Deloitte.

LG UPLUS CORP.

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

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 separate statements of financial position of LG Uplus Corp. (the "Company") as of December 31, 2012 and 2011, the related separate statements of income, separate statements of comprehensive income, separate statements of changes in shareholders' equity and separate statements of cash flows for the years ended December 31, 2012 and 2011, all expressed in Korean won. These separate financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these separate 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 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 separate financial statements referred to above present fairly, in all material respects, the financial position of the Company 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 separate 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 separate 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 separate financial statements and may result in modifications to the auditors' report.

LG UPLUS CORP. (the "Company")

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

The accompanying separate 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.
SEPARATE STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2012 AND 2011

	Korean won	
	December 31, 2012	December 31, 2011
	(In millions)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents (Notes 5, 6 and 33)	₩ 325,761	₩ 101,870
Financial institution deposits (Notes 5 and 7)	22,254	11,650
Trade receivables, net (Notes 5, 8 and 32)	1,570,070	1,906,626
Loans and other receivables, net (Notes 5, 8 and 32)	177,472	92,706
Income tax receivable (Note 29)	7,726	-
AFS financial assets (Note 5)	1	110
Inventories, net (Note 9)	346,426	372,218
Other current assets (Note 10)	103,847	117,540
Total current assets	2,553,557	2,602,720
NON-CURRENT ASSETS:		
Non-current financial institution deposits (Notes 5 and 7)	21	20
Non-current AFS financial assets (Notes 5 and 33)	84,570	71,956
Non-current trade receivables, net (Notes 5, 8 and 32)	609,955	843,937
Non-current loans and other receivables (Notes 5, 8 and 32)	256,245	256,033
Investments in subsidiaries (Note 14)	14,425	14,425
Investments in jointly controlled entities and associates (Note 15)	8,781	8,721
Deferred tax assets, net (Note 29)	451,829	376,170
Property, plant and equipment, net (Note 11)	6,075,308	5,628,191
Investment property, net (Note 12)	92,487	27,940
Intangible assets, net (Note 13)	885,779	1,151,819
Other non-current assets (Note 10)	37,124	51,048
Total non-current assets	8,516,524	8,430,260
TOTAL ASSETS	₩ 11,070,081	₩ 11,032,980
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Trade payables (Notes 5, 17, 32 and 33)	₩ 455,767	₩ 636,538
Non-trade and other payables (Notes 5, 17, 32 and 33)	1,806,330	1,789,666
Short-term borrowings (Notes 5, 16 and 33)	50,000	270,000
Current portion of debentures and long-term borrowings (Notes 5, 16 and 33)	943,348	993,696
Other current financial liabilities (Notes 5, 17, 21 and 33)	127,468	114,961
Income tax payable (Note 29)	-	16,095
Other current liabilities (Note 20)	151,195	130,828
Total current liabilities	3,534,108	3,951,784

(Continued)

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

	Korean won	
	December 31, 2012	December 31, 2011
	(In millions)	
NON-CURRENT LIABILITIES:		
Debentures and long-term borrowings (Notes 5, 16 and 33)	₩ 3,255,516	₩ 2,596,114
Non-current derivative liabilities (Notes 5 and 33)	4,768	61
Other non-current financial liabilities (Notes 5, 17 and 21)	425,859	546,008
Retirement benefit obligation (Notes 2, 19 and 32)	53,905	32,441
Provisions (Note 18)	36,227	40,049
Other non-current liabilities (Note 20)	18,816	14,980
Total non-current liabilities	3,795,091	3,229,653
TOTAL LIABILITIES	7,329,199	7,181,437
SHAREHOLDERS' EQUITY:		
Capital stock (Note 22)	2,573,969	2,573,969
Capital surplus (Note 22)	836,561	836,561
Other capital items (Note 22)	(4,096)	(703,879)
Accumulated other comprehensive loss (Note 25)	(6,941)	(10,383)
Retained earnings (Note 23)	341,389	1,155,275
TOTAL SHAREHOLDERS' EQUITY	3,740,882	3,851,543
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	₩ 11,070,081	₩ 11,032,980

(Concluded)

See accompanying notes to separate financial statements.

LG UPLUS CORP.
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 (Note 4)	₩ 10,904,831	₩ 9,182,190
Operating expenses:		
Cost of merchandise purchased (Note 9)	3,294,714	2,289,579
Employee benefits (Notes 19 and 32)	423,378	344,015
Depreciation and amortization (Notes 11, 12 and 13)	1,391,566	1,188,491
Other expenses (Note 26)	5,669,315	5,082,272
	10,778,973	8,904,357
Operating income	125,858	277,833
Financial revenues (Note 28)	69,421	70,489
Financial expenses (Note 28)	(307,164)	(184,687)
Other non-operating revenues (Note 27)	56,160	69,216
Other non-operating expenses (Note 27)	(76,593)	(68,379)
(Loss) income before income tax	(132,318)	164,472
Income tax (income) expense (Note 29)	(69,734)	83,622
Net (loss) income	₩ (62,584)	₩ 80,850
Net (loss) income per share (In Korean won) (Note 30)		
Basic (loss) income per share	₩ (144)	₩ 187
Diluted (loss) income per share	₩ (144)	₩ 187

See accompanying notes to separate financial statements.

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

	Korean won	
	2012	2011
	(In millions)	
NET (LOSS) INCOME	₩ (62,584)	₩ 80,850
OTHER COMPREHENSIVE (LOSS) INCOME:		
Gain(loss) on valuation of AFS financial assets	7,010	(10,785)
Gain(loss) on valuation of cash flow hedging derivatives	(3,568)	483
Actuarial losses on defined benefit plans	(17,698)	(9,761)
	(14,256)	(20,063)
TOTAL COMPREHENSIVE (LOSS) INCOME	₩ (76,840)	₩ 60,787

See accompanying notes to separate financial statements.

LG UPLUS CORP.
SEPARATE 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 comprehensive (loss) income	Retained earnings	Total
	(In millions)					
Balance at January 1, 2011	₩ 2,573,969	₩ 836,593	₩ (703,879)	₩ (81)	₩ 1,235,562	₩ 3,942,164
Annual dividends					(151,376)	(151,376)
Net income					80,850	80,850
Gain(loss) on valuation of AFS financial assets				(10,785)		(10,785)
Gain on valuation of cash flow-hedging derivatives				483		483
Actuarial gains and losses					(9,761)	(9,761)
Others		(32)				(32)
Balance at December 31, 2011	2,573,969	836,561	(703,879)	(10,383)	1,155,275	3,851,543
Balance at January 1, 2012	2,573,969	836,561	(703,879)	(10,383)	1,155,275	3,851,543
Annual dividends					(64,875)	(64,875)
Net loss					(62,584)	(62,584)
Gain on valuation of AFS financial assets				7,010		7,010
Loss on valuation of cash flow-hedging derivatives				(3,568)		(3,568)
Actuarial gains and losses					(17,698)	(17,698)
Disposal of treasury stock			35,150			35,150
Loss on disposal of treasury stock			(4,096)			(4,096)
Retirement of treasury stock			668,729		(668,729)	-
Balance at December 31, 2012	₩ 2,573,969	₩ 836,561	₩ (4,096)	₩ (6,941)	₩ 341,389	₩ 3,740,882

See accompanying notes to separate financial statements.

