO Games USA. Inc.	1,782	42	1,740	-	(639)	(566)
About-time	116	-	116	72	(1)	(1)
Podotree Inc.	160,398	8,666	151,732	64,037	(3,385)	(3,340)
Kakao Digital Contents Fund	17,844	215	17,629	-	(893)	(893)
Kakao Game Growth Share Fund	22,069	116	21,953	-	(547)	(547)

(in millions of Korean won)	2016					
	Assets	**Liabilities**	**Equity**	**Revenue**	**Net income (loss)**	**Comprehensive income (loss)**
Linkage Lab	648	42	606	313	(392)	(392)
LOEN ENTERTAINMENT, INC. [1]	435,884	143,456	292,428	331,705	47,937	42,198
STARSHIP ENTERTAINMENT CORP.[1]	18,672	7,203	11,469	12,910	1,383	1,383
PLAN A ENTERTAINMENT [1]	11,081	3,862	7,219	6,360	455	455
MTECHCREW, Inc. [1]	1,320	322	998	2,921	298	298
Fave Entertainment Co., Ltd. [1]	1,632	384	1,248	1,240	(2)	(2)
Cre.ker Entertainment Co., Ltd. [1]	2,573	1,588	985	341	(264)	(264)
Mun Hwa In Co., Ltd. [1]	2,753	423	2,330	1,325	(633)	(633)
King Kong Entertainment Co.,Ltd. [1]	5,791	3,487	2,304	9,305	495	495
NAVIRO Co., Ltd. (formerly, DeNA Locations)	3,207	149	3,058	149	(1,391)	(34)
Parking Square Inc. [1]	691	115	576	1,292	103	103
Numberworks Inc. [1]	80	8	72	-	(46)	(46)
KVG SG PTE.LTD.	1,347	-	1,347	-	59	33
KAKAO_CCVC Jeju Creative Economy Innovative Fund	2,041	12	2,029	-	29	29
BLUEPIN Inc. [1]	5,621	189	5,432	-	-	-

[1] 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 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.

The consolidated financial statements of the Company have been prepared in accordance with Korean IFRS. International Financial Reporting Standards ("IFRS") have been adopted by the Korean Accounting Standards Board as Korean IFRS based on standards and interpretations published by the International Accounting Standards Board.

The preparation of the consolidated financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of 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, 2016. The adoption of these amendments did not have any significant impact on the consolidated financial statements.

- *Disclosure Initiative – Amendments to Korean IFRS 1001, Presentation of Financial Statements*

Amendments to Korean IFRS 1001 clarify that materiality applies to the exclusion or inclusion or aggregation of the disclosures in the notes and also, clarify that the share of other comprehensive income arising from equity-accounted affiliates should be presented in total for items which will and will not be reclassified to profit or loss. Additional amendments were made in relation to a particular order of the notes and other.

- Korean IFRS 1011, *Construction Contract*, Korean IFRS 1037, *Provisions, Contingent Liabilities and Contingent Assets* and Interpretation 2115, *Arrangements for Property Construction*

These standards and interpretation clarify the accounting information disclosure requirement for construction contracts. The accounting estimates and potential risk information of the construction contracts should be disclosed in detail by either individual construction or operating segment.

- Amendments to Korean IFRS 1016, *Property, Plant and Equipment*, and Korean IFRS 1041, *Agriculture*

Korean IFRS 1041 now distinguishes between bearer plants and other biological assets. Bearer plants must be accounted for as Korean IFRS 1016.

- *Clarification of Acceptable methods of Depreciation and Amortization* – Amendments to Korean IFRS 1016, and Korean IFRS 1038, *Intangible assets*

Amendments to Korean IFRS 1016 clarify that a revenue-based method should not be used to calculate the depreciation of items of property, plant and equipment. Korean IFRS 1038 now includes a rebuttable presumption that the amortization of intangible assets based on revenue is inappropriate. This presumption can be overcome if either; the intangible asset is expressed as a measure of revenue, or it can be shown that revenue and the consumption of economic benefits generated by the asset are highly correlated.

- *Accounting for Acquisitions of Interests in Joint Operations* – Amendments to Korean IFRS 1111, *Joint Arrangements*

Amendments to Korean IFRS 1111 clarify the accounting for the acquisition of an interest in a joint operation where the activities of the operation constitute a business. An investor requires to apply the principles of business combination accounting when the investor acquires an interest in a joint operation that constitutes a business.

- Annual Improvements to Korean IFRS 2012-2014 *Cycle*

Annual Improvements to Korean IFRS 2012-2014 *Cycle* consist of the following amendments. The application does not have a material impact on the consolidated financial statements.

- Korean IFRS 1105 *Non-current Assets Held for Sale and Discontinued Operation* – clarifies when an asset (or disposal group) is reclassified from 'held for sale' to 'held for distribution' or vice versa, this does not have to be accounted for as such.

- Korean IFRS 1107 *Financial Instruments: Disclosures* – clarifies the specific guidance for transferred financial assets to help management determine whether the terms of a servicing arrangement constitute 'continuing involvement', and also clarifies that the additional disclosures relating to the amendments in *2012 'Offsetting of Financial Assets and Financial Liabilities'* only need to be included in interim reports if required by Korean IFRS 1034 *Interim Financial Reporting*.

- Korean IFRS 1019 *Employee Benefits* clarifies that when determining the discount rate for post-employment benefit obligations, it is the currency in which the liabilities are denominated that is important, and not the country where they arise.

- Korean IFRS 1034 *Interim Financial Reporting* clarifies what is meant by the reference in the standard to *'information disclosed elsewhere in the interim financial report'*; and also amended requirements for a cross-reference from the interim financial statements to the location of that information.

(b) New standards and interpretations not yet adopted by the Company

Certain new accounting standards and interpretations that have been published that are not mandatory for December 31, 2016 reporting periods and have not been early adopted by the Company are set out below.

- Amendments to Korean IFRS 1007 *Statement of Cash Flows*

Amendments to Korean IFRS 1007 *Statement of Cash flows* require to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash flows. This amendment will be effective for annual periods beginning on or after January 1, 2017, with early adoption permitted. The Company does not expect the amendments to have a significant impact on the consolidated financial statements.

- Amendments to Korean IFRS 1012 *Income Tax*

Amendments to Korean IFRS 1012 clarify how to account for deferred tax assets related to debt instruments measured at fair value. Korean IFRS 1012 provides requirements on the recognition and measurement of current or deferred tax liabilities or assets. The amendments issued clarify the requirements on recognition of deferred tax assets for unrealized losses, to address diversity in practice. This amendment will be effective for annual periods beginning on or after January 1, 2017, with early adoption permitted. The Company does not expect the amendments to have a significant impact on the consolidated financial statements.

- Amendments to Korean IFRS 1102 *Share-based Payment*

Amendments to Korean IFRS 1102 clarify accounting for a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. Also, this amendment clarifies that the measurement approach should treat the terms and conditions of a cash-settled award in the same way as for an equity-settled award. This amendment will be effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company does not expect the amendments to have a significant impact on the consolidated financial statements.

- Korean IFRS 1109 *Financial Instruments*

The new standard for financial instruments issued on September 25, 2015 is effective for annual periods beginning on or after January 1, 2018 with early application permitted. This standard will replace Korean IFRS 1039 *Financial Instruments: Recognition and Measurement*. The Company will apply the standards for annual periods beginning on or after January 1, 2018.

The standard requires retrospective application with some exceptions. For example, an entity is not required to restate prior period in relation to classification and measurement (including impairment) of financial instruments. The standard requires prospective application of its hedge accounting requirements for all hedging relationships except the accounting for time value of options and other exceptions.

Korean IFRS 1109 *Financial Instruments* requires all financial assets to be classified and measured on the basis of the entity's business model for managing financial assets and the contractual cash flow characteristics of the financial assets. A new impairment model, an expected credit loss model, is introduced and any subsequent changes in expected credit losses will be recognized in profit or loss. Also, hedge accounting rules amended to extend the hedging relationship, which consists only of eligible hedging instruments and hedged items, qualifies for hedge accounting.

An effective implementation of Korean IFRS 1109 requires preparation processes including financial impact assessment, accounting policy establishment, accounting system development and the system stabilization. The impact on the Company's financial statements due to the application of the standard is dependent on judgements made in applying the standard, financial instruments held by the Company and macroeconomic variables.

With respect to the implementation of Korean IFRS 1109, the Company has not begun to assess internal management process and accounting system to change for financial instruments reporting nor analyzed the financial effects of applying the standard. The Company plans to analyze the financial effects of applying the standard and disclose the result of the analysis in the notes on the financial statements as of December 31, 2017. However, the following areas are likely to be affected in general with the implementation of Korean IFRS 1109.

(a) Classification and Measurement of Financial Assets

When implementing Korean IFRS 1109, the classification of financial assets will be driven by the Company's business model for managing the financial assets and contractual terms of cash flow. The following table shows the classification of financial assets measured subsequently at amortized cost, at fair value through other comprehensive income and at fair value through profit or loss. If a hybrid contract contains a host that is a financial asset, the classification of the hybrid contract shall be determined for the entire contract without separating the embedded derivative.

Business model for the contractual cash flows characteristics	**Solely represent payments of principal and interest**	**All other**
Hold the financial asset for the collection of the contractual cash flows	Measured at amortized cost[1]	Recognized at fair value through profit or loss[2]
Hold the financial asset for the collection of the contractual cash flows and trading	Recognized at fair value through other comprehensive income [1]	
Hold for trading	Recognized at fair value through profit or loss	

[1] A designation at fair value through profit or loss is allowed only if such designation mitigates an accounting mismatch (irrevocable).
[2] Equity investments not held for trading can be recorded in other comprehensive income (irrevocable).

With the implementation of Korean IFRS 1109, the criteria to classify the financial assets at amortized cost or at fair value through other comprehensive income are more strictly applied than the criteria applied with Korean IFRS 1039. Accordingly, the financial assets at fair value through profit or loss may increase by implementing Korean IFRS 1109 and may result an extended fluctuation in profit or loss.

As of December 31, 2016, the Company owns loan and trade receivables of ₩1,180,854 million and financial assets available-for-sales of ₩93,182 million.

According to Korean IFRS 1109, a debt instrument is measured at amortized cost if: a) the objective of the business model is to hold the financial asset for the collection of the contractual cash flows, and b) the contractual cash flows under the instrument solely represent payments of principal and interest. As at December 31, 2016, the Company measured loan and trade receivables of ₩1,180,854 million at amortized costs.

According to Korean IFRS 1109, a debt instrument is measured at fair value through other comprehensive income if the objective of the business model is achieved both by collecting contractual cash flows and selling financial assets; and the contractual cash flows represents solely payments of principal and interest on a specific date under contract terms. As at December 31, 2016, the Company holds debt instruments of ₩6,387 million classified as financial assets available-for-sale.

According to Korean IFRS 1109, equity instruments that are not held for trading, the Company can make an irrevocable election at initial recognition to classify the instruments as assets

measured at fair value through other comprehensive income, which all subsequent changes in fair value being recognized in other comprehensive income and not recycled to profit or loss. As at December 31, 2016, the Company holds equity instruments of ₩86,795 million classified as financial assets available-for-sale.

According to Korean IFRS 1109, debt instruments those contractual cash flows do not represent solely payments of principal and interest and held for trading, and equity instruments that are not designated as instruments measured at fair value through other comprehensive income are measured at fair value through profit or loss. As at December 2016, the Company holds debt and equity instruments classified as financial assets at fair value through profit or loss that amount to ₩3,942 million.

(b) Impairment: Financial Assets and Contract Assets

Korean IFRS 1109 sets out a new forward looking 'expected loss' impairment model which replaces the incurred loss model under Korean IFRS 1039 that impaired assets if there is an objective evidence and applies to:

- Financial assets measured at amortized cost
- Debt investments measured at fair value through other comprehensive income, and
- Certain loan commitments and financial guaranteed contracts.

Under Korean IFRS 1109 'expected loss' model, a credit event (or impairment 'trigger') no longer has to occur before credit losses are recognized. The Company will always recognize (at a minimum) 12-month expected credit losses in profit or loss. Lifetime expected losses will be recognized on assets for which there is a significant increase in credit risk after initial recognition.

Stage[1]		Loss allowance
1	No significant increase in credit risk after initial recognition[2]	12-month expected credit losses (expected credit losses that result from those default events on the financial instrument that are possible within 12 months after the reporting date)
2	Significant increase in credit risk after initial recognition	Lifetime expected credit losses (expected credit losses that result from all possible default events over the life of the financial instrument)
3	Credit-impaired	

[1] A loss allowance for lifetime expected credit losses is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. It is also required for contract assets or trade receivables that are not, according to Korean IFRS 1115 *Revenue from Contracts with Customers*, considered to contain a significant financing component. Additionally, the Company can elect an accounting policy of recognizing lifetime expected credit losses for all contract assets and/or all trade receivables, including those that contain a significant financing component.

[2] If the financial instrument has low credit risk at the end of the reporting period, the Company may assume that the credit risk has not increased significantly since initial recognition.

Under Korean IFRS 1109, the asset that is credit-impaired at initial recognition would recognize all changes in lifetime expected credit losses since the initial recognition as a loss allowance with any changes recognized in profit or loss.

As of December 31, 2016, the Company owns debt investment carries at amortized cost of ₩1,180,854 million (loan and trade receivables of ₩1,180,854 million), debt investments carried at fair value through other comprehensive income, which classified as financial assets available-for-sales, of ₩6,387 million. The Company recognized loss allowance of ₩9,629 million for these assets.

- Korean IFRS 1115 *Revenue from Contracts with Customers*

The Company will apply Korean IFRS 1115 *Revenue from Contracts with Customers* issued on November 6, 2015 for annual reporting periods beginning on or after January 1, 2018. This standard replaces Korean IFRS 1018 *Revenue*, Korean IFRS 1011 *Construction Contracts*, Interpretation 2031 *Revenue-Barter Transactions Involving Advertising Services*, Interpretation 2113 *Customer Loyalty Programs*, Interpretation 2115 *Agreements for the Construction of Real Estate* and Interpretation 2118 *Transfers of assets from customers.* The Company must apply Korean IFRS 1115 *Revenue from Contracts with Customers* within annual reporting periods beginning on or after January 1, 2018, and will apply the standard retrospectively to prior reporting period presented in accordance with Korean IFRS 1008 *Accounting Policies, Changes in Accounting Estimates and Errors* and apply simplified transition method with no restatement for completed contracts and other as of January 1, 2017.

The new standard is based on the principle that revenue is recognized when control of a good or service transfers to a customer so the notion of control replaces the existing notion of risks and rewards. A new five-step process must be applied before revenue from contract with customer can be recognized:

- Identify contracts with customers
- Identify the separate performance obligation
- Determine the transaction price of the contract
- Allocate the transaction price to each of the separate performance obligations, and
- Recognize the revenue as each performance obligation is satisfied.

As of December 31, 2016, the Company has not begun to assess the impact on internal processes and controls and accounting system in relation to implementation of Korean IFRS 1115. Also, the Company has not analyzed the financial effects of applying the standard. The Company plans to analyze the financial effects of applying the standard and disclose the result of the analysis in the notes on the financial statements as of December 31, 2017.

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. 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.

(b) Non-controlling interests

The Company attributes the profit or loss and each component of other comprehensive income to the owners of the Parent Company and to the non-controlling interests. The Company also attributes total comprehensive income to the owners of the Parent Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Changes in a parent's ownership interest in a subsidiary that do not result in the parent losing control of the subsidiary are equity transactions.

(c) Associates

Associates are all entities over which the Company has significant influence, and investments in associates are initially recognized at acquisition cost using the equity method. Unrealized gains on transactions between the Company and its associates are eliminated to the extent of the Company's interest in the associates. If there is any objective evidence that the investment in the associate is impaired, the Company recognizes the difference between the recoverable amount of the associate and its book value as impairment loss.

(d) 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 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, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the steering committee that makes strategic decisions.

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 prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

Exchange differences arising from non-monetary financial assets and liabilities such as equity instruments at fair value through profit or loss and available-for-sale equity instruments are recognized in profit or loss and in other comprehensive income, respectively, as part of the fair value gain or loss.

(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 and measurement

The Company classifies its financial assets into the following categories: financial assets at fair value through profit or loss, available-for-sale financial assets, loans and receivables, and held-to-maturity financial assets. Regular purchases and sales of financial assets are recognized on the trade date.

At initial recognition, financial assets are measured at fair value plus, in the case of financial assets not carried at fair value through profit or loss, transaction costs. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the statement of comprehensive income. After the initial recognition, available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables, and held-to-maturity investments are subsequently carried at amortized cost using the effective interest rate method.

Changes in fair value of financial assets at fair value through profit or loss are recognized in profit or loss and changes in fair value of available-for-sale financial assets are recognized in other comprehensive income. When the available-for-sale financial assets are sold or impaired, the fair value adjustments recorded in equity are reclassified into profit or loss.

(b) Impairment

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of

financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or a group of financial assets that can be reliably estimated.

Impairment of loans and receivables is presented as a deduction in an allowance account and impairment of other financial assets is directly deducted from book value of the assets. The Company writes off financial assets when the assets are determined to be no longer recoverable.

The objective evidence that a financial asset is impaired includes significant financial difficulty of the issuer or obligor; a significant delinquency in interest or principal payments; or the disappearance of an active market for that financial asset because of financial difficulties. A significant decline in the fair value of an available-for-sale equity instrument from its cost or a prolonged decline below its cost for more than six months is also objective evidence of impairment.

(c) Derecognition

If the Company transfers a financial asset and the transfer does not result in derecognition because the Company has retained substantially all of the risks and rewards of ownership of the transferred asset due to a recourse in the event the debtor defaults, the Company continues to recognize the transferred asset in its entirety and recognizes a financial liability for the consideration received. The related financial liability is classified as 'borrowings' in the consolidated statement of financial position.

(d) Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated 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 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 (expenses)' according to the nature of transactions.

2.9 Trade Receivables

Trade receivables are amounts due from customers for services performed in the ordinary course of business. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets. Long-term trade receivables classified as non-current asset are measured at the present value using the effective interest method.

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:

	Estimated useful lives
Buildings	40 years
Structures	20 years
Machinery and equipment	4 – 6 years
Vehicles	4 – 5 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.

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 value 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.

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

	Estimated useful lives
Development costs	5 years
Industrial property rights	5 – 10 years
Others	2 – 15 years

2.14 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.

2.15 Financial Liabilities

(a) Classification and measurement

Financial liabilities at fair value through profit or loss are financial instruments held for trading. Financial liabilities are classified in this category if incurred principally for the purpose of repurchasing them in the near term. Derivatives that are not designated as hedges or bifurcated from financial instruments containing embedded derivatives are also categorized 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 presented as 'trade payables and other payables', 'borrowings' in the statement of financial position.

Preferred shares that provide for a mandatory redemption at a particular date are classified as liabilities. Interest expenses on these preferred shares calculated using the effective interest method are recognized in the statement of comprehensive income as 'finance costs', together with interest expenses recognized relating to 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, cancelled or expired or when the terms of an existing financial liability are substantially modified.

2.16 Provisions

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation and the increase in the provision due to passage of time is recognized as interest expense.

2.17 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 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 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 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 against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.18 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 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.

(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.

2.19 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.

2.20 Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable for the sale of goods or rendering of services arising from the normal activities of the Company. It is presented as net of value added taxes, returns, rebates and discounts, after elimination of intra-company transactions.

The Company recognizes revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Company's activities, as described below. The Company bases its estimate on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) Rendering of services

Revenue from internet and portal services is recognized when such services are rendered and the other revenue is recognized when substantially all contractual obligations of the service have been fulfilled by the Company based on the terms of the contracts.

(b) Sale of goods

Revenue from the sale of goods is recognized when products are delivered to the customer.

(c) Interest income

Interest income is recognized using the effective interest method. When a loan and receivable is impaired, the Company reduces the carrying amount to its recoverable amount and continues unwinding the discount as interest income. Interest income on impaired loan and receivables is recognized using the original effective interest rate.

(d) Dividend income

Dividend income is recognized when the right to receive payment is established.

2.21 Dividend

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

2.22 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.

2.23 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.

2.24 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.

2.25 Approval of Issuance of the Financial Statements

The issuance of the December 31, 2016 financial statements of the Company was approved by the Board of Directors on March 2, 2017, which is subject to change with approval at the annual shareholders' meeting.

3 Critical Accounting Estimates and Assumptions

The Company makes estimates and assumptions concerning the future. The estimates and assumptions are continuously evaluated with consideration to factors such as events reasonably predictable in the foreseeable future within the present circumstance according to historical experience. The resulting accounting estimates will, by definition, seldom equal the related actual results. 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 addressed below.

(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 17).

(b) Income taxes

The Company is operating in numerous countries and the income generated from these operations is 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 21).

If certain portion of the taxable income is not used for investments, 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. The new tax system is effective for three years from 2015. Accordingly, the measurement of current and deferred income tax is affected by the tax effects from the new system. As the Company's income tax is dependent on the investments, increase in wages and dividends, there exists uncertainty with regard to 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) Provisions

As of December 31, 2016, the Company recognizes provisions as explained in Notes 2.16. These provisions are estimated based on past experience.

(e) 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 19).

(f) 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 20).

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 of December 31, 2016, 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, 2016, would have been increased/decreased by ₩213 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 of December 31, 2016, if all other variables were constant and the value of marketable equity indexes had increased or decreased by 5.0%, other comprehensive income would have been increased or decreased by ₩954 million (before income tax).

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 instruments presented in functional currency.

There are no material assets or liabilities exposed to foreign exchange risk as of December 31, 2016.

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 8).

Details of the Company's level of maximum exposure to credit risk as of December 31, 2016 and 2015, are as follows:

(in millions of Korean won)	2016	2015
Cash and cash equivalents	₩ 641,644	₩ 397,177
Short-term financial instruments	236,748	373,389
Trade receivables	173,853	88,822
Derivative financial assets	3,942	5,241
Other current financial assets	83,340	59,619
Long-term financial instruments	10,000	10,193
Other non-current financial assets	35,269	23,040
	₩ 1,184,796	₩ 957,481

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 of December 31, 2016 and 2015, are as follows:

(in millions of Korean won)	2016		
	Less than 1 year	Between 1 and 2 years	Over 2 years
Trade and other payables	₩ 263,172	₩ -	₩ -
Short-term and long-term borrowings	218,624	177,063	632,928
Other current financial liabilities	17,228	-	-
Non-current trade and other payables	-	1,123	1,425
	₩ 499,024	₩ 178,186	₩ 634,353

(in millions of Korean won)	2015		
	Less than 1 year	Between 1 and 2 years	Over 2 years
Trade and other payables	₩ 89,611	₩ -	₩ -
Short-term and long-term borrowings	36,596	4,881	205,113
Other current financial liabilities	3,673	-	-
Non-current trade and other payables	-	-	611
Other non-current financial liabilities	-	-	1,321
	₩ 129,880	₩ 4,881	₩ 207,045

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 liabilities flows.

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 of December 31, 2016 and 2015, are as follows:

(in millions of Korean won)	2016	2015
Total liabilities (A)	₩ 1,781,173	₩ 603,003
Total equity (B)	₩ 3,702,944	₩ 2,585,475
Debt-to-capital ratio (A/B)	48.10%	23.32%

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 of December 31, 2016 and 2015, are as follows:

	2016				
(in millions of Korean won)	Gross assets	Gross liabilities offset	Net amounts presented in the statement of financial position	Amounts not offset	Net amount
Trade receivables[1]	₩ 43,647	₩ (11,004)	₩ 32,643	₩ -	₩ 32,643

[1] The amount presented includes the amount after offsetting trade receivables from media labs and agency fee.

	2015				
(in millions of Korean won)	Gross assets	Gross liabilities offset	Net amounts presented in the statement of financial position	Amounts not offset	Net amount
Trade receivables	₩ 54,932	₩ (14,551)	₩ 40,381	₩ -	₩ 40,381

5 Fair Value

5.1 Fair Value of Financial Instruments

Carrying amount and fair value of financial instruments as of December 31, 2016 and 2015, are as follows:

	2016		2015	
(in millions of Korean won)	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Cash and cash equivalents	₩ 641,644	₩ 641,644	₩ 397,177	₩ 397,177
Short-term financial instruments	236,748	236,748	373,389	373,389
Trade receivables	173,853	173,853	88,822	88,822
Other financial assets	83,340	83,340	59,619	59,619
Derivative financial assets	3,942	3,942	5,241	5,241
Available-for-sale securities[1]	53,196	53,196	28,995	28,995
Long-term financial instruments	10,000	10,000	10,193	10,193
Other non-current financial assets	35,269	35,269	23,040	23,040
	₩ 1,237,992	₩ 1,237,992	₩ 986,476	₩ 986,476
Financial liabilities				
Trade and other payables	₩ 263,130	₩ 263,130	₩ 89,506	₩ 89,506
Other financial liabilities	17,228	17,228	3,673	3,673
Non-current trade and other payables	2,548	2,548	611	611
Long-term borrowings	795,927	771,888	199,675	199,675
Short-term borrowings	203,900	203,900	22,055	22,055
Current portion of long-term borrowings	42	42	100	100
Derivative financial liabilities	7,375	7,375	8,504	8,504
Other non-current financial liabilities	-	-	1,321	1,321
	₩ 1,290,150	₩ 1,266,111	₩ 325,445	₩ 325,445

[1] Certain equity securities, which are measured at cost since their quoted market prices do not exist in an active market and their fair values cannot be measured reliably, are excluded.

5.2 Financial Instruments Measured at Cost

Available-for-sale securities measured at cost as of December 31, 2016 and 2015, are as follows:

(in millions of Korean won)	2016	2015
Daum Soft	₩ 327	₩ 327
KakaoBank of Korea Corp.	30,000	-
Epipolar	20	20
Lunosoft Inc.	1,250	1,250
NURIDA Corporation	200	200
Momo Corp.	100	100
SEOULMEDIA.INC.	30	-
Fe Entertainment	104	-
Cooperative of Music Record Duplicators	8	-
Stonebridge Drama Fund	344	-
SM Contents Investment, Inc.	1,000	-
Leferi Inc.	862	-
ROOF FUNDING	1,400	-
EVERSPIN CORP.	2,000	-
Wex 24 Korea	1,842	-
Others	499	-
	₩ 39,986	**₩ 1,897**

5.3 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 (Level 1).
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

Fair value hierarchy classifications of the financial assets and liabilities that are measured at fair value as of December 31, 2016:

(in millions of Korean won)	2016			
	Level 1	Level 2	Level 3	Total
Available-for-sale securities	₩ 20,969	₩ -	₩ 32,227	₩ 53,196
Derivative financial assets	-	-	3,942	3,942
	₩ 20,969	₩ -	₩ 36,169	₩ 57,138
Derivative financial liabilities	₩ -	₩ -	₩ 7,375	₩ 7,375

5.4 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 of December 31, 2016, valuation technique and the inputs used for recurring and non-recurring fair value measurements and disclosed fair value that are categorized within Level 2 and Level 3 of the fair value hierarchy are as follows:

(in millions of Korean won)	Fair value	Level	Valuation technique	Inputs
Available-for-sale securities				
TransLink Capital Partners II, L.P.	₩ 5,891	3	Discounted cash flow	Estimated cash flow, discount rate
TransLink Capital Partners III, L.P.	3,607	3	Discounted cash flow	Estimated cash flow, discount rate
Collaborative Fund II, L.P.	3,635	3	Discounted cash flow	Estimated cash flow, discount rate
Altos Korea opportunity Fund	4,092	3	Discounted cash flow	Estimated cash flow, discount rate
Strong Seed Fund I	1,083	3	Discounted cash flow	Estimated cash flow, discount rate
2010 KIF–Stonebridge IT Venture Fund	1,179	3	Discounted cash flow	Estimated cash flow, discount rate
SMCI Fund7	988	3	Discounted cash flow	Estimated cash flow, discount rate
Mediacreate	2,549	3	Discounted cash flow and comparable company analysis	Estimated cash flows, discount rate, PER and PBR of comparable companies
Quber Co., Ltd.	193	3	Discounted cash flow	Estimated cash flow, discount rate
Bluehole INC.	3,298	3	Discounted cash flow	Estimated cash flow, discount rate
Others	5,712	3	Discounted cash flow	Estimated cash flow, discount rate
Total	₩ 32,227			
Derivative financial assets				
Right for redemption	₩ 217	3	Binomial tree model	Probability of risk neutral, increase in risk neutral, decease in risk neutral
Early redemption right	1,702	3	Discounted cash flow	Estimated cash flow, credit rating
Equity linked security	2,023	2	MonteCarlo model	Base asset price, underlying asset volatility etc.
Total	₩ 3,942			
Derivative financial liabilities				
Right for conversion (redeemable convertible preferred shares)	₩ 7,375	3	Binomial tree model	Discount rate, dividend rate, increase and decrease rate

5.5 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 quarter depending on the materiality.

6 Segment Information

The Company is operated as single operating segment.

Breakdown of the Company's revenue for the years ended December 31, 2016, 2015 and 2014, is as follows:

(in millions of Korean won)	2016			
	Advertising	**Contents**	**Others**	**Total**
Revenue[1]	₩ 536,952	₩ 792,003	₩ 282,304	₩ 1,611,259
Inter-company revenue[1]	(2,957)	(90,123)	(53,946)	(147,026)
Net revenue[1]	₩ 533,995	₩ 701,880	₩ 228,358	₩ 1,464,233

[1] During 2016, the Company has changed its classification from advertising, game, commerce and others to advertising, contents and others.

(in millions of Korean won)	2015			
	Advertising	**Contents**	**Others**	**Total**
Revenue	₩ 603,317	₩ 276,121	₩ 93,197	₩ 972,635
Inter-company revenue	(2,654)	(2,498)	(35,331)	(40,483)
Net revenue	₩ 600,663	₩ 273,623	₩ 57,866	₩ 932,152

(in millions of Korean won)	2014			
	Advertising	**Contents**	**Others**	**Total**
Revenue	₩ 223,853	₩ 249,840	₩ 35,334	₩ 509,027
Inter-company revenue	(732)	(18)	(9,419)	(10,169)
Net revenue	₩ 223,121	₩ 249,822	₩ 25,915	₩ 498,858

There was no external customer contributing more than 10% of the total revenue for the years ended December 31, 2016 and 2014.

Details of external customer, who contributes more than 10% of the Company revenue for the year ended December 31, 2015, are as follows:

(in millions of Korean won)	**Revenue (2015)**	**Related revenue**
Customer 1	₩ 102,279	Contents revenue

7 Financial Instruments by Category

Categorizations of financial assets and liabilities as of December 31, 2016 and 2015, are as follows:

(in millions of Korean won)		2016		2015
Financial assets at fair value through profit or loss				
Derivative financial assets	₩	3,942	₩	5,241
Loans and receivables				
Cash and cash equivalents		641,644		397,177
Short-term financial instruments		236,748		373,389
Trade receivables, net		173,853		88,822
Other current financial assets		83,340		59,619
Long-term financial instruments		10,000		10,193
Other non-current financial assets		35,269		23,040
		1,180,854		952,240
Available-for-sale financial assets				
Available-for-sale securities		93,182		30,892
	₩	1,277,978	₩	988,373
Financial liabilities at fair value through profit or loss				
Derivative financial liabilities	₩	7,375	₩	8,504
Financial liabilities carried at amortized cost				
Trade and other payables		263,130		89,506
Short-term borrowings		203,900		22,055
Current portion of long-term borrowings		42		100
Other current financial liabilities		17,228		3,673
Non-current trade and other payables		2,548		611
Long-term borrowings		795,927		199,675
Other non-current financial liabilities		-		1,321
	₩	1,290,150	₩	325,445

Gains or losses of financial instruments by category for the years ended December 31, 2016, 2015 and 2014 are as follows:

(in millions of Korean won)

	2016			
	Gain (loss) on valuation (other comprehensive income (loss))	Gain (loss) on valuation/disposition (profit or loss)	Interest income (expenses)/ Dividend income	Gain (loss) on foreign currency translation
Financial assets				
Financial assets at fair value through profit or loss	₩ -	₩ 91	₩ -	₩ -
Available-for-sale financial assets	(5,138)	(96)	659	-
Loans and receivables	-	756	9,492	7,719
Financial liabilities				
Financial liabilities at fair value through profit or loss	-	(288)	-	-
Financial liabilities carried at amortized costs	-	(2,575)	(14,308)	-

(in millions of Korean won)

	2015			
	Gain (loss) on valuation (other comprehensive income (loss))	Gain (loss) on valuation/disposition (profit or loss)	Interest income (expenses)/ Dividend income	Gain (loss) on foreign currency translation
Financial assets				
Financial assets at fair value through profit or loss	₩ -	₩ 2,412	₩ -	₩ -
Available-for-sale financial assets	1,449	13,783	70	-
Loans and receivables	-	(922)	10,953	1,113
Financial liabilities				
Financial liabilities at fair value through profit or loss	-	(1,299)	-	-
Financial liabilities carried at amortized costs	-	-	(836)	(2)

(in millions of Korean won)

	2014			
	Gain (loss) on valuation (other comprehensive income (loss))	Gain (loss) on valuation/disposition (profit or loss)	Interest income (expenses)/ Dividend income	Gain (loss) on foreign currency translation
Financial assets				
Financial assets at fair value through profit or loss	₩ -	₩ 388	₩ -	₩ -
Available-for-sale financial assets	3,478	(8)	-	-
Loans and receivables	-	(1,583)	5,995	168
Financial liabilities				
Financial liabilities carried at amortized costs	-	-	(41)	15

8 Credit Quality of Financial Assets

The credit quality of financial deposits that are neither past due nor impaired is assessed by reference to external credit ratings, if available, or to historical information about counterparty's default rates.

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

9 Available-for-sale Securities

Changes in available-for-sale securities for the years ended December 31, 2016, 2015 and 2014 are as follows:

(in millions of Korean won)	2016	2015	2014
Beginning balance	₩ 30,892	₩ 25,258	₩ -
Increase due to changes in scope of consolidation	12,835	1,880	-
Increase due to merger	-	-	20,950
Acquisition	52,496	8,779	957
Transfer	8,891	1,342	-
Disposal	(6,899)	(6,795)	(124)
Valuation	(5,138)	1,449	3,478
Impairment	(109)	(1,009)	-
Amortization	214	(12)	(3)
Ending balance	₩ 93,182	₩ 30,892	₩ 25,258

Details of available-for-sale securities as of December 31, 2016 and 2015, are as follows:

(in millions of Korean won)

	2016			2015
	Acquisition cost	Fair value[3]	Book value	Book value
Equity securities				
Daum Soft[1]	₩ 326	₩ N.A.	₩ 326	₩ 326
2010 KIF–Stonebridge IT Venture Fund	647	1,179	1,179	1,631
Mediacreate	2,084	2,549	2,549	2,549
TransLink Capital Partners II, L.P.	5,621	5,892	5,892	8,341
TransLink Capital Partners III, L.P.	3,032	3,607	3,607	2,824
Collaborative Fund II, L.P.	2,074	3,635	3,635	2,204
Altos Korea opportunity Fund	2,019	4,092	4,092	2,780
Strong Seed Fund I	416	1,083	1,083	439
SMCI Fund 7	1,000	988	988	998
Quber Co., Ltd.	1,193	193	193	183
KakaoBank of Korea Corp.[1]	30,000	N.A.	30,000	-
Epipolar[1]	20	N.A.	20	20
Lunosoft Inc.[1]	1,250	N.A.	1,250	1,250
NURIDA Corporation[1]	200	N.A.	200	200
LONGTU KOREA Inc.[2]	5,000	4,544	4,544	-
Bluehole INC.	3,298	3,298	3,298	-
Momo Corp[1]	100	N.A.	100	100
Eugene Jarang Private Equity Securities Investment Trust No. 2	300	25	25	-
FNC ENTERTAINMENT[2]	11,003	5,493	5,493	-
SEOUL MEDIA.INC. [1]	30	N.A.	30	-
Fe Entertainment [1]	104	N.A.	104	-
Cooperative of Music Record Duplicators[1]	8	8	8	-
Stonebridge Drama Fund [1]	344	N.A.	344	-
SM Contents Investment, Inc.[1]	1,000	N.A.	1,000	-
EVERSPIN CORP.[1]	2,000	N.A.	2,000	-
NEPTUNE Corp.[2]	1,000	9,038	9,038	-
Others	6,145	5,686	5,797	4,921
	80,214	51,302	86,795	28,766
Debt securities				
Government bonds	2,000	1,894	1,894	2,126
Convertible bonds-Leferi Inc.[1]	862	N.A.	862	-
Convertible bonds-ROOF FUNDING[1]	1,400	N.A.	1,400	-
Convertible bonds-Wex 24 Korea[1]	1,842	N.A.	1,842	-
Others[1]	389	N.A.	389	-
	6,493	1,894	6,387	2,126
	₩ 86,707	₩ 53,196	₩ 93,182	₩ 30,892

[1] Securities are measured at cost as the fair value cannot be measured reliably. The Company does not have any plans to dispose of the equity securities in the near future. These instruments will be measured at fair value when the Company can develop a reliable estimate of the fair value.

[2] Listed equity securities

[3] N.A. means not applicable.

10 Trade receivables

Trade receivables and allowance for doubtful accounts as of December 31, 2016 and 2015, are as follows:

(in millions of Korean won)		2016		2015
Trade receivables	₩	182,249	₩	92,685
Less: allowance for doubtful accounts		(8,396)		(3,863)
Trade receivables, net	₩	173,853	₩	88,822

The aging analysis of trade receivables as of December 31, 2016 and 2015, is as follows:

(in millions of Korean won)		2016		2015
Receivables not past due	₩	156,304	₩	80,797
Past due but not impaired				
Up to 3 months		1,453		-
3 to 6 months		5,045		-
		6,498		-
Impaired[1]				
Up to 3 months		9,874		7,671
3 to 6 months		3,515		947
Over 6 months		6,058		3,270
		19,447		11,888
	₩	182,249	₩	92,685

[1] The amount of the allowance provision is ₩8,396 million as of December 31, 2016 (2015: ₩3,863 million). The individually impaired receivables mainly relate to customers, which are in unexpectedly difficult economic situations. It was assessed that a portion of the receivables is expected to be recovered.

Changes in allowance for doubtful accounts for trade receivables for the years ended December 31, 2016, 2015 and 2014 are as follows:

(in millions of Korean won)	2016	2015	2014
Beginning balance	₩ (3,864)	₩ (3,088)	₩ (269)
Bad debt expense	(437)	(1,411)	(1,582)
Write-offs	786	169	405
Decrease (increase) due to changes in scope of consolidation	(4,885)	466	-
Increase due to merger	-	-	(1,641)
Other increase	4	-	-
Ending balance	₩ (8,396)	₩ (3,864)	₩ (3,087)

Bad debt expense is included in 'operating expenses' in the consolidated statement of comprehensive income. Amounts charged to the allowance account are generally written off when there is no expectation of additional collection.

The maximum exposure amount to credit risk of accounts receivable are equivalent to the carrying value of the accounts receivable book value at the end of the reporting date.

11 Other Financial Assets

Other financial assets as of December 31, 2016 and 2015, are as follows:

(in millions of Korean won)	2016	2015
Other current financial assets		
Non-trade receivables	₩ 77,180	₩ 56,328
Accrued revenues	1,869	1,972
Short-term loans receivable	4,251	1,161
Short-term loans to employees	40	48
Others	-	110
	83,340	59,619
Other non-current financial assets		
Long-term loans to employees	504	1,722
Leasehold deposits	34,660	21,259
Long-term loans receivable	105	-
Held-to-maturity securities	-	59
	35,269	23,040
	₩ 118,609	₩ 82,659

The maximum exposure amounts to credit risk of other financial assets are equivalent to the carrying amount of the other financial assets book value at the end of the reporting period.

12. Trade and Other payables

Trade and other payables as of December 31, 2016 and 2015, are as follows:

(in millions of Korean won)		2016		2015
Trade and other payables				
Trade payables	₩	95,456	₩	-
Non-trade payables		167,674		89,506
		263,130		89,506
Non-current trade and other payables				
Long-term non-trade payables		2,310		506
Withhold deposits received		152		-
Leasehold deposits received		86		105
		2,548		611
	₩	265,678	₩	90,117

13. Other Financial Liabilities

Other financial liabilities as of December 31, 2016 and 2015, are as follows:

(in millions of Korean won)		2016		2015
Other current financial liabilities				
Accrued expenses	₩	17,228	₩	3,673
Other non-current financial liabilities				
Long-term accrued expenses		-		1,321
	₩	17,228	₩	4,994

14. Other Assets and Liabilities

Other assets as of December 31, 2016 and 2015, are as follows:

(in millions of Korean won)		2016		2015
Other current assets				
Advance payments	₩	46,487	₩	20,828
Prepaid expenses		18,086		18,888
Prepaid value added tax		133		595
Corporate tax refund receivable		170		155
		64,876		40,466
Other non-current assets				
Long-term advance payments		-		3,948
Long-term prepaid expenses		6,484		5,544
Other investments		100		100
		6,584		9,592
	₩	71,460	₩	50,058

Other liabilities as of December 31, 2016 and 2015, are as follows:

(in millions of Korean won)	2016	2015
Other current liabilities		
Advances from customers	₩ 187,891	₩ 109,397
Deferred revenues	51,111	26,694
Withholdings	11,199	14,365
Value added tax payable	31,644	10,958
Government grants	206	229
	₩ 282,051	₩ 161,643

15. Investments in Associates

Investments in associates as of December 31, 2016 and 2015, are as follows:

(in millions of Korean won)		2016				2015
Name[1]	**Location**	**Percentage of ownership (%)**	**Acquisition cost**	**Net assets value**	**Book value**	**Book value**
Flowgamez	Korea	34.0	₩ -	₩ (546)	₩ -	₩ -
Adcredit (formerly, Add2paper)[4]	Korea	17.7	314	83	83	342
DMS Network, Inc.[4]	USA	19.7	1,987	109	-	109
Nine Flava	Korea	20.0	-	(42)	-	-
NBT Inc.[4]	Korea	10.5	37	1,719	1,719	1,306
Tapas Media, Inc.	USA	35.5	2,981	123	2,656	1,870
DAUM Venture Fund	Korea	39.5	9,947	9,764	9,764	9,393
UserStory Lab	Korea	35.7	500	55	-	-
DAUM KAKAO PHILIPPINES CORP.	Philippines	50.0	5,609	4,698	4,698	5,393
3Point Inc.	Korea	20.0	400	(52)	-	287
HASYS	Korea	35.0	3,500	1,459	3,438	3,456
MannaCEA	Korea	33.2	10,000	3,201	8,591	9,660
NeoBazar	Korea	35.0	625	320	478	606
Silver Star Games Inc.	Korea	20.0	94	4	104	94
Oscar Entertainment.[2]	Korea	20.0	1,997	1,997	1,997	-
Tangram Design Lab Inc.[5]	Korea	43.6	1,915	(210)	-	-
Left Right Co., Ltd. [2]	Korea	40.0	400	145	373	-
Bitmarket.ph, Inc.[2]	Philippines	36.7	661	220	655	-
ROI GAMES CORP. [2]	Korea	40.1	5,929	1,462	5,635	-
CNT TECH CO.,LTD. [2, 4]	Korea	18.0	5,001	3,908	5,894	-
JOH&Company [2]	Korea	45.5	10,000	5,599	9,793	-
Leferi Inc.[2, 4]	Korea	5.0	638	9	638	-
Wex 24 Korea [2, 4]	Korea	5.0	1,158	15	1,158	-
NAVIRO Co.,Ltd. (formerly, DeNA Locations)[3]	Japan	-	-	-	-	4,202
Others [6]	Korea	3.3~27.9	59,265	12,819	59,402	31,986
			₩ 122,958	₩ 46,859	₩ 117,076	₩ 68,704

[1] Investments in associates are all unlisted securities.
[2] During 2016, the Company newly acquired the ownership interests.
[3] As the Company obtained control over the entity in 2016, the entities are reclassified as subsidiaries from investments in associates.
[4] 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.
[5] As the Company disposed of a portion of the entity's equity share in 2016, the entity was reclassified as an investment in associate from a subsidiary.
[6] Small-sized entities invested into by K Cube Venture Fund no.1, KAKAO Venture Fund, Kakao Digital Contents Fund, Kakao Game Growth Share Fund, KAKAO_CCVC Jeju Creative Economy Innovative Fund and K Venture Group with the ownership percentage of 3.3%~27.9% and classified as associates as the Company is considered to have a significant influence.

Changes in carrying amounts of investments in associates for the years ended December 31, 2016, 2015 and 2014 are as follows:

(in millions of Korean won)

	2016							
Name	Beginning balance	Changes in scope of consolidation	Acquisition	Disposal and impairment[6]	Gain (loss) on valuation of equity-method investments	Share in other comprehensive income of associates	Others	Ending balance
Adcredit (formerly, Add2paper)	₩ 342	₩ -	₩ -	₩ (240)	₩ (19)	₩ -	₩ -	₩ 83
NBT Inc.	1,306	-	-	-	414	-	-	1,720
DAUM Venture Fund	9,393	-	-	-	361	10	-	9,764
DMS Network, Inc.	109	-	-	-	(109)	-	-	-
Tapas Media, Inc. [5]	1,870	-	1,142	-	(488)	132	-	2,656
DAUM KAKAO PHILIPPINES CORP.	5,393	-	-	-	(579)	(116)	-	4,698
3Point Inc.	287	-	-	(267)	(20)	-	-	-
HASYS	3,456	-	-	-	(9)	(10)	-	3,437
MannaCEA	9,660	-	-	-	(1,374)	305	-	8,591
NeoBazar	606	-	-	-	(128)	-	-	478
Silver Star Games Inc.	94	-	-	-	10	-	-	104
Oscar Entertainment [1]	-	-	1,997	-	-	-	-	1,997
Tangram Design Lab Inc.[2]	-	1,915	-	-	(1,888)	(27)	-	-
NAVIRO Co.,Ltd. (formerly, DeNA Locations) [3]	4,202	(4,125)	-	-	(316)	239	-	-
Left Right Co., Ltd. [1]	-	-	400	-	(28)	-	-	372
Bitmarket.ph, Inc.[1]	-	-	661	-	(94)	89	-	656
ROI GAMES CORP. [1]	-	-	5,929	-	(293)	-	-	5,636
CNT TECH CO.,LTD. [1, 4]	-	-	5,001	-	115	-	778	5,894
JOH&Company [1]	-	-	10,000	-	(207)	-	-	9,793
Leferi Inc. [1]	-	-	638	-	-	-	-	638
Wex 24 Korea [1]	-	-	1,158	-	-	-	-	1,158
Others [1, 4]	31,986	-	33,825	(4,071)	(5,732)	422	2,971	59,401
	₩ 68,704	₩ (2,210)	₩ 60,751	₩ (4,578)	₩ (10,384)	₩ 1,044	₩ 3,749	₩ 117,076

[1] Newly acquired during 2016.
[2] Reclassified as investments in associates, as the Company lost its control over the entity in 2016.
[3] Reclassified from investments in associates to subsidiary, as the Company obtained control over the entity in 2016.
[4] Others include gain or loss on disposal from changes in percentage of ownership with maintaining significant influence during 2016.
[5] During 2016, the Company acquired additional 1,980,198 shares (12.43% ownership).
[6] During 2016, the Company recognized impairment loss for investments in 3Point Inc. and other five associates as their recoverable amount is considered less than their book value as of December 31, 2016.

