Deloitte.

LG UPLUS CORP.

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

Deloitte Anjin LLC
9Fl., One IFC,
10, Gukjegeumyung-ro
Youngdeungpo-gu, Seoul
150-876, Korea

Tel: +82 (2) 6676 1000
Fax: +82 (2) 6674 2114
www.deloitteanjin.co.kr

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 separate financial statements of LG Uplus Corp. (the "Company"). The separate financial statements consist of the separate statements of financial position as of December 31, 2013 and 2012, the related separate statements of income, separate statements of comprehensive income, separate statements of changes in shareholders' equity and separate statements of cash flows for the years ended December 31, 2013 and 2012, all expressed in Korean won. These separate financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these separate financial statements based on our 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 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 separate financial statements referred to above present fairly, in all material respects, the financial position of the Company 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 separate financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries other than the Republic of Korea. In addition, the procedures and practices utilized in the Republic of Korea to audit such financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report and the accompanying separate financial statements are for use by those knowledgeable about Korean accounting principles and auditing standards and their application in practice.

Deloitte Anjin LLC

March 5, 2014

<u>Notice to Readers</u>

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 separate financial statements and may result in modifications to the auditors' report.

LG UPLUS CORP. (the "Company")

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

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

Sang Chul Lee

President of LG Uplus Corp.

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

	Korean won	
	December 31, 2013	December 31, 2012
	(In millions)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents (Notes 5, 6 and 33)	₩ 377,358	₩ 325,761
Financial institution deposits (Notes 5 and 7)	32,281	22,254
Trade receivables, net (Notes 5, 8 and 32)	1,562,597	1,570,070
Loans and other receivables, net (Notes 5, 8 and 32)	175,182	177,472
Income tax receivable (Note 29)	-	7,726
Available-for-sale ("AFS") financial assets (Note 5)	-	1
Inventories, net (Note 9)	394,530	346,426
Other current assets (Note 10)	126,400	103,847
Total current assets	2,668,348	2,553,557
NON-CURRENT ASSETS:		
Non-current financial institution deposits (Notes 5 and 7)	21	21
Non-current AFS financial assets (Notes 5 and 33)	81,332	84,570
Non-current trade receivables, net (Notes 5, 8 and 32)	502,126	609,955
Non-current loans and other receivables, net (Notes 5, 8 and 32)	275,982	256,245
Investments in subsidiaries (Note 14)	14,825	14,425
Investments in jointly controlled entities and associates (Note 15)	8,781	8,781
Deferred tax assets, net (Note 29)	425,326	451,829
Property, plant and equipment, net (Note 11)	6,389,645	6,075,308
Investment property, net (Note 12)	95,825	92,487
Intangible assets, net (Note 13)	1,252,639	885,779
Other non-current assets (Note 10)	31,274	37,124
Total non-current assets	9,077,776	8,516,524
TOTAL ASSETS	₩ 11,746,124	₩ 11,070,081
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Trade payables (Notes 5, 32 and 33)	₩ 362,146	₩ 455,767
Non-trade and other payables (Notes 5, 32 and 33)	1,820,267	1,806,330
Short-term borrowings (Notes 5, 16 and 33)	-	50,000
Current portion of debentures and long-term borrowings (Notes 5, 16 and 33)	1,221,342	943,348
Current derivative liabilities (Notes 5, 33)	2,254	-
Other current financial liabilities (Notes 5, 17, 21 and 33)	163,232	127,468
Income tax payable (Note 29)	4,373	-
Other current liabilities (Note 20)	151,585	151,195
Total current liabilities	3,725,199	3,534,108

(Continued)

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

	Korean won			
	December 31, 2013		December 31, 2012	
	(In millions)			
NON-CURRENT LIABILITIES:				
Debentures and long-term borrowings (Notes 5, 16 and 33)	₩	3,300,655	₩	3,255,516
Non-current derivative liabilities (Notes 5 and 33)		403		4,768
Other non-current financial liabilities (Notes 5, 17 , 21 and 33)		606,529		425,859
Retirement benefit obligation (Notes 19 and 32)		42,134		53,905
Provisions (Note 18)		37,572		36,227
Other non-current liabilities (Note 20)		18,683		18,816
Total non-current liabilities		4,005,976		3,795,091
TOTAL LIABILITIES		7,731,175		7,329,199
SHAREHOLDERS' EQUITY:				
Capital stock (Note 22)		2,573,969		2,573,969
Capital surplus (Note 22)		836,561		836,561
Other capital items (Note 22)		-		(4,096)
Accumulated other comprehensive loss (Note 25)		(6,675)		(6,941)
Retained earnings (Note 23, 24)		611,094		341,389
TOTAL SHAREHOLDERS' EQUITY		4,014,949		3,740,882
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	₩	11,746,124	₩	11,070,081

(Concluded)

See accompanying notes to separate financial statements.

