

Policies and Incentives

Private Equity Funds

The Financial Investment Services and Capital Markets Act was revised in Jul. 2015 to streamline the regulatory system for private equity funds and ease regulations regarding the market entry, management and sales of PEFs.

<Key Changes in the Amended Law>

- Reached the number of PEF categories from the previous four to two groups
- Eased regulations on the market entry, management and sales of PEFs
- Strengthened the supervision of PEF investors and managers
- Introduced a system to prevent a possible use of PEFs in expanding or financing large companies

Venture Capitals

Legal requirements differ for different types of venture capitals in Korea.

Legal Requirements for VCs for Small & Medium Businesses/Startups

VC for SMEI Start-ups	LLC (Limited Liability Company)	Specialized credit finance business
<ul style="list-style-type: none"> • Defined as a "stock company" under the Commercial Act • Capital requirement: KRW 5 billion • Professional requirements (attorneys, accountants, etc.) • Social credibility requirements 	<ul style="list-style-type: none"> • Defined as a "limited company" under the Commercial Act • No capital requirement (Equity shares of limited partnership company: No less than 1%) • Professional requirements (attorneys, accountants, etc.) 	<ul style="list-style-type: none"> • Defined as a "stock company" under the Commercial Act • Capital requirement: KRW 20 billion • Social credibility requirements

Source: Small and Medium Business Administration, Jul. 2015

<Key Measures to Facilitate Private Capital Inflow in the Venture Investment Market>

- Incentivize venture capitals with strong performances in attracting private capitals, and expand call options for equity stakes in fund-of-funds
- Provide tax incentives for companies' VC investments
- Offer incentives (e.g. highly evaluate a large company's equity investment in VCs in the win-win growth index) and continue deregulation efforts

Success Case

Venture Capitals

The accumulated amount of fund raised by the "Foreign VC Investment Fund" surpassed the KRW 1 trillion mark as of Jul. 2016.

The Foreign VC Investment Fund is run by foreign VCs on the condition that Korean fund-of-funds makes a capital investment into the fund and reinvest a certain proportion of the fund back into Korean startups.

Altos Ventures, a US venture capital run by a Korean-American CEO, is investing in 29 top Korean venture companies as of Feb. 2017.

KOTRA WORLD WIDE

As Korea's Trade-Investment Promotion Agency, KOTRA has 127 overseas offices and 10 headquarters worldwide.

* Invest Korea(IK), Korea's national investment promotion agency, was established as part of KOTRA to support the foreign businesses in Korea.



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KOREA'S LEADING INDUSTRIES

PEF & VC





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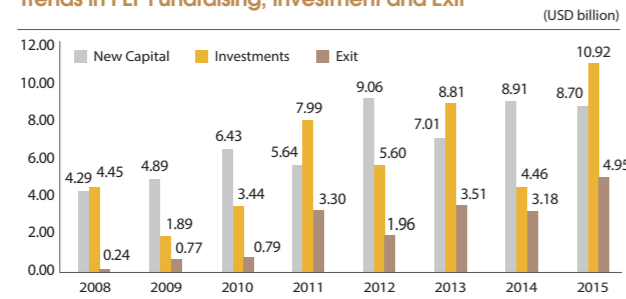
Korea's Private Equity Fund and Venture Capital Industry

Private Equity Fund

Korean private equity funds raised USD 8.7 billion in 2015, up 4% from the previous year, exceeding the 10 trillion mark for the first time ever. The number of new PEF capitals also hit a record high of 76.

PEF investments reached the highest ever of USD 10.92 billion in 2015, up 161% from 2014. PEF exits amounted to USD 4.95 billion won, up 66% YoY.

Trends in PEF Fundraising, Investment and Exit



Source: FSS, Apr. 2016
 Note: From 2014 to 2015, the USD amount of new capital decreased due to the exchange rate, but the actual amount in KRW increased by 4%

Venture Capital

As the Korean venture capital market has been rapidly growing by 15.2% over the last 4 years (2013-2016), the amount of new investments recorded USD 1.78 trillion in 2016 replacing the highest record made in 2015.