(in millions of Korean won)

Name	2015						
	Beginning balance	Changes in scope of consolidation	Acquisition	Disposal and impairment	Gain (loss) on valuation of equity-method investments	Share in other comprehensive income of associates	Others	Ending balance
K Cube Venture Fund no.1[1, 5]	₩ 4,924	₩ (4,951)	₩ -	₩ -	₩ 27	₩ -	₩ -	₩ -
KAKAO Venture Fund[1]	4,391	(4,130)	-	-	(261)	-	-	-
Daum TV[2]	496	-	-	-	(61)	-	(435)	-
Flowgamez[3]	-	-	-	-	-	-	-	-
Adcredit (formerly, Add2paper)[5]	337	-	-	-	(54)	-	59	342
DMS Network, Inc.[4]	2,067	-	-	(1,977)	8	11	-	109
Nine Flava [3]	-	-	-	-	-	-	-	-
NBT Inc. [5]	-	-	-	-	166	1	1,139	1,306
Tapas Media, Inc.[5]	1,852	-	-	-	(356)	118	256	1,870
CARDOC Inc.[1,5]	258	(642)	-	-	(281)	-	665	-
DAUM Venture Fund	3,887	-	6,000	-	(494)	-	-	9,393
UserStory Lab[4]	500	-	-	(364)	(136)	-	-	-
DAUM KAKAO PHILIPPINES CORP.	-	-	5,609	-	(226)	10	-	5,393
Podotree Inc.[1, 5]	-	(14,001)	14,170	-	(271)	-	102	-
3Point Inc.	-	-	400	-	(113)	-	-	287
SuperNova11 Corp.[1]	-	(11,835)	10,976	-	(1,455)	-	2,314	-
HASYS	-	-	3,500	-	(54)	10	-	3,456
MannaCEA	-	-	10,000	-	(340)	-	-	9,660
NeoBazar	-	-	625	-	(19)	-	-	606
Silver Star Games Inc.	-	94	-	-	-	-	-	94
NAVIRO Co.,Ltd. (formerly, DeNA Locations)	-	4,723	-	-	(791)	270	-	4,202
Others[1, 5]	-	13,948	14,469	(1,939)	238	8	5,262	31,986
	₩ 18,712	₩ (16,794)	₩ 65,749	₩ (4,280)	₩ (4,473)	₩ 428	₩ 9,362	₩ 68,704

[1] As the Company obtained control over the entity in 2015, the entity was reclassified as a subsidiary from the investments in associates.
[2] As the Company lost its significant influence over the entity in 2015, it was reclassified as available-for-sale financial securities.
[3] As of December 31, 2015, the equity method accounting is discontinued.
[4] During 2015, the Company recognized impairment loss for investments in DMS Network, Inc. and UserStory Lab as their recoverable amount is considered less than their book value as of December 31, 2015, due to sales decrease and other reasons.
[5] Others include gains (losses) on disposal from changes in percentage of ownership with maintaining significant influence during 2015.

(in millions of Korean won)

	2014							
Name	Beginning balance	Increase due to merger	Changes in scope of subsidiaries	Acquisition	Disposal and impairment	Gain (loss) on valuation of equity-method investments	Others	Ending Balance
K Cube Venture Fund no.1	₩ 4,762	₩ -	₩ -	₩ -	₩ -	₩ 158	₩ 4	₩ 4,924
KAKAO Venture Fund [1]	2,388	-	-	2,500	-	(497)	-	4,391
KAKAO JAPAN Corp. [2]	3,315	-	(1,279)	-	-	(1,903)	(133)	-
Ultra Caption Corp. [3]	19	-	-	-	-	(19)	-	-
Daum TV [4]	-	587	-	-	-	(91)	-	496
Flowgamez [4]	-	-	-	-	-	-	-	-
Playplus [4]	-	-	-	-	-	-	-	-
Add2paper	-	314	-	-	-	23	-	337
DMS Network, Inc.[4]	-	1,987	-	-	-	(11)	91	2,067
Nine Flava [4]	-	-	-	-	-	-	-	-
NBT Partners [4]	-	37	-	-	-	(37)	-	-
Tapas Media, Inc. [4]	-	1,839	-	-	-	(71)	84	1,852
Cardoc	-	236	-	-	-	(103)	125	258
DAUM Venture Fund [5]	-	1,947	-	2,000	-	(60)	-	3,887
UserStory Lab [6]	-	-	-	500	-	-	-	500
	₩ 10,484	₩ 6,947	₩ (1,279)	₩ 5,000	₩ -	₩ (2,611)	₩ 171	₩ 18,712

[1] In 2014, the Company additionally acquired 25 shares.
[2] As the Company acquired 16,412 shares (50% ownership), the percentage of ownership became 100% in 2014, and the entity was reclassified as a subsidiary.
[3] Additional 3,627 shares acquired (64.8% ownership) resulting in the percentage of ownership of 79.0% and the entity was reclassified as a subsidiary.
[4] Newly acquired as a result of merger.
[5] Newly acquired as a result of merger and additional 20 shares were acquired after the merger.
[6] In 2014, the Company acquired 16,816 shares (35.71% ownership).

A summary of financial information on the associates for the years ended December 31, 2016 and 2015, is as follows:

	2016					
(in millions of Korean won)	**Assets**	**Liabilities**	**Equity**	**Revenue**	**Profit (loss)**	**Comprehensive income (loss)**
Flowgamez	₩ 107	₩ 1,859	₩ (1,752)	₩ 41	₩ (231)	₩ (231)
Nine Flava	24	225	(201)	-	(4)	(4)
Adcredit (formerly, Add2paper)	784	395	389	1,307	(147)	(147)
NBT Inc.	25,837	10,332	15,505	46,162	1,925	1,925
DAUM Venture Fund	26,095	171	25,924	1,784	1,106	1,106
DMS Network, Inc.	892	307	585	200	38	38
Tapas Media, Inc.	360	15	345	109	(1,605)	(1,580)
UserStory Lab	637	560	77	54	(457)	(457)
DAUM KAKAO PHILIPPINES CORP.	9,398	28	9,370	13	(918)	(1,150)
3Point Inc.	84	342	(258)	44	(117)	(117)
HASYS	4,693	524	4,169	4,658	399	371
MannaCEA	11,011	902	10,109	709	(2,674)	(2,674)
NeoBazar	1,021	107	914	32	(162)	(162)
Silver Star Games Inc.	28	7	21	120	49	49
Oscar Entertainment[1]	2,586	511	2,075	2,358	(330)	(330)
Tangram Design Lab Inc.	7,347	6,626	721	2,272	(3,309)	(3,351)
Left Right Co., Ltd.[1]	366	4	362	38	(69)	(69)
Bitmarket.ph, Inc.[1]	947	324	623	21,285	(168)	(88)
ROI GAMES CORP.[1]	3,068	145	2,923	99	(586)	(586)
CNT TECH CO.,LTD.[1]	30,927	9,218	21,709	4,052	639	639
JOH&Company[1]	13,716	1,399	12,317	2,116	(332)	(332)
Leferi Inc.[1]	2,225	2,036	189	-	-	-
Wex 24 Korea[1]	5,534	2,854	2,680	-	-	-
Others	101,304	34,064	67,240	29,519	(37,784)	(37,784)
	₩ 248,991	₩ 72,955	₩ 176,036	₩ 116,972	₩ (44,737)	₩ (44,934)

[1] The above table represents financial information since the acquisition date, respectively.

(in millions of Korean won)	2015					
	Assets	**Liabilities**	**Equity**	**Revenue**	**Profit (loss)**	**Comprehensive income (loss)**
Flowgamez	₩ 107	₩ 1,859	₩ (1,752)	₩ 41	₩ (231)	₩ (231)
Adcredit (formerly, Add2paper)	629	49	580	1,100	(204)	(204)
DMS Network, Inc.	892	307	585	200	38	38
Nine Flava	9	206	(197)	3	(2)	(2)
NBT Inc.	27,930	16,155	11,775	58,163	297	297
Tapas Media, Inc.	570	14	556	227	(1,478)	(1,435)
DAUM Venture Fund	23,775	12	23,763	463	(1,250)	(1,250)
UserStory Lab	640	557	83	418	(380)	(380)
DAUM KAKAO PHILIPPINES CORP.	11,273	487	10,786	(14)	(454)	(433)
3Point Inc.	134	291	(157)	100	(563)	(563)
NAVIRO Co.,Ltd. (formerly, DeNA Locations)	8,826	251	8,575	19	(1,615)	(1,063)
HASYS	4,165	366	3,799	1,058	(47)	(19)
MannaCEA	11,931	565	11,366	62	(867)	(867)
NeoBazar	1,305	25	1,280	21	(55)	(55)
Silver Star Games Inc.	-	28	(28)	-	(29)	(29)
Others	104,485	14,468	90,017	43,034	(8,544)	(8,544)
	₩ 196,671	₩ 35,640	₩ 161,031	₩ 104,895	₩ (15,384)	₩ (14,740)

16. Property and Equipment

Changes in property and equipment for the years ended December 31, 2016, 2015 and 2014 are as follows:

	2016						
(in millions of Korean won)	Land	Buildings	Structures	Machinery and equipment	Vehicles	Furniture	Total
Beginning balance	₩ 39,910	₩ 47,317	₩ 260	₩ 106,950	₩ 313	₩ 24,302	₩ 219,052
Acquisition	17,832	6,932	-	37,998	273	19,611	82,646
Changes in scope of consolidation	(1,153)	318	(82)	7,579	27	2,240	8,929
Disposals	-	-	-	(100)	(9)	(445)	(554)
Depreciation	-	(1,410)	(27)	(42,429)	(152)	(12,177)	(56,195)
Transfer	-	-	74	(82)	-	8	-
Currency translation effects	-	-	-	-	-	(24)	(24)
Ending balance	₩ 56,589	₩ 53,157	₩ 225	₩ 109,916	₩ 452	₩ 33,515	₩ 253,854
December 31, 2016							
Acquisition cost	₩ 56,589	₩ 56,432	₩ 280	₩ 216,063	₩ 952	₩ 65,287	₩ 395,603
Government grants	-	-	-	(63)	-	(377)	(440)
Accumulated depreciation	-	(3,275)	(55)	(106,084)	(500)	(31,395)	(141,309)
Net book value	₩ 56,589	₩ 53,157	₩ 225	₩ 109,916	₩ 452	₩ 33,515	₩ 253,854

(in millions of Korean won)	2015						
	Land	Buildings	Structures	Machinery and equipment	Vehicles	Furniture	Total
Beginning balance	₩ 38,655	₩ 47,956	₩ 295	₩ 92,438	₩ 544	₩ 17,006	₩ 196,894
Acquisition	-	9	-	53,516	107	16,962	70,594
Changes in scope of consolidation	1,255	670	105	182	(11)	(34)	2,167
Disposals	-	-	-	(241)	(156)	(1,130)	(1,527)
Depreciation	-	(1,318)	(17)	(38,945)	(171)	(8,648)	(49,099)
Transfer	-	-	(123)	-	-	123	-
Currency translation effects	-	-	-	-	-	23	23
Ending balance	₩ 39,910	₩ 47,317	₩ 260	₩ 106,950	₩ 313	₩ 24,302	₩ 219,052
December 31, 2015							
Acquisition cost	₩ 39,910	₩ 49,015	₩ 302	₩ 168,405	₩ 550	₩ 39,051	₩ 297,233
Government grants	-	(1,698)	(42)	(61,453)	(237)	(14,698)	(78,128)
Accumulated depreciation	-	-	-	(2)	-	(51)	(53)
Net book value	₩ 39,910	₩ 47,317	₩ 260	₩ 106,950	₩ 313	₩ 24,302	₩ 219,052

	2014						
(in millions of Korean won)	**Land**	**Buildings**	**Structures**	**Machinery and equipment**	**Vehicles**	**Furnitures**	**Total**
Beginning balance	₩ -	₩ -	₩ -	₩ 16,153	₩ -	₩ 4,163	₩ 20,316
Acquisition	-	-	-	21,015	18	4,041	25,075
Changes in scope of subsidiaries	-	-	38	-	-	79	117
Increase due to merger	38,655	48,284	261	69,114	575	11,733	168,622
Disposals	-	-	-	(28)	-	(61)	(89)
Depreciation	-	(328)	(4)	(13,810)	(49)	(2,957)	(17,149)
Currency translation effects	-	-	-	(6)	-	8	2
Ending balance	₩ 38,655	₩ 47,956	₩ 295	₩ 92,438	₩ 544	₩ 17,006	₩ 196,894
December 31, 2014							
Acquisition cost	₩ 38,655	₩ 48,284	₩ 306	₩ 115,180	₩ 750	₩ 24,919	₩ 228,094
Accumulated depreciation	-	(328)	(11)	(22,730)	(206)	(7,911)	(31,186)
Government grants	-	-	-	(12)	-	(2)	(14)
Net book value	₩ 38,655	₩ 47,956	₩ 295	₩ 92,438	₩ 544	₩ 17,006	₩ 196,894

As of December 31, 2016, a certain portion of land is pledged as collateral for contract fulfilment (Notes 35).

17. Intangible Assets

Changes in intangible assets for the years ended December 31, 2016, 2015 and 2014 are as follows:

	2016						
(in millions of Korean won)	Goodwill [1]	Development costs	Industrial property rights	Exclusive rights	Membership / Brand	Other intangible assets [2]	Total
Beginning balance	₩1,563,152	₩ 28,033	₩ 32,856	₩ -	₩ 96,355	₩ 135,208	₩ 1,855,604
Acquisition	-	2	606	460	2,609	32,122	35,799
Transfer	-	-	51	-	-	(51)	-
Changes in scope of consolidation	1,476,280	2,675	211	10,911	250,751	168,693	1,909,521
Disposal	-	(2)	-	(5)	(119)	(18)	(144)
Amortization	-	(7,241)	(4,110)	(2,831)	-	(43,401)	(57,583)
Impairment	(6,527)	-	(22)	-	-	(3,644)	(10,193)
Other	-	-	-	(130)	-	-	(130)
Currency translation effects	153	31	25	-	-	83	292
Ending balance	₩3,033,058	₩ 23,498	₩ 29,617	₩ 8,405	₩ 349,596	₩ 288,992	₩ 3,733,166
December 31, 2016							
Acquisition cost	₩3,044,502	₩ 41,751	₩ 38,696	₩ 11,366	₩ 349,596	₩ 359,692	₩ 3,845,603
Accumulated amortization	-	(12,195)	(8,850)	(2,831)	-	(65,892)	(89,768)
Government grants	-	-	(2)	-	-	(7)	(9)
Accumulated impairment	(11,444)	(6,058)	(227)	-	-	(4,801)	(22,530)
Other	-	-	-	(130)	-	-	(130)
Net book value	₩3,033,058	₩ 23,498	₩ 29,617	₩ 8,405	₩ 349,596	₩ 288,992	₩ 3,733,166

[1] The impairment loss on goodwill is recognized for SuperNova11 Corp. and certain other subsidiaries, as the recoverable amount decreased and became less than the carrying amount.

[2] The impairment loss on other intangible assets is recognized from Beijing KAKAO Co., Ltd. and certain other subsidiaries. The Company estimated the recoverable amount as of December 31, 2016, 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.

	2015					
(in millions of Korean won)	Goodwill [1]	Development costs [2]	Industrial property rights	Membership / Brand	Other intangible assets [2]	Total
Beginning balance	₩ 1,419,513	₩ 18,405	₩ 32,879	₩ 96,917	₩ 121,260	₩ 1,688,974
Acquisition	-	-	1,628	-	7,167	8,795
Transfer	-	-	71	-	(71)	-
Changes in scope of consolidation	146,297	19,248	3,234	30	26,794	195,603
Disposal	-	-	(964)	(592)	(1,125)	(2,681)
Amortization	-	(4,282)	(3,839)	-	(18,172)	(26,293)
Impairment	(2,497)	(5,305)	-	-	(1,157)	(8,959)
Currency translation effects	(161)	(33)	(153)	-	512	165
Ending balance	₩ 1,563,152	₩ 28,033	₩ 32,856	₩ 96,355	₩ 135,208	₩ 1,855,604
December 31, 2015						
Acquisition cost	₩ 1,568,069	₩ 39,044	₩ 37,804	₩ 96,355	₩ 158,865	₩ 1,900,137
Accumulated amortization	-	(4,954)	(4,740)	-	(22,491)	(32,185)
Government grants	-	-	(2)	-	(9)	(11)
Accumulated impairment	(4,917)	(6,057)	(206)	-	(1,157)	(12,337)
Net book value	₩ 1,563,152	₩ 28,033	₩ 32,856	₩ 96,355	₩ 135,208	₩ 1,855,604

[1] The impairment loss on goodwill is recognized for Kakao Lab Corp. and certain other subsidiaries as the recoverable amount decreased and became less than the carrying amount due to sales decrease and other reasons.

[2] The impairment loss on development costs and other intangible assets is recognized from Buzzpia Company and certain other subsidiaries. The Company estimated the recoverable amount as of December 31, 2015, 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.

	2014					
(in millions of Korean won)	Goodwill [1]	Development costs	Industrial property rights	Membership / Brand	Other intangible assets	Total
Beginning balance	₩ 487	₩ -	₩ 27	₩ -	₩ 856	₩ 1,370
Acquisition	-	679	115	-	9,383	10,177
Changes in scope of subsidiaries	7,066	464	336	-	1,101	8,967
Increase due to merger	1,414,380	18,613	33,503	96,917	114,194	1,677,607
Transfer	-	73	-	-	53	126
Amortization	-	(672)	(907)	-	(4,327)	(5,906)
Impairment	(2,420)	(752)	(206)	-	-	(3,378)
Currency translation effects	-	-	11	-	-	11
Ending balance	₩ 1,419,513	₩ 18,405	₩ 32,879	₩ 96,917	₩ 121,260	₩ 1,688,974
December 31, 2014						
Acquisition cost	₩ 1,434,532	₩ 19,829	₩ 33,984	₩ 96,917	₩ 125,602	₩ 1,710,864
Accumulated amortization	-	(672)	(899)	-	(4,328)	(5,899)
Government grants	-	-	-	-	(14)	(14)
Accumulated impairment	(15,019)	(752)	(206)	-	-	(15,977)
Net book value	₩ 1,419,513	₩ 18,405	₩ 32,879	₩ 96,917	₩ 121,260	₩ 1,688,974

[1] The impairment loss on goodwill is recognized from Ultra Caption Corporation. As of December 31, 2014, the carrying amount of goodwill has been reduced to its recoverable amount through recognition of an impairment loss since the projects being developed by Ultra Caption Corporation show no expected economic benefit.

The following is a summary of goodwill allocation for cash generating units ("CGU"s) operated by management as of December 31, 2016:

(in millions of Korean won)		**Amount**
Internet portal service and mobile service	₩	1,502,8182
Music service		1,463,653
Other mobile service		25,901
Game business		11,228
Others		29,458
	₩	3,033,058

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 pre-tax cash flow projections based on financial budgets approved by management. Cash flows are estimated using the estimated growth rates stated below. The growth rate during this period and the permanent growth rate surpassing the period does not exceed long-term average growth rate of the business. The key assumptions used for value-in-use calculations are as follows:

	Key assumptions
Operating income rate	4.0% ~ 31.1%
Revenue growth rate	4.2% ~ 65.0%
Perpetual growth rate	2.0%
After-tax discount rate	9.0% ~ 11.1%

Impairment test of CGU of internet portal service and music service suggests that the carrying value of this CGU does not exceed the recoverable amount. As a result of the impairment test of CGUs of other mobile service, game business and others, the Company recognized ₩6,527 million, ₩2,497 million and ₩2,419 million of impairment loss for the years ended December 31, 2016, 2015 and 2014, respectively.

18. Borrowings

Short-term borrowings as of December 31, 2016 and 2015, are as follows:

(in millions of Korean won)

Classification	Lender	Interest rate as of December 31, 2016	2016	2015
Commercial paper	Samsung securities Co., Ltd., Korea Investment & Securities Co., Ltd.	1.60%	₩ 200,000	₩ -
Bank loans for small and medium enterprises	Industrial Bank of Korea	2.87%	100	100
Bank loans for working capital	Industrial Bank of Korea	-	-	500
Loans for working capital	HONGKONG QIANQI NETWORK TECHNOLOGY CO., LIMITED	-	-	529
General loans for working capital	KEB Hana Bank	2.26%	80	-
Loans for operation capital	Employees of subsidiaries	-	44	-
Bank loans for equipment	Industrial Bank of Korea	-	-	1,430
Bank loans for small and medium enterprises	Industrial Bank of Korea	-	-	500
Bank loans for small and medium enterprises	Industrial Bank of Korea	-	-	200
Bank loans for technology creation enterprises	KB Kookmin Bank	-	-	500
Redeemable convertible preferred shares [1,2]	Preferred shareholders		3,676	18,296
			₩ 203,900	₩ 22,055

[1] Redeemable convertible preferred shares are issued by subsidiaries and their redemption rights are exercisable as of December 31, 2016.
[2] As of December 31, 2015, the Company held redeemable convertible preferred shares issued by two subsidiaries; Kakao Games Corp (formerly, NZIN Corp.) and Podotree Inc. During 2016, the redeemable convertible preferred shares issued by Podotree Inc. have been converted into ordinary shares of Podotree Inc..

Details of redeemable convertible preferred shares issued by two subsidiaries as of December 31, 2016, are as follows:

	Issuer	
	Kakao Games Corp. (formerly, NZIN Corp.)	Peoplug Inc.
Date of issue	October 2015	August 2013
Value at issue *(in millions of Korean won)*	₩ 10,001	₩ 300
Dividend rate for preferred shares	1% of par value	1% of issue value
Guaranteed yield upon redemption	8%	10%
Conversion period	For 10 years from issuance date	From the day after issuance date to the day before 10 years from issuance date
Conversion rate	1 preferred share for 1 common share	1 preferred share for 1 common share
Redemption period	Redeemable from one year after issuance date	Redeemable from three years after issuance date

These preferred shares are mandatorily redeemable at their par value plus its annual premium minus dividends paid before the redemption. In relation to these preferred shares, interest expense is recorded as finance costs in the consolidated statement of comprehensive income using effective interest rate method.

These redeemable convertible preferred shares are classified as liabilities. The early redemption right and the conversion right are recorded as derivative financial liabilities in the case that they are considered as an embedded derivative which meets certain criteria accounting for separately from the host contract.

Long-term borrowings and corporate bonds as of December 31, 2016 and 2015, are as follows:

(in millions of Korean won)

Classification	Lender	Maturity date	Interest rate as of December 31, 2016	2016	2015
Long-term borrowings					
Borrowing for establishing childcare facilities in the workplace	Woori Bank	September, 2023	2.00%	₩ 250	₩ 250
Bank loans for small and medium enterprises	Small & medium Business Corporation	May, 2017	1.42%	42	142
				292	392
Less: Current portion				(42)	(100)
Subtotal				250	292
Corporate bonds[1]	Public offering (7th non-guaranteed public bonds)	December, 2018	2.42%	170,000	200,000
	Private offering (8th non-guaranteed private bonds)	March, 2019	2.08%	50,000	-
	Public offering (9-1th non-guaranteed public bonds)	April, 2019	1.97%	60,000	-
	Public offering (9-2th non-guaranteed public bonds)	April, 2021	2.3%	40,000	-
Less: Discount on issuance of bonds				(745)	(617)
Subtotal				319,255	199,383
Convertible bonds	Private offering (10th non-guaranteed private convertible bonds)	April, 2021	0.0%	250,000	-
Less: Discount on issuance of bonds				(1,072)	-
Subtotal				248,928	-
Exchangeable bonds	Private offering (11th US dollar-settled zero coupon guaranteed exchangeable bonds denominated in Korean won)	May, 2021	0.0%	230,000	-
Less: Discount on issuance of bonds				(2,806)	-
Subtotal				227,194	-
Redeemable convertible preferred shares [2]				300	-
Total				₩ 795,927	₩ 199,675

[1] During 2016, the Company redeemed corporate bonds from public offerings (₩30 billion from 7th, ₩120 billion from 9-1 th, and ₩30 billion from 9-2th offerings) and private offerings (₩20 billion from 8th) before their original maturity dates, and recognized loss on redemption of bonds amounting to ₩2,575 million as finance costs.

[2] The redeemable convertible preferred shares issued by a subsidiary are classified as non-current as the redemption rights granted to the holders are not exercisable within one year from December 31, 2016.

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

		Detail
Type		Non-guaranteed private convertible bonds
Principal amount		₩250,000 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	₩120,014 (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 such as capital increase with/without consideration and others
Investor's 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.

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

		Details
Type		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	₩104,933 (per share)
	Exchange into	Shares of common stock, par value ₩500 per share, of LOEN ENTERTAINMENT, INC., which are listed on the KRX KOSDAQ Market
	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 such as capital increase with/without consideration, cash dividends on the share of LOEN ENTERTAINMENT, INC. and others
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 LOEN ENTERTAINMENT, INC., 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 on the KRX KOSDAQ Market
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 30th 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 of December 31, 2016, the Company has received payment guarantees from KB Kookmin Bank for the exchangeable bonds. In connection with the said payment guarantees, 2,529,171 ordinary shares of LOEN ENTERTAINMENT INC. held by the Parent Company and the stock return rights for the remaining shares subject to exchange are provided as collateral.

The Company has been provided the guarantee by the CEOs of subsidiaries and two financial institutions including Korea Technology Finance Corporation in relation to the borrowings above (Notes 35).

19. Net Defined Benefit Liabilities

Net defined benefit liabilities recognized in the consolidated statements of financial position as of December 31, 2016 and 2015, are as follows:

(in millions of Korean won)	2016	2015
Present value of funded defined benefit obligation	₩ 65,125	₩ 46,095
Fair value of plan assets	(63,685)	(37,784)
Liability in the consolidated statements of financial position	₩ 1,440	₩ 8,311

Changes in the defined benefit obligations for the years ended December 31, 2016, 2015 and 2014 are as follows:

(in millions of Korean won)	2016	2015	2014
Beginning balance	₩ 46,095	₩ 26,686	₩ -
Increase due to change in scope of consolidation	7,061	1,780	-
Increase due to merger	-	-	22,077
Current service cost	20,479	15,740	3,764
Interest cost	1,284	808	182
Remeasurement	(2,213)	3,704	937
Benefits paid	(6,466)	(2,621)	(274)
Transfer to defined contribution obligations	(1,115)	(2)	-
Ending balance	₩ 65,125	₩ 46,095	₩ 26,686

Changes in the fair value of plan assets for the years ended December 31, 2016, 2015 and 2014 are as follows:

(in millions of Korean won)	2016	2015	2014
Beginning balance	₩ 37,784	₩ 23,325	₩ -
Increase due to change in scope of consolidation	6,498	48	-
Increase due to merger	-	-	8,059
Interest income	972	653	71
Contribution	24,881	16,266	15,602
Payments from plans	(6,323)	(2,468)	(381)
Remeasurement:			
Actuarial loss	(127)	(40)	(26)
Ending balance	₩ 63,685	₩ 37,784	₩ 23,325

The amounts recognized in the consolidated statements of comprehensive income for the years ended December 31, 2016, 2015 and 2014 are as follows:

(in millions of Korean won)	2016	2015	2014
Current service cost	₩ 20,479	₩ 15,740	₩ 3,764
Net interest cost	312	155	111
	₩ 20,791	₩ 15,895	₩ 3,875

Total service cost from defined benefit plan amounting to ₩20,791 million, ₩15,895 million and 3,875 million is included in operating expenses for the years ended December 31, 2016, 2015 and 2014, respectively. In addition, total service cost from defined contribution plan was ₩4,050 million, ₩2,457 million and ₩2,387 million for the years ended December 31, 2016, 2015 and 2014, respectively.

Principal assumptions on actuarial valuation as of December 31, 2016, 2015 and 2014 are as follows:

	2016	2015	2014
Discount rate	2.2% ~ 3.5%	2.3% ~ 3.4%	3.2%
Salary growth rate	5.0% ~ 6.0%	5.0% ~ 7.0%	5.0% ~ 7.0%

The sensitivity analysis of the defined benefit obligations as of December 31, 2016 to changes in the weighted principal assumptions is:

		Effect on defined benefit obligations	
	Changes in principal assumption	Increase in principal assumption	Decrease in principal assumption
Discount rate	1%	7% decrease	8% increase
Salary growth rate	1%	8% increase	7% 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 of December 31, 2016 and 2015 consist of the following:

(in millions of Korean won)	2016	2015
Equity linked bond	₩ 13,330	₩ 7,736
Time deposits	23,065	16,093
Financial instruments with fixed rate	27,290	13,955
	₩ 63,685	₩ 37,784

20. Other Long-term Employee Benefits Liabilities

Changes in other long-term employee benefits liabilities for the years ended December 31, 2016, 2015 and 2014 are as follows:

(in millions of Korean won)	2016	2015	2014
Beginning balance	₩ 24,968	₩ 20,027	₩ -
Increase due to change in scope of consolidation	266	24	-
Increase due to merger	-	-	19,328
Current service cost	7,817	6,450	884
Interest cost	566	582	113
Remeasurement of the benefit liabilities	(2,218)	314	174
Benefits paid	(3,179)	(2,429)	(472)
Ending balance	₩ 28,220	₩ 24,968	₩ 20,027

The amounts recognized on the consolidated statements of comprehensive income for the years ended December 31, 2016, 2015 and 2014 are as follows:

(in millions of Korean won)	2016	2015	2014
Current service cost	₩ 7,817	₩ 6,450	₩ 884
Interest cost	566	582	113
Remeasurement of the benefit liabilities	(2,218)	314	174
	₩ 6,165	₩ 7,346	₩ 1,171

Principal assumptions on actuarial valuation in relation to other long-term employee benefits liabilities for the years ended December 31, 2016, 2015 and 2014 are as follows:

	2016	2015	2014
Discount rate	2.2% ~ 2.8%	2.3% ~ 2.6%	3.2%
Salary growth rate	5.0% ~ 6.0%	5.0% ~ 7.0%	5.0% ~ 7.0%

21. Income Tax Expense and Deferred Tax

Income tax expense for the years ended December 31, 2016, 2015 and 2014 consists of:

(in millions of Korean won)	2016	2015	2014
Current tax:			
Current tax on profit for the year	₩ 48,596	₩ 37,907	₩ 19,405
Adjustments due to changes in estimates related to prior years	-	6,143	17
Current income tax directly recognized in equity	-	(3,247)	486
	48,596	40,803	19,908
Deferred tax:			
Changes in temporary differences	(13,756)	(10,025)	(900)
Income tax expense	₩ 34,840	₩ 30,778	₩ 19,008

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, 2016, 2015 and 2014 follows:

(in millions of Korean won)	2016	2015	2014
Profit before income tax	₩ 100,296	₩ 109,543	₩ 168,829
Income tax expense computed at statutory tax rate	23,810	26,047	40,395
Adjustments:			
Non-taxable income	(43)	(15)	(1)
Non-deductible expenses	3,417	664	882
Changes in valuation allowance of deferred income tax asset	10,320	4,699	(2,652)
Adjustments due to changes in estimates related to prior years	-	6,143	964
Tax credits	(2,664)	(6,760)	(20,580)
Income tax expense	₩ 34,840	₩ 30,778	₩ 19,008

Income tax effects related to components of other comprehensive income (expenses) for the years ended December 31, 2016, 2015 and 2014 are as follows:

(in millions of Korean won)	2016			2015			2014		
	Before tax	Tax effect	After tax	Before Tax	Tax effect	After tax	Before Tax	Tax effect	After tax
Other comprehensive income (expense):									
Gain on valuation of available-for-sale securities	₩ (5,138)	₩ 1,243	₩ (3,895)	₩ 1,449	₩ (351)	₩ 1,098	₩ 3,479	₩ (842)	₩ 2,637
Remeasurement of the net defined benefit liabilities	4,370	(1,058)	3,312	(4,894)	1,182	(3,712)	(963)	208	(755)
Share of other comprehensive income of associates	535	26	561	429	-	429	-	-	-
	₩ (233)	₩ 211	₩ (22)	₩ (3,016)	₩ 831	₩ (2,185)	₩ 2,516	₩ (634)	₩ 1,882

Income tax credited (charged) directly to equity for the years ended December 31, 2016, 2015 and 2014 are as follows:

(in millions of Korean won)	2016			2015			2014		
	Before tax	Tax effect	After tax	Before Tax	Tax effect	After tax	Before Tax	Tax effect	After tax
Other components of equity									
Loss on disposal of treasury shares	₩ -	₩ -	₩ -	₩ (5,831)	₩ 1,411	₩ (4,420)	₩ (2,007)	₩ 486	₩ (1,521)
Shares donated by shareholders	-	-	-	19,250	(4,658)	14,592	-	-	-
	₩ -	₩ -	₩ -	₩ 13,419	₩ (3,247)	₩ 10,172	₩ (2,007)	₩ 486	₩ (1,521)

Deferred tax assets (liabilities) recognized in the consolidated statements of financial position as of December 31, 2016 and 2015, are as follows:

(in millions of Korean won)		**2016**		**2015**
Deferred tax assets				
Deferred tax assets to be recovered after more than 12 months	₩	40,634	₩	26,428
Deferred tax assets to be recovered within 12 months		20,184		11,367
		60,818		37,795
Deferred tax liabilities				
Deferred tax liabilities to be settled after more than 12 months		(179,640)		(84,757)
Deferred tax liabilities to be settled within 12 months		(6,069)		(341)
		(185,709)		(85,098)
Deferred tax liabilities, net	₩	(124,891)	₩	(47,303)

The gross movement in the deferred tax assets (liabilities) for the years ended December 31, 2016, 2015 and 2014 are as follows:

(in millions of Korean won)		**2016**		**2015**		**2014**
Beginning balance	₩	(47,303)	₩	(47,198)	₩	3,314
Changes in scope of consolidation		(91,556)		(10,961)		(415)
Effect due to merger		-		-		(50,363)
Deferred income tax charged to profit or loss		13,756		10,025		900
Deferred income tax charged to other comprehensive income		212		831		(634)
Ending balance	₩	(124,891)	₩	(47,303)	₩	(47,198)

Changes in deferred income tax assets and liabilities for the years ended December 31, 2016, 2015 and 2014 without taking into consideration the offsetting of balances within the same tax jurisdiction are as follows:

(in millions of Korean won)

	2016				
	Beginning balance	Changes in scope of consolidation	Statement of profit or loss	Other comprehensive income	Ending balance
Deferred tax liabilities					
Accrued revenue	₩ (341)	₩ (248)	₩ 96	₩ -	₩ (493)
Property and equipment	(5,824)	-	-	-	(5,824)
Intangible assets	(60,621)	(98,373)	6,714	-	(152,280)
Non-trade receivables	(4,408)	-	-	-	(4,408)
Available-for-sale securities	(1,542)	(35)	85	-	(1,492)
Plan assets	(8,899)	(1,439)	(3,919)	-	(14,257)
Treasury shares	(85)	-	-	-	(85)
Non-refundable tax	(1,518)	-	349	-	(1,169)
Others	(1,860)	(3,203)	(638)	-	(5,701)
	(85,098)	(103,298)	2,687	-	(185,709)
Deferred tax assets					
Property and equipment	1,026	-	(1,015)	-	11
Advances from customers	893	-	1,433	-	2,326
Intangible assets	390	1,459	59	-	1,908
Allowance for doubtful accounts	8,553	3,242	(639)	-	11,156
Investments in associates	461	-	4,140	26	4,627
Other payables	87	3,731	2,781	-	6,599
Provisions	951	26	200	-	1,177
Government grants	57	-	46	-	103
Defined benefit liabilities	10,091	1,478	3,859	(1,058)	14,370
Other long-term employee benefits liabilities	6,249	84	515	-	6,848
Available-for-sale securities	2,601	224	(1,978)	1,243	2,090
Derivative instruments	1,834	-	(1,834)	-	-
Others	4,602	1,499	3,502	-	9,603
	37,795	11,743	11,069	211	60,818
Deferred tax assets (liabilities), net	₩ (47,303)	₩ (91,555)	₩ 13,756	₩ 211	₩ (124,891)

(in millions of Korean won)

	2015				
	Beginning balance	Changes in scope of consolidation	Statement of profit or loss	Other comprehensive income	Ending balance
Deferred tax liabilities					
Accrued revenue	₩ (351)	₩ 1	₩ 9	₩ -	₩ (341)
Property and equipment	(5,824)	-	-	-	(5,824)
Intangible assets	(56,548)	(8,089)	4,016	-	(60,621)
Non-trade receivables	(4,408)	-	-	-	(4,408)
Available-for-sale securities	(1,523)	-	332	(351)	(1,542)
Plan assets	(5,468)	-	(3,431)	-	(8,899)
Treasury shares	(2,674)	-	2,589	-	(85)
Non-refundable tax	-	-	(1,518)	-	(1,518)
Others	(326)	-	(1,534)	-	(1,860)
	(77,122)	(8,088)	463	(351)	(85,098)
Deferred tax assets					
Property and equipment	1,080	-	(54)	-	1,026
Advances from customers	1,956	-	(1,063)	-	893
Intangible assets	1,010	-	(619)	-	391
Allowance for doubtful accounts	8,474	(71)	150	-	8,553
Investments in associates	-	-	461	-	461
Other payables	858	(370)	(400)	-	88
Provisions	514	-	438	-	952
Government grants	141	-	(84)	-	57
Defined benefit liabilities	5,561	-	3,349	1,182	10,092
Other long-term employee benefits liabilities	5,581	-	668	-	6,249
Available-for-sale securities	193	(5)	2,413	-	2,601
Derivative instruments	1,519	-	314	-	1,833
Others	3,037	(2,427)	3,989	-	4,599
	29,924	(2,873)	9,562	1,182	37,795
Deferred tax assets (liabilities), net	₩ (47,198)	₩ (10,961)	₩ 10,025	₩ 831	₩ (47,303)

(in millions of Korean won)

	2014					
	Beginning balance	Increase due to merger	Changes in scope of subsidiaries	Income statement	Other comprehensive income	Ending balance
Deferred tax liabilities						
Accrued revenue	₩ (217)	₩ (447)	₩ -	₩ 313	₩ -	₩ (351)
Property and equipment	-	(5,824)	-	-	-	(5,824)
Intangible assets	-	(57,024)	(415)	892	-	(56,547)
Non-trade receivables	-	(4,408)	-	-	-	(4,408)
Available-for-sale securities	-	(567)	-	(114)	(842)	(1,523)
Plan assets	-	(1,897)	-	(3,591)	-	(5,488)
Treasury stock	-	(5,430)	-	2,756	-	(2,674)
Others	-	(313)	-	7	-	(306)
	(217)	(75,910)	(415)	263	(842)	(77,121)
Deferred tax assets						
Property and equipment	6	1,169	-	(141)	-	1,034
Advances from customers	836	264	-	856	-	1,956
Intangible assets	-	1,039	-	(29)	-	1,010
Allowance for doubtful accounts	-	8,272	-	202	-	8,474
Other payables	1,840	1,464	-	(2,446)	-	858
Provisions	43	81	-	389	-	513
Government grant	-	205	-	(64)	-	141
Defined benefit liability	-	4,774	-	579	208	5,561
Other long-term employee benefits liability	807	3,439	-	1,335	-	5,581
Available-for-sale securities	-	78	-	115	-	193
Derivative instruments	-	1,613	-	(94)	-	1,519
Others	-	3,149	-	(65)	-	3,084
	3,532	25,547	-	637	208	29,924
Deferred income tax assets (liabilities), net	₩ 3,315	₩ (50,363)	₩ (415)	₩ 900	₩ (634)	₩ (47,197)

The Company did not recognize deferred income tax asset of ₩30,679 million, ₩27,574 million and ₩22,875 as of December 31, 2016, 2015 and 2014, respectively, related to the investments in subsidiaries and associates.

As of December 31, 2016, unrecognized deductible temporary differences as deferred tax assets arising from subsidiaries' net loss carryforwards and others amount to ₩14,003 million.

22. Provisions

Changes in provisions for the years ended December 31, 2016 , 2015 and 2014 are as follows:

	2016			
(in millions of Korean won)	Current	Non-current		
	Provision for mileage	Provision for business losses[1]	Provision for restoration	Total
Beginning balance	₩ 1,149	₩ 336	₩ 3,066	₩ 4,551
Addition	6,149	—	709	6,858
Utilization	(5,948)	—	(13)	(5,961)
Ending balance	₩ 1,350	₩ 336	₩ 3,762	₩ 5,448

	2015			
(in millions of Korean won)	Current	Non-current		
	Provision for mileage	Provision for business losses[1]	Provision for restoration	Total
Beginning balance	₩ 1,364	₩ 336	₩ 1,465	₩ 3,165
Addition	1,920	—	2,005	3,925
Utilization	(2,135)	—	(404)	(2,539)
Ending balance	₩ 1,149	₩ 336	₩ 3,066	₩ 4,551

	2014			
(in millions of Korean won)	Current	Non-current		
	Provision for mileage	Provision for business losses[1]	Provision for restoration	Total
Beginning balance	₩ -	₩ -	₩ 665	₩ 665
Increase due to merger	294	336	204	834
Addition	1,840	-	596	2,436
Utilization	(770)	-	-	(770)
Ending balance	₩ 1,364	₩ 336	₩ 1,465	₩ 3,165

[1] Related to the stock disposal agreement with Ergo Daum Direct General Insurance Co., Ltd. (Note 35).

23. Derivative Financial Instruments

The carrying amounts of derivative financial assets as of December 31, 2016 and 2015, are as follows:

(in millions of Korean won)	2016	2015
Redemption right (NBT Inc.)[1]	₩ 217	₩ 217
Derivatives Linked Securities	2,023	5,024
Redemption right (Bluehole Inc.)[2]	1,702	-
Total	₩ 3,942	₩ 5,241

[1] Redemption right granted to preferred shares of NBT Inc. owned by the Company with redemption exercise period from June 28, 2015 to June 28, 2023. The guaranteed yield on the redemption premium is 8% per annum.

[2] Redemption right granted to preferred shares of Bluehole Inc. owned by the Company with redemption exercise period from October 19, 2018 to October 19, 2026. The Company may request redemption of either all or portion of the preferred shares, and the guaranteed yield on the redemption premium is 8% per annum.

Derivative financial liabilities amounting to ₩7,375 million and ₩8,504 million as of December 31, 2016 and 2015, respectively, are related to the conversion and early redemption rights associated with the redeemable convertible preferred shares issued by the subsidiaries (Note 18).

24. Share Capital and Share Premium

As of December 31, 2016, the Parent Company's total number of authorized shares is 150 million and the total number of issued and outstanding ordinary shares are 67,715,715 and 67,615,715, 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 up to 15% of total number of issued stocks. As of December 31, 2016, the number of outstanding stock options is 394,124 shares (Note 25).

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 and ₩200 billion respectively to investors other than current shareholders, with the resolution of the board of directors. As of December 31, 2016, the Parent Company has issued convertible bonds amounting to ₩250,000 million (Note 18).

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 25% of the total number of shares issued. The Parent Company has only issued ordinary shares and no other classes having the above conditions as of December 31, 2016.

Changes in share capital and additional paid-in capital during the years ended December 31, 2016 and 2015 are as follows:

(in millions of Korean won, except number of shares)	Description	Number of ordinary shares	Share capital	Additional paid-in capital	Total
At January 1, 2015	Beginning balance	58,242,204	₩ 29,121	₩2,258,965	₩ 2,288,086
At February 3, 2015	Exercise of stock options	832,027	416	3,302	3,718
At March 3, 2015	Exercise of stock options	149,823	75	608	683
At March 25, 2015	Exercise of stock options	204,435	102	1,808	1,910
At May 4, 2015	Exercise of stock options	294,671	147	4,545	4,692
At June 1, 2015	Exercise of stock options	262,395	131	2,779	2,910
At June 29, 2015	Exercise of stock options	22,000	11	316	327
At July 28, 2015	Exercise of stock options	35,329	18	351	369
At August 26, 2015	Exercise of stock options	60,872	30	955	985
At September 23, 2015	Exercise of stock options	10,900	6	25	31
At November 2, 2015	Exercise of stock options	15,500	8	208	216
At November 26, 2015	Exercise of stock options	65,532	33	660	693
At December 21, 2015	Exercise of stock options	400	-	16	16
At December 31, 2015	Ending balance	60,196,088	₩ 30,098	₩2,274,538	₩ 2,304,636
At January 1, 2016	Beginning balance	60,196,088	₩ 30,098	₩2,274,538	₩ 2,304,636
At January 11, 2016	Exercise of stock options	70,000	35	9	44
At February 15, 2016	Exercise of stock options	221,567	111	4,074	4,185
At March 2, 2016	Exercise of stock options	138,214	69	4,175	4,244
At March 17, 2016	Issue of new shares [1]	6,913,339	3,457	754,226	757,683
At April 5, 2016	Exercise of stock options	18,333	9	295	304
At May 2, 2016	Exercise of stock options	550	-	8	9
At June 16, 2016	Exercise of stock options	52,851	26	458	484
At July 18, 2016	Exercise of stock options	1,000	1	8	8
At September 5, 2016	Exercise of stock options	13,170	7	130	137
At October 14, 2016	Exercise of stock options	78,775	39	596	635
At November 9, 2016	Exercise of stock options	11,828	6	90	96
At December 31, 2016	Ending balance	67,715,715	₩ 33,858	₩3,038,607	₩ 3,072,465

[1] In connection with the acquisition of LOEN ENTERTAINMENT, INC., a part of the acquisition consideration was paid by issuing the Parent Company's own equity instruments.

