LG UPLUS CORP.
AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED
DECEMBER 31, 2013 AND 2012,
AND INDEPENDENT AUDITORS' REPORT

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Deloitte.

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Independent Auditors' Report

English Translation of a Report Originally Issued in Korean

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

We have audited the accompanying consolidated financial statements of LG Uplus Corp. (the "Company") and its subsidiaries (collectively, the "Group"). The consolidated financial statements consist of the consolidated statements of financial position as of December 31, 2013 and 2012, the related consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years ended December 31, 2013 and 2012, all expressed in Korean won. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Group as of December 31, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in conformity with Korean International Financial Reporting Standards ("K-IFRS").

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

Deloitte Anjin LLC

March 5, 2014

Notice to Readers

This report is effective as of March 5, 2014, the auditors' report date. Certain subsequent events or circumstances may have occurred between this auditors' report date and the time the auditors' report is read. Such events or circumstances could significantly affect the accompanying consolidated financial statements and may result in modifications to the auditors' report.

LG UPLUS CORP. (the "Company")
AND ITS SUBSIDIARIES(the "Group")

CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED
DECEMBER 31, 2013 AND 2012

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

Sang Chul Lee

President of LG Uplus Corp.

LG UPLUS CORP.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2013 AND 2012

	Korean won			
	December 31, 2013		December 31, 2012	
	(In millions)			
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents (Notes 5, 6 and 32)	₩	398,335	₩	341,367
Financial institution deposits (Notes 5 and 7)		35,281		24,254
Trade receivables, net (Notes 5, 8 and 31)		1,564,234		1,570,783
Loans and other receivables, net (Notes 5, 8 and 31)		175,373		177,782
Available-for-sale (“AFS”) financial assets (Note 5)		-		1
Inventories, net (Note 9)		394,530		346,427
Other current assets (Note 10)		129,357		112,280
Total current assets		2,697,110		2,572,894
NON-CURRENT ASSETS:				
Non-current financial institution deposits (Notes 5 and 7)		21		23
Non-current AFS financial assets (Notes 5 and 32)		81,368		84,606
Non-current trade receivables, net (Notes 5, 8 and 31)		502,126		609,955
Non-current loans and other receivables (Notes 5, 8 and 31)		276,309		256,561
Investments in jointly controlled entities and associates (Note 15)		13,190		12,629
Deferred income tax assets, net (Note 28)		426,447		452,820
Property, plant and equipment, net (Note 11)		6,392,715		6,078,775
Investment property, net (Note 12)		95,825		92,487
Intangible assets, net (Note 13)		1,258,612		890,769
Other non-current assets (Note 10)		31,324		37,178
Total non-current assets		9,077,937		8,515,803
TOTAL ASSETS	₩	11,775,047	₩	11,088,697
LIABILITIES AND EQUITY				
CURRENT LIABILITIES:				
Trade payables (Notes 5, 16 and 32)	₩	362,937	₩	456,571
Non-trade and other payables (Notes 5, 16 and 32)		1,830,137		1,806,867
Short-term borrowings (Notes 5, 16 and 32)		-		50,000
Current portion of debentures and long-term borrowings (Notes 5, 16 and 32)		1,221,342		943,348
Current derivative liabilities (Notes 5 and 32)		2,254		-
Other current financial liabilities (Notes 5, 17, 21 and 32)		164,745		128,916
Income tax payable (Note 28)		4,631		82
Other current liabilities (Note 20)		152,088		151,679
Total current liabilities	₩	3,738,134	₩	3,537,463

(Continued)

LG UPLUS CORP.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2013 AND 2012 (CONTINUED)

	Korean won			
	December 31, 2013		December 31, 2012	
	(In millions)			
NON-CURRENT LIABILITIES:				
Debentures and long-term borrowings (Notes 5, 16 and 32)	₩	3,300,655	₩	3,255,516
Non-current derivative liabilities (Notes 5 and 32)		403		4,768
Other non-current financial liabilities (Notes 5, 17, 21 and 32)		606,529		425,866
Retirement benefit obligation (Notes 19, 32)		50,425		61,512
Provisions (Note 18)		37,601		36,256
Other non-current liabilities (Note 20)		18,684		18,816
Total non-current liabilities		4,014,297		3,802,734
TOTAL LIABILITIES		7,752,431		7,340,197
SEQUITY:				
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)
Accumulated other comprehensive loss (Note 24)		(7,110)		(6,976)
Retained earnings (Note 23)		617,509		347,353
NON-CONTROLLING INTERESTS		1,687		1,689
TOTAL EQUITY		4,022,616		3,748,500
TOTAL LIABILITIES AND EQUITY	₩	11,775,047	₩	11,088,697

(Concluded)

See accompanying notes to the consolidated financial statements.

LG UPLUS CORP.
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	Korean won			
	2013		2012	
	(In millions, except for net income per share)			
Operating revenue: (Notes 4 and 31)	₩	11,450,300	₩	10,904,634
Operating expenses:				
Cost of merchandise purchased (Notes 9 and 31)		2,903,367		3,294,623
Employee benefits (Notes 19 and 31)		633,564		540,158
Depreciation and amortization (Notes 11, 12 and 13)		1,314,644		1,393,079
Other expenses (Note 25)		6,056,596		5,550,018
		10,908,171		10,777,878
Operating income		542,129		126,756
Financial revenue (Note 27)		59,106		70,347
Financial expenses (Note 27)		(255,716)		(307,165)
Share of profits (losses) of joint ventures and associates (Note 15)		979		691
Other non-operating revenue (Note 26)		58,872		56,819
Other non-operating expenses (Note 26)		(71,526)		(76,681)
Income (loss) before income tax		333,844		(129,233)
Income tax expense(income) (Note 28)		54,383		(69,618)
Net income (loss)	₩	279,461	₩	(59,615)
Net income(loss) attributable to:				
Owners of the Company	₩	279,463	₩	(59,680)
Non-controlling interests	₩	(2)	₩	65
Net income(loss) per share (in Korean won) (Note 29)				
Basic and diluted income (loss) per share	₩	640	₩	(136)

See accompanying notes to the consolidated financial statements.

LG UPLUS CORP.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	Korean won	
	2013	2012
	(In millions)	
NET INCOME(LOSS)	₩ 279,461	₩ (59,615)
OTHER COMPREHENSIVE INCOME(LOSS):		
Items not reclassified subsequently to profit or loss:		
Remeasurements of the net defined benefit liability(asset)	(5,211)	(20,733)
Items reclassified subsequently to profit or loss:		
Gain (loss) on valuation of AFS financial assets	(1,334)	7,011
Gain (loss) on valuation of cash flow hedging derivatives	1,600	(3,568)
Gain on translation of foreign operations	17	27
Share of other comprehensive income of joint ventures and associates	(417)	(193)
	(5,345)	(17,456)
TOTAL COMPREHENSIVE INCOME (LOSS)	₩ 274,116	₩ (77,071)
Total comprehensive income(loss) attributable to:		
Owners of the Company	₩ 274,118	₩ (77,114)
Non-controlling interests	₩ (2)	₩ 43

See accompanying notes to the consolidated financial statements.

LG UPLUS CORP.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

Korean won

	Capital stock	Capital surplus	Other capital items	Accumulated other comprehensi-ve income (loss)	Retained earnings	Equity attributable to the owners of the Company	Equity attributable to non-controlling interests	Total equity
				(In millions)				
Balance at January 1, 2012	₩2,573,969	₩ 836,561	₩(703,879)	₩ (10,253)	₩1,161,348	₩3,857,746	₩ 1,646	₩3,859,392
Annual dividends					(64,875)	(64,875)		(64,875)
Net income(loss)					(59,680)	(59,680)	65	(59,615)
Gain on valuation of AFS financial assets				7,011		7,011		7,011
Loss on valuation of cash flow hedging derivatives				(3,568)		(3,568)		(3,568)
Gain on foreign currency translation				27		27		27
Share of other comprehensive income of joint ventures and associates				(193)		(193)		(193)
Remeasurements of the net defined benefit liability(asset)					(20,711)	(20,711)	(22)	(20,733)
Disposal of treasury stock			35,150			35,150		35,150
Loss on disposal of treasury stock			(4,096)			(4,096)		(4,096)
Retirement of loss on treasury stock			668,729		(668,729)	-		-
Balance at December 31, 2012	₩2,573,969	₩ 836,561	₩ (4,096)	₩ (6,976)	₩ 347,353	₩3,746,811	₩ 1,689	₩3,748,500
Balance at January 1, 2013	₩2,573,969	₩ 836,561	₩ (4,096)	₩ (6,976)	₩ 347,353	₩3,746,811	₩ 1,689	₩3,748,500
Net income(loss)					279,463	279,463	(2)	279,461
Loss on valuation of AFS financial assets				(1,334)		(1,334)		(1,334)
Gain on valuation of cash flow hedging derivatives				1,600		1,600		1,600
Gain on translation of foreign operations				17		17		17
Share of other comprehensive income of joint ventures and associates				(417)		(417)		(417)
Remeasurements of the net defined benefit liability(asset)					(5,211)	(5,211)		(5,211)
Set off of loss on disposal of treasury stock and retained earnings			4,096		(4,096)	-		-
Balance at December 31, 2013	₩2,573,969	₩ 836,561	₩ -	₩ (7,110)	₩ 617,509	₩4,020,929	₩ 1,687	₩4,022,616

See accompanying notes to the consolidated financial statements.

