Deloitte.

LG UPLUS CORP.
AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED
DECEMBER 31, 2012 AND 2011,
AND INDEPENDENT AUDITORS' REPORT

Audit . Tax . Consulting . Financial Advisory.

Independent Auditors' Report

English Translation of a Report Originally Issued in Korean

To the Shareholders and Board of Directors of
LG Uplus Corp.:

We have audited the accompanying consolidated statements of financial position of LG Uplus Corp. (the "Company") and its subsidiaries (collectively, the "Group") as of December 31, 2012 and 2011, the related consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in shareholders' equity and consolidated statements of cash flows for the years ended December 31, 2012 and 2011, all expressed in Korean won. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that out audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Group as of December 31, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in conformity with Korean International Financial Reporting Standards ("K-IFRS").

Accounting principles and auditing standards and their application in practice vary among countries. The accompanying consolidated financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries other than the Republic of Korea. In addition, the procedures and practices utilized in the Republic of Korea to audit such financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report and the accompanying consolidated financial statements are for use by those knowledgeable about Korean accounting principles and auditing standards and their application in practice.

Deloitte Anjin LLC

March 7, 2013

<u>Notice to Readers</u>

This report is effective as of March 7, 2013, the auditors' report date. Certain subsequent events or circumstances may have occurred between this auditors' report date and the time the auditors' report is read. Such events or circumstances could significantly affect the accompanying consolidated financial statements and may result in modifications to the auditors' report.

LG UPLUS Corp. (the “Company”)

CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

The accompanying consolidated financial statements, including all footnote disclosures, were prepared by, and are the responsibility of, the Company.

Sang Chul Lee

President of LG Uplus Corp.

LG UPLUS CORP.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2012 AND 2011

	Korean won			
	2012		2011	
	(In millions)			
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents (Notes 5 and 6)	₩	341,367	₩	118,821
Financial institution deposits (Notes 5 and 7)		24,254		12,650
Trade receivables, net (Notes 5 and 8)		1,570,783		1,907,348
Loans and other receivables, net (Notes 5 and 8)		177,782		92,785
AFS financial assets (Note 5)		1		110
Inventories, net (Note 9)		346,427		372,218
Other current assets (Note 10)		112,280		119,300
Total current assets		2,572,894		2,623,232
NON-CURRENT ASSETS:				
Non-current financial institution deposits (Notes 5 and 7)		23		23
Non-current AFS financial assets (Note 5)		84,606		71,992
Non-current trade receivables, net (Notes 5 and 8)		609,955		843,937
Non-current loans and other receivables (Notes 5 and 8)		256,561		255,721
Investments in jointly controlled entities and associates (Note 14)		12,629		12,071
Deferred income tax assets, net (Note 27)		452,820		377,095
Property, plant and equipment, net (Note 11)		6,078,775		5,631,486
Investment property, net (Note 12)		92,487		27,940
Intangible assets, net (Note 13)		890,769		1,153,859
Other non-current assets (Note 10)		37,178		51,187
Total non-current assets		8,515,803		8,425,311
TOTAL ASSETS	₩	11,088,697	₩	11,048,543
LIABILITIES AND SHAREHOLDERS' EQUITY				
CURRENT LIABILITIES:				
Trade payables (Notes 5 and 16)	₩	456,571	₩	637,403
Non-trade and other payables (Notes 5 and 16)		1,806,867		1,795,867
Short-term borrowings (Notes 5 and 15)		50,000		270,000
Current portion of debentures and long-term borrowings (Notes 5 and 15)		943,348		993,696
Other current financial liabilities (Note 5, 16 and 20)		128,916		115,848
Income tax payable (Note 27)		82		16,343
Other current liabilities (Note 19)		151,679		131,261
Total current liabilities	₩	3,537,463	₩	3,960,418

(Continued)

LG UPLUS CORP.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)
AS OF DECEMBER 31, 2012 AND 2011

	Korean won			
	2012		2011	
	(In millions)			
NON-CURRENT LIABILITIES:				
Debentures and long-term borrowings (Notes 5 and 15)	₩	3,255,516	₩	2,596,114
Non-current derivative liabilities (Note 5)		4,768		61
Other non-current financial liabilities (Notes 5, 16 and 20)		425,866		539,568
Retirement benefit obligation (Note 18)		61,512		37,961
Provisions (Note 17)		36,256		40,049
Other non-current liabilities (Note 19)		18,816		14,980
Total non-current liabilities		3,802,734		3,228,733
TOTAL LIABILITIES		7,340,197		7,189,151
SHAREHOLDERS' EQUITY:				
Capital stock (Note 21)		2,573,969		2,573,969
Capital surplus (Note 21)		836,561		836,561
Other capital items (Note 21)		(4,096)		(703,879)
Accumulated other comprehensive loss (Note 23)		(6,976)		(10,253)
Retained earnings		347,353		1,161,348
NON-CONTROLLING INTERESTS		1,689		1,646
TOTAL SHAREHOLDERS' EQUITY		3,748,500		3,859,392
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	₩	11,088,697	₩	11,048,543

(Continued)

See accompanying notes to the consolidated financial statements.

LG UPLUS CORP.
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	Korean won			
	2012		2011	
	(In millions, except for net income per share)			
Operating revenues and other gains: (Note 4)	₩	10,904,634	₩	9,186,407
Operating expenses:				
Cost of merchandise purchased		3,294,623		2,289,579
Employee benefits (Note 18)		540,158		448,317
Depreciation and amortization (Notes 11, 12 and 13)		1,393,079		1,189,605
Other expenses (Note 24)		5,550,018		4,979,582
		10,777,878		8,907,083
Operating income		126,756		279,324
Financial revenues (Note 26)		70,347		71,301
Financial expenses (Note 26)		(307,165)		(184,687)
Share of profits (losses) of joint ventures and associates (Note 14)		691		1,205
Other non-operating revenues(Note 25)		56,819		69,931
Other non-operating expenses(Note 25)		(76,681)		(68,579)
Income(loss) before income tax		(129,233)		168,495
Income tax expense(income) (Note 27)		(69,618)		83,832
Net(loss) income	₩	(59,615)	₩	84,663
Net income(loss) attributable to:				
Owners of the Company	₩	(59,680)	₩	84,634
Non-controlling interests	₩	65	₩	29
Net income(loss) per share (in Korean won) (Note 28)				
Basic (loss) income per share	₩	(136)	₩	196
Diluted (loss) income per share	₩	(136)	₩	196

See accompanying notes to the consolidated financial statements.

LG UPLUS CORP.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	Korean won			
	2012		2011	
	(In millions)			
NET INCOME(LOSS)	₩	(59,615)	₩	84,663
OTHER COMPREHENSIVE INCOME(LOSS):				
Gain(loss) on valuation of AFS financial assets		7,011		(10,785)
Gain(loss) on valuation of cash flow hedging derivatives		(3,568)		483
Gain(loss) on foreign currency translation for foreign operations		27		(7)
Share of other comprehensive income of joint ventures and associates		(193)		(97)
Actuarial gains and losses on defined benefit plans		(20,733)		(11,939)
		(17,456)		(22,345)
TOTAL COMPREHENSIVE (LOSS) INCOME	₩	(77,071)	₩	62,318
Total comprehensive income(loss) attributable to:				
Owners of the Company	₩	(77,114)	₩	62,285
Non-controlling interests	₩	43	₩	33

See accompanying notes to the consolidated financial statements.

LG UPLUS CORP.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	Korean won							
	Capital stock	Capital surplus	Other capital items	Accumulated other comprehensi-ve income (loss)	Retained earnings	Owners of the Company	Non-controlling interests	Total
	(In millions)							
Balance at January 1, 2011	₩2,573,969	₩ 836,593	₩ (703,879)	₩ 153	₩1,240,033	₩3,946,869	₩ 1,613	₩3,948,482
Annual dividends					(151,376)	(151,376)		(151,376)
Net income					84,634	84,634	29	84,663
Gain(loss) on valuation of AFS financial assets				(10,785)		(10,785)		(10,785)
Gain on valuation of cash flow hedging derivatives				483		483		483
Gain(loss) on foreign currency translation				(7)		(7)		(7)
Share of other comprehensive income of joint ventures and associates				(97)		(97)		(97)
Actuarial losses					(11,943)	(11,943)	4	(11,939)
Others		(32)				(32)		(32)
Balance at December 31, 2011	2,573,969	836,561	(703,879)	(10,253)	1,161,348	3,857,746	1,646	3,859,392
Balance at January 1, 2012	2,573,969	836,561	(703,879)	(10,253)	1,161,348	3,857,746	1,646	3,859,392
Annual dividends					(64,875)	(64,875)		(64,875)
Net income(loss)					(59,680)	(59,680)	65	(59,615)
Gain(loss) on valuation of AFS financial assets				7,011		7,011		7,011
Loss on valuation of cash flow hedging derivatives				(3,568)		(3,568)		(3,568)
Gain(Loss) on foreign currency translation				27		27		27
Share of other comprehensive income of joint ventures and associates				(193)		(193)		(193)
Actuarial losses					(20,711)	(20,711)	(22)	(20,733)
Disposal of treasury stock			35,150			35,150		35,150
Loss on disposal of treasury stock			(4,096)			(4,096)		(4,096)
Retirement of treasury stock			668,729		(668,729)	-		-
Balance at December 31, 2012	₩2,573,969	₩ 836,561	₩ (4,096)	₩ (6,976)	₩347,353	₩ 3,746,811	₩ 1,689	₩3,748,500

See accompanying notes to the consolidated financial statements.

LG UPLUS CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	Korean won	
	2012	2011
	(In millions)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (loss) income	₩ (59,615)	₩ 84,663
Additions of expenses not involving cash outflows:		
Retirement benefits	36,238	32,448
Depreciation	1,097,190	934,514
Amortization of intangible assets	295,890	255,091
Bad debt expenses	63,674	19,708
Interest expenses	212,642	166,130
Adjustments for loss on disposal of trade receivables	94,485	18,557
Loss on foreign currency translation	8,581	6,127
Loss on valuation of inventories	4,086	47,994
Loss on inventories impairment	383	534
Income tax expense	-	83,832
Loss on disposal of property, plant and equipment	30,617	6,171
Impairment loss on property, plant and equipment	9,798	20,609
Loss on disposal of intangible assets	77	8
Impairment loss on intangible assets	-	439
Loss on disposal of AFS securities	7	-
	1,853,668	1,592,162
Deduction of items not involving cash inflows:		
Income tax income	69,618	-
Interest income	69,746	70,822
Dividend income	600	384
Gain on foreign currency translation	8,994	5,555
Gain on disposal of property, plant and equipment	1,423	388
Share of profits of associates	691	1,205
	(151,072)	(78,354)
Changes in operating assets and liabilities related to operating activities:		
Decrease (increase) in trade receivables	354,832	(517,000)
(Increase) decrease in other receivables	(86,102)	9,348
Decrease (increase) in inventories	21,323	(230,648)
Decrease in other current assets	(8,334)	(88,286)
Decrease(increase) in non-current trade receivables	97,586	(822,597)
Decrease in other non-current assets	43,557	17,977
(Decrease) increase in trade payables	(180,833)	321,873
Increase in non-trade and other payables	207,958	284,190

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LG UPLUS CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	Korean won	
	2012	2011
	(In millions)	
Decrease in other current financial liabilities	-	(14,512)
Increase in other current liabilities	35,577	13,420
Decrease in other non-current financial liabilities	(7,990)	(1,614)
Decrease in retirement benefit obligation	(40,011)	(38,782)
Decrease in provisions	(1,142)	(1,791)
Increase(decrease) in other non-current liabilities	4,018	(4,655)
Increase(decrease) in loss on foreign currency translation of foreign operations	27	(8)
	440,466	(1,073,085)
Interest income received	11,451	11,733
Dividend income received	600	384
Interest expense paid	(197,718)	(159,254)
Income taxes paid	(23,052)	(80,614)
	(208,719)	(227,751)
Net cash provided by operating activities	1,874,728	297,635
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash inflows from investing activities:		
Decrease in financial institution deposits	300	9,000
Disposal of AFS financial assets	1,704	71
Decrease in guarantee deposits	1,600	9,182
Decrease in leasehold deposits	46,504	88,449
Decrease in loans	29,846	35,787
Disposal of property, plant and equipment	24,461	29,274
Disposal of intangible assets	3,817	3,935
	108,232	175,698
Cash outflows for investing activities:		
Acquisition of AFS financial assets	4,966	10,836
Acquisition of property, plant and equipment	1,945,794	1,356,536
Acquisition of intangible assets	57,951	360,427
Increase in loans	20,038	25,511
Increase in leasehold deposits	51,550	106,462
Increase in guarantee deposits	1,565	3,670
Increase of financial institution deposits	11,904	6,000
Acquisition of investments in associates	60	-
	(2,093,828)	(1,869,442)
Net cash used in investing activities	₩ (1,985,596)	₩ (1,693,744)

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LG UPLUS CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	Korean won	
	2012	2011
	(In millions)	
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash inflows from financing activities:		
Proceeds from short-term borrowings	₩ 90,000	₩ 414,110
Issuance of debentures	550,118	650,000
Proceeds from long-term borrowings	1,051,413	1,110,251
Increase in finance lease liabilities	22,901	21,117
Increase in national subsidy	246	-
Disposal of treasury stock	29,746	-
	1,744,424	2,195,478
Cash outflows for financing activities:		
Redemption of short-term borrowings	310,000	369,019
Redemption of current portion of long-term debt	1,036,136	697,690
Payment of dividends	64,875	151,376
	(1,411,011)	(1,218,085)
Net cash provided by financing activities	333,413	977,393
EXCHANGE RATE FLUCTUATION EFFECT OF CASH AND CASH EQUIVALENTS	1	2
Net increase(decrease) in cash and cash equivalents	222,546	(418,714)
Cash and cash equivalents:		
Beginning of the year	118,821	537,535
End of the year(Note 32)	₩ 341,367	₩ 118,821

See accompanying notes to the consolidated financial statements.