Prior to 2014, 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.

25. Share-based compensation

Details of stock options as of December 31, 2016, 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:
  3rd - 6th tranches: The requisite service period is two years, exercisable from two to seven years after grant date.

8th, 10th, 12th, 14th, 16th tranches : The requisite service period is two years, exercisable from two to seven years after grant date.
9th, 11th, 13th, 17th 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:
  1st - 2nd tranches: The requisite service period is two years, exercisable from two years to four years after grant date.

Details of equity-settled stock options outstanding as of December 31, 2016, are as follows:

			Number of shares				
Tranche	Grant date	Exercise price (in Korean won)	Outstanding as of January 1, 2016	Forfeited	Exercised	Outstanding as of December 31, 2016	Exercisable as of December 31, 2016
3rd	May 20, 2010	₩ 500	235,641	-	(141,641)	94,000	94,000
4th	March 25, 2011	1,607	56,443	-	(22,666)	33,777	33,777
5th	June 10, 2011	1,607	69,142	-	(27,822)	41,320	41,320
6th	November 11, 2011	6,428	193,768	-	(125,547)	68,221	68,221
8th	January 20, 2012	7,714	2,555	-	(2,555)	-	-
9th	January 20, 2012	7,714	35,000	-	(18,000)	17,000	17,000
10th	March 30, 2012	10,285	14,132	-	(4,855)	9,277	9,277
11th	March 30, 2012	10,285	10,000	-	(9,000)	1,000	1,000
12th	August 31, 2012	12,857	94,100	-	(44,163)	49,937	49,937
13th	August 31, 2012	12,857	37,655	-	(22,403)	15,252	15,252
14th	December 14, 2012	12,857	23,987	-	(12,555)	11,432	11,432
16th	March 28, 2013	32,143	72,441	-	(21,533)	50,908	50,908
17th	March 28, 2013	32,143	155,548	-	(153,548)	2,000	2,000
			1,000,412	-	(606,288)	394,124	394,124

In addition to the aforementioned stock options, the Company granted equity-settled stock options in relation to the shares of its subsidiaries such as Podotree Inc., Kids Note Co., Ltd., K Venture Group, Sellit Inc., Kakao Games Corp. (formerly, NZIN Corp.), PATH MOBILE INC. PTE. LTD., Valuepotion and TNK Factory.

Compensation costs of equity-settled stock options are calculated by applying a fair value approach using Black-Scholes 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[1]	Expected dividends	Expected maturity	Risk free Interest rate
3rd	₩ 207	₩ 600	59%	0%	2 years	3.43%
4th	625	2,500	40%	0%	2 years	3.61%
5th	602	2,500	38%	0%	2 years	3.61%
6th	2,527	10,000	41%	0%	2 years	3.39%
9th	3,981	12,000	44%	0%	3 years	3.40%
10th	3,984	16,000	40%	0%	2 years	3.52%
11th	5,055	16,000	41%	0%	3 years	3.55%
12th	4,991	20,000	41%	0%	2 years	2.77%
13th	6,090	20,000	40%	0%	3 years	2.76%
14th	5,188	20,000	43%	0%	2 years	2.86%
16th	12,719	50,000	42%	0%	2 years	2.46%
17th	14,770	50,000	40%	0%	3 years	2.44%

[1] The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of weekly share prices of listed corporations in the similar line of industry over expected maturity period.

Details of cash-settled stock options outstanding as of December 31, 2016, are as follows:

			Number of shares			
Tranche	Grant date	Exercise price (in Korean won)	Outstanding as of January 1, 2016	Exercised	Outstanding as of December 31, 2016	Exercisable as of December 31, 2016
1st	July 31, 2013	₩ 32,143	17,413	8,333	9,080	9,080
2nd	October 31, 2013	50,144	7,777	-	7,777	7,777
			25,190	8,333	16,857	16,857

In addition to the aforementioned stock options, the Company granted cash-settled stock options on shares of Locnall Inc., one of its subsidiaries.

The fair value of cash-settled stock options was determined using Black-Scholes option pricing model. As of December 31, 2016, the cash-settled stock options are vested and exercisable.

Share-based compensation recognized as expenses for the years ended December 31, 2016, 2015 and 2014 are as follows:

(in millions of Korean won)	2016	2015	2014
Equity-settled stock option[1]	₩ 1,774	₩ 1,197	₩ 2,948
Cash-settled stock option[2]	(1,284)	754	2,618
	₩ 490	₩ 1,951	₩ 5,566

[1] Amounts for 2016 include ₩1,733 million of share-based compensation recognized as expenses for the shares of subsidiaries.

[2] Amounts for 2016 include ₩(1,103) million of share-based compensation recognized as gain for the shares of subsidiaries.

26. Other Components of Equity

Other components of equity as of December 31, 2016 and 2015, are as follows:

(in millions of Korean won)	2016	2015
Other capital adjustments	₩ (5,430)	₩ (5,430)
Treasury shares	(798)	(798)
Losses on disposal of treasury shares	(5,941)	(5,941)
Stock options	937	3,137
	₩ (11,232)	₩ (9,032)

As of December 31, 2016, the Parent Company holds 5,188 shares of treasury shares in the amount of ₩798 million.

27. Accumulated Other Comprehensive Income

Accumulated other comprehensive income as of December 31, 2016 and 2015, consists of:

(in millions of Korean won)	2016	2015
Gain on valuation of available-for-sale securities, net of tax	₩ 721	₩ 3,735
Translation adjustments, net of tax	377	948
Shares of other comprehensive income of associates, net of tax	895	603
Remeasurement of defined benefit obligation, net of tax	(1,073)	(4,457)
	₩ 920	₩ 829

Changes in accumulated other comprehensive income for the year ended December 31, 2016, are as follows:

(in millions of Korean won)	Beginning balance	Increase (Decrease)	Reclassified to profit and loss	Ending balance
Gain on valuation of available-for-sale securities, net of tax	₩ 3,735	₩ (3,014)	₩ -	₩ 721
Translation adjustments, net of tax	948	(571)	-	377
Shares of other comprehensive income of associates, net of tax	603	801	(509)	895
Remeasurement of defined benefit obligation, net of tax	(4,457)	3,384	-	(1,073)
	₩ 829	₩ 600	₩ (509)	₩ 920

28. Retained Earnings

Retained earnings as of December 31, 2016 and 2015, are as follows:

(in millions of Korean won)	2016	2015
Legal reserve[1]	₩ 5,422	₩ 4,418
Retained earnings before appropriation	298,531	251,895
	₩ 303,953	₩ 256,313

[1] 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.

29. Operating Expenses

Operating expenses for the years ended December 31, 2016, 2015 and 2014, are as follows:

(in millions of Korean won)	2016	2015	2014
Salaries	₩ 273,176	₩ 200,083	₩ 95,790
Retirement benefit expense	24,841	18,352	6,262
Compensation cost of share-based payments	489	1,951	5,566
Welfare	54,099	51,054	15,254
Travel and transportation expense	5,431	5,220	2,286
Taxes and dues	4,183	2,993	1,777
Rental expense	21,928	12,717	7,541
Commission	514,631	234,967	77,787
Advertising expense	83,753	56,839	28,887
Bad debt expense (reversal)	(1,159)	1,504	1,583
Depreciation	56,195	49,099	17,149
Amortization	57,584	26,293	5,906
Advertising agency fee	83,527	105,615	38,434
Cost of goods	59,698	7,830	4,601
Contents fee	79,731	48,171	7,111
Expenses for events	1,786	1,190	2,073
Others	28,205	19,686	4,424
	₩ 1,348,098	₩ 843,564	₩ 322,431

30. Other Non-Operating Income and Expenses

Details of other non-operating income and expenses for the years ended December 31, 2016, 2015 and 2014 are as follows:

(in millions of Korean won)	2016	2015	2014
Other non-operating income			
Gain on disposal of property and equipment	₩ 228	₩ 167	₩ 28
Gain on disposal of intangible assets	230	134	-
Gain on disposal of equity method investments	12,380	17,245	783
Gain on foreign currency transactions	599	437	207
Gain on foreign currency translation	1,020	277	39
Rent income	22	7	-
Reversal of allowance for doubtful accounts	-	582	-
Gain on disposal of other assets	1,135	157	-
Gain on exemption of debt	3,417	-	-
Miscellaneous income	6,226	6,192	594
	₩ 25,257	₩ 25,198	₩ 1,651
Other non-operating expenses			
Loss on disposal of property and equipment	₩ 132	₩ 122	₩ 18
Loss on disposal of intangible assets	7	1,194	-
Loss on abandonment of property and equipment	120	335	15
Impairment losses on intangible assets	10,193	8,959	3,378
Impairment losses on other assets	4,130	-	-
Impairment losses on equity method investments	2,203	2,341	-
Donations	4,064	5,920	1,404
Service fees	1,885	3,517	3,903
Loss on foreign currency transactions	1,241	923	561
Loss on foreign currency translation	253	111	45
Loss on disposal of equity method investments	322	-	2,186
Miscellaneous losses	6,856	2,555	1,636
	₩ 31,406	₩ 25,977	₩ 13,146

31. Finance Income and Costs

Finance income and Costs for the years ended December 31, 2016, 2015 and 2014 are as follows:

(in millions of Korean won)	2016	2015	2014
Finance income			
Interest income	₩ 9,492	₩ 10,953	₩ 5,995
Dividend income	659	83	-
Gain on valuation of derivatives	22	2,412	388
Gain on transactions of derivatives	69	-	-
Gain on disposal of available-for-sale securities	231	14,792	-
Gain on foreign currency transactions	5,853	18	3
Gain on foreign currency translation	8,347	1,646	252
	₩ 24,673	₩ 29,904	₩ 6,638
Finance costs			
Interest expense	₩ 14,308	₩ 836	₩ 41
Loss on disposal of available-for-sale securities	217	-	8
Loss on valuation of derivative financial instruments	288	1,299	-
Loss on foreign currency transactions	1,560	312	18
Loss on foreign currency translation	4,921	241	62
Loss on redemption of bonds	2,575	-	-
Impairment losses on available-for-sale securities	109	1,009	-
Others	1	-	-
	₩ 23,979	₩ 3,697	₩ 129

32. 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, 2016, 2015 and 2014 is calculated as follows:

(in millions of Korean won, except per share data)	2016	2015	2014
Net income attributable to equity holders of the Parent Company	₩ 57,674	₩ 75,666	₩ 150,105
Weighted average number of ordinary shares outstanding	66,014,260	59,636,863	46,283,596
Basic earnings per share	₩ 874	₩ 1,269	₩ 3,243

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 and convertible bonds as dilutive potential ordinary shares.

Diluted earnings per share for the years ended December 31, 2016, 2015 and 2014, is calculated as follows:

(in millions of Korean won, except per share data)	2016	2015	2014
Profit attributable to equity holders of the Parent Company	₩ 57,674	₩ 75,666	₩ 150,105
Interest cost for convertible bonds	135	-	-
	57,809	75,666	150,105
Weighted average number of ordinary shares outstanding	66,014,260	59,636,863	46,283,596
Adjustment for:			
Stock options	514,310	2,394,485	3,630,855
Convertible bonds	1,491,174	-	-
Weighted average number of diluted potential ordinary shares	2,005,484	2,394,485	3,630,855
Weighted average number of ordinary shares for diluted earnings per share	68,019,744	62,031,348	49,914,451
Diluted earnings per share	₩ 850	₩ 1,220	₩ 3,007

33. Dividends

Dividends paid by the Parent Company for the years ended December 31, 2016 and 2015, are ₩10,035 million (₩167 per share) and ₩10,030 million (₩173 per share), respectively.

The dividend to the shareholders of the Parent Company in respect of the year ended December 31, 2016, of ₩148 per share, amounting to total dividends of ₩10,006 million, is to be proposed at the annual general shareholders' meeting on March 17, 2017. The Company's consolidated financial statements as of December 31, 2016, do not reflect this dividend payable.

34. Cash Generated from Operations

Details of cash generated from operations for the years ended December 31, 2016, 2015 and 2014 are as follows:

(in millions of Korean won)	**2016**	**2015**	**2014**
Profit before income tax	₩100,296	₩109,543	₩168,829
Adjustments :			
Bad debt expense (Reversal of allowance for doubtful accounts)	(1,159)	1,504	1,583
Depreciation	56,195	49,099	17,149
Amortization	57,584	26,293	5,906
Impairment losses on intangible assets	10,193	8,959	3,378
Loss on disposal of property and equipment	-	-	18
Gain on disposal of property and equipment	(96)	(45)	-
Loss on abandonment of property and equipment	120	335	-
Gain(loss) on disposal of intangible assets	(223)	1,061	-
Retirement benefit expense	20,791	15,895	3,875
Compensation cost of share-based payments	489	1,951	5,566
Interest income	(9,492)	(10,953)	(5,995)
Interest expense	14,308	836	41
Dividend income	(659)	(83)	-
Share of net profit of associates	10,384	4,473	2,611
Loss on disposal of equity method investments	322	-	2,186
Gain on disposal of equity method investments	(12,380)	(17,245)	(783)
Impairment losses on equity method investments	2,203	2,341	-
Gain on foreign currency translations	(9,367)	(277)	(252)
Loss on foreign currency translations	5,175	111	45
Other long-term employee benefits	6,165	7,346	-
Gain on disposal of available-for-sale securities	(231)	(14,792)	-
Loss on disposal of available-for-sale securities	217	-	-
Impairment losses on available-for-sale securities	109	1,009	-
Impairment losses on other assets	4,130	-	-
Gain on valuation of derivative financial instruments	(22)	(2,412)	(388)
Loss on valuation of derivative financial instruments	288	1,299	-
Others	(20)	1,123	4,085
Changes in operating assets and liabilities			
Trade receivables	(28,440)	23,597	(18,063)
Inventories	(7,783)	(2,334)	(2,016)
Other current financial assets	(19,144)	(35,244)	(7,159)
Other current assets	(3,380)	(9,608)	(8,202)
Other non-current assets	(791)	(5,542)	-
Trade payables and other payables	105,168	(16,535)	31,435
Other current liabilities	92,399	70,125	32,466
Other current financial liabilities	3,774	(2,296)	(6,477)
Other non-current financial liabilities	(217)	(31)	(1)
Other non-current liabilities	(22)	(363)	-
Net defined benefit liabilities	(25,772)	(17,919)	(15,494)
Other long-term employee benefit liabilities	(1,219)	(2,429)	(472)
Others	812	(1,432)	98
Cash generated from operations	₩370,705	₩187,360	₩213,969

Significant transactions not affecting cash flows for the years ended December 31, 2016, 2015 and 2014 are as follows:

(in millions of Korean won)	2016	2015	2014
Write-offs of trade receivables	₩ 786	₩ 169	₩ 405
Provision for restoration to specific property and equipment account	618	1,935	356
Reclassification from trade receivables to available-for-sale securities	-	-	20
Change of other payables related to acquisition of property and equipment	6,041	4,977	12,401
Change of other payables related to acquisition of intangible assets	306	23	416
Change of advanced payments related to acquisition of intangible assets	10,271	-	-
Change of long–term advanced payments related to acquisition of intangible assets	984	-	-
Donated shares from shareholders	-	19,250	-
Other payables related to business combination	1,950	-	-
Payment of the transfer consideration by issuing own equity instruments	757,702	-	-
Acquisition of subsidiary shares by due to issuance of treasury shares	-	18,574	-

35. Commitments and Contingencies

The Company has provided the following guarantees as of December 31, 2016 and 2015:

(in millions of Korean won)

Beneficiary	Guaranteed item	Amount 2016	Amount 2015
Employees[1]	Employee loans	₩ 573	₩ 522

[1] The Company provided its employees payment guarantee with banks for the employees' bank loans related to their welfare and the Company's deposits of ₩7,968 million are pledged as collateral.

The Company has been provided the following guarantees by others as of December 31, 2016 and 2015:

(in millions of Korean won)

Guarantor	Details	Amount 2016	Amount 2015	Beneficiary
Seoul Guarantee Insurance and others	Performance guarantee and others	₩ 4,615	₩ 2,042	Korea Workers' Compensation & Welfare Service, KEPCO
CEOs of subsidiaries	General Guarantee for borrowings	-	1,283	Industrial Bank of Korea, etc.
Korea Technology Finance Corporation	General Guarantee for borrowings	80	1,000	KEB Hana Bank, etc.

As of December 31, 2016, the Company is involved in 13 lawsuits amounting to ₩1,973 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.

In 2008, the Company sold its shares in Ergo Daum Direct General Insurance Co., Ltd. To ERGO International AG through an agreement which includes a clause that requires the Company to pay the losses from Ergo Daum Direct General Insurance's investment assets for up to ₩2,455 million. As of December 31, 2016, the Company recognized provisions for losses related to this obligation amounting to ₩336 million (Note 22).

The Company's agreements with financial institutions and commitments as of December 31, 2016, are as follows:

(in millions of Korean won)

Financial Institution	Agreements	Maximum limit	Amount executed
Korea Development Bank	Bank loans for Industry Working capital	₩ 5,000	₩ -
Woori Bank	Borrowing for childcare facilities in the workplace	500	250
Shinhan Bank	Operating loans with credit limits	10,000	-
Industrial Bank of Korea	Credit loan	100	100
Small & medium Business Corporation	Credit loan	300	42
KEB Hana Bank	Credit loan	80	80

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 LOEN ENTERTAINMENT, INC., equivalent to 100% of the total exchangeable shares, 8.67% of the ownership. 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.

Financial instruments restricted as of December 31, 2016 and 2015:

(in millions of Korean won)

	2016	2015	Purpose of restriction
Short-term financial instruments	₩ 604	₩ 586	Related to legal procedure
	7,968	4,710	Payment guarantee for employees' loan
	1,430	1,430	Contractual obligation
	4,183	3,367	Payment guarantee for lease
	450	240	Others
	50	-	Payment guarantee for borrowings
	₩ 14,685	₩ 10,333	

The following assets are pledged as collateral in relation to guarantees for contract fulfilment as of December 31, 2016:

(in millions of Korean won)

Asset	Beneficiary	Book value	Collateralized amount	Type of Guarantee
Land	Jeju Provincial Government	₩ 34,501	₩ 8,180	Guarantee for contract fulfillment

36. Business Combinations

In 2016, the Company acquired the shares of six companies including LOEN ENTERTAINMENT, INC., which became its subsidiaries. Details of the percentage of ownership acquired, the consideration paid and goodwill recognized thereto are as follow:

(in millions of Korean won)

Company	Percentage of ownership acquired (%)	Consideration	Goodwill
LOEN ENTERTAINMENT, INC. [1]	76.4	₩ 1,877,579	₩ 1,463,653
NAVIRO Co.,Ltd. (formerly, DeNA Locations)	100.0	4,352	-
Parking Square Inc.	100.0	5,611	5,138
Numberworks Inc.	100.0	6,650	6,274
Peoplug Inc.	78.9	1,401	568
BLUEPIN INC.	51.0	8,000	2,913
		₩ 1,903,593	₩ 1,478,546

[1] Of the total consideration transferred, ₩1,119,877 million was paid in cash and ₩757,702 million was paid through issuance of new shares.

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 2016, are as follows:

(in millions of Korean won)

Company	Consideration transferred	Assets acquired and liabilities assumed			Goodwill	Total
		Fair value of net asset	Non-controlling interest	Subtotal		
LOEN ENTERTAINMENT, INC.	₩ 1,877,579	₩ 548,347	₩ (134,421)	₩ 413,926	₩ 1,463,653	₩ 1,877,579
NAVIRO Co.,Ltd. (formerly, DeNA Locations)	4,352	4,352	-	4,352	-	4,352
Parking Square Inc.	5,611	472	-	472	5,138	5,611
Numberworks Inc.	6,650	376	-	376	6,274	6,650
Peoplug Inc.	1,401	833	-	833	568	1,401
BLUEPIN INC.	8,000	7,746	(2,659)	5,087	2,913	8,000
	₩ 1,903,593	₩ 562,126	₩ (137,080)	₩ 425,046	₩ 1,478,546	₩ 1,903,593

In 2015, the Company acquired the shares of K Cube Ventures and 13 others, which became its subsidiaries, and purchased the businesses from two entities. Details of the percentage of ownership acquired, the consideration paid, and goodwill recognized are as follows:

(in millions of Korean won)

Company	Percentage of ownership Acquired (%)	Consideration	Goodwill
K CUBE VENTURES Co., Ltd.	100.0	₩ 17,132	₩ 1,007
Locnall Inc.	100.0	64,214	50,414
NZIN Corp.	65.8	25,000	1,935
CARDOC Inc.	70.1	9,461	5,601
SuperNova11 Corp.	56.4	16,256	13,290
Podotree Inc.	65.6	44,130	42,199
Sellit Inc.	70.0	4,900	1,767
Valuepotion	70.0	927	265
Tangram Design Lab Inc.	51.0	3,460	1,656
About-time	100.0	2,200	2,083
Mmagnet	55.0	550	357
BULLHOC Soft	50.6	537	253
NGLE CORPORATION	51.2	305	79
Kakao Style (business acquisition)	-	12,000	5,776
PATH MOBILE INC. PTE. LTD. (business acquisition)	-	26,329	19,615
		₩ 227,401	₩ 146,297

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 2015, are as follows:

(in millions of Korean won)

Company	Consideration transferred	Assets acquired and liabilities assumed: Fair value of net asset	Assets acquired and liabilities assumed: Non-controlling interest	Assets acquired and liabilities assumed: Subtotal	Goodwill	Total
K CUBE VENTURES Co., Ltd.	₩ 17,132	₩ 33,237	₩ (17,112)	₩ 16,125	₩ 1,007	₩ 17,132
Locnall Inc.	64,214	13,800	-	13,800	50,414	64,214
NZIN Corp.	25,000	22,116	949	23,065	1,935	25,000
CARDOC Inc.	9,461	5,508	(1,648)	3,860	5,601	9,461
SuperNova11 Corp.	16,256	5,344	(2,378)	2,966	13,290	16,256
Podotree Inc.	44,130	3,348	(1,417)	1,931	42,199	44,130
Sellit Inc.	4,900	4,471	(1,338)	3,133	1,767	4,900
Valuepotion	927	955	(292)	663	265	928
Tangram Design Lab Inc.	3,460	2,643	(839)	1,804	1,656	3,460
About-time	2,200	117	-	117	2,083	2,200
Mmagnet	550	351	(158)	193	357	550
BULLHOC Soft	537	560	(277)	283	253	536
NGLE CORPORATION	305	441	(215)	226	79	305
Kakao Style (business acquisition)	12,000	6,224	-	6,224	5,776	12,000
PATH MOBILE INC. PTE. LTD. (business acquisition)	26,329	6,714	-	6,714	19,615	26,329
	₩ 227,401	₩ 105,829	₩ (24,725)	₩ 81,104	₩ 146,297	₩ 227,401

On October 1, 2014, Daum Communications Corporation, the legal acquirer, merged with Kakao Corp., the accounting acquirer.

This merger was accounted for as a reverse merger for accounting purposes wherein Daum Communications Corporation issued 1.5555137 shares of its common share for each share of Kakao Corp. (total number of shares issued: 43,000,434 shares) and the shareholders of Kakao Corp. took over Daum Communications Corporation.

Goodwill of ₩1,414,380 million arising from the merger was attributable to economies of scale expected from combining the operations and acquired customer base.

The following table summarizes the consideration paid for Daum Communications Corporation, the fair value of assets acquired and liabilities assumed at the acquisition date.

(in millions of Korean won)

Consideration	₩	2,138,827
Fair value of identifiable assets acquired and liabilities assumed		
Cash and cash equivalents		187,299
Short-term financial instruments		97,212
Derivative instrument assets		1,128
Trade receivables and other receivables		57,123
Available-for-sale securities		20,950
Investments in associates		6,947
Property and equipment		168,622
Intangible assets		263,227
Other assets		56,012
Trade and other payables		(52,999)
Income taxes payable		(2,935)
Borrowings		(250)
Deferred income tax liabilities		(50,363)
Net defined benefit liabilities		(14,018)
Other long-term employee benefits liabilities		(14,210)
Other liabilities		(46,200)
Treasury stock		49,914
Other capital adjustments		5,430
Non-controlling interest		(8,442)
Subtotal		724,447
Goodwill		1,414,380
	₩	2,138,827

The Company acquired 100% ownership of Kids Note Co., Ltd. for ₩ 7,357 million in 2014. Also, the Company additionally acquired 50% ownership of KAKAO JAPAN Corp. for ₩ 2,137 million on December 31, 2014. Goodwill of ₩ 2,930 million and ₩ 1,716 million from the acquisition of Kids Note Co., Ltd. and KAKAO JAPAN Corp., respectively, is attributable to the acquired customer base and economic synergy expected from combined operations. Such goodwill is not deductible for tax purposes.

Details of the consideration transferred, fair value of the acquired identifiable assets and liabilities at the acquisition date are as follows:

(in millions of Korean won)	Kids Note Co., Ltd.	KAKAO JAPAN Corp.
Consideration	₩ 7,357	₩ 4,274
Fair value of identifiable assets acquired and liabilities assumed		
Cash and cash equivalents	2,918	2,088
Trade receivables and other receivables	13	349
Property and equipment	30	84
Intangible assets	1,891	10
Other assets	85	333
Trade and other payables	(18)	(284)
Borrowings	(50)	-
Other liabilities	-	(22)
Deferred income tax liabilities	(416)	-
Non-controlling interest	(26)	-
Subtotal	4,427	2,558
Goodwill	2,930	1,716
	₩ 7,357	₩ 4,274

37. Related Parties Transactions

The list of related parties as of December 31, 2016 and 2015, is as follows:

	2016
Relationship	**Related parties**
Associates	Flowgamez, Adcredit (formerly, Add2paper), DMS Network, Inc., Nine Flava, NBT Inc., Tapas Media, Inc., DAUM Venture Fund, UserStory Lab, DAUM KAKAO PHILIPPINES CORP., SNACKVOX INC. PTE. LTD., 3Point Inc., NBT Partners Japan, NBT AMERICA INC., HASYS, Manna CEA, Manna Town, Farmit, Farmit2, Neobazar, Silver Star Games Inc., Oscar Entertainment, Left Right Co., Ltd., Bitmarket.ph, Inc., Tangram Design Lab Inc., Tangram Factory, Tangramfactory America, ROI GAMES CORP., CNT TECH CO.,LTD., JOH&Company, Leferi Inc., Wex 24 Korea, PT.Neo Bazar Indonesia, others (64 companies)
Other related parties	K Cube Holdings Co., Ltd., T for Invest (formerly, Climix edu), New learn English Inc., Onyx K., Smart and Growth, MODUDA, PLUS 2 PERCENT

	2015
Relationship	**Related parties**
Associates	Flowgamez, Adcredit (formerly, Add2paper), DMS Network, Inc., Nine Flava, NBT Inc., Tapas Media, Inc., DAUM Venture Fund, UserStory Lab, DAUM KAKAO PHILIPPINES CORP., SNACKVOX INC. PTE. LTD., 3Point Inc., NAVIRO Co.,Ltd. (formerly, DeNA Locations), NBT Partners Japan, NBT AMERICA INC. HASYS, MannaCEA, Neobazar, Silver Star Games Inc., others (41 companies)
Other related parties	K Cube Holdings Co., Ltd., T for Invest (formerly, Climix edu), New learn English Inc., Onyx K., Smart and Growth

Transactions with the related parties for the years ended December 31, 2016, 2015 and 2014 and the receivables from and payables to the related parties as of December 31, 2016 and 2015, are as follows:

Transactions

(in millions of Korean won)	2016					
	Revenues		Purchases			
	Sales	Interest income	Service fee	Advertising expense	Purchase of intangible assets	Others
Associates						
NBT Inc.	₩ 2,298	₩ -	₩ 2,061	₩ 340	₩ -	₩ -
3Point Inc.	5	-	-	-	-	50
WishLink	-	-	655	-	38	-
NAVIRO Co.,Ltd. (formerly, DeNA Locations)	300	-	-	-	-	-
Dunamu Inc.	324	-	-	-	-	-
NeoBazar	-	-	2	28	-	-
Tangram Design Lab Inc.	-	70	-	-	-	-
Tangram Factory	13	71	-	-	-	-
SNACKVOX INC. PTE. LTD.	-	-	6	-	-	-
HASYS	72	-	9	-	-	-
MannaCEA	2	-	-	-	-	1
Left Right Co., Ltd.	-	-	10	-	-	-
Oscar Entertainment	-	-	305	-	-	-
You are the designer	1	-	-	-	-	1
CNT TECH CO.,LTD.	-	-	-	-	-	-
	₩ 3,015	₩ 141	₩ 3,048	₩ 368	₩ 38	₩ 52

(in millions of Korean won)	2015					
	Revenues			Purchases		
	Sales	Interest income	Other income	Service fee	Advertising expense	Others
Associates						
Daum TV	₩ -	₩ -	₩ -	₩ -	₩ -	₩ -
NBT Inc.	1,462	190	5	839	345	-
UserStory Lab	-	-	-	-	20	-
3Point Inc.	14	-	-	-	-	100
Red Star Games Inc.	-	34	-	-	-	-
Black Star Games Inc.	-	18	-	-	-	-
WishLink	7,551	-	-	3,050	-	12,000
Podotree Inc.	1	-	-	3,499	-	-
NAVIRO Co., Ltd. (formerly, DeNA Locations)	683	1	-	-	-	-
	₩ 9,711	₩ 243	₩ 5	₩ 7,388	₩ 365	₩ 12,100

(in millions of Korean won)	2014					
	Revenues			Purchases		
	Sales	Interest income	Other income	Service fee	Advertising expense	Others
Associates						
Daum TV	₩ -	₩ -	₩ -	₩ -	₩ -	₩ -
NBT Inc.	274	22	-	-	-	-
Other						
Podotree Inc.	22	-	-	63	-	-
	₩ 296	₩ 22	₩ -	₩ 63	₩ -	₩ -

Receivables and Payables

(in millions of Korean won)	2016				
	Receivables			Payables	
	Trade receivables	Loans	Other receivables	Non-trade payables	Other payables
Associates					
NBT Inc.	₩ 250	₩ -	₩ 660	₩ 185	₩ -
UserStory Lab	-	-	200	-	-
Dunamu Inc.	209	-	-	-	-
3 Point Inc. [1]	3	50	-	-	-
WishLink	-	-	-	57	-
NeoBazar	-	-	-	-	-
Silver Star Games Inc.	-	-	-	-	-
Tangram Design Lab Inc.	-	2,100	93	-	-
Tangram Factory	-	1,540	75	-	-
HASYS	56	-	85	73	-
MannaCEA	-	-	-	1	-
Left Right Co., Ltd.	-	-	-	1	-
Oscar Entertainment	-	-	34	-	-
You are the designer	-	-	4	-	-
	₩ 518	₩ 3,690	₩ 1,151	₩ 317	₩ -

[1] As of December 31, 2016, allowance for doubtful accounts has been set for the total amount of loans to 3 Point Inc.

(in millions of Korean won)	2015				
	Receivables			Payables	
	Trade receivables	Loans	Other receivables	Non-trade payables	Other payables
Associates					
NBT Inc.	₩ 590	₩ -	₩ -	₩ 116	₩ 224
NAVIRO Co.,Ltd. (formerly, DeNA Locations)	119	-	2	-	136
WishLink	-	-	-	2,265	-
	₩ 709	₩ -	₩ 2	₩ 2,381	₩ 360

Loans arising from related parties for the periods ended December 31, 2016, 2015 and 2014, are as follows:

	2016				
(in millions of Korean won)	Beginning balance	Loans	Repayments	Changes in scope of consolidation	Ending balance
Associate					
3Points Inc.	₩ 50	₩ -	₩ -	₩ -	₩ 50
Tangram Design Lab Inc.	-	1,100	-	1,000	2,100
Tangram Factory	-	40	-	1,500	1,540
	₩ 50	₩ 1,140	₩ -	₩ 2,500	₩ 3,690

	2015				
(in millions of Korean won)	Beginning balance	Loans	Repayments	Changes in scope of consolidation	Ending balance
Associate					
NBT Inc.	₩ 2,000	₩ -	₩ (2,000)	₩ -	₩ -
3Points Inc.	-	50	-	-	50
Red Star Games Inc.	-	1,245	-	(1,245)	-
Black Star Games Inc.	-	655	-	(655)	-
NAVIRO Co.,Ltd. (formerly, DeNA Locations)	-	28	(28)	-	-
	₩ 2,000	₩ 1,978	₩ (2,028)	₩ (1,900)	₩ 50

	2014				
(in millions of Korean won)	Beginning balance	Loans	Repayments	Changes due To merger	Ending balance
Associate					
NBT Inc.	₩ -	₩ -	₩ -	₩ 2,000	₩ 2,000

[1] During 2016, 2015 and 2014 the Company made cash contributions to certain related parties (Note 15).

Key management compensation

The compensation paid or payable to key management for the years ended December 31, 2016, 2015 and 2014 consists of:

(in millions of Korean won)	2016	2015	2014
Salaries	₩ 1,446	₩ 897	₩ 1,267
Retirement benefit expense	47	57	70
Other long-term employee benefits	23	9	135
	₩ 1,516	₩ 963	₩ 1,472

38. Subsequent Event

The Company granted 895,500 shares of stock options to its employees in accordance with the resolution of the Board of Directors dated March 2, 2017.

Report on Review of Interim Financial Statements

(English Translation of a Report Originally Issued in Korean)

To the Shareholders and Board of Directors of
Kakao Corp.

Reviewed Financial Statements

We have reviewed the accompanying consolidated interim financial statements of Kakao Corp. and its subsidiaries (collectively the "Company"), which comprise the consolidated interim statement of financial position of the Company as of September 30, 2017, and the related consolidated interim statements of comprehensive income for the three-month and nine-month periods ended September 30, 2017 and 2016, and the consolidated interim statements of changes in equity and cash flows for the nine-month periods ended September 30, 2017 and 2016, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Interim Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated interim financial statements in accordance with the International Financial Reporting Standards as adopted by the Republic of Korea ("Korean IFRS") 1034, *Interim Financial Reporting*, and for such internal control as management determines is necessary to enable the preparation of consolidated interim financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

We conducted our reviews in accordance with the Quarterly and Semi-annual Review Standards established by the Securities and Futures Commission of the Republic of Korea. A review of interim financial information consists of primarily making inquiries of persons responsible for financial and accounting matters, applying analytical procedures and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Korean Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our reviews, nothing has come to our attention that causes us to believe the accompanying consolidated interim financial statements are not presented fairly, in all material respects, in accordance with the Korean IFRS 1034, *Interim Financial Reporting.*

Other Matters

We have audited the consolidated statement of financial position of the Company as of December 31, 2016, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, in accordance with Korean Standards on Auditing. We expressed an unqualified opinion on those financial statements, not presented herein, in our audit report dated March 8, 2017. The consolidated statement of financial position as of December 31, 2016, presented herein for comparative purposes, is consistent, in all material respects, with the above audited consolidated statement of financial position as of December 31, 2016.

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

/s/ Samil PricewaterhouseCoopers
Seoul, Korea
November 13, 2017

The report is effective as of November 13, 2017, the review report date. Certain subsequent events or circumstances, which may occur between the review report date and the time of reading this report, could have a material impact on the accompanying consolidated interim financial statements and notes thereto. Accordingly, the readers of the review report should understand that there is a possibility that the above review report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

Kakao Corp. and Subsidiaries
Consolidated Interim Statements of Financial Position
As of September 30, 2017 and December 31, 2016

(in millions of Korean won)	Notes	September 30, 2017 (Unaudited)	December 31, 2016
Assets			
Current assets			
Cash and cash equivalents		₩ 953,532	₩ 641,644
Short-term financial instruments		440,408	236,748
Available-for-sale securities		97	-
Derivative financial assets		1,919	3,942
Trade receivables		185,940	173,853
Other current financial assets		301,295	83,340
Inventories		15,173	12,555
Other current assets		245,184	64,876
		2,143,548	1,216,958
Non-current assets			
Long-term financial instruments		10,472	10,000
Available-for-sale securities		172,651	93,182
Investments in associates	6	134,655	117,076
Other non-current financial assets		34,571	35,269
Property and equipment	7	264,623	253,854
Intangible assets	8	3,703,579	3,733,166
Other non-current assets		9,436	6,584
Deferred income tax assets		20,563	18,028
		4,350,550	4,267,159
Total assets		₩ 6,494,098	₩ 5,484,117
Liabilities			
Current liabilities			
Trade and other payables		₩ 264,238	₩ 263,130
Short-term borrowings	9	155,027	203,900
Current portion of long-term borrowings	9	452	42
Other current financial liabilities		17,533	17,228
Income tax payable		114,476	30,944
Provisions		586	1,350
Derivative financial liabilities		7,375	7,375
Other current liabilities		501,151	282,051
		1,060,838	806,020
Non-current liabilities			
Non-current trade and other payables		2,454	2,548
Long-term borrowings	9	794,321	795,927
Non-current provisions		4,037	4,099
Net defined benefit liabilities		17,220	1,440
Other long-term employee benefits liabilities		32,988	28,220
Deferred income tax liabilities		136,387	142,919
Other non-current financial liabilities		628	-
		988,035	975,153
Total liabilities		2,048,873	1,781,173

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

Kakao Corp. and Subsidiaries
Consolidated Interim Statements of Financial Position
As of September 30, 2017 and December 31, 2016

(in millions of Korean won)	Notes	September 30, 2017 (Unaudited)	December 31, 2016
Equity			
Share capital	1,10	33,970	33,858
Share premium	10	3,552,563	3,105,014
Other component of equity		(7,827)	(11,232)
Accumulated other comprehensive income		8,084	920
Retained earnings		391,019	303,952
Equity attributable to owners of the Parent Company		3,977,809	3,432,512
Non-controlling interest		467,416	270,432
Total equity		4,445,225	3,702,944
Total liabilities and equity		₩ 6,494,098	₩ 5,484,117

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

Kakao Corp. and Subsidiaries
Consolidated Interim Statements of Comprehensive Income
For the Three-month and Nine-month Periods Ended September 30, 2017 and 2016

(in millions of Korean won, except per share amounts)	Notes	September 30, 2017 Three Months (Unaudited)	September 30, 2017 Nine Months (Unaudited)	September 30, 2016 Three Months (Unaudited)	September 30, 2016 Nine Months (Unaudited)
Revenue	4	₩ 515,413	₩ 1,427,642	₩ 391,391	₩ 1,010,394
Operating expenses	12	468,047	1,297,304	361,135	932,430
Operating income		47,366	130,338	30,256	77,964
Other non-operating income		16,148	22,320	3,744	9,388
Other non-operating expenses		6,182	31,011	6,329	17,347
Finance income		11,390	20,713	2,647	15,486
Finance costs		3,116	16,551	7,106	19,734
Share of earnings (loss) of associates, net 6		(2,535)	(8,473)	(2,123)	(6,873)
Profit before income tax		63,071	117,336	21,089	58,884
Income tax expense	13	23,169	10,446	7,463	21,070
Profit for the period		39,902	106,890	13,626	37,814
Profit for the period attributable to:					
Equity holders of the Parent Company		32,055	97,073	12,215	34,224
Non-controlling interest		7,847	9,817	1,411	3,590
Other comprehensive income (loss)					
Items not to be reclassified subsequently to profit or loss:					
Remeasurement of net defined benefit liability		3	(15)	(63)	(321)
Items to be reclassified subsequently to profit or loss:					
Gain(loss) on valuation of available-for-sale securities, net of tax		7,377	7,283	(1,202)	(3,409)
Share of other comprehensive income (loss) of associates, net of tax		314	(883)	(122)	(449)
Foreign currency translation adjustments, net of tax		1,312	893	(5,111)	(2,095)
Other comprehensive income (loss) for the period, net of tax		9,006	7,278	(6,498)	(6,274)
Total comprehensive income for the period		₩ 48,908	₩ 114,168	₩ 7,128	₩ 31,540
Comprehensive income for the period attributable to					
Equity holders of the Parent Company		₩ 41,474	₩ 104,237	₩ 6,038	₩ 28,838
Non-controlling interest		₩ 7,434	₩ 9,931	₩ 1,090	₩ 2,702
Earnings per share to the equity holders of the parent company during the period					
Basic earnings per share	14	₩ 473	₩ 1,433	₩ 181	₩ 523
Diluted earnings per share	14	₩ 458	₩ 1,388	₩ 174	₩ 508

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

Kakao Corp. and Subsidiaries
Consolidated Interim Statements of Changes in Equity
For the Nine-month Periods Ended September 30, 2017 and 2016

(in millions of Korean won)

		Attributable to equity holders of the Parent Company							
	Notes	Share Capital	Share Premium	Other Components of Equity	Accumulated Other Comprehensive Income (loss)	Retained Earnings	Total	Non-controlling Interest	Total equity
Balance at January 1, 2016		₩ 30,098	₩ 2,274,186	₩ (9,032)	₩ 829	₩ 256,313	₩ 2,552,394	₩ 33,081	₩ 2,585,475
Comprehensive income :									
Profit for the period		-	-	-	-	34,224	34,224	3,590	37,814
Foreign currency translation adjustments, net of tax		-	-	-	(2,101)	-	(2,101)	6	(2,095)
Share of other comprehensive loss of associates, net of tax		-	-	-	(446)	-	(446)	(3)	(449)
Loss on valuation of available-for-sale securities, net of tax		-	-	-	(2,619)		(2,619)	(790)	(3,409)
Remeasurement of defined benefit obligation		-	-	-	(220)		(220)	(101)	(321)
Total comprehensive income (loss) for the period		-	-	-	(5,386)	34,224	28,838	2,702	31,540
Transactions with equity holders :									
Exercise of stock options	10	258	9,158	(2,092)	-	-	7,324	158	7,482
Issue of ordinary shares		3,457	754,226	-	-	-	757,683	-	757,683
Share-based compensation	11	-	-	41	-	-	41	1,081	1,122
Change in ownership interest over subsidiaries		-	(12,153)	-	-	-	(12,153)	20,202	8,049
Cash dividends		-	-	-	-	(10,035)	(10,035)	(1,303)	(11,338)
Change in scope of consolidation		-	-	-	-	-	-	140,442	140,442
Total transactions with equity holders		3,715	751,231	(2,051)	-	(10,035)	742,860	160,580	903,440
Balance at September 30, 2016 (Unaudited)		₩ 33,813	₩ 3,025,417	₩ (11,083)	₩ (4,557)	₩ 280,502	₩ 3,324,092	₩ 196,363	₩ 3,520,455

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

Kakao Corp. and Subsidiaries
Consolidated Interim Statements of Changes in Equity
For the Nine-month Periods Ended September 30, 2017 and 2016

(in millions of Korean won)

	Notes	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		
Balance at January 1, 2017		₩ 33,858	₩ 3,105,014	₩ (11,232)	₩ 920	₩303,952	₩ 3,432,512	₩ 270,432	₩ 3,702,944
Comprehensive income :									
Profit for the period		-	-	-	-	97,073	97,073	9,817	106,890
Foreign currency translation adjustments, net of tax		-	-	-	635	-	635	258	893
Share of other comprehensive loss of associates, net of tax		-	-	-	(491)	-	(491)	(392)	(883)
Gain on valuation of available-for-sale securities, net of tax		-	-	-	7,029	-	7,029	254	7,283
Remeasurement of defined benefit obligation		-	-	-	(9)	-	(9)	(6)	(15)
Total comprehensive income for the period		-	-	-	7,164	97,073	104,237	9,932	114,168
Transactions with equity holders :									
Exercise of stock options	10,11	104	1,469	(323)	-	-	1,250	1,348	2,598
Conversion of convertible bonds		8	1,984	-	-	-	1,992	-	1,992
Share-based compensation	11	-	-	3,728	-	-	3,728	1,872	5,600
Change in ownership interest over subsidiaries		-	444,096	-	-	-	444,096	189,188	633,284
Cash dividends		-	-	-	-	(10,006)	(10,006)	(9,147)	(19,153)
Change in scope of consolidation		-	-	-	-	-	-	3,792	3,792
Total transactions with equity holders		112	447,549	3,405	-	(10,006)	441,060	187,053	628,113
Balance at September 30, 2017 (Unaudited)		₩ 33,970	₩ 3,552,563	₩ (7,827)	₩ 8,084	₩391,019	₩ 3,977,809	₩ 467,416	₩ 4,445,225

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

Kakao Corp. and Subsidiaries
Consolidated Interim Statements of Cash Flows
For the Nine-month Periods Ended September 30, 2017 and 2016

(in millions of Korean won)	Notes	September 30, 2017 (Unaudited)	September 30, 2016 (Unaudited)
Cash flows from operating activities			
Cash generated from operations	15	₩ 246,701	₩ 237,295
Interest received		7,430	6,777
Interest paid		(7,870)	(6,118)
Dividend received		159	659
Income tax refunded (paid)		9,628	(54,536)
Net cash inflow from operating activities		256,048	184,077
Cash flows from investing activities			
Decrease (increase) in short-term financial instruments		(201,101)	289,655
Decrease in long-term financial instruments		86	193
Purchase of property and equipment		(58,006)	(63,721)
Disposal of property and equipment		2,479	426
Purchase of intangible assets		(18,512)	(20,204)
Disposal of intangible assets		1,532	326
Acquisition of available-for-sale securities		(80,518)	(24,110)
Disposal of available-for-sale securities		20,997	3,264
Acquisition of associates		(31,134)	(39,199)
Disposal of associates		5,847	138
Acquisition of subsidiaries, net of cash acquired		(1,271)	(1,036,969)
Disposal of subsidiaries, net of cash acquired		-	(399)
Decrease in other non-current financial assets		5,139	7,536
Increase other non-current financial assets		(4,241)	(13,452)
Increase in short-term loans receivables		(2,841)	(191)
Increase in long-term loans receivables		(325)	-
Acquisition of derivative financial instruments		-	(3,679)
Disposal of derivative financial instruments		2,030	-
Other cash inflow (outflow) from investing activities		131	(41)
Net cash outflow from investing activities		(359,708)	(900,427)
Cash flows from financing activities			
Proceeds from short-term borrowings		304,015	1,000,000
Repayments of short-term borrowings		(355,555)	(800,350)
Repayments of long-term borrowings		(250)	-
Repayments of current portion of long-term borrowings		(42)	(75)
Exercise of stock options		2,597	7,482
Issuance of corporate bonds, convertible bonds, and exchangeable bonds		-	794,548
Repayments of corporate bonds		-	(201,987)
Payments of dividends		(16,000)	(10,035)
Decrease of non-controlling interests		-	(2,600)
Increase of non-controlling interests		488,235	7,539
Distribution of investments		(3,154)	(1,303)
Expenses of stock issuance		-	(19)
Net cash inflow from financing activities		419,846	793,200

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

Kakao Corp. and Subsidiaries
Consolidated Interim Statements of Cash Flows
For the Nine-month Periods Ended September 30, 2017 and 2016

		(Unaudited)		(Unaudited)
Net increase in cash and cash equivalents	₩	316,186	₩	76,850
Effect of exchange rate changes on cash and cash equivalents		(4,298)		(1,326)
Cash and cash equivalents at the beginning of period		641,644		397,177
Cash and cash equivalents at the end of period	₩	953,532	₩	472,701

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

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 62 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 of September 30, 2017, the Parent Company's share capital amounted to ₩33,970 million and the Parent Company's shareholders are as follows:

	Number of shares	Percentage of ownership (%)
Kim Bum Soo	12,544,461	18.49
K Cube Holdings Co. Ltd.	9,949,467	14.67
MAXIMO PTE. LTD.	5,599,849	8.25
Star Invest Holdings Limited	5,555,972	8.19
National Pension Service	3,428,167	5.05
Other related parties	2,051,156	3.02
Others	28,704,839	42.32
	67,833,911	99.99
Treasury stock	5,188	0.01
	67,839,099	100.00

1.2 Consolidated Subsidiaries

As of September 30, 2017, there are no significant changes in the scope of consolidation and percentage of ownership compared to December 31, 2016, except for subsidiaries that are subject to the changes in scope of consolidation.