LG UPLUS CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	Korean won	
	2013	2012
	(In millions)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	₩ 279,461	₩ (59,615)
Additions of expenses not involving cash outflows:		
Retirement benefits	43,130	36,029
Depreciation	1,204,296	1,097,190
Amortization of intangible assets	110,349	295,890
Bad debt expenses	84,864	63,674
Interest expenses	209,867	212,642
Loss on foreign currency translation	4,561	8,581
Loss on disposal of trade receivables	44,675	94,485
Loss on disposal of property, plant and equipment, intangible assets and others	22,930	40,492
Others	1,453	216
Income tax expense	54,383	-
	1,780,508	1,849,199
Deduction of items not involving cash inflows:		
Interest income	58,663	69,746
Gain on foreign currency translation	4,911	8,994
Gain on disposal of property, plant and equipment	937	1,423
Dividend income	394	600
Share of profits of associates	979	691
Income tax income	-	69,618
	(65,884)	(151,072)
Changes in operating assets and liabilities related to operating activities:		
Decrease in trade receivables	54,784	452,418
Increase in loans and other receivables	(31,708)	(86,102)
Decrease (increase) in inventories	(48,103)	25,792
Decrease (increase) in other current assets	(17,648)	35,223
Decrease in trade payables	(93,633)	(180,833)
Increase in non-trade payables	185,723	207,958
Decrease in retirement benefits obligation	(60,894)	(40,011)
Increase (decrease) in non-trade and other liabilities	(2,610)	30,463
Net gain on translation of foreign operations	18	27
	(14,071)	444,935

(Continued)

LG UPLUS CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012 (CONTINUED)

	Korean won	
	2013	2012
	(In millions)	
Interest income received	11,566	11,451
Dividend income received	394	600
Interest expense paid	(199,483)	(197,718)
Income taxes paid	(14,773)	(23,052)
	(202,296)	(208,719)
Net cash provided by operating activities	1,777,718	1,874,728
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash inflows from investing activities:		
Disposal of AFS financial assets	484	1,704
Decrease in financial institution deposits	16,256	300
Disposal of property, plant and equipment	40,452	24,461
Disposal of intangible assets	3,633	3,817
Decrease in loans	22,549	29,846
Decrease in deposits	52,455	48,104
	135,829	108,232
Cash outflows for investing activities:		
Acquisition of AFS financial assets	179	4,966
Increase of financial institution deposits	27,281	11,904
Acquisition of investments in associates	-	60
Acquisition of property, plant and equipment	1,736,277	1,945,794
Acquisition of intangible assets	248,122	57,951
Increase in loans	22,530	20,038
Increase in deposits	63,663	53,115
	(2,098,052)	(2,093,828)
Net cash used in investing activities	₩ (1,962,223)	₩ (1,985,596)

(Continued)

LG UPLUS CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012 (CONTINUED)

	Korean won	
	2013	2012
	(In millions)	
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash inflows from financing activities:		
Proceeds from short-term borrowings	₩ 461,942	₩ 90,000
Issuance of debentures	807,124	550,118
Proceeds from long-term borrowings	455,600	1,051,413
Increase in finance lease liabilities	-	22,901
Increase in national subsidy	1,059	246
Disposal of treasury stock	-	29,746
	1,725,725	1,744,424
Cash outflows for financing activities:		
Redemption of short-term borrowings	511,942	310,000
Redemption of current portion of long-term debt	972,311	1,036,136
Payment of dividends	-	64,875
	(1,484,253)	(1,411,011)
Net cash provided by financing activities	241,472	333,413
Exchange rate fluctuation effect of cash and cash equivalents	1	1
Net increase in cash and cash equivalents	56,968	222,546
Cash and cash equivalents:		
Beginning of the year	341,367	118,821
End of the year(Note 32)	₩ 398,335	₩ 341,367

(Concluded)

See accompanying notes to the consolidated financial statements.

LG UPLUS CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

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. In accordance with the resolution of the shareholders' meeting on March 18, 2008, the Company canceled its listing on the KOSDAQ. Subsequently, the Company listed its' shares on the Korea Stock Exchange ("KRX") on April 21, 2008.

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

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

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

As of December 31, 2013, the Company's shareholders are as follows:

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

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

(1) Basis of preparing consolidated financial statements

The accompanying consolidated financial statements were approved by the board of directors held on January 28, 2014.

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

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

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

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

1) Changes in accounting policies due to newly adopted or revised standards and interpretation from the year ended December 31, 2013

The Group has applied a number of new and revised K-IFRSs that are mandatorily effective for an accounting period that begins on or after January 1, 2013.

Amendments to K-IFRS 1001 – *Presentation of Financial Statements*

The amendments to K-IFRS 1001 require items of other comprehensive income to be grouped into two categories in the other comprehensive income section: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Other than this presentation change, the application of the amendments to K-IFRS 1001 does not result in any impact on the financial position and financial performance. The amendments have been applied retrospectively for the comparative period, and hence the presentation of items of other comprehensive income has been modified to reflect the changes.

Amendments to K-IFRS 1019 – *Employee Benefits*

The amendments to K-IFRS 1019 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 the accelerate the recognition of past service costs. All actuarial gains and losses are recognized immediately through other comprehensive income (the option to recognize actuarial gains and losses in profit or loss has also been removed). Furthermore, the interest cost and expected return on plan assets used in the previous version of K-IFRS 1019 are replaced with a ‘net interest’ amount under K-IFRS 1019 (as revised in 2011), which is calculated by applying the discount rate to the net defined benefit liability or asset. The amendments to K-IFRS 1019 also require the recognition of past service cost as an expense at the earlier date of (a) when the plan amendment or curtailment occurs and (b) when the Group recognizes related restructuring costs or termination benefits. Such amendments do not have any significant effect on the consolidated financial statements as of and for the year ended December 31, 2013.

Amendments to K-IFRS 1107 – *Financial Instruments: Disclosures*

The amendments to K-IFRS 1107 are mainly focusing on presentation of the offset between financial assets and financial liabilities and require entities to disclose information about rights of offset and related arrangements (such as collateral agreements) for financial instruments under an enforceable master netting agreement or similar arrangement, irrespective of whether they would meet the offsetting criteria under K-IFRS 1032. Such amendments do not have any significant effect on the consolidated financial statements as of and for the year ended December 31, 2013.

K-IFRS 1110 - *Consolidated Financial Statements*

K-IFRS 1110 replaces the portion of K-IFRS 1027, “Consolidated and Separate Financial Statements” that addresses the accounting for consolidated financial statements. It also addresses the issues raised in K-IFRS 2012 “Consolidation – Special Purpose Entities”. K-IFRS 1110 establishes a single control model that applies to all entities, including special-purpose entities. In accordance with K-IFRS 1110, an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The adoption of K-IFRS 1110 does not have a significant effect on the Group’s consolidated financial statements as of and for the year ended December 31, 2013.

K-IFRS 1111 - *Joint Arrangement*

K-IFRS 1111 deals with how a joint arrangement of which two or more parties have joint control should be classified either as a joint operation or a joint venture. The classification of joint arrangements under K-IFRS 1111 is determined based on the rights and obligations of parties to the joint arrangements by considering the structure, the legal form of the arrangements, the contractual terms agreed by the parties to the arrangement, and, when relevant, other facts and circumstances. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint venturers) have rights to the net assets of the arrangement. If the Group is a joint operator, the Group is to recognize assets, liabilities, revenues and expenses in relation to its interest in a joint operation and if the Group is a joint venturer, the Group is to account for that investment using the equity method. The application of K-IFRS 1111 has not had any material impact on the Group's consolidated financial statements.

K-IFRS 1112 - *Disclosure of Interest in Other Entities*

K-IFRS 1112 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates, or unconsolidated structured entities. This standard requires an entity to disclose the nature of, and risks associated with, its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows. The Group merely discloses the significant changes or details of transactions from the major disclosure requirements for the year ended December 31, 2013 compared to the year ended December 31, 2012.

K-IFRS 1113 - *Fair Value Measurement*

K-IFRS 1113 establishes a single source of guidance for fair value measurements and disclosure about fair value measurements. The standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. K-IFRS 1113 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is measured by taking into account the characteristics of the asset or liability that market participants would take when pricing the asset or liability at the measurement date. A fair value measurement under K-IFRS 1113 requires an entity to determine the particular asset or liability that is subject of the measurement, the principal (or most advantageous) market for the asset or liability, and the valuation technique(s) appropriate for the measurement. In addition, K-IFRS 1113 requires extensive disclosures about fair value measurements.

There are newly adopted guidance for the revision of K-IFRS 1032 about the 'Tax effect of distribution to the shareholders' but such adoption does not have a significant effect on the Group's consolidated financial statements as of and for the year ended December 31, 2013.

2) New and revised K-IFRSs issued but not yet effective

The Group has not applied the following new and revised K-IFRSs that have been issued but not yet effective.

Amendments to K-IFRS 1032 – *Financial Instruments: Presentation*

The amendments to K-IFRS 1032 clarify existing application issue relating to the offset of financial assets and financial liabilities requirements. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realization and settlement'.

The Group's right to offset must not be conditional on the occurrence of future events but enforceable anytime during the contract periods, during the ordinary course of business with counterparty, a default of counterparty and master netting agreement or in some forms of non-recourse debt. The amendments to K-IFRS 1032 are effective for annual periods beginning on or after January 1, 2014

Amendments to K-IFRS 1039 – *Financial Instruments: Recognition and Measurement*

The amendments to K-IFRS 1039 allows the continuation of hedge accounting when a derivative is novated to a clearing counterparty or entity acting in a similar capacity and certain conditions are met. The amendments to K-IFRS 1039 are effective for annual periods beginning on or after January 1, 2014.

Amendments to K-IFRS 1110, K-IFRS 1112 and K-IFRS 1027 - *Investment Entities*

The amendments introduce an exception to the principle under K-IFRS 1110 that all subsidiaries shall be consolidated and require a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its consolidated and separate financial statements. In addition, consequential amendments have been made to K-IFRS 1112 and K-IFRS 1027 to introduce new disclosure requirements for investment entities. The investment entities amendments are effective for annual periods beginning on or after January 1, 2014.

K-IFRS 2121 - *Levies*

K-IFRS 2121 defines a levy as a payment to a government for which an entity receives no specific goods or services. The interpretation requires that a liability is recognized when the obligating event occurs. The obligating event is the activity that triggers payment of the levy and is typically specified in the legislation that imposes the levy. The interpretation is effective for annual periods beginning on or after January 1, 2014.

The list above does not include some other amendments such as the Amendments to K-IFRS 1036 relating to recoverable amount disclosures for non-financial assets that are effective from January 1, 2014 with earlier application permitted.

The Group does not anticipate that the application of these new and revised K-IFRSs that have been issued but not effective will have any impact on the Group’s consolidated financial statements.

(2) Basis for consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company (and its subsidiaries). Control is achieved where the Company 1) has the power over the investee, 2) is exposed, or has rights, to variable returns from its involvement with the investee, and 3) has the ability to use its power to affect its returns. The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary. Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra-group transactions and related assets and liabilities, income and expenses are eliminated in full on consolidation.
Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognized in other comprehensive income and accumulated in equity, the amounts previously recognized in other comprehensive income and accumulated in equity are accounted for as if the Company had directly disposed of the relevant assets (i.e. reclassified to profit or loss or transferred directly to retained earnings). The fair value of any investment retained in the former subsidiary at the date when control is lost is recognized as the fair value on initial recognition for subsequent accounting under K-IFRS 1039 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Consolidated subsidiaries as of December 31, 2013, are as follows (Unit: Korean won in millions):

Consolidated subsidiaries	Place of incorporation and operation	Percentage of ownership (%)	Closing month	Classification of the business	Key financial highlights as of and for the year ended December 31, 2013			
					Assets	Liabilities	Operating income	Net income
Ain Teleservice	South Korea	100.00	December	Service of telemarketing	₩9,720	₩10,337	₩ 63,519	₩ 98
CS Leader	South Korea	100.00	December	Service of telemarketing	7,786	6,975	40,433	442
Medialog	South Korea	88.06	December	Service of internet	35,852	21,718	97,409	(17)
DACOM America Inc.	USA	100.00	December	Service of communication	148	3,326	394	(357)
CS ONE Partner	South Korea	100.00	December	Service of telemarketing	10,377	7,317	63,397	781
With U	South Korea	100.00	December	Other official support service	681	259	1,538	28

(3) Business combinations

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

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

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

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

(4) Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates or joint ventures are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with K-IFRS 1105 *Non-current Assets Held for Sale and Discontinued Operations*. Under the equity method, an investment in an associate or a joint venture is initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. When the Group's share of losses of an associate or a joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate or a joint venture recognized at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment. Any excess of the Group’s share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

Upon disposal of an associate or a joint venture that results in the Group losing significant influence over that associate or joint venture, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with K-IFRS 1039. The difference between the previous carrying amount of the associate or joint venture attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognized in other comprehensive income in relation to that associate or joint venture on the same basis we would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognized in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the

Group reclassifies the gain or loss from equity to profit or loss (as reclassification adjustment) when it loses significant influence over that associate or joint venture.