LG UPLUS CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

1. GENERAL:

LG Uplus Corp. (the "Company" or "Group") was incorporated on July 11, 1996, under the Commercial Code of the Republic of Korea to provide personal communication services, including voice, data and value-added communication. The Company commenced its commercial operation on October 1, 1997. The Company listed its shares on the Korea Securities Dealers Automated Quotation ("KOSDAQ") stock market on September 21, 2000. In accordance with the resolution of the shareholders' meeting on March 18, 2008, the Company canceled its listing on the KOSDAQ. Subsequently, the Company listed its' shares on the Korea Stock Exchange ("KRX") on April 21, 2008.

In efforts to enhance operational efficiency and maximize synergy effects between wire and wireless communication business, LG Dacom Corp. ("LG Dacom") and LG Powercom Corp. ("LG Powercom") merged with the Company on January 1, 2010 (merger registration date: January 5, 2010). Through this merger, the Company expanded its operations to; fixed-line telephony service (including international and long-distance telephone service), Internet access service and value-added telecommunication activities from LG Dacom; and broadband network rentals and broadband Internet access service activities from LG Powercom.

Effective July 1, 2010, the Company changed its name from LG Telecom, Ltd. to LG Uplus Corp., to reflect the expanded nature of its business operations.

The Company's head office is located in Seoul, Korea and it has set up telecommunication networks all over the country to provide fixed-line and wireless services.

As of December 31, 2012, the Company's shareholders are as follows:

Name of shareholder	Number of shares owned	Percentage of ownership (%)
LG Corporation	157,376,777	36.05
KEPCO Corporation	38,409,376	8.80
Others	240,825,208	55.15
	436,611,361	100.00

2. STANDARDS AFFECTING PRESENTATION AND DISCLOSURE AND SIGNIFICANT ACCOUNTING POLICIES:

(1) Basis of preparing consolidated financial statements

The accompanying consolidated financial statements were approved by the board of directors held on January 31, 2013.

The consolidated financial statements of the Company and its subsidiaries (Group) have been prepared in accordance with Korean International Financial Reporting Standards ("K-IFRS") since the annual reporting period on January 1, 2010.

The significant accounting policies followed by the Group in the preparation of consolidated financial statements are summarized as below. The consistent accounting policies are applied to the consolidated financial statements for the current period and the comparative period.

Historical cost basis is applied to the consolidated financial statements except for the non-liquid asset and financial asset, which are estimated by revalued amount of asset and fair value.

The consolidated financial statements have been prepared on the historical cost basis for certain non-current assets and financial assets, which are estimated by revalued amount or fair value. Historical cost is generally estimated by the fair value of the purchase cost.

1) Changes in accounting policies due to newly adopted standards and interpretation from the years ended December 31, 2012

- K- IFRS 1107, *Financial Instruments: Disclosures – Transfers of Financial Assets*

In accordance with the amended K-IFRS 1107, for the transferred assets that are not entirely derecognized from financial assets, the Group discloses nature of transferred assets by classification, exposed risk, rewards associated, and carrying value of related liability of transferred assets. Generally, transferred financial assets are entirely derecognized at transfer. However, in case of the financial assets that are continuously involved by the Group, for the purpose of evaluation on the nature and related risk of continuous involvement, the Group discloses carrying value of assets and liabilities representing nature of continuous involvement and maximum exposure of possible loss occurred by continuous involvement. The Group expects that the application of this amendment would not have material impact on its consolidated financial statements. The amendments to K-IFRS 1107 have no material impact on the consolidated financial statements for the years ended December 31, 2012.

- K- IFRS 1001, *presentation of Financial Statements*

The Group has retrospectively applied the change in the classification of operating income in accordance to the amendments of the accounting policy and the audited comprehensive income statement has been restated in accordance to the changes following the retroactive application.

In accordance with the amended K-IFRS 1001, the Group excluded two items from the operating income, which had been classified into the operating income as follows. The other gains of ₩56,819 million and ₩69,931 million and the other expenses of ₩71,117 million and ₩63,553 million for the years ended December 31, 2012 and 2011, respectively, were excluded from the operating incomes. This reclassification increased the operating income for the year ended December 31, 2012, by ₩14,298 million and decreased the operating income for the year ended December 31, 2011, by ₩6,378 million. However, there is no effect to net income and earnings per share for the years ended December 31, 2012 and 2011.

2) The lists of K-IFRS, which were made and announced, but not applied, due to impending of the implementation date.

- K-IFRS 1001 (as revised in 2012), *presentation of Financial Statements*

The amendments to K-IFRS 1001 change the reclassification of other comprehensive income. These amendments are intended to present separately that the amounts reclassified to profit or loss in the current period that were recognized in other comprehensive income in the current or previous periods when certain conditions are met and the amounts are not reclassified. The amendments to K-IFRS 1001 are effective for annual periods beginning on or after July 1, 2012. The amendments to K-IFRS 1001 have no impact on the consolidated financial statements for the years ended December 31, 2012 and 2011.

- K-IFRS 1019 (as revised in 2012), *Employee Benefits*

The amendments to K-IFRS 1019 change the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of K-IFRS 1019 and accelerate the recognition of past service costs. The amendments to K-IFRS 1019 are effective for annual periods beginning on or after January 1, 2013, and require retrospective application with certain exceptions. At the moment, the Group is reviewing the influence of revision on consolidated financial statements.

- K-IFRS 1032(as revised in 2012), *Financial instruments: presentation*
The amendments to K-IFRS 1032 are that, by clarifying about regulations which are related to financial assets and liabilities through the mentioned revisions, claims for setoffs should not be additionally conditioned in the future and should be available during the contract period all the time. Besides it contains that it should be available not only for the natural business case between the corporation and the counterparty, but also for the case of being in default and inability of making payments. The amendments are effective for annual periods beginning on or after January 1, 2014. At the moment, the Group is reviewing the influence of revision on consolidated financial statements.

- K-IFRS 1107(as revised in 2012), *Financial instruments: disclosure*
The amendments to K-IFRS 1107 mainly show that is offsetting presentation for financial assets and financial liabilities. The amendments are effective for annual periods beginning on or after January 1, 2013. The amendments to K-IFRS 1107 have no material impact on the financial statements for the years ended December 31, 2012.

- K-IFRS 1110, *Consolidated Financial Statement (Enactment)*
K-IFRS 1110 establishes a single standard of definition of control. The control defines that an investor controls an investee when the investor 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. The K-IFRS 1110 is effective for annual periods beginning on or after January 1, 2013. At the moment, the Group is reviewing the influence of revision on financial statements.

- K-IFRS 1111, *Joint Arrangement(Enactment)*
According to K-IFRS 1111, joint arrangement of which two or more parties have joint control is classified as either a joint operation or a joint venture. In the joint operation, the parties in jointly controlled operation recognize its share of the assets, liabilities, income and expenses, accounted for accordingly. In the joint venture, joint ventures apply equity method of accounting to investment. The K-IFRS 1111 is effective for annual periods beginning on or after January 1, 2013. At the moment, the Group is reviewing the influence of revision on consolidated financial statements.

-K-IFRS 1112, *Public announcement of share from other enterprise (Enactment)*
K-IFRS 1112 is a disclosure standard requiring about an entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. The K-IFRS 1112 is effective for annual periods beginning on or after January 1, 2013. At the moment, the Group is reviewing the influence of revision on consolidated financial statements.

-K-IFRS 1113, *Fair Value Measurement*
K-IFRS 1113 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The amendments to K-IFRS 1113 are effective for annual periods beginning on or after January 1, 2013. At the moment, the Group is reviewing the influence of revision on consolidated financial statements.

(2) Basis for consolidation

The consolidated financial statements comprise the financial statements of the Company and the entities that are controlled by either the Company or its subsidiaries. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the period are included in the consolidated statements of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

All intragroup transactions, balances, income and expenses are eliminated in full on consolidation. Non-controlling interests in subsidiaries are identified separately from the Group's equity in the consolidated statements of financial position. The interests of non-controlling shareholders are initially measured at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition, plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance. Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions.

Consolidated subsidiaries as of December 31, 2012, are as follows (Unit: Korean won in millions):

Consolidated subsidiaries	Place of incorporation and operation	Percentage of ownership (%)	Closing month	Classification of the business	Key financial highlights			
					Assets	Liabilities	Operating income	Net income
Ain Teleservice	South Korea	100.00	December	Service of telemarketing	₩6,707	₩7,022	₩53,398	₩ 495
CS Leader	South Korea	100.00	December	Service of telemarketing	5,513	4,528	32,839	538
Medialog (Former DACOM Multimedia Internet Corporation)	South Korea	88.06	December	Service of internet	26,764	12,620	77,716	539
DACOM America Inc.	USA	100.00	December	Service of communication	532	3,409	1,100	106
CS ONE Partner	South Korea	100.00	December	Service of telemarketing	6,726	3,958	46,013	601

(3) Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition cost method. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree.

Acquisition-related costs are recognized in net income as incurred (issuance costs of debt or equity instruments are excluded).

The Company recognizes goodwill at the date on which control is acquired (the acquisition date). Goodwill is measured as excess of sum of the consideration transferred, the non-controlling interest in the acquisition, if any, and the fair value of the Company's previously held equity interest in the acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed for business combination achieved in stages. Otherwise, the Company reassesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and recognizes the difference after that review in net income as a bargain purchase gain (loss).

Non-controlling interest of the acquiree is measured with the proportionate non-controlling interest in the identifiable net assets.

(4) Investments in associates

An associate is an entity which the Group has significant influence on and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The results of operation from associates and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case, it is accounted for in accordance with K-IFRS 1105 - *Non-current Assets Held for Sale and Discontinued Operations*. Under the equity method, investments in associates are carried in the consolidated statements of financial position at cost as adjusted for postacquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that in substance, form part of the Group's net investment in the associate) are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognized at the date of acquisition is recognized as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of that investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized immediately in net income.

When an entity in the Group transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

(5) Interests in joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control (i.e., when the strategic financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control).

When an entity in the Group directly undertakes its activities under joint venture arrangements, the Group's share of jointly controlled assets and any liabilities incurred jointly with other venturers are recognized in the financial statements of the relevant entity and classified according to their nature. Liabilities and expenses incurred directly in respect of interests in jointly controlled assets are accounted for on an accrual basis. Income from the sale or use of the Group's share of the output of jointly controlled assets and its share of joint venture expenses are recognized when it is probable that the economic benefits associated with the transactions will flow to/from the Group and their amount can be measured reliably.

Joint venture arrangements that involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities. The Group reports its interests in jointly controlled entities using equity method, except when the investment is classified as held for sale, in which case, it is accounted for in accordance with K-IFRS 1105, *Non-current Assets Held for Sale and Discontinued Operations.*

When an entity in the Group transacts with a jointly controlled entity of the Group, unrealized profits and losses are eliminated to the extent of the Group's interest in the joint venture.

(6) Foreign currencies

The individual financial statements of each entity in the Group are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity in the Group are expressed in Korean won ('KRW'), which is the functional currency of the Company and the reporting currency for the consolidated financial statements.

In preparation of the Group's separate financial statements, any transaction that occurred in currency other than its functional currency will be recorded in translated amount using the exchange rate of the transaction. At the end of reporting period, all monetary assets and liabilities will be translated using the exchange rate at the end of reporting date. Meanwhile, non-monetary assets and liabilities measured at fair value will be retranslated using the exchange rate on the day of fair value evaluation, whereas non-monetary assets and liabilities measured at historical cost will not be translated.