LG UPLUS CORP.
SEPARATE 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	₩	(62,584)	₩	80,850
Additions of expenses not involving cash outflows:				
Retirement benefits		29,108		25,872
Depreciation		1,096,301		933,689
Amortization of intangible assets		295,265		254,802
Bad debt expenses		63,662		19,632
Interest expenses		212,642		166,130
Loss on disposal of trade receivables		94,485		18,557
Loss on foreign currency translation		8,581		6,127
Loss from decline in value of inventory		4,086		47,993
Loss on write-downs of inventories		383		534
Income tax expense		-		83,622
Loss on disposal of property, plant and equipment		30,602		6,170
Impairment loss on property, plant and equipment		9,798		20,609
Loss on disposal of intangible assets		62		7
Impairment of intangible assets		-		439
Loss on disposal of AFS securities		7		-
		1,844,982		1,584,183
Deduction of items not involving cash inflows:				
Income tax income		69,734		-
Interest income		68,827		70,019
Dividend income		593		374
Gain on foreign currency translation		8,994		5,555
Gain on disposal of property, plant and equipment		1,423		387
		(149,571)		(76,335)
Changes in operating assets and liabilities related to operating activities:				
Decrease (increase) in trade receivables		354,835		(516,970)
Decrease (increase) in loans and other receivables		(86,096)		9,308
Decrease (increase) in inventories		21,323		(230,648)
Increase in other current assets		(9,145)		(87,265)
Decrease (increase) in non-current trade receivables		97,586		(822,597)
Decrease in other non-current assets		43,472		18,057
Increase (decrease) in trade payables		(180,771)		322,195
Increase in non-trade and other payables		180,208		282,462

(Continued)

LG UPLUS CORP.
SEPARATE 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	₩ -	₩ (13,655)
Increase in other current liabilities	34,967	13,490
Increase (decrease) in other non-current financial liabilities	(14,436)	1,190
Decrease in retirement benefit obligation	(30,993)	(29,975)
Decrease in provisions	(1,171)	(1,791)
Increase (decrease) in other non-current liabilities	4,018	(4,655)
	413,797	(1,060,854)
Interest income received	10,757	10,931
Dividend income received	593	374
Interest expense paid	(197,718)	(159,254)
Income taxes paid	(23,887)	(80,957)
	(210,255)	(228,906)
Net cash provided by operating activities	1,836,369	298,938
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash inflows from investing activities:		
Disposal of AFS financial assets	1,704	71
Decrease in financial institution deposits	300	9,000
Disposal of property, plant and equipment	24,460	29,309
Disposal of intangible assets	3,689	3,935
Decrease in loans	29,846	35,750
Decrease in guarantee deposits	1,600	9,167
Decrease in leasehold deposits	46,504	87,734
	108,103	174,966
Cash outflows from investing activities:		
Acquisition of AFS financial assets	4,966	10,836
Acquisition of property, plant and equipment	1,944,717	1,355,041
Acquisition of intangible assets	20,823	360,011
Increase in loans	20,038	25,511
Increase in guarantee deposits	1,565	3,670
Increase in leasehold deposits	50,922	106,462
Increase of financial institution deposits	10,904	5,000
Acquisition of investments in associates	60	-
	(2,053,995)	(1,866,531)
Net cash used in investing activities	(1,945,892)	(1,691,565)

(Continued)

LG UPLUS CORP.
SEPARATE 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 from financing activities:				
Redemption of short-term borrowings		310,000		369,019
Redemption of other current financial liabilities		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		3
Net increase (decrease) in cash and cash equivalents		223,891		(415,231)
Cash and cash equivalents:				
Beginning of the year		101,870		517,101
End of the year (Note 34)	₩	325,761	₩	101,870

(Concluded)

See accompanying notes to separate financial statements.

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

1. GENERAL:

LG Uplus Corp. (the "Company") 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. On April 21, 2008, the Company listed its shares on the Korea Stock Exchange ("KRX").

In efforts to enhance operational efficiency and maximize synergy effects between wire and wireless communication business, LG Dacom Corp. and LG Powercom Corp. merged into the Company on January 1, 2010 (merger registration date: January 5, 2010). Through this merger, the Company expanded its business to include landline phone service (including international and long-distance telephone services), Internet access service and value-added telecommunications activities from LG Dacom, and broadband network rentals and broadband Internet 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 is headquartered in Seoul, Korea, and has set up telecommunication networks all over the country to provide landline 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 financial statements

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

The separate financial statements of the Company 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 under K-IFRS followed by the Company in the preparation of its separate financial statements are summarized as below. The consistent accounting policies are applied to the separate financial statements for the current period and the comparative period.

The separate 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 year 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 Company 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 Company, for the purpose of evaluation on the nature and related risk of continuous involvement, the Company discloses carrying value of assets and liabilities representing nature of continuous involvement and maximum exposure of possible loss occurred by continuous involvement. The Company expects that the application of this amendment would not have material impact on its separate financial statements. The amendments to K-IFRS 1107 have no material impact on the separate financial statements for the year ended December 31, 2012.

- K- IFRS 1001 *Presentation of Financial Statements*
The Company 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 Company excluded two items from the operating income, which had been classified into the operating income as follows. The other gains of ₩56,160 million and ₩69,216 million and the other expenses of ₩71,083 million and ₩63,353 million for the years ended December 31, 2012 and 2011, respectively, were excluded from the operating income. This reclassification increased the operating income for the year ended December 31, 2012, by ₩14,878 million and decreased the operating income for the year ended December 31, 2011, by ₩5,863 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 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 material impact on the separate financial statements for the year ended December 31, 2012.

- 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 present, the Company is reviewing the influence of revision on separate financial statements.

- K-IFRS 1107(as revised in 2012) *Financial instruments: disclosure*
The amendments to K-IFRS 1107 mainly show offsetting of presentation for financial assets and financial liability. The amendments are effective for annual periods beginning on or after January 1, 2013. At the moment the company is reviewing the influence of revision on separate financial statements.

- 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 present, the Company is reviewing the influence of revision on separate 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 present, the Company is reviewing the influence of revision on the separate 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 present, the Company is reviewing the influence of revision on separate 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 present, the Company is reviewing the influence of revision on separate financial statements.