When the Group reduces its ownership interest in an associate or a joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognized in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities. In addition, the Group applies K-IFRS 5 to a portion of investment in an associate or a joint venture that meets the criteria to be classified as held for sale.

The requirements of K-IFRS 1039 *Financial Instruments: Recognition and Measurement* are applied to determine whether it is necessary to recognize any impairment loss with respect to the Group's investment in an associate or a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with K-IFRS 1036 *Impairment of Assets* by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with K-IFRS 1036 to the extent that the recoverable amount of the investment subsequently increases.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

When a group entity transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognized in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

(5) Interests in joint operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

When a group entity undertakes its activities under joint operations, the Group as a joint operator recognises in relation to its interest in a joint operation:

- its assets, including its share of any assets held jointly;
- its liabilities, including its share of any liabilities incurred jointly;
- its revenue from the sale of its share of the output arising from the joint operation;
- its share of the revenue from the sale of the output by the joint operation; and
- its expenses, including its share of any expenses incurred jointly.

The Group accounts for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the K-IFRSs applicable to the particular assets, liabilities, revenues and expenses.

When a group entity transacts with a joint operation in which a group entity is a joint operator (such as a sale or contribution of assets), the Group is considered to be conducting the transaction with the other parties to the joint operation, and gains and losses resulting from the transactions are recognized in the Group's consolidated financial statements only to the extent of other parties' interests in the joint operation.

When a group entity transacts with a joint operation in which a group entity is a joint operator (such as a purchase of assets), the Group does not recognize its share of the gains and losses until it resells those assets to a third party.

(6) Foreign currencies translation

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each group entity are expressed in Korean Won, which is the functional currency of the entity and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in Korean Won using exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate). On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the accumulated exchange differences in respect of that operation attributable to the owners of the Group are reclassified to profit or loss. Any exchange differences that have previously been attributed to non-controlling interests are derecognized, but they are not reclassified to profit or loss.

In the case of a partial disposal (i.e. no loss of control) of a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests in equity and are not recognized in profit or loss. For all other partial disposals (i.e. partial disposals of associates or joint arrangements that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate. Exchange differences arising are recognized in other comprehensive income.

(7) Cash and cash equivalents

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

(8) Financial assets

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

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

1) Financial assets at FVTPL

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

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

2) Held-to-maturity investments

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

3) AFS financial assets

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

4) Loans and receivables

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

5) Impairment of financial assets

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

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

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

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

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

6) Derecognition of financial assets

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

(9) Inventories

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

(10) Property, plant and equipment

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

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

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

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

(11) Investment property

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

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

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

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

(12) Intangible assets

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

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

(13) Goodwill

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

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

(14) Impairment of non-financial assets

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

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

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

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

(15) Financial liabilities and equity instruments

1) Equity instruments

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

2) Financial liabilities at FVTPL

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

3) Other financial liabilities

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

4) Financial guarantee liabilities

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

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

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

5) Derecognition of financial liabilities

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

(16) Lease

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

1) The Group as lessee

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

2) The Group as lessor

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

(17) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. Additionally, borrowing costs eligible for capitalization reflects hedge effectiveness in case that the hedge accounting for interest rate risk can be applied for borrowing costs directly related to qualifying assets.

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

(18) Derivative financial instruments

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

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

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

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

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

(19) Employee benefits

Net defined benefit liability

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. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss. Past service cost is recognized in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are composed of service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements), net interest expense (income), and remeasurement.

The Group presents the service cost and net interest expense (income) components in profit or loss, and the remeasurement component in other comprehensive income. Curtailment gains and losses are accounted for as past service costs.

The retirement benefit obligation recognized in the consolidated statement of financial position represents the actual deficit or surplus in the Group's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

(20) Provisions

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

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

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

(21) Revenue recognition

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

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

(22) Current tax payable and deferred tax

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

1) Current tax payable

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

2) Deferred tax

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

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income tax levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

3) Recognition of current tax payable and deferred tax

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

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

(23) Treasury stock

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

(24) Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of K-IFRS 1102 “Share-based payment”, leasing transactions that are within the scope of K-IFRS 1017 “Leases”, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in K-IFRS 1002 “Inventories” or value in use in K-IFRS 1036 “Impairment of Assets”.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 : inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 : inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 : inputs are unobservable inputs for the asset or liability.

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

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

(1) Fair value of financial instruments

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

(2) Bad debt allowance for loans and receivables

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

(3) Measurement of tangible and intangible assets

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

(4) Estimation of restoration liabilities

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

(5) Impairment of non-financial assets

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

(6) Defined benefit pension plan

For the defined benefit pension plan, the service cost is determined using actuarial valuations. In order to apply actuarial valuations, it is necessary to assume a discount rate, an expected rate of return on plan assets, wage increase rate, etc. The retirement benefit plan contains significant uncertainties on the estimation due to its long-term nature. The defined benefit obligations as of December 31, 2013 and 2012, are ₩50,425 million and ₩61,512 million, respectively, 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 are received from and paid to other telecommunication companies is regulated by the relevant authorities, and under such regulation retroactive billing is made related to prior periods. As such, management estimates the revenue and expenses for the period by taking all the related circumstances at the end of reporting period into account.

4. SEGMENT INFORMATION:

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

(2) Details of operating revenue from the Group’s sale of goods and provision of services for the years ended December 31, 2013 and 2012, are as follows (Unit: Korean won in millions):

Reporting segment	Major goods and services	2013	2012
The Group	Telecommunication and related services	₩ 7,851,642	₩ 7,027,072
	Handset sales	3,598,658	3,877,562
		₩ 11,450,300	₩ 10,904,634

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

5. CLASSIFICATION OF FINANCIAL INSTRUMENTS AND FAIR VALUE:

(1) The carrying amount and fair value of financial assets and liabilities as of December 31, 2013 , and 2012, are as follows (Unit: Korean won in millions):

1) Financial assets

Financial assets	Account	December 31, 2013 Book value	December 31, 2013 Fair value	December 31, 2012 Book value	December 31, 2012 Fair value
Cash and cash equivalents	Cash and cash equivalents	₩ 398,335	₩ 398,335	₩ 341,367	₩ 341,367
AFS financial assets	Marketable equity securities	33,637	33,637	35,398	35,398
	Unmarketable equity securities	47,731	47,731	49,208	49,208
	Debt securities	-	-	1	1
	Subtotal	81,368	81,368	84,607	84,607
Loans and receivables	Financial institution deposits	35,302	35,302	24,277	24,277
	Trade receivables	2,066,360	2,066,360	2,180,738	2,180,738
	Loans	21,248	21,248	23,189	23,189
	Other receivables	163,544	163,544	160,131	160,131
	Accrued income	368	368	1,535	1,535
	Deposits	266,522	266,522	249,487	249,487
	Subtotal	2,553,344	2,553,344	2,639,357	2,639,357
	Total	₩ 3,033,047	₩ 3,033,047	₩ 3,065,331	₩ 3,065,331

2) Financial liabilities

Financial liabilities	Account	December 31, 2013 Book value	December 31, 2013 Fair value	December 31, 2012 Book value	December 31, 2012 Fair Value
Derivative liabilities designated as hedging instrument	Derivative liabilities designated as hedging instrument	₩ 2,657	₩ 2,657	₩ 4,768	₩ 4,768
Financial liabilities measured at amortized cost	Trade payables	362,937	362,937	456,571	456,571
	Borrowings	2,516,615	2,516,615	2,462,832	2,462,832
	Debentures	2,005,382	2,214,961	1,786,033	1,848,133
	Other payables	1,735,979	1,735,979	1,677,747	1,677,747
	Accrued expenses	689,070	689,070	528,906	528,906
	Withholdings	151,376	151,376	100,425	100,425
	Finance lease liabilities	15,380	15,380	43,871	43,871
	Rental deposits	9,604	9,604	10,700	10,700
	Subtotal	7,486,343	7,695,922	7,067,085	7,129,185
	Total	₩ 7,489,000	₩ 7,698,579	₩ 7,071,853	₩ 7,133,953

(2) The carrying values of certain financial assets, such as loans and receivables, and liabilities recognized at amortized cost are considered to approximate their fair values. In addition, an equity instrument, classified as AFS financial assets, whose book value amounts to ₩47,731 and which does not have its market value disclosed in an active market, is measured at cost since its fair value cannot be reliably measured.

6. CASH AND CASH EQUIVALENTS:

The Group's cash and cash equivalents in the consolidated statements of financial position are equivalent to those in the consolidated statements of cash flows. Details of cash and cash equivalents as of December 31, 2013 and 2012, are as follows (Unit: Korean won in millions):

	December 31, 2013	December 31, 2012
Cash on hand	₩ 1	₩ -
Financial institution deposits	396,627	337,277
Other cash equivalents	1,707	4,090
	₩ 398,335	₩ 341,367

7. RESTRICTED FINANCIAL ASSETS:

Restricted financial assets as of December 31, 2013 and 2012, are as follows (Unit: Korean won in millions):

	Financial institution	December 31, 2013	December 31, 2012
Guarantee deposits for checking accounts	Woori Bank and others	₩ 21	₩ 24
Term deposits	NongHyup Bank	-	350
	Hana Bank (*)	1,281	904
	Sub-total	1,281	1,254
	Total	₩ 1,302	₩ 1,278

(*) Amounts are deposited related to guarantee deposits on lease.