Exchange differences are recognized in net income in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;

- exchange differences on transactions entered into in order to hedge certain foreign currency risks; and

- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore, forming part of the net investment in the foreign operation), which are recognized initially in other comprehensive income (loss) and reclassified from equity to net income on disposal or partial disposal of the net investment.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in KRW using exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case, the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized in other comprehensive income (loss) and accumulated in equity (attributed to non-controlling interests as appropriate).

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

(7) Cash and cash equivalents

Cash and cash equivalents includes cash, savings and checking accounts, and short-term investment highly liquidated (maturities of three months or less from acquisition). Bank overdrafts are accounted for as short-term borrowings.

(8) Financial assets

All financial assets are recognized and derecognized on trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the time frame established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss ("FVTPL"), which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets at 'FVTPL,' held-to-maturity investments, available-for-sale ("AFS") financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

1) Financial assets at FVTPL

Financial assets are classified at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL. FVTPL includes a financial asset held for trading and a financial asset designated as at FVTPL upon initial recognition. A financial asset is classified as held for trading if it has been acquired principally for the purpose of selling in near term. A financial instrument, as long as it is not designated as an effective hedge derivative instrument or a financial guarantee contract, and contains one of more embedded derivatives, while it is treated separately from the host contract, is classified as held for trading.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in net income. Transaction costs attributable to acquisition upon initial recognition are immediately recognized in net income in the period occurred.

2) Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed-maturity dates that the Group has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are measured at amortized cost using the effective interest method less any impairment, with revenue recognized on an effective-yield basis.

3) AFS financial assets

Non-derivative financial assets that are not classified as at held to maturity; held for trading; designated as at FVTPL; or loans and receivables are classified as at financial assets AFS. Financial assets can be designated as AFS on initial recognition. Financial assets AFS are initially recognized at fair value, plus directly related transaction costs. They are subsequently measured at fair value. Unquoted equity investments whose fair value cannot be measured reliably are carried at cost. Gains and losses arising from changes in fair value are recognized in other comprehensive income and accumulated in the investments revaluation reserve, with the exception of impairment losses, interest calculated using the effective interest method, and foreign exchange gains and losses on monetary assets, which are recognized in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss. Dividends on AFS equity instruments are recognized in profit or loss when the Group’s right to receive the dividends is established.

4) Loans and receivables

Trade receivables, loans and other receivables that have fixed or determinable payments and are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

5) Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected. Trade receivables that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group’s past experience of collecting payments, as well as observable changes in national or local economic conditions that correlate with default on receivables.

The carrying amount of the financial asset is directly reduced by the impairment loss for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in net income.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to net income in the period.

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through net income to the extent of the previously recognized loss amount. The carrying amount of the investment at the date the impairment is reversed shall not exceed what the amortized cost would have been had no impairment was previously recognized.

In respect of AFS equity securities, impairment losses previously recognized in net income are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income.

6) Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

(9) Inventories

Inventories are stated at the lower of cost or net realizable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventories by the weighted-average method and the moving-average method. Net realizable value represents the estimated selling price for inventories, less all estimated costs of completion and costs necessary to make the sale.

(10) Property, plant and equipment

Property, plant and equipment are stated at cost, less accumulated depreciation and accumulated impairment losses. The cost of an item of property, plant and equipment is directly attributable to their purchase or construction, which 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. It also includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.
Subsequent costs are recognized in carrying amount of an asset or as an asset if it is probable that future economic benefits associated with the assets will flow into the Group and the cost of an asset can be measured reliably. Routine maintenance and repairs are expensed as incurred.

The Group does not depreciate land and certain tangible assets. Depreciation expense is computed using the straight-line method based on the estimated useful lives of the assets as follows:

	Estimated useful lives (years)
Buildings	20–40
Structures	40
Telecommunication facilities	5–8
Tools, furniture and fixtures	3–5
Vehicles	5

The Group reviews the depreciation method, the estimated useful lives and residual values of property, plant and equipment at the end of each annual reporting period. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate. In addition, when an acquisition of a tangible asset occurs free of charge or at a value less than fair market value, due to government subsidy, the acquisition cost less government subsidy is recorded as the acquisition cost upon initial acquisition and depreciation expense is calculated based on the carrying amount.

(11) Investment property

Investment property, which is property held to earn rentals and/or for capital appreciation (including property under construction for such purposes), is measured initially at its cost, including transaction costs. Subsequent to initial recognition, investment property is measured at cost, less accumulated depreciation and accumulated impairment losses.

Subsequent costs are recognized in carrying amount of an asset or as an asset if it is probable that future economic benefits associated with the assets will flow into the Group and the cost of an asset can be measured reliably. Routine maintenance and repairs are expensed as incurred.

Amongst the investment properties, land is not depreciated. However, investment properties other than land are depreciated over 20 to 40 years of their useful lives using the straight-line method.

The depreciation method, residual value and useful lives of investment properties are reassessed or reviewed at the end of each annual reporting period, and any changes from them are treated as change in accounting estimates.

(12) Intangible assets

Intangible assets acquired separately are carried at cost, less accumulated amortization and accumulated impairment losses. Intangible assets are composed of intellectual property rights, membership, customer relationships and others, and are amortized by the straight-line method over two to 20 years with no residual value. Some intellectual property rights and memberships have indefinite useful lives; such intangibles are not amortized but tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

In relation to intangible assets with definite useful lives, the estimated useful life and amortization method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for as change in accounting estimates.

(13) Goodwill

Goodwill arising in a business combination is recognized as an asset at the date when control is acquired (the acquisition date). Goodwill is measured at the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

Goodwill is not amortized but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units ("CGU") expected to benefit from the synergies of the combination. CGUs to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the CGU is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro rata basis of the carrying amount of each asset in the unit. An impairment loss recognized for goodwill is not reversed in a subsequent period. On disposal of a subsidiary, the relevant amount of goodwill is included in the determination of the gain or loss on disposal.

(14) Impairment of non-financial assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. If the recoverable amount for an individual asset cannot be estimated, recoverable amount is determined for the CGU"s. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired. Recoverable amount is the higher of fair value, less costs to sell or value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pretax discount rate that reflects current market assessments of the time value of money and risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is immediately recognized as an expense.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to its recoverable amount, but the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized immediately in net income.

(15) Financial liabilities and equity instruments

1) Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

2) Financial liabilities at FVTPL

Financial liabilities at FVTPL include a financial liability held for trading and a financial liability designated at FVTPL. A financial liability is classified as held for trading if it has been acquired principally for the purpose of repurchasing it in the near term or it is a derivative that is not designated and effective as a hedging instrument. Gains and losses arising on remeasurement are recognized in net income and interest expenses paid in financial liabilities are recognized in net income, as well.

3) Other financial liabilities

Other financial liabilities are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective-yield basis.

4) Financial guarantee liabilities

Financial guarantee contract is the contract that issuer dispends a certain amount for the compensation of the loss from the non-payment of debtor by the date of payment in accordance with initial or amended contractual terms and conditions of debt instrument.

Financial guarantee contract liabilities are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

- the amount of the obligation under the contract, as determined in accordance with K-IFRS 1037, *Provisions, Contingent Liabilities and Contingent Assets*; and
- the amount initially recognized less, cumulative amortization recognized in accordance with the K-IFRS 1018, *Revenue*

5) Derecognition of financial liabilities

The Group derecognizes financial liabilities only when, the Group's obligations are discharged, canceled or expired. Difference between paid charges and derecognition of financial liabilities is recognized immediately in net income.

(16) Lease

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

1) The Group as lessee

Assets held under finance leases are initially recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. The financial charge, except for the case that it is capitalized as part of the cost of that asset according to the Group's accounting for borrowing costs, is immediately expensed in the period in which it is incurred. Contingent rents are charged as expenses in the periods in which they are incurred.
Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred. In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

2) The Group as lessor

Amounts due from lessees under finance leases are recognized as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect an effective interest rate on the Group's net investment outstanding in respect of the leases. Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

(17) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their 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. Additionally, borrowing costs eligible for capitalization reflects hedge effectiveness in case that the hedge accounting for interest rate risk can be applied for borrowing costs directly related to qualifying assets.

All other borrowing costs are recognized in net income in the period in which they are incurred.

(18) Derivative financial instruments

Derivatives are initially recognized at fair value at the date the derivative contract is entered into and transaction costs are recognized in net income as incurred.

Derivatives are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is immediately recognized in profit or loss, unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

When designating a cash flow hedge, the Group formally designates a hedging relationship and the Group's risk management objective and strategy for undertaking hedge at the inception of the hedge and documents identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedge and how the Group will assess the hedging instrument's effectiveness in offsetting the exposure to changes. Additionally, the hedge is assessed on an ongoing basis and determined actually to have been highly effective throughout the financial reporting periods for which the hedge was designated.

Under a cash flow hedge, the effective portion of the gain or loss on the cash flow hedging instrument is recognized in other comprehensive income (loss) and the ineffective portion is recognized in net income. The associated gains or losses that are recognized in other comprehensive income are reclassified from equity to net income as a reclassification adjustment in the same period or periods, during which the asset acquired or liability assumed affects net income. If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, the associated gains and losses are removed from other comprehensive income (loss) and included in the initial cost or other carrying amount of the asset or liability.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, exercised, or when it no longer qualifies for hedge accounting. Amounts previously recognized in other comprehensive income and accumulated in equity are reclassified to net income in the periods when the forecast transaction ultimately occurs. However, when a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in net income.

(19) Retirement benefit costs

Contributions to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

The retirement benefit obligation recognized in the consolidated statements of financial position represents the present value of the defined benefit obligation as adjusted for unrecognized actuarial gains and losses and unrecognized past service cost, and as reduced by the fair value of plan assets. For defined benefit retirement plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each reporting period. The present value of defined benefit obligations is expressed in a currency in which retirement benefits will be paid and is calculated by discounting expected future cash outflows with the interest rate of high-quality corporate bonds for which maturity is similar to the payment date of retirement benefit obligations. Actuarial gains and losses comprise the effects of differences between the previous actuarial assumptions and what has actually occurred and the effects of changes in actuarial assumptions. They are recognized in other comprehensive income (loss) in the consolidated statements of comprehensive income in the period in which they occur. Actuarial gains and losses recognized in other comprehensive income (loss) are immediately recognized in retained earnings and not be reclassified to net income in a subsequent period. Past service cost is recognized immediately to the extent that the benefits are already vested, and otherwise is amortized on a straight-line basis over the average period until the benefits become vested.

(20) Provisions

A provision is recognized when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.
Provisions are calculated as present value of the best estimate of the expenditure required to settle the present obligation, using a pretax discount rate that reflects current market assessments of the time value of money and those risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense. The Group reviews provision balance at the end of reporting period and adjusts the amount reflecting the best estimate.

The Group leases various land and building sites to for base station machinery and repeater, and non-networking assets facilities, to provide countrywide wireless telecommunication services, and has the obligation to restore the site at the end of lease period, when the economic use of related infrastructures are terminated. As a result, the Group recognizes restoration liabilities for the amount that it estimates that will be incurred for removing, dismantling and restoring the site in order to restore the leased site at the end of lease contract.

(21) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold or services provided in the Group’s normal course of business, net of discounts, customer returns, rebates and related taxes. The Group recognizes revenues when 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.

With regard to the customer’s reward points (EZ points and EZ money mileage) granted on the use of PCS(Personal Communication Services) services, rendering PCS services is considered as multiple deliverable transactions. The total consideration received or receivable in exchange for the PCS services is allocated between the sale of PCS services and reward points. For reward points, the allocation of the total consideration is measured at fair value and shall be accounted for as unearned revenue for initial measurement. Afterwards, when the reward points are either used or redeemed, it is recognized as revenue.

(22) Current tax payable and deferred tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

1) Current tax payable

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statements of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group’s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

2) Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax assets and liabilities are measured at the tax rates that are expected to be applied in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying 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 against current tax liabilities and when they relate to income tax levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

3) Recognition of current tax payable and deferred tax

Deferred tax is recognized in net income, except when it relates to items that are recognized in other comprehensive income (loss) or directly in equity, in which case the deferred tax is also recognized in other comprehensive income (loss) or directly in equity, respectively. In case of business combination, the tax effect is considered when calculating goodwill or when determining the excess (bargain purchase gain) of the fair value, net of tax, of identifiable assets, liabilities and contingent liabilities over the exceeded business combination costs.

Deferred tax assets and liabilities are measured at the tax rates that are expected to be applied in the period in which the liability is settled or the asset is realized, based on tax rates (and tax law) that have been enacted or substantively enacted by the end of the reporting period in a country where a subsidiary or an associate manages its operation and generates taxable profits. Management regularly assesses determining the excess (bargain purchase grain) of position taken with regard to tax reporting in a case that an applicable tax code relies on its interpretation and accounts the expected amounts, which will be paid to a taxing authority as a liability.