LG UPLUS CORP.
SEPARATE 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 (Note 4, 32)	₩	11,452,151	₩	10,904,831
Operating expenses:				
Cost of merchandise purchased (Note 9, 32)		2,903,367		3,294,714
Employee benefits (Notes 19 and 32)		492,061		423,378
Depreciation and amortization (Notes 11, 12 and 13)		1,311,965		1,391,566
Other expenses (Note 26)		6,202,134		5,669,315
		10,909,527		10,778,973
Operating income		542,624		125,858
Financial revenues (Note 28)		58,400		69,421
Financial expenses (Note 28)		(255,715)		(307,164)
Other non-operating revenue (Note 27)		57,956		56,160
Other non-operating expenses (Note 27)		(71,521)		(76,593)
Income (loss) before income tax		331,744		(132,318)
Income tax expense (income) (Note 29)		54,232		(69,734)
Net income (loss)	₩	277,512	₩	(62,584)
Net income (loss) per share (In Korean won) (Note 30)				
Basic income (loss) per share	₩	636	₩	(144)
Diluted income (loss) per share	₩	636	₩	(144)

See accompanying notes to separate financial statements.

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

	Korean won			
	2013		2012	
	(In millions)			
NET INCOME (LOSS)	₩	277,512	₩	(62,584)
OTHER COMPREHENSIVE INCOME (LOSS):				
Items not reclassified subsequently to profit or loss:				
Actuarial losses on defined benefit plans		(3,711)		(17,698)
Items reclassified subsequently to profit or loss:				
Gain(loss) on valuation of AFS financial assets		(1,334)		7,010
Gain(loss) on valuation of cash flow hedging derivatives		1,600		(3,568)
		(3,445)		(14,256)
TOTAL COMPREHENSIVE INCOME (LOSS)	₩	274,067	₩	(76,840)

See accompanying notes to separate financial statements.

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

	Korean won					
	Capital stock	Capital surplus	Other capital items	Accumulated other comprehensive income (loss)	Retained earnings	Total
	(In millions)					
Balance at January 1, 2012	₩ 2,573,969	₩ 836,561	₩ (703,879)	₩ (10,383)	₩ 1,155,275	₩ 3,851,543
Annual dividends					(64,875)	(64,875)
Net loss					(62,584)	(62,584)
Gain on valuation of AFS financial assets				7,010		7,010
Loss on valuation of cash flow-hedging derivatives				(3,568)		(3,568)
Remeasurement of the net defined benefit liability(asset)					(17,698)	(17,698)
Disposal of treasury stock			35,150			35,150
Loss on disposal of treasury stock			(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)	₩ (6,941)	₩ 341,389	₩ 3,740,882
Balance at January 1, 2013	₩ 2,573,969	₩ 836,561	₩ (4,096)	₩ (6,941)	₩ 341,389	₩ 3,740,882
Net income					277,512	277,512
Loss on valuation of AFS financial assets				(1,334)		(1,334)
Gain on valuation of cash flow-hedging derivatives				1,600		1,600
Remeasurement of the net defined benefit liability(asset)					(3,711)	(3,711)
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	₩ -	₩ (6,675)	₩ 611,094	₩ 4,014,949

See accompanying notes to separate financial statements.

LG UPLUS CORP.
SEPARATE 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)	₩ 277,512	₩ (62,584)
Additions of expenses not involving cash outflows:		
Retirement benefits	34,662	28,908
Depreciation	1,203,331	1,096,301
Amortization of intangible assets	108,635	295,265
Bad debt expenses	84,868	63,662
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	22,928	40,462
Others	1,440	207
Income tax expense	54,232	-
	1,769,199	1,840,513
Deduction of items not involving cash inflows:		
Interest income	57,958	68,827
Gain on foreign currency translation	4,911	8,994
Gain on disposal of property, plant and equipment	935	1,423
Dividend income	394	593
Income tax income	-	69,734
	(64,198)	(149,571)
Changes in operating assets and liabilities related to operating activities:		
Decrease in trade receivables	53,748	452,421
Increase in loans and other receivables	(31,703)	(86,096)
Decrease (increase) in inventories	(48,103)	25,792
Decrease (increase) in other assets	(15,542)	34,327
Decrease in trade payables	(93,621)	(180,771)
Increase in non-trade payables	178,262	180,208
Decrease in retirement benefits obligation	(51,598)	(30,993)
Increase (decrease) in non-trade and other liabilities	(2,603)	23,378
	(11,160)	418,266
Interest income received	10,717	10,757
Dividend income received	394	593
Interest expense paid	(199,484)	(197,718)
Income taxes paid	(14,530)	(23,887)
	(202,903)	(210,255)
Net cash provided by operating activities	1,768,450	1,836,369