8. LOANS, TRADE AND OTHER RECEIVABLES:

(1) Details of current portion of loans, trade and other receivables as of December 31, 2013 and 2012, are as follows (Unit: Korean won in millions):

	December 31, 2013	December 31, 2012
Trade receivables	₩ 1,785,093	₩ 1,786,395
Allowances for doubtful accounts	(220,859)	(215,612)
Trade receivables, net	1,564,234	1,570,783
Short-term loans	13,704	16,724
Allowances for doubtful accounts	(2,243)	(608)
Short-term loans, net	11,461	16,116
Other accounts receivable	204,686	182,219
Allowances for doubtful accounts	(41,142)	(22,088)
Other accounts receivable, net	163,544	160,131
Accrued income	368	1,535
	₩ 1,739,607	₩ 1,748,565

(2) Details of non-current portion of loans, trade and other receivables as of December 31, 2013 and 2012, are as follows (Unit: Korean won in millions):

	December 31, 2013	December 31, 2012
Trade receivables	₩ 505,633	₩ 611,701
Allowances for doubtful accounts	(3,507)	(1,746)
Trade receivables, net	502,126	609,955
Long-term loans	9,787	7,073
Leasehold deposits	243,827	234,026
Guarantee deposits	22,695	15,461
	₩ 778,435	₩ 866,515

(3) Aging of loans, trade and other receivables as of December 31, 2013 and 2012, are as follows (Unit: Korean won in millions):

	December 31, 2013		December 31, 2012	
Less than 6 months	₩	2,519,745	₩	2,631,757
7–12 months		59,775		65,152
1–3 years		200,204		152,468
More than 3 years		6,069		5,757
	₩	2,785,793	₩	2,855,134

(4) Changes in allowance for loans, trade and other receivables for the years ended December 31, 2013 and 2012, are as follows (Unit: Korean won in millions):

1) For the year ended December 31, 2013

	Trade receivables		Loans and other receivables	
Beginning balance	₩	217,358	₩	22,695
Impairment loss		53,959		30,905
Write-offs		(61,435)		(10,514)
Reversal of impairment loss		14,484		299
Ending balance	₩	224,366	₩	43,385

2) For the year ended December 31, 2012

	Trade receivables		Other receivables	
Beginning balance	₩	212,182	₩	27,175
Impairment loss		67,048		(3,374)
Write-offs		(79,666)		(1,244)
Reversal of impairment loss		17,794		139
Ending balance	₩	217,358	₩	22,696

9. INVENTORIES:

(1) Inventories are stated at the lower of cost or net realizable value in case that the market value is lower than the acquisition cost. Details of inventories as of December 31, 2013 and 2012, are as follows (Unit: Korean won in millions):

	December 31, 2013			December 31, 2012		
	Acquisition cost	Valuation allowance	Carrying amount	Acquisition cost	Valuation allowance	Carrying amount
Merchandise	₩ 419,730	₩ (25,514)	₩ 394,216	₩ 405,935	₩ (60,807)	₩ 345,128
Supplies	5,094	(4,780)	314	6,962	(5,663)	1,299
	₩ 424,824	₩ (30,294)	₩ 394,530	₩ 412,897	₩ (66,470)	₩ 346,427

(2) Inventory costs recognized in operating expenses for the years ended December 31, 2013 and 2012, are ₩2,903,367 million and ₩3,294,623 million respectively, which include ₩35,292 million of reversal of losses on valuation of inventories for the year ended December 31, 2013 and ₩4,085 million of losses on valuation of inventories for the year ended December 31, 2012, respectively.

10. OTHER ASSETS:

(1) Details of other current assets as of December 31, 2013 and 2012, are as follows (Unit: Korean won in millions):

	December 31, 2013	December 31, 2012
Advanced payments	₩ 36,159	₩ 19,988
Prepaid expenses	93,198	92,292
Total	₩ 129,357	₩ 112,280

(2) Details of other non-current assets as of December 31, 2013 and 2012, are as follows (Unit: Korean won in millions):

	December 31, 2013	December 31, 2012
Non-current prepaid expenses	₩ 31,324	₩ 37,178

11. PROPERTY, PLANT AND EQUIPMENT:

(1) Changes in property, plant and equipment for the years ended December 31, 2013 and 2012, are as follows (Unit: Korean won in millions):

1) For the year ended December 31, 2013

	Land	Buildings	Telecommuni -cation facilities	Other assets	Construction in progress	Total
Beginning acquisition cost	₩ 538,828	₩ 418,981	₩10,266,236	₩ 676,056	₩ 185,412	₩12,085,513
Accumulated depreciation	-	(80,530)	(5,535,307)	(379,927)	-	(5,995,764)
Accumulated impairment loss	-	-	(10,319)	-	-	(10,319)
Government subsidies	-	-	(650)	(5)	-	(655)
Beginning balance	538,828	338,451	4,719,960	296,124	185,412	6,078,775
Acquisitions	-	233	238,824	30,852	1,313,260	1,583,169
Transfers	47,771	(3,629)	1,124,099	38,389	(1,214,615)	(7,985)
Disposals	(893)	(50)	(26,498)	(1,451)	(29,845)	(58,737)
Depreciation	-	(16,690)	(1,087,320)	(98,497)	-	(1,202,507)
Ending balance	585,706	318,315	4,969,065	265,417	254,212	6,392,715
Ending acquisition cost	585,706	413,808	11,476,330	737,856	254,212	13,467,912
Accumulated depreciation	-	(95,493)	(6,496,977)	(472,427)	-	(7,064,897)
Accumulated impairment loss	-	-	(8,903)	-	-	(8,903)
Government subsidies	-	-	(1,385)	(12)	-	(1,397)
Ending balance	₩ 585,706	₩ 318,315	₩ 4,969,065	₩ 265,417	₩ 254,212	₩ 6,392,715

2) For the year ended December 31, 2012

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

(2) Assets pledged as collateral

The Group has pledged a portion of land, buildings and telecommunication facilities as collateral (up to ₩58,000 million) related to borrowings from Korea Development Bank (KDB).

12. INVESTMENT PROPERTY:

(1) Changes in investment property for the years ended December 31, 2013 and 2012, are as follows (Unit: Korean won in millions):

1) For the year ended December 31, 2013

	Land	Buildings	Total
Beginning acquisition cost	₩ 40,888	₩ 67,352	₩ 108,240
Accumulated depreciation	-	(15,753)	(15,753)
Beginning balance	40,888	51,599	92,487
Transfers	(1,562)	6,688	5,126
Depreciation	-	(1,788)	(1,788)
Ending balance	39,326	56,499	95,825
Ending acquisition cost	39,326	75,764	115,090
Accumulated depreciation	-	(19,265)	(19,265)
Ending balance	₩ 39,326	₩ 56,499	₩ 95,825

2) 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) The Group recognized rental revenue related to investment property, in the amount of ₩18,595 million and ₩11,973 million, for the years ended December 31, 2013 and 2012, respectively.

13. INTANGIBLE ASSETS:

(1) Changes in intangible assets for the years ended December 31, 2013 and 2012 are as follows (Unit: Korean won in millions):

1) For the year ended December 31, 2013

	Intellectual property rights	Computer software	Memberships	Goodwill	Frequency usage rights	Other intangible assets	Total
Beginning acquisition cost	₩ 4,339	₩ 13,846	₩ 38,129	₩ 932	₩ 880,032	₩125,954	₩ 1,710,832
Accumulated amortization	(2,110)	(11,059)	-	-	(85,614)	(63,828)	(810,208)
Accumulated impairment loss	-	-	-	-	-	(9,855)	(9,855)
Beginning balance	2,229	2,790	38,129	932	794,418	52,271	890,769
Acquisitions	661	2,576	1,063	-	461,973	16,410	482,683
Transfers	-	-	-	-	-	2,849	2,849
Disposals	-	-	-	-	-	(3,633)	(3,633)
Impairment loss	-	-	(3,707)	-	-	-	(3,707)
Amortization	(469)	(1,453)	-	-	(95,533)	(12,894)	(110,349)
Ending balance	₩ 2,421	₩ 3,913	₩ 35,485	₩ 932	₩ 1,160,858	₩ 55,003	₩ 1,258,612
Ending acquisition cost	₩ 5,000	₩ 17,108	₩ 39,192	₩ 932	₩ 1,342,005	₩122,274	₩ 1,526,511
Accumulated amortization	(2,579)	(13,195)	-	-	(181,147)	(57,854)	(254,775)
Accumulated impairment loss	-	-	(3,707)	-	-	(9,417)	(13,124)
Ending balance	₩ 2,421	₩ 3,913	₩ 35,485	₩ 932	₩ 1,160,858	₩ 55,003	₩ 1,258,612

2) For the year ended December 31, 2012

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

(*1) The amount acquisitions of frequency usage rights acquisition represents the capitalization of borrowing costs.

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

(3) Research and development costs

The costs related to research and development for the years ended December 31, 2013 and 2012, are as follows (Unit: Korean won in millions):

	2013	2012
Research costs	₩ 59,502	₩ 71,124

(4) Significant intangible assets

As part of the merger with LG Dacom and LG Powercom in 2010, the Group recognized customer relationships as intangible assets. Such customer relationships consist of ₩278,100 million related to Voice Over Internet Protocol ("VoIP"), corporate Internet access, fixed-line telephony and eBiz services of LG Dacom and ₩369,500 million related to broadband Internet access, broadband network rentals and VoIP services of LG Powercom. Recognized customer relationships are amortized using the straight-line method for three years of useful life; amortization of recognized customer relationships had been completed as of December 31, 2012.

Frequency usage rights were 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 life. In addition, frequency usage rights for 2.6GHz were acquired in the amount of ₩461,973 million for the year ended December 31, 2013, and amortized on a straight-line method for 8 years of useful life.