(23) Treasury stock

When the Group repurchases its equity instruments (treasury stock), the incremental costs, net of tax effect, are deducted from the shareholders' equity and recognized as other capital items deducted from the total equity in the consolidated statements of financial position. In addition, profits or losses from purchase, sale, or retirement of treasury stocks are directly recognized in shareholders' equity.

3. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATING UNCERTAINTY:

In the application of the Group's accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may be different from those estimates. The estimates and underlying assumptions are continuously reviewed. The changes in accounting estimates are recognized in the period in which the estimate is changed if the change affects only that period, or in the period of the change and future periods if the change affects both current and future periods.
The following are the key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

(1) Fair value of financial instruments

Derivatives financial instruments and financial assets AFS are measured at fair value after initial recognition and gains and losses from changes in fair value are recognized either in profit or loss or in accumulated other comprehensive income (loss). If there is a market value disclosed in an active market when measuring fair value, that market value is used as fair value. Otherwise, the fair value is estimated by a valuation technique requiring management's assumption on the expected future cash flows and discount rate.

(2) Bad debt allowance for loans and receivables

The Group estimates an allowance for doubtful loans and receivables based on aging of receivables, historical loss experience and economic and industrial factors.

(3) Measurement of tangible and intangible assets

When tangible or intangible assets are acquired as part of a business combination, management uses judgment in addition to other factors, to estimate the fair value at the acquisition date. In addition, an estimate of the associated assets' useful lives for depreciation is made.

(4) Estimation of restoration liabilities

The Group recognizes restoration liabilities for the amount that it estimates that will be incurred for removing, dismantling and restoring the site in order to restore the leased site at the end of lease contract.
The estimation of future cash flows for restoration is based on factors, such as inflation rates and market risk premium, and the present value is estimated by discounting estimated future cash flows with a risk-free interest rate.

(5) Impairment of non-financial assets

At the end of the reporting period, the Group reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. Intangible assets with indefinite useful lives are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired. Other non-financial assets are tested for impairment whenever there is an indication that the carrying amount will not be recoverable. In assessing value in use, the estimated future cash flows are discounted to their present value using a pretax discount rate that reflects current market assessments of the time value of money and risks specific to the asset for which the estimates of future cash flows have not been adjusted.

(6) Defined benefit pension plan

For the defined benefit pension plan, the service cost is determined using actuarial valuations. In order to apply actuarial valuations, it is necessary to assume a discount rate, an expected rate of return on plan assets, wage increase rate, etc. The retirement benefit plan contains significant uncertainties on the estimation due to its long-term nature. The defined benefit obligations as of December 31, 2012 and 2011, are ₩61,512 million and ₩37,961 million, respectively, and details are described in Note 18.

(7) Deferred tax

Deferred tax assets and liabilities are recognized and measured based on management’s judgment. In particular, whether or not to recognize deferred tax assets and the scope of recognition is determined by assumptions on future circumstances and management’s judgment.

(8) Revenue and expense recognition

Subscription fees are allocated on a straight-line basis during the expected subscription period and the expected subscription period is estimated based on the characteristics of services and past experience. In addition, a portion of the revenues and expenses, which are received from and paid to other telecommunication companies is regulated by the relevant authorities, and under such regulation retroactive billing is made related to prior periods. As such, management estimates the revenue and expenses for the period by taking all the related circumstances at the end of reporting period into account.

4. SEGMENT INFORMATION:

(1) The Group determined that it operates under only one operating segment for segment reporting purposes, taking the characteristics of goods and services and the nature of network assets to provide telecommunications services into consideration. As a result, no separate segment information is disclosed in this report.

(2) Details of operating revenues from the Group's sale of goods and provision of services for the years ended December 31, 2012 and 2011, are as follows (Unit: Korean won in millions):

Reporting segment	Major goods and service	2012	2011
The Group	Telecommunication and related services	₩ 7,027,072	₩ 6,433,889
	Handset sales	3,877,562	2,752,518
		₩ 10,904,634	₩ 9,186,407

(3) The Group's operating revenues are mostly generated from domestic customers based on the nature of the telecommunication services and the majority of the related non-current assets are located in the Republic of Korea.

5. CLASSIFICATION OF FINANCIAL INSTRUMENTS AND FAIR VALUE:

(1) The carrying amount and fair value of financial assets and liabilities as of December 31, 2012 , and 2011, are as follows (Unit: Korean won in millions):

1) Financial assets

		December 31, 2012		December 31, 2011	
Financial assets	Account	Book value	Fair value	Book value	Fair value
Cash and cash equivalents	Cash and cash equivalents	₩ 341,367	₩ 341,367	₩ 118,821	₩ 118,821
AFS financial assets	Marketable equity securities	35,398	35,398	26,149	26,149
	Unmarketable equity securities	49,208	49,208	45,843	45,843
	Debt securities	1	1	110	110
	Subtotal	84,607	84,607	72,102	72,102
Loans and receivables	Financial institution deposits	24,277	24,277	12,673	12,673
	Trade receivables	2,180,738	2,180,738	2,751,285	2,751,285
	Loans	23,189	23,189	32,928	32,928
	Other receivables	160,131	160,131	71,135	71,135
	Accrued income	1,535	1,535	356	356
	Deposits	249,487	249,487	244,088	244,088
	Subtotal	2,639,357	2,639,357	3,112,465	3,112,465
	Total	₩ 3,065,331	₩ 3,065,331	₩ 3,303,388	₩ 3,303,388

2) Financial liabilities

Financial liabilities	Account	December 31, 2012 Book value	December 31, 2012 Fair value	December 31, 2011 Book value	December 31, 2011 Fair Value
Derivative liabilities designated as hedging instrument	Derivative liabilities designated as hedging instrument	₩ 4,768	₩ 4,768	₩ 61	₩ 61
Financial liabilities measured at amortized cost	Trade payables	456,571	456,571	637,403	637,403
	Borrowings	2,462,832	2,462,832	1,679,333	1,679,333
	Debentures	1,786,033	1,848,133	2,180,478	2,146,745
	Other payables	1,677,747	1,677,747	1,770,268	1,770,268
	Accrued expenses	528,906	528,906	526,928	526,928
	Withholdings	100,425	100,425	85,266	85,266
	Finance lease liabilities	43,871	43,871	57,059	57,059
	Rental deposits	10,700	10,700	11,762	11,762
	Subtotal	7,067,085	7,129,185	6,948,497	6,914,764
	Total	₩ 7,071,853	₩ 7,133,953	₩ 6,948,558	₩ 6,914,825

The carrying values of certain financial assets, such as loans and receivables, and liabilities recognized at amortized cost are considered to approximate their fair values. In addition, an equity instrument, classified as AFS financial assets, but does not have market value disclosed in an active market, is measured at cost if the fair value cannot be reliably measured.

6. CASH AND CASH EQUIVALENTS:

The Group's cash and cash equivalents in the consolidated statements of financial position are equivalent to those in the consolidated statements of cash flows. Details of cash and cash equivalents as of December 31, 2012 and 2011, are as follows (Unit: Korean won in millions):

	December 31, 2012	December 31, 2011
Cash on hand	₩ -	₩ 1
Financial institution deposits	337,277	117,373
Other cash equivalents	4,090	1,447
	₩ 341,367	₩ 118,821

7. RESTRICTED FINANCIAL ASSETS:

Restricted financial assets as of December 31, 2012 and 2011, are as follows (Unit: Korean won in millions):

	Financial institution	December 31, 2012	December 31, 2011
Guarantee deposits for checking accounts	Woori Bank and others	₩ 24	₩ 24
Term deposits	NongHyup Bank (*1)	350	350
	Hana Bank (*2)	904	300
	Sub-total	1,254	650
	Total	₩ 1,278	₩ 674

(*1) These deposits are pledged to BC Card Co., Ltd., in relation to E-credit.
(*2) Amount are deposited for Nexon related to guarantee deposit on lease.

8. TRADE AND OTHER RECEIVABLES:

(1) Details of current portion of trade and other receivables as of December 31, 2012 and 2011, are as follows (Unit: Korean won in millions):

	December 31, 2012	December 31, 2011
Trade receivables	₩ 1,786,395	₩ 2,118,844
Allowances for doubtful accounts	(215,612)	(211,496)
Trade receivables, net	1,570,783	1,907,348
Short-term loans	16,724	21,972
Allowances for doubtful accounts	(608)	(678)
Short-term loans, net	16,116	21,294
Other accounts receivable	182,219	97,633
Allowances for doubtful accounts	(22,088)	(26,497)
Other accounts receivable, net	160,131	71,136
Accrued income	1,535	355
	₩ 1,748,565	₩ 2,000,133

(2) Details of non-current portion of trade and other receivables as of December 31, 2012 and 2011, are as follows (Unit: Korean won in millions):

	December 31, 2012	December 31, 2011
Trade receivables	₩ 611,701	₩ 844,623
Allowances for doubtful accounts	(1,746)	(686)
Trade receivables, net	609,955	843,937
Long-term loans	7,073	11,634
Leasehold deposits	234,026	228,591
Guarantee deposits	15,461	15,497
	₩ 866,515	₩ 1,099,659

(3) Aging of trade and other receivables as of December 31, 2012 and 2011, are as follows (Unit: Korean won in millions):

	December 31, 2012	December 31, 2011
Less than six months	₩ 2,631,757	₩ 3,123,164
7–12 months	65,152	49,189
1–3 years	152,468	162,394
More than 3 years	5,757	4,402
	₩ 2,855,134	₩ 3,339,149

(4) Changes in allowance for trade and other receivables for the years ended December 31, 2012 and 2011, are as follows (Unit: Korean won in millions):

	2012		2011	
Beginning balance	₩	239,357	₩	249,151
Impairment loss		63,674		19,708
Write off of accounts receivable		(80,910)		(60,104)
Reversal of impairment loss		17,933		30,602
Ending balance	₩	240,054	₩	239,357

9. INVENTORIES:

(1) Inventories are stated at the lower of cost or net realizable value in case that the market value is lower than the acquisition cost. Details of inventories as of December 31, 2012 and 2011, are as follows (Unit: Korean won in millions):

	December 31, 2012			December 31, 2011		
	Acquisition cost	Valuation allowance	Carrying amount	Acquisition cost	Valuation allowance	Carrying amount
Merchandise	₩ 405,935	₩ (60,807)	₩345,128	₩ 426,609	₩ (56,722)	₩369,887
Supplies	6,962	(5,663)	1,299	8,124	(5,793)	2,331
	₩ 412,897	₩ (66,470)	₩346,427	₩ 434,733	₩ (62,515)	₩372,218

(2) Inventory costs recognized in operating expenses for the year ended December 31, 2012, are ₩3,294,623 million, which include ₩4,086 million of losses on valuation of inventories.

10. OTHER ASSETS:

(1) Details of other current assets as of December 31, 2012 and 2011, are as follows (Unit: Korean won in millions):

	December 31, 2012		December 31, 2011	
Advanced payments	₩	19,988	₩	31,183
Prepaid expenses		92,292		88,117
Total	₩	112,280	₩	119,300

(2) Details of other non-current assets as of December 31, 2012 and 2011, are as follows (Unit: Korean won in millions):

	December 31, 2012		December 31, 2011	
Non-current prepaid expenses	₩	37,178	₩	51,187

11. PROPERTY, PLANT AND EQUIPMENT:

(1) Changes in property, plant and equipment for the years ended December 31, 2012 and 2011, are as follows (Unit: Korean won in millions):

1) For the year ended December 31, 2012

	Land	Buildings	Telecom-munication facilities	Other assets	Construction in progress	Total
Beginning acquisition cost	₩ 568,530	₩484,214	₩8,605,458	₩ 545,450	₩ 483,392	₩10,687,044
Accumulated depreciation	-	(76,150)	(4,660,090)	(297,346)	(223)	(5,033,809)
Accumulated impairment loss	-	(16,864)	(522)	(3,019)	(726)	(21,131)
Government subsidies	-	-	(559)	(59)	-	(618)
Beginning balance	568,530	391,200	3,944,287	245,026	482,443	5,631,486
Acquisition	716	173	153,615	24,646	1,493,363	1,672,513
Transfers	(30,160)	(34,771)	1,653,196	124,710	(1,778,192)	(65,217)
Disposals	(258)	(311)	(35,119)	(5,765)	(12,202)	(53,655)
Depreciation	-	(17,840)	(986,221)	(92,493)	-	(1,096,554)
Impairment loss	-	-	(9,798)	-	-	(9,798)
Ending balance	538,828	338,451	4,719,960	296,124	185,412	6,078,775
Ending acquisition cost	538,828	418,981	10,266,236	676,056	185,412	12,085,513
Accumulated depreciation	-	(80,530)	(5,535,307)	(379,927)	-	(5,995,764)
Accumulated impairment loss	-	-	(10,319)	-	-	(10,319)
Government subsidies	-	-	(650)	(5)	-	(655)
Ending balance	₩ 538,828	₩ 338,451	₩ 4,719,960	₩ 296,124	₩ 185,412	₩ 6,078,775