1.3 Changes in scope of consolidation

Status of subsidiaries newly included in consolidation for the nine-month period ended September 30, 2017, is 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 (%)
Tangram Design Lab Inc.	218	Communication design	Korea	December 31	42,035	96.5
HASYS	245	Computer program development	Korea	December 31	250,540	51.0
KAKAO Brain	100	Software development	Korea	December 31	200,000	100.0
Kakao Makers Corp.	53	Software development and services	Korea	December 31	103,070	97.2
Krispy Studio Corporation	50	Mobile video contents production	Korea	December 31	100,000	100.0
Fixel Hub Co.,Ltd.	500	Software development and services	Korea	December 31	51,000	51.0
Kakaopay Corp.	9,494	Software development and services	Korea	December 31	11,563,447	60.9
Kakao Mobility Corp. (formerly, KM Company Ltd.)	2,394	Software development and services	Korea	December 31	17,325,000	72.4
Mega monsters (formerly, Storyplant)	13,700	Software development and services	Korea	December 31	24,400,000	89.1
Kakao Investment Co., Ltd.	14,372	Investment/Holding company	Korea	December 31	1,437,221	100.0
K Venture Group [1]	100	Investment/Holding company	Korea	December 31	10,000	100.0

[1] K Venture Group was newly established and the former K Venture Group changed its name to Kakao Games Holdings Co., Ltd..

The reason why the aforementioned subsidiaries are newly included in consolidation for the nine-month period ended September 30, 2017, is as follows:

Subsidiaries	Reason
Tangram Design Lab Inc.	Reclassified to a subsidiary from an associate through additional acquisition
HASYS	Reclassified to a subsidiary from an associate through additional acquisition
KAKAO Brain	Newly established
Kakao Makers Corp.	Newly established
Krispy Studio Corporation	Newly established
Fixel Hub Co.,Ltd.	Newly acquired
Kakaopay Corp.	Newly established
Kakao Mobility Corp. (formerly, KM Company Ltd.)	Newly established
Mega monsters (formerly, Storyplant)	Newly acquired
Kakao Investment Co., Ltd.	Newly established
K Venture Group	Newly established

Status of subsidiaries excluded from consolidation for the nine-month period ended September 30, 2017, is as follows:

Company	Reason
King Kong Entertainment Co., Ltd.	Merged with STARSHIP ENTERTAINMENT CORP.
Lotiple Inc.	Excluded from consolidation due to liquidation
Thinkreals Corp.	Excluded from consolidation due to liquidation
Kakao Lab Corp.	Excluded from consolidation due to liquidation
Sunnyloft Corp.	Excluded from consolidation due to liquidation
Genie labs	Excluded from consolidation due to liquidation
Aina Corporation	Excluded from consolidation due to liquidation

2. Significant Accounting Policies

The principal accounting policies applied in the preparation of these consolidated interim financial statements are set out below. These policies have been consistently applied to all the periods 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 Korean IFRS. The accompanying consolidated interim 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 interim financial statements.

The Company's consolidated interim financial statements for the nine-month period ended September 30, 2017, have been prepared in accordance with Korean IFRS 1034 *Interim Financial Reporting*. These consolidated interim financial statements have been prepared in accordance with Korean IFRS which is effective as of September 30, 2017.

(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, 2017. The adoption of these amendments did not have any significant impact on the consolidated interim financial statements.

- Amendments to Korean IFRS 1007 *Statement of Cash Flows*

Amendments to Korean IFRS 1007 *Statement of Cash flows* require to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash flows.

- Amendments to Korean IFRS 1012 *Income Tax* ("Korean IFRS 1012")

Amendments to Korean IFRS 1012 clarify how to account for deferred tax assets related to debt instruments measured at fair value. Korean IFRS 1012 provides requirements on the recognition and measurement of current or deferred tax liabilities or assets. The amendments issued clarify the requirements on recognition of deferred tax assets for unrealized losses, to address diversity in practice.

- Amendments to Korean IFRS 1112 *Disclosures of Interests in Other Entities* ("Korean IFRS 1112")

Amendments to Korean IFRS 1112 clarify when an entity's interest in a subsidiary, a joint venture or an associate is classified as held for sales in accordance with Korean IFRS 1105, the entity is required to disclose other information except for summarized financial information in accordance with Korean IFRS 1112.

(b) New standards *and interpretations not yet adopted by the Company*

Certain new accounting standards and interpretations that have been published that are not mandatory for annual reporting period commencing January 1, 2017 and have not been early adopted by the Company are set out below.

- Amendments to Korean IFRS 1028 *Investments in Associates and Joint Ventures*

When an investment in an associate or a joint venture is held by, or it held indirectly through, an entity that is a venture capital organization, or a mutual fund, unit trust and similar entities including investment-linked insurance funds, the entity may elect to measure that investment at fair value through profit or loss in accordance with Korean IFRS 1109 *Financial Instruments*. The amendments clarify that an entity shall make this election separately for each associate of joint venture, at initial recognition of the associate or joint venture. The Company will apply these amendments retrospectively for annual periods beginning on or after January 1, 2018. The Company does not expect the amendments to have a significant impact on the consolidated interim financial statements because the Company is not a venture capital organization.

- Amendments to Korean IFRS 1102 *Share-based Payment* ("Korean IFRS 1102")

Amendments to Korean IFRS 1102 clarify accounting for a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. Amendments also clarify that the measurement approach should treat the terms and conditions of a cash-settled award in the same way as for an equity-settled award. The amendments will be effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company does not expect the amendments to have a significant impact on the consolidated interim financial statements.

- Enactments to Interpretation 2122 *Foreign Currency Transaction and Advance Consideration*

According to these enactments, the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the entity shall determine a date of the transaction for each payment or receipt of advance consideration. These enactments will be effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company does not expect the enactments to have a significant impact on the consolidated interim financial statements.

- Korean IFRS 1109 *Financial Instruments* ("Korean IFRS 1109")

The new standard for financial instruments issued on September 25, 2015 is effective for annual periods beginning on or after January 1, 2018 with early application permitted. This standard will replace Korean IFRS 1039 *Financial Instruments: Recognition and Measurement* ("Korean IFRS 1039"). The Company will apply the standards for annual periods beginning on or after January 1, 2018.

The standard requires retrospective application with some exceptions. For example, an entity is not required to restate prior period in relation to classification and measurement (including impairment) of financial instruments. The standard requires prospective application of its hedge accounting requirements for all hedging relationships except the accounting for time value of options and other exceptions.

Korean IFRS 1109 requires all financial assets to be classified and measured on the basis of the entity's business model for managing financial assets and the contractual cash flow characteristics of the financial assets. A new impairment model, an expected credit loss model, is introduced and any subsequent changes in expected credit losses will be recognized in profit or loss. Also, hedge accounting rules amended to extend the hedging relationship, which consists only of eligible hedging instruments and hedged items, qualifies for hedge accounting.

An effective implementation of Korean IFRS 1109 requires preparation processes including financial impact assessment, accounting policy establishment, accounting system development and the system stabilization. The impact on the Company's financial statements due to the application of the standard is dependent on judgements made in applying the standard, financial instruments held by the Company and macroeconomic variables.

With respect to the implementation of Korean IFRS 1109, the Company has not begun to assess internal management process and accounting system to change for financial instruments reporting nor analyzed the financial effects of applying the standard.

(a) Classification and Measurement of Financial Assets

When implementing Korean IFRS 1109, the classification of financial assets will be driven by the Company's business model for managing the financial assets and contractual terms of cash flow. The following table shows the classification of financial assets measured subsequently at amortized cost, at fair value through other comprehensive income and at fair value through profit or loss. If a hybrid contract contains a host that is a financial asset, the classification of the hybrid contract shall be determined for the entire contract without separating the embedded derivative.

Business model for the contractual cash flows characteristics	**Solely represent payments of principal and interest**	**All other**
Hold the financial asset for the collection of the contractual cash flows	Measured at amortized cost[1]	Recognized at fair value through profit or loss[2]
Hold the financial asset for the collection of the contractual cash flows and trading	Recognized at fair value through other comprehensive income [1]	
Hold for trading	Recognized at fair value through profit or loss	

[1] A designation at fair value through profit or loss is allowed only if such designation mitigates an accounting mismatch (irrevocable).

[2] Equity investments not held for trading can be recorded in other comprehensive income (irrevocable).

With the implementation of Korean IFRS 1109, the criteria to classify the financial assets at amortized cost or at fair value through other comprehensive income are more strictly applied than the criteria applied with Korean IFRS 1039. Accordingly, the financial assets at fair value through profit or loss may increase by implementing Korean IFRS 1109 and may result an extended fluctuation in profit or loss.

As of September 30, 2017, the Company owns loans and receivables of ₩1,926,218 million, financial assets available-for-sales of ₩172,748 million.

According to Korean IFRS 1109, a debt instrument is measured at amortized cost if: a) the objective of the business model is to hold the financial asset for the collection of the contractual cash flows, and b) the contractual cash flows under the instrument solely represent payments of principal and interest. As of September 30, 2017, the Company measured loans and receivables of ₩1,926,218 million at amortized costs.

According to Korean IFRS 1109, a debt instrument is measured at fair value through other comprehensive income if the objective of the business model is achieved both by collecting contractual cash flows and selling financial assets; and the contractual cash flows represents solely payments of principal and interest on a specific date under contract terms. As of September 30, 2017, the Company holds debt instruments of ₩3,326 million classified as financial assets available-for-sale.

According to Korean IFRS 1109, equity instruments that are not held for trading, the Company can make an irrevocable election at initial recognition to classify the instruments as assets measured at fair value through other comprehensive income, which all subsequent changes in fair value being recognized in other comprehensive income and not recycled to profit or loss. As of September 30, 2017, the Company holds equity instruments of ₩169,422 million classified as financial assets available-for-sale.

According to Korean IFRS 1109, debt instruments those contractual cash flows do not represent solely payments of principal and interest and held for trading, and equity instruments that are not designated as instruments measured at fair value through other comprehensive income are measured at fair value through profit or loss. As of September 30, 2017, the Company holds debt and equity instruments classified as financial assets at fair value through profit or loss that amount to ₩1,919 million.

(b) Impairment: Financial Assets and Contract Assets

Korean IFRS 1109 sets out a new forward looking 'expected loss' impairment model which replaces the incurred loss model under Korean IFRS 1039 that impaired assets if there is an objective evidence and applies to:

- Financial assets measured at amortized cost
- Debt investments measured at fair value through other comprehensive income, and
- Certain loan commitments and financial guaranteed contracts.

Under Korean IFRS 1109 'expected loss' model, a credit event (or impairment 'trigger') no longer has to occur before credit losses are recognized. The Company will always recognize (at a minimum) 12-month expected credit losses in profit or loss. Lifetime expected losses will be recognized on assets for which there is a significant increase in credit risk after initial recognition.

Stage[1]		Loss allowance
1	No significant increase in credit risk after initial recognition[2]	12-month expected credit losses (expected credit losses that result from those default events on the financial instrument that are possible within 12 months after the reporting date)
2	Significant increase in credit risk after initial recognition	Lifetime expected credit losses (expected credit losses that result from all possible default events over the life of the financial instrument)
3	Credit-impaired	

[1] A loss allowance for lifetime expected credit losses is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. It is also required for contract assets or trade receivables that are not, according to Korean IFRS 1115 *Revenue from Contracts with Customers*, considered to contain a significant financing component. Additionally, the Company can elect an accounting policy of recognizing lifetime expected credit losses for all contract assets and/or all trade receivables, including those that contain a significant financing component.

[2] If the financial instrument has low credit risk at the end of the reporting period, the Company may assume that the credit risk has not increased significantly since initial recognition.

Under Korean IFRS 1109, the asset that is credit-impaired at initial recognition would recognize all changes in lifetime expected credit losses since the initial recognition as a loss allowance with any changes recognized in profit or loss.

As of September 30, 2017, the Company owns debt investment carried at amortized cost of ₩1,968,712 million (loans and receivables of ₩1,968,712 million), debt investments carried at fair value through other comprehensive income, which classified as financial assets available-for-sale, of ₩3,326 million. The Company recognized loss allowance of ₩42,494 million for these assets.

- Korean IFRS 1115 *Revenue from Contracts with Customers* ("Korean IFRS 1115")

The Company will apply Korean IFRS 1115 issued on November 6, 2015 for annual reporting periods beginning on or after January 1, 2018. This standard replaces Korean IFRS 1018 *Revenue*, Korean IFRS 1011 *Construction Contracts*, Interpretation 2031 *Revenue-Barter Transactions Involving Advertising Services*, Interpretation 2113 *Customer Loyalty Programs*, Interpretation 2115 *Agreements for the Construction of Real Estate* and Interpretation 2118 *Transfers of assets from customers.* The Company must apply Korean IFRS 1115 within annual reporting periods beginning on or after January 1, 2018, and will apply the standard retrospectively to prior reporting period presented in accordance with Korean IFRS 1008 *Accounting Policies, Changes in Accounting Estimates and Errors* and apply simplified transition method with no restatement for completed contracts and other as of January 1, 2017.

The new standard is based on the principle that revenue is recognized when control of a good or service transfers to a customer so the notion of control replaces the existing notion of risks and rewards. A new five-step process must be applied before revenue from contract with customer can be recognized:

- Identify contracts with customers
- Identify the separate performance obligation
- Determine the transaction price of the contract
- Allocate the transaction price to each of the separate performance obligations, and
- Recognize the revenue as each performance obligation is satisfied.

As of September 30, 2017, the Company has not begun to assess the impact on internal processes and controls and accounting system in relation to implementation of Korean IFRS 1115. Also, the Company has not analyzed the financial effects of applying the standard. The Company plans to analyze the financial effects of applying the standard and disclose the result of the analysis in the notes on the financial statements as of December 31, 2017.

2.2 Significant Accounting Policies

Significant accounting policies and method of computation used in the preparation of the consolidated interim financial statements are consistent with those of the consolidated financial statements for the year ended December 31, 2016, except for the changes due to the application of amendment and enactments of standards described in Note 2.1 and the one described below.

2.2.1 Income Tax Expense

Income tax expense for the interim period is recognized based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate is applied to the pre-tax income.

3. Critical Accounting Estimates and Assumptions

The Company makes estimates and assumptions concerning the future. The estimates and assumptions are continuously evaluated with consideration to factors such as events reasonably predictable in the foreseeable future within the present circumstance according to historical experience. The resulting accounting estimates will, by definition, seldom equal the related actual results. 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 addressed below.

Significant accounting estimates and assumptions applied in the preparation of these consolidated interim financial statements are the same as those that applied to the consolidated financial statements for the year ended December 31, 2016, except for the estimates used to determine income tax expense.

4. Segment Information

The Company is operated as single operating segment.

Details of revenue for the three-month and nine-month periods ended September 30, 2017 and 2016, are as follows:

(in millions of Korean won)	2017			
	Nine months (Unaudited)			
	Advertising	Contents	Others	Total
Revenue	₩ 441,060	₩ 778,378	₩ 326,382	₩ 1,545,820
Inter-company revenue	(4,869)	(58,795)	(54,514)	(118,178)
Net revenue	₩ 436,191	₩ 719,583	₩ 271,868	₩ 1,427,642

(in millions of Korean won)	2017			
	Three months (Unaudited)			
	Advertising	Contents	Others	Total
Revenue	₩ 154,103	₩ 290,197	₩ 123,771	₩ 568,071
Inter-company revenue	(2,612)	(28,702)	(21,344)	(52,658)
Net revenue	₩ 151,491	₩ 261,495	₩ 102,427	₩ 515,413

(in millions of Korean won)	2016			
	Nine months (Unaudited)			
	Advertising	Contents	Others	Total
Revenue	₩ 394,245	₩ 546,069	₩ 171,056	₩ 1,111,371
Inter-company revenue	(1,732)	(65,711)	(33,534)	(100,977)
Net revenue	₩ 392,513	₩ 480,358	₩ 137,522	₩ 1,010,394

(in millions of Korean won)	2016			
	Three months (Unaudited)			
	Advertising	Contents	Others	Total
Revenue	₩ 127,956	₩ 217,084	₩ 76,894	₩ 421,934
Inter-company revenue	(1,031)	(18,719)	(10,793)	(30,543)
Net revenue	₩ 126,925	₩ 198,365	₩ 66,101	₩ 391,391

There is no external customer contributing more than 10% of the total revenue for the three-month and nine-month periods ended September 30, 2017 and 2016.

5. Credit Quality of Financial Assets

The credit quality of financial deposits that are neither past due nor impaired is assessed by reference to external credit ratings, if available, or to historical information about counterparty's default rates.

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

6. Investments in Associates

Details of associates of the Company as of September 30, 2017 and December 31, 2016, are as follows:

(in millions of Korean won)

		September 30, 2017				December 31, 2016
Name[1]	Location	Percentage of ownership (%)	Acquisition cost	Net assets	Book value	Book value
			(Unaudited)			
Flowgamez	Korea	34.0	₩ -	₩ (546)	₩ -	₩ -
Adcredit [3]	Korea	17.7	314	84	84	83
NBT Inc. [3]	Korea	10.5	37	1,978	1,978	1,719
DAUM Venture Fund	Korea	39.5	8,366	9,395	9,395	9,764
DMS Network, Inc. [3]	USA	19.7	1,987	109	-	-
Tapas Media, Inc.	USA	26.9	2,981	668	3,072	2,656
UserStory Lab	Korea	35.7	500	-	-	-
DAUM KAKAO PHILIPPINES CORP.	Philippines	50.0	5,609	4,330	4,330	4,698
3Point Inc.	Korea	20.0	400	(52)	-	-
MannaCEA	Korea	28.6	10,000	4,079	4,079	8,591
NeoBazar	Korea	29.5	625	479	636	478
Silver Star Games Inc.	Korea	20.0	94	4	-	104
Oscar Entertainment	Korea	20.0	1,997	1,139	1,139	1,997
Left Right Co., Ltd.	Korea	40.0	400	85	313	373
SCI VENTURE, INC. (formerly, Bitmarket.ph, Inc.)	Philippines	41.0	1,239	479	1,194	655
SONNORI CORP. (formerly, ROI GAMES CORP.)	Korea	40.1	5,929	276	4,450	5,635
CNT TECH CO.,LTD. [3]	Korea	18.0	5,001	5,921	5,921	5,894
JOH&Company	Korea	45.5	10,000	8,796	8,796	9,793
You Are the Designer [3]	Korea	19.2	500	(289)	-	75
Nexzen I&C Co., Ltd.	Korea	23.5	-	-	-	200
LUXROBO Co., Ltd. [3]	Korea	15.9	5,287	621	5,269	-
Leferi Inc. [3]	Korea	11.0	1,500	256	1,477	638
Deleo Korea Co.,Ltd. [3] (formerly, Wex 24 Korea)	Korea	11.1	3,000	610	2,923	1,158
HASYS [2]	Korea	-	-	-	-	3,438
Tangram Design Lab Inc. [2]	Korea	-	-	-	-	-
Tangram Factory [5]	Korea	55.6	-	(641)	-	-
Skelter Labs, Inc. [3]	Korea	8.9	1,001	149	917	-
TOROOC Inc. [3]	Korea	9.1	1,000	130	976	-
DreamSide Co., Ltd.	Korea	50.0	5	5	5	-
DIGISONIC Co., Ltd. [3]	Korea	16.7	100	93	93	-
D&C MEDIA CO.,LTD. [3]	Korea	18.4	12,614	5,741	16,125	-
K Cube NEO Fund [3]	Korea	15.0	750	725	725	-
Quicket Co., Ltd. [3]	Korea	10.4	203	(158)	203	-
Supergene Inc. [3]	Korea	10.0	997	61	997	-
Others (67 companies) [4]	Korea	2.4~27.9	61,306	10,483	59,560	59,127
			₩ 143,741	₩55,011	₩ 134,655	₩ 117,076

[1] Investments in associates are all unlisted securities.

[2] As the Company obtained control over the entities for the nine-month period ended September 30, 2017, the entities are reclassified into subsidiaries from investments in associates.

[3] 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.

[4] Small-sized entities invested into by K Cube Venture Fund no.1, KAKAO Venture Fund, Kakao Digital Contents Fund, Kakao Game Growth Share Fund, KAKAO_CCVC Jeju Creative Economy Innovative Fund and Kakao Investment Co., Ltd. with the ownership percentage of 2.4%~27.9% and classified as associates as the Company is considered to have a significant influence.

[5] Although the Company holds more than 50% of equity shares, it is classified as an associate as the Company does not have control over the entity.

Changes in carrying amounts of investments in associates for the nine-month periods ended September 30, 2017 and 2016, are as follows:

(in millions of Korean won)

	2017 (Unaudited)								
Name	Beginning balance	Changes in scope of consolidation	Acquisition	Transfer	Disposal and impairment	Gain (loss) on valuation of equity-method investments	Share of other comprehensive income (loss) of associates	Others	Ending balance
Flowgamez	₩ -	₩ -	₩ -	₩ -	₩ -	₩ -	₩ -	₩ -	₩ -
Adcredit	83	-	-	-	-	-	-	-	83
NBT Inc.	1,719	-	-	-	-	258	-	-	1,978
DAUM Venture Fund	9,764	-	-	-	(1,581)	1,219	(7)	-	9,395
DMS Network, Inc.	-	-	-	-	-	-	-	-	-
Tapas Media, Inc. [2]	2,656	-	-	-	-	(439)	(112)	967	3,072
UserStory Lab	-	-	-	-	-	-	-	-	-
DAUM KAKAO PHILIPPINES CORP.	4,698	-	-	-	-	(1)	(367)	-	4,330
3Point Inc.	-	-	-	-	-	-	-	-	-
MannaCEA [3]	8,591	-	-	-	(5,390)	(1,062)	-	1,940	4,079
NeoBazar [2]	478	-	-	-	-	(71)	-	230	636
Silver Star Games Inc. [3]	104	-	-	-	(104)	-	-	-	-
Oscar Entertainment	1,997	-	-	-	-	(858)	-	-	1,139
Left Right Co., Ltd.	373	-	-	-	-	(60)	-	-	313
SCI VENTURE, INC. (formerly, Bitmarket.ph, Inc.)	655	-	578	-	-	(220)	180	-	1,194
SONNORI CORP. (formerly, ROI GAMES CORP.)	5,635	-	-	-	-	(1,186)	-	-	4,450
CNT TECH CO., LTD.	5,894	-	-	-	-	35	(8)	-	5,921
JOH&Company	9,793	-	-	-	-	(997)	-	-	8,796
You Are the Designer [7]	75	-	-	389	-	(462)	(1)	-	-
Nexzen I&C Co., Ltd.	200	-	-	-	(200)	-	-	-	-
LUXROBO Co., Ltd. [7]	-	-	2,287	3,000	-	(130)	-	112	5,269
Leferi Inc. [7]	638	-	-	862	-	(23)	-	-	1,477
Deleo Korea Co., Ltd. (formerly, Wex 24 Korea) [7]	1,158	-	-	1,842	-	(72)	-	(6)	2,923
HASYS [1]	3,438	(3,438)	-	-	-	-	-	-	-
Tangram Design Lab Inc. [1,3,4]	-	(135)	2,337	-	(1,676)	(526)	-	-	-
Tangram Factory	-	-	-	-	-	-	-	-	-

Skelter Labs, Inc. [5]	-	-	1,001	-	-	(84)	-	-	917
TOROOC Inc. [5]	-	-	1,000	-	-	(24)	-	-	976
DreamSide Co., Ltd. [5]	-	-	5	-	-	-	-	-	5
DIGISONIC Co., Ltd. [5]	-	-	100	-	-	(7)	-	-	93
D&C MEDIA CO.,LTD. [5]	-	-	12,614	-	-	483	-	3,027	16,125
K Cube NEO Fund [5]	-	-	750	-	-	(25)	-	-	725
Quicket Co., Ltd. [5]	-	-	1,000	-	(797)	-	-	-	203
Supergene Inc. [5]	-	-	997	-	-	-	-	-	997
Others [6]	59,127	-	10,803	-	(8,452)	(4,222)	89	2,215	59,560
	₩ 117,076	₩(3,572)	₩33,471	₩6,093	₩(18,200)	₩(8,473)	₩225	₩ 8,485	₩134,655

[1] Reclassified from investments in associates to subsidiaries, as the Company obtained control over the entities during the nine-month period ended September 30, 2017.

[2] Others include gain or loss on disposal from changes in percentage of ownership with maintaining significant influence during the nine-month period ended September 30, 2017.

[3] During the nine-month period ended September 30, 2017, the Company recognized impairment loss for investments in MannaCEA and other two associates as their recoverable amount is considered less than their book value as of September 30, 2017.

[4] During the nine-month period ended September 30, 2017, the Company acquired 10,809 ordinary shares through investment in kind.

[5] Newly acquired during the nine-month period ended September 30, 2017.

[6] During the nine-month period ended September 30, 2017, the Company acquired Perseus and other 17 associates.

[7] During the nine-month period ended September 30, 2017, as a result of the exercise of convertible bonds, long-term available-for-sale securities are reclassified as investments in associates.

(in millions of Korean won)

Name	2016 (Unaudited)							
	Beginning balance	Changes in scope of consolidation	Acquisition	Disposal and impairment	Gain (loss) on valuation of equity-method investments	Share of other comprehensive income (loss) of associates	Others	Ending balance
Adcredit (formerly, Add2paper)	₩ 342	₩ -	₩ -	₩ -	₩ (20)	₩ -	₩ -	₩ 323
NBT Inc.	1,306	-	-	-	406	-	-	1,711
DAUM Venture Fund	9,393	-	-	-	412	-	-	9,805
DMS Network, Inc.	109	-	-	-	(109)	-	-	-
Tapas Media, Inc. [4]	1,870	-	1,142	-	(346)	(75)	252	2,842
DAUM KAKAO PHILIPPINES CORP.	5,393	-	-	-	(583)	(446)	-	4,364
3Point Inc.	287	-	-	(267)	(20)	-	-	-
HASYS	3,456	-	-	-	189	(46)	-	3,600
MannaCEA	9,660	-	-	-	(921)	305	-	9,044
NeoBazar	606	-	-	-	(71)	-	-	534
Silver Star Games Inc.	94	-	-	-	11	-	-	105
Oscar Entertainment [1]	-	-	1,997	-	(142)	-	-	1,855
Tangram Design Lab Inc. [2]	-	1,915	-	-	(1,182)	7	-	740
NAVIRO Co., Ltd. (formerly, DeNA Locations) [3]	4,202	(4,125)	-	-	(315)	239	-	-
Left Right Co., Ltd. [1]	-	-	400	-	(17)	-	-	383
SCI VENTURE, INC. (formerly, Bitmarket.ph, Inc.) [1]	-	-	616	-	(13)	83	-	686
You Are The Designer [1]	-	-	111	-	-	-	-	111
ROI GAMES CORP. [1]	-	-	5,929	-	-	-	-	5,929
CNT TECH CO., LTD. [1]	-	-	5,001	-	-	-	-	5,001
Others [4]	31,986	-	24,003	(420)	(4,151)	(7)	2,231	53,642
	₩ 68,704	₩ (2,211)	₩ 39,199	₩ (687)	₩ (6,873)	₩ 60	₩ 2,482	₩ 100,675

[1] Newly acquired during the nine-month period ended September 30, 2016

[2] Reclassified as investments in associates, as the Company lost its control over the entity during the nine-month period ended September 30, 2016.

[3] Reclassified from investments in associates to subsidiary, as the Company obtained control over the entity during the nine-month period ended September 30, 2016.

[4] Others include gain or loss on disposal from changes in percentage of ownership with maintaining significant influence during the nine-month period ended September 30, 2016.

7. Property and Equipment

Changes in property and equipment for the nine-month periods ended September 30, 2017 and 2016, are as follows:

(in millions of Korean won)	2017 (Unaudited)	2016 (Unaudited)
Beginning balance	₩ 253,854	₩ 219,052
Changes in scope of subsidiaries	3,697	8,935
Acquisition	54,591	60,873
Disposal	(2,618)	(527)
Depreciation	(45,073)	(41,782)
Others[1]	172	30
Ending balance	₩ 264,623	₩ 246,581
Acquisition cost	442,891	375,486
Accumulated depreciation	(177,935)	(128,476)
Government grants	(333)	(429)
Net book value	₩ 264,623	₩ 246,581

[1] Others include changes in carrying amounts resulting from currency translation differences.

As of September 30, 2017, a certain portion of land is pledged as collateral for contract fulfilment (Note 16).

8. Intangible assets

Changes in intangible assets for the nine-month periods ended September 30, 2017 and 2016, are as follows:

(in millions of Korean won)	2017 (Unaudited)	2016 (Unaudited)
Beginning balance	₩ 3,733,166	₩ 1,855,604
Changes in scope of subsidiaries	9,434	1,903,857
Acquisitions	19,508	20,989
Disposals	(624)	(136)
Impairment [1]	(8,192)	(2,105)
Amortization	(49,564)	(40,312)
Others [2]	(149)	(596)
Ending balance	₩ 3,703,579	₩ 3,737,301
Acquisition cost	3,873,771	3,824,249
Accumulated amortization	(139,333)	(72,498)
Accumulated impairment	(30,853)	(14,442)
Government grants	(6)	(8)
Net book value	₩ 3,703,579	₩ 3,737,301

[1] The impairment loss on goodwill and other intangible assets is recognized for Kids Note Co., Ltd. and certain other subsidiaries, as the recoverable amount decreased and became less than the carrying amount.
[2] Others include changes in carrying amounts resulting from currency translation differences.

9. Borrowings

Short-term and long-term borrowings as of September 30, 2017 and December 31, 2016, are as follows:

(in millions of Korean won)

Classification	Lender	September 30, 2017	December 31, 2016
		(Unaudited)	
Short-term borrowings	Commercial paper	₩ 150,000	₩ 200,000
	Borrowings from financial institute	390	180
	Redeemable convertible preferred shares [1]	4,593	3,676
	Others	44	44
		155,027	203,900
Current portion of long-term borrowings	Convertible Bond [2]	452	42
Long-term borrowings	Borrowings from financial institute	-	250
	General Bond	319,527	319,255
	Convertible Bond	247,122	248,928
	Exchangeable Bond	227,672	227,194
	Redeemable convertible preferred shares	-	300
		794,321	795,927
		₩ 949,800	₩ 999,869

[1] Redeemable convertible preferred shares are issued by subsidiaries and their redemption rights are exercisable as of September 30, 2017.

[2] A convertible bond is issued by a subsidiary and the redemption right granted to a convertible bond is exercisable within one year from the day after issuance date.

Changes in borrowings for the nine-month periods ended September 30, 2017 and 2016, are as follows:

(in millions of Korean won)	2017 (Unaudited)	2016 (Unaudited)
Beginning balance	₩ 999,869	₩ 221,830
Changes in scope of consolidation	2,247	(2,506)
Borrowings	304,015	1,794,549
Repayments	(355,846)	(1,002,412)
Amortization of present value discount account	1,509	3,710
Others	(1,994)	(1,923)
Ending balance	₩ 949,800	₩ 1,013,248

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

		Detail
Type		Non-guaranteed private convertible bond
Principal amount		₩250,000 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	₩120,014 (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 such as capital increase with/without consideration and others
Investor's 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. In addition, ₩1,993 million of the convertible bonds were converted into ordinary shares in 2017 (Notes 10).

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

		Details
Type		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	₩103,539 (per share)
	Exchange into	Shares of common stock, par value ₩500 per share, of LOEN ENTERTAINMENT, INC., which are listed on the KRX KOSDAQ Market
	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 such as capital increase with/without consideration, cash dividends on the share of LOEN ENTERTAINMENT, INC. and others
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 LOEN ENTERTAINMENT, INC., 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 on the KRX KOSDAQ Market
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 30th 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 of September 30, 2017, the Company has received payment guarantees from KB Kookmin Bank for the exchangeable bonds. In connection with the said payment guarantees, 2,529,171 ordinary shares of LOEN ENTERTAINMENT, INC. held by the Parent Company and the stock return rights for the remaining shares subject to exchange are provided as collateral. 2,221,389 shares subject to be exchanged are deposited in Korea Securities Depository.

Details of redeemable convertible preferred shares issued by two subsidiaries as of September 30, 2017, are as follows:

	Issuer	
	Kakao Games Corp.	Peoplug Inc.
Date of issue	October 2015	August 2013
Value at issue	₩10,001 million	₩300 million
Dividend rate for preferred shares	1% of par value	1% of issue value
Guaranteed yield upon redemption	8%	10%
Conversion period	For 10 years from issuance date	From the day after issuance date to the day before 10 years from issuance date
Conversion rate	1 preferred share for 1 common share	1 preferred share for 1 common share
Redemption period	Redeemable from one year after issuance date	Redeemable from three years after issuance date

These preferred shares are mandatorily redeemable at their par value plus its annual premium minus dividends paid before the redemption. In relation to these preferred shares, interest expense is recorded as finance costs in the consolidated statement of comprehensive income using effective interest rate method.

These redeemable convertible preferred shares are classified as liabilities. The early redemption right and the conversion right are recorded as derivative financial liabilities in the case that they are considered as an embedded derivative which meets certain criteria accounting for separately from the host contract.

Details of convertible bond issued by a subsidiary as of September 31, 2017, are as follows:

		Details
Issuer		SuperNova11 Corp.
Type		Private convertible bond
Principal amount		₩450 million
Interest rate	Coupon rate	0%
	Yield rate	2%
Date of maturity		July 19, 2022
Redemption at maturity		The bonds to be redeemed at their principal amount with 2% of yield to maturity on the maturity date
Conversion details	Conversion ratio	100%
	Conversion price	₩14,144 (per share)
	Conversion to	Ordinary shares of SuperNova11 Corp.
	Conversion period	From and including August 19, 2017 up to and including June 19, 2022
	Conversion price adjustments	Adjusted in accordance with the agreement in the event of any occasions prescribed in the agreement such as capital increase with/without consideration and others
Investor's redemption right (Put Option)		Bondholders may claim early redemption before the maturity date for either entire or partial amount of principal on six months after issuance date and every half year from the six months after issuance date.

10. Share Capital and Share Premium

As of September 30, 2017, the Parent Company's total number of authorized shares is 150 million and the total number of issued shares and outstanding ordinary shares are 67,939,099 and 67,839,099, 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 up to 15% of total number of issued stocks. As of September 30, 2017, the number of outstanding stock options is 1,554,904 shares (Note 11).

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 and ₩500 billion respectively to investors other than current shareholders, with the resolution of the board of directors. As of September 30, 2017, the Parent Company has issued convertible bonds amounting to ₩248,000 million (Note 9).

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 25% of the total number of shares issued. The Parent Company has only issued ordinary shares and no other classes having the above conditions as of September 30, 2017.

Changes in share capital and additional paid-in capital during the nine-month periods ended September 30, 2017 and 2016 are as follows:

(in millions of Korean won, except number of shares)	Description	Number of ordinary shares	Share capital	Additional paid-in capital	Total
			(Unaudited)		
At January 1, 2016	Beginning balance	60,196,088	₩ 30,098	₩ 2,274,538	₩2,304,636
At January 11, 2016	Exercise of stock options	70,000	35	9	44
At February 15, 2016	Exercise of stock options	221,567	111	4,074	4,185
At March 2, 2016	Exercise of stock options	138,214	69	4,175	4,244
At March 17, 2016	Issue of new shares [1]	6,913,339	3,457	754,226	757,683
At April 5, 2016	Exercise of stock options	18,333	9	295	304
At May 2, 2016	Exercise of stock options	550	-	9	9
At June 16, 2016	Exercise of stock options	52,851	26	458	484
At July 18, 2016	Exercise of stock options	1,000	1	8	9
At September 5, 2016	Exercise of stock options	13,170	7	130	137
At September 30, 2016	Ending balance	67,625,112	₩ 33,813	₩ 3,037,922	₩3,071,735
			(Unaudited)		
At January 1, 2017	Beginning balance	67,715,715	₩ 33,858	₩ 3,038,607	₩3,072,465
At January 23, 2017	Exercise of stock options	48,443	24	177	201
At February 21, 2017	Exercise of stock options	10,716	5	27	32
At March 23, 2017	Exercise of stock options	41,298	21	133	154
At April 21, 2017	Exercise of stock options	64,963	32	359	392
At August 25, 2017	Exercise of stock options	11,600	6	248	254
At September 18, 2017	Exercise of stock options	29,700	15	525	540
At September 26, 2017	Conversion of convertible bonds	16,664	8	1,985	1,992
At September 30, 2017	Ending balance	67,939,099	₩ 33,970	₩ 3,042,060	₩3,076,030

[1] In connection with the acquisition of LOEN ENTERTAINMENT, INC., a part of the acquisition consideration was paid by issuing the Parent Company's own equity instruments.

Prior to 2014, 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.

11. Share-based compensation

Details of stock options as of September 30, 2017, 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:
  3rd - 6th tranches: The requisite service period is two years, exercisable from two to seven years after grant date.
  10th, 12th, 14th, 16th tranches: The requisite service period is two years, exercisable from two to seven years after grant date.
  9th, 11th, 13th, 17th 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:
  1st - 2nd tranches: The requisite service period is two years, exercisable from two years to four years after grant date.
  3rd - 4th 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.

(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. The Company 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:
  18th, 21th-22th 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.
  19th-20th, 23th 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 if it exists that 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.

Details of equity-settled stock options outstanding as of September 30, 2017, are as follows:

			Number of shares					
Tranche	Grant date	Exercise price (in Korean won)	Outstanding as of January 1, 2017	Granted	Forfeited	Exercised	Outstanding as of September 30, 2017	Exercisable as of September 30, 2017
3rd	May 20, 2010	₩ 500	94,000	-	-	94,000	-	-
4th	March 25, 2011	1,607	33,777	-	-	15,500	18,277	18,277
5th	June 10, 2011	1,607	41,320	-	-	14,933	26,387	26,387
6th	November 11, 2011	6,428	68,221	-	-	33,177	35,044	35,044
9th	January 20, 2012	7,714	17,000	-	-	7,000	10,000	10,000
10th	March 30, 2012	10,285	9,277	-	-	5,277	4,000	4,000
11th	March 30, 2012	10,285	1,000	-	-	-	1,000	1,000
12th	August 31, 2012	12,857	49,937	-	-	17,551	32,386	32,386
13th	August 31, 2012	12,857	15,252	-	-	716	14,536	14,536
14th	December 14, 2012	12,857	11,432	-	-	-	11,432	11,432
16th	March 28, 2013	32,143	50,908	-	-	16,566	34,342	34,342
17th	March 28, 2013	32,143	2,000	-	-	2,000	-	-
18th	March 02, 2017	85,350	-	349,500	12,000	-	337,500	-
19th	March 02, 2017	85,350	-	546,000	20,000	-	526,000	-
20th	March 17, 2017	84,650	-	100,000	-	-	100,000	-
21th	May 02, 2017	88,600	-	348,500	10,000	-	338,500	-
22 th	September 28, 2017	131,500	-	50,500	-	-	50,500	-
23 th	September 28, 2017	131,500	-	15,000	-	-	15,000	-
			394,124	1,409,500	42,000	206,720	1,554,904	187,404

In addition to the aforementioned stock options, the Company granted equity-settled stock options in relation to the shares of its subsidiaries such as Podotree Inc., Sellit Inc., Kakao Games Corp., PATH MOBILE INC. PTE. LTD., Valuepotion and TNK Factory and Kakao Investment Co.,Ltd. and Kakao Makers Corp..

Compensation costs of equity-settled stock options are calculated by applying a fair value approach using Black-Scholes model, Binomial model and Least Square Mote-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[1]	Expected dividends	Expected maturity	Risk free Interest rate
3rd	₩ 207	₩ 600	59%	0%	2 years	3.43%
4th	625	2,500	40%	0%	2 years	3.61%
5th	602	2,500	38%	0%	2 years	3.61%
6th	2,527	10,000	41%	0%	2 years	3.39%
9th	3,981	12,000	44%	0%	3 years	3.40%
10th	3,984	16,000	40%	0%	2 years	3.52%
11th	5,055	16,000	41%	0%	3 years	3.55%
12th	4,991	20,000	41%	0%	2 years	2.77%
13th	6,090	20,000	40%	0%	3 years	2.76%
14th	5,188	20,000	43%	0%	2 years	2.86%
16th	12,719	50,000	42%	0%	2 years	2.46%
17th	14,770	50,000	40%	0%	3 years	2.44%
18th	15,086	85,300	11%	0%	2-3 years	2.14%
19th	8,696	85,300	11%	0.17%	2-3 years	2.14%
20th	7,931	84,000	11%	0.17%	2-3 years	2.09%
21th	19,153	92,600	11%	0.16%	2-3 years	2.13%
22th	30,997	139,500	11%	0.11%	2-3 years	2.30%
23th	4,631	139,500	11%	0.11%	2-3 years	2.30%

[1] The volatility measured for 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 cash-settled stock options outstanding as of September 30, 2017, are as follows:

			Number of shares				
Tranche	Grant date	Exercise price (in Korean won)	Outstanding as of January 1, 2017	Granted	Exercised	Outstanding as of September 30, 2017	Exercisable as of September 30, 2017
1st	July 31, 2013	₩ 32,143	9,080	-	9,080	-	-
2nd	October 31, 2013	50,144	7,777	-	7,777	-	-
3rd	May 02, 2017	88,600	-	7,000	-	7,000	-
4th	September 28, 2017	131,500	-	500	-	500	-
			16,857	7,500	16,857	7,500	-

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

The fair value of cash-settled stock options was determined using Black-Scholes option pricing model. As of September 30, 2017, there is no cash-settled stock options exercisable.

Share-based compensation recognized as expenses for the three-month and nine-month periods ended September 30, 2017 and 2016, are as follows:

(in millions of Korean won)	2017		2016	
	Three-month	Nine-month	Three-month	Nine-month
	(Unaudited)		(Unaudited)	
Equity-settled stock option[1]	₩ 2,238	₩ 5,600	₩ 421	₩ 1,122
Cash-settled stock option[2]	148	678	691	(1,223)
	₩ 2,386	₩ 6,278	₩ 1,112	₩ (101)

[1] Amounts for the nine-month period ended September 30, 2017 include ₩1,872 million of share-based compensation recognized as expenses for the shares of subsidiaries.
[2] Amounts for the nine-month period ended September 30, 2017 include ₩113 million of share-based compensation recognized as expenses for the shares of subsidiaries.

12. Operating Expenses

Operating expenses for the three-month and nine-month periods ended September 30, 2017 and 2016, are as follows:

(in millions of Korean won)	2017		2016	
	Three-month	Nine-month	Three-month	Nine-month
	(Unaudited)		(Unaudited)	
Salaries	₩ 76,135	₩ 232,889	₩ 69,523	₩ 197,050
Retirement benefit expense	6,147	18,373	6,081	17,782
Share-based compensation	2,386	6,278	1,112	(100)
Welfare	13,499	39,248	12,566	39,014
Travel and transportation expense	1,773	4,485	1,353	4,153
Taxes and dues	1,330	2,570	681	2,899
Rental expense	7,107	20,717	6,034	15,383
Commission	189,176	527,209	146,094	353,170
Advertising expenses	33,460	80,348	23,936	47,612
Depreciation	15,338	45,073	14,317	41,782
Amortization	16,439	49,564	15,107	40,312
Advertising agency fee	21,975	65,000	19,357	60,873
Cost of goods	39,939	91,512	16,386	33,706
Contents fee	33,658	86,902	22,913	59,937
Expenses for events	407	844	294	784
Others	9,278	26,292	5,382	18,073
	₩ 468,047	₩ 1,297,304	₩ 361,136	₩ 932,430

13. Income Tax Expense

Income tax expense is recognized based on the best estimate of the weighted average annual income tax rate for the full financial year. The income tax expense of ₩10,446 million for the nine-month period ended September 30, 2017 (income tax expense for the nine-month period ended September 30, 2016: ₩21,070 million) is recognized due to decrease in effective tax rate by the refunded income tax through the tax appeal and increase in effective tax rate by not recognizing deferred income tax assets related to the loss from subsidiaries and associates.

14. 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 three-month and the nine-month periods ended September 30, 2017 and 2016. Basic earnings per share for the three-month and the nine-month periods ended September 30, 2017 and 2016, is calculated as follows:

(in millions of Korean won, except per share data)	2017		2016	
	Three-month	Nine-month	Three-month	Nine-month
	(Unaudited)		(Unaudited)	
Net income attributable to equity holders of the Parent Company	₩ 32,055	₩ 97,073	₩ 12,215	₩ 34,225
Weighted average number of ordinary shares outstanding	67,781,715	67,734,904	67,509,191	65,487,546
Basic earnings per share	₩ 473	₩ 1,433	₩ 181	₩ 523

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 share options and convertible bonds as dilutive potential ordinary shares.