(2) Business combinations

Acquisitions of businesses are accounted for using the acquisition cost method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Company, liabilities incurred by the Company to the former owners of the acquiree and the equity interests issued by the Company in exchange for control of the acquiree. Acquisition-related costs are generally recognized in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value at the acquisition date, except that:

- Deferred tax assets or liabilities related to employee benefit arrangements are recognized and measured in accordance with K-IFRS 1012 *Income Taxes* and K-IFRS 1019 *Employee Benefits,* respectively.
- Assets (or disposal groups) that are classified as held for sale in accordance with K-IFRS *1105 Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of a) the consideration transferred and b) 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. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of a) the consideration transferred, b) the amount of any non-controlling interests in the acquiree, and c) the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

(3) Foreign currencies

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

In preparation of the Company'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 profit or loss 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; and
- exchange differences on transactions entered into in order to hedge certain foreign currency risks

(4) Cash and cash equivalents

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

(5) 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 as at FVTPL when the financial asset is either held for trading or it is designated at FVTPL. FVTPL includes a financial asset held for trading and a financial asset designated 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 profit or loss.

2) Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Company 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-derivatives 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 Company's right to receive the dividends is established.

4) Loans and receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that 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 recognized 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 Company'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 profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income (loss) are reclassified to profit or loss 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 profit or loss 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 profit or loss 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 Company 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 Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognizes its retained interest in the asset and associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

(6) Investment in subsidiaries, jointly controlled entities and associates

In accordance with K-IFRS 1027, the Company's separate financial statements are prepared to explain investments of controlled entities' and associates' investors on the direct interest investment basis, not the investee's reported performance and net assets basis; the Company chose the cost method based on K-IFRS 1027 to report investments in subsidiaries and associates. Dividends obtained from subsidiaries and associates are recognized in profit or loss when the right to receive dividends is confirmed.

(7) 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.

(8) Property, plant, and equipment

Property, plant, and equipment are stated at cost less subsequent 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 to the Company and the cost of an asset can be measured reliably. Routine maintenance and repairs are expensed as incurred.

The Company does not depreciate land and some tangible assets, and depreciation 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 Company 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.

(9) 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 Company and the cost of an asset can be measured reliably. Routine maintenance and repairs are expensed as incurred.

Among 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.

(10) 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.

(11) Impairment of non-financial assets

At the end of the reporting period, the Company 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 cash-generating units (“CGUs”). 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 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 profit or loss.

(12) 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 as 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 profit or loss and interest expenses paid in financial liabilities are recognized in profit and loss, 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 contract liability

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*.

- the amount initially recognized less, cumulative amortization recognized in accordance with the K-IFRS 1018 *Revenue.*

5) Derecognition of financial liabilities

The Company derecognizes financial liabilities only when, the Company's obligations are discharged, canceled or expired.

(13) 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 Company as lessee

Assets held under finance leases are initially recognized as assets of the Company 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 Company'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 Company as lessor

Amounts due from lessees under finance leases are recognized as receivables at the amount of the Company's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect an effective interest rate on the Company'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.

(14) 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 profit or loss in the period in which they are incurred.

(15) 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 profit or loss 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 Company formally designates a hedging relationship and the Company'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 Company 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 profit or loss. The associated gains or losses that are recognized in other comprehensive income are reclassified from equity to profit or loss as a reclassification adjustment in the same period or periods, during which the asset acquired or liability assumed affects profit or loss. 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 Company revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Amounts previously recognized in other comprehensive income and accumulated in equity are reclassified to profit or loss 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 profit or loss.

(16) 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 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 benefit 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 and are recognized in other comprehensive income (loss) in the 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 profit or loss 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.

(17) Provisions

A provision is recognized when the Company 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 Company reviews provision balance at the end of reporting period and adjusts the amount reflecting the best estimate.

The Company leases various land and building sites for base station machinery and repeater, and non-networking assets facilities, to provide country-wide 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 Company 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.

(18) 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 Company’s normal course of business, net of discounts, customer returns, rebates and related taxes. The Company recognizes revenue 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 Company.

With regard to the customer's reward points (EZ points and EZ money mileage) granted on the use of PCS 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.

(19) 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 taxable profit differs from the profit for the period as reported in the separate statements of comprehensive income because it excludes items of income or expenses that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax expense 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 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 Company 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 Company 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 profit or loss, 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 a 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 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 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 the Company's 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.

(20) Treasury stock

When the Company repurchase 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 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 Company'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

Derivative financial instruments and AFS financial assets 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 Company 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 Company 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. 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 Company 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, are ₩53,905 million (₩32,441 million as of December 31, 2011) and details are described in Note 19.

(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 is 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 period revenue and expenses by taking all the related circumstances as of the end of reporting period into account.

4. SEGMENT INFORMATION:

(1) The Company determined that it operates under only one business segment based on the characteristics of goods and services provided and nature of network assets held. As a result, no separate segment information is disclosed in this report.

(2) Details of operating revenues from the Company'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
LG Uplus Corp.	Telecommunication and related services	₩ 7,027,216	₩ 6,429,604
	Handset sales	3,877,615	2,752,586
		₩ 10,904,831	₩ 9,182,190

(3) The Company's operating revenues are mostly generated from domestic customers due to 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	₩ 325,761	₩ 325,761	₩ 101,870	₩ 101,870
AFS financial assets	Marketable equity securities	35,398	35,398	26,149	26,149
	Unmarketable equity securities	49,172	49,172	45,807	45,807
	Debt securities	1	1	110	110
		84,571	84,571	72,066	72,066
Loans and receivables	Financial institution deposits	22,275	22,275	11,670	11,670
	Trade receivables	2,180,025	2,180,025	2,750,563	2,750,563
	Loans	23,179	23,179	32,918	32,918
	Other receivables	160,093	160,093	71,103	71,103
	Accrued income	1,273	1,273	319	319
	Deposits	249,172	249,172	244,400	244,400
		2,636,017	2,636,017	3,110,973	3,110,973
		₩ 3,046,349	₩ 3,046,349	₩3,284,909	₩3,284,909

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 a hedging instrument	Derivative liabilities designated as a hedging instrument	₩ 4,768	₩ 4,768	₩ 61	₩ 61
Financial liabilities measured at amortized cost	Trade payables	455,767	455,767	636,538	636,538
	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	1,682,791	1,682,791	1,770,782	1,770,782
	Accrued expenses	523,325	523,325	520,213	520,213
	Withholdings	98,977	98,977	84,379	84,379
	Finance lease liabilities	43,871	43,871	57,059	57,059
	Rental deposits	10,693	10,693	18,202	18,202
		7,064,289	7,126,389	6,946,984	6,913,251
		₩7,069,057	₩7,131,157	₩6,947,045	₩6,913,312

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 asset but does not have market value quoted in an active market, is measured at cost if the fair value cannot be reliably measured.