2) For the year ended December 31, 2011

	Land	Buildings	Telecom-munication facilities	Other assets	Construction in progress	Total
Beginning acquisition cost	₩ 552,149	₩ 477,723	₩ 7,459,415	₩ 464,319	₩ 124,955	₩ 9,078,561
Accumulated depreciation	-	(55,989)	(3,906,984)	(235,145)	-	(4,198,118)
Government subsidies	-	-	(1,492)	(8,044)	-	(9,536)
Beginning balance	-	-	(490)	(272)	-	(762)
Acquisition due to merger	552,149	421,734	3,550,449	220,858	124,955	4,870,145
Acquisition	182	806	333,076	52,523	1,348,728	1,735,315
Transfers	16,199	3,928	922,779	45,750	(973,031)	15,625
Disposals	-	(98)	(16,794)	(1,436)	(17,483)	(35,811)
Depreciation	-	(18,306)	(845,223)	(69,650)	-	(933,179)
Impairment loss	-	(16,864)	-	(3,019)	(726)	(20,609)
Ending balance	₩568,530	₩391,200	₩3,944,287	₩245,026	₩482,443	₩5,631,486
Ending acquisition cost	₩568,530	₩484,214	₩8,605,458	₩545,450	₩483,392	₩10,687,044
Accumulated depreciation	-	(76,150)	(4,660,090)	(297,346)	(223)	(5,033,809)
Accumulated impairment loss	-	(16,864)	(522)	(3,019)	(726)	(21,131)
Government subsidies	-	-	(559)	(59)	-	(618)
Ending balance	₩ 568,530	₩ 391,200	₩ 3,944,287	₩ 245,026	₩ 482,443	₩ 5,631,486

12. INVESTMENT PROPERTY:

(1) Changes in investment property for the years ended December 31, 2012 and 2011, are as follows (Unit: Korean won in millions):

1) For the year ended December 31, 2012

	Land	Buildings	Total
Beginning acquisition cost	₩ 10,615	₩ 21,424	₩ 32,039
Accumulated depreciation	-	(4,099)	(4,099)
Beginning balance	10,615	17,325	27,940
Transfers	30,273	34,910	65,183
Depreciation	-	(636)	(636)
Ending balance	40,888	51,599	92,487
Ending acquisition cost	40,888	67,352	108,240
Accumulated depreciation	-	(15,753)	(15,753)
Ending balance	₩ 40,888	₩ 51,599	₩ 92,487

2) For the year ended December 31, 2011

	Land	Buildings	Total
Beginning acquisition cost	₩ 24,418	₩ 27,278	₩ 51,696
Accumulated depreciation	-	(4,691)	(4,691)
Beginning balance	24,418	22,587	47,005
Transfers	(13,803)	(3,927)	(17,730)
Depreciation	-	(1,335)	(1,335)
Ending balance	10,615	17,325	27,940
Ending acquisition cost	10,615	21,424	32,039
Accumulated depreciation	-	(4,099)	(4,099)
Ending balance	₩ 10,615	₩ 17,325	₩ 27,940

(2) The Group recognized rental revenue related to investment property, in the amount of ₩11,973 million and ₩3,638 million, for the years ended December 31, 2012 and 2011, respectively.

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13. INTANGIBLE ASSETS:

(1) Changes in intangible assets for the years ended December 31, 2012 and 2011 are as follows (Unit: Korean won in millions):

1) For the year ended December 31, 2012

	Intellectual property rights	Computer software	Membership	Goodwill	Customer relationship	Frequency usage rights	Other intangible assets	Total
Beginning acquisition cost	₩ 3,577	₩ 11,311	₩ 38,273	₩ 932	₩ 647,600	₩ 867,913	₩108,469	₩ 1,678,075
Accumulated amortization	(1,760)	(10,153)	-	-	(431,733)	(22,068)	(48,647)	(514,361)
Impairment loss	-	-	-	-	-	-	(9,855)	(9,855)
Beginning balance	1,817	1,158	38,273	932	215,867	845,845	49,967	1,153,859
Acquisition(*1)	865	2,535	-	-	-	12,119	21,141	36,660
Transfer	-	-	-	-	-	-	34	34
Disposals	(62)	-	(144)	-	-	-	(3,688)	(3,894)
Amortization	(391)	(903)	-	-	(215,867)	(63,546)	(15,183)	(295,890)
Ending balance	₩ 2,229	₩ 2,790	₩ 38,129	₩ 932	₩ -	₩ 794,418	₩ 52,271	₩ 890,769
Ending acquisition cost	₩ 4,339	₩ 13,846	₩ 38,129	₩ 932	₩ 647,600	₩ 880,032	₩125,954	₩ 1,710,832
Accumulated amortization	(2,110)	(11,056)	-	-	(647,600)	(85,614)	(63,828)	(810,208)
Accumulated impairment loss	-	-	-	-	-	-	(9,855)	(9,855)
Ending balance	₩ 2,229	₩ 2,790	₩ 38,129	₩ 932	₩ -	₩ 794,418	₩ 52,271	₩ 890,769

(*1) The amount of frequency usage rights acquisition is capitalization of borrowing costs.

2) For the year ended December 31, 2011

	Intellectual property rights	Computer software	Membership	Goodwill	Customer relationship	Frequency usage rights	Other intangible assets	Total
Beginning acquisition cost	₩ 3,099	₩ 10,919	₩ 39,032	₩ 932	₩ 647,600	₩ -	₩ 96,080	₩ 797,662
Accumulated amortization	(1,433)	(9,218)	-	-	(215,867)	-	(44,567)	(271,085)
Impairment loss	-	-	-	-	-	-	(9,417)	(9,417)
Beginning balance	1,666	1,701	39,032	932	431,733	-	42,096	517,160
Acquisition	478	391	117	-	-	867,913	25,188	894,087
Transfer	-	-	-	-	-	-	2,085	2,085
Disposals	-	-	(876)	-	-	-	(3,067)	(3,943)
Impairment loss	-	-	-	-	-	-	(439)	(439)
Amortization	(327)	(934)	-	-	(215,866)	(22,068)	(15,896)	(255,091)
Ending balance	₩ 1,817	₩ 1,158	₩ 38,273	₩ 932	₩ 215,867	₩ 845,845	₩ 49,967	₩ 1,153,859
Ending acquisition cost	₩ 3,577	₩ 11,311	₩ 38,273	₩ 932	₩ 647,600	₩ 867,913	₩108,469	₩ 1,678,075
Accumulated amortization	(1,760)	(10,153)	-	-	(431,733)	(22,068)	(48,647)	(514,361)
Accumulated impairment loss	-	-	-	-	-	-	(9,855)	(9,855)
Ending balance	₩ 1,817	₩ 1,158	₩ 38,273	₩ 932	₩ 215,867	₩ 845,845	₩ 49,967	₩ 1,153,859

(2) The Group classifies membership and goodwill as intangible assets with indefinite useful lives and does not amortize them.

(3) R&D costs

The costs related to research and development for the years ended December 31, 2012 and 2011, are as follows (Unit: Korean won in millions):

	2012	2011
Research costs	₩ 71,124	₩ 63,577

(4) Significant intangible assets

As part of the merger between LG Dacom and LG Powercom during the period, the Group recognized customer relationships as intangible assets. Such customer relationships consist of; ₩278,100 million from VoIP, corporate internet access, fixed-line telephony and eBiz services of LG Dacom; and ₩369,500 million from broadband internet access, broadband network rentals and VoIP services of LG Powercom. Recognized customer relationships are amortized on a straight-line method for three years of useful lives. And frequency usage rights were acquired at the amount of ₩867,913 million for the year ended December 31, 2011, and are amortized on a straight-line method for 10 years of useful lives.

14. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES AND INVESTMENTS IN ASSOCIATES:

(1) Composition of the Group's investments in jointly controlled entities (joint ventures) and investments in associates as of December 31, 2012 and 2011, are as follows (Unit: Korean won in millions):

Companies	Class	Place of incorporation and operation	Percentage of ownership (%)	December 31, 2012	December 31, 2011
Dacom Crossing	Jointly controlled entities	South Korea	51.00	₩ 8,259	₩ 7,905
Mediplus Solution(*1)	"	South Korea	42.90	60	-
True Internet Data Center Company	Associates	Thailand	30.00	4,310	4,166
				₩ 12,629	₩ 12,071

(*1) Acquisition was achieved by the joint funding from the Catholic university & Mcircle & Insunginfo for the year ended December 31, 2012.

(2) Equity securities accounted for using the equity method for the years ended December 31, 2012 and 2011, are as follows (Unit: Korean won in millions):

1) For the year ended December 31, 2012

	January 1, 2012	Acquisition	Share of profits of associates under the equity method	Share of profits of associates in other comprehensive income under the equity method	December 31, 2012
Dacom Crossing	₩ 7,905	₩ -	₩ 354	₩ -	₩ 8,259
Mediplus Solution		60		-	60
True Internet Data Center Company	4,166	-	337	(193)	4,310
	₩ 12,071	₩ 60	₩ 691	₩ (193)	₩ 12,629

2) For the year ended December 31, 2011

		January 1, 2011		Share of profits of associates under the equity method		Share of profits of associates in other comprehensive income under the equity method		December 31, 2011
Dacom Crossing	₩	7,361	₩	544	₩	-	₩	7,905
True Internet Data Center Company		3,602		661		(97)		4,166
	₩	10,963	₩	1,205	₩	(97)	₩	12,071

(3) Summary of financial information for jointly controlled entities and associates as of and for the years ended December 31, 2012 and 2011, is as follows (Unit: Korean won in millions):

1) As of December 31, 2012

Companies		Assets		Liabilities		Sales		Net income
Dacom Crossing	₩	73,274	₩	57,080	₩	30,079	₩	693
Mediplus Solution		140		-		-		-
True Internet Data Center Company		18,253		3,887		11,685		1,124

2) As of December 31, 2011

Companies		Assets		Liabilities		Sales		Net income
Dacom Crossing	₩	69,811	₩	54,310	₩	28,648	₩	1,067
True Internet Data Center Company		17,129		3,243		11,454		2,203

15. DEBENTURES AND BORROWINGS:

(1) The Group’s short-term borrowings as of December 31, 2012 and 2011, consist of the following (Unit: Korean won in millions):

Type of borrowings	Creditor	Annual interest rate (%)	December 31, 2012	December 31, 2011
General loans	Woori Bank	4.34	50,000	270,000

(2) The Group's long-term borrowings as of December 31, 2012 and 2011, consist of the following (Unit: Korean won in millions):

Type of borrowings	Creditor	Annual interest rate (%)	December 31, 2012	December 31, 2011
General loans	Korea Exchange Bank	CD(91 days)+0.85–0.91	₩ 100,000	₩ 50,000
(including loan on bills)	Shinhan Bank	CD(91 days)+0.56	200,000	-
Facilities financing	Shinhan Bank	4.53–4.66	187,500	195,000
	Korea Development Bank	4.36–4.78	1,300,000	700,000
	Korea Finance Corporation	4.24–4.82	500,000	330,000
	Kookmin Bank	4.86	100,000	100,000
IT promotion funds	Hana Bank	Variable interest rate (3.04)	31,202	37,259
Before current maturities	Face value		2,418,702	1,412,259
	Discount on long-term borrowings		(5,870)	(2,926)
Current maturities	Face value of long-term borrowings		353,821	49,562
After current maturities	Face value		2,064,881	1,362,697
	Discount on long-term borrowings		(5,870)	(2,926)
	Book value		2,059,011	1,359,771

(3) The Group's debentures as of December 31, 2012 and 2011, consist of the following (Unit: Korean won in millions):

		Annual interest rate (%)	December 31, 2012	December 31, 2011
Debentures issued under public offering		3.19–6.70	₩ 1,790,000	₩ 1,740,000
Debentures issued privately		-	-	100,000
Foreign convertible bond ("CB") with floating interest rates		-	-	348,225
Before current maturities	Face value		1,790,000	2,188,225
	Discount on debentures		(3,967)	(7,050)
	Premium on debentures		-	460
	CB adjustment		-	(1,157)
Current maturities	Current portion of debentures		590,000	948,225
	Current portion of discount on debentures		(473)	(3,393)
	Current portion of premium on debentures		-	460
	CB adjustment		-	(1,157)
After current maturities	Face value		1,200,000	1,240,000
	Discount on debentures		(3,494)	(3,657)
	Book value		₩ 1,196,506	₩ 1,236,343

Bondholder exercised an early redemption right ₩312,010 million of total convertible bond ₩348,225 million for the year ended December 31, 2012. And the rest 36,215 million won was repaid at maturity on September 29, 2012.