14. INVESTMENTS IN SUBSIDIARIES:

(1) Summary of financial information of subsidiaries as of and for the year ended December 31, 2013, and the year ended December 31, 2012, is as follows (Unit: Korean won in millions):

			As of and for the year ended December 31, 2013			
Company	Place of incorporation and operation	Percentage of ownership (%)	Assets	Liabilities	Operating revenue	Net income (loss)
Ain Teleservice	South Korea	100.00	₩ 9,720	₩ 10,337	₩ 63,519	₩ 98
CS Leader	South Korea	100.00	7,786	6,975	40,433	442
Medialog	South Korea	88.06	35,852	21,718	97,409	(17)
DACOM America Inc.	USA	100.00	148	3,326	394	(357)
CS ONE Partner	South Korea	100.00	10,377	7,317	63,397	781
With U (*1)	South Korea	100.00	681	259	1,538	28

(*1) With U is a subsidiary of the Company which is established for the year ended December 31, 2013

			As of and for the year ended December 31, 2012			
Company	Place of incorporation and operation	Percentage of ownership (%)	Assets	Liabilities	Operating revenue	Net income
Ain Teleservice	South Korea	100.00	₩ 6,707	₩ 7,022	₩ 53,398	₩ 495
CS Leader	South Korea	100.00	5,513	4,528	32,839	538
Medialog	South Korea	88.06	26,764	12,620	77,716	539
DACOM America Inc.	USA	100.00	532	3,409	1,100	106
CS ONE Partner	South Korea	100.00	6,726	3,958	46,013	601

(2) Summary of financial position of subsidiaries as of December 31, 2013, is as follows (Unit: Korean won in millions):

	Ain Teleservice	CS Leader	Medialog	DACOM America Inc.	CS ONE Partner	With U
Current assets	₩ 9,521	₩ 7,378	₩ 27,158	₩ 124	₩ 10,252	₩ 485
Non-current assets	199	408	8,694	24	125	196
Total assets	9,720	7,786	35,852	148	10,377	681
Current liabilities	8,123	5,129	18,181	3,326	6,670	183
Non-current liabilities	2,214	1,846	3,537	-	647	76
Total liabilities	10,337	6,975	21,718	3,326	7,317	259
Total equity	₩ (617)	₩ 811	₩ 14,134	₩ (3,178)	₩ 3,060	₩ 422

(3) Summary of financial performance of subsidiaries for the year ended December 31, 2013, is as follows (Unit: Korean won in millions):

	Ain Teleservice	CS Leader	Medialog	DACOM America Inc.	CS ONE Partner	With U
Sales	₩ 63,519	₩ 40,433	₩ 97,409	₩ 394	₩ 63,397	₩ 1,538
Operating income (loss)	(277)	165	(404)	(357)	385	(3)
After-tax from discontinued operating income	-	-	-	-	-	-
Net income (loss)	98	442	(17)	(357)	781	28
Other comprehensive income (loss)	(398)	(616)	2	-	(490)	-
Total comprehensive income (loss)	₩ (300)	₩ (174)	₩ (15)	₩ (357)	₩ 291	₩ 28

(4) Summary of cash flows of subsidiaries for year ended December 31, 2013, is as follows (Unit: Korean won in millions):

	Ain Teleservice	CS Leader	Medialog	DACOM America Inc.	CS ONE Partner	With U
Cash flows from operating activities:	₩ (257)	₩ 1,560	₩ 5,052	₩ (349)	₩ 2,679	₩ 137
Cash flows from investing activities	(506)	(2,529)	(2,580)	-	(1,036)	(301)
Cash flows from financing activities	-	-	-	-	-	-
Net (decrease) increase in cash and cash equivalents	(763)	(969)	2,472	(349)	1,643	(164)
Cash and cash equivalent at the beginning of the period	3,462	1,974	7,806	468	1,897	394
Exchange rate fluctuation effect on cash and cash equivalents	-	-	-	5	-	-
Cash and cash equivalent at the end of the period	₩ 2,699	₩ 1,005	₩ 10,278	₩ 124	₩ 3,540	₩ 230

The summary of cash flow as presented above includes the adjustments of differences between the accounting policies of the controlled entities and the Group's accounting policies and the fair value of the goodwill recognized on the business combination. In addition, inter-companies transactions amounts are not excluded.

(5) Ownership percentage held by non-controlling interests of subsidiary and financial position, financial performance and dividend amount attributable to non-controlling interest as of December 31, 2013, are as follows (Unit: Korean won in millions):

	Medialog
Ownership percentage held by non-controlling interests	11.94%
Cumulative non-controlling interests	1,687
Net income (loss) attributable to non-controlling interests	(2)
Total comprehensive income (loss) attributable to non-controlling interests	(2)
Dividends paid to non-controlling interests	-

15. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES:

(1) The composition of the Group's investments in joint ventures and investments in associates as of December 31, 2013 and December 31, 2012, is as follows (Unit: Korean won in millions):

Company	Class	Place of incorporation and operation	Percentage of ownership (%)	December 31, 2013	December 31, 2012
Dacom Crossing (*1)	Joint venture	South Korea	51.00	₩ 8,612	₩ 8,259
Mediplus Solution	Associate	South Korea	30.00	-	60
True Internet Data Center Company	Associate	Thailand	30.00	4,578	4,310
				₩ 13,190	₩ 12,629

(*1) The Group acquired over 50.0% shares of Dacom Crossing, but as the Group retains joint control over the entity, the investment has been classified as a jointly controlled entity.

(2) Equity securities accounted for using the equity method for the years ended December 31, 2013 and 2012, are as follows (Unit: Korean won in millions):

1) For the year ended December 31, 2013

	January 1, 2013	Share of profits of associates and joint ventures under the equity method	Share of other comprehensive income of associates and joint ventures under the equity method	December 31, 2013
Dacom Crossing	₩ 8,259	₩ 353	₩ -	₩ 8,612
Mediplus Solution	60	(60)	-	-
True Internet Data Center Company	4,310	686	(418)	4,578
	₩ 12,629	₩ 979	₩ (418)	₩ 13,190

2) For the year ended December 31, 2012

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

(3) Details of reconciliation between net assets of associates and the carrying value of the investments in associates as of and for the year ended December 31, 2013, is as follows (Unit: Korean won in millions):

	Net assets of associates as of and for the year ended December 31, 2013(A)	Ownership interest of the consoli-dated entity (B)	Ownership amount of net assets (A*B)	(+) Good will	(-) Elimination of internal transaction effect	December 31, 2013
Dacom Crossing	₩ 16,886	51.00%	₩ 8,612	-	-	₩ 8,612
Mediplus Solution	(55)	30.00%	(17)	-	-	-
True Internet Data Center Company	₩ 15,261	30.00%	₩ 4,578	-	-	₩ 4,578

(4) Summary of financial information of associates and joint ventures as of December 31, 2013 is as follows (Unit: Korean won in millions):

Companies	Assets	Liabilities	Ownership interest of controlling entity	Non-controlling interest	Total equity
Dacom Crossing	₩ 72,434	₩ 55,548	₩ 16,686	₩ -	₩ 16,686
Mediplus Solution	384	439	-	-	(55)
True Internet Data Center Company	₩ 19,216	₩ 3,955	₩ 15,261	₩ -	₩ 15,261

(5) Summary of financial performances of associates and joint ventures for the year ended December 31, 2013, is as follows (Unit: Korean won in millions):

Companies	Operating revenue	Operating income (loss)	Income tax expense	After-tax income or loss from discontinued operation	Other comprehensive income (loss)	Total comprehensive income (loss)
Dacom Crossing	₩ 33,513	₩ 514	₩ (50)	₩ -	₩ -	₩ 693
Mediplus Solution	-	(209)	-	-	-	(209)
True Internet Data Center Company	₩ 13,654	₩ 3,307	₩ (595)	₩ -	₩ -	₩ 2,286

(6) The composition details from the summary of financial information of joint ventures for the year ended December 31, 2013 are as follows (Unit: Korean won in millions):

	Dacom Crossing
Cash and cash equivalents	₩ 4,288
Current financial liabilities (*)	288
Depreciation	895
Amortization	677
Interest income	₩ 110

(*) Current financial liabilities excludes account payables and other payables from financial liabilities.

16. DEBENTURES AND BORROWINGS:

(1) The Group's short-term borrowings as of December 31, 2013 and 2012, consist of the following (Unit: Korean won in millions):

Type of borrowings	Creditor	Annual interest rate (%)	December 31, 2013	December 31, 2012
General loans	Woori Bank	-	-	50,000

(2) The Group's long-term borrowings as of December 31, 2013 and 2012, consist of the following (Unit: Korean won in millions):

Type of borrowings	Creditor	Annual interest rate (%)	December 31, 2013	December 31, 2012
General loans	Korea Exchange Bank	4.25	₩ 100,000	₩ 100,000
(including loan on bills)	Shinhan Bank	4.25	200,000	200,000
Facilities financing	Korea Development Bank	3.28 ~ 4.78	1,387,500	1,300,000
	Korea Finance Corporation	3.54 ~ 4.53	600,000	500,000
	Others	4.53 ~ 4.86	205,833	287,500
IT promotion funds	Hana Bank	3.19	27,147	31,202
Before current maturities	Face value		2,520,480	2,418,702
	Discount on long-term borrowings		(3,865)	(5,870)
Current maturities	Face value		623,501	353,821
	Current portion of discount on long-term borrowings		(1,723)	-
After current maturities	Face value		1,896,979	2,064,881
	Discount on long-term borrowings		(2,142)	(5,870)
	Book value		₩ 1,894,837	₩ 2,059,011

(3) The Group's debentures as of December 31, 2013 and 2012, consist of the following (Unit: Korean won in millions):

		Annual interest rate (%)	December 31, 2013	December 31, 2012
Debentures issued under public offering		3.02 ~ 4.48	₩ 1,900,000	₩ 1,790,000
Debentures issued privately		3.54	110,000	-
Before current maturities	Face value		2,010,000	1,790,000
	Discount on debentures		(4,618)	(3,967)
Current maturities	Current portion of debentures		600,000	590,000
	Current portion of discount on debentures		(436)	(473)
After current maturities	Face value		1,410,000	1,200,000
	Discount on debentures		(4,182)	(3,494)
	Book value		₩ 1,405,818	₩ 1,196,506

(4) The repayment schedule of long-term borrowings and debentures as of December 31, 2013, is as follows (Unit: Korean won in millions):

Period	Long-term borrowings	Debentures	Total
January 1, 2015–December 31, 2015	₩ 891,036	₩ 140,000	₩ 1,031,036
January 1, 2016– December 31, 2016	563,943	370,000	933,943
January 1, 2017 and thereafter	442,000	900,000	1,342,000
Total	₩ 1,896,979	₩1,410,000	₩ 3,306,979

17. OTHER FINANCIAL LIABILITIES:

Other financial liabilities as of December 31, 2013 and 2012, are as follows (Unit: Korean won in millions):

	December 31, 2013		December 31, 2012	
	Current	Non-current	Current	Non-current
Non-trade payables	₩ -	₩ 594,913	₩ -	₩ 399,786
Withholdings	151,376	-	100,425	-
Rental deposits	-	9,605	-	10,700
Finance lease liabilities	13,369	2,011	28,491	15,380
Total	₩ 164,745	₩ 606,529	₩ 128,916	₩ 425,866

18. PROVISIONS:

Changes in restoration liabilities for the years ended December 31, 2013 and 2012, are as follows (Unit: Korean won in millions):

1) For the year ended December 31,2013

	Beginning balance	Increase	Decrease	Ending balance
Restoration liabilities	₩ 36,256	₩ 3,185	₩ (1,840)	₩ 37,601

2) For the year ended December 31, 2012

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

19. RETIREMENT BENEFIT PLAN:

(1) Defined contribution plan

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

The Group recognized ₩3,093 million and ₩2,917 million of service cost relating to its defined contribution plan in the consolidated statements of income for the years ended December 31, 2013 and 2012, respectively.