Diluted earnings per share for the three-month and the nine-month periods ended September 30, 2017 and 2016, is calculated as follows:

(in millions of Korean won, except per share data)	2017		2016	
	Three-month	Nine-month	Three-month	Nine-month
	(Unaudited)		(Unaudited)	
Profit attributable to equity holders of the Parent Company	₩ 32,055	₩ 97,073	₩ 12,215	₩ 34,225
Interest cost for convertible bonds	48	141	-	-
	32,103	97,214	12,215	34,225
Weighted average number of ordinary shares outstanding	67,781,715	67,734,904	67,509,191	65,487,546
Adjustment for:				
Stock options	257,956	247,227	452,463	562,160
Convertible bonds	2,066,426	2,066,426	2,083,090	1,292,428
Weighted average number of ordinary shares for diluted earnings per share	70,110,097	70,048,556	70,044,744	67,342,134
Diluted earnings per share	₩ 458	₩ 1,388	₩ 174	₩ 508

15. Cash Generated from Operations

Details of cash generated from operations for the nine-month periods ended September 30, 2017 and 2016, are as follows:

(in millions of Korean won)	September 30, 2017	September 30, 2016
	(Unaudited)	
Profit before income tax	₩ 117,336	₩ 58,884
Adjustments :		
Depreciation	45,073	41,782
Amortization	49,564	40,312
Retirement benefit expense	18,373	15,981
Compensation cost of share-based payments	6,278	(100)
Interest income	(8,697)	(7,268)
Interest expense	9,017	10,928
Share of net profit of associates	8,473	6,873
Loss on disposal of equity method investments	-	322
Gain on disposal of equity method investments	(11,958)	(3,218)
Impairment losses on equity method investments	7,715	267
Gain on foreign currency translations	(2,988)	(361)
Loss on foreign currency translations	8,720	802
Other long-term employee benefits	5,958	5,741
Impairment losses on intangible assets	8,192	2,105
Gain on disposal of intangible assets	(968)	(190)
Loss on disposal of intangible assets	59	-
Gain on disposal of property and equipment	(306)	(56)

Loss on abandonment of property and equipment		444		127
Gain on disposal of available-for-sale securities		(8,927)		(231)
Loss on disposal of available-for-sale securities		358		-
Loss on valuation of derivative financial instruments		22		-
Gain on transaction of derivative financial instruments		(30)		-
Impairment losses on other assets		877		3,421
Dividend income		-		(659)
Others		(1,648)		2,172
Changes in operating assets and liabilities :				
Trade receivables		(11,397)		(11,093)
Inventories		(2,614)		(3,387)
Other current financial assets		(16,950)		(12,821)
Other current assets		806		(11,709)
Other non-current assets		(5,285)		(4,889)
Trade payables and others payables		9,670		47,614
Other current liabilities		34,421		70,716
Other current financial liabilities		(6,071)		(4,069)
Other non-current liabilities		(607)		(22)
Net defined benefit liabilities		(2,626)		(10,552)
Other long-term employee benefits liabilities		(1,190)		(777)
Provision		(512)		272
Others		(1,880)		378
Cash generated from operations	₩	246,701	₩	237,295

Significant transactions not affecting cash flows for the nine-month periods ended September 30, 2017 and 2016, are as follows:

(in millions of Korean won)	September 30, 2017	September 30, 2016
	(Unaudited)	
Provision for restoration to specific property and equipment account	₩ 144	₩ 407
Write-offs of trade receivables	776	-
Other payables related to acquisition of property and equipment	670	1,722
Advanced payments related to acquisition of property and equipment	1,840	-
Other receivables related to acquisition of property and equipment	-	30
Other payables related to acquisition of intangible assets	139	41
Short–term advanced payments related to acquisition of intangible assets	1,050	-
Long–term advanced payments related to acquisition of intangible assets	-	(768)
Other payables related to business combination	-	1,950
Payment of the transfer consideration by issuing own equity instruments	-	757,702
Acquisition of investments in associates by investment in kind	2,337	-
Transfer from long-term available-for-sale securities to investments in associates	6,093	-
Conversion of convertible bonds	1,993	-

16. Commitments and Contingencies

The Company has provided the following guarantees as of September 30, 2017 and December 31, 2016:

(in millions of Korean won)

Beneficiary	Guaranteed item	September 30, 2017 (Unaudited)	December 31, 2016
Employees[1]	Employee loans	₩ 175	₩ 573

[1] The Company provided its employees payment guarantee with banks for the employees' bank loans related to their welfare and the Company's deposits of ₩9,196 million are pledged as collateral.

The Company has been provided with the following guarantees by others as of September 30, 2017 and December 31, 2016:

(in millions of Korean won)

Guarantor	Details	September 30, 2017 (Unaudited)	December 31, 2016	Beneficiary
Seoul Guarantee Insurance and others	Performance guarantee and others	₩ 5,161	₩ 4,615	Korea Workers' Compensation & Welfare Service, etc.
Korea Technology Finance Corporation	General guarantee for borrowings	₩ -	₩ 80	KEB Hana Bank, etc.

As of September 30, 2017, the Company is involved in 14 lawsuits amounting to ₩1,953 million as a defendant or co-defendant. The Company does not expect that these cases would have a material impact on its consolidated interim financial statements.

The Company's agreements with financial institutions and commitments as of September 30, 2017 are as follows:

(in millions of Korean won)	Agreements	Maximum limit (Unaudited)	Amount executed (Unaudited)
Korea Development Bank	Bank loans for Industry Working capital	₩ 5,000	₩ -
Shinhan Bank	Operating loans with credit limits	10,000	-
Shinhan Bank	Credit loan	250	250
Industrial Bank of Korea	Credit loan	100	100
Small & medium Business Corporation	Loans for small and medium enterprises	100	25

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 LOEN ENTERTAINMENT, INC., equivalent to 100% of the total exchangeable shares, 8.67% of the ownership. 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.

Financial instruments restricted as of September 30, 2017 and December 31, 2016:

(in millions of Korean won)		September 30, 2017	December 31, 2016	Purpose of restriction
		(Unaudited)		
Short-term financial instruments	₩	574	₩ 604	Related to legal procedure
		9,196	7,968	Payment guarantee for employees' loan
		-	1,430	Contractual obligation
		4,221	4,183	Payment guarantee for lease
		-	50	Payment guarantee for borrowings
		1,832	450	Others
	₩	15,823	₩ 14,685	

The following assets are pledged as collateral in relation to guarantees for contract fulfilment as of September 30, 2017:

(in millions of Korean won)

Asset	Beneficiary	Book value	Collateralized amount	Type of Guarantee
Land	Jeju Provincial Government	₩ 34,501	₩ 8,180	Guarantee for contract fulfilment

17. Business combination

During the nine-month period ended September 30, 2017, the Company acquired the shares of four companies including Tangram Design Lab Inc. which became its subsidiaries. Details of the percentage of ownership acquired, the consideration paid and goodwill recognized thereto are as follow:

(in millions of Korean won)

Company	Percentage of ownership acquired (%)	Consideration	Goodwill
		(Unaudited)	
Tangram Design Lab Inc.	63.6	₩ 134	₩ -
HASYS	35.0	3,438	1,442
Fixel Hub Co.,Ltd.	51.0	100	48
Mega monsters (formerly, Stroyplant)	100.0	100	1,964
		₩ 3,772	₩ 3,454

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 during the nine-month period ended September 30, 2017, are as follows:

Company	Consideration transferred	Assets acquired and liabilities assumed				
		Fair value of net asset	Non-controlling interest	Subtotal	Goodwill	Total
		(Unaudited)				
Tangram Design Lab Inc.	₩ 134	₩ 134	₩ -	₩ 134	₩ -	₩ 134
HASYS	3,438	5,701	(3,705)	1,995	1,442	3,437
Fixel Hub Co.,Ltd.	100	101	(50)	52	48	100
Mega monsters (formerly, Stroyplant)	100	(1,864)	-	(1,864)	1,964	100
	₩ 3,772	₩ 4,072	₩ (3,755)	₩ 317	₩ 3,455	₩ 3,772

18. Related Party Transactions

The list of related parties as of September 30, 2017 and December 31, 2016, are follows:

Relationship	September 30, 2017 Related Parties
Associates and Joint Ventures	Flowgamez, Adcredit, DMS Network, Inc., NBT Inc., Tapas Media, Inc., DAUM Venture Fund, UserStory Lab, DAUM KAKAO PHILIPPINES CORP., SNACKVOX INC. PTE. LTD., 3Point Inc., NBT AMERICA INC., NBT CHINA INC, MannaCEA, Manna Town, Farmit, Farmit2, Neobazar, PT.Neo Bazar Indonesia, Silver Star Games Inc., Oscar Entertainment, Left Right Co., Ltd., SCI VENTURE, INC. (formerly, Bitmarket.ph, Inc.), Tangram Factory, TANGRAMFACTORY AMERICA, INC., SONNORI CORP. (formerly, ROI GAMES CORP.), TOONNORI((Formerly ROICOMI), CNT TECH CO.,LTD., JOH&Company, Leferi Inc., You Are the Designer, LUXROBO Co., Ltd., Leferi Inc., Deleo Korea Co.,Ltd. (formerly, Wex 24 Korea), D&C MEDIA CO.,LTD., K Cube Neo Fund, Skelter Labs, Inc., TOROOC Inc., DIGISONIC Co., Ltd. , Supergene Inc.,Quicket Co., Ltd., DreamSide Co., Ltd., others (67 companies)
Others	K Cube Holdings Co., Ltd., T for Invest, New learn English Inc., Onyx K., Smart and Growth, MODUDA, PLUS 2 PERCENT, Sounds Good Co.,Ltd., Cognitive Investment Inc.

Relationship	December 31, 2016 Related Parties
Associates and Joint Ventures	Flowgamez, Adcredit, DMS Network, Inc., Nine Flava, NBT Inc., Tapas Media, Inc., DAUM Venture Fund, UserStory Lab, DAUM KAKAO PHILIPPINES CORP., SNACKVOX INC. PTE. LTD., 3Point Inc., NBT Partners Japan, NBT AMERICA INC., HASYS, Manna CEA, Manna Town, Farmit, Farmit2, Neobazar, Silver Star Games Inc., Oscar Entertainment, Left Right Co., Ltd., SCI VENTURE, INC.(Formerly Bitmarket.ph, Inc.), Tangram Design Lab Inc., Tangram Factory, TANGRAMFACTORY AMERICA, INC., SONNORI CORP.(Formerly ROI GAMES CORP.), CNT TECH CO.,LTD., JOH&Company, Leferi Inc., Wex 24 Korea, PT.Neo Bazar Indonesia, You Are the Designer , Nexzen I&C Co., Ltd., others (64 companies)
Others	K Cube Holdings Co., Ltd., T for Invest, New learn English Inc., Onyx K., Smart and Growth, MODUDA, PLUS 2 PERCENT, Inmost Partners, Sounds Good Co.,Ltd., Cognitive Investment Inc.

Transactions with the related parties for the nine-month periods ended September 30, 2017 and 2016, and the relating receivables and payables as of September 30, 2017 and December 31, 2016, are as follows:

Transactions

(in millions of Korean won)	September 30, 2017					
	Revenues			Purchases		
	Sales	Interest income	Others	Service fee	Advertising expense	Others
				(Unaudited)		
Associates						
NBT Inc.	₩ 726	₩ -	₩ 34	₩ 1,221	₩ 250	₩ -
3Point Inc.	5	-	-	-	-	-
WishLink	-	-	-	251	-	-
Dunamu Inc.	636	-	-	48	-	-
Tangram Factory	4	78	-	-	-	-
Leferi Inc.	-	-	-	-	-	-
MannaCEA	9	-	-	-	-	2
Left Right Co., Ltd.	-	-	-	11	-	-
Oscar Entertainment	-	-	-	34	-	-
You are the designer	2	-	-	-	-	-
CNT TECH CO.,LTD.	168	-	-	197	677	1
Tapas Media, Inc.	151	-	-	-	-	-
Quicket Co., Ltd.	-	-	-	1	-	-
LUXROBO Co., Ltd.	-	-	-	3	-	-
D&C MEDIA CO.,LTD.	-	-	-	2,293	-	-
UserStory Lab	-	-	-	-	-	200
	₩ 1,701	₩ 78	₩ 34	₩ 4,059	₩ 927	₩ 203
Others	-	-	-	-	-	-
MODUDA	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 19
	₩ 1,701	₩ 78	₩ 34	₩ 4,059	₩ 927	₩ 222

(in millions of Korean won)

	September 30, 2016				
	Revenues		Purchases		
	Sales	Interest income	Service fee (Unaudited)	Advertising expense	Purchase of intangible assets
Associates					
NBT Inc.	₩ 1,909	₩ -	₩ 1,485	₩ 100	₩ -
3Point Inc.	5	-	-	-	-
WishLink	-	-	497	-	38
NAVIRO Co.,Ltd. (formerly, DeNA Locations)	300	-	-	-	-
Dunamu Inc.	101	-	-	-	-
NeoBazar	-	-	2	28	-
Tangram Design Lab Inc.	-	45	-	-	-
Tangram Factory	5	54	-	-	-
SNACKVOX INC. PTE. LTD.	-	-	7	-	-
HASYS	34	-	-	-	-
MannaCEA	3	-	-	-	-
Left Right Co., Ltd.	-	-	5	-	-
	₩ 2,357	₩ 99	₩ 1,996	₩ 128	₩ 38

Receivables and Payables

(in millions of Korean won)	September 30, 2017					
	Receivables			Payables		
	Trade receivables	Loans	Other receivables	Trade payables	Non-trade payables	Other payables
			(Unaudited)			
Associates						
NBT Inc.	₩ 94	₩ -	₩ 410	₩ -	₩ 192	₩ 25
Dunamu Inc.	227	-	-	-	25	-
3Point Inc. [1]	3	50	-	-	-	-
WishLink	-	-	-	-	30	-
NeoBazar	-	-	-	-	-	-
Silver Star Games Inc.	-	-	-	-	-	-
SONNORI CORP. (formerly, ROI GAMES CORP.)	-	-	500	-	-	-
Tangram Factory	33	2,040	186	-	-	-
MannaCEA	-	-	-	2	-	-
Left Right Co., Ltd.	-	-	-	-	-	-
You are the designer	-	-	-	-	-	-
CNT TECH CO.,LTD.	55	-	-	-	102	-
D&C MEDIA CO.,LTD.	-	-	1,480	-	702	-
Tapas Media, Inc.	50	-	-	-	4	-
Quicket Co., Ltd.	-	-	-	-	-	-
LUXROBO Co., Ltd.	-	-	-	-	1	-
	₩ 462	₩ 2,090	₩ 2,577	₩ 2	₩ 1,057	₩ 25
Others	-	-	-	-	-	-
Onyx K.	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 1
	₩ 462	₩ 2,090	₩ 2,577	₩ 2	₩ 1,057	₩ 26

[1] As of September 30, 2017, allowance for doubtful accounts has been set for the total amount of loans to 3Point Inc

(in millions of Korean won)

	December 31, 2016				
	Receivables			Payables	
	Trade receivables	Loans	Other receivables	Non-trade payables	Other payables
Associates					
NBT Inc.	₩ 250	₩ -	₩ 660	₩ 185	₩ -
UserStory Lab	-	-	200	-	-
Dunamu Inc.	209	-	-	-	-
3Point Inc. [1]	3	50	-	-	-
WishLink	-	-	-	57	-
NeoBazar	-	-	-	-	-
Silver Star Games Inc.	-	-	-	-	-
Tangram Design Lab Inc.	-	2,100	93	-	-
Tangram Factory	-	1,540	75	-	-
HASYS	56	-	85	73	-
MannaCEA	-	-	-	1	-
Left Right Co., Ltd.	-	-	-	1	-
Oscar Entertainment	-	-	34	-	-
You are the designer	-	-	4	-	-
	₩ 518	₩ 3,690	₩ 1,151	₩ 317	₩ -

Loans arising from related party transactions for the nine-month periods ended September 30, 2017 and 2016, are as follows:

(in millions of Korean won)

	September 30, 2017			
	Beginning balance	Loans	Contributions in kind [1]	Ending balance
		(Unaudited)		
Associate				
3Points Inc.	₩ 50	₩ -	₩ -	₩ 50
Tangram Design Lab Inc.	2,100	-	(2,100)	-
Tangram Factory	1,540	500	-	2,040
	₩ 3,690	₩ 500	₩ (2,100)	₩ 2,090

[1] During the nine-month period ended September 30, 2017, the Company made contributions in kind with loans (Note 6).

(in millions of Korean won)

	September 30, 2016				
	Beginning balance	Loans	Changes in scope of consolidation	Repayments	Ending balance
			(Unaudited)		
Associate					
3Points Inc.	₩ 50	₩ -	₩ -	₩ -	₩ 50
Tangram Design Lab Inc.	-	1,100	1,000	-	2,100
Tangram Factory	-	-	1,500	-	1,500
	₩ 50	₩ 1,100	₩ 2,500	₩ -	₩ 3,650

During the nine-month periods ended September 30, 2017 and 2016, the Company made contributions in cash and in kind to certain related parties (Note 6).

Key management compensation

The compensation paid or payable to key management for the three-month and the nine-month periods ended September 30, 2017 and 2016, consists of :

(in millions of Korean won)

	September 30, 2017		September 30, 2016	
	Three-month	Nine-month	Three-month	Nine-month
		(Unaudited)		
Salaries	₩ 193	₩ 679	₩ 238	₩ 877
Post-employment benefits	10	33	12	35
Other long-term employee benefits	6	18	6	17
Share-based payments	83	193	-	-
Diluted earnings per share	₩ 292	₩ 923	₩ 256	₩ 929

Independent Auditor's Report

To the Board of Directors and Shareholders of
LOEN ENTERTAINMENT, INC.

We have audited the accompanying consolidated financial statements of Loen Entertainment, Inc. and its subsidiaries (collectively the "Group"), which comprise the consolidated statements of financial position as of December 31, 2016 and 2015 and the consolidated statements of comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2016 and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the Republic of Korea ("Korean IFRS") and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with the Korean Standards on Auditing. Those standards require that we comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Loen Entertainment, Inc. and its subsidiaries as of December 31, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2016 in accordance with Korean IFRS.

Other Matters

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

/s/ Samil PricewaterhouseCoopers
Seoul, Korea
March 8, 2017

This report is effective as of March 8, 2017, 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.

LOEN ENTERTAINMENT, INC. and Subsidiaries
Consolidated Statements of Financial Position
As of December 31, 2016 and 2015

(in millions of Korean won)	Notes	2016	2015
Assets			
Current assets			
Cash and cash equivalents	4,5,6	₩ 92,112	₩ 83,149
Other financial assets	4,5	150,500	104,000
Trade and other receivables	4,5,8	75,326	57,943
Other current assets	9	25,531	25,507
Inventories	10	367	389
		343,836	270,988
Non-current assets			
Available-for-sale financial assets	4,5,7	6,979	16,140
Property and equipment	11	36,741	11,734
Intangible assets	12	43,514	46,687
Defined benefit assets	14	-	30
Non-current other receivables	4,5,8	10,965	9,447
Other non-current assets	9	592	-
Deferred income tax assets	15	11,223	7,766
		110,014	91,804
Total assets		₩ 453,850	₩ 362,792
Liabilities			
Current Liabilities			
Trade and other payables	4,5,13	₩ 101,031	₩ 76,178
Current income tax liabilities	15	13,830	9,593
Other current liabilities	16	33,131	26,300
		147,992	112,071
Non-current liabilities			
Non-current trade and other payables	4,5,7,12	1,713	2,753
Defined benefit liabilities	20	-	5
Other non-current liabilities	21	385	247
Deferred income tax liabilities	4,5,7,13	1,368	1,738
		3,466	4,743
Total liabilities		₩ 151,458	₩ 116,814

LOEN ENTERTAINMENT, INC. and Subsidiaries
Consolidated Statements of Financial Position
As of December 31, 2016 and 2015

(in millions of Korean won)	Notes	2016	2015
Equity			
Share capital	17	₩ 12,646	₩ 12,646
Share premium		47,954	47,954
Other component of equity	18	5,308	12,132
Retained earnings	19	226,937	164,659
Equity attributable to owners of the Parent Company		292,845	237,391
Non-controlling interest	29	9,547	8,587
Total equity		302,392	245,978
Total liabilities and equity		₩ 453,850	₩ 362,792

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

LOEN ENTERTAINMENT, INC. and Subsidiaries
Consolidated Statements of Comprehensive Income
For the Years ended December 31, 2016, 2015 and 2014

(in millions of Korean won, except per share amounts)	Notes	2016	2015	2014
Operating Revenue	26	₩ 450,646	₩ 357,641	₩ 323,276
Operating expenses				
Raw material expenses		27,758	13,536	10,580
Employee benefits expenses	20	37,125	28,633	28,622
Service fees		190,227	160,294	144,517
Depreciation		3,872	4,024	3,947
Amortization of intangible assets		18,035	15,193	14,216
Rental expenses		4,279	3,688	3,423
Promoting expenses		33,153	26,602	12,815
Royalties		40,065	31,091	33,800
Advertising expenses		13,164	7,055	6,911
Other operating expenses	21	3,058	4,103	5,952
		370,736	294,219	264,783
Operating income		79,910	63,422	58,493
Other income	22	906	699	295
Other expenses	22	1,385	1,748	2,529
Finance income	5,23	3,489	3,577	3,507
Finance costs	5,23	159	168	164
Profit before income tax		82,761	65,782	59,602
Income tax expense	15	20,618	15,503	13,805
Profit for the year		62,143	50,279	45,797
Profit is attributable to:				
Equity holders of the Parent Company		62,646	50,143	45,545
Non-controlling interest		(503)	136	252
Other comprehensive income (loss)				
Items not to be reclassified subsequently to profit or loss:				
Remeasurement of net defined benefit liabilities		(367)	(48)	(773)
Items to be reclassified subsequently to profit or loss:				
Gains (losses) on valuation of available-for-sale securities, net of tax		(6,825)	2,646	417
Other comprehensive income (loss) for the year, net of tax		(7,192)	2,598	(356)
Total comprehensive income for the year		₩ 54,951	₩ 52,877	₩ 45,441
Total comprehensive income for the year is attributable to:				
Equity holders of the Parent Company		₩ 55,454	₩ 52,752	₩ 45,197
Non-controlling interest		₩ (503)	₩ 125	₩ 244
Earnings per share to the equity holders of the Parent Company	32			
Basic earnings per share		₩ 2,477	₩ 1,983	₩ 1,801
Diluted earnings per share		₩ 2,477	₩ 1,983	₩ 1,801

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

LOEN ENTERTAINMENT, INC. and Subsidiaries
Consolidated Statements of Changes in Equity
For the Years ended December 31, 2016, 2015 and 2014

(in millions of Korean won)	Attributable to equity holders of the Parent Company					Non-controlling Interest	Total Equity
	Share Capital	Share Premium	Other Components of Equity	Retained Earnings	Total		
Balance at January 1, 2014	₩ 12,646	₩ 47,481	₩ 9,069	₩ 87,755	₩ 156,951	₩ 3,439	₩ 160,390
Comprehensive income :							
Profit for the year	-	-	-	45,545	45,545	252	45,797
Gain on valuation of available-for-sale securities, net of tax	-	-	416	-	416	-	416
Remeasurement of defined benefit obligation	-	-	-	(765)	(765)	(9)	(774)
Total comprehensive income for the year	-	-	416	44,780	45,196	243	45,439
Balance at December 31, 2014	₩ 12,646	₩ 47,481	₩ 9,485	₩ 132,535	₩ 202,147	₩ 3,682	₩ 205,829

LOEN ENTERTAINMENT, INC. and Subsidiaries
Consolidated Statements of Changes in Equity
For the Years ended December 31, 2016, 2015 and 2014

(in millions of Korean won)	Attributable to equity holders of the Parent Company					Non-controlling Interest	Total Equity
	Share Capital	Share Premium	Other Components of Equity	Retained Earnings	Total		
Balance at January 1, 2015	₩ 12,646	₩ 47,481	₩ 9,485	₩ 132,535	₩ 202,147	₩ 3,682	₩ 205,829
Comprehensive income :							
Profit for the year	-	-	-	50,143	50,143	136	50,279
Gain on valuation of available-for-sale securities, net of tax	-	-	2,647	-	2,647	-	2,647
Remeasurement of defined benefit obligation	-	-	-	(37)	(37)	(11)	(48)
Total comprehensive income for the year	-	-	2,647	50,106	52,753	125	52,878
Transactions with equity holders:							
Cash dividends	-	-	-	(17,982)	(17,982)	-	(17,982)
New shares issued by a subsidiary	-	473	-	-	473	1,236	1,709
Changes in consolidation scope	-	-	-	-	-	3,544	3,544
	-	473	-	(17,982)	(17,509)	4,780	(12,729)
Balance at December 31, 2015	₩ 12,646	₩ 47,954	₩ 12,132	₩ 164,659	₩ 237,391	₩ 8,587	₩ 245,978

LOEN ENTERTAINMENT, INC. and Subsidiaries
Consolidated Statements of Changes in Equity
For the Years ended December 31, 2016, 2015 and 2014

(in millions of Korean won)	Attributable to equity holders of the Parent Company					Non-controlling Interest	Total Equity
	Share Capital	Share Premium	Other Components of Equity	Retained Earnings	Total		
Balance at January 1, 2016	₩ 12,646	₩ 47,954	₩ 12,132	₩ 164,659	₩ 237,391	₩ 8,587	₩ 245,978
Comprehensive income :							
Profit for the year	-	-	-	62,646	62,646	(503)	62,143
Gain (loss) on valuation of available-for-sale securities, net of tax	-	-	(6,824)	-	(6,824)	-	(6,824)
Remeasurement of defined benefit obligation	-	-	-	(368)	(368)	-	(368)
Total comprehensive income for the year	-	-	(6,824)	62,278	55,454	(503)	54,951
Transactions with equity holders:							
Changes in consolidation scope	-	-	-	-	-	1,463	1,463
	-	-	-	-	-	1,463	1,463
Balance at December 31, 2016	₩ 12,646	₩ 47,954	₩ 5,308	₩ 226,937	₩ 292,845	₩ 9,547	₩ 302,392

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

LOEN ENTERTAINMENT, INC. and Subsidiaries
Consolidated Statements of Cash Flows
For the Years ended December 31, 2016, 2015 and 2014

(in millions of Korean won)	2016	2015	2014
Cash flows from operating activities			
Profit for the year	₩ 62,143	₩ 50,279	₩ 45,797
Adjustments for			
Loss on valuation of inventories	209	159	-
Provision for (reversal of) bad debt expense	(3,253)	(980)	2,165
Depreciation	3,872	4,024	3,947
Loss on disposal of available-for-sale financial assets	-	-	1,027
Loss on abandonment of property and equipment	119	-	14
Loss on disposal of property and equipment	8	-	-
Loss on disposal of intangible assets	5	-	77
Amortization of intangible assets	18,035	15,193	14,216
Impairment loss on intangible assets	833	1,605	1,311
Expenses related to defined benefit plan	1,968	1,556	1,173
Salaries and wages (long-term employee benefit obligation)	27	75	51
(Reversal of) other allowance for doubtful accounts	151	2	(44)
Interest expenses	159	169	165
Income tax expense	20,619	15,503	13,805
Gain on disposal of property and equipment	(29)	(6)	(1)
Gain on disposal of intangible assets	(190)	-	-
Interest income	(3,359)	(3,446)	(3,507)
Dividend income	(130)	(130)	-
	39,044	33,724	34,399
Changes in operating assets and liabilities			
Increase in trade receivables	(15,746)	(1,095)	(6,186)
Decrease (increase) in non-trade receivables	2,075	(117)	58
Decrease (increase) in advance payments	1,163	(2,036)	(1,315)
Decrease (increase) in prepaid expenses	(2)	121	(207)
Increase in non-current prepaid expenses	(804)	-	-
Decrease (increase) in inventories	(187)	(203)	74
Increase in trade payables	20,974	16,033	8,973
Increase (decrease) in non-trade payables	2,037	(1,474)	(26)
Increase in advances from customers	2,329	2,783	2,191
Increase (decrease) in accrued expenses	(505)	(3,372)	3,444
Increase in deposits received	459	57	66
Increase in value added tax withheld	422	485	1,128
Increase in prepaid value added tax	(41)	-	-
Increase (decrease) in withholdings	956	(67)	(1)
Increase in non-current withholdings	203	-	-
Increase in provision for sales return	73	94	4
Payment of severance benefits	(1,553)	(702)	(247)
Increase in pension plan assets	(874)	(997)	(1,954)
Payment of long-term employee benefit obligation	(41)	(25)	(19)
	10,938	9,485	5,983
Cash generated from operations	112,125	93,488	86,179
Interest received	2,645	4,214	2,881
Dividend income	130	130	-
Income taxes paid	(17,917)	(19,298)	(12,369)
Net cash inflow from operating activities	96,983	78,534	76,691

LOEN ENTERTAINMENT, INC. and Subsidiaries
Consolidated Statements of Cash Flows
For the Years ended December 31, 2016, 2015 and 2014

Cash flows from investing activities			
Disposal of short-term financial instruments	4,000	20,000	-
Decrease in short-term loans	57	213	18
Disposal of financial instruments at fair value through profit or loss	-	300	-
Disposal of available-for-sale financial assets	159	619	10,519
Disposal of property and equipment	42	45	1
Disposal of intangible assets	1,160	15	9
Decrease in deposits	1,336	142	2,007
Acquisition of short-term financial instruments	(50,500)	-	(53,700)
Increase in short-term loans	(27)	(172)	-
Increase in long-term loans	-	(17)	-
Acquisition of financial instruments at fair value through profit or loss	-	(200)	-
Acquisition of available-for-sale financial assets	-	(11,003)	(1,210)
Acquisition of investments in subsidiaries	-	(800)	-
Increase in deposits	(2,878)	(1,463)	(2,915)
Acquisition of property and equipment	(26,400)	(3,018)	(5,094)
Acquisition of intangible assets	(16,420)	(13,362)	(13,334)
Decrease in cash due to changes in consolidation scope	-	(6,299)	-
Net cash outflow from investing activities	(89,471)	(15,000)	(63,699)
Cash flows from financing activities			
New shares of subsidiary issued to non-controlling interest	1,463	-	-
Payments of dividends	-	(17,982)	-
Payment of finance lease liabilities	(12)	(37)	(28)
Net cash inflow (outflow) from financing activities	₩ 1,451	₩(18,019)	₩ (28)
Net increase in cash and cash equivalents	8,963	45,515	12,964
Cash and cash equivalents at the beginning of the year	83,149	37,634	24,670
Cash and cash equivalents at the end of the year	₩ 92,112	₩ 83,149	₩ 37,634

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

1. General Information

The general information of LOEN ENTERTAINMENT, INC. (the "Parent Company") and its subsidiaries (collectively referred to as the "Group") is described below.

1.1 Overview of the Group and its business

1.1.1 The Parent Company

The Parent Company was incorporated on July 7, 1982, under the Commercial Law of the Republic of Korea, to engage mainly in plan, production and sale of record, internet service, real estate business and other related business. On January 9, 2001, the Parent Company was listed in KOSDAQ and is located in Teheran-ro, Gangnam-gu, Seoul, South Korea.

In March 2008, the Parent Company changed its name from Seoul Records, Inc. to LOEN ENTERTAINMENT, INC. In December 2008, the Parent Company issued ordinary shares of 9,321,170 shares amounting to ₩ 43,203,623 thousand and its share capital increased by ₩ 4,660,585 thousand. As of December 31, 2016, the share capital of the Parent Company amounted to ₩ 12,645,853 thousand and its largest shareholder is Kakao Corp. with ownership of 76.4% (Note 27).

1.1.2 Consolidated Subsidiaries

Details of the consolidated subsidiaries as of December 31, 2016 and 2015, are as follows:

		2016	2015			
	Location	Ownership interest held by the Group (%)[1]	Ownership interest held by the Group (%)	Closing month	Main business	Remark
Starship Entertainment Co.,Ltd.	Korea	64.8	64.8	December	Record production and management business	
Kingkong Entertainment Corp.	Korea	100.0	100.0	December	Artist management business	A subsidiary of Starship Entertainment Co.,Ltd.
Plan A Entertainment Co.,Ltd.[2]	Korea	70.0	70.0	December	Record production and management business	
Mtechcrew	Korea	100.0	-	December	Data processing business	
Fave Entertainment Co.,Ltd.	Korea	80.0	-	December	Artist management business	
Cre.Ker Entertainment Co.,Ltd.	Korea	80.0	-	December	Artist management business	
MUN HWA IN Co.,Ltd.	Korea	67.5	-	December	Artist management business	

[1] Percentage of ownership of subsidiaries is included.

[2] In 2016, the name of A-cube Entertainment Corp. was changed to Plan A Entertainment Co., Ltd.

1.1.3 Changes in Scope for Consolidation

Details of subsidiaries which are newly included in consolidation for the year ended December 31, 2016, are described below and none of subsidiaries was excluded from consolidated financial statement during 2016.

	Reason	Percentage of ownership (%)
Mtechcrew	Newly established	100.0
Fave Entertainment Co.,Ltd.	Newly established	80.0
Cre.Ker Entertainment Co.,Ltd.	Newly established	80.0
MUN HWA IN Co., Ltd.	Newly established	67.5

1.2 Summarized Financial Information

Summarized financial information for consolidated subsidiaries as of and for the years ended December 31, 2016, 2015 and 2014, is as follows:

(in thousands of Korean won)

	2016					
Subsidiary	Assets	Liabilities	Equity	Sales	Profit (loss) for the period	Total comprehensive income (loss)
Starship Entertainment Co.,Ltd.[1]	₩ 22,766,015	₩ 10,844,132	₩ 11,921,883	₩ 26,671,236	₩ 1,318,265	₩ 1,318,265
Plan A Entertainment Co.,Ltd.	11,080,755	3,862,087	7,218,668	7,892,275	676,398	676,398
Mtechcrew	1,320,091	321,842	998,249	2,921,332	298,249	298,249
Fave Entertainment Co.,Ltd.	1,631,764	384,253	1,247,511	1,239,842	(2,489)	(2,489)
Cre.Ker Entertainment Co.,Ltd.	2,573,484	1,587,847	985,637	340,789	(264,363)	(264,363)
MUN HWA IN Co.,Ltd.	2,753,101	423,024	2,330,077	1,324,740	(632,923)	(632,923)

[1] The entity is the intermediate parent company of its subsidiary and above financial information is from its consolidated financial statements.

(in thousands of Korean won)

	2015					
Subsidiary	**Assets**	**Liabilities**	**Equity**	**Sales**	**Profit for the period**	**Total comprehensive income**
Starship Entertainment Co.,Ltd.[1]	₩ 18,356,157	₩ 7,752,539	₩ 10,603,618	₩ 23,345,974	₩ 2,102,010	₩ 2,070,723
Plan A Entertainment Co.,Ltd.	9,755,164	3,212,894	6,542,270	8,976,983	2,591,661	2,591,661

[1] The entity is the intermediate parent company of its subsidiary and above financial information is from its consolidated financial statements.

(in thousands of Korean won)

	2014					
Subsidiary	**Assets**	**Liabilities**	**Equity**	**Sales**	**Profit for the period**	**Total comprehensive income**
Starship Entertainment Co.,Ltd.	₩ 10,238,814	₩ 3,414,442	₩ 6,824,372	₩ 13,214,172	₩ 2,575,703	₩ 2,548,513

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 periods presented, unless otherwise stated.

2.1 Basis of Preparation

The Group 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 Group's financial position, financial performance or cash flows, is not presented in the accompanying consolidated financial statements.

The consolidated financial statements of the Group 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 preparation of financial statements requires the use of critical accounting estimates. Management also needs to exercise judgement in applying the Group'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 Policies and Disclosures

(a) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing January 1, 2016:

- *Disclosure Initiative* – Amendments to Korean IFRS 1001, *Presentation of Financial Statements*

Korean IFRS 1001, *Presentation of Financial Statements*, clarifies that materiality applies to the exclusion or inclusion or aggregation of the disclosures in the notes. The amendment clarifies that the share of OCI arising from equity-accounted affiliates should be presented in total for items which will and will not be reclassified to profit or loss. Additional amendments were made in relation to a particular order of the notes and other.

- *Agriculture: Bearer Plants* – Amendments to Korean IFRS 1016, *Property, Plant and Equipment,* and Korean IFRS 1041, *Agriculture*

Korean IFRS 1041, *Agriculture*, now distinguishes between bearer plants and other biological assets. Bearer plants must be accounted for as Korean IFRS 1016, *Property, Plant and Equipment*.

- *Clarification of Acceptable methods of Depreciation and Amortization* – Amendments to Korean IFRS 1016, *Property, Plant and Equipment*, and Korean IFRS 1038, *Intangible assets.*

Amendments to Korean IFRS 1016, *Property, Plant and Equipment*, clarify that a revenue-based method should not be used to calculate the depreciation of items of property, plant and equipment. Korean IFRS 1038, *Intangible assets*, now includes a rebuttable presumption that the amortization of intangible assets based on revenue is inappropriate. This presumption can be overcome if either; the intangible asset is expressed as a measure of revenue, or it can be shown that revenue and the consumption of economic benefits generated by the asset are highly correlated.
- *Accounting for Acquisitions of Interests in Joint Operations* – Amendments to Korean IFRS 1111, *Joint Arrangements*

Amendments to Korean IFRS 1111, *Joint Arrangements*, clarify the accounting for the acquisition of an interest in a joint operation where the activities of the operation constitute a business. An investor requires to apply the principles of business combination accounting when the investor acquires an interest in a joint operation that constitutes a business.

- Annual Improvements to Korean IFRS 2012-2014 *Cycle*

- Korean IFRS 1105, *Non-current Assets Held for Sale and Discontinued Operation* – clarifies when an asset (or disposal group) is reclassified from ‘held for sale’ to ‘held for distribution’ or vice versa, this does not have to be accounted for as such.

- Korean IFRS 1107, *Financial Instruments: Disclosures* – clarifies the specific guidance for transferred financial assets to help management determine whether the terms of a servicing

arrangement constitute 'continuing involvement', and also clarifies that the additional disclosures relating to the amendments in 2012 *'Offsetting of Financial Assets and Financial Liabilities'* only need to be included in interim reports if required by Korean IFRS 1034, *Interim Financial Reporting.*

- Korean IFRS 1019, *Employee Benefits*, clarifies that when determining the discount rate for post-employment benefit obligations, it is the currency in which the liabilities are denominated that is important, and not the country where they arise.

- Korean IFRS 1034, *Interim Financial Reporting*, clarifies what is meant by the reference in the standard to *'information disclosed elsewhere in the interim financial report'*; and also amended requirements for a cross-reference from the interim financial statements to the location of that information.

- Korean IFRS 1011, *Construction Contract*, Korean IFRS 1037, *Provisions, Contingent Liabilities and Contingent Assets*, and Interpretation 2115, *Arrangements for Property Construction*

These standards and interpretation clarify the accounting information disclosure requirement for construction contracts. The accounting estimates and potential risk information of the construction contracts should be disclosed in detail by either individual construction or operating segment.

The above standards, amendments and interpretations applied for the annual reporting period commencing January 1, 2016, do not have a significant impact on the consolidated financial statements of the Group.

(b) New standards and interpretations not yet adopted by the Group

Certain new accounting standards and interpretations that have been published that are not mandatory for annual reporting period commencing January 1, 2016 and have not been early adopted by the Group are set out below.

- Amendments to Korean IFRS 1007, *Statement of Cash Flows*

Amendments to Korean IFRS 1007, *Statement of Cash Flows*, require to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash flows. This amendment will be effective for annual periods beginning on or after January 1, 2017, with early adoption permitted. The Group does not expect the amendments to have a significant impact on the consolidated financial statements.

- Amendments to Korean IFRS 1012, *Income Tax*

Amendments to Korean IFRS 1012 clarify how to account for deferred tax assets related to debt instruments measured at fair value. Korean IFRS 1012 provides requirements on the recognition and measurement of current or deferred tax liabilities or assets. The amendments issued clarify

the requirements on recognition of deferred tax assets for unrealized losses, to address diversity in practice. This amendment will be effective for annual periods beginning on or after January 1, 2017, with early adoption permitted. The Group does not expect the amendments to have a significant impact on the consolidated financial statements.

- Amendments to Korean IFRS 1102, *Share-based Payment*

Amendments to Korean IFRS 1102, clarify accounting for a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled and also, clarify that the measurement approach should treat the terms and conditions of a cash-settled award in the same way as for an equity-settled award. This amendment will be effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Group does not expect the amendments to have a significant impact on the consolidated financial statements.

- Korean IFRS 1109, *Financial Instruments*

The new standard for financial instruments issued on September 25, 2015 are effective for annual periods beginning on or after January 1, 2018 with early application permitted. This standard will replace Korean IFRS 1039, *Financial Instruments: Recognition and Measurement*. The Group will apply the standards for annual periods beginning on or after January 1, 2018.

The standard requires retrospective application with some exceptions. For example, an entity is not required to restate prior period in relation to classification and measurement (including impairment) of financial instruments. The standard requires prospective application of its hedge accounting requirements for all hedging relationships except the accounting for time value of options and other exceptions.

Korean IFRS 1109, *Financial Instruments*, requires all financial assets to be classified and measured on the basis of the entity's business model for managing financial assets and the contractual cash flow characteristics of the financial assets. A new impairment model, an expected credit loss model, is introduced and any subsequent changes in expected credit losses will be recognized in profit or loss. Also, hedge accounting rules amended to extend the hedging relationship, which consists only of eligible hedging instruments and hedged items, qualifies for hedge accounting.

An effective implementation of Korean IFRS 1109 requires preparation processes including financial impact assessment, accounting policy establishment, accounting system development and the system stabilization. The impact on the Group's financial statements due to the application of the standard is dependent on judgements made in applying the standard, financial instruments held by the Group and macroeconomic variables.

With respect to the implementation of Korean IFRS 1109, the Group has neither prepared for internal management process nor begun to adjust accounting system for financial instruments reporting. Also, the Group has not analyzed the financial effects of applying the standard.

(a) Classification and Measurement of Financial Assets

When implementing Korean IFRS 1109, the classification of financial assets will be driven by the Group's business model for managing the financial assets and contractual terms of cash flow. The following table shows the classification of financial assets measured subsequently at amortized cost, at fair value through other comprehensive income and at fair value through profit or loss. If a hybrid contract contains a host that is a financial asset, the classification of the hybrid contract shall be determined for the entire contract without separating the embedded derivative.

Business model for the contractual cash flows characteristics	**Solely represent payments of principal and interest**	**All other**
Hold the financial asset for the collection of the contractual cash flows	Measured at amortized cost[1]	
Hold the financial asset for the collection of the contractual cash flows and trading	Recognized at fair value through other comprehensive income [1]	Recognized at fair value through profit or loss[2]
Hold for trading	Recognized at fair value through profit or loss	

[1] A designation at fair value through profit or loss is allowed only if such designation mitigates an accounting mismatch (irrevocable).

[2] Equity investments not held for trading can be recorded in other comprehensive income (irrevocable).

With the implementation of Korean IFRS 1109, the criteria to classify the financial assets at amortized cost or at fair value through other comprehensive income are more strictly applied than the criteria applied with Korean IFRS 1039. Accordingly, the financial assets at fair value through profit or loss may increase by implementing Korean IFRS 1109 and may result an extended fluctuation in profit or loss.

As of December 31, 2016, the Group owns loans and receivables of ₩ 328,905 million and financial assets available-for-sales of ₩ 6,979 million.

According to Korean IFRS 1109, a debt instrument is measured at amortized cost if: a) the objective of the business model is to hold the financial asset for the collection of the contractual cash flows, and b) the contractual cash flows under the instrument solely represent payments of principal and interest. As of December 31, 2016, the Group owns loans and receivables of ₩ 328,905 million.

According to Korean IFRS 1109, a debt instrument is measured at fair value through other comprehensive income if the objective of the business model is achieved both by collecting contractual cash flows and selling financial assets; and the contractual cash flows represents solely payments of principal and interest on a specific date under contract terms. As of December 31, 2016, there are no debt instruments classified as available-for-sale financial assets held by the Group.

According to Korean IFRS 1109, equity instruments that are not held for trading, the Group can make an irrevocable election at initial recognition to classify the instruments as assets measured at fair value through other comprehensive income, which all subsequent changes in fair value being recognized in other comprehensive income and not recycled to profit or loss. As of December 31, 2016, the Group holds equity instruments of ₩ 6,979 million classified as financial assets available-for-sale.

According to Korean IFRS 1109, debt instruments those contractual cash flows do not represent solely payments of principal and interest and held for trading, and equity instruments that are not designated as instruments measured at fair value through other comprehensive income are measured at fair value through profit or loss. As of December 2016, there are no debt or equity instruments classified as financial assets at fair value through profit or loss held by the Group.

(b) Impairment: Financial Assets and Contract Assets

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under Korean IFRS 1039. It applies to financial assets classified at amortized cost, debt instruments measured at fair value through other comprehensive income, contract assets, lease receivables, loan commitments and certain financial guarantee contracts.

Under Korean IFRS 1109 'expected loss' model, a credit event (or impairment 'trigger') no longer has to occur before credit losses are recognized. The Group will always recognize (at a minimum) 12-month expected credit losses in profit or loss. Lifetime expected losses will be recognized on assets for which there is a significant increase in credit risk after initial recognition.

Stage[1]		Loss allowance
1	No significant increase in credit risk after initial recognition[2]	12-month expected credit losses (expected credit losses that result from those default events on the financial instrument that are possible within 12 months after the reporting date)
2	Significant increase in credit risk after initial recognition	Lifetime expected credit losses (expected credit losses that result from all possible default events over the life of the financial instrument)
3	Credit-impaired	

[1] A loss allowance for lifetime expected credit losses is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. It is also required for contract assets or trade receivables that are not, according to Korean IFRS 1115, *Revenue from Contracts with Customers*, considered to contain a significant financing component. Additionally, the Group can elect an accounting policy of recognizing lifetime expected credit losses for all contract assets and/or all trade receivables, including those that contain a significant financing component.