(4) The repayment schedule of long-term borrowings and debentures as of December 31, 2012, is as follows (Unit: Korean won in millions):

Period	Long-term borrowings	Debentures	Total
Jan. 1, 2014–Dec. 31, 2014	₩ 623,500	₩ 600,000	₩ 1,223,500
Jan. 1, 2015–Dec. 31, 2015	764,636	140,000	904,636
Jan. 1, 2016–Dec. 31, 2016	412,077	50,000	462,077
Jan. 1, 2017–Dec. 31, 2017	264,668	410,000	674,668
	₩2,064,881	₩ 1,200,000	₩ 3,264,881

16. <u>OTHER FINANCIAL LIABILITIES:</u>

Other financial liabilities as of December 31, 2012 and 2011, are as follows (Unit: Korean won in millions):

	December 31, 2012		December 31, 2011	
	Current	Non-current	Current	Non-current
Payables	₩ -	₩ 399,786	₩ -	₩ 501,329
Withholdings	100,425	-	85,266	-
Rental deposits	-	10,700	-	11,762
Finance lease liabilities	28,491	15,380	30,582	26,477
Total	₩ 128,916	₩ 425,866	₩ 115,848	₩ 539,568

17. <u>PROVISIONS:</u>

Changes in restoration liabilities for the years ended December 31, 2012 and 2011, are as follows (Unit: Korean won in millions):

1) For the year ended December 31,2012

	Beginning balance	Increase	Decrease	Ending balance
Restoration liabilities	₩ 40,049	₩ 1,415	₩ (5,208)	₩ 36,256

2) For the year ended December 31, 2011

	Beginning balance	Increase	Decrease	Ending balance
Restoration liabilities	₩ 32,592	₩ 9,247	₩ (1,790)	₩ 40,049

18. <u>RETIREMENT BENEFIT PLAN:</u>

(1) Defined contribution plan

The Group operates a defined contribution plan for employees, under which the Group is obligated to make payments to third-party funds. The employee benefits under the plan are determined by payments made to the funds by the Group and the investment earnings from the funds. Additionally, plan assets are managed by the third-party funds and are segregated from the Group's assets. The Group recognized ₩2,917 million and ₩2,461 of service cost relating to its defined contribution plan in the consolidated statements of income for the years ended December 31, 2012 and 2011, respectively.

(2) Defined benefit plan

The Group operates a defined benefit plan for employees and according to the plan, employees will be paid, his or her average salary amount of the final three months multiplied by the number of years vested, adjusted for salary pay rate and other. The valuation of related plan assets and the defined benefit liability is performed by an independent reputable actuary specialist under the projected unit credit method.

1) As of December 31, 2012 and 2011, amounts recognized in the consolidated statements of financial position related to retirement benefit obligation are as follows (Unit: Korean won in millions):

	December 31, 2012		December 31, 2011	
Present value of defined benefit obligation	₩	193,120	₩	138,545
Fair value of plan assets		(131,608)		(100,584)
Retirement benefit obligation	₩	61,512	₩	37,961

2) Changes in defined benefit obligation for the years ended December 31, 2012 and 2011, are as follows (Unit: Korean won in millions):

	2012		2011	
Beginning balance	₩	138,545	₩	109,127
Actuarial losses		26,662		16,091
Current service cost		34,242		30,542
Interest cost		6,099		5,502
Benefits paid		(13,657)		(22,117)
Other (*1)		1,229		(600)
Ending balance	₩	193,120	₩	138,545

(*1) Change of liabilities from transfer of employees between the Group and the related companies.

3) Changes in plan asset for the years ended December 31, 2012 and 2011, are as follows (Unit: Korean won in millions):

	2012		2011	
Beginning balance	₩	100,584	₩	80,573
Expected return on plan assets		4,103		3,596
Actuarial gains		184		16
Contributions from the employer		35,615		32,742
Benefits paid		(10,251)		(16,343)
Other (*1)		1,373		-
Ending balance	₩	131,608	₩	100,584

(*1) Change of liabilities from transfer of employees between the Group and the related companies.

4) Income and loss related to defined benefit plan during the years ended December 31, 2012 and 2011, are as follows (Unit: Korean won in millions):

	2012		2011	
Current service cost	₩	34,242	₩	30,542
Interest cost		6,099		5,502
Expected return on plan assets		(4,103)		(3,596)
	₩	36,238	₩	32,448

5) The principal assumptions used for the actuarial valuations as of December 31, 2012 and 2011, are as follows:

	December 31, 2012	December 31, 2011
Discount rate (%)	3.17%–3.71%	4.18%–5.90%
Expected return on plan assets (%)	3.71%	4.28%–5.70%
Expected rate of salary increase (%)	5.00%–5.95%	4.50%–5.15%

6) The fair value of principal assets of plan assets as of December 31, 2012 and 2011, is as follows (Unit: Korean won in millions):

	December 31, 2012		December 31, 2011	
Stock	₩	245	₩	143
Bond		58,419		45,791
ELS		36,116		28,434
Others		36,828		26,216
	₩	131,608	₩	100,584

19. OTHER LIABILITIES:

Other liabilities as of December 31, 2012 and 2011, are as follows (Unit: Korean won in millions):

	December 31, 2012				December 31, 2011			
	Current		Non-current		Current		Non-current	
Advances received	₩	94,527	₩	-	₩	70,553	₩	-
Unearned revenue		57,152		18,816		60,708		14,980
	₩	151,679	₩	18,816	₩	131,261	₩	14,980

20. FINANCE LEASE LIABILITIES:

Finance lease liabilities as of December 31, 2012 and 2011, are as follows (Unit: Korean won in millions):

	Creditor	Lease term	Annual interest rate (%)	Quarterly lease payment (*1	December 31, 2012	December 31, 2011
Finance lease	Hewlett Packard Korea Financial Service, Ltd.	Jul. 29, 2009–Jul. 29, 2012	4.78	₩ 1,947	₩ -	₩ 4,473
		Apr. 30, 2010–Apr. 29, 2013	3.94	3,058	6,027	17,731
		Oct. 29, 2010–Oct. 31, 2013	3.17	1,995	7,823	15,402
		Jul. 29, 2011–Jul. 29, 2014	4.04	1,878	12,627	19,453
		Jan. 31, 2012–Jan. 31, 2015	4.08	2,033	17,394	-
		Subtotal			43,871	57,059
		Less current maturities			(28,491)	(30,582)
		Book value of financial lease liabilities			₩ 15,380	₩ 26,477

(*1) The quarterly lease payment is the gross amount of quarterly principal and interest paid.

21. EQUITY:

(1) Capital stock
Details of capital stock as of December 31, 2012 and 2011, are as follows:

Type of stock	Number of authorized shares	Par value	December 31, 2012		December 31, 2011	
			Number of issued shares	Amount of capital stock	Number of issued shares	Amount of capital stock
Common stock	700,000,000 shares	₩5,000	436,611,361 shares	₩2,573,969 million	514,793,835 shares	₩2,573,969 million

On August 31, 2012, the Group retired 78,182,474 shares of treasury stock out of 82,291,883 shares according to the resolution of the board of directors held on August 30, 2012. The face amount of issued shares and the amount of paid-in capital are not identical due to the retirement of treasury stock.

(2) Capital surplus
Capital surplus of the Group is composed of paid-in capital in excess of par value and an option premium on convertible bonds. As of December 31, 2012, capital surplus amounted to ₩836,561 million. On January 1, 2010, the capital surplus was increased by ₩823,133 million due to the merger with LG Dacom and LG Powercom. In addition, ₩1,849 million was recognized as capital surplus as the Group issued convertible bonds in 2010. Paid-in capital in excess of par value shall only be used for capitalization or disposition of accumulated deficit.

(3) Legal reserve
As of December 31, 2012, earned surplus reserve in form of legal reserve of ₩44,486 million is included in retained earnings. The Commercial Code of the Republic of Korea requires the Group to appropriate, as a legal reserve, an amount equal to a minimum of 10% of cash dividends paid until such reserve equals 50% of its issued capital stock. The reserve is not available for the payment of cash dividends, but may be transferred to capital stock or used to reduce accumulated deficit.

(4) Treasury stock
On January 1, 2010, the Group acquired LG Dacom and LG Powercom and purchased 20,227,229 shares of treasury stock (₩8,748 per share) from shareholders who exercised their appraisal rights and recognized it as other capital item amounting to ₩176,948 million as of December 30, 2009.

In addition, as part of the merger of LG Dacom and LG Powercom, the Group also issued 62,050,804 shares for the treasury shares, which LG Dacom and LG Powercom had acquired from their shareholders who exercised their respective appraisal rights. The Group accounted for the merger with LG Dacom and LG Powercom in accordance with Korean IFRS 1103 *Business Combinations,* and recognized the treasury stock at fair value of ₩526,811 million as other capital items. Also, the Group recognized additional ₩120 million for 13,850 shares acquired subsequent to the merger.

On August 31, 2012, the Group retired 78,182,474 shares of treasury stock out of 82, 291, 883 shares , which were acquired from exercise of the appraisal rights by shareholders each company at time of merger, according to the resolution of the board of directors on August 30, 2012.

In compliance with the Capital Markets and Financial Investment Services Act, Article 165-5, Section 4 and Article 176-7, Section 3, the Group disposed 4,109,409 shares of its treasury stocks by December 3, 2012, which is not later than three years from the purchase date. Therefore, the Group owns one share which is a result of an exchange of new share certificates and old share certificates. Loss on disposal of treasury shares is recorded as other capital.

22. DIVIDENDS:

(1) The details of dividend paid for the years ended December 31, 2012 and 2011, are as follows:

		2012		2011
Number of shares issued and outstanding		436,611,361 shares		514,793,835 shares
Number of treasury stocks		1 shares		82,291,883 shares
Number of shares eligible for dividends		436,611,360 shares		432,501,952 shares
Par value per share	₩	5,000	₩	5,000
Dividend rate		-		3%
Dividends per share	₩	-	₩	150
Total dividends	₩	-	₩	64,875 million

(2) Dividend payout ratio for the years ended December 31, 2012 and 2011, are as follows (Unit: Korean won in millions):

		2012		2011
Total dividends	₩	-	₩	64,875
Net income attributable to the owners of the company		(59,680)		84,634
Dividend payout ratio		-		80.24%

23. ACCUMULATED OTHER COMPREHENSIVE INCOME(LOSS):

(1) Composition of accumulated other comprehensive income or loss for the years ended December 31, 2012 and 2011, is as follows (Unit: Korean won in millions):

	Gain on valuation of AFS financial assets	Loss on valuation of AFS financial assets	Loss on valuation of cash flow hedging derivatives	Share of other comprehensiv-e income of joint ventures and associates	Gain on foreign currency translation for foreign operations	Total
January 1, 2011	₩ 448	₩ -	₩ (529)	₩ 223	₩ 11	₩ 153
Fair value assessment	(166)	(10,619)	-	-	-	(10,785)
Hedge accounting	-	-	483	-	-	483
Equity method	-	-	-	(97)	-	(97)
Foreign currency translation for foreign operations	-	-	-	-	(7)	(7)
December 31, 2011	282	(10,619)	(46)	126	4	(10,253)
January 1, 2012	282	(10,619)	(46)	126	4	(10,253)
Fair value assessment	444	6,567	-	-	-	7,011
Hedge accounting	-	-	(3,568)	-	-	(3,568)
Equity method	-	-	-	(193)	-	(193)
Foreign currency translation for foreign operations	-	-	-	-	27	27
December 31, 2012	₩ 726	₩(4,052)	₩ (3,614)	₩ (67)	₩ 31	₩ (6,976)

24. OTHER EXPENSES:

Composition of other expenses for the years ended December 31, 2012 and 2011, are as follows (Unit: Korean won in millions):

	2012	2011
Operating lease payment	₩ 294,378	₩ 280,349
Advertising expenses	260,332	218,175
Sales commissions	2,151,712	1,828,149
Commission charge	922,270	828,221
Interconnection charge	608,289	670,733
Telecommunication equipment rental fees	284,191	272,333
Outsourcing expense	277,527	264,692
Bad debt expenses	63,674	19,708
International interconnection charge	171,698	166,870
Other	515,947	430,352
	₩ 5,550,018	₩ 4,979,582

25. OTHER NON-OPERATING REVENUES AND EXPENSES:

(1) Other operating revenues for the years ended December 31, 2012 and 2011, are as follows (Unit: Korean won in millions):

	2012		2011	
Gain on disposal of tangible assets	₩	1,423	₩	388
Gain on foreign currency transactions		6,047		5,517
Gain on foreign currency translation		8,993		5,552
Miscellaneous income		40,356		58,474
	₩	56,819	₩	69,931

(2) Other non-operating expenses for the years ended December 31, 2012 and 2011, are as follows (Unit: Korean won in millions):