(2) Defined benefit plan

The Group operates a defined benefit plan for employees and according to the plan, employees will be paid his or her average salary amount of the final three months multiplied by the number of years vested; adjusted for salary pay rate and other. The valuation of the defined benefit plan remeasurements are performed by an independent reputable actuary specialist under the Projected Unit Credit Method.

1) As of December 31, 2013 and 2012, amounts recognized in the consolidated statements of financial position related to retirement benefit obligation are as follows (Unit: Korean won in millions):

	December 31, 2013		December 31, 2012	
Present value of defined benefit obligation	₩	234,761	₩	193,120
Fair value of plan assets		(184,336)		(131,608)
Retirement benefit obligation	₩	50,425	₩	61,512

2) Changes in defined benefit obligation for the years ended December 31, 2013 and 2012, are as follows (Unit: Korean won in millions):

	2013		2012	
Beginning balance	₩	193,120	₩	138,545
Current service cost		40,882		34,242
Interest cost		6,807		6,099
Remeasurement:		6,624		26,662
Actuarial gain or loss from changes in demographic assumptions		4,694		(2,224)
Actuarial gain or loss from changes in financial assumptions		(1,580)		19,557
Actuarial gain or loss from difference between estimated and actual		3,469		9,038
Transfer in/out adjustments		41		291
Benefits paid		(13,623)		(13,657)
Transferred affiliated companies		951		1,229
Ending balance	₩	234,761	₩	193,120

3) Income or loss recognized relating to defined benefit plan for the years ended December 31, 2013 and 2012, are as follows (Unit: Korean won in millions)

	2013		2012	
Service cost	₩	40,882	₩	34,242
Current service cost		40,882		34,242
Net interest cost of net defined benefit obligations		2,248		1,796
Interest cost of defined benefit obligations		6,807		6,099
Interest income of plan assets		(4,558)		(4,303)
Others		281		200
Total	₩	43,411	₩	36,238

4) Changes in plan asset for the years ended December 31, 2013 and 2012, are as follows (Unit: Korean won in millions):

	2013		2012	
Beginning balance	₩	131,608	₩	100,584
Interest income on plan assets		4,558		4,303
Gain or loss on the remeasurements of plan assets		228		184
Contributions from the employer		57,503		35,614
Transferred affiliated companies		876		1,374
Others		(281)		(200)
Benefits paid		(10,156)		(10,251)
Ending balance	₩	184,336	₩	131,608

5) The principal assumptions used for the actuarial valuations as of December 31, 2013 and 2012, are as follows:

	December 31, 2013	December 31, 2012
Discount rate	3.17%~4.06%	3.17%~3.71%
Expected rate of salary increase	3.00%~6.00%	5.00%~5.95%

6) All the plan assets are invested in financial instruments that are guaranteed for the principal and the interest rate as of December 31, 2013 and 2012.

7) The result of sensitivity analysis for the actuarial assumptions as of December 31, 2013 is as follows (Unit: Korean won in millions):

	Center scenario	1% increase	1% decrease
Changes in discount rate	₩ 234,761	₩ 211,916	₩ 261,858
Changes in rate of salary increase	₩ 234,761	₩ 261,097	₩ 212,067

(*) The above sensitivity is estimated based on the assumption all the other assumptions will remain unchanged.

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

	Expectations as of December 31, 2013 for the year 2014	Expectations as of December 31, 2012 for the year 2013
Actuarial gain or loss from changes in demographic assumptions	₩ 4,694	₩ (2,224)
Actuarial gain or loss from changes in financial assumptions	(1,580)	19,557
Actuarial gain or loss from difference between estimated and actual	3,469	9,038
Return on plan assets excluding amounts included in interest income	228	(184)
Difference of estimation and adjustment in liabilities related to employee transfer	41	291
Total	₩ 6,852	₩ 26,478

20. OTHER LIABILITIES:

Other liabilities as of December 31, 2013 and 2012, are as follows (Unit: Korean won in millions):

	December 31, 2013		December 31, 2012	
	Current	Non-current	Current	Non-current
Advances received	₩ 92,754	₩ -	₩ 94,527	₩ -
Unearned income	59,334	18,684	57,152	18,816
	₩ 152,088	₩ 18,684	₩ 151,679	₩ 18,816

21. FINANCE LEASE LIABILITIES:

Finance lease liabilities as of December 31, 2013 and 2012, are as follows (Unit: Korean won in millions):

	Creditor	Lease term	Annual interest rate (%)	Quarterly lease payment (*)	December 31, 2013	December 31, 2012
Finance lease	Hewlett-Packard Korea Financial Service, Ltd.	Apr. 30, 2010–Apr. 29, 2013	3.94	3,058	₩ -	₩ 6,027
		Oct. 29, 2010–Oct. 31, 2013	3.17	1,995	-	7,823
		Jul. 29, 2011– Jul. 29, 2014	4.04	1,878	5,521	12,627
		Jan. 31, 2012–Jan. 31, 2015	4.08	2,033	9,859	17,394
Subtotal					15,380	43,871
Less current maturities					(13,369)	(28,491)
Book value of financial lease liabilities					₩ 2,011	₩ 15,380

(*) 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, 2013 and 2012, are as follows:

Type of stock	Number of authorized shares	Par value	December 31, 2013		December 31, 2012	
			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	436,611,361 shares	₩2,573,969 million

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

(2) Capital surplus
Capital surplus of the Group is composed of paid-in capital in excess of par value and an option premium on convertible bonds. On January 1, 2010, the capital surplus was increased by ₩823,133 million due to the merger with LG Dacom and LG Powercom. In addition, ₩1,849 million was recognized as capital surplus as the Group issued convertible bonds in 2010. As of December 31, 2013, capital surplus amounted to ₩836,561 million. Paid-in capital in excess of par value shall only be used for capitalization or disposition of accumulated deficit.

(3) Other capital items
Losses on the disposal of treasury stock, amounting to ₩4,096 million as of December 31, 2012, were offset by retained earnings in accordance with the approved decision of the shareholders' meeting on March 15, 2013.

(4) Legal reserve
As of December 31, 2013, earned surplus reserve in form of legal reserve of ₩44,486 million is included in retained earnings. The Commercial Code of the Republic of Korea requires the Group to appropriate, as a legal reserve, an amount equal to a minimum of 10% of cash dividends paid until such reserve equals 50% of its issued capital stock. The reserve is not available for the payment of cash dividends, but may be transferred to capital stock or used to reduce accumulated deficit.

23. DIVIDENDS:

(1) The details of dividend paid for the years ended December 31, 2013 and 2012, are as follows:

	2013		2012	
Number of shares issued and outstanding		436,611,361 shares		436,611,361 shares
Number of treasury stocks		3 shares		1 shares
Number of shares eligible for dividends		436,611,358 shares		436,611,360 shares
Par value per share	₩	5,000	₩	5,000
Dividend rate		3%		-
Dividends per share	₩	150	₩	-
Total dividends	₩	65,492 million	₩	-

(4) Dividend payout ratio for the years ended December 31, 2013 and 2012, are as follows (Unit: Korean won in millions):

	2013		2012	
Total dividends	₩	65,492	₩	-
Net income attributable to the owners of the Company		279,463		(59,680)
Dividend payout ratio		23.4%		-

24. ACCUMULATED OTHER COMPREHENSIVE INCOME(LOSS):

Composition of accumulated other comprehensive income or loss for the years ended December 31, 2013 and 2012, is as follows (Unit: Korean won in millions):

	Gain on valuation of AFS financial assets	Loss on valuation of AFS financial assets	Loss on valuation of cash flow hedging derivatives	Share of other comprehensiv-e income of joint ventures and associates	Gain on foreign currency translation for foreign operations	Total
January 1, 2012	₩ 282	₩ (10,619)	₩ (46)	₩ 126	₩ 4	₩ (10,253)
Fair value assessment	444	6,567	-	-	-	7,011
Hedge accounting	-	-	(3,568)	-	-	(3,568)
Equity method	-	-	-	(193)	-	(193)
Foreign currency translation for foreign operations	-	-	-	-	27	27
December 31, 2012	726	(4,052)	(3,614)	(67)	31	(6,976)
January 1, 2013	726	(4,052)	(3,614)	(67)	31	(6,976)
Fair value assessment	244	(1,578)	-	-	-	(1,334)
Hedge accounting	-	-	1,600	-	-	1,600
Equity method	-	-	-	(417)	-	(417)
Foreign currency translation for foreign operations	-	-	-	-	17	17
December 31, 2013	₩ 970	₩ (5,630)	₩ (2,014)	₩ (484)	₩ 48	₩ (7,110)

25. OTHER EXPENSES:

Composition of other expenses for the years ended December 31, 2013 and 2012, are as follows (Unit: Korean won in millions):

	2013	2012
Operating lease payment	₩ 307,325	₩ 294,378
Advertising expenses	284,791	260,332
Sales commissions	2,337,951	2,151,712
Commission charge	1,073,783	922,270
Interconnection charge	641,425	608,289
Telecommunication equipment rental fees	289,658	284,191
Outsourcing expenses	310,626	277,527
Bad debt expenses	84,864	63,674
International interconnection charge	177,661	171,698
Others	548,512	515,947
	₩ 6,056,596	₩ 5,550,018

26. OTHER NON-OPERATING REVENUE AND EXPENSES:

(1) Other non-operating revenue for the years ended December 31, 2013 and 2012, are as follows (Unit: Korean won in millions):

	2013	2012
Gain on disposals of tangible assets	₩ 937	₩ 1,423
Gain on foreign currency transactions	3,790	6,047
Gain on foreign currency translation	4,909	8,993
Miscellaneous income	49,236	40,356
	₩ 58,872	₩ 56,819

(2) Other non-operating expenses for the years ended December 31, 2013 and 2012, are as follows (Unit: Korean won in millions):

	2013	2012
Loss on disposals of tangible assets	₩ 19,223	₩ 30,617
Impairment loss of tangible assets	-	9,798
Loss on disposals of intangible assets	-	77
Impairment loss of intangible assets	3,707	-
Loss on foreign currency transactions	4,114	5,301
Loss on foreign currency translation	4,561	8,581
Donation	3,487	5,564
Miscellaneous loss	36,434	16,743
	₩ 71,526	₩ 76,681

27. FINANCIAL REVENUE AND FINANCIAL EXPENSES:

(1) Financial revenue for the years ended December 31, 2013 and 2012, are as follows (Unit: Korean won in millions):

	2013		2012	
Interest income	₩	58,663	₩	69,746
Gain on foreign currency transactions		47		-
Gain on foreign currency translation		2		1
Dividend income		394		600
	₩	59,106	₩	70,347

(2) Interest income included in financial revenue for the years ended December 31, 2013 and 2012, are as follows (Unit: Korean won in millions):

	2013		2012	
Cash and cash equivalents and financial institution deposits	₩	10,876	₩	11,462
Other loans and receivables		47,787		58,284
	₩	58,663	₩	69,746

(3) Financial expenses for the years ended December 31, 2013 and 2012, are as follows (Unit: Korean won in millions):

	2013		2012	
Interest expenses	₩	209,867	₩	212,642
Loss on foreign currency transactions		1		31
Loss on disposals of AFS financial assets		-		7
Impairment loss of AFS financial assets		1,172		-
Loss on disposals of trade receivables		44,676		94,485
	₩	255,716	₩	307,165

(4) Interest expenses included in financial expenses for the years ended December 31, 2013 and 2012, are as follows (Unit: Korean won in millions):

	2013		2012	
Bank overdrafts and loan interest	₩	110,413	₩	109,816
Finance lease liabilities interest		1,066		2,286
Debentures interest		82,733		89,844
Other interest expenses		16,473		22,815
(-)Borrowing cost, as part of the cost of the qualifying asset (*)		(818)		(12,119)
	₩	209,867	₩	212,642

(*) Capitalization rate for calculating borrowing costs which is eligible for capitalization is 4.32%.