(Continued)

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

	Korean won			
	2013		2012	
	(In millions)			
CASH FLOWS FROM INVESTING ACTIVITIES				
Cash inflows from investing activities:				
Disposal of AFS financial assets	₩	484	₩	1,704
Decrease in financial institution deposits		16,254		300
Disposal of property, plant and equipment		40,448		24,460
Disposal of intangible assets		3,633		3,689
Decrease in loans		22,549		29,846
Decrease in deposits		52,455		48,104
		135,823		108,103
Cash outflows from investing activities:				
Acquisition of AFS financial assets		179		4,966
Increase of financial institution deposits		26,281		10,904
Acquisition of investments in subsidiaries and associates		400		60
Acquisition of property, plant and equipment		1,735,695		1,944,717
Acquisition of intangible assets		245,425		20,823
Increase in loans		22,509		20,038
Increase in deposits		63,650		52,487
		(2,094,139)		(2,053,995)
Net cash used in investing activities		(1,958,316)		(1,945,892)
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		1,049		246
Disposal of treasury stock		-		29,746
		1,725,715		1,744,424
Cash outflows from 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		241,462		333,413
Exchange rate fluctuation effect of cash and cash equivalents		1		1
Net increase in cash and cash equivalents		51,597		223,891
Cash and cash equivalents :				
Beginning of the year		325,761		101,870
End of the year (Note 33)	₩	377,358	₩	325,761

(Concluded)

See accompanying notes to separate financial statements.

LG UPLUS CORP.
NOTES TO SEPARATE FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 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. On April 21, 2008, the Company listed its shares on the Korea Stock Exchange ("KRX").

In efforts to enhance operational efficiency and maximize synergy effects between wire and wireless communication business, LG Dacom Corp. and LG Powercom Corp. merged into the Company on January 1, 2010 (merger registration date: January 5, 2010). Through this merger, the Company expanded its business to include landline phone service (including international and long-distance telephone services), Internet access service and value-added telecommunications activities from LG Dacom, and broadband network rentals and broadband Internet service activities from LG Powercom.

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

The Company is headquartered in Seoul, Korea, and has set up telecommunication networks all over the country to provide landline and wireless services.

As of December 31, 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 financial statements

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

The Company has adopted the Korean International Financial Reporting Standards (the "K-IFRS") from January 1, 2010, which is determined as the transition date of the Company to K-IFRS. And these are the separate financial statements of the Company in accordance with K-IFRS 1027(Separate financial statements) those presented by a parent, an investor with joint control of, or significant influence over, an investee, in which the investments are accounted for at cost or in accordance with K-IFRS 1109 (Financial Instruments).

The significant accounting policies under K-IFRS followed by the Company in the preparation of its separate 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.

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

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

The Company 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 Company recognizes related restructuring costs or termination benefits. Such amendments do not have any significant effect on the separate 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 separate 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 Company is a joint operator, the Company is to recognize assets, liabilities, revenues and expenses in relation to its interest in a joint operation and if the Company is a joint venturer, the Company is to account for that investment using the equity method. The application of K-IFRS 1111 has not had any material impact on the Company's separate 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 Company 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 Company's separate financial statements as of and for the year ended December 31, 2013.

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

The Company 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'.

Company'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 Company 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 Company's separate financial statements.

(3) Foreign currencies

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

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

Exchange differences are recognized in profit or loss in the period in which they arise except for:

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

(4) Cash and cash equivalents

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

(5) Financial assets

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

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

1) Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated at FVTPL. FVTPL includes a financial asset held for trading and a financial asset designated at FVTPL upon initial recognition. A financial asset is classified as held for trading if it has been acquired principally for the purpose of

selling in near term. A financial instrument, as long as it is not designated as an effective hedge derivative instrument or a financial guarantee contract, and contains one of more embedded derivatives, while it is treated separately from the host contract, is classified as held for trading. Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss.