	2012		2011	
Loss on disposal of tangible assets	₩	30,617	₩	6,171
Impairment loss of tangible assets		9,798		20,609
Loss on disposal of intangible assets		77		8
Impairment loss of intangible assets		-		439
Loss on foreign currency transactions		5,301		5,814
Loss on foreign currency translation		8,581		6,162
Donation		5,564		5,026
Miscellaneous loss		16,743		24,350
	₩	76,681	₩	68,579

26. FINANCIAL REVENUES AND FINANCIAL EXPENSES:

(1) Financial revenues for the years ended December 31, 2012 and 2011, are as follows (Unit: Korean won in millions):

	2012		2011	
Interest income	₩	69,746	₩	70,821
Gain on foreign currency transactions		-		93
Gain on foreign currency translation		1		3
Dividend income		600		384
	₩	70,347	₩	71,301

(2) Interest income included in financial revenues for the years ended December 31, 2012 and 2011, are as follows (Unit: Korean won in millions):

	2012		2011	
Cash and cash equivalents and financial institution deposits	₩	11,462	₩	9,982
Installment receivables interest and others		58,284		60,839
	₩	69,746	₩	70,821

(3) Financial expenses for the years ended December 31, 2012 and 2011, are as follows (Unit: Korean won in millions):

	2012		2011	
Interest expense	₩	212,642	₩	166,130
Loss on foreign currency transactions		31		-
Loss on disposal of AFS financial assets		7		-
Loss on disposal of trade receivables		94,485		18,557
	₩	307,165	₩	184,687

(4) Interest expenses included in financial expenses for the years ended December 31, 2012 and 2011, are as follows (Unit: Korean won in millions):

	2012		2011	
Bank overdrafts and loan interest	₩	109,816	₩	51,119
Finance lease liabilities interest		2,286		2,621
Debentures interest		89,844		104,489
Other interest expense		10,696		7,901
	₩	212,642	₩	166,130

(5) Categorized profit and loss financial instruments for the years ended December 31, 2012 and 2011, are as follows (Unit: Korean won in millions):

	2012		2011	
Financial assets:				
Cash and cash equivalents	₩	11,552	₩	10,629
AFS financial assets		593		384
Loans and receivables		(109,885)		27,008
Subtotal		(97,740)		38,021
Financial liabilities:				
Financial liabilities valued carrying values		(201,593)		(172,469)
Subtotal		(201,593)		(172,469)
	₩	(299,333)	₩	(134,448)

27. INCOME TAX:

(1) Composition of income tax expense for the years ended December 31, 2012 and 2011, is as follows (Unit: Korean won in millions):

	2012		2011	
Current income tax payable	₩	248	₩	60,165
Changes in deferred tax assets due to temporary differences		(75,725)		17,026
Income tax expenses reflected directly in equity		5,859		6,641
Income tax expense(income)	₩	(69,618)	₩	83,832

(2) Reconciliation between income before income tax and income tax expense of the Group for the years ended December 31, 2012 and 2011, is as follows (Unit: Korean won in millions):

	2012	2011
Income(loss) before income tax expense(income)	₩ (129,233)	₩ 168,495
Tax expense calculated on book income (tax rate: 24.2%)	(31,275)	40,776
Adjustments:		
Non-taxable income	(13)	(10)
Non-deductible expense	2,933	7,355
Tax credits	(40,633)	48,744
Changes in the assets or liabilities relating to deferred taxes and tax rate and additional payment (refund) of income tax	630	(13,033)
Income tax expense(income)	(69,618)	₩ 83,832
Effective tax rate (income tax expense/income before income tax expense)(*1)	-	49.75%

(*1) As for loss before income taxes, there is no effective tax rate for the year ended December 31, 2012.

(3) Income taxes directly reflected in equity for the years ended December 31, 2012 and 2011, are as follows (Unit: Korean won in millions):

	2012	2011
Loss on valuation of cash flow hedging derivatives	₩ 1,139	₩ (154)
Gain from valuation of AFS financial assets	(142)	36
Loss from valuation of AFS financial assets	(2,096)	3,390
Other capital surplus	1,308	(31)
Actuarial gain(loss)	5,650	3,400
	₩ 5,859	₩ 6,641

(4) Changes in deferred tax assets (liabilities) for the year ended December 31, 2012, are as follows (Unit: Korean won in millions):

	Beginning balance	Increase	Decrease	Ending balance
TEMPORARY DIFFERENCES TO BE DEDUCTED:				
Provision for severance benefits	₩ 98,565	₩ 49,010	₩ 5,587	₩ 141,988
Allowance for doubtful accounts	146,618	168,754	144,807	170,565
Loss on valuation of inventories	58,709	75,281	58,709	75,281
Unsettled expenses	73,928	106,126	73,928	106,126
Property, plant and equipment	402,873	77,982	134,189	346,666
Provisions	48,413	44,240	49,060	43,593
Impairment losses on investment securities	26,870	(570)	-	26,300
Loss on valuation of investment securities	13,638	-	9,250	4,388
Derivatives	61	4,768	61	4,768
Intangible assets	196,369	109,083	11,337	294,115
Deemed dividends	160	-	-	160
Government subsidies	1,302	993	745	1,550
Share of profits (losses) of associates under the equity method	2,740	-	-	2,740
Loss on foreign currency translation	6,162	8,694	6,162	8,694
Adjustment on revenues	104,510	186,398	172,412	118,496
Present value discount account	36,956	(4,511)	36,210	(3,765)
Others	5,179	597	3,010	2,766
Subtotal of temporary differences to be deducted	1,223,053	826,845	705,467	1,344,431
TEMPORARY DIFFERENCES TO BE ADDED:				
Accrued interest income	(145)	(689)	(145)	(689)
Deposits for severance benefits	(85,298)	(26,587)	(5,586)	(106,299)
Interest expenses (capitalized interest expense)	(18,238)	-	(4,365)	(13,873)
Gain on foreign currency translation	(5,554)	(8,994)	(5,554)	(8,994)
Estimated assets for restoration.	(22,515)	(14,897)	(22,515)	(14,897)
Tax reserves	(25,200)	-	(8,400)	(16,800)
Conversion feature on convertible bonds	(1,158)	-	(1,158)	-
Subtotal of temporary differences to be added	(158,108)	(51,167)	(47,723)	(161,552)
Realizable temporary differences	1,062,045			1,182,879
Unrealizable temporary differences	2,900			2,900
Tax rate	24.2% and 22.0%			24.2%
Income tax effect due to temporary differences	256,922			286,257
Income tax effect due to tax credit carryforwards	120,173			166,563
Deferred income tax assets	₩ 377,095			₩ 452,820

(5) Changes in deferred tax assets (liabilities) for the year ended December 31, 2011, are as follows (Unit: Korean won in millions):

	Beginning balance	Increase	Decrease	Ending balance
TEMPORARY DIFFERENCES TO BE DEDUCTED:				
Provision for severance benefits	₩ 72,998	₩ 30,697	₩ 5,130	₩ 98,565
Allowance for doubtful accounts	208,482	149,763	211,627	146,618
Loss on valuation of inventories	8,548	60,789	10,628	58,709
Unsettled expenses	104,597	55,008	85,677	73,928
Property, plant and equipment	370,161	85,202	52,490	402,873
Provisions	40,763	50,033	42,383	48,413
Impairment losses on investment securities	26,870	-	-	26,870
Loss on valuation of investment securities	(574)	14,212	-	13,638
Derivatives	699	-	638	61
Intangible assets	112,495	92,371	8,497	196,369
Deemed dividends	160	-	-	160
Government subsidies	980	2,142	1,820	1,302
Share of profits (losses) of associates under the equity method	2,740	-	-	2,740
Loss on foreign currency translation	1,743	6,162	1,743	6,162
Adjustment on revenues	76,809	230,060	202,359	104,510
Present value discount	-	63,810	26,854	36,956
Others	4,216	1,206	243	5,179
Subtotal of temporary differences to be deducted	1,031,687	841,455	650,089	1,223,053
TEMPORARY DIFFERENCES TO BE ADDED:				
Accrued interest income	(516)	(145)	(516)	(145)
Deposits for severance benefits	(67,414)	5,130	23,014	(85,298)
Interest expenses (capitalized interest expense)	(22,578)	4,340	-	(18,238)
Gain on foreign currency translation	(1,858)	1,859	5,555	(5,554)
Estimated assets for restoration.	(18,239)	18,239	22,515	(22,515)
Tax reserves	(25,200)	-	-	(25,200)
Conversion feature on convertible bonds	(2,461)	-	(1,303)	(1,158)
Subtotal of temporary differences to be added	(138,266)	₩ 29,423	₩ 49,265	(158,108)
Realizable temporary differences	890,521			1,062,045
Unrealizable temporary differences	2,900			2,900
Tax rate	24.2% and 22.0%			24.2%,22%
Income tax effect due to temporary differences	204,429			256,922
Income tax effect due to tax credit carryforwards	189,732			120,173
Deferred income tax assets	₩ 394,161			₩ 377,095

(6) As of December 31, 2012 and 2011, temporary differences not recognized as deferred tax assets (liabilities) related to investment asset and equity interest are as follows (Unit: Korean won in millions):

	December 31, 2012	December 31, 2011
Investments in associates	₩ 2,900	₩ 2,900

28. EARNINGS PER SHARE:

Basic earnings per share is the net income attributable to one share of common stock of the Group. It is measured by dividing net income attributable to common stocks during a specified period by the weighted-average numbers of common shares issued during that period. Earnings per share for the years ended December 31, 2012 and 2011, are calculated as follows (Unit: Korean won in millions, except for earnings per share):

	2012	2011
Net income(loss)	₩ (59,680)	₩ 84,634
Weighted-average number of common shares outstanding (*1)	436,484,393 shares	432,501,952 shares
Earnings per share (in Korean won)	₩ (136) per share	₩ 196 per share

(*1) It includes the treasury stocks, which were obtained due to the LG Dacom's and LG Powercom's shareholders exercising their respective appraisal rights at time of merger when calculating weighted-average number of shares of common stock. The Group retired and disposed the whole treasury stocks for the year ended December 31, 2012.

Diluted earnings(losses) per share are same to basic earnings(losses) per share as the Group has no dilutive potential common stocks as of December 31, 2012.

29. COMMITMENTS AND CONTINGENCIES:

(1) As of December 31, 2012, there are 71 lawsuits ongoing where the Group is a defendant in the Republic of Korea; total claim amount the Group is being sued for is ₩7,567 million. Management believes the outcome of these lawsuits will likely not have a significant effect on the financial position of the Group.

(2) The Group entered into agreements with Shinhan Bank and others for promissory notes and a line of credit up to ₩160,000 million. Among these agreements includes a bank overdraft agreement with Woori Bank and others up to ₩40,000 million.

(3) As of December 31, 2012, the Group has entered into agreements with Woori Bank for a B2B limit of ₩1,500,000 million, in order to pay off its accounts payable. Among the agreements, the Group has entered into a loan agreement secured by an electronic accounts receivable agreement, where the Group guarantees the payment of accounts receivable up to ₩150,000 million when the Group's vendors transfers the accounts receivable due from the Group prior to its maturity. And the Group entered into agreements of B2B PLUS, including the issue limit up to ₩150,000 million and the credit limit with Woori Bank up to ₩50,000 million. In addition, the Group has agreements with the Industrial Bank of Korea for its corporate purchasing card with a limit of ₩18,000 million.

(4) The Group has a telecommunication equipment and facility purchase agreement with LG Ericsson Co., Ltd., amounting to ₩63,443 million.

(5) The Group entered into agreements (syndicated loan) with six financial institutions including Korea Development Bank (KDB) up to ₩1,000,000 million and as of December 31, 2012, the Group borrowed ₩1,000,000 million.

30. RELATED-ARTY TRANSACTIONS:

(1) Major related parties

	Company
Investor with significant influence over the Group	LG Corporation
Jointly controlled entity	Dacom Crossing, Mediplus Solution
Associate	True Internet Data Center Company
Others	Serveone and 4 others, LG Siltron and 2 others, LG CNS and 22 others, LG Sports, LG Management Development Institute, LG Solar Energy, Lusem

As of December 31, 2012, no entity controls the Group. LG Corp. has 36.05% of ownership interest and has significant influence over the Group.

Transactions between a parent and all its subsidiaries was removed when consolidated financial statements presented, related-party transactions and related receivables and debt balances will not be disclosed the notes.