(5) Categorized profit and loss on financial instruments for the years ended December 31, 2013 and 2012, are as follows (Unit: Korean won in millions):

	2013		2012	
FINANCIAL ASSETS				
Cash and cash equivalents	₩	10,932	₩	11,552
AFS financial assets		(779)		593
Loans and receivables		(84,973)		(109,885)
Subtotal		(74,820)		(97,740)
FINANCIAL LIABILITIES				
Financial liabilities at amortized cost		(206,631)		(201,593)
Subtotal		(206,631)		(201,593)
	₩	(281,451)	₩	(299,333)

28. INCOME TAX:

(1) Composition of income tax expense for the years ended December 31, 2013 and 2012, is as follows (Unit: Korean won in millions):

	2013	2012
Current income tax payable	₩ 26,909	₩ 248
Changes in deferred tax assets due to temporary differences	26,373	(75,725)
Income tax expenses reflected directly in equity	1,101	5,859
Income tax expense(income)	₩ 54,383	₩ (69,618)

(2) Reconciliation between income(loss) before income tax and income tax expense(income) of the Group for the years ended December 31, 2013 and 2012, is as follows (Unit: Korean won in millions):

	2013	2012
Income(Loss) before income tax expense	₩ 333,844	₩ (129,233)
Tax expense calculated on booked income (tax rate: 24.2%)	80,790	(31,275)
Adjustments:		
Non-taxable income	(17)	(13)
Non-deductible expenses	8,705	2,933
Tax credits	(34,274)	(40,633)
Others	(821)	630
Income tax expense (income)	₩ 54,383	₩ (69,618)
Effective tax rate (income tax expense/income before income tax expense)(*)	16.29%	-

(*) Since the income tax for the year ended December 31, 2012 resulted in an income,, no effective tax rate was calculated.

(3) Income taxes directly reflected in equity for the years ended December 31, 2013 and 2012, are as follows (Unit: Korean won in millions):

	2013	2012
Loss on valuation of cash flow hedging derivatives	₩ (511)	₩ 1,139
Gain from valuation of AFS financial assets	(78)	(142)
Loss from valuation of AFS financial assets	505	(2,096)
Loss on sales of treasury shares	-	1,308
Remeasurement of defined benefit plan	1,185	5,650
	₩ 1,101	₩ 5,859

(4) Changes in deferred tax assets (liabilities) for the year ended December 31, 2013, are as follows (Unit: Korean won in millions):

	Beginning balance	Increase	Decrease	Ending balance
TEMPORARY DIFFERENCES TO BE DEDUCTED:				
Defined benefit obligations	₩ 141,988	₩ 39,130	₩ 6,504	₩ 174,614
Allowance for doubtful accounts	170,565	209,072	170,142	209,495
Loss on valuation of inventories	75,281	35,312	69,928	40,665
Unsettled expenses	106,126	123,328	108,726	120,728
Property, plant and equipment	346,666	69,868	132,333	284,201
Provisions	43,593	43,472	43,593	43,472
Impairment losses on investment securities	26,300	1,172	413	27,059
Loss on valuation of investment securities	4,388	2,083	322	6,149
Derivatives	4,768	-	2,111	2,657
Intangible assets	294,115	17,494	139,053	172,556
Deemed dividends	160	-	-	160
Government subsidies	1,550	1,331	677	2,204
Loss on foreign currency translation	8,694	-	8,694	-
Adjustment on revenues	118,496	182,875	189,955	111,416
Investment assets	-	3,707	-	3,707
Others	2,766	3,050	-	5,816
Subtotal of temporary differences to be deducted	1,345,456	731,894	872,451	1,204,899
TEMPORARY DIFFERENCES TO BE ADDED:				
Accrued interest income	(689)	(250)	(689)	(250)
Present value discount account	(3,765)	(32)	(142)	(3,655)
Deposits for severance benefits	(106,299)	(59,623)	(6,504)	(159,418)
Interest expenses (capitalized interest expense)	(13,873)	-	(4,175)	(9,698)
Gain on foreign currency translation	(8,994)	8,994	-	-
Estimated assets for restoration	(14,897)	(13,824)	(14,897)	(13,824)
Tax reserves	(16,800)	-	(8,400)	(8,400)
Conversion feature on convertible bonds	(1,108)	(1,530)	-	(2,638)
Subtotal of temporary differences to be added	(166,425)	(66,265)	(34,807)	(197,883)
Realizable temporary differences	1,179,979			1,009,494
Unrealizable temporary differences	(948)			(2,478)
Tax rate	24.2%			24.2%
Income tax effect due to temporary differences	286,257			244,298
Income tax effect due to tax credit carryforwards	166,563			182,149
Deferred income tax assets	₩ 452,820			₩ 426,447

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

	Beginning balance	Increase	Decrease	Ending balance
TEMPORARY DIFFERENCES TO BE DEDUCTED:				
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)
Others	5,179	597	3,010	2,766
Subtotal of temporary differences to be deducted	1,223,053	826,845	705,467	1,344,431
TEMPORARY DIFFERENCES TO BE ADDED:				
Accrued interest income	(145)	(689)	(145)	(689)
Deposits for severance benefits	(85,298)	(26,587)	(5,586)	(106,299)
Interest expenses (capitalized interest expense)	(18,238)	-	(4,365)	(13,873)
Gain on foreign currency translation	(5,554)	(8,994)	(5,554)	(8,994)
Estimated assets for restoration.	(22,515)	(14,897)	(22,515)	(14,897)
Tax reserves	(25,200)	-	(8,400)	(16,800)
Conversion feature on convertible bonds	(1,158)	-	(1,158)	-
Subtotal of temporary differences to be added	(158,108)	(51,167)	(47,723)	(161,552)
Realizable temporary differences	1,062,045			1,182,879
Unrealizable temporary differences	2,900			2,900
Tax rate	24.2%, 22.0%			24.2%
Income tax effect due to temporary differences	256,922			286,257
Income tax effect due to tax credit carryforwards	120,173			166,563
Deferred tax assets	₩ 377,095			₩ 452,820

(6) As of December 31, 2013 and 2012, temporary differences not recognized as deferred tax assets (liabilities) related to investment asset and equity interest are as follows (Unit: Korean won in millions):

	December 31, 2013	December 31, 2012
Investments in associates and joint ventures	₩ (2,478)	₩ (948)

29. EARNINGS PER SHARE:

Basic earnings per share is the net income attributable to one share of common stock of the Group. It is measured by dividing net income attributable to common stocks during a specified period by the weighted-average numbers of common shares issued during that period. Earnings per share for the years ended December 31, 2013 and 2012, are calculated as follows (Unit: Korean won in millions, except for earnings per share):

	2013		2012	
Net income(loss)	₩	279,463	₩	(59,680)
Weighted-average number of common shares outstanding		436,611,360 shares		436,484,393 shares
Earnings per share (in Korean won)	₩	640 per share	₩	(136) per share

Diluted earnings per share are same to basic earnings per share as the Group has no dilutive potential common stocks as of December 31, 2013.

30. COMMITMENTS AND CONTINGENCIES:

(1) As of December 31, 2013, there are 93 lawsuits ongoing where the Group is a defendant in the Republic of Korea; total claim amount the Group is being sued for is ₩8,720 million. Management believes the outcome of these lawsuits will likely not have a significant effect on the financial position of the Group.

(2) The Group entered into agreements with Korea Development Bank and others for a line of credit and commercial paper up to ₩470,000 million. These agreements include a bank overdraft agreement with Woori Bank and others up to ₩40,000 million.

(3) As of December 31, 2013, the Group has entered into agreements with Woori Bank for a B2B limit of ₩1,500,000 million, in order to pay off its accounts payable. Among the agreements, the Group has entered into a loan agreement secured by an electronic accounts receivable agreement, where the Group guarantees the payment of accounts receivable up to ₩150,000 million when the Group's vendors transfer the accounts receivable due by the Group prior to its maturity. And the Group entered into agreements of B2B PLUS, including the issue limit up to ₩90,000 million and the credit limit with Woori Bank up to ₩30,000 million. In addition, the Group has agreements with the Industrial Bank of Korea for its corporate purchasing card with a limit of ₩18,000 million.

(4) The Group entered into agreements (syndicated loan) with six financial institutions including Korea Development Bank (KDB) up to ₩1,000,000 million and as of December 31, 2013, the Group borrowed ₩937,500 million.

(5) The Group reviews the possibility of additional payment for regular incentives based on the supreme court decision in relation to ordinary wages on the date of December 18, 2013 but the effect on the financial statements of the Group cannot be reliably estimated as of December 31, 2013.

31. RELATED-PARTY TRANSACTIONS:

(1) Major related parties as of December 31, 2013 and 2012, are as follows:

1) As of December 31, 2013

	Company
Investor with significant influence over the Group	LG Corporation
Subsidiaries	Ain Teleservice, CS Leader, Medialog, Dacom America Inc., CS One Partner and With U
Joint Venture	Dacom Crossing
Associates	True Internet Data Center Company, Mediplus Solution
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

2) As of December 31, 2012

	Company
Investor with significant influence over the Group	LG Corporation
Subsidiaries	Ain Teleservice, CS Leader, Medialog, Dacom America Inc. and CS One Partner
Joint Venture	Dacom Crossing, Mediplus Solution
Associates	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, 2013, no entity controls the Group. LG Corp. has 36.05% of ownership interest and has significant influence over the Group.
Transactions between the Company and all its subsidiaries were removed when preparing the consolidated financial statements, and those related-party transactions and the related receivables and debt balances will not be disclosed the note.