6. CASH AND CASH EQUIVALENTS:

The Company's cash and cash equivalents in the separate statements of financial position are equivalent to those in the separate 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
Financial institution deposits	₩ 321,671	₩ 100,422
Other cash equivalents	4,090	1,448
	₩ 325,761	₩ 101,870

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	₩ 21	₩ 21
Term deposits	NongHyup Bank (*1)	350	350
	Hana Bank (*2)	904	300
	Subtotal	1,254	650
		₩ 1,275	₩ 671

(*1) These deposits are pledged to BC Card Co., Ltd. in relation to the E-Credit.
(*2) Amounts 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	₩ 1,784,435	₩ 2,117,073
Allowances for doubtful accounts	(214,365)	(210,447)
Trade receivables, net	1,570,070	1,906,626
Short-term loans	16,714	21,962
Allowances for doubtful accounts	(608)	(678)
Short-term loans, net	16,106	21,284
Other accounts receivable	181,980	97,351
Allowances for doubtful accounts	(21,887)	(26,248)
Other accounts receivable, net	160,093	71,103
Accrued income	1,273	319
	₩ 1,747,542	₩ 1,999,332

(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	₩ 611,700	₩ 844,623
Allowances for doubtful accounts	(1,745)	(686)
Trade receivables, net	609,955	843,937
Long-term loans	7,073	11,634
Leasehold deposits	233,711	228,903
Guarantee deposits	15,461	15,496
	₩ 866,200	₩ 1,099,970

(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 6 months	₩ 2,628,970	₩ 3,121,377
7–12 months	65,152	49,189
1–3 years	152,468	162,394
More than 3 years	5,757	4,402
	₩ 2,852,347	₩ 3,337,362

(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):

	December 31, 2012	December 31, 2011
Beginning balance	₩ 238,059	₩ 247,597
Impairment loss	63,662	19,632
Write-offs	(81,049)	(60,104)
Reversal of impairment loss	17,933	30,934
Ending balance	₩ 238,605	₩ 238,059

9. INVENTORIES:

(1) If the net realizable value of inventories is less than its acquisition cost, the carrying amount is reduced to the net realizable value. Inventories as of December 31, 2012 and 2011, consist of the following (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	6,961	(5,663)	1,298	8,124	(5,793)	2,331
	₩ 412,896	₩ (66,470)	₩ 346,426	₩ 434,733	₩ (62,515)	₩ 372,218

(2) Inventory costs recognized in operating expenses for the year ended December 31, 2012, are ₩3,294,714 million, which include ₩4,085 million of losses on valuation of inventories for the year ended December 31, 2012.

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
Advance payments	₩ 19,545	₩ 30,098
Prepaid expenses	84,302	87,442
	₩ 103,847	₩ 117,540

(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	₩ 37,124	₩ 51,048

11. PROPERTY, PLANT AND EQUIPMENT:

(1) Carrying amounts

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	Telecommunication facilities	Other assets	Construction in progress	Total
Beginning acquisition cost	₩ 568,530	₩ 484,214	₩8,599,278	₩ 543,114	₩ 482,856	₩10,677,992
Accumulated depreciation	-	(76,150)	(4,656,945)	(295,632)	-	(5,028,727)
Accumulated impairment loss	-	(16,864)	-	(3,019)	(726)	(20,609)
Government subsidies	-	-	(406)	(59)	-	(465)
Beginning balance	568,530	391,200	3,941,927	244,404	482,130	5,628,191
Acquisition	716	173	152,791	24,407	1,493,349	1,671,436
Transfers	(30,160)	(34,771)	1,652,883	124,709	(1,777,878)	(65,217)
Disposals	(258)	(311)	(35,105)	(5,763)	(12,202)	(53,639)
Depreciation	-	(17,840)	(985,582)	(92,243)	-	(1,095,665)
Impairment loss	-	-	(9,798)	-	-	(9,798)
Ending balance	₩ 538,828	₩ 338,451	₩4,717,116	₩ 295,514	₩ 185,399	₩ 6,075,308
Ending acquisition cost	₩ 538,828	₩ 418,981	₩10,258,723	₩ 673,713	₩ 185,399	₩12,075,644
Accumulated depreciation	-	(80,530)	(5,531,268)	(378,194)	-	(5,989,992)
Accumulated impairment loss	-	-	(9,798)	-	-	(9,798)
Government subsidies	-	-	(541)	(5)	-	(546)
Ending balance	₩ 538,828	₩ 338,451	₩4,717,116	₩ 295,514	₩ 185,399	₩ 6,075,308

2) For the year ended December 31, 2011

	Land	Buildings	Telecommunication facilities	Other assets	Construction in progress	Total
Beginning acquisition cost	₩ 552,149	₩ 477,723	₩7,453,287	₩ 446,697	₩ 140,702	₩ 9,070,558
Accumulated depreciation	-	(55,988)	(3,903,007)	(233,732)	-	(4,192,727)
Accumulated impairment loss	-	-	(1,493)	(8,043)	-	(9,536)
Government subsidies	-	-	(490)	(272)	-	(762)
Beginning balance	552,149	421,735	3,548,297	204,650	140,702	4,867,533
Acquisition	182	806	331,952	52,114	1,348,728	1,733,782
Transfers	16,199	3,927	923,092	61,518	(989,091)	15,645
Disposals	-	(98)	(16,794)	(1,431)	(17,483)	(35,806)
Depreciation	-	(18,306)	(844,620)	(69,428)	-	(932,354)
Impairment loss	-	(16,864)	-	(3,019)	(726)	(20,609)
Ending balance	₩ 568,530	₩ 391,200	₩3,941,927	₩ 244,404	₩ 482,130	₩ 5,628,191
Ending acquisition cost	₩ 568,530	₩ 484,214	₩8,599,278	₩ 543,114	₩ 482,856	₩10,677,992
Accumulated depreciation	-	(76,150)	(4,656,945)	(295,632)	-	(5,028,727)
Accumulated impairment loss	-	(16,864)		(3,019)	(726)	(20,609)
Government subsidies	-	-	(406)	(59)	-	(465)
Ending balance	₩ 568,530	₩ 391,200	₩3,941,927	₩ 244,404	₩ 482,130	₩ 5,628,191

(2) Assets pledged as collateral

The Company has pledged a portion of land, buildings and telecommunication facilities as collateral related to borrowings from Korea Development Bank (KDB).

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 Company 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.