[2] If the financial instrument has low credit risk at the end of the reporting period, the Group may assume that the credit risk has not increased significantly since initial recognition.

Under Korean IFRS 1109, the asset that is credit-impaired at initial recognition would recognize all changes in lifetime expected credit losses since the initial recognition as a loss allowance with any changes recognized in profit or loss.

As of December 31, 2016, the Group owns loans and receivables carries at amortized cost of ₩ 332,819 million (before provision for impairment). And, the Group recognized loss allowance of ₩ 3,914 million for these assets.

- Korean IFRS 1115, *Revenue from Contracts with Customers*

The Group will apply Korean IFRS 1115, *Revenue from Contracts with Customers*, issued on November 6, 2015 for annual reporting periods beginning on or after January 1, 2018. This standard replaces Korean IFRS 1018, *Revenue*, Korean IFRS 1011, *Construction Contracts*, Interpretation 2031, *Revenue-Barter Transactions Involving Advertising Services*, Interpretation 2113, *Customer Loyalty Programs*, Interpretation 2115, *Agreements for the Construction of Real Estate*, and Interpretation 2118, *Transfers of assets from customers.*

The Group must apply Korean IFRS 1115, *Revenue from Contracts with Customers*, within annual reporting periods beginning on or after January 1, 2018, and will apply the standard retrospectively to prior reporting period presented in accordance with Korean IFRS 1008, *Accounting Policies, Changes in Accounting Estimates and Errors*, and apply simplified transition method with no restatement for completed contracts and other as of January 1, 2017.

The new standard is based on the principle that revenue is recognized when control of a good or service transfers to a customer so the notion of control replaces the existing notion of risks and rewards. A new five-step process must be applied before revenue from contract with customer can be recognized:

- Identify contracts with customers
- Identify the separate performance obligation
- Determine the transaction price of the contract
- Allocate the transaction price to each of the separate performance obligations, and
- Recognize the revenue as each performance obligation is satisfied.

As of December 31, 2016, the Group has neither prepared for internal management process nor begun to adjust accounting system in relation to implementation of Korean IFRS 1115. Also, the Group has not analyzed the financial effects of applying the standard.

2.3 Consolidation

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

(a) Subsidiaries

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group. 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 measured initially at their fair values at the acquisition date. The Group recognizes any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets. All other non-controlling interests are measured at fair values, unless otherwise required by other standards. Acquisition-related costs are expensed as incurred.

The excess of consideration transferred, amount of any non-controlling interest in the acquired entity and acquisition-date fair value of any previous equity interest in the acquired entity over the fair value of the net identifiable assets acquired is recoded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognized directly in the profit or loss as a bargain purchase.

Intercompany transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) Associates

Associates are entities over which the Group 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 Group and its associates are eliminated to the extent of the Group's interest in the associates. If there is an objective evidence of impairment for the investment in the associate, the Group recognizes the difference between the recoverable amount of the associate and its book amount as impairment loss.

(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 recognizes its direct right to the assets, liabilities, revenues and expenses of joint operations and its share of any jointly held or incurred assets, liabilities, revenues and expenses. Interests in joint ventures are accounted for using the equity method, after initially being recognized at cost in the consolidated statement of financial position.

2.4 Foreign Currency Translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which 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 prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency using the exchange rates of reporting dates. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated to the functional currency using the exchange rates at the date of the transaction.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss. 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 classified as available-for-sale financial assets are recognized in other comprehensive income.

2.5 Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash without significant transaction costs which are subject to an insignificant risk of changes in value.

2.6 Financial Assets

2.6.1 Classification

The Group classifies its financial assets into the following categories: financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables, and available-for-sale financial assets. Regular way purchases and sales of financial assets are recognized on trade date. Management determines the classification of financial instruments at initial recognition.

(a) Financial assets at fair value through profit or loss

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

(b) Held-to-maturity financial assets

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities, for which the Group has the positive intention and ability to hold to maturity, are classified as held-to-maturity financial assets. Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest rate method.

(c) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables that have maturities of more than 12 months from the end of the reporting period are classified as non-current assets; otherwise, they are classified as current assets. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method.

(d) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories: financial assets at fair value through profit or loss, held-to-maturity financial assets and loans and receivables. They are included in non-current assets unless an investment matures or management intends to dispose of it within 12 months of the end of the reporting period. Subsequent to initial recognition, available-for-sale financial assets are measured at fair value and changes in fair value are recognized as other comprehensive income and loss. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost.

2.6.2 Recognition and Measurements

At initial recognition, the Group 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. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. And, loans and receivables and held-to-maturity investments are subsequently carried at amortized cost using the effective interest method.

Gains or losses arising from changes in the fair value of financial assets at fair value through profit or loss are recognized in profit or loss within other income or other expenses. Gains or losses arising from changes in the available-for-sale financial assets are recognized in other comprehensive income, and amounts are reclassified to profit or loss when the associated assets are sold or impaired.

Interest on available-for-sale financial assets and held-to-maturity financial assets calculated using the effective interest rate method is recognized in the statement of comprehensive income as part of finance income. Dividends on available-for-sale financial assets are recognized in the statement of comprehensive income as part of finance income when the Group's right to receive dividend payments is established.

2.6.3 Impairment

The Group assesses at the end of each reporting period whether there is an objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is an objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or a group of financial assets that can be reliably estimated.

The objective evidence that a financial asset is impaired includes significant financial difficulty of the issuer or obligor; a delinquency in interest or principal payments; granting to the borrower a concession that the lender would not otherwise consider; or the disappearance of an active market for that financial asset because of financial difficulties. A significant or prolonged decline in the fair value of an available-for-sale equity instrument below its cost is also an objective evidence of impairment. Certain financial assets such as trade receivables that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Impairment of loans and receivables is presented as a deduction in provision for impairment.

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

The impairment loss on financial assets carried at amortized cost is measured as the difference between its carrying amount and the present value of its estimated future cash flows discounted at the asset's original effective interest rate. The Group can recognize impairment losses directly or establish a provision to cover impairment losses. Impairment of other financial assets is directly deducted from their carrying amount. If, in a subsequent period, the fair value of a financial assets increases and the increases can be related objectively to an event occurring after the impairment loss was recognized, the impairment loss will be reversed, with the amount of the reversal recognized in profit or loss.

When a decline in the fair value of an available-for-sale financial asset has been recognized in other comprehensive income and there is objective evidence that the asset is impaired, the

accumulated loss that had been recognized in other comprehensive income will be reclassified from equity to profit or loss as a reclassification adjustment even though the financial asset has not been derecognized. Impairment losses recognized in profit or loss for an available-for-sale equity instruments will not be reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss will be reversed, with the amount of the reversal recognized in profit or loss.

2.6.4 Derecognition

The Group derecognizes financial assets when the contractual rights to the cash flows from the financial asset expire, or the Group transfers the rights to receive the contractual cash flows from the financial asset and all the risks and rewards of ownership of the financial asset. If a transfer does not result in derecognition because the Group has retained substantially all the risks and rewards of ownership of the transferred asset, the Group continues to recognize the transferred asset in its entirety and recognizes a financial liability for the consideration received. The Group classified the financial liability as “borrowings” in the statement of financial position.

2.6.5 Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated 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 Group or the counterparty.

2.7 Inventories

Costs are determined by using the weighted average method. The acquisition cost of inventories comprise all costs of purchase, costs of conversion and other costs incurred while preparing inventories available for use.

When inventories are sold, the book amount of those inventories is recognized as cost of goods sold in the period in which the related revenue is recognized. Inventories are measured at the lower of cost and net realizable value. The amount of any write-down of inventories to net realizable value and all losses of inventories are recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories arising from an increase in net realizable value is recognized as a reduction in the amount of inventories recognized as raw material expenses in the period in which the reversal occurs.

2.8 Property and Equipment

Property and equipment are initially measured at cost and the cost of property and equipment includes any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Subsequent to initial recognition, property and equipment are carried at its cost less any accumulated depreciation and any accumulated impairment losses.

The cost of replacing a part of property and equipment are included in the asset's book amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The book amount of the replaced part is derecognized. The costs of ordinary repair and maintenance are recognized in profit or loss as incurred.

Gains and losses on disposal of an item of property and equipment are determined as the differences between net disposal proceeds, if any, and the carrying amount of property and equipment and are recognized as other income and expense.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method over estimated useful lives that appropriately reflect the pattern in which the asset's future economic benefits are expected to be consumed.

	Useful lives
Buildings	40 years
Machinery	6
Facilities	5
Tools and equipment	4 - 5
Vehicles	4 - 5

The assets' depreciation method, residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

2.9 Borrowing Costs

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized during the period of time that is required to complete and prepare the asset for its intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. Other borrowing costs are expensed in the period in which they are incurred.

2.10 Government Grants

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants related to assets are presented in the statement of financial position either by deducting the grant in arriving at the carrying amount of the asset, and government grants related to costs are deferred and recognized in the profit or loss over the period necessary to match them with the costs that they are intended to compensate.

2.11 Intangible Assets

Goodwill is measured as described in Note 2.3 (a), and carried at cost less accumulated impairment losses.

Intangible assets, except for goodwill, are initially recognized at its historical cost, and carried at cost less accumulated amortization and accumulated impairment losses.

Intangible assets are amortized using the straight-line method or the unit of production method to the amount of their cost less their residual values over their estimated useful lives at the time the asset is available for use. Membership are regarded as intangible assets with indefinite useful life and not amortized because there is no foreseeable limit to the period over which the assets are expected to be utilized.

	Useful lives
Membership	Indefinite
Exclusive management rights	Contract period (2 - 10 years)
Industrial property rights	5 years
Other intangible assets	Contract period (3 - 10 years)

Amortization periods and the amortization methods for intangible assets with finite useful lives are reviewed at the end of each reporting period. The useful lives of intangible assets that are not being amortized are reviewed at the end of each reporting period to determine whether events and circumstances continue to support indefinite useful life assessments for those assets. Changes are accounted for as changes in accounting estimates.

Subsequent expenditures are capitalized only when they increase the future economic benefits embodied in the specific asset to which it relates. All other expenditures are recognized in profit or loss as incurred.

2.12 Impairment of Non-financial Assets

The Group assesses at the end of each reporting period whether there is any indication that a non-financial asset, except for (i) assets arising from employee benefits, (ii) inventories and (iii) deferred tax assets, may be impaired. If any such indication exists, the Group estimates the recoverable amount of the asset. However, irrespective of whether there is any indication of impairment, the Group tests (i) goodwill acquired in a business combination, (ii) intangible assets with an indefinite useful life and (iii) intangible assets not yet available for use for impairment annually by comparing their carrying amount with their recoverable amount.

The Group estimates the recoverable amount of an individual asset, if it is impossible to measure the individual recoverable amount of an asset. The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. Value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit that are discounted by an appropriate discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

An impairment loss is recognized if the asset's carrying amount exceeds its recoverable amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss and recognized immediately in profit or loss. Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

2.13 Provisions

Provisions are recognized when: the Group 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 has been reliably estimated.

In reaching the best estimate of a provision, the risks and uncertainties that inevitably surround many events and circumstances are taken into account and where the effect of the time value of money is material, the amount of a provision is 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.

Provisions are reviewed at each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provisions are reversed.

A provision will be used only for expenditures for which the provision was originally recognized.

2.14 Current and Deferred Tax

The tax expense for the period consists of current and deferred tax. Current and deferred tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

2.14.1 Current tax

Current tax charge is calculated on taxable profits for the reporting period. There is a difference between taxable profits and accounting profit in the statement of comprehensive income as taxable profits exclude profit or loss added or deducted in other periods and non-taxable or deductible items. Income tax payable, related to current tax charge, is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. The Group recognizes current tax on the basis of amounts expected to be paid to the tax authorities.

2.14.2 Deferred tax

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their book amounts in the consolidated financial statements. However, deferred tax is not accounted for if it arises 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 nor taxable profit or loss.

Deferred tax assets are recognized only if it is probable that future taxable amounts will be available to utilize those temporary differences and losses.

The Group recognizes a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries, associates, and interests in joint arrangements, except to the extent that the Group 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, The Group recognizes a deferred tax asset for all 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.

The book amount of a deferred tax asset is reviewed at the end of each reporting period and the book amount of a deferred tax asset is reduced when future taxable profit is no longer available against the deferred tax assets to be utilized.

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

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 where the entity has a legally enforceable right to offset and intends either to settle on a net basis.

2.15 Employee Benefits

(a) Short-term employee benefits

Short-term employee benefits that are due to be settled within 12 months after the end of the reporting period in which the employees render the related service, are recognized as profits or loss when an employee has provided service for the amount expected to be paid in exchange for service. Short-term employee benefits are measured on an undiscounted basis.

(b) Other long-term employee benefits

Other long-term employee benefits include employee benefits that are settled beyond 12 months after the end of the reporting period in which the employees render the related service, and are calculated at the present value of the amount of future benefit that employees have earned in return for their service in the current and prior periods. Remeasurements are recognized in profit or loss in the period in which they arise.

(c) Post-employment benefits

The Group operates both defined contribution and defined benefit pension plans.

For defined contribution plans, the Group pays contribution to publicly or privately administered pension insurance plans on mandatory, contractual or voluntary basis. The Group has no further payment obligation once the contribution have been paid. The contribution are recognized as employee benefit expense when they are due.

A defined benefit plan is a pension plan that is not a defined contribution plan. Generally, post-employment benefits are payable after the completion of employment, and the benefit amount depended on the employee's age, periods of service or salary levels. 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 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 that are denominated in the currency in which the benefits will be paid, and that have terms approximating to the terms of the related obligation. Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized in the period in which they occur, directly in other comprehensive income.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized in the period they occur under the comprehensive income or loss. Changes in the present value of the defined benefit obligation resulting from plan amendments or curtailments are recognized immediately in profit or loss as past service costs.

2.16 Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable for the sale of goods, rendering of services or fee income arising from the normal course of the business. Amounts disclosed as revenue are net of value added taxes, returns and discounts, after elimination of inter-company transactions.

The Group recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities as described below. The Group bases its estimate on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) Sale of goods

Revenue is recognized when the significant risks and rewards of ownership have been transferred to the purchaser, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably and there is no continuing management involvement with the goods. Revenue from the sale of goods in the ordinary course of activities is measured at the fair value of the consideration received or receivable, net of allowances, discounts and returns.

(b) Rendering of services

Revenue is recognized when the Group's revenue-earning activities have been substantially completed, the amount of revenue can be measured reliably, and it is probable that the economic benefits associated with the transaction will flow to the Group.

(c) Fee income

When the Group takes a role as not principal but agent for supplier in a transaction, revenue associated with the transaction is recognized as net of the payment to supplier of the goods or services subtracted from the amount charged to the customer.

2.17 Lease

A lease is an agreement, whereby the lessor conveys to the lessee, in return for a payment or series of payments, the right to use an asset for an agreed period of time. Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group are classified as operating leases. Payments made under operating leases are charge to profit or loss on a straight-line basis over the period of lease.

Leases where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are 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 rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost.

If the Group is a lessor, a lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership at the inception of the lease. A lease other than a finance lease is classified as an operating lease. Lease income from operating leases is recognized in income on a straight-line basis over the lease term. Initial direct costs incurred by the lessor in negotiating and arranging an operating lease is added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as the lease income.

2.18 Segment Reporting

Operating segments are components of the Group about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The Group has two reportable segments as described in Note 26 and each segment is strategic operating unit of the Group. Segment results that are reported to the chief operating decision maker include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. The Chief Executive Officer is responsible for allocating resources and accessing performance of the operating segments.

2.19 Approval of Issuance of the Financial Statements

The consolidated financial statements 2016 were approved for issue by the Board of Directors on February 9, 2017 and are subject to change with the approval of shareholders at their Annual General Meeting.

3. Critical Accounting Estimates and Assumptions

The preparation of financial statements requires the Group to make estimates and assumptions concerning the future. Estimates and judgements 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. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and underlying assumptions are continually evaluated. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. The critical accounting estimates and assumptions applied in the preparation of consolidated financial statements are the same as the consolidated financial statements of the prior year.

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.

(a) Recognition of revenue

Revenue from rendering service is reasonably recognized on an accrual basis when revenue-earning process is complete or substantially complete, the amount of revenue is reliably measured and it is probable that economic benefits will flow to the Group.

(b) Income taxes

The Group recognizes income tax and deferred tax, based on its best estimates, that the Group will be liable in the future for the operating results as of the financial year end. However the tax outcome in the future may be different from the amounts that were initially recorded. Such differences will impact the current and deferred tax assets and liabilities in the period in which such determination is made.

If certain portion of the taxable income is not used for investments, increase in wages or dividends in accordance with the Tax System For Recirculation of Corporate Income, the Group is liable to pay additional income tax calculated based on the tax laws. The new tax system is effective for three years from 2015. Accordingly, the measurement of current and deferred tax is affected by the tax effects from the new tax system. As the Group's income tax is dependent on the investments, increase in wages and dividends, there is an uncertainty measuring the final tax effects.

(c) Net defined benefit liability

The present value of the net defined benefit liability depends on various factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of the net defined benefit liability. The Group determines the appropriate discount rate at the end of each year. This is the interest rate that is used to determine the present value of estimated future cash outflows expected to be required to settle the net defined benefit liability. Other key assumptions for net defined benefit liability are based on current market conditions.

(d) Estimated goodwill impairment

The Group tests whether goodwill has suffered any impairment on an annual basis. The recoverable amount of a cash generating unit (CGU) is determined based on value-in-use calculations.

4. Financial Risk Management

The Group's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. The note regarding financial risk management provides information about the risks that the Group is exposed to, the objective, policies and processes for measuring and managing risk, and the Group's management of capital. Additional quantitative information is disclosed throughout the financial statements. The Group has a risk management policy and program in place to monitor and actively manage such risks.

4.1 Financial Risk Factors

The Group's financial assets that are under financial risk management are composed of cash and cash equivalents, short-term financial instruments, available-for-sale financial assets, trade and other receivables, and other financial assets. The Group's financial liabilities under financial risk management are composed of trade and other payables, and other financial liabilities.

4.1.1 Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The goal of market risk management is optimization of profit and controlling the exposure to market risk within acceptable limits.

(a) Foreign exchange risk

The Group does not hold any significant assets and liabilities denominated in foreign currencies as of December 31, 2016 and 2015.

(b) Price risk

The Group invests in equity securities (listed securities) which are classified as available-for-sale financial assets in consolidated financial statements. The Group's equity investments are publicly traded and are included in the KOSDAQ index. If there is a change in the price of equity securities (listed securities) by 1%, changes in other comprehensive income as of December 31, 2016, are expected to amount to ₩ 42 million.

(c) Interest rate risk

i) Fair value sensitivity analysis of financial instruments at fixed interest rate

The financial instruments at fixed interest rate are not recognized as financial instruments at fair value through profit or loss. Accordingly, changes in interest rate have no impact on profit or loss.

ii) Cash flow sensitivity analysis of financial instruments at floating interest rate

As of December 31, 2016, the Group does not hold any financial instruments at floating interest rate.

4.1.2 Credit Risk

Credit risk arises during the ordinary course of transactions and investing activities, where clients or another party fails to discharge an obligation. The Group monitors and sets the counterparty's credit limit on a periodic basis based on the counterparty's financial conditions, default history and other important factors. In addition, the Group establishes and manages credit limits for each customer or counterparty.

For the year ended December 31, 2016, the Group has no trade receivables or other financial assets including loans and non-trade receivables which have indications of significant impairment loss or are overdue for a prolonged period. As a result, the Group believes that the possibility of default is remote. Also, the Group's credit risk can rise due to transactions with financial institutions related to its cash and cash equivalents and transactions with financial institutions such as all types of deposits. To minimize such risk, the Group has a policy to deal with high credit worthy financial institutions with a minimum rating of 'A'. The amount of maximum exposure to credit risk of the Group is the book amount of financial assets, net of cash.

The maximum exposure to credit risk as of December 31, 2016 and 2015, is as follows:

(in thousands of Korean won)		**2016**		**2015**
Cash and cash equivalents	₩	92,108,860	₩	83,147,771
Available-for-sale financial assets		6,978,650		16,139,771
Trade and other receivables		86,292,180		67,389,720
Other financial assets		150,500,000		104,000,000

4.1.3 Liquidity Risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The Group flexibly maintains sufficient liquidity under credit lines through active operating activities.

Details of the contractual maturities of financial liabilities as of December 31, 2016 and 2015, are as follows. The amounts below include interest paid, but not the effect of offsetting agreements.

(in thousands of Korean won)	2016				
	Book amount	**Contractual cash flows**	**Within 6 months**	**Between 6 months and 1 year**	**Over 1 year**
Trade and other payables	₩ 102,744,353	₩ 102,941,760	₩ 100,046,960	₩ 1,026,200	₩ 1,868,600

(in thousands of Korean won)	2015				
	Book amount	**Contractual cash flows**	**Within 6 months**	**Between 6 months and 1 year**	**Over 1 year**
Trade and other payables	₩ 78,930,646	₩ 79,284,563	₩ 75,073,563	₩ 1,156,200	₩ 3,054,800

4.2 Capital Risk Management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

Consistent with others in the industry, the Group monitors capital on the basis of the debt-to-equity ratio. This ratio is calculated as debt divided by equity.

The debt-to-equity ratio as of December 31, 2016 and 2015, are as follows:

(in thousands of Korean won)	**2016**	**2015**
Total debt (A)	₩ 151,458,565	₩ 116,814,559
Total equity (B)	302,391,926	245,977,491
Debt-to-equity ratio (A/B)	50.09%	47.49%

4.3 Fair Value Measurements

4.3.1 Fair Value of Financial Instruments by Category

Book amount and fair value of financial instruments by category as of December 31, 2016 and 2015, are as follows:

(in thousands of Korean won)	2016		2015	
	Book amount	Fair value	Book amount	Fair value
Available-for-sale financial assets[1]	₩ 5,492,500	₩ 5,492,500	₩ 14,495,000	₩ 14,495,000
	₩ 5,492,500	₩ 5,492,500	₩ 14,495,000	₩ 14,495,000

[1] Equity instruments that do not have a quoted price in an active market are measured at cost because their fair value cannot be measured reliably, and excluded from the fair value disclosures.

Financial assets including cash and cash equivalents, other financial assets, trade receivables, and other receivables, and financial liabilities including trade payables and other payables whose carrying amount is a reasonable approximation of fair value are excluded from the fair value disclosures.

4.3.2 Financial Instruments Measured at Cost

Details of financial instruments measured at cost as of December 31, 2016 and 2015, are as follows:

(in thousands of Korean won)	2016	2015
Available-for-sale financial assets		
Non-listed shares	₩ 133,667	₩ 133,667
Other equity investments	1,352,483	1,511,103
	₩1,486,150	₩ 1,644,770

4.3.3 Fair Value Hierarchy

Financial instruments measured at fair value are categorized by inputs used in fair value measurements within the following fair value hierarchy.

Level	Definitions
Level 1	Quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2	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 3	Unobservable inputs for the asset or liability

Details of financial assets and financial liabilities that are measured at fair value as of December 31, 2016 and 2015, are as follows:

(in thousands of Korean won)	2016			
	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets	₩ 5,492,500	₩ -	₩ -	₩ 5,492,500

(in thousands of Korean won)	2015			
	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets	₩ 14,495,000	₩ -	₩ -	₩ 14,495,000

5. Financial Instruments by Category

5.1 Book Amounts of Financial Instruments by Category

Categorizations of financial assets and liabilities as of December 31, 2016 and 2015, are as follows:

(in thousands of Korean won)	2016		
	Loans and receivables	Available-for-sale financial assets	Total
Financial assets			
Cash and cash equivalents	₩ 92,112,465	₩ -	₩ 92,112,465
Available-for-sale financial assets	-	6,978,650	6,978,650
Other financial assets	150,500,000	-	150,500,000
Trade and other receivables	86,292,180	-	86,292,180
	₩ 328,904,645	₩ 6,978,650	₩ 335,883,295

(in thousands of Korean won)	2016
	Financial liabilities carried at amortized cost
Financial liabilities	
Trade payables	₩ 80,220,928
Other payables	22,523,425
	₩ 102,744,353

(in thousands of Korean won)	2015		
	Loans and receivables	Available-for-sale financial assets	Total
Financial assets			
Cash and cash equivalents	₩ 83,148,843	₩ -	₩ 83,148,843
Available-for-sale financial assets	-	16,139,771	16,139,771
Other financial assets	104,000,000	-	104,000,000
Trade and other receivables	67,389,720	-	67,389,720
	₩ 254,538,563	₩ 16,139,771	₩ 270,678,334

(in thousands of Korean won)	2015
	Financial liabilities carried at amortized cost
Financial liabilities	
Trade payables	₩ 59,246,789
Other payables	19,683,857
	₩ 78,930,646

5.2 Net gains or Losses by Category of Financial Instruments

Net gains or net losses on each category of financial instruments for the years ended December 31, 2016, 2015 and 2014, are as follows:

(in thousands of Korean won)	2016		
	Loans and receivables	Available-for-sale financial assets	Total
Interest income	₩ 3,359,103	-	3,359,103
Exchange differences	(68,486)	-	(68,486)
Dividend income	-	130,000	130,000
Loss on valuation (other comprehensive income)	-	(6,823,895)	(6,823,895)
Gain on valuation/disposal	283,969	-	283,969
	₩ 3,574,586	(6,693,895)	(3,119,309)

(in thousands of Korean won)	2016
	Financial liabilities carried at amortized cost
Interest expense	₩ 158,711

(in thousands of Korean won)	2015			
	Financial assets at fair value through profit or loss	Loans and receivables	Available-for-sale financial assets	Total
Interest income	₩ 17,263	₩ 3,428,271	₩ 386	₩ 3,445,920
Exchange differences	-	24,202	-	24,202
Dividend income	-	-	130,000	130,000
Gain on valuation (other comprehensive income)	-	-	2,646,558	2,646,558
Loss on valuation/disposal	-	(996,106)	-	(996,106)
	₩ 17,263	₩ 2,456,367	₩ 2,776,944	₩ 5,250,574

(in thousands of Korean won)	2015
	Financial liabilities carried at amortized cost
Interest expense	₩ 168,689

(in thousands of Korean won)	2014 Loans and receivables	2014 Available-for-sale financial assets	2014 Total
Interest income	₩ 3,506,995	₩ 309	₩ 3,507,304
Exchange differences	(6,574)	-	(6,574)
Gain on valuation (other comprehensive income)	-	416,555	416,555
Loss on valuation/disposal	(1,399,238)	(1,027,443)	(2,426,681)
	₩ 2,101,183	₩ (610,579)	₩ 1,490,604

(in thousands of Korean won)	2014 Financial liabilities carried at amortized cost
Interest expense	₩ 164,878

6. Cash and Cash Equivalents

Cash and cash equivalents as of December 31, 2016 and 2015, are as follows:

(in thousands of Korean won)	2016	2015
Cash on hand	₩ 3,605	₩ 1,072
Cash equivalents[1]	92,108,860	83,147,771
	₩ 92,112,465	₩ 83,148,843

[1] Cash equivalents are highly liquid financial instruments that are readily convertible to fixed amounts and subject to an insignificant risk of changes in value.

7. Available-For-Sale Financial Assets

Changes in available-for-sale financial assets for the years ended December 31, 2016, 2015 and 2014, are as follows:

(in thousands of Korean won)	2016	2015	2014
Beginning balance	₩ 16,139,771	₩ 1,864,012	₩ 11,662,331
Changes in consolidation scope	-	400,000	-
Aquisitions[1,2]	-	11,003,499	1,210,000
Disposals[3,4]	(158,621)	(619,242)	(11,008,319)
Gain (loss) on valuation	(9,002,500)	3,491,502	-
Ending balance	6,978,650	16,139,771	1,864,012
Less: non-current portion	6,978,650	16,139,771	1,851,667
Current portion	₩ -	₩ -	₩ 12,345

[1] In 2015, the Group acquired 5.14% ownership of FNC Entertainment Co., Ltd. amounting to ₩ 11,003,499 thousand in cash. After the acquisition, the percentage of ownership as of December 31, 2016 decreased to 4.52% due to share issuance of FNC Entertainment Co., Ltd.

[2] In 2014, the Group additionally invested ₩ 210,000 thousand in Stone Bridge Soap Opera Investment Associate and newly invested ₩ 1,000,000 thousand in SMCI VI Early Stage Product Fund.

[3] The Group received distribution amounting to ₩ 158,621 thousand (2015: ₩ 206,897 thousand) from investment in Stone Bridge Soap Opera Investment Associate in 2016.

[4] All of investments in JYP Entertainment Corp. were disposed of in 2014.

Details of available-for-sale financial assets as of December 31, 2016 and 2015, are as follows:

(in thousands of Korean won)	**2016**	**2015**
Equity securities		
Listed shares		
FNC Entertainment Co., Ltd.	₩5,492,500	₩ 14,495,000
	5,492,500	14,495,000
Non-listed shares[1]		
Seoul Media Inc.	30,000	30,000
FE Entertainment Co., Ltd.	103,667	103,667
	133,667	133,667
Other equity investments[1]		
Record Reproduction Cooperative Association	8,000	8,000
Stone Bridge Soap Opera Investment Associate	344,483	503,104
SMCI VI Early Stage Product Fund	1,000,000	1,000,000
	1,352,483	1,511,104
	₩6,978,650	₩ 16,139,771

[1] Non-marketable equity securities are measured at historical costs, rather than fair value, since there is no existing quoted price in an active market, and the deviation of estimated cash flow is significant to reasonably estimate such fair value.

8. Trade and Other Receivables

Trade and other receivables as of December 31, 2016 and 2015, are as follows:

(in thousands of Korean won)	**2016**		**2015**	
	Current	**Non-current**	**Current**	**Non-current**
Trade receivables	₩ 73,300,044	₩ -	₩ 57,102,052	₩ -
Short-term loans	11,000	-	24,490	-
Non-trade receivables	1,222,750	-	446,616	-
Accrued income	792,569	-	369,607	-
Long-term loans	-	-	-	17,000
Deposits	-	10,965,817	-	9,429,955
	₩ 75,326,363	₩ 10,965,817	₩ 57,942,765	₩ 9,446,955

The aging analysis of the trade and other receivables as of December 31, 2016 and 2015, is as follows:

(in thousands of Korean won)	2016		2015	
	Trade receivables	Other receivables	Trade receivables	Other receivables
Receivables not past due	₩ 70,335,546	₩ 13,189,317	₩ 55,023,021	₩ 10,463,043
	70,335,546	13,189,317	55,023,021	10,463,043
Past due but not impaired				
Up to 3 months	1,403,365	166,728	931,793	16,156
3 to 6 months	599,498	331	256,367	2,960
Over 6 months	4,048,975	133,246	5,133,216	166,982
	6,051,838	300,305	6,321,376	186,098
Impaired [1]	491,297	92,564	491,705	69,223
	491,297	92,564	491,705	69,223
Total	₩ 76,878,681	₩ 13,582,186	₩ 61,836,102	₩ 10,718,364

[1] As a result of individual evaluation, these include trade receivables with 100% provision for impairment, which may not be collected due to debtor's bankruptcy, receivership, reorganization and liquidation.

Provision for impairment of impaired receivables amount to ₩ 3,913,741 thousand (2015: ₩ 4,918,152 thousand) and present value discounts amount to ₩ 254,946 thousand (2015: ₩ 246,595 thousand) as of December 31, 2016.

Changes in provisions for impairment of trade and other receivables for the years ended December 31, 2016, 2015 and 2014, are as follows:

(in thousands of Korean won)	2016	2015	2014
Beginning balance	₩ 4,918,152	₩ 4,414,829	₩ 3,519,016
Provision for impaired receivables during the year (trade receivables)	9,910	993,827	1,448,199
Provision for impaired receivables during the year (non-trade receivables)	151,002	2,279	-
Reversed amount (trade receivables)	(461,962)	-	-
Reversed amount (non-trade receivables)	-	-	(54,361)
Write-off	(703,361)	(509,863)	(498,025)
Other changes [1]	-	17,080	-
Ending balance	₩ 3,913,741	₩ 4,918,152	₩ 4,414,829

[1] Increase due to changes in consolidation scope in 2015.

Provision for impaired receivables and reversed amounts have been included in 'operating expenses' and 'other income (expenses)' in the statement of comprehensive income. Receivables for which an impairment provision was recognized are written off against the provision when there is no expectation of recovering additional cash.

9. Other Assets

Details of other assets as of December 31, 2016 and 2015, are as follows:

(in thousands of Korean won)	2016		2015
	Current	Non-current	Current
Advance payments	₩ 31,978,493	₩ -	₩ 35,341,555
Provision for impairment of advance payments	(7,755,457)	-	(10,556,267)
	24,223,036	-	24,785,288
Prepaid expenses	1,265,371	592,296	722,388
Prepaid value added tax	41,277	-	-
	₩ 25,529,684	₩ 592,296	₩ 25,507,676

Changes in provision for impairment of advance payments for the years ended December 31, 2016, 2015 and 2014, are as follows:

(in thousands of Korean won)	2016	2015	2014
Beginning balance	₩ 10,556,267	₩ 12,529,630	₩ 11,804,181
Provision[1]	-	-	728,883
Reversal[1]	(2,800,810)	(1,973,363)	(3,434)
Ending balance	₩ 7,755,457	₩ 10,556,267	₩ 12,529,630

[1] Provision for impaired receivables and reversed amounts have been included in 'operating expenses' in the statement of comprehensive income.

10. Inventories

Inventories as of December 31, 2016 and 2015, are as follows:

(in thousands of Korean won)	2016			2015		
	Cost	Valuation allowance	Book amount	Cost	Valuation allowance	Book amount
Finished goods	₩ 724,869	₩ (404,475)	₩ 320,394	₩ 749,291	₩ (391,101)	₩ 358,190
Merchandise	16,324	(10,874)	5,450	10,872	(10,807)	65
Sub-materials	135,000	(93,352)	41,648	134,911	(104,011)	30,900
	₩ 876,193	₩ (508,701)	₩ 367,492	₩ 895,074	₩ (505,919)	₩ 389,155

Loss on valuation of inventories recognized as operating expenses for the years ended December 31, 2016, 2015 and 2014, are as follows:

(in thousands of Korean won)	2016	2015	2014
Loss on valuation of inventories	₩ 209,090	₩ 159,389	₩ 190,342

The cost of inventories recognized as expense for the years ended December 31, 2016, 2015 and 2014 amounted to ₩ 27,757,978 thousand, ₩ 13,536,486 thousand and ₩ 10,579,701 thousand, respectively.

11. Property and equipment

Details of property and equipment as of December 31, 2016 and 2015, are as follows:

(in thousands of Korean won)	2016			2015		
	Cost	Accumulated depreciation	Book amount	Cost	Accumulated depreciation	Book amount
Land	₩17,933,244	₩ -	₩ 17,933,244	₩ 100,890	₩ -	₩ 100,890
Buildings	8,139,679	(323,111)	7,816,568	1,207,984	(222,605)	985,379
Machinery	15,119,259	(7,601,036)	7,518,223	18,235,799	(9,911,940)	8,323,859
Vehicles	237,363	(157,964)	79,399	301,483	(259,287)	42,196
Tools and equipment	9,702,239	(6,308,877)	3,393,362	7,531,221	(5,249,560)	2,281,661
	₩51,131,784	₩ (14,390,988)	₩ 36,740,796	₩ 27,377,377	₩ (15,643,392)	₩ 11,733,985

Changes in property and equipment for the years ended December 31, 2016, 2015 and 2014, are as follows:

(in thousands of Korean won)	2016					
	Land	Buildings	Machinery	Vehicles	Tools and equipment	Total
Opening net book amount	₩ 100,890	₩ 985,379	₩ 8,323,859	₩ 42,196	₩ 2,281,661	₩ 11,733,985
Acquisition	17,832,354	6,931,694	1,652,330	75,597	2,526,795	29,018,770
Disposal/abandonment	-	-	(118,639)	(15,586)	(5,304)	(139,529)
Depreciation	-	(100,505)	(2,339,327)	(22,808)	(1,409,790)	(3,872,430)
Closing net book amount	₩17,933,244	₩ 7,816,568	₩ 7,518,223	₩ 79,399	₩ 3,393,362	₩ 36,740,796

(in thousands of Korean won)	2015					
	Land	Buildings	Machinery	Vehicles	Tools and equipment	Total
Opening net book amount	₩ 100,890	₩ 1,015,579	₩ 8,573,980	₩ 41,635	₩ 2,945,812	₩ 12,677,896
Acquisition	-	-	2,279,906	33,298	734,400	3,047,604
Disposal	-	-	-	(38,123)	(162)	(38,285)
Depreciation	-	(30,200)	(2,530,806)	(43,034)	(1,420,130)	(4,024,170)
Other changes[1]	-	-	779	48,420	21,741	70,940
Closing net book amount	₩ 100,890	₩ 985,379	₩ 8,323,859	₩ 42,196	₩ 2,281,661	₩ 11,733,985

[1] Increase due to changes in consolidation scope in 2015.

(in thousands of Korean won)	2014					
	Land	**Buildings**	**Machinery**	**Vehicles**	**Tools and equipment**	**Total**
Opening net book amount	₩ 100,890	₩ 1,045,778	₩ 7,178,048	₩ 75,559	₩ 3,145,092	₩ 11,545,367
Acquisition	-	-	3,817,357	-	1,276,347	5,093,704
Disposal	-	-	(14,161)	-	(226)	(14,387)
Depreciation	-	(30,199)	(2,407,264)	(33,924)	(1,475,401)	(3,946,788)
Closing net book amount	₩ 100,890	₩ 1,015,579	₩ 8,573,980	₩ 41,635	₩ 2,945,812	₩ 12,677,896

The Group has entered into financial lease contracts with Hyundai Capital Service, Inc. and JB Woori Capital Co., Ltd. for vehicles and recognized the said contracts as assets and liabilities. The lease terms are three years with monthly payments. The Group can exercise bargain purchase option or renewal of the lease after termination of the lease term.

Details of financial lease asset as of December 31, 2016, are as follows:

(in thousands of Korean won)	**Vehicles**
Acquisition cost	₩ 35,906
Accumulated depreciation	(26,929)
Book amount	₩ 8,977

The total of future minimum lease payments and present value of minimum lease payments as of December 31, 2016, are as follows:

(in thousands of Korean won)	**Vehicles**
Within 1 year	₩ 796
After 1 year	-
	796
Unearned interest income	(4)
	₩ 792

12. Intangible Assets

Details of intangible assets as of December 31, 2016 and 2015, are as follows:

(in thousands of Korean won)	**2016**	**2015**
Goodwill	₩ 13,933,575	₩ 13,933,575
Industrial property rights	223,605	183,821
Exclusive management rights	9,993,021	14,179,816
Membership	3,247,023	1,686,830
Other intangible assets	16,117,182	16,703,099
	₩ 43,514,406	₩ 46,687,141

Changes in intangible assets for the years ended December 31, 2016, 2015 and 2014, are as follows:

(in thousands of Korean won)	2016					
	Industrial property rights	Exclusive management rights	Membership	Other intangible assets	Goodwill	Total
Opening net book amount	₩ 183,821	₩ 14,179,816	₩ 1,686,830	₩ 16,703,099	₩ 13,933,575	₩ 46,687,141
Acquisition	102,994	460,000	1,680,193	14,374,505	-	16,617,692
Disposal	-	(135,399)	(120,000)	(667,348)	-	(922,747)
Impairment [1]	-	-	-	(832,999)	-	(832,999)
Amortization	(63,210)	(4,511,396)	-	(13,460,075)	-	(18,034,681)
Closing net book amount	₩ 223,605	₩ 9,993,021	₩ 3,247,023	₩ 16,117,182	₩ 13,933,575	₩ 43,514,406

[1] It is probable that future economic benefits are significantly lower than the book amount; therefore, an impairment loss on intangible assets amounting to ₩832,999 thousand is recognized as other expenses in the statement of comprehensive income for the year ended December 31, 2016 (Note 22).

(in thousands of Korean won)	2015					
	Industrial property rights	Exclusive management rights	Membership	Other intangible assets	Goodwill	Total
Opening net book amount	₩ 105,383	₩ 7,183,554	₩ 1,686,830	₩ 18,574,701	₩ 6,472,394	₩ 34,022,862
Acquisition	116,882	1,392,191	-	11,852,492	-	13,361,565
Disposal	-	-	-	(15,484)	-	(15,484)
Transfer	-	-	-	(3,757)		(3,757)
Impairment [1]	-	(10,000)	-	(1,594,566)	-	(1,604,566)
Amortization	(38,444)	(3,036,314)	-	(12,118,173)	-	(15,192,931)
Other changes[2]	-	8,650,385	-	7,886	7,461,181	16,119,452
Closing net book amount	₩ 183,821	₩ 14,179,816	₩ 1,686,830	₩ 16,703,099	₩ 13,933,575	₩ 46,687,141

[1] It is probable that future economic benefits are significantly lower than the book amount; therefore, an impairment loss on intangible assets amounting to ₩1,604,566 thousand is recognized as other expenses in the statement of comprehensive income for the year ended December 31, 2015 (Note 22).

[2] Increase due to changes in consolidation scope in 2015.

(in thousands of Korean won)	2014					
	Industrial property rights	**Exclusive management rights**	**Membership**	**Other intangible assets**	**Goodwill**	**Total**
Opening net book amount	₩ 46,433	₩ 9,505,869	₩ 802,957	₩ 19,473,612	₩ 6,472,394	₩ 36,301,265
Acquisition	75,261	94,000	883,873	12,281,268	-	13,334,402
Disposal	-	(4,135)	-	(81,278)	-	(85,413)
Impairment [1]	-	-	-	(1,311,340)	-	(1,311,340)
Amortization	(16,311)	(2,412,180)	-	(11,787,561)	-	(14,216,052)
Closing net book amount	₩ 105,383	₩ 7,183,554	₩ 1,686,830	₩ 18,574,701	₩ 6,472,394	₩ 34,022,862

[1] It is probable that future economic benefits are significantly lower than the book amount; therefore, an impairment loss on intangible assets amounting to ₩1,311,340 thousand was recognized as other expenses in the statement of comprehensive income for the year ended December 31, 2014 (Note 22).

12.1 Intangible assets with Indefinite Useful Life

Membership are classified into intangible assets with indefinite useful life and not amortized. The membership were tested for impairment and there is no indication that the membership are impaired.

12.2 Impairment Tests for Goodwill

Goodwill is monitored by the management at the cash-generating unit level. The following is a summary of goodwill allocation for each operating segment as of December 31, 2016 and 2015:

(in thousands of Korean won)	**2016**	**2015**
Starship Entertainment Co.,Ltd.	₩ 6,472,394	₩ 6,472,394
Kingkong Entertainment Corp.	3,253,625	3,253,625
Plan A Entertainment Co.,Ltd.	4,207,556	4,207,556

Goodwill is tested annually for impairment. There is no recognized impairment loss on goodwill by the recoverable amounts calculated based on value-in-use of each cash-generating unit.

The recoverable amount of cash generating unit has been determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period.

Management determined the pre-tax cash flow projections based on past performance and expectations of market growth. Key assumptions applied to value-in-use calculations as of December 31, 2016, are as follows:

	Perpetual growth rate	Pre-tax discount rate
Starship Entertainment Co.,Ltd.	1.0%	27.4%
Kingkong Entertainment Corp.	1.0%	26.3%
Plan A Entertainment Co.,Ltd.	1.0%	22.1%

Even though the recoverable amounts of cash-generating units that are allocated to goodwill exceed the book amount as of December 31, 2016, there is a possibility that reasonable changes in key assumptions may offset the excess amount. In this regard, management continuously monitors the related sales and market trend.

13. Trade and Other Payables

Trade and other payables as of December 31, 2016 and 2015, are as follows:

(in thousands of Korean won)	2016		2015	
	Current	Non-current	Current	Non-current
Trade payables	₩ 80,220,928	₩ -	₩ 59,246,789	₩ -
Non-trade payables[1]	8,302,672	1,713,133	4,377,591	2,752,757
Accrued expenses	9,992,169	-	10,497,375	-
Deposits received	2,515,452	-	2,056,134	-
	₩101,031,221	₩ 1,713,133	₩ 76,177,889	₩ 2,752,757

[1] Finance lease liabilities are included.

The differences between book amount and fair value of trade and other payables are not significant.

14. Post-employment Benefits

14.1 Defined Benefit Plan

The majority of defined benefit plans are final salary pension plans, which provide benefits to employees in the form of a guaranteed level of pension payable for life. The level of benefits provided depends on employees' length of service and their salary in the final years leading up to retirement. The majority of benefit payments are from trustee administered funds; however, there are also a number of unfunded plans. Plan assets held in trusts are governed by local regulations and practice in each country.

Details of net defined benefit liabilities and assets recognized in the statements of financial position as of December 31, 2016 and 2015, are as follows:

(in thousands of Korean won)		**2016**		**2015**
Present value of funded defined benefit obligations	₩	7,101,789	₩	6,119,532
Fair value of plan assets		(7,101,690)		(6,144,580)
Liabilities in the statement of financial position	₩	99	₩	4,871
Assets in the statement of financial position	₩	-	₩	29,919

The amounts recognized as profit or loss in the statements of comprehensive income for the years ended December 31, 2016, 2015 and 2014, are as follows:

(in thousands of Korean won)		**2016**		**2015**		**2014**
Current service cost	₩	2,047,114	₩	1,602,335	₩	1,180,199
Net interest income and expenses		5,480		(1,073)		(7,007)
Loss arising from settlements[1]		(84,727)		(45,565)		-
Total expense included in employee benefits	₩	1,967,867	₩	1,555,697	₩	1,173,192

[1] Loss arising from settlements is the amount incurred when pension plans changed from defined benefit plan to defined contribution plan during the years ended December 31, 2016 and 2015.

Movements in the defined benefit obligations for the years ended December 31, 2016, 2015 and 2014, are as follows:

(in thousands of Korean won)		**2016**		**2015**		**2014**
Beginning balance	₩	6,119,532	₩	4,968,562	₩	2,940,573
Transfer to defined contribution pension plan		(534,643)		-		-
Current service cost		2,047,114		1,602,335		1,180,199
Interest expense		131,815		136,720		105,311
Loss arising from settlements[1]		(84,727)		(45,565)		-
Remeasurements:						
- Actuarial gain and loss from change in demographic assumptions		(125,241)		(31,415)		18,032
- Actuarial gain and loss from change in financial assumptions		108,263		200,834		460,258
- Actuarial gain and loss from experience adjustments		458,083		(154,918)		511,146
Payments from plans:						
- Benefit payments		(523,059)		(312,262)		(246,957)
Settlements		(495,348)		(389,751)		-
Other changes[2]		-		144,992		-
Ending balance	₩	7,101,789	₩	6,119,532	₩	4,968,562

[1] Loss arising from settlements is the amount incurred when pension plans changed from defined benefit plan to defined contribution plan during the years ended December 31, 2016 and 2015.