(2) Major transactions with the related parties for the years ended December 31, 2013 and 2012, are as follows (Unit: Korean won in millions):

	2013			2012		
	Sales and others	Purchase of Property, plant and equipment	Other Purchases	Sales and others	Purchase of Property, plant and equipment	Other Purchases
Investor with significant influence over the Group:						
LG Corporation	₩ 211	₩ -	₩ 29,742	₩ 225	₩ -	₩ 28,611
Joint Venture:						
Dacom Crossing	454	5,331	7,830	563	9,832	8,079
Others:						
Serveone	13,569	79,115	27,110	14,578	76,005	28,072
LG Management Development Institute	134	-	5,051	104	-	4,006
LG Sports	71	-	2,307	60	-	2,270
LG Siltron	780	-	1,602	584	-	-
LG CNS(*)	65,541	115,333	111,342	66,709	90,928	108,149
Lusem	63	-	-	73	-	-
LG Solar Energy	1	-	-	-	-	-
Total	₩ 80,824	₩ 199,779	₩184,984	₩82,896	₩ 176,765	₩ 179,187

(*) Transactions of the associate's subsidiaries are included.

(5) Outstanding receivables and payables from transactions with related parties as of December 31, 2013 and 2012, are as follows (Unit: Korean won in millions):

	December 31, 2013		December 31, 2012	
	Receivables	Payables	Receivables	Payables
Investor with significant influence over the Group:				
LG Corporation	₩ 5,396	₩ 1,060	₩ 5,323	₩ 3,377
Jointly controlled entity:				
Dacom Crossing	35	376	-	365
Others:				
Serveone	19,499	37,872	19,295	29,130
LG Management Development Institute	2,958	270	2,961	134
LG Sports	-	39	-	39
LG Siltron	309	-	237	-
LG CNS (*)	3,958	97,748	9,168	74,165
	₩ 32,155	₩ 137,365	₩ 36,984	₩ 107,210

(*) Transactions of the associate's subsidiaries are included.

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

(4) The compensation and benefits for the Group's key management, including directors (excluding non-executive directors) and executive officers, who have significant control and responsibilities on planning, operating and controlling the Group's business activities for the years ended December 31, 2013 and 2012, are summarized as follows (Unit: Korean won in millions):

	2013	2012
Short-term employee benefits	₩ 23,452	₩ 29,551
Postemployment benefits (*)	5,916	3,344
	₩ 29,368	₩ 32,895

(*) The above balances refer to retirement benefits incurred for key management for the years ended December 31, 2013 and 2012. In addition, the present values of defined benefit obligations for key management are ₩26,451 million and ₩23,998 million as of December 31, 2013 and 2012, respectively.

32. RISK MANAGEMENT:

(1) Capital risk management

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

The Group's capital structure consists of net liability, which is borrowings (including bonds and finance lease liability), less cash and cash equivalents and equity; the overall capital risk management policy of the Group remains unchanged from prior period. In addition, items managed as capital by the Group as of December 31, 2013 and 2012, are as follows (Unit: Korean won in millions):

	December 31, 2013	December 31, 2012
Total borrowings	₩ 4,537,377	₩ 4,292,735
Less : Cash and cash equivalents	(398,335)	(341,367)
Borrowings, net	4,139,042	3,951,368
Total equity	₩ 4,022,616	₩ 3,748,500
Net borrowings to equity ratio	102.89%	105.41%

(2) Financial risk management

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

1) Foreign currency risk

The Group is exposed to exchange rate fluctuation risk since it undertakes transactions denominated in foreign currencies. The carrying amounts of Group's monetary assets and liabilities denominated in foreign currencies that is not the functional currency as of December 31, 2013 and 2012, are as follows (Unit: Korean won in millions):

① As of December 31, 2013

Currency	Assets	Liabilities
AUD	₩ -	₩ 1
EUR	239	4,597
HKD	191	-
JPY	7	17
SDR	24	343
SGD	1	1
USD	125,448	145,308
GBP	33	-
	₩ 125,943	₩ 150,267

② As of December 31, 2012

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

The Group internally assesses the foreign currency risk from changes in exchanges rates on a regular basis. The Group’s sensitivity analysis to a 10% increase and decrease in the KRW (functional currency of the Group) against the major foreign currencies as of December 31, 2013 and 2012, is as follows (Unit: Korean won in millions):

① As of December 31, 2013

Currency	Gain (loss) from 10% increase against foreign currency	Gain (loss) from 10% decrease against foreign currency
EUR	₩ (330)	₩ 330
HKD	14	(14)
JPY	(1)	1
SDR	(24)	24
USD	(1,505)	1,505
GBP	3	(3)
	₩ (1,843)	₩ 1,843

② As of December 31, 2012

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

The above sensitivity analysis is conducted for monetary assets and liabilities denominated in foreign currencies other than the functional currency as of December 31, 2013 and 2012.

2) Interest rate risk

The Group borrows funds on floating interest rates and is exposed to cash flow risk arising from interest rate changes. The book value of liability exposed to interest rate risk as of December 31, 2013 and 2012, is as follows (Unit: Korean won in millions):

	December 31, 2013	December 31, 2012
Borrowings	₩ 328,115	₩ 381,201

The Group internally assesses the cash flow risk from changes in interest rates on a regular basis. Effect of changes in interest rates of 1% to net income as of December 31, 2013 and 2012, is as follows (Unit: Korean won in millions):

① As of December 31, 2013

	1% increase		1% decrease	
	Gain(loss)	Net asset	Gain(loss)	Net asset
Borrowings	₩ (2,487)	₩ (2,487)	₩ 2,487	₩ 2,487

② As of December 31, 2012

	1% increase		1% decrease	
	Gain(loss)	Net asset	Gain(loss)	Net asset
Borrowings	₩ (2,890)	₩ (2,890)	₩ 2,890	₩ 2,890

In order to manage its interest rate risks, the Group enters into interest rate swap contracts. The Group applies cash flow hedge accounting for its interest swap contracts; the value of the unsettled interest swap contract as of December 31, 2013 and 2012 are as follows (Unit: Korean won in millions):

① As of December 31, 2013

		Valuation gain and loss			Fair value	
	Notional principal value	Gain	Loss	Accumulated other comprehensive income	Assets	Liabilities
Interest rate swap	300,000	₩ -	₩ 2,657	₩ (2,014)	₩ -	₩ 2,657

② As of 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

3) Price risk

The Group is exposed to price risks arising from AFS equity instruments. As of December 31, 2013, fair value of AFS equity instruments is ₩33,637 million and when all the other variables are constant and when the price of equity instrument changes by 10%, the effect in equity will be ₩2,550million.

4) Credit risk

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

5) Liquidity risk

The Group manages liquidity risk by establishing short-, medium- and long-term funding plans and continuously monitoring actual cash out flow and its budget to match the maturity profiles of financial assets and liabilities. Management of the Group believes that financial liability may be redeemed by cash flow arising from operating activities and financial assets.

Maturity analysis of non-derivative financial liabilities according to its remaining maturity as of December 31, 2013 and 2012, are as follows. (Unit: Korean won in millions):

① As of December 31, 2013

	Within a year		One to five years		Total	
Non-interest-bearing instruments	₩	2,344,450	₩	604,516	₩	2,948,966
Variable interest instruments		10,444		17,671		28,115
Fixed interest rate instruments		1,270,401		3,436,048		4,706,449
	₩	3,625,295	₩	4,058,235	₩	7,683,530

② As of December 31, 2012

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

The maturity analysis of derivative financial liabilities according to their remaining maturity as of December 31, 2013 and 2012, are as follows (Unit: Korean won in millions):

① As of December 31, 2013

	Within a year		One to five years	
Derivatives designated as a hedging instrument:				
Interest rate swap liabilities	₩	2,254	₩	403

② As of December 31, 2012

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

(3) Fair value hierarchy

The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices (includes held for trading, AFS securities and others). The Group’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 by fair value assessment method. The Group performs several valuation methods and makes assumptions based on market circumstance at the end of the reporting period. Financial liabilities, such as long-term liabilities are evaluated their fair value by prices from observable current market transactions or dealer quotes for similar instruments and the other financial instruments by various techniques, such as discounted estimated cash flow.

Fair value of trade receivables and trade payables is impairment deducted book value and fair value of financial liabilities is discounted cash flow using current market rate, which is applied similar financial instruments the Group held.

The interest rates used by the Group to estimate fair value are as follows:

	December 31, 2013	December 31, 2012
Derivatives	2.67%~2.85%	2.74%–3.56%
Debentures	2.73%~3.71%	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, 2013 and 2012, are as follows (Unit: Korean won in millions):

1) As of December 31, 2013

	December 31, 2013				
		Fair value			
	Carrying amount	Level 1	Level 2	Level 3	Total
Financial assets:					
Marketable equity securities	₩ 33,637	₩ 33,637	₩ -	₩ -	₩ 33,637
	₩ 33,637	₩ 33,637	₩ -	₩ -	₩ 33,637
Financial liabilities:					
Derivative liabilities designated as hedging instrument	₩ 2,657	₩ -	₩ 2,657	₩ -	₩ 2,657
Ending balance	₩ 2,657	₩ -	₩ 2,657	₩ -	₩ 2,657

2) As of 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
Debt Security	1	-	-	1	1
	₩ 35,399	₩ 35,398	₩ -	₩ 1	₩ 35,399
Financial liabilities:					
Derivative liabilities designated as hedging instrument	₩ 4,768	₩ -	₩ 4,768	₩ -	₩ 4,768
Ending balance	₩ 4,768	₩ -	₩ 4,768	₩ -	₩ 4,768

33. STATEMENTS OF CASH FLOWS:

The major transactions not involving cash outflows and cash inflows for the years ended December 31, 2013 and 2012, are as follows (Unit: Korean won in millions):

	2013	2012
Write-off of trade receivables	₩ 46,979	₩ 81,049
Mutual reclassification between trade receivables and non-current trade receivables	31,916	185,761
Valuation of AFS security	1,761	9,249
Reclassification of assets under construction	1,360,508	2,030,431
Current maturities of other long-term payables	102,259	107,713
Other payables relating to acquiring intangible assets	297,385	12,119
Current maturities of debentures and long-term borrowings	1,222,653	943,821

34. EVENTS AFTER THE REPORTING PERIOD:

(1) On January 28, 2014, according to the resolution of the board of directors, the Group determined to sold the trade receivables whose total face amount is ₩446,854 million to U Plus LTE SPC 13th. The proceeds from this sale have been already settled on February 11, 2014.

(2) On March 3, 2014, the Group issued public bond of ₩50,000 million following the 96-1, public bond of ₩200,000 million following the 96-2 and public bond of ₩50,000 million following the 96-3.