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	Customer relationship	Frequency usage rights	Other intangible assets	Total
Beginning acquisition cost	₩ 3,577	₩ 10,165	₩ 37,777	₩ 647,600	₩ 867,913	₩ 108,469	₩ 1,675,501
Accumulated Amortization	(1,760)	(9,620)	-	(431,733)	(22,068)	(48,647)	(513,828)
Impairment loss	-	-	-	-	-	(9,855)	(9,855)
Beginning balance	1,817	545	37,777	215,867	845,845	49,967	1,151,818
Acquisition (*1)	865	-	-	-	12,119	19,959	32,943
Transfer	-	-	-	-	-	34	34
Disposals	(62)	-	-	-	-	(3,689)	(3,751)
Amortization	(391)	(464)	-	(215,867)	(63,545)	(14,998)	(295,265)
Ending balance	₩ 2,229	₩ 81	₩ 37,777	₩ -	₩ 794,419	₩ 51,273	₩ 885,779
Ending acquisition cost	₩ 4,380	₩ 10,165	₩ 37,777	₩ 647,600	₩ 880,033	₩ 124,772	₩ 1,704,727
Accumulated amortization	(2,151)	(10,084)	-	(647,600)	(85,614)	(63,644)	(809,093)
Accumulated impairment loss	-	-	-	-	-	(9,855)	(9,855)
Ending balance	₩ 2,229	₩ 81	₩ 37,777	₩ -	₩ 794,419	₩ 51,273	₩ 885,779

(*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	Customer relationship	Frequency usage rights	Other intangible assets	Total
Beginning acquisition cost	₩ 3,098	₩ 10,165	₩ 38,582	₩ 647,600	₩ -	₩ 91,197	₩ 790,643
Accumulated amortization	(1,432)	(8,172)	-	(215,867)	-	(40,487)	(265,958)
Impairment loss	-	-	-	-	-	(9,417)	(9,417)
Beginning balance	1,666	1,993	38,582	431,733	-	41,293	515,268
Acquisition	479	-	71	-	867,913	25,187	893,649
Transfer	-	-	-	-	-	2,085	2,085
Disposals	-	-	(876)	-	-	(3,068)	(3,944)
Impairment loss	-	-	-	-	-	(438)	(438)
Amortization	(328)	(1,448)	-	(215,866)	(22,068)	(15,092)	(254,802)
Ending balance	₩ 1,817	₩ 545	₩ 37,777	₩ 215,867	₩ 845,845	₩ 49,967	₩ 1,151,818
Ending acquisition cost	₩ 3,577	₩ 10,165	₩ 37,777	₩ 647,600	₩ 867,913	₩ 108,469	₩ 1,675,501
Accumulated amortization	(1,760)	(9,620)	-	(431,733)	(22,068)	(48,647)	(513,828)
Accumulated impairment loss	-	-	-	-	-	(9,855)	(9,855)
Ending balance	₩ 1,817	₩ 545	₩ 37,777	₩ 215,867	₩ 845,845	₩ 49,967	₩ 1,151,818

(2) The Company classifies membership 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	₩ 71,530	₩ 64,269

(4) Significant intangible assets

As part of the merger between LG Dacom and LG Powercom during the period, the Company 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, as of December 31, 2012, amortization of recognized customer relationships has been completed.

Frequency usage rights are acquired in the amount of ₩867,913 million for the year ended December 31, 2011, and amortized on a straight-line method for 10 years of useful lives.

14. INVESTMENTS IN SUBSIDIARIES:

(1) Composition of the Company's investments in subsidiaries as of December 31, 2012 and 2011, is as follows (Unit: Korean won in millions):

Companies	Place of incorporation and operation	Percentage of ownership (%)	Acquisition cost	Book value December 31, 2012	Book value December 31, 2011
Ain Teleservice	South Korea	100.00	₩ 434	₩ 434	₩ 434
CS Leader	South Korea	100.00	273	273	273
Medialog (formerly, DACOM Multimedia Internet Corporation)	South Korea	88.06	11,085	11,085	11,085
DACOM America Inc. (*1)	USA	100.00	-	-	-
CS One Partner	South Korea	100.00	2,633	2,633	2,633
			₩ 14,425	₩ 14,425	₩ 14,425

(*1) DACOM America Inc. has negative capital as of December 31, 2012 and 2011.

(2) Summary of financial information of subsidiaries as of and for the years ended December 31, 2012 and 2011, is as follows (Unit: Korean won in millions):

Companies	December 31, 2012 Assets	Liabilities	Operating revenues	Net income (loss)
Ain Teleservice	₩ 6,707	₩ 7,022	₩ 53,398	₩ 495
CS Leader	5,513	4,528	32,839	538
Medialog (formerly, DACOM Multimedia Internet Corporation)	26,764	12,620	77,716	539
DACOM America Inc.	532	3,409	1,100	106
CS ONE Partner	6,726	3,958	46,013	601

Companies	December 31, 2011 Assets	Liabilities	Operating revenues	Net income (loss)
Ain Teleservice	₩ 7,175	₩ 6,250	₩ 47,834	₩ 583
CS Leader	5,204	4,271	34,327	698
Medialog (formerly, DACOM Multimedia Internet Corporation)	28,887	15,106	59,225	242
DACOM America Inc.	412	3,619	1,474	21
CS ONE Partner	6,675	3,869	41,733	1,064

15. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES AND INVESTMENTS IN ASSOCIATES:

(1) Composition of the Company's investments in jointly controlled entities (joint ventures) and investments in associates as of December 31, 2012 and 2011, is 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	₩ 5,964	₩ 5,964
Mediplus Solution (*1)	"	South Korea	42.90	60	-
True Internet Data Center Company	Associates	Thailand	30.00	2,757	2,757
				₩ 8,781	₩ 8,721

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

(2) 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):

Companies	December 31, 2012 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

Companies	December 31, 2011 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

16. DEBENTURES AND BORROWINGS:

(1) The Company’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 Company’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(91days)+0.85–0.91	₩ 100,000	₩ 50,000
(including loan on bills)	Shinhan Bank	CD(91days)+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 Company'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
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)
	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	Debentures	Long-term borrowings	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
Total	₩ 2,064,881	₩ 1,200,000	₩ 3,264,881

17. OTHER FINANCIAL LIABILITIES:

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
Non-trade payable	₩ -	₩ 399,786	₩ -	₩ 501,329
Withholdings	98,977	-	84,379	-
Rental deposits	-	10,693	-	18,202
Finance lease liabilities	28,491	15,380	30,582	26,477
	₩ 127,468	₩ 425,859	₩ 114,961	₩ 546,008

18. PROVISIONS:

Changes in restoration liabilities 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	₩ 1,386	₩ (5,208)	₩ 36,227

2) For the year ended December 31, 2011

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

19. RETIREMENT BENEFIT PLAN:

(1) Defined contribution plan

The Company operates a defined contribution plan for employees, under which the Company is obligated to make payments to third-party funds. The employee benefits under the plan are determined by the payments made to the funds by the Company and the investment earnings from the funds. Additionally, plan assets are managed by the third-party funds and are segregated from the Company's assets.

The Company recognized expense of ₩2,917 million and ₩2,461 million related to defined contribution plan for the years ended December 31, 2012 and 2011, respectively.