[2] Increase due to changes in consolidation scope in 2015.

Movements in the fair value of plan assets for the years ended December 31, 2016, 2015 and 2014, are as follows:

(in thousands of Korean won)	**2016**	**2015**	**2014**
Beginning balance	₩ 6,144,580	₩ 4,946,604	₩ 2,920,282
Transfer to defined contribution pension plan	(478,821)	-	-
Interest income	126,335	137,793	112,318
Remeasurements:			
- Return on plan assets (excluding amounts included in interest income)	(43,654)	(47,988)	(40,136)
Contributions:			
- Employers	2,371,657	1,704,147	2,195,666
Payments from plans:			
- Benefit payments	(523,059)	(317,693)	(241,526)
Settlements	(495,348)	(389,751)	-
Other changes[1]	-	111,468	-
Ending balance	₩ 7,101,690	₩ 6,144,580	₩ 4,946,604

[1] Increase due to changes in consolidation scope in 2015.

Plan assets as of December 31, 2016 and 2015, consist of:

(in thousands of Korean won)	**2016**	**2015**
Debt financial instruments	₩ 7,101,690	₩ 6,144,580

The significant actuarial assumptions as of December 31, 2016 and 2015, are as follows:

(in thousands of Korean won)	**2016**	**2015**
Discount rate	2.5%~2.78%	2.4%~2.67%
Salary growth rate	4.04%	4.07%~4.10%

The sensitivity of the defined benefit obligations as of December 31, 2016, to changes in the principal assumptions is:

When significant actuarial assumptions are changed in possible and reasonable extent, the impact on the defined benefit obligations as of December 31, 2016, are as follows:

(in percentage)	Impact on defined benefit obligation		
	Changes in assumption	**Increase in assumption**	**Decrease in assumption**
Discount rate	1%	6.6% decrease	7.7% increase
Salary growth rate	1%	7.5% increase	6.6% decrease

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. The sensitivity of the defined benefit obligation to changes in significant actuarial assumptions is calculated using the projected unit credit method, the same method applied when calculating the defined benefit obligations recognized on the statement of financial position. The sensitivity analyses do not consider that all cash flows expected from the pension plan, but provide approximation of sensitivity under the assumptions used.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

The Group reviews the funding level on an annual basis and has a policy of eliminating deficit from the fund.

Expected contributions to post-employment benefit plans for the year ending December 31, 2017, are ₩ 1,773 million.

The expected maturity analysis of undiscounted pension benefits as of December 31, 2016, is as follows:

(in thousands of Korean won)	**Less than 1 year**	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**	**Total**
Pension benefits	₩ 2,891,717	₩ 547,331	₩ 2,011,479	₩ 25,423,789	₩ 30,874,316

The weighted average duration of the defined benefit obligations is 7.3 years.

14. 2 Defined Contribution Plan

Recognized expenses related to the defined contribution plan for the years ended December 31, 2016, 2015 and 2014 are ₩ 254,981 thousand, ₩ 142,615 thousand and ₩ nil, respectively.

15. Tax Expense and Deferred Tax

Income tax expense for the years ended December 31, 2016, 2015 and 2014, consist of:

(in thousands of Korean won)	2016	2015	2014
Current tax:			
Current tax on profits for the year	₩ 21,861,057	₩ 16,205,843	₩ 17,602,469
Adjustments in respect of prior years	289,363	(51,819)	118,521
Deferred tax:			
Origination and reversal of temporary differences	(3,827,627)	179,407	(4,051,010)
Deferred income tax charged to equity	2,295,917	(830,703)	134,829
Income tax expense	₩ 20,618,710	₩ 15,502,728	₩ 13,804,809

The aggregate current and deferred tax relating to items that are charged or credited directly to equity for the years ended December 31, 2016, 2015 and 2014, is as follows:

(in thousands of Korean won)	2016	2015	2014
Remeasurements of net defined benefit liabilities	₩ 117,312	₩ 14,240	₩ 256,459
Changes in the fair value of available-for-sale financial assets	2,178,605	(844,943)	(121,630)
	₩ 2,295,917	₩ (830,703)	₩ 134,829

Income taxes related to remeasurements of net defined benefit liabilities and changes in the fair value of available-for-sale financial assets are recognized as other comprehensive income.

Reconciliation between income tax expense and profit before income tax for the years ended December 31, 2016, 2015 and 2014, is as follows:

(in thousands of Korean won)	2016	2015	2014
Profit before income tax expense	₩ 82,761,487	₩ 65,781,583	₩ 59,601,905
Income tax based on statutory tax rate	₩ 19,660,641	₩ 15,424,361	₩ 13,912,526
Tax effects of:			
Income not subject to tax	(9,438)	-	-
Expenses not deductible for tax purposes	755,698	467,241	49,864
Tax credit	(239,383)	(189,987)	(200,903)
Adjustments in respect of prior years	289,363	(51,819)	-
Others	161,829	(147,068)	43,322
Income tax expense	₩ 20,618,710	₩ 15,502,728	₩ 13,804,809
Effective tax rate	24.91%	23.57%	23.16%

At the end of the reporting period, Income tax expense is calculated by the weighted average of the statutory tax rate applicable to different tax authorities about the profit.

The analysis of deferred tax assets and liabilities as of December 31, 2016 and 2015, is as follows:

(in thousands of Korean won)	**2016**	**2015**
Deferred tax assets		
Deferred tax assets to be recovered within 12 months	₩ 6,741,610	5,084,117
Deferred tax assets to be recovered after more than 12 months	7,514,355	6,764,678
	14,255,965	11,848,795
Deferred tax liabilities		
Deferred tax liabilities to be recovered within 12 months	(927,005)	(978,066)
Deferred tax liabilities to be recovered after more than 12 months	(3,474,212)	(4,843,608)
	(4,401,217)	(5,821,674)
Deferred tax assets, net	₩ 9,854,748	6,027,121

The movement in deferred tax assets and liabilities for the years ended December 31, 2016, 2015 and 2014, are as follows:

(in thousands of Korean won)	**2016**			
	Beginning balance	**Profit (loss)**	**Other comprehensive income**	**Ending balance**
Deferred tax assets				
Provision for impairment	₩ 3,513,068	₩ (951,983)	₩ -	₩ 2,561,085
Defined benefit obligation	1,351,949	215,875	117,312	1,685,136
Long-term employee benefits obligations	59,761	(3,332)	-	56,429
Inventories	122,432	674	-	123,106
Provisions for returned inventories	38,981	17,750	-	56,731
Property and equipment	13,332	(4,635)	-	8,697
Intangible assets	1,541,562	(168,900)	-	1,372,662
Available-for-sale financial assets	224,774	(8,470)	1,333,662	1,549,966
Accrued expenses	4,794,581	1,652,699	-	6,447,280
Others	188,355	206,518	-	394,873
	11,848,795	956,196	1,450,974	14,255,965
Deferred tax liabilities				
Plan assets	(1,358,818)	(326,318)	-	(1,685,136)
Accrued income	(111,757)	(103,374)	-	(215,131)
Property and equipment	(652,235)	158,267	-	(493,968)
Intangible assets	-	(10,560)	-	(10,560)
Available-for-sale financial assets	(844,943)	-	844,943	-
Exclusive management rights	(2,788,178)	859,034	-	(1,929,144)
Others	(65,743)	(1,535)	-	(67,278)
	(5,821,674)	575,514	844,943	(4,401,217)
Deferred tax assets, net	₩ 6,027,121	₩ 1,531,710	₩ 2,295,917	₩ 9,854,748

(in thousands of Korean won)

	2015				
	Beginning balance	Profit (loss)	Other comprehensive income	Changes in consolidation scope	Ending balance
Deferred tax assets					
Provision for impairment	₩ 3,877,028	₩(363,960)	₩ -	₩ -	₩ 3,513,068
Defined benefit obligation	1,091,800	245,909	14,240	-	1,351,949
Long-term employee benefits obligations	47,431	12,330	-	-	59,761
Inventories	116,169	6,263	-	-	122,432
Provisions for returned inventories	16,128	22,853	-	-	38,981
Property and equipment	8,597	3,560	-	1,175	13,332
Intangible assets	1,288,104	253,458	-	-	1,541,562
Available-for-sale financial assets	229,022	(4,248)	-	-	224,774
Accrued expenses	5,038,564	(243,983)	-	-	4,794,581
Others	118,106	30,574	-	39,675	188,355
	11,830,949	(37,244)	14,240	40,850	11,848,795
Deferred tax liabilities					
Plan assets	(1,091,800)	(242,733)	-	(24,285)	(1,358,818)
Accrued income	(280,025)	169,077	-	(809)	(111,757)
Property and equipment	(792,276)	140,041	-	-	(652,235)
Available-for-sale financial assets	-	-	(844,943)	-	(844,943)
Exclusive management rights	(1,539,364)	587,044	-	(1,835,858)	(2,788,178)
Others	(98,898)	35,111	-	(1,956)	(65,743)
	(3,802,363)	688,540	(844,943)	(1,862,908)	(5,821,674)
Deferred tax assets(liabilities), net	₩ 8,028,586	₩ 651,296	₩ (830,703)	₩ (1,822,058)	₩ 6,027,121

(in thousands of Korean won)	2014			
	Beginning balance	Profit (loss)	Other comprehensive income	Ending balance
Deferred tax assets				
Provision for impairment	₩ 3,270,640	₩ 606,388	₩ -	₩ 3,877,028
Defined benefit obligation	563,874	271,467	256,459	1,091,800
Long-term employee benefits obligations	33,608	13,823	-	47,431
Inventories	131,612	(15,443)	-	116,169
Provisions for returned inventories	14,238	1,890	-	16,128
Property and equipment	-	8,597	-	8,597
Intangible assets	1,102,077	186,027	-	1,288,104
Deemed dividend	107,076	(107,076)	-	-
Available-for-sale financial assets	342,581	8,071	(121,630)	229,022
Accrued expenses	2,953,612	2,084,952	-	5,038,564
Others	182,480	(64,374)	-	118,106
	8,701,798	2,994,322	134,829	11,830,949
Deferred tax liabilities				
Plan assets	(563,874)	(527,926)	-	(1,091,800)
Accrued income	(121,444)	(158,581)	-	(280,025)
Property and equipment	(684,576)	(107,700)	-	(792,276)
Gain on disposal of investment in associate	(1,243,832)	1,243,832	-	-
Exclusive management rights	(2,025,000)	485,636	-	(1,539,364)
Others	(85,496)	(13,402)	-	(98,898)
	(4,724,222)	921,859	-	(3,802,363)
Deferred tax assets, net	₩ 3,977,576	₩3,916,181	₩ 134,829	₩ 8,028,586

Temporary differences related to investments in subsidiaries that are not recognized as deferred tax liabilities as of December 31, 2016, amount to ₩ 7,603,628 thousand. Temporary differences related to tax loss carryforwards of subsidiaries that are not recognized as deferred tax assets as of December 31, 2016, amount to ₩ 900,395 thousand.

16. Other Liabilities

Details of other liabilities as of December 31, 2016 and 2015, are as follows:

(in thousands of Korean won)	2016		2015	
	Current	Non-current	Current	Non-current
Advances from customers	₩ 27,869,952	₩ -	₩ 22,540,937	₩ -
Withholdings	1,244,212	152,253	237,895	-
Value added tax withheld	3,782,277	-	3,360,488	-
Provisions for sales return	234,425	-	161,079	-
Long-term employee benefit obligations[1]	-	233,176	-	246,947
	₩ 33,130,866	₩ 385,429	₩ 26,300,399	₩ 246,947

[1] Long-term employee benefit obligations are calculated based on actuarial assumptions.

Changes in provisions for sales return for the years ended December 31, 2016, 2015 and 2014, are as follows:

(in thousands of Korean won)	2016	2015	2014
Beginning balance	₩ 161,079	₩ 66,643	₩ 62,998
Provisions	73,346	94,436	3,645
Ending balance	₩ 234,425	₩ 161,079	₩ 66,643

Provisions for sales return are recognized by calculating reasonable estimation based on actual return rate in the prior years.

17. Share Capital

The Parent Company's total number of authorized shares is 100,000,000 shares and the total number of ordinary shares issued is 25,291,705 shares (2015: 25,291,705 shares) with the par value of ₩ 500 per share.

There are no restricted voting ordinary shares under the Commercial Law as of December 31, 2016.

Details in share premium as of December 31, 2016 and 2015, are as follows:

(in thousands of Korean won)	2016	2015
Additional paid in capital	₩ 47,481,209	₩ 47,481,209
Other share premium [1]	472,985	472,985
	₩ 47,954,194	₩ 47,954,194

[1] As Starship Entertainment Co.,Ltd., a subsidiary, newly acquired shares of Kingkong Entertainment Corp. in 2015, the percentage of ownership of the Parent Company changed after issuing new shares. Therefore, there are differences for non-controlling interests in subsidiaries.

18. Other Components of Equity

Changes in accumulated other comprehensive income for the years ended December 31, 2016, 2015 and 2014, are as follows:

(in thousands of Korean won)	2016			
	Beginning balance	**Decrease**	**Reclassification to profit or loss**	**Ending balance**
Changes in the fair value of available-for-sale financial assets	₩ 2,646,558	₩ (6,823,895)	₩ -	₩ (4,177,337)

(in thousands of Korean won)	2015			
	Beginning balance	**Increase**	**Reclassification to profit or loss**	**Ending balance**
Changes in the fair value of available-for-sale financial assets	₩ -	₩ 2,646,558	₩ -	₩ 2,646,558

(in thousands of Korean won)	2014			
	Beginning balance	**Increase (decrease)**	**Reclassification to profit or loss**	**Ending balance**
Changes in the fair value of available-for-sale financial assets	₩ (416,555)	₩ -	₩ 416,555	₩ -

Above changes in accumulated other comprehensive income are net of tax.

Other components of equity as of December 31, 2016 and 2015, consist of:

(in thousands of Korean won)	**2016**	**2015**
Gain on disposal of treasury shares	₩ 9,485,675	₩ 9,485,675
Changes in the fair value of available-for-sale financial assets	(4,177,337)	2,646,558
	₩ 5,308,338	₩ 12,132,233

19. Retained Earnings

Retained earnings as of December 31, 2016 and 2015, consist of:

(in thousands of Korean won)		2016		2015
Legal reserves[1]	₩	3,659,346	₩	3,659,346
Voluntary reserves		5,478,820		5,478,820
Unappropriated retained earnings		217,798,136		155,519,845
	₩	226,936,302	₩	164,658,011

[1] 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 the payment of cash dividends, but may be transferred to share capital or used to reduce accumulated deficit. When the accumulated legal reserves (the sum of capital reserves and earned profit reserves) are greater than 1.5 times the share capital amount, the excess legal reserves may be distributed in accordance with a resolution of the shareholders' meeting.

20. Benefits related to employees

Details of benefits related to employees for the years ended December 31, 2016, 2015 and 2014, are as follows:

(in thousands of Korean won)		2016		2015		2014
Salaries	₩	31,527,004	₩	23,993,339	₩	25,236,590
Post-employment benefits		2,222,848		1,701,840		1,173,192
Employee benefits		3,375,058		2,937,875		2,212,037
Others		1,315,899		1,124,328		866,648
	₩	38,440,809	₩	29,757,382	₩	29,488,467

21. Other Operating Expense

Other operating expenses for the years ended December 31, 2016, 2015 and 2014, are as follows:

(in thousands of Korean won)		2016		2015		2014
Travel expenses	₩	449,414	₩	514,186	₩	324,422
Training expenses		152,510		214,081		209,667
Vehicle maintenance expenses		1,028,076		606,845		335,933
Entertainment expenses		965,985		694,908		278,571
Utility expenses		340,550		274,205		254,143
Repair expenses		9,730		-		-
Supplies expenses		311,349		211,458		195,312
Communication expenses		822,403		781,652		633,028
Publication expenses		65,635		49,389		41,843

Taxes and duties	1,442,512	1,209,267	985,804
Insurance premium	316,683	278,735	221,191
Package and freight expenses	202,266	75,336	59,302
Service fees	204,218	172,716	248,574
Bad debt expenses(reversal)	(3,252,862)	(979,536)	2,164,635
	₩ 3,058,469	₩ 4,103,242	₩ 5,952,425

22. Other Income and Other Expenses

Details of other income for the years ended December 31, 2016, 2015 and 2014, are as follows:

(in thousands of Korean won)	2016	2015	2014
Gain on foreign currency transaction	₩ 67,811	₩ 76,437	₩ 24,080
Reversal of allowance for other doubtful accounts	-	-	44,361
Gain on disposal of property and equipment	28,772	6,423	1,086
Gain on disposal of intangible assets	189,567	-	-
Miscellaneous income	619,726	616,562	225,952
	₩ 905,876	₩ 699,422	₩ 295,479

Details of other expenses for the years ended December 31, 2016, 2015 and 2014, are as follows:

(in thousands of Korean won)	2016	2015	2014
Loss on foreign currency transaction	₩ 136,297	₩ 52,235	₩ 30,654
Impairment loss on intangible assets	832,999	1,604,566	1,311,340
Loss on disposal of intangible assets	4,843	-	76,500
Loss on disposal of property and equipment	7,890	-	-
Loss on abandonment of property and equipment	118,694	162	14,382
Other impairment loss	151,002	2,279	-
Donations	12,492	25,255	29,550
Loss on disposal of available-for-sale financial assets	-	-	1,027,443
Miscellaneous loss	120,852	63,018	38,803
	₩ 1,385,069	₩ 1,747,515	₩ 2,528,672

23. Finance Income and Costs

Details of finance income for the years ended December 31, 2016, 2015 and 2014, are as follows:

(in thousands of Korean won)	2016	2015	2014
Finance income			
Interest income on deposits	₩ 3,068,267	₩ 3,146,098	₩ 3,230,435
Interest income on financial assets measured at amortized costs	290,836	299,822	276,869
Gain on insurance settlements	-	664	-
Dividend income on available-for-sale financial assets	130,000	130,000	-
	₩ 3,489,103	₩ 3,576,584	₩ 3,507,304

Details of finance costs for the years ended December 31, 2016, 2015 and 2014, are as follows:

(in thousands of Korean won)	2016	2015	2014
Finance costs			
Interest expense	₩ 158,711	₩ 168,689	₩ 164,878

24. Earnings per Share

Basic earnings per share is calculated by dividing the profit attributable to owners of the Parent Company by the weighted average number of ordinary shares outstanding during the financial year.

Basic earnings per share for the years ended December 31, 2016, 2015 and 2014, are as follows:

(in Korean won)	2016	2015	2014
Profit attributable to the ordinary owners of the Parent Company	₩ 62,645,738,629	₩ 50,142,939,000	₩ 45,544,917,160
Weighted average number of ordinary shares outstanding[1]	25,291,705 shares	25,291,705 shares	25,291,705 shares
Basic earnings per share	₩ 2,477	₩ 1,983	₩ 1,801

[1] Weighted average number of ordinary shares outstanding is identical to the number of shares issued.

The Parent Company did not issue any potential ordinary shares. Therefore, basic earnings per share is identical to diluted earnings per share.

25. Contingencies and Commitments

As of December 31, 2016, there are no commitments with financial institutions and others.

As of December 31, 2016, the payment guarantee provided to the Group is as follows.

(in thousands of Korean won)	Guarantor	Description	Guaranteed amount	
Payment guarantee	Seoul Guarantee Insurance	Bonds provisional seizure guarantee	₩	242,047
Payment guarantee	KEB Hana Bank	On-line order sales payment guarantee	₩	100,000

In 2013, ₩ 4,000,000 thousand of long-term other payables were incurred from the acquisition of subsidiary. The Group agreed to pay ₩ 800,000 thousand every year on an installment basis for five years.

In 2015, ₩ 800,000 thousand of long-term other payables were incurred from the acquisition of subsidiary. The Group agreed to pay ₩ 160,000 thousand every year on an installment basis for five years.

In 2015, ₩ 814,800 thousand of long-term other payables were incurred from the acquisition of subsidiary. The Group agreed to pay by installment over five times whenever performance conditions in contracts are met.

As of December 31, 2016, the Group is involved in 11 lawsuits, including claims for return of advance payments, and the ultimate outcome of these cases cannot yet be determined.

26. Operating Segment Information

The Group's each operating segment is represented by legal entity that provides independent services and goods, and details of goods generating revenue and key customers by each segment are as follows:

	Goods	Key customers
Digital sound segment	Digital music and sounds	Users of digital sound services or personal users
Record segment	Records	Wholesale dealers of records

Financial information by each operating segment as of and for the years ended December 31, 2016, 2015 and 2014, is as follows:

(in thousands of Korean won)	2016		
	Digital sound segment	**Record segment**	**Total**
Operating revenue	₩ 403,156,964	₩ 21,349,418	₩ 450,645,544
Operating income	73,695,865	1,604,133	79,910,288
Pre-tax segment profit	76,255,067	1,734,013	82,761,487
After-tax segment profit	57,239,179	1,314,520	62,142,777
Segment assets	408,278,329	15,914,478	453,850,491
Segment liabilities	132,459,395	4,246,093	151,458,565

(in thousands of Korean won)	2015		
	Digital sound segment	**Record segment**	**Total**
Operating revenue	₩ 336,291,238	₩ 47,488,580	₩ 357,640,656
Operating income	61,817,649	6,214,423	63,421,782
Pre-tax segment profit	64,047,570	6,506,420	65,781,583
After-tax segment profit	48,964,335	4,903,598	50,278,855
Segment assets	346,877,572	45,572,162	362,792,050
Segment liabilities	112,568,466	18,999,170	116,814,559

(in thousands of Korean won)	2014		
	Digital sound segment	**Record segment**	**Total**
Operating revenue	₩ 304,258,107	₩ 19,017,837	₩ 323,275,944
Operating income	57,401,991	1,090,680	58,492,671
Pre-tax segment profit	58,453,057	1,148,848	59,601,905
After-tax segment profit	44,928,195	868,900	45,797,096
Segment assets	290,864,716	13,020,648	303,885,365
Segment liabilities	93,649,625	4,405,590	98,055,215

Segment information by geographical area for the years ended December 31, 2016, 2015 and 2014, is as follows:

(in thousands of Korean won)	2016		
	Domestic	**Foreign**	**Total**
Operating revenue	₩ 432,217,402	₩ 18,428,142	₩ 450,645,544

(in thousands of Korean won)	2015		
	Domestic	**Foreign**	**Total**
Operating revenue	₩ 346,214,922	₩ 11,425,734	₩ 357,640,656

(in thousands of Korean won)	2014		
	Domestic	**Foreign**	**Total**
Operating revenue	₩ 317,305,040	₩ 5,970,904	₩ 323,275,944

27. Related Party Transactions

As of December 31, 2016, the controlling company of the Group is Kakao Corp. (percentage of ownership: 76.4%).

The controlling company of the Group has entered into a securities lending agreement with underwriters of the exchangeable bonds for up to an aggregate 2,191,885 shares of the Parent Company, equivalent to 100% of the total exchangeable shares, 8.67% of the ownership. According to the agreement, the shares will be lent up to the specified date through NH Investment & Securities Co., Ltd. Since the controlling company of the Group has retained rights as shareholders for the dividends, the above percentage of ownership has included the aforementioned number of shares.

Sales and purchases with related parties for the year ended December 31, 2016, are as follows:

(in thousands of Korean won)

		2016	
Type	**Name of entity**	**Sales**	**Purchase**
Controlling company	Kakao Corp.	₩ 536,712	₩ 1,496,366
Other related parties	KAKAO JAPAN Corp.	-	55,280
	Kakaofriends Corp.	-	7,611
	Kakao Games Corp.	13,000	-

There were no sales and purchase transactions with related parties for the years ended December 31, 2015 and 2014.

Outstanding balances arising from sales/purchases of goods and services as of December 31, 2016, are as follows:

(in thousands of Korean won)

		2016			
		Receivables		Payables	
Type	**Name of entity**	**Trade receivables**	**Other receivables**	**Trade payables**	**Other payables**
Controlling company	Kakao Corp.	₩ -	₩ 5,029	₩ -	₩ 1,332,501
Other related party	KAKAO JAPAN Corp.	-	-	-	20,228

There are no outstanding balances of receivables and payables arising from sales and purchases of goods and services as of December 31, 2015 and 2014.

Key management includes executive directors and members of the executive committee. The compensation paid or payable to key management for employee services for the years ended December 31, 2016, 2015 and 2014, consist of:

(in thousands of Korean won)	2016	2015	2014
Salaries	₩ 1,109,440	₩ 1,016,066	₩ 965,179
Expenses related to defined benefit plans	93,621	76,307	105,995
	₩ 1,203,061	₩ 1,092,373	₩ 1,071,174

There are no collateral and payment guarantees provided by related parties or providing to related parties as of December 31, 2016.

28. Non-cash Transactions

Significant transactions not affecting cash flows for the years ended December 31, 2016, 2015 and 2014, are as follows:

(in thousands of Korean won)	2016	2015	2014
Changes in (long-term) non-trade payables due to acquisition of investments in subsidiaries	₩ (1,455,200)	₩ 2,210,000	₩ -
Changes in non-trade payables for acquisition of property and equipment	418,413	29,887	-
Changes in advance payments for acquisition of property and equipment	(2,200,000)	-	-
Changes in non-trade payables for acquisition of intangible assets	197,840	-	-
Changes in non-trade receivables for disposal of intangible assets	52,100	-	-

29. Business Combination

On May 20, 2015, Starship Entertainment Co.,Ltd., a subsidiary, acquired 100% of the share capital and obtained control of Kingkong Entertainment Corp. that is engaged in entertainer management business. In addition, on November 25, 2015, the Parent Company acquired 70% of share capital and obtained control of Plan A Entertainment Co., Ltd. that is engaged in record production and management business. As a result of these acquisitions, the Group is expected to enhance competitiveness by expanding production business and generating synergy effect.

The following table summarizes the consideration paid for Kingkong Entertainment Corp. and the amounts of assets acquired and liabilities assumed at the acquisition date:

(in thousands of Korean won)		**Amount**
Consideration :		
Cash and shares	₩	4,900,000
Non-trade payables		751,556
Total consideration	₩	5,651,556
Recognized amounts of identifiable assets acquired and liabilities assumed :		
Cash and cash equivalents	₩	1,131,064
Trade receivables		354,804
Financial assets at fair value through profit or loss		100,000
Available-for-sale financial assets		400,000
Property and equipment and intangible assets		1,882,927
Other assets		934,723
Advances from customers		(1,062,060)
Other liabilities		(1,343,527)
Total identifiable net assets	₩	2,397,931

The following table summarizes the consideration paid for Plan A Entertainment Co., Ltd. and the amounts of assets acquired and liabilities assumed at the acquisition date:

(in thousands of Korean won)		**Amount**
Consideration :		
Cash and shares	₩	11,190,000
Non-trade payables		1,287,023
Total consideration	₩	12,477,023
Recognized amounts of identifiable assets acquired and liabilities assumed :		
Cash and cash equivalents	₩	6,950,994
Trade receivables		471,651
Property and equipment and intangible assets		6,846,285
Other assets		2,244,252
Advances from customers		(2,179,892)
Other liabilities		(2,519,766)
Total identifiable net assets	₩	11,813,524

Estimation of Fair value

Valuation technique used to estimate fair value of acquired significant assets is as follows:

Acquired asset	**Valuation technique**
Intangible asset (exclusive management rights)	Multi-period Excess Earnings Methods

Goodwill

Goodwill arising from business combination with Kingkong Entertainment Corp. is as follows:

(in thousands of Korean won)		**Amount**
Total consideration	₩	5,651,556
Fair value of identifiable net assets		(2,397,931)
Goodwill	₩	3,253,625

Goodwill arising from business combination with Plan A Entertainment Co., Ltd. is as follows:

(in thousands of Korean won)		**Amount**
Total consideration	₩	12,477,023
Non-controlling interests		3,544,057
Fair value of identifiable net assets		(11,813,524)
Goodwill	₩	4,207,556

30. Events After Reporting Period

On January 2, 2017(registration date of merger), Starship Entertainment Co.,Ltd., a subsidiary of Parent Company, merged Kingkong Entertainment Corp.,100% of which shares owned by Starship Entertainment Co., Ltd.

On January 16, 2017(date of incorporation), the Group newly established Krispy Studio Corporation to reinforce mobile video contents business (percentage of ownership: 100%, investment amount: ₩1 billion).

Report on Review of Interim Financial Statements

(English Translation of a Report Originally Issued in Korean)

To the Board of Directors and Shareholders of
LOEN ENTERTAINMENT, INC.

Reviewed Financial Statements

We have reviewed the accompanying consolidated interim financial statements of LOEN ENTERTAINMENT, INC. and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated interim statement of financial position of the Group as of September 30, 2017, and the related consolidated interim statements of comprehensive income for the three-month and nine-month periods ended September 30, 2017 and 2016, and the consolidated interim statements of changes in equity and cash flows for the nine-month periods ended September 30, 2017 and 2016, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Interim Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated interim financial statements in accordance with the International Financial Reporting Standards as adopted by the Republic of Korea ("Korean IFRS") 1034, *Interim Financial Reporting*, and for such internal control as management determines is necessary to enable the preparation of consolidated interim financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

We conducted our reviews in accordance with the Quarterly or Semi-annual Review Standards established by the Securities and Futures Commission of the Republic of Korea. A review of interim financial information consists of primarily making inquiries of persons responsible for financial and accounting matters, applying analytical procedures and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Korean Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our reviews, nothing has come to our attention that causes us to believe the accompanying consolidated interim financial statements are not presented fairly, in all material respects, in accordance with the Korean IFRS 1034, *Interim Financial Reporting*.

Other Matters

We have audited the consolidated statement of financial position of the Group as of December 31, 2016, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, in accordance with Korean Standards on Auditing. We expressed an unqualified opinion on those financial statements, not presented herein, in our audit report dated March 8, 2017. The consolidated statement of financial position as of December 31, 2016, presented herein for comparative purposes, is consistent, in all material respects, with the above audited consolidated statement of financial position as of December 31, 2016.

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

/s/ Samil PricewaterhouseCoopers
Seoul, Korea
November 8, 2017

This report is effective as of November 8, 2017, the review report date. Certain subsequent events or circumstances, which may occur between the review report date and the time of reading this report, could have a material impact on the accompanying consolidated interim financial statements and notes thereto. Accordingly, the readers of the review report should understand that there is a possibility that the above review report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

LOEN ENTERTAINMENT, INC. and Subsidiaries
Consolidated Interim Statements of Financial Position
As of September 30, 2017 and December 31, 2016

(in millions of Korean won)	Notes	September 30, 2017 (Unaudited)	December 31, 2016
Assets			
Current assets			
Cash and cash equivalents	5,6	₩ 136,399	₩ 92,112
Other financial assets	5	159,000	150,500
Trade and other receivables	5,8	84,748	75,326
Other current assets	9	35,248	25,531
Inventories	10	997	367
		416,392	343,836
Non-current assets			
Available-for-sale financial assets	5,7	5,639	6,979
Property and equipment	11	37,305	36,741
Intangible assets	11	41,092	43,514
Non-current other receivables	5,8	11,477	10,965
Other non-current assets	9	275	592
Deferred income tax assets		12,310	11,223
		108,098	110,014
Total assets		**₩ 524,490**	**₩ 453,850**
Liabilities			
Current Liabilities			
Trade and other payables	5,12	₩ 116,278	₩ 101,031
Current income tax liabilities		15,050	13,830
Other current liabilities	14	50,122	33,131
		181,450	147,992
Non-current liabilities			
Non-current trade and other payables	5,12	1,303	1,713
Defined benefit liabilities	13	1,397	-
Other non-current liabilities	14	357	385
Deferred income tax liabilities		1,064	1,368
		4,121	3,466
Total liabilities		**₩ 185,571**	**₩ 151,458**

LOEN ENTERTAINMENT, INC. and Subsidiaries
Consolidated Interim Statements of Financial Position
As of September 30, 2017 and December 31, 2016

(in millions of Korean won)	Notes	September 30, 2017 (Unaudited)	December 31, 2016
Equity			
Share capital	15	₩ 12,646	₩ 12,646
Share premium	15	48,464	47,954
Other component of equity	16	4,500	5,308
Retained earnings	17	260,631	226,937
Equity attributable to owners of the Parent Company		326,241	292,845
Non-controlling interest		12,678	9,547
Total equity		338,919	302,392
Total liabilities and equity		₩ 524,490	₩ 453,850

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

LOEN ENTERTAINMENT, INC. and Subsidiaries
Consolidated Interim Statements of Comprehensive Income
For the Three-Month and Nine-Month Periods Ended September 30, 2017 and 2016

(in millions of Korean won, except per share amounts)	Notes	September 30, 2017 Three Months (Unaudited)	September 30, 2017 Nine Months (Unaudited)	September 30, 2016 Three Months (Unaudited)	September 30, 2016 Nine Months (Unaudited)
Revenue	25	₩ 151,251	₩ 419,744	₩ 110,614	₩ 317,483
Operating expenses					
Raw material expenses		16,139	32,808	4,704	16,800
Employee benefits expenses	18	11,213	33,004	9,227	27,720
Service fees		60,223	173,679	49,161	139,267
Depreciation		1,121	3,353	975	2,853
Amortization of intangible assets		5,043	15,012	4,355	13,529
Rental expenses		1,024	3,084	1,131	3,161
Promoting expenses		10,391	27,774	8,130	22,439
Royalties		13,546	38,364	9,505	25,203
Advertising expenses		3,967	10,689	2,461	6,140
Other operating expenses	19	1,914	6,002	261	647
		124,581	343,769	89,910	257,759
Operating income		26,670	75,975	20,704	59,724
Other income	20	140	681	138	607
Other expenses	20	125	808	61	420
Finance income	21	1,009	2,834	814	2,605
Finance costs	21	30	82	40	122
Profit before income tax		27,664	78,600	21,555	62,394
Income tax expense	22	7,217	20,148	5,513	15,399
Profit for the period		20,447	58,452	16,042	46,995
Profit for the period attributable to:					
Equity holders of the Parent Company		20,726	59,111	16,178	47,383
Non-controlling interest		(279)	(659)	(136)	(388)
Other comprehensive income (loss)					
Items not to be reclassified subsequently to profit or loss:					
Remeasurement of net defined benefit liability	13	(8)	(24)	(63)	(433)
Items to be reclassified subsequently to profit or loss:					
Gain(loss) on valuation of available-for-sale securities, net of tax	5	(493)	(808)	(1,280)	(5,888)
Other comprehensive income (loss) for the period, net of tax		(501)	(832)	(1,343)	(6,321)
Total comprehensive income for the period		₩ 19,946	₩ 57,620	₩ 14,699	₩ 40,674
Comprehensive income for the period attributable to					
Equity holders of the Parent Company		₩ 20,225	₩ 58,278	₩ 14,834	₩ 41,062
Non-controlling interest		₩ (279)	₩ (658)	₩ (135)	₩ (388)
Earnings per share to the equity holders of the parent company during the period	23				
Basic earnings per share		₩ 819	₩ 2,337	₩ 640	₩ 1,873
Diluted earnings per share		₩ 819	₩ 2,337	₩ 640	₩ 1,873

The above Consolidated Interim Statements of Comprehensive Income should be read in conjunction with the accompanying notes.

LOEN ENTERTAINMENT, INC. and Subsidiaries
Consolidated Interim Statements of Changes in Equity
For the Nine-month Periods Ended September 30, 2017 and 2016

(in millions of Korean won)	Attributable to equity holders of the Parent Company					Non-controlling Interest	Total Equity
	Share Capital	Share Premium	Other Components of Equity	Retained Earnings	Total		
Balance at January 1, 2016	₩ 12,646	₩ 47,954	₩ 12,132	₩ 164,659	₩ 237,391	₩ 8,587	₩ 245,978
Comprehensive income :							
Profit for the period	-	-	-	47,383	47,383	(388)	46,995
Gain (loss) on valuation of available-for-sale securities, net of tax	-	-	(5,888)	-	(5,888)	-	(5,888)
Remeasurement of defined benefit obligation	-	-	-	(433)	(433)	-	(433)
Total comprehensive income for the period	-	-	(5,888)	46,950	41,062	(388)	40,674
Transactions with equity holders:							
Changes in consolidation scope	-	-	-	-	-	1,463	1,463
	-	-	-	-	-	1,463	1,463
Balance at September 30, 2016(unaudited)	₩ 12,646	₩ 47,954	₩ 6,244	₩ 211,609	₩ 278,453	₩ 9,662	₩ 288,115
Balance at January 1, 2017	₩ 12,646	₩ 47,954	₩ 5,308	₩ 226,937	₩ 292,845	₩ 9,547	₩ 302,392
Comprehensive income :							
Profit for the period	-	-	-	59,111	59,111	(659)	58,452
Gain (loss) on valuation of available-for-sale securities, net of tax	-	-	(808)	-	(808)	-	(808)
Remeasurement of defined benefit obligation	-	-	-	(24)	(24)	-	(24)
Total comprehensive income for the period	-	-	(808)	59,087	58,279	(659)	57,620
Transactions with equity holders:							
Cash dividends	-	-	-	(25,393)	(25,393)	-	(25,393)
New shares issued by a subsidiary	-	510	-	-	510	3,790	4,300
	-	510	-	(25,393)	(24,883)	3,790	(21,093)
Balance at September 30, 2017(unaudited)	₩ 12,646	₩ 48,464	₩ 4,500	₩ 260,631	₩ 326,241	₩ 12,678	₩ 338,919

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

LOEN ENTERTAINMENT, INC. and Subsidiaries
Consolidated Interim Statements of Cash Flows
For the Nine-month Periods Ended September 30, 2017 and 2016

(in millions of Korean won)	September 30, 2017 (Unaudited)	September 30, 2016 (Unaudited)
Cash flows from operating activities		
Profit for the period	₩ 58,452	₩ 46,995
Adjustments for		
Loss on valuation of inventories	32	27
Reversal of bad debt expense	(68)	(4,102)
Depreciation	3,353	2,853
Gain on disposal of available-for-sale financial assets	(120)	-
Loss on abandonment of property and equipment	-	118
Loss on disposal of property and equipment	-	3
Amortization of intangible assets	15,012	13,529
Impairment loss on intangible assets	516	160
Expenses related to defined benefit plan	1,395	1,400
Salaries and wages (long-term employee benefit obligation)	48	24
Other allowance for doubtful accounts	91	16
Interest expenses	82	122
Income tax expense	20,148	15,399
Gain on disposal of property and equipment	(21)	(8)
Gain on disposal of intangible assets	-	(189)
Interest income	(2,834)	(2,475)
Dividend income	-	(130)
	37,634	26,747
Changes in operating assets and liabilities		
Increase in trade receivables	(8,694)	(6,297)
Increase in non-trade receivables	(419)	(4,212)
Increase in advance payments	(9,364)	(1,778)
Decrease (increase) in prepaid expenses	213	(505)
Increase in non-current prepaid expenses	-	(698)
Increase in inventories	(661)	(298)
Increase in trade payables	18,235	9,601
Decrease in non-trade payables	(3,080)	(365)
Increase in advances from customers	11,142	5,503
Decrease in accrued expenses	(64)	(2,650)
Increase (decrease) in deposits received	(141)	252
Increase in value added tax withheld	1,214	551
Decrease in prepaid value added tax	(110)	(5)
Increase in withholdings	4,537	6,502
Increase in non-current withholdings	-	169
Increase in leasehold deposits received	3	-
Increase (decrease) in provision for sales return	17	(15)
Payment of severance benefits	(598)	(973)
Decrease in pension plan assets	569	973
	12,799	5,755
Cash generated from operations	108,885	79,497
Interest received	2,334	1,348
Interest paid	(7)	-
Dividend income	-	130
Income taxes paid	(20,060)	(17,516)
Net cash inflow from operating activities	91,152	63,459

LOEN ENTERTAINMENT, INC. and Subsidiaries
Consolidated Interim Statements of Cash Flows
For the Nine-month Periods Ended September 30, 2017 and 2016

Cash flows from investing activities		
Disposal of short-term financial instruments	1,500	3,500
Decrease in short-term loans	818	34
Disposal of available-for-sale financial assets	393	69
Disposal of property and equipment	41	17
Disposal of intangible assets	33	1,010
Decrease in deposits	1,153	906
Increase in cash due to changes in consolidation scope	113	-
Acquisition of short-term financial instruments	(10,000)	(25,000)
Increase in short-term loans	(915)	(10)
Increase in long-term loans	(25)	-
Increase in deposits	(1,407)	(2,799)
Acquisition of property and equipment	(3,307)	(22,558)
Acquisition of intangible assets	(10,064)	(12,673)
Net cash outflow from investing activities	(21,667)	(57,504)
Cash flows from financing activities		
New shares of subsidiary issued to non-controlling interest	2,800	1,463
Payments of dividends	(25,393)	-
Repayment of short-term borrowings	(2,605)	-
Payment of finance lease liabilities	-	(7)
Net cash inflow (outflow) from financing activities	(25,198)	1,456
Net increase in cash and cash equivalents	44,287	7,411
Cash and cash equivalents at the beginning of the period	92,112	83,149
Cash and cash equivalents at the end of the period	₩ 136,399	₩ 90,560

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

1. General Information

The general information of LOEN ENTERTAINMENT, INC. (the "Parent Company") and its subsidiaries (collectively referred to as the "Group") is described below.

1.1 Overview of the Group and its business

1.1.1 The Parent Company

The Parent Company was incorporated on July 7, 1982, under the Commercial Law of the Republic of Korea, to engage mainly in plan, production and sale of record, internet service, real estate business and other related business. On January 9, 2001, the Parent Company was listed in KOSDAQ and is located in Teheran-ro, Gangnam-gu, Seoul, South Korea.

In March 2008, the Parent Company changed its name from Seoul Records, Inc. to LOEN ENTERTAINMENT, INC. In December 2008, the Parent Company issued ordinary shares of 9,321,170 shares amounting to ₩ 43,203,623 thousand and its share capital increased by ₩ 4,660,585 thousand. As of September 30, 2017, the share capital of the Parent Company amounted to ₩ 12,645,853 thousand and its largest shareholder is Kakao Corp. with ownership of 76.4% (Note 26).

1.1.2 Consolidated Subsidiaries

Details of the consolidated subsidiaries as of September 30, 2017 and December 31, 2016, are as follows:

		September 30, 2017	December 31, 2016			
	Location	Ownership interest held by the Group (%)	Ownership interest held by the Group (%)[1]	Closing month	Main business	Remark
Starship Entertainment Co.,Ltd.[2]	Korea	64.8	64.8	December	Record production and management business	
Kingkong Entertainment Corp.[2]	Korea	-	100.0	December	Artist management business	The Company merged with Starship Entertainment Co.,Ltd.
Plan A Entertainment Co.,Ltd.[3]	Korea	70.0	70.0	December	Record production and management business	
Mtechcrew	Korea	100.0	100.0	December	Data processing business	
Fave Entertainment Co.,Ltd.	Korea	80.0	80.0	December	Artist management business	

Cre.Ker Entertainment Co.,Ltd.	Korea	80.0	80.0	December	Artist management business	
MUN HWA IN Co.,Ltd.	Korea	67.5	67.5	December	Artist management business	
Krispy Studio Corporation[4]	Korea	100.0	-	December	Motion picture, video related services business	Newly established
Mega Monster Corporation[5]	Korea	67.2	-	December	Broadcasting programme production business	Newly acquired

[1] Percentage of ownership of subsidiaries is included.

[2] During the nine-month period ended September 30, 2017, Starship Entertainment Co.,Ltd. merged with Kingkong Entertainment Corp.

[3] During the nine-month period ended September 30, 2016, the name of A-cube Entertainment Corp. was changed to Plan A Entertainment Co., Ltd.

[4] During the nine-month period ended September 30, 2017, the Parent Company newly established Krispy Studio Corporation.

[5] During the nine-month period ended September 30, 2017, the Parent Company newly acquired 100% of equity shares of Story Plant Co., Ltd. After acquisition, the percentage of ownership of the Parent Company changed from 100% to 67.2% due to issuance of new shares to non-controlling interest and the name of Story Plant Co., Ltd. was changed to Mega Monster Corporation.

1.1.3 Changes in Scope for Consolidation

Details of subsidiaries which are newly included in consolidation for the nine-month period ended September 30, 2017, are described below and none of subsidiaries was excluded from consolidated financial statement during the nine-month period ended September 30, 2017.

	Reason	Percentage of ownership (%)
Krispy Studio Corporation	Newly established	100.0
Mega Monster Corporation	Newly acquired	67.2

1.2 Summarized Financial Information

Summarized financial information for consolidated subsidiaries as of September 30, 2017 and December 31, 2016 and for the nine-month periods ended September 30, 2017 and 2016, is as follows:

(in thousands of Korean won)	September 30, 2017 (Unaudited)			2017 (Unaudited)		
Subsidiary	**Assets**	**Liabilities**	**Equity**	**Sales**	**Profit (loss) for the period**	**Total comprehensive income (loss)**
Starship Entertainment Co.,Ltd.	₩ 22,491,535	₩ 9,422,492	₩ 13,069,043	₩ 23,803,398	₩ 1,147,160	₩ 1,147,160
Plan A Entertainment Co.,Ltd.	10,685,391	3,070,791	7,614,600	6,634,716	395,932	395,932
Mtechcrew	1,655,445	358,312	1,297,133	3,751,684	298,884	298,884
Fave Entertainment Co.,Ltd.	1,533,396	263,060	1,270,336	2,718,457	22,825	22,825
Cre.Ker Entertainment Co.,Ltd.	2,145,020	2,544,313	(399,293)	305,368	(1,384,930)	(1,384,930)
MUN HWA IN Co.,Ltd.	2,067,117	379,722	1,687,395	3,329,236	(642,682)	(642,682)
Krispy Studio Corporation	393,608	65,683	327,925	-	(672,075)	(672,075)
Mega Monster Corporation	11,345,974	104,137	11,241,837	-	(293,712)	(293,712)

(in thousands of Korean won)	December 31, 2016			2016 (Unaudited)		
Subsidiary	**Assets**	**Liabilities**	**Equity**	**Sales**	**Profit (loss) for the period**	**Total comprehensive income (loss)**
Starship Entertainment Co.,Ltd.[1]	₩ 22,766,015	₩ 10,844,132	₩ 11,921,883	₩ 18,379,954	₩ 937,323	₩ 937,323
Plan A Entertainment Co.,Ltd.	11,080,755	3,862,087	7,218,668	5,170,659	662,179	662,179
Mtechcrew	1,320,091	321,842	998,249	1,925,890	212,755	212,755
Fave Entertainment Co.,Ltd.	1,631,764	384,253	1,247,511	739,897	(31,729)	(31,729)
Cre.Ker Entertainment Co.,Ltd.	2,573,484	1,587,847	985,637	23,132	(345,722)	(345,722)
MUN HWA IN Co.,Ltd.	2,753,101	423,024	2,330,077	53,677	(487,037)	(487,037)

[1] The entity is the intermediate parent company of its subsidiary and above financial information is from its consolidated financial statements.