The stock of investment sources for venture capital in Korea marked USD 14.8 billion at the end of 2016, up 15.9% from 2015. Its growth rate in the last 4 years (2013-2016) has reached 14.7% due to the recent revitalization of the market.

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Competitiveness

Greater Investment Opportunities in the PEF Industry

Korea's PEF industry has successfully gone through preparation and takeoff, and now a growing number of firms are withdrawing their investments and developing a distinct competitiveness in their management abilities.

The industry has reached the highest level of growth ever since the inception of relevant institutions by every measure in terms of the size of fundraising, investment and exit.

Booming VC Market

Korea's venture capital investments are enjoying a boom, breaking the 2000 record during the dot-com bubble for two years in a row in 2015 and 2016.

Venture capital will remain as an attractive investment alternative in this period of prolonged low interest rates and the lack of investable assets.

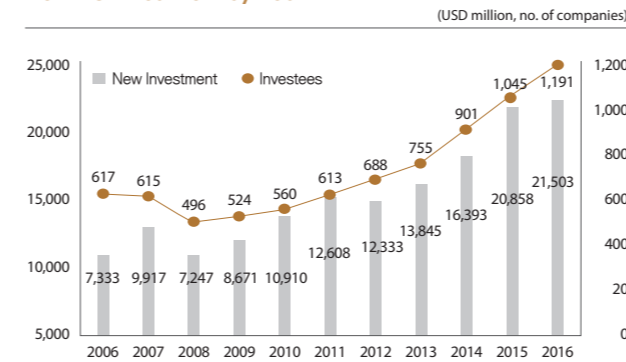
Strengthen the VC ecosystem

Of the 13 new venture capital firms registered in Korea in 2016, eight companies were established through the investments made by startups or other venture capitals. This is a testament to the industry's virtuous cycle where investment leads to further growth and reinvestment.

Responding to the Fourth Industrial Revolution

Over the last decade, Korea has recorded higher growth rates than other advanced countries, in terms of the market capitalization of the industries closely related to the Fourth Industrial Revolution such as the software/services, pharmaceutical and biotechnology sectors.

New VC Investment by Year



Source: Korean Venture Capital Association

Exits recorded USD 929 million, up USD 198.5 million from 2014, with profit amounting to USD 1.16 billion.

By industry, the biotechnology/medical sector earned the highest rate of return at 211.3%, followed by ICT services (168%), games (142.8%), others (132.5%), and distribution/services (111.1%), all of which are higher than the average of 102%.

By growth stage, the rate of return was 68.2% for companies at the early stage (3 years or less), 124.5% at the expansion stage (3-7 years), and 94% at the later stage (7 years or more). Only the companies in the expansion stage were better off than the average.

Investment Exits and Exit Profits by Industry (2015)

Industry	Exit (A)	Exit Profit (B)	Overall Cashflow (A)+(B)
ICT Manufacturing	13.18	4.54	17.72
ICT Services	6.94	11.66	18.6
Electronics/Machinery/Equipment	13.11	7.8	20.91
Chemicals/Materials	7.27	5.89	13.17
Bio/Medical	12.13	25.62	37.74
Media/Performance/Music	12.63	6.15	18.78
Games	2.21	3.16	5.37
Distribution/Services	5.36	5.96	11.32
Others	1.5	1.99	3.48
Total	74.33	72.77	147.1

Source: Korean Venture Capital Association, Apr. 2016

Annual Growth Rate of Market Cap of Industries Related to the Fourth Industrial Revolution (2006-2015)

	Korea	Germany	Japan	US
Capital Goods	15.3	4.1	1.7	5.2
Pharmaceutical and Biotechnology	29.5	22.8	4.4	11.5
Semiconductors and Equipment	24.8	4.4	-2.8	2.60
Software and Services	37.2	6.0	1.3	13.0
Technical Hardware and Equipment	11.4	-0.7	0.5	8.9
ICT Service	3.6	1.6	4.4	10.8
Total Market Cap Growth Rate	14.6	9.2	-0.1	2.4

Source: Hyundai Research Institute, 2016