(2) Defined benefit plan

The Company 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 the 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 separate 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	₩ 168,707	₩ 120,612
Fair value of plan assets	(114,802)	(88,171)
Retirement benefit obligation	₩ 53,905	₩ 32,441

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	₩	120,612	₩	90,906
Actuarial losses		23,537		13,360
Current service cost		27,254		24,123
Interest cost		5,444		4,787
Benefits paid		(8,981)		(11,964)
Other (*1)		841		(600)
Ending balance	₩	168,707	₩	120,612

(*1) Change in liabilities from transfer of employees between the Company 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	₩	88,171	₩	67,540
Expected return on plan assets		3,590		3,038
Actuarial gains		189		182
Contributions from the employer		27,100		23,600
Benefits paid		(5,576)		(6,189)
Other (*1)		1,328		-
Ending balance	₩	114,802	₩	88,171

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

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

	2012		2011	
Current service cost	₩	27,254	₩	24,123
Interest cost		5,444		4,787
Expected return on plan assets		(3,590)		(3,038)
	₩	29,108	₩	25,872

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 (%)	3.71%	4.6%
Expected return on plan assets (%)	3.71%	4.2%
Expected rate of salary increase (%)	5.95%	5.8%

6) The fair value of principal asset 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	₩	242	₩	139
Bond		53,567		41,320
ELS		32,284		26,385
Others		28,709		20,327
	₩	114,802	₩	88,171

7) The major categories of plan assets and the expected rate of return for each category as of December 31, 2012 and 2011, are as follows (Unit: Korean won in millions):

	2012		2011	
	Expected rate of return	Allocation	Expected rate of return	Allocation
Retirement insurance	3.71%	100%	4.2%	100%

The overall expected rate of return is a weighted average of the expected returns of the various categories of plan assets held and the assessment of the expected returns is based on historical return trends and predictions of the market for the asset over the life of the related defined benefit obligation.

8) The result of sensitivity analysis for the actuarial assumptions is as follows (Unit: Korean won in millions):

			Impact (*1)			
	Present value		1% increase against discount rate		1% decrease against discount rate	
Defined benefit obligation	₩	168,707	₩	151,883	₩	188,198

(*1) These sensitivities assume that all other assumptions remain unchanged except for discount rates.

9) The expected contribution to the defined benefit plans during the next financial year is as follows (Unit: Korean won in millions):

	2013	
Estimated contribution to plan asset (*1)	₩	20,590

(*1) The estimated contribution amount is calculated based on the estimated payment of plan asset among the retirement benefit payments.

20. 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	₩ 94,043	₩ -	₩ 70,120	₩ -
Unearned income	57,152	18,816	60,708	14,980
	₩ 151,195	₩ 18,816	₩ 130,828	₩ 14,980

21. 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.

22. 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 Company retired 78,182,474 shares of treasury stock out of 82,291,883 shares according to the resolution of the board of directors 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 Company 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 Company 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 Company 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 Company 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 Company 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 Company 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 Company recognized additional ₩120 million for 13,850 shares acquired subsequent to the merger.

On August 31, 2012, the Company retired 78,182,474 shares of treasury stock out of 82, 291, 883 shares, which were acquired from exercise of the appraisal rights by the stockholders of 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 Company 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 Company 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.

23. STATEMENTS OF RETAINED EARNINGS:

The statements of retained earnings for the years ended December 31, 2012 and 2011, are as follows (Unit: Korean won in millions):

	2012		2011	
RETAINED EARNINGS BEFORE APPROPRIATION:				
Undisposed accumulated earnings carried forward from prior year	₩	1,020,714	₩	1,020,988
Retired shares of treasury stock		(668,729)		-
Net (loss) income		(62,584)		80,850
Actuarial losses		(17,698)		(9,761)
		271,703		1,092,077
VOLUNTARY RESERVE				
Reservation for research and development of human resources		8,400		-
		8,400		-
APPROPRIATIONS:				
Loss on sales of treasury shares		4,096		-
Legal reserve		-		6,488
Dividend (Cash dividend (rate per share) 2012: ₩ - (-%) 2011: ₩150 (3%)		-		64,875
		4,096		71,363
UNAPPROPRIATED RETAINED EARNINGS TO BE CARRIED FORWARD TO SUBSEQUENT YEAR	₩	276,007	₩	1,020,714

24. 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 share		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, is as follows (Unit: Korean won in millions):

	2012	2011
Total dividends	₩ -	₩ 64,875
Net income(loss) attributable to the owners of the Company	(62,584)	80,850
Dividend payout ratio	-%	80.24%

25. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS):

Changes in accumulated other comprehensive income (loss) after the deduction of income tax effect for the years ended December 31, 2012 and 2011, are 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	Total
January 1, 2011	₩ 448	₩ -	₩ (529)	₩ (81)
Fair value assessment	(166)	(10,619)	-	(10,785)
Hedge accounting	-	-	483	483
December 31, 2011	₩ 282	₩ (10,6169)	₩ (46)	₩ (10,383)
January 1, 2012	₩ 282	₩ (10,619)	₩ (46)	₩ (10,383)
Fair value assessment	443	6,567	-	7,010
Hedge accounting	-	-	(3,568)	(3,568)
December 31, 2012	₩ 725	₩ (4,052)	₩ (3,614)	₩ (6,941)

26. OTHER EXPENSES:

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

	2012	2011
Operating lease payment	₩ 293,748	₩ 279,837
Advertising expense	262,018	219,189
Sales commissions	2,151,712	1,828,150
Commission charge	926,447	830,889
Interconnection charge	608,289	670,733
Telecommunication equipment rental fees	284,063	272,475
Outsourcing expense	414,687	384,932
Bad debt expenses	63,662	19,632
International interconnection charge	171,698	166,870
Other	492,991	409,565
	₩ 5,669,315	₩ 5,082,272

27. OTHER NON-OPERATING REVENUES AND EXPENSES:

(1) Other non-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	₩ 387
Gain on foreign currency transactions	6,047	5,517
Gain on foreign currency translation	8,993	5,552
Miscellaneous income	39,697	57,760
	₩ 56,160	₩ 69,216

(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	₩ 30,602	₩ 6,170
Impairment loss of tangible assets	9,798	20,609
Loss on disposal of intangible assets	62	7
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	5,555	5,026
Miscellaneous loss	16,694	24,152
	₩ 76,593	₩ 68,379

28. 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	₩	68,827	₩	70,019
Gain on foreign currency transactions		-		93
Gain on foreign currency translation		1		3
Dividend income		593		374
	₩	69,421	₩	70,489

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

	2012		2011	
Cash and cash equivalents and financial institution deposits	₩	10,662	₩	9,180
Other loans and receivables		58,165		60,839
	₩	68,827	₩	70,019

(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		30		-
Loss on disposal of AFS financial assets		7		-
Loss on disposition of trade receivables		94,485		18,557
	₩	307,164	₩	184,687