2. Significant Accounting Policies

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

2.1 Basis of Preparation

The Group 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 interim 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 Group's financial position, financial performance or cash flows, is not presented in the accompanying consolidated interim financial statements.

The Group's consolidated interim financial statements for the nine-month period ended September 30, 2017, have been prepared in accordance with Korean IFRS 1034 *Interim Financial Reporting*. These consolidated interim financial statements have been prepared in accordance with Korean IFRS which is effective or early adopted as of September 30, 2017.

(a) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing January 1, 2017. The adoption of these amendments did not have any material impact on the financial statements.

- Amendments to Korean IFRS 1007, *Statement of Cash Flows*

Amendments to Korean IFRS 1007, *Statement of Cash flows*, require to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash flows.

- Amendments to Korean IFRS 1012, *Income Tax*

Amendments to Korean IFRS 1012 clarify how to account for deferred tax assets related to debt instruments measured at fair value. Korean IFRS 1012 provides requirements on the recognition and measurement of current or deferred tax liabilities or assets. The amendments issued clarify the requirements on recognition of deferred tax assets for unrealized losses, to address diversity in practice.

- Amendments to Korean IFRS 1112, *Disclosures of Interests in Other Entities*

Amendments to Korean IFRS 1112 clarify when an entity's interest in a subsidiary, a joint venture or an associate is classified as held for sales in accordance with Korean IFRS 1105, the entity is required to disclose other information except for summarized financial information in accordance with Korean IFRS 1112.

(b) New and amended standards and interpretations not yet adopted by the Group

Certain new and amended accounting standards and interpretations that have been published that are not mandatory for annual reporting period commencing January 1, 2017 and have not been early adopted by the Group are set out below.

- Amendments to Korean IFRS 1028, *Investments in Associates and Joint Ventures*

When an investment in an associate or a joint venture is held by, or it held indirectly through, an entity that is a venture capital organization, or a mutual fund, unit trust and similar entities including investment-linked insurance funds, the entity may elect to measure that investment at fair value through profit or loss. The amendments clarify that an entity shall make this election separately for each associate or joint venture, at initial recognition of the associate or joint venture. The Group will apply these amendments retrospectively for annual periods beginning on or after January 1, 2018, and early adoption is permitted. The Group does not expect the amendments to have a significant impact on the consolidated financial statements because the Group is not a venture capital organization.

- Amendments to Korean IFRS 1102, *Share-based Payment*

Amendments to Korean IFRS 1102 clarify accounting for a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. Amendments also clarify that the measurement approach should treat the terms and conditions of a cash-settled award in the same way as for an equity-settled award. The amendments will be effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Group does not expect the amendments to have a significant impact on the consolidated financial statements.

- Enactments to Interpretation 2122, *Foreign Currency Transaction and Advance Consideration*

According to these enactments, the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the entity shall determine a date of the transaction for each payment or receipt of advance consideration. These enactments will be effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Group does not expect the enactments to have a significant impact on the consolidated financial statements.

- Enactments to Korean IFRS 1109, *Financial Instruments*

The new standard for financial instruments issued on September 25, 2015 is effective for annual periods beginning on or after January 1, 2018 with early application permitted. This standard will replace Korean IFRS 1039, *Financial Instruments: Recognition and Measurement*. The Group will apply the standards for annual periods beginning on or after January 1, 2018.

The standard requires retrospective application with some exceptions. For example, an entity is not required to restate prior period in relation to classification and measurement (including impairment) of financial instruments. The standard requires prospective application of its hedge accounting requirements for all hedging relationships except the accounting for time value of options and other exceptions.

Korean IFRS 1109, *Financial Instruments*, requires all financial assets to be classified and measured on the basis of the entity's business model for managing financial assets and the contractual cash flow characteristics of the financial assets. A new impairment model, an expected credit loss model, is introduced and any subsequent changes in expected credit losses will be recognized in profit or loss. Also, hedge accounting rules amended to extend the hedging relationship, which consists only of eligible hedging instruments and hedged items, qualifies for hedge accounting.

An effective implementation of Korean IFRS 1109 requires preparation processes including financial impact assessment, accounting policy establishment, accounting system development and the system stabilization. The impact on the Group's financial statements due to the application of the standard is dependent on judgements made in applying the standard, financial instruments held by the Group and macroeconomic variables.

With respect to the implementation of Korean IFRS 1109, the Group has neither prepared for internal management process nor begun to adjust accounting system for financial instruments reporting. Also, the Group has not analyzed the financial effects of applying the standard.

(a) Classification and Measurement of Financial Assets

When implementing Korean IFRS 1109, the classification of financial assets will be driven by the Group's business model for managing the financial assets and contractual terms of cash flow. The following table shows the classification of financial assets measured subsequently at amortized cost, at fair value through other comprehensive income and at fair value through profit or loss. If a hybrid contract contains a host that is a financial asset, the classification of the hybrid contract shall be determined for the entire contract without separating the embedded derivative.

Business model for the contractual cash flows characteristics	**Solely represent payments of principal and interest**	**All other**
Hold the financial asset for the collection of the contractual cash flows	Measured at amortized cost[1]	
Hold the financial asset for the collection of the contractual cash flows and trading	Recognized at fair value through other comprehensive income [1]	Recognized at fair value through profit or loss[2]
Hold for trading	Recognized at fair value through profit or loss	

[1] A designation at fair value through profit or loss is allowed only if such designation mitigates an accounting mismatch (irrevocable).

[2] Equity investments not held for trading can be recorded in other comprehensive income (irrevocable).

With the implementation of Korean IFRS 1109, the criteria to classify the financial assets at amortized cost or at fair value through other comprehensive income are more strictly applied than the criteria applied with Korean IFRS 1039. Accordingly, the financial assets at fair value through profit or loss may increase by implementing Korean IFRS 1109 and may result an extended fluctuation in profit or loss.

As of September 30, 2017, the Group owns loans and receivables of ₩ 391,624 million and financial assets available-for-sale of ₩ 5,639 million.

According to Korean IFRS 1109, a debt instrument is measured at amortized cost if: a) the objective of the business model is to hold the financial asset for the collection of the contractual cash flows, and b) the contractual cash flows under the instrument solely represent payments of principal and interest. As of September 30, 2017, the Group measured loans and receivables of ₩ 391,624 million at amortized costs.

According to Korean IFRS 1109, a debt instrument is measured at fair value through other comprehensive income if the objective of the business model is achieved both by collecting contractual cash flows and selling financial assets; and the contractual cash flows represents solely payments of principal and interest on a specific date under contract terms. As of September 30, 2017, there are no debt instruments classified as available-for-sale financial assets held by the Group.

According to Korean IFRS 1109, equity instruments that are not held for trading, the Group can make an irrevocable election at initial recognition to classify the instruments as assets measured at fair value through other comprehensive income, which all subsequent changes in fair value being recognized in other comprehensive income and not recycled to profit or loss. As of September 30, 2017, the Group holds equity instruments of ₩ 5,639 million classified as financial assets available-for-sale.

According to Korean IFRS 1109, debt instruments those contractual cash flows do not represent solely payments of principal and interest and held for trading, and equity instruments that are not designated as instruments measured at fair value through other comprehensive income are measured at fair value through profit or loss. As of September 30, 2017, there are no debt and equity instruments classified as financial assets at fair value through profit or loss held by the Group.

(b) Impairment: Financial Assets and Contract Assets

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under Korean IFRS 1039. It applies to financial assets classified at amortized cost, debt instruments measured at fair value through other comprehensive income, contract assets, lease receivables, loan commitments and certain financial guarantee contracts.

Under Korean IFRS 1109 'expected loss' model, a credit event (or impairment 'trigger') no longer has to occur before credit losses are recognized. The Group will always recognize (at a minimum) 12-month expected credit losses in profit or loss. Lifetime expected losses will be recognized on assets for which there is a significant increase in credit risk after initial recognition.

Stage[1]		Loss allowance
1	No significant increase in credit risk after initial recognition[2]	12-month expected credit losses (expected credit losses that result from those default events on the financial instrument that are possible within 12 months after the reporting date)
2	Significant increase in credit risk after initial recognition	Lifetime expected credit losses (expected credit losses that result from all possible default events over the life of the financial instrument)
3	Credit-impaired	

[1] A loss allowance for lifetime expected credit losses is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. It is also required for contract assets or trade receivables that are not, according to Korean IFRS 1115, *Revenue from Contracts with Customers*, considered to contain a significant financing component. Additionally, the Group can elect an accounting policy of recognizing lifetime expected credit losses for all contract assets and/or all trade receivables including those that contain a significant financing component.

[2] If the financial instrument has low credit risk at the end of the reporting period, the Group may assume that the credit risk has not increased significantly since initial recognition.

Under Korean IFRS 1109, the asset that is credit-impaired at initial recognition would recognize all changes in lifetime expected credit losses since the initial recognition as a loss allowance with any changes recognized in profit or loss.

As of September 30, 2017, the Group owns loans and receivables carries at amortized cost of ₩ 395,489 million (before provision for impairment). And, the Group recognized loss allowance of ₩ 3,865 million for these assets.

- Enactments to Korean IFRS 1115, *Revenue from Contracts with Customers*

The Group will apply Korean IFRS 1115, *Revenue from Contracts with Customers*, issued on November 6, 2015 for annual reporting periods beginning on or after January 1, 2018. This standard replaces Korean IFRS 1018, *Revenue*, Korean IFRS 1011, *Construction Contracts*, Interpretation 2031, *Revenue-Barter Transactions Involving Advertising Services*, Interpretation 2113, *Customer Loyalty Programs*, Interpretation 2115, *Agreements for the Construction of Real Estate*, and Interpretation 2118, *Transfers of assets from customers.*

The Group must apply Korean IFRS 1115, *Revenue from Contracts with Customers*, within annual reporting periods beginning on or after January 1, 2018, and will elect the modified retrospective approach which will recognize the cumulative impact of initially applying the revenue standard as an adjustment to retained earnings as of January 1 2018, the period of initial application.

The new standard is based on the principle that revenue is recognized when control of a good or service transfers to a customer so the notion of control replaces the existing notion of risks and rewards. A new five-step process must be applied before revenue from contract with customer can be recognized:

- Identify contracts with customers
- Identify the separate performance obligation
- Determine the transaction price of the contract
- Allocate the transaction price to each of the separate performance obligations, and
- Recognize the revenue as each performance obligation is satisfied.

As of September 30, 2017, the Group has neither prepared for internal management process nor begun to adjust accounting system in relation to implementation of Korean IFRS 1115. Also, the Group has not analyzed the financial effects of applying the standard. The Group plans to analyze the financial effects of applying the standard in 2017.

2.2 Significant Accounting Policies

Significant accounting policies and method of computation used in the preparation of the consolidated interim financial statements are consistent with those of the consolidated financial statements for the year ended December 31, 2016, except for the changes due to the application of amendment and enactments of standards described in Note 2.1 (a) and the one described below.

2.2.1 Income Tax Expense

Income tax expense for the interim period is recognized based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual effective tax rate is applied to the pre-tax income for the interim period.

3. Financial Risk Management

The Group's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. The note regarding financial risk management provides information about the risks that the Group is exposed to, the objective, policies and processes for measuring and managing risk, and the Group's management of capital. Additional quantitative information is disclosed throughout the financial statements. The Group has a risk management policy and program in place to monitor and actively manage such risks.

3.1 Financial Risk Factors

The Group's financial assets that are under financial risk management are composed of cash and cash equivalents, other financial assets, available-for-sale financial assets and trade and other receivables. The Group's financial liabilities under financial risk management are composed of trade and other payables and other financial liabilities.

3.1.1 Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The goal of market risk management is optimization of profit and controlling the exposure to market risk within acceptable limits.

(a) Foreign exchange risk

The Group does not hold any significant assets and liabilities denominated in foreign currencies as of September 30, 2017 and December 31, 2016.

(b) Price risk

The Group invests in equity securities (listed securities) which are classified as available-for-sale financial assets in consolidated financial statements. The Group's equity investments are publicly traded and are included in the KOSDAQ index. If there is a change in the price of equity securities (listed securities) by 1%, changes in other comprehensive income as of September 30, 2017, are expected to amount to ₩ 34 million.

(c) Interest rate risk

i) Fair value sensitivity analysis of financial instruments at fixed interest rate

The financial instruments at fixed interest rate are not recognized as financial instruments at fair value through profit or loss. Accordingly, changes in interest rate have no impact on profit or loss.

ii) Cash flow sensitivity analysis of financial instruments at floating interest rate

As of September 30, 2017 and December 31, 2016, the Group does not hold any financial instruments at floating interest rate.

3.1.2 Credit Risk

Credit risk arises during the ordinary course of transactions and investing activities, where clients or another party fails to discharge an obligation. The Group monitors and sets the counterparty's credit limit on a periodic basis based on the counterparty's financial conditions, default history and other important factors. In addition, the Group establishes and manages credit limits for each customer or counterparty.

For the nine-month period ended September 30, 2017, the Group has no trade receivables or other financial assets including loans and non-trade receivables which have indications of significant impairment loss or are overdue for a prolonged period. As a result, the Group believes that the possibility of default is remote. Also, the Group's credit risk can rise due to transactions with financial institutions related to its cash and cash equivalents and transactions with financial institutions such as all types of deposits. To minimize such risk, the Group has a policy to deal with high credit worthy financial institutions with a minimum rating of 'A'. The amount of maximum exposure to credit risk of the Group is the book amount of financial assets, net of cash.

The maximum exposure to credit risk as of September 30, 2017 and December 31, 2016, is as follows:

(in thousands of Korean won)	September 30, 2017 (Unaudited)	December 31, 2016
Cash and cash equivalents	₩ 136,393,588	₩ 92,108,860
Available-for-sale financial assets	5,639,030	6,978,650
Trade and other receivables	96,225,408	86,292,180
Other financial assets	159,000,000	150,500,000

3.1.3 Liquidity Risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The Group flexibly maintains sufficient liquidity under credit lines through active operating activities.

Details of the contractual maturities of financial liabilities as of September 30, 2017 and December 31, 2016, are as follows. The amounts below include interest paid, but not the effect of offsetting agreements.

(in thousands of Korean won)	September 30, 2017 (Unaudited)				
	Book amount	Contractual cash flows	Within 6 months	Between 6 months and 1 year	Over 1 year
Trade and other payables	₩ 117,581,488	₩ 117,679,874	₩ 116,288,274	₩ -	₩ 1,391,600

(in thousands of Korean won)	December 31, 2016				
	Book amount	Contractual cash flows	Within 6 months	Between 6 months and 1 year	Over 1 year
Trade and other payables	₩ 102,744,353	₩ 102,941,760	₩ 100,046,960	₩ 1,026,200	₩ 1,868,600

3.2 Capital Risk Management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

Consistent with others in the industry, the Group monitors capital on the basis of the debt-to-equity ratio. This ratio is calculated as debt divided by equity.

The debt-to-equity ratio as of September 30, 2017 and December 31, 2016, are as follows:

(in thousands of Korean won)		**September 30, 2017 (Unaudited)**		**December 31, 2016**
Total debt (A)	₩	185,572,238	₩	151,458,565
Total equity (B)		338,918,348		302,391,926
Debt-to-equity ratio (A/B)		54.75%		50.09%

3.3 Fair Value Measurements

3.3.1 Fair Value of Financial Instruments by Category

Book amount and fair value of financial instruments by category as of September 30, 2017 and December 31, 2016, are as follows:

(in thousands of Korean won)	**September 30, 2017**		**December 31, 2016**	
	(Unaudited)			
	Book amount	**Fair value**	**Book amount**	**Fair value**
Available-for-sale financial assets[1]	₩ 4,426,500	₩ 4,426,500	₩ 5,492,500	₩ 5,492,500

[1] Equity instruments that do not have a quoted price in an active market are measured at cost because their fair value cannot be measured reliably, and excluded from the fair value disclosures.

Financial assets including cash and cash equivalents, other financial assets, trade receivables, and other receivables, and financial liabilities including trade payables and other payables whose carrying amount is a reasonable approximation of fair value are excluded from the fair value disclosures.

3.3.2 Financial Instruments Measured at Cost

Details of financial instruments measured at cost as of September 30, 2017 and December 31, 2016, are as follows:

(in thousands of Korean won)	September 30, 2017 (Unaudited)	December 31, 2016
Available-for-sale financial assets		
Non-listed shares	₩ 133,667	₩ 133,667
Other equity investments	1,078,863	1,352,483
	₩ 1,212,530	₩ 1,486,150

3.3.3 Fair Value Hierarchy

Financial instruments measured at fair value are categorized by inputs used in fair value measurements within the following fair value hierarchy.

Level	Definitions
Level 1	Quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2	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 3	Unobservable inputs for the asset or liability

Details of financial assets and financial liabilities that are measured at fair value as of September 30, 2017 and December 31, 2016, are as follows:

(in thousands of Korean won)	September 30, 2017 (Unaudited)			
	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets	₩ 4,426,500	₩ -	₩ -	₩ 4,426,500

(in thousands of Korean won)	December 31, 2016			
	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets	₩ 5,492,500	₩ -	₩ -	₩ 5,492,500

4. Critical Accounting Estimates and Assumptions

In preparing the consolidated interim financial statements, the Group's management makes judgments, estimates and assumptions that affect the application of accounting policies and the amounts of assets, liabilities, and interests and expenses reported. The preparation of financial statements requires the Group to make estimates and assumptions concerning the future. Estimates and judgements 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. The resulting accounting estimates will, by definition, seldom equal the related actual results.

Significant accounting estimates and assumptions applied in the preparation of these consolidated interim financial statements are the same as those that applied to the consolidated financial statements for the year ended December 31, 2016, except for the estimates used to determine income tax expense described in Note 2.2.

5. Financial Instruments by Category

5.1 Book Amounts of Financial Instruments by Category

Categorizations of financial assets and liabilities as of September 30, 2017 and December 31, 2016, are as follows:

(in thousands of Korean won)	September 30, 2017 (Unaudited)		
	Loans and receivables	Available-for-sale financial assets	Total
Financial assets			
Cash and cash equivalents	₩ 136,398,557	₩ -	₩ 136,398,557
Available-for-sale financial assets	-	5,639,030	5,639,030
Other financial assets	159,000,000	-	159,000,000
Trade and other receivables	96,225,408	-	96,225,408
	₩ 391,623,965	₩ 5,639,030	₩ 397,262,995

(in thousands of Korean won)	September 30, 2017 (Unaudited)
	Financial liabilities carried at amortized cost
Financial liabilities	
Trade payables	₩ 98,455,511
Other payables	19,125,976
	₩ 117,581,487

(in thousands of Korean won)	December 31, 2016		
	Loans and receivables	Available-for-sale financial assets	Total
Financial assets			
Cash and cash equivalents	₩ 92,112,465	₩ -	₩ 92,112,465
Available-for-sale financial assets	-	6,978,650	6,978,650
Other financial assets	150,500,000	-	150,500,000
Trade and other receivables	86,292,180	-	86,292,180
	₩ 328,904,645	₩ 6,978,650	₩ 335,883,295

(in thousands of Korean won)

	December 31, 2016
	Financial liabilities carried at amortized cost
Financial liabilities	
Trade payables	₩ 80,220,928
Other payables	22,523,425
	₩ 102,744,353

5.2 Net gains or Losses by Category of Financial Instruments

Net gains or net losses on each category of financial instruments for the nine-month periods ended September 30, 2017 and 2016, are as follows:

(in thousands of Korean won)

	2017 (Unaudited)		
	Loans and receivables	Available-for-sale financial assets	Total
Interest income	₩ 2,833,941	₩ -	₩ 2,833,941
Exchange differences	(41,965)	-	(41,965)
Loss on valuation (other comprehensive income)	-	(808,028)	(808,028)
Gain (loss) on valuation/disposal	(298,585)	119,680	(178,905)
	₩ 2,493,391	₩ (688,348)	₩ 1,805,043

(in thousands of Korean won)

	2017 (Unaudited)
	Financial liabilities carried at amortized cost
Interest expense	₩ 82,004

(in thousands of Korean won)

	2016 (Unaudited)		
	Loans and receivables	Available-for-sale financial assets	Total
Interest income	₩ 2,474,693	-	2,474,693
Exchange differences	(40,264)	-	(40,264)
Dividend income	-	130,000	130,000
Loss on valuation (other comprehensive income)	-	(5,887,765)	(5,887,765)
Gain on valuation/disposal	768,170	-	768,170
	₩ 3,202,599	(5,757,765)	(2,555,166)

(in thousands of Korean won)

	2016 (Unaudited)
	Financial liabilities carried at amortized cost
Interest expense	₩ 122,164

6. Cash and Cash Equivalents

Cash and cash equivalents as of September 30, 2017 and December 31, 2016, are as follows:

(in thousands of Korean won)		September 30, 2017 (Unaudited)		December 31, 2016
Cash on hand	₩	4,969	₩	3,605
Cash equivalents[1]		136,393,588		92,108,860
	₩	136,398,557	₩	92,112,465

[1] Cash equivalents are highly liquid financial instruments that are readily convertible to fixed amounts and subject to an insignificant risk of changes in value.

7. Available-For-Sale Financial Assets

Changes in available-for-sale financial assets for the nine-month periods ended September 30, 2017 and 2016, are as follows:

(in thousands of Korean won)		2017 (Unaudited)		2016 (Unaudited)
Beginning balance	₩	6,978,650	₩	16,139,771
Disposals[1]		(273,620)		(68,966)
Loss on valuation		(1,066,000)		(7,767,500)
Ending balance	₩	5,639,030	₩	8,303,305

[1] The Group received distribution amounting to ₩ 273,620 thousand (2016: ₩ 68,966 thousand) from investment in Stone Bridge Soap Opera Investment Associate for the nine-month period ended September 30, 2017.

Details of available-for-sale financial assets as of September 30, 2017 and December 31, 2016, are as follows:

(in thousands of Korean won)	September 30, 2017 (Unaudited)	December 31, 2016
Equity securities		
Listed shares		
FNC Entertainment Co., Ltd.	₩ 4,426,500	₩ 5,492,500
	4,426,500	5,492,500
Non-listed shares[1]		
Seoul Media Inc.	30,000	30,000
FE Entertainment Co., Ltd.	103,667	103,667
	133,667	133,667
Other equity investments[1]		
Record Reproduction Cooperative Association	8,000	8,000
Stone Bridge Soap Opera Investment Associate	70,863	344,483
SMCI VI Early Stage Product Fund	1,000,000	1,000,000
	1,078,863	1,352,483
	₩ 5,639,030	₩ 6,978,650

[1] Non-marketable equity securities are measured at historical costs, rather than fair value, since there is no existing quoted price in an active market, and the deviation of estimated cash flow is significant to reasonably estimate such fair value.

8. Trade and Other Receivables

Trade and other receivables as of September 30, 2017 and December 31, 2016, are as follows:

(in thousands of Korean won)	September 30, 2017 (Unaudited)		December 31, 2016	
	Current	Non-current	Current	Non-current
Trade receivables	₩ 81,785,936	₩ -	₩ 73,300,044	₩ -
Short-term loans	108,111	-	11,000	-
Non-trade receivables	1,715,341	-	1,222,750	-
Accrued income	1,139,088	-	792,569	-
Long-term loans	-	24,667	-	-
Deposits	-	11,452,265	-	10,965,817
	₩ 84,748,476	₩ 11,476,932	₩ 75,326,363	₩ 10,965,817

9. Other Assets

Details of other assets as of September 30, 2017 and December 31, 2016, are as follows:

(in thousands of Korean won)	September 30, 2017 (Unaudited)		December 31, 2016	
	Current	Non-current	Current	Non-current
Advance payments	₩41,113,442	₩ -	₩31,978,493	₩ -
Provision for impairment of advance payments	(7,479,345)	-	(7,755,457)	-
	33,634,097	-	24,223,036	-
Prepaid expenses	1,462,708	275,046	1,265,371	592,296
Prepaid value added tax	151,649	-	41,277	-
	₩35,248,454	₩ 275,046	₩25,529,684	₩ 592,296

10. Inventories

Inventories as of September 30, 2017 and December 31, 2016, are as follows:

(in thousands of Korean won)	September 30, 2017 (Unaudited)			December 31, 2016		
	Cost	Valuation allowance	Book amount	Cost	Valuation allowance	Book amount
Finished goods	₩ 829,345	₩ (430,763)	₩ 398,582	₩ 724,869	₩ (404,475)	₩ 320,394
Merchandise	359,284	(10,713)	348,571	16,324	(10,874)	5,450
Sub-materials	348,820	(98,942)	249,878	135,000	(93,352)	41,648
	₩ 1,537,449	₩ (540,418)	₩ 997,031	₩ 876,193	₩ (508,701)	₩ 367,492

Loss on valuation of inventories recognized as operating expenses for the nine-month periods ended September 30, 2017 and 2016, are as follows:

(in thousands of Korean won)	2017 (Unaudited)	2016 (Unaudited)
Loss on valuation of inventories	₩ 31,717	₩ 27,247

11. Property, equipment and Intangible Assets

Changes in property, equipment and intangible assets for the nine-month periods ended September 30, 2017 and 2016, are as follows:

(in thousands of Korean won)	2017 (Unaudited)		2016 (Unaudited)	
	Property and equipment	Intangible Assets	Property and equipment	Intangible Assets
Beginning balance	₩ 36,740,796	₩ 43,514,406	₩ 11,733,985	₩ 46,687,141
Changes in consolidation scope	69,552	1,965,229	-	-
Acquisition	3,866,570	11,172,776	24,792,579	12,701,347
Disposal/Abandonment	(19,204)	(33,300)	(129,346)	(786,800)
Impairment	-	(515,652)	-	(160,000)
Depreciation/Amortization	(3,352,690)	(15,011,573)	(2,853,228)	(13,528,823)
Ending balance	₩ 37,305,024	₩ 41,091,886	₩ 33,543,990	₩ 44,912,865

12. Trade and Other Payables

Trade and other payables as of September 30, 2017 and December 31, 2016, are as follows:

(in thousands of Korean won)	September 30, 2017 (Unaudited)		December 31, 2016	
	Current	Non-current	Current	Non-current
Trade payables	₩ 98,455,511	₩ -	₩ 80,220,928	₩ -
Non-trade payables	6,248,056	1,300,348	8,302,672	1,713,133
Accrued expenses	9,200,348	-	9,992,169	-
Deposits received	2,374,225	-	2,515,452	-
Leasehold deposits received	-	3,000	-	-
	₩ 116,278,140	₩ 1,303,348	₩ 101,031,221	₩ 1,713,133

The differences between book amount and fair value of trade and other payables are not significant.

13. Post-employment Benefits

13.1 Defined Benefit Plan

The majority of defined benefit plans are final salary pension plans, which provide benefits to employees in the form of a guaranteed level of pension payable for life. The level of benefits provided depends on employees' length of service and their salary in the final years leading up to retirement. The majority of benefit payments are from trustee administered funds; however, there are also a number of unfunded plans. Plan assets held in trusts are governed by local regulations and practice in each country.

Details of net defined benefit liabilities recognized in the statements of financial position as of September 30, 2017 and December 31, 2016, are as follows:

(in thousands of Korean won)		September 30, 2017 (Unaudited)		December 31, 2016
Present value of funded defined benefit obligations	₩	8,022,631	₩	7,101,789
Fair value of plan assets		(6,625,462)		(7,101,690)
Liabilities in the statement of financial position	₩	1,397,169	₩	99

Movements in the defined benefit obligations for the nine-month periods ended September 30, 2017 and 2016, are as follows:

(in thousands of Korean won)		2017 (Unaudited)		2016
Beginning balance	₩	7,101,789	₩	6,119,532
Transfer to defined contribution pension plan		-		(89,583)
Current service cost		1,388,254		1,483,840
Interest expense		126,825		103,100
Loss arising from settlements[1]		-		(84,727)
Remeasurements:				
- Actuarial loss from change in financial assumptions		-		344,396
- Actuarial loss from experience adjustments		-		214,402
Benefit payments		(594,236)		(388,318)
Settlements		-		(495,348)
Ending balance	₩	8,022,632	₩	7,207,294

[1] Loss arising from settlements is the amount incurred when pension plans changed from defined benefit plan to defined contribution plan during the nine-month period ended September 30, 2016.

Movements in the fair value of plan assets for the nine-month periods ended September 30, 2017 and 2016, are as follows:

(in thousands of Korean won)		2017 (Unaudited)		2016
Beginning balance	₩	7,101,690	₩	6,144,580
Transfer to defined contribution pension plan		-		(113,233)
Interest income		126,246		103,016
Remeasurements:				
- Return on plan assets (excluding amounts included in interest income)		(31,940)		(13,461)
Benefit payments		(570,534)		(388,318)
Settlements		-		(495,348)
Ending balance	₩	6,625,462	₩	5,237,236

Plan assets as of September 30, 2017 and December 31, 2016, consist of:

(in thousands of Korean won)	September 30, 2017 (Unaudited)	December 31, 2016
Debt financial instruments	₩ 6,625,462	₩ 7,101,690

13.2 Defined Contribution Plan

Recognized expense related to the defined contribution plan for the nine-month period ended September 30, 2017, is ₩ 418,514 thousand (2016: ₩ 246,225 thousand).

14. Other Liabilities

Details of other liabilities as of September 30, 2017 and December 31, 2016, are as follows:

(in thousands of Korean won)	September 30, 2017 (Unaudited)		December 31, 2016	
	Current	Non-current	Current	Non-current
Advances from customers	₩ 39,012,330	₩ -	₩ 27,869,952	₩ -
Withholdings	5,862,297	76,102	1,244,212	152,253
Value added tax withheld	4,996,261	-	3,782,277	-
Provisions for sales return	251,268	-	234,425	-
Long-term employee benefit obligations[1]	-	281,279	-	233,176
	₩ 50,122,156	₩ 357,381	₩ 33,130,866	₩ 385,429

[1] Long-term employee benefit obligations are calculated based on actuarial assumptions.

Changes in provisions for sales return for the nine-month periods ended September 30, 2017 and 2016, are as follows:

(in thousands of Korean won)	2017 (Unaudited)	2016 (Unaudited)
Beginning balance	₩ 234,425	₩ 161,079
Provisions	16,843	-
Decrease	-	(15,009)
Ending balance	₩ 251,268	₩ 146,070

Provisions for sales return are recognized by calculating reasonable estimation based on actual return rate in the prior years.

15. Share Capital

The Parent Company's total number of authorized shares is 100,000,000 shares and the total number of ordinary shares issued is 25,291,705 shares (2016: 25,291,705 shares) with the par value of ₩ 500 per share.

There are no restricted voting ordinary shares under the Commercial Law as of September 30, 2017.

Details in share premium as of September 30, 2017 and December 31, 2016, are as follows:

(in thousands of Korean won)		September 30, 2017 (Unaudited)		December 31, 2016
Additional paid in capital	₩	47,481,209	₩	47,481,209
Other share premium		983,156		472,985
	₩	48,464,365	₩	47,954,194

16. Other Components of Equity

Other components of equity as of September 30, 2017 and December 31, 2016, consist of:

(in thousands of Korean won)		September 30, 2017 (Unaudited)		December 31, 2016
Gain on disposal of treasury shares	₩	9,485,675	₩	9,485,675
Changes in the fair value of available-for-sale financial assets		(4,985,365)		(4,177,337)
	₩	4,500,310	₩	5,308,338

17. Retained Earnings

Retained earnings as of September 30, 2017 and December 31, 2016, consist of:

(in thousands of Korean won)		September 30, 2017 (Unaudited)		December 31, 2016
Legal reserves[1]	₩	6,198,633	₩	3,659,346
Voluntary reserves		5,478,820		5,478,820
Unappropriated retained earnings		248,952,382		217,798,136
	₩	260,629,835	₩	226,936,302

[1] 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 the payment of cash dividends, but may be transferred to share capital or used to reduce accumulated deficit. When the accumulated legal reserves (the sum of capital reserves and earned profit reserves) are greater than 1.5 times the share capital amount, the excess legal reserves may be distributed in accordance with a resolution of the shareholders' meeting.

18. Benefits related to employees

Details of employee benefits expenses for the three-month and nine-month periods ended September 30, 2017 and 2016, are as follows:

(in thousands of Korean won)	2017		2016	
	(Unaudited)			
	Three months	Nine months	Three months	Nine months
Salaries	₩ 9,571,947	₩ 28,351,285	₩ 7,868,941	₩ 23,561,135
Post-employment benefits	606,722	1,807,346	523,647	1,646,154
Employee benefits	1,034,289	2,845,636	833,997	2,513,075
Others	362,417	1,108,148	343,249	987,441
	₩ 11,575,375	₩ 34,112,415	₩ 9,569,834	₩ 28,707,805

19. Other Operating Expense

Other operating expenses for the three-month and nine-month periods ended September 30, 2017 and 2016, are as follows:

(in thousands of Korean won)	2017		2016	
	(Unaudited)			
	Three months	Nine months	Three months	Nine months
Travel expenses	₩ 164,520	₩ 367,581	₩ 101,438	₩ 313,991
Training expenses	81,331	152,245	46,106	114,883
Vehicle maintenance expenses	449,887	1,274,189	292,664	738,697
Entertainment expenses	322,245	765,763	275,992	789,001
Utility expenses	107,943	323,857	113,005	251,599
Repair expenses	601	6,313	8,195	9,730
Supplies expenses	66,898	220,593	68,488	230,915
Communication expenses	228,664	672,717	203,279	612,950
Publication expenses	17,680	41,281	17,913	46,248
Taxes and duties	472,098	1,474,775	347,339	1,102,763
Insurance premium	82,719	288,128	74,176	240,834
Package and freight expenses	53,259	269,499	74,620	155,370
Service fees	73,121	213,620	51,798	141,691
Bad debt expenses(reversal)	(207,462)	(68,293)	(1,413,709)	(4,101,754)
	₩ 1,913,504	₩ 6,002,268	₩ 261,304	₩ 646,918

20. Other Income and Other Expenses

Details of other income for the three-month and nine-month periods ended September 30, 2017 and 2016, are as follows:

(in thousands of Korean won)	2017		2016	
	(Unaudited)			
	Three months	Nine months	Three months	Nine months
Gain on foreign currency transaction	₩ 14,544	₩ 52,273	₩ 5,446	₩ 74,374
Gain on disposal of property and equipment	8,070	21,433	8,182	8,182
Gain on disposal of intangible assets	-	-	80,000	189,567
Gain on disposal of available-for-sale financial assets	-	119,680	-	-
Miscellaneous income	116,783	486,929	45,076	336,032
	₩ 139,397	₩ 680,315	₩ 138,704	₩ 608,155

Details of other expenses for the three-month and nine-month periods ended September 30, 2017 and 2016, are as follows:

(in thousands of Korean won)	2017		2016	
	(Unaudited)			
	Three months	Nine months	Three months	Nine months
Provision for allowance for other doubtful accounts	₩ 87,117	₩ 90,767	₩ 11,348	₩ 16,378
Loss on foreign currency transaction	19,667	94,238	48,922	114,638
Donations	9,706	70,531	906	5,664
Miscellaneous loss	8,118	36,483	141	3,376
Impairment loss on intangible assets	-	515,652	-	160,000
Loss on disposal of property and equipment	-	-	-	2,640
Loss on abandonment of property and equipment	-	-	-	117,534
	₩ 124,608	₩ 807,671	₩ 61,317	₩ 420,230

21. Finance Income and Costs

Details of finance income for the three-month and nine-month periods ended September 30, 2017 and 2016, are as follows:

(in thousands of Korean won)	2017		2016	
	(Unaudited)			
	Three months	Nine months	Three months	Nine months
Finance income				
Interest income on deposits	₩ 968,981	₩ 2,680,266	₩ 742,519	₩ 2,249,526
Interest income on financial assets measured at amortized costs	40,240	153,675	71,101	225,167
Dividend income on available-for-sale financial assets	-	-	-	130,000
	₩ 1,009,221	₩ 2,833,941	₩ 813,620	₩ 2,604,693

Details of finance costs for the three-month and nine-month periods ended September 30, 2017 and 2016, are as follows:

(in thousands of Korean won)	2017		2016	
	(Unaudited)			
	Three months	Nine months	Three months	Nine months
Finance costs				
Interest expense	₩ 30,168	₩ 82,004	₩ 39,791	₩ 122,164

22. Tax Expense

Income tax expense is recognized based on the best estimate of weighted average annual income tax rate expected for the full financial year. As of September 30, 2017, the estimated average annual income tax rate used for the year ending December 31, 2017, is 25.63%.

23. Earnings per Share

Basic earnings per share is calculated by dividing the profit attributable to owners of the Parent Company by the weighted average number of ordinary shares outstanding during the period.

Basic earnings per share for the three-month and nine-month periods ended September 30, 2017 and 2016, are as follows:

(in Korean won)	2017		2016	
	(Unaudited)			
	Three months	Nine months	Three months	Nine months
Profit attributable to the ordinary owners of the Parent Company	₩ 20,725,505,270	₩ 59,110,616,158	₩ 16,177,936,167	₩ 47,383,055,778
Weighted average number of ordinary shares outstanding[1]	25,291,705	25,291,705	25,291,705	25,291,705
Basic earnings per share	₩ 819	₩ 2,337	₩ 640	₩ 1,873

[1] Weighted average number of ordinary shares outstanding is identical to the number of shares issued.

The Parent Company did not issue any potential ordinary shares. Therefore, basic earnings per share is identical to diluted earnings per share.

24. Contingencies and Commitments

As of September 30, 2017, there are no commitments with financial institutions and others.

As of September 30, 2017, payment guarantee provided to the Group is as follows:

(in thousands of Korean won)	Guarantor	Description	Guaranteed amount
Payment guarantee	Seoul Guarantee Insurance	Bonds provisional seizure guarantee	₩318,725
Payment guarantee	KEB Hana Bank	On-line order sales payment guarantee	₩100,000

In 2013, ₩ 4,000,000 thousand of long-term other payables were incurred from the acquisition of subsidiary. The Group agreed to pay ₩ 800,000 thousand every year on an installment basis for five years.

In 2015, ₩ 814,800 thousand of long-term other payables were incurred from the acquisition of subsidiary. The Group agreed to pay by installment over five times whenever performance conditions in contracts are met.

As of September 30, 2017, the Group is involved in 11 lawsuits, including claims for return of advance payments, and the ultimate outcome of these cases cannot yet be determined.

25. Operating Segment Information

The Group's each operating segment is represented by legal entity that provides independent services and goods, and details of goods generating revenue and key customers by each segment are as follows:

	Goods	Key customers
Digital sound segment	Digital music and sounds	Users of digital sound services or personal users
Record segment	Records	Wholesale dealers of records

Financial information by each operating segment for the nine-month periods ended September 30, 2017 and 2016, is as follows:

(in thousands of Korean won)	Digital sound segment		Record segment		Total	
			(Unaudited)			
	2017	2016	2017	2016	2017	2016
Operating revenue	₩369,342,904	₩288,731,121	₩50,401,584	₩28,751,479	₩419,744,488	₩317,482,600
Operating income	70,632,597	55,727,030	5,342,556	3,996,908	75,975,153	59,723,938
Pre-tax segment profit	72,956,092	58,161,496	5,643,642	4,232,895	78,599,734	62,394,391
After-tax segment profit	54,226,887	43,800,628	4,225,046	3,194,542	58,451,933	46,995,170
Segment assets	477,119,975	396,197,415	47,370,610	28,232,715	524,490,585	424,430,130
Segment liabilities	174,942,134	130,670,497	10,630,104	5,644,955	185,572,238	136,315,452

Segment information by geographical area for the nine-month periods ended September 30, 2017 and 2016, is as follows:

(in thousands of Korean won)	Domestic		Foreign		Total	
			(Unaudited)			
	2017	2016	2017	2016	2017	2016
Operating revenue	₩398,701,993	₩303,861,038	₩21,042,495	₩13,621,562	₩419,744,488	₩317,482,600

26. Related Party Transactions

As of September 30, 2017, the controlling company of the Group is Kakao Corp. (percentage of ownership: 76.4%).

The controlling company of the Group has entered into a securities lending agreement with underwriters of the exchangeable bonds for up to an aggregate 2,191,885 shares of the Parent Company, equivalent to 100% of the total exchangeable shares, 8.67% of the ownership. According to the agreement, the shares will be lent up to the specified date through NH Investment & Securities Co., Ltd. Since the controlling company of the Group has retained rights as shareholders for the dividends, the above percentage of ownership has included the aforementioned number of shares.

Sales and purchases with related parties for the nine-month period ended September 30, 2017, are as follows:

(in thousands of Korean won)		2017	
Type	Name of entity	Sales	Purchase
		(Unaudited)	
Controlling company	Kakao Corp.	₩ 556,369	₩ 2,185,414
Other related parties	KAKAO JAPAN Corp.	-	77,115
	Kakaofriends Corp.	-	9,753
	Kakaopay Corp.	-	108,588
	KAKAO MAKERS Corp.	2,760	9,104

Sales and purchases with related parties for the nine-month period ended September 30, 2016, are as follows:

(in thousands of Korean won)		2016	
Type	Name of entity	Sales	Purchase
		(Unaudited)	
Controlling company	Kakao Corp.	₩ 85,479	₩ 609,587
Other related parties	KAKAO JAPAN Corp.	-	35,052
	Kakaofriends Corp.	-	7,611
	Kakao Games Corp.	13,000	-

Outstanding balances arising from sales/purchases of goods and services as of September 30, 2017 and December 31, 2016, are as follows:

(in thousands of Korean won)		September 30, 2017			
		Receivables		Payables	
Type	Name of entity	Trade receivables	Other receivables	Trade payables	Other payables
		(Unaudited)			
Controlling company	Kakao Corp.	₩ 2,344	₩ 8,826	₩ 68	₩ 168,696
Other related party	KAKAO JAPAN Corp.	-	-	-	24,586
	Kakaopay Corp.	171,345	31,064	94,933	-
	KAKAO MAKERS Corp.	-	-	-	9,104

(in thousands of Korean won)		December 31, 2016			
		Receivables		Payables	
Type	Name of entity	Trade receivables	Other receivables	Trade payables	Other payables
Controlling company	Kakao Corp.	₩ -	₩ 5,029	₩ -	₩ 1,332,501
Other related party	KAKAO JAPAN Corp.	-	-	-	20,228

Fund transactions with related parties for the nine-month period ended September 30, 2017, are as follows:

(in thousands of Korean won)	Name of entity		Amount (Unaudited)
Other related party	Podotree, Inc.	Participating in subsidiary's new shares issued	₩ 3,000,000

Key management includes executive directors and members of the executive committee. The compensation paid or payable to key management for employee services for the nine-month periods ended September 30, 2017 and 2016, consist of:

(in thousands of Korean won)	2017 (Unaudited)	2016 (Unaudited)
Salaries	₩ 1,393,616	₩ 892,107
Expenses related to defined benefit plans	136,075	70,216
	₩ 1,529,691	₩ 962,323

There are no collateral and payment guarantees provided by related parties or providing to related parties as of September 30, 2017.

27. Non-cash Transactions

Significant transactions not affecting cash flows for the nine-month periods ended September 30, 2017 and 2016, are as follows:

(in thousands of Korean won)	2017 (Unaudited)	2016 (Unaudited)
Changes in non-trade payables for property and equipment	₩ (366,930)	₩ 34,995
Changes in advance payments for property and equipment	(926,500)	(2,200,000)
Changes in non-trade receivables for intangible assets	-	(34,100)
Changes in non-trade payables for intangible assets	(90,895)	28,418
Changes in advance payments for intangible assets	(1,200,000)	-

28. Business Combination

During the nine-month period ended September 30, 2017, the Parent Company acquired 100% of the share capital and obtained control of Story Plant Co., Ltd. that is engaged in planning dramas and production business. After acquisition, the percentage of ownership of the Parent Company changed from 100% to 67.2% due to issuance of new shares to non-controlling interest and the name of Story Plant Co., Ltd. was changed to Mega Monster Corporation. As a result of this acquisition, the Group is now in a position to enter into high value-adding drama contents business and the Group anticipates the opportunity to create new revenue streams through diverse domestic and overseas distribution channels as well as enhance synergy with the existing projects.

The following table summarizes the amounts of assets acquired and liabilities assumed at the acquisition date:

(in thousands of Korean won)	Amount (Unaudited)
Consideration :	
Cash and shares	₩ 100,000
Total consideration	₩ 100,000
Recognized amounts of identifiable assets acquired and liabilities assumed :	
Cash and cash equivalents	₩ 212,953
Property and equipment and intangible assets	70,732
Advance payments	1,897,600
Other assets	361,385
Short-term borrowings	(2,605,000)
Other liabilities	(1,801,720)
Total identifiable net assets(liabilities)	₩ (1,864,050)

Estimation of Fair value

The difference between fair values and book amount of acquired assets is insignificant.

Goodwill

Goodwill arising from business combination is as follows:

(in thousands of Korean won)		**Amount (Unaudited)**
Total consideration	₩	100,000
Book amount of identifiable net assets		(1,864,050)
Goodwill	₩	1,964,050

29. Events After Reporting Period

In October 2017, Starship Entertainment Co.,Ltd., a subsidiary of Parent Company, newly established House of Music Corporation (percentage of ownership: 77%, investment amount: ₩ 100 million).

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