2) Held-to-maturity investments

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

3) AFS financial assets

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

4) Loans and receivables

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

5) Impairment of financial assets

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

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

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

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent of the previously recognized loss amount. The carrying amount of the investment at the date the impairment is reversed shall not exceed what the amortized cost would have been had no impairment was previously recognized. In respect of AFS equity securities, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income.

6) Derecognition of financial assets

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

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

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

(7) Inventories

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

(8) Property, plant, and equipment

Property, plant, and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses. The cost of an item of property, plant and equipment is directly attributable to their purchase or construction, which includes any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. It also includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

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

The Company does not depreciate land and some tangible assets, and depreciation is computed using the straight-line method based on the estimated useful lives of the assets as follows:

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

The Company reviews the depreciation method, the estimated useful lives and residual values of property, plant and equipment at the end of each annual reporting period. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate.

In addition, when an acquisition of a tangible asset occurs free of charge or at a value less than fair market value, due to government subsidy, the acquisition cost less government subsidy is recorded as the acquisition cost upon initial acquisition and depreciation expense is calculated based on the carrying amount.

(9) Investment property

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

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

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

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

(10) Intangible assets

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

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

(11) Impairment of non-financial assets

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

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

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

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

(12) Financial liabilities and equity instruments

1) Equity instruments

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

2) Financial liabilities at FVTPL

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

3) Other financial liabilities

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

4) Financial guarantee contract liability

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

- the amount of the obligation under the contract, as determined in accordance with K-IFRS 1037 *Provisions, Contingent Liabilities and Contingent Assets*.

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

5) Derecognition of financial liabilities

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

(13) Lease

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

1) The Company as lessee

Assets held under finance leases are initially recognized as assets of the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

The financial charge, except for the case that it is capitalized as part of the cost of that asset according to the Company’s accounting for borrowing costs, is immediately expensed in the period in which it is incurred.

Contingent rents are charged as expenses in the periods in which they are incurred.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred. In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

2) The Company as lessor

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

(14) Borrowing costs

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

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

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

(15) Derivative financial instruments

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

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

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

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

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

(16) 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 Company 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 Company'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.

(17) Provisions

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

Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Provisions are calculated as present value of the best estimate of the expenditure required to settle the present obligation, using a pretax discount rate that reflects current market assessments of the time value of money and those risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

The Company reviews provision balance at the end of reporting period and adjusts the amount reflecting the best estimate.

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

(18) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold or services provided in the Company's normal course of business, net of discounts, customer returns, rebates and related taxes. The Company recognizes revenue when the amount of revenue can be measured reliably and it is probable that the economic benefits associated with the transaction will flow to the Company.

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

(19) Current tax payable and deferred tax

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

1) Current tax payable

The taxable profit differs from the profit for the period as reported in the separate statements of comprehensive income because it excludes items of income or expenses that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax expense is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

2) Deferred tax

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

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

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

3) Recognition of current tax payable and deferred tax

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

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

(20) Treasury stock

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

(21) 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 Company 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 separate 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 Company's accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may be different from those estimates. The estimates and underlying assumptions are continuously reviewed. The changes in accounting estimates are recognized in the period in which the estimate is changed if the change affects only that period, or in the period of the change and future periods if the change affects both current and future periods.

The following are the key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

(1) Fair value of financial instruments

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

(2) Bad debt allowance for loans and receivables

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

(3) Measurement of tangible and intangible assets

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

(4) Estimation of restoration liabilities

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

(5) Impairment of non-financial assets

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

(6) Defined benefit pension plan

For the defined benefit pension plan, the service cost is determined using actuarial valuations. In order to apply actuarial valuations, it is necessary to assume a discount rate, an expected wage increase rate, death 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, are ₩42,134 million (₩53,905 million as of December 31, 2012) and details are described in Note 19.

(7) Deferred tax

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

(8) Revenue and expense recognition

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

4. SEGMENT INFORMATION:

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

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

Reporting segment	Major goods and service	2013	2012
LG Uplus Corp.	Telecommunication and related services	₩ 7,853,493	₩ 7,027,216
	Handset sales	3,598,658	3,877,615
		₩ 11,452,151	₩ 10,904,831

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

5. CLASSIFICATION OF FINANCIAL INSTRUMENTS AND FAIR VALUE:

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

1) Financial assets

		December 31, 2013		December 31, 2012	
Financial assets	Account	Book Value	Fair value	Book value	Fair value
Cash and cash