(4) Interest expense included in financial expenses for the years ended December 31, 2012 and 2011, is 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) Details of net income by type of financial assets or financial liabilities 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	₩	10,633	₩	9,827
AFS financial assets		586		374
Loans and receivables		(109,874)		24,716
Subtotal		(98,655)		34,917
FINANCIAL LIABILITIES				
Financial liabilities at amortized cost		(201,593)		(169,653)
Subtotal		(201,593)		(169,653)
		(300,248)		(134,736)

29. 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	₩ 66	₩ 59,887
Changes in deferred tax assets due to temporary differences	(75,659)	17,085
Income tax expenses reflected directly in equity	5,859	6,650
Income tax (income) expense	₩ (69,734)	₩ 83,622

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

	2012	2011
(Loss) income before income tax (income) expense	₩(132,318)	₩ 164,472
Tax expense calculated on book income (tax rate: 24.2%)	(32,021)	39,802
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	-	(12,269)
Income tax (income) expense	₩ (69,734)	₩ 83,622
Effective tax rate (income tax expense/income before income tax expense)	-	50.84%

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

(3) Income tax directly reflected in equity for the years ended December 31, 2012 and 2011, is 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
Loss on sales of treasury shares	1,308	-
Other capital surplus	-	(31)
Actuarial gain (loss)	5,650	3,409
	₩ 5,859	₩ 6,650

(4) Current tax asset and current tax liabilities in gross amount before offsetting as of December 31, 2012 and 2011, are as follows (Unit: Korean won in millions):

	December 31, 2012	December 31, 2011
Current tax asset	₩ 7,792	₩ 30,052
Current tax liabilities	66	46,147
Income tax payable, net	₩ (7,726)	₩ 16,095

(5) Changes in deferred tax assets 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				
Defined benefit obligations	₩ 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)
Other	974	597	-	1,571
Subtotal of temporary differences to be deducted	1,218,848	826,845	702,457	1,343,236
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)
Estimate of 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	1,057,840			1,178,784
Unrealizable temporary differences	2,900			2,900
Tax rate	24.2%			24.2%
Income tax effect due to temporary differences	255,997			285,266
Income tax effect due to tax credit carryforwards	120,173			166,563
Deferred income tax assets	₩ 376,170			₩ 451,829

(6) Changes in the 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				
Defined benefit obligations	₩ 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 account	-	63,180	26,854	36,956
Other	95	1,122	243	974
Subtotal of temporary differences to be deducted	1,027,566	841,371	650,089	1,218,848
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)
Estimate of 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	886,400			1,057,840
Unrealizable temporary differences	2,900			2,900
Tax rate	24.2%, 22.0%			24.2%
Income tax effect due to temporary differences	203,523			255,997
Income tax effect due to tax credit carryforwards	189,732			120,173
Deferred tax assets	₩ 393,255			₩ 376,170

(7) As of December 31, 2012 and 2011, temporary differences not recognized as deferred tax assets 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

30. EARNINGS PER SHARE:

Basic earnings per share are the net income attributable to one share of common stock of the Company. It is measured by dividing net income attributable to common stocks during a specified period with weighted-average number 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 (loss) income	₩ (62,584)	₩ 80,850
Weighted-average number of common shares outstanding (*1)	436,484,393 shares	432,501,952 shares
(Losses) earnings per share (in Korean won)	₩ (144) per share	₩ 187 per share

(*1) Includes the treasury stock which was 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 Company retired and disposed the whole treasury stocks for the year ended December 31, 2012.

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

31. COMMITMENTS AND CONTINGENCIES:

(1) As of December 31, 2012, there are 71 lawsuits ongoing where the Company is a defendant in the Republic of Korea; total claim amount the Company 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 Company.

(2) The Company 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 Company has entered into agreements with Woori Bank for a limit of B2B for ₩1,500,000 million in order to pay off its accounts payable. Among the agreements, the Company has entered into loan agreement secured by an electronic accounts receivable, where the Company guarantees the payment of accounts receivable up to₩150,000 million when the vendors of the Company transfer the accounts receivable due from the Company prior to its maturity. And the Company 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 Company has agreements with the Industrial Bank of Korea for its corporate purchasing card with a limit of ₩ 18,000 million.

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

(5) The Company entered into loan 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 Company borrowed ₩1,000,000 million.

32. RELATED-PARTY TRANSACTIONS:

(1) Major related parties

	Company
Investor with significant influence over the Company	LG Corporation
Subsidiaries	Ain Teleservice, CS Leader, Medialog, Dacom America Inc. and CS One Partner
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 Company. LG Corp. has 36.05% of ownership interest and has significant influence over the Company.

(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 Company:				
LG Corporation	₩ 225	₩ 28,611	₩ 361	₩ 25,177
Subsidiaries				
Ain Teleservice	1,582	53,365	53	47,124
CS Leader	734	32,830	33	33,496
Medialog (formerly, DACOM Multimedia Internet Corporation)	2,565	71,183	3,214	53,148
Dacom America Inc.	-	1,181	-	1,353
CS One Partner	1,929	45,976	96	40,465
Jointly controlled entity:				
Dacom Crossing	563	17,911	1,447	14,560
Others:				
Serveone and others	82,108	309,430	77,364	321,161
	₩ 89,706	₩ 560,487	₩ 82,568	₩ 536,484

(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 Company:				
LG Corporation	₩ 5,323	₩ 3,377	₩ 5,325	₩ 2,350
Subsidiaries				
Ain Teleservice	-	2,640	-	3,234
CS Leader	1	3,048	-	2,004
Medialog (formerly, DACOM Multimedia Internet Corporation)	25	9,623	24	15,626
Dacom America Inc.	2,557	67	2,754	117
CS One Partner	-	2,577	-	1,643
Jointly controlled entity:				
Dacom Crossing	-	365	-	1,643
Others:				
Serveone and others	31,661	103,468	38,189	101,638
	₩ 39,567	₩ 125,165	₩ 46,292	₩ 128,255

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

(4) The compensation and benefits for the Company's key management, including directors and executive officers, who have significant control and responsibilities on planning, operating and controlling the Company'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 during 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.

33. RISK MANAGEMENT:

(1) Capital risk management

The Company manages its capital to ensure that the Company will be able to continue as a going concern 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 Company may adjust dividend payments, redeem paid-in capital to shareholders, issue stocks to reduce liability or sell assets.

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

	2012		2011	
Total borrowings	₩	4,292,735	₩	3,916,869
Less cash and cash equivalents		(325,761)		(101,870)
Borrowings, net	₩	3,966,974	₩	3,814,999
Total shareholders’ equity	₩	3,740,882	₩	3,851,544
Net borrowings to equity ratio		106.04%		99.05%

(2) Financial risk management

The Company 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 Company is to identify the potential risks to financial performance and reduce, eliminate and evade those risks to a degree acceptable to the Company. The Company 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 Company remains unchanged as of prior period.