(2) Major transactions with the related parties for the years ended December 31, 2012 and 2011, are as follows (Unit: Korean won in millions):

	2012		2011	
	Sales and others	Purchases and others	Sales and others	Purchases and others
Investor with significant influence over the Group:				
LG Corporation	₩ 225	₩ 28,611	₩ 361	₩ 25,177
Jointly controlled entity:				
Dacom Crossing	563	17,911	1,447	14,560
Others:				
Serveone and others	82,108	309,430	77,364	321,161
	₩ 82,896	₩ 355,952	₩ 79,172	₩ 360,898

(3) Outstanding receivables and payables from transactions with related parties as of December 31, 2012 and 2011, are as follows (Unit: Korean won in millions):

	December 31, 2012		December 31, 2011	
	Receivables	Payables	Receivables	Payables
Investor with significant influence over the Group:				
LG Corporation	₩ 5,323	₩ 3,377	₩ 5,325	₩ 2,350
Jointly controlled entity:				
Dacom Crossing	-	365	-	1,643
Others:				
Serveone and others	31,661	103,468	38,189	101,638
	₩ 36,984	₩ 107,210	₩ 43,514	₩ 105,631

Above receivables and payables are unsecured and will be settled in cash. Also, there are no payment guarantees given or received related to above receivables and payables.

(4) The compensation and benefits for the Group’s key management, including directors and executive officers, who have significant control and responsibilities on planning, operating and controlling the Group’s business activities for the years ended December 31, 2012 and 2011, are summarized as follows (Unit: Korean won in millions):

	2012	2011
Short-term employee benefits	₩ 29,551	₩ 8,283
Postemployment benefits (*1)	3,344	3,926
	₩ 32,895	₩ 12,209

(*1) The above balances refer to retirement benefits incurred for key management for the years ended December 31, 2012 and 2011. In addition, the present values of defined benefit obligations for key management are ₩23,998 million and ₩20,535 million as of December 31, 2012 and 2011, respectively.

31. RISK MANAGEMENT:

(1) Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue while maximizing the return to shareholders and interest parties and reducing capital expenses through the optimization of the debt and equity balance. In order to maintain such optimization of the debt and equity balance, the Group may adjust dividend payments, redeem paid-in capital to shareholders, issue stocks to reduce liability or sell assets.

The Group’s capital structure consists of net liability, which is borrowings (including bonds and finance lease liability), less cash and cash equivalents and equity; the overall capital risk management policy of the Group remains unchanged from prior period. In addition, items managed as capital by the Group as of December 31, 2012 and 2011, are as follows (Unit: Korean won in millions):

	December 31, 2012	December 31, 2011
Total borrowings	₩ 4,292,735	₩ 3,916,869
Less cash and cash equivalents	(341,367)	(118,821)
Borrowings, net	3,951,368	3,798,048
Total shareholder's equity	₩ 3,748,500	₩ 3,859,392
Net borrowings to equity ratio	105.41%	98.41%

(2) Financial risk management

The Group is exposed to various financial risks, such as market risk (foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk related to financial instruments. The purpose of risk management of the Group is to identify the potential risks to financial performance and reduce, eliminate and evade those risks to a degree acceptable to the Group. The Group makes use of derivative financial instruments to hedge certain risks, such as foreign exchange and interest rate risks. Overall financial risk management policy of the Group remains unchanged as prior period.

1) Foreign currency risk

The Group is exposed to exchange rate fluctuation risk since it undertakes transactions denominated in foreign currencies. The carrying amounts of Group's monetary assets and liabilities denominated in foreign currencies that is not the functional currency as of December 31, 2012 and 2011, are as follows (Unit: Korean won in millions):

① As of December 31, 2012

Currency	Assets		Liabilities	
AUD	₩	-	₩	2
EUR		324		3,076
HKD		196		-
JPY		8		29
SDR		41		53
SGD		4		1
USD		122,090		137,009
	₩	122,663	₩	140,170

② As of December 31, 2011

Currency	Assets		Liabilities	
AUD	₩	-	₩	2
EUR		120		1,043
HKD		160		-
JPY		10		523
SDR		77		256
USD		131,134		154,081
Other		5		2
	₩	131,506	₩	155,907

The Group internally assesses the foreign currency risk from changes in exchanges rates on a regular basis. The Group's sensitivity to a 10% increase and decrease in the KRW (functional currency of the Group) against the major foreign currencies as of December 31, 2012 and 2011, is as follows (Unit: Korean won in millions):

① As of December 31, 2012

Currency	Gain(loss) from 10% increase against foreign currency		Gain(loss) from 10% decrease against foreign currency	
EUR	₩	(209)	₩	209
HKD		15		(15)
JPY		(2)		2
SDR		(1)		1
USD		(1,130)		1,130
	₩	(1,327)	₩	1,327

② As of December 31, 2011

Currency	Gain(loss) from 10% increase against foreign currency		Gain(loss) from 10% decrease against foreign currency	
EUR	₩	(70)	₩	70
HKD		12		(12)
JPY		(39)		39
SDR		(14)		14
USD		(1,739)		1,739
	₩	(1,850)	₩	1,850

Sensitivity analysis above is conducted for monetary assets and liabilities denominated in foreign currencies other than functional currency as of December 31, 2012.

2) Interest rate risk

The Group borrows funds on floating interest rates and is exposed to cash flow risk arising from interest rate changes. The book value of liability exposed to interest rate risk as of December 31, 2012, is as follows (Unit: Korean won in millions):

	December 31, 2012		December 31, 2011	
Debentures	₩	-	₩	100,000
Borrowings	₩	81,201	₩	314,859

The Group internally assesses the cash flow risk from changes in interest rates on a regular basis. Effect of changes in interest rates of 1% to net income as of December 31, 2012 and 2011, is as follows (Unit: Korean won in millions):

① As of December 31, 2012

	1% increase		1% decrease	
	Gain(loss)	Net asset	Gain(loss)	Net asset
Borrowings	₩ (616)	₩ (616)	₩ 616	₩ 616

② As of December 31, 2011

	1% increase		1% decrease	
	Gain(loss)	Net asset	Gain(loss)	Net asset
Borrowings	₩ (2,386)	₩ (2,386)	₩ 2,386	₩ 2,386
Debentures	(758)	(758)	758	758

In order to manage its interest rate risks, the Group enters into interest rate swap contracts. The Group applies cash flow hedge accounting for its interest swap contracts; the value of the unsettled interest swap contract as of December 31, 2012 and 2011 are as follows (Unit: Korean won in millions):

① As of December 31, 2012

	Notional principal value	Valuation gain and loss		Accumulated other comprehensive income	Fair value	
		Gain	Loss		Assets	Liabilities
Interest rate swap	300,000	₩ -	₩ 4,768	₩ (3,614)	₩ -	₩ 4,768

② As of December 31, 2011

	Notional principal value	Valuation gain and loss		Accumulated other comprehensive income	Fair value	
		Gain	Loss		Assets	Liabilities
Interest rate swap	50,000	₩ -	₩ 61	₩ (46)	₩ -	₩ 61

3) Price risk

The Group is exposed to price risks arising from AFS equity instruments. As of December 31, 2012, fair value of AFS equity instruments is ₩35,398 million and when all the other variables are constant and when the price of equity instrument changes by 10%, the effect to equity will be ₩2,683 million.

4) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group; Credit risk is being managed at the each entity level (controlling company, subsidiaries and others). Credit risk arises from cash and cash equivalents, derivatives, bank and financial institution deposits, as well as receivables and firm commitments. As for banks and financial institutions, the Group is making transactions with reputable financial institutions; therefore, the Group's exposure to credit risk related to the transactions with these institution is limited. For ordinary transactions, customer's financial status, credit history and other factors are considered to evaluate their credit status. The Group does not have policies to manage credit limits of each customer.

The book value of financial asset in the Group's financial statements is the amount after deduction of impairment loss and represents as a maximum exposure to credit risk, without taking into account collateral or other credit enhancements held. The aging of trade and other receivables are described in Note 8.

5) Liquidity risk

The Group manages liquidity risk by establishing short-, medium- and long-term funding plans and continuously monitoring actual cash out flow and its budget to match the maturity profiles of financial assets and liabilities. Management of the Group believes that financial liability may be redeemed by cash flow arising from operating activities and financial assets.
Maturity analysis of non-derivative financial liabilities according to its remaining maturity as of December 31, 2012 and 2011, are as follows. (Unit: Korean won in millions):

① As of December 31, 2012

	Within a year		One to five years		Total	
Non-interest-bearing instruments	₩	2,363,863	₩	410,485	₩	2,774,348
Variable interest instruments		62,118		22,202		84,320
Fixed interest rate instruments		977,910		3,384,465		4,362,375
	₩	3,403,891	₩	3,817,152	₩	7,221,043

② As of December 31, 2011

	Within a year		One to five years		Total	
Non-interest-bearing instruments	₩	2,510,582	₩	519,531	₩	3,030,113
Variable interest instruments		407,561		26,155		433,716
Fixed interest rate instruments		949,477		2,625,645		3,575,122
	₩	3,867,620	₩	3,171,331	₩	7,038,951

(*) Maturity analysis above is based on the book value and the earliest maturity date by which the payments should be made.

Maturity analysis of derivative financial liabilities according to its remaining maturity as of December 31, 2012 and 2011, are as follows (Unit: Korean won in millions):

① As of December 31, 2012

	One to five years	
Derivatives designated as a hedging instrument:		
Interest rate swap liabilities	₩	4,768

② As of December 31, 2011

	One to five years	
Derivatives designated as a hedging instrument:		
Interest rate swap liabilities	₩	61

(3) Fair value hierarchy

The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices (includes held for trading, AFS securities and others). The Group' financial instruments are disclosed at the closing price of the market prices.

The fair values of other financial assets and financial liabilities (e.g., over-the-counter derivatives) are determined by fair value assessment method. The Group performs several valuation methods and makes assumptions based on market circumstance at the end of the reporting period. Financial liabilities, such as long-term liabilities are evaluated their fair value by prices from observable current market transactions or dealer quotes for similar instruments and the other financial instruments by various techniques, such as discounted estimated cash flow.
Fair value of trade receivables and trade payables is impairment deducted book value and fair value of financial liabilities is discounted cash flow using current market rate, which is applied similar financial instruments the Group held.

Interest rate used to estimate fair value by the Group is as follows:

	December 31, 2012	December 31, 2011
Derivatives	2.74%–3.56%	3.14%–3.57%
Debentures	3.82%–4.44%	3.82%–4.44%

Financial instruments that are measured subsequent to initial recognition at fair value are grouped into Levels 1 to 3, based on the degree to which the fair value is observable, as described below:

- Level 1: Fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

- Level 2: Fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).

- Level 3: Fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Financial instruments that are measured subsequent to initial recognition at fair value by fair value hierarchy levels as of December 31, 2012 and 2011, are as follows (Unit: Korean won in millions):

	December 31, 2012				
		Fair value			
	Carrying amount	Level 1	Level 2	Level 3	Total
Financial assets:					
Marketable equity securities	₩ 35,398	₩ 35,398	₩ -	₩ -	₩ 35,398
Debt Security	1	-	-	1	1
	₩ 35,399	₩ 35,398	₩ -	₩ 1	₩ 35,399
Financial liabilities:					
Derivative liabilities designated as hedging instrument	₩ 4,768	₩ -	₩ 4,768	₩ -	₩ 4,768
Ending balance	₩ 4,768	₩ -	₩ 4,768	₩ -	₩ 4,768

	December 31, 2011				
		Fair value			
	Carrying amount	Level 1	Level 2	Level 3	Total
Financial assets:					
Marketable equity securities	₩ 26,149	₩ 26,149	₩ -	₩ -	₩ 26,149
Not- marketable equity securities	45,807	-	-	45,807	45,807
Debt Security	110	-	-	110	110
	₩ 72,066	₩ 26,149	₩ -	₩ 45,917	₩ 72,066
Financial liabilities:					
Derivative liabilities designated as hedging instrument	₩ 61	₩ -	₩ 61	₩ -	₩ 61
Ending balance	₩ 61	₩ -	₩ 61	₩ -	₩ 61

32. STATEMENTS OF CASH FLOWS:

The major transactions not involving cash outflows and cash inflows for the years ended December 31, 2012 and 2011, are as follows (Unit: Korean won in millions):

	2012	2011
Mutual reclassification between trade receivables and long-term trade receivables	₩ 185,761	₩ 199,811
Abandonment of trade receivables	81,049	60,104
Account reclassification between prepaid expenses and non-current prepaid expenses	22,838	36,372
Valuation of AFS security	9,249	14,212
Reclassification of assets under construction	2,030,431	862,370
Addition of long-term accrued expenses relating to acquiring intangible assets	107,713	500,226
Current maturities of debentures and long-term borrowings	943,821	993,697

The cash and cash equivalents in the consolidated statements of cash flows are the same as the cash and cash equivalents in the consolidated statements of financial position.

33. EVENTS AFTER THE REPORTING PERIOD:

(1) On January 31, 2013, according to the resolution of the board of directors, the Group sold the trade receivables whose total face amount is ₩463,757 million to U Plus LTE SPC 7th at the price of ₩440,000 million.

(2) On January 29, 2013, the Group issued public bond of ₩ 60,000 million following the 92-1 and public bond of ₩ 140,000 million following the 92-2.