1) Foreign currency risk

The Company is exposed to exchange rate fluctuation risk since it undertakes transactions denominated in foreign currencies. The carrying amounts of Company'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) For the year ended December 31, 2012

Currency	Assets		Liabilities	
AUD	₩	–	₩	2
EUR		324		3,076
HKD		196		-
JPY		8		29
SDR		41		53
SGD		4		1
USD		122,088		137,009
	₩	122,661	₩	140,170

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

1) For the year ended 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) For the year ended 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 and 2011.

2) Interest rate risk

The Company 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 and 2011, is as follows (Unit: Korean won in millions):

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

The Company 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 For the year ended December 31, 2012

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

② For the year ended December 31, 2011

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

In order to manage its interest risks, the Company enters into interest rate swap contracts. The Company 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, is as follows (Unit: Korean won in millions):

① For the year ended December 31, 2012

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

② For the year ended December 31, 2011

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

3) Price risk

The Company is exposed to price risks arising from AFS equity instruments. As of December 31, 2012, the 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 counterparty will default on its contractual obligations resulting in financial loss to the Company. 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 Company is making transactions with reputable financial institutions; therefore, the Company's exposure to credit risk related to the transactions with these institutions is limited. For ordinary transactions, customer's financial status, credit history and other factors are considered to evaluate their credit status. The Company does not have policies to manage credit limits of each customer.

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

5) Liquidity risk

The Company manages liquidity risk by establishing short-, medium- and long-term funding plans and continuously monitoring actual cash outflow and its budget to match the maturity profiles of financial assets and liabilities. Management of the Company 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, is as follows (Unit: Korean won in millions):

① As of December 31, 2012

	Within a year		1–5 years		Total	
Non-interest-bearing instruments	₩	2,361,074	₩	410,478	₩	2,771,552
Variable interest instruments		62,118		22,202		84,320
Fixed interest rate instruments		977,910		3,384,465		4,362,375
	₩	3,401,102	₩	3,817,145	₩	7,218,247

② As of December 31, 2011

	Within a year		1–5 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, is as follows (Unit: Korean won in millions):

① As of December 31, 2012

	1-5 year	
Derivatives designated as a hedging instrument:		
Interest rate swap liabilities	₩	4,768

② As of December 31, 2011

	1-5 year	
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 Company's 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 in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

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 to the similar financial instruments the Company held.

Interest rate used to estimate fair value by the Company 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):

1) For the year ended December 31, 2012

	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
Total	₩ 35,398	₩ 35,398	₩ -	₩ -	₩ 35,398
Financial liabilities:					
Derivative liabilities designated as a hedging instrument	4,768	₩ -	₩ 4,768	₩ -	₩ 4,768
Total	₩ 4,768	₩ -	₩ 4,768	₩ -	₩ 4,768

2) For the year ended December 31, 2011

	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
Total	₩ 26,149	₩ 26,149	₩ -	₩ -	₩ 26,149
Financial liabilities:					
Derivative liabilities designated as a hedging instrument	₩ 61	₩ -	₩ 61	₩ -	₩ 61
Total	₩ 61	₩ -	₩ 61	₩ -	₩ 61

34. <u>STATEMENTS OF CASH FLOWS:</u>

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 non-current trade receivables	₩ 185,761	₩ 199,811
Write-off of trade receivables	81,049	60,104
Account reclassification between prepaid expenses and long-term prepaid expenses	22,838	36,372
Valuation of AFS security	9,249	14,010
Reclassification of assets under construction	2,045,667	878,430
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

<u>The cash and cash equivalents in the separate statements of cash flows are the same as the cash and cash equivalents in the separate statements of financial position.</u>

35. <u>EVENTS AFTER THE REPORTING PERIOD:</u>

(1) On January 31, 2013, according to the resolution of the board of directors, the Company 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 Company issued public bonds of ₩60,000 million following the 92-1 and public bond of ₩140,000 million following the 92-2.

Independent Accountant's Review Report on Internal Accounting Control System ("IACS")

English Translation of a Report Originally Issued in Korean

To the Representative Director of
LG Uplus Corp.:

We have reviewed the accompanying Report on the Management's Assessment of IACS (the "Management's Report") of LG Uplus Corp. (the "Company") as of December 31, 2012. The Management's Report, and the design and operation of IACS are the responsibility of the Company's management. Our responsibility is to review the Management's Report and issue a review report based on our procedures. The Company's management stated in the accompanying Management's Report that "based on the assessment of the IACS as of December 31, 2012, the Company's IACS has been appropriately designed and is operating effectively as of December 31, 2012, in all material respects, in accordance with the IACS Framework established by the Korea Listed Companies Association."

We conducted our review in accordance with the IACS Review Standards established by the Korean Institute of Certified Public Accountants. Those standards require that we plan and perform a review, objective of which is to obtain a lower level of assurance than an audit, of the Management's Report in all material respects. A review includes obtaining an understanding of a company's IACS and making inquiries regarding the Management's Report and, when deemed necessary, performing a limited inspection of underlying documents and other limited procedures.

A Company's IACS represents internal accounting policies and a system to manage and operate such policies to provide reasonable assurance regarding the reliability of financial statements prepared, in accordance with accounting principles generally accepted in the Republic of Korea, for the purpose of preparing and disclosing reliable accounting information. Because of its inherent limitations, IACS may not prevent or detect a material misstatement of the financial statements. Also, projections of any evaluation of effectiveness of IACS to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on our review, nothing has come to our attention that causes us to believe that the Management's Report referred to above is not fairly stated, in all material respects, in accordance with the IACS Framework established by the Korea Listed Companies Association.

Our review is based on the Company's IACS as of December 31, 2012, and we did not review its IACS subsequent to December 31, 2012. This report has been prepared pursuant to the Acts on External Audit of Stock Companies in the Republic of Korea and may not be appropriate for other purposes or for other users.

Deloitte Anjin LLC

March 7, 2013

Report on the Operations of the Internal Accounting Control System

To the Board of Directors and Audit Committee of LG Uplus Corp.:

I, as the Internal Accounting Control Officer (“IACO”) of LG Uplus Corp. (“the Company”), assessed the status of the design and operations of the Company’s Internal Accounting Control System (“IACS”) for the year ended December 31, 2012.

The Company’s management including IACO is responsible for designing and operating IACS. I, as the IACO, assessed whether the IACS has been effectively designed and is operating to prevent and detect any error or fraud which may cause any misstatement of the financial statements, for the purpose of establishing the reliability of financial reporting and the preparation of financial statements for external purposes. I, as the IACO, applied the IACS standard for the assessment of design and operations of the IACS.

Based on the assessment on the operations of the IACS, the Company’s IACS has been effectively designed and is operating as of December 31, 2012, in all material respects, in accordance with the IACS standards.

January 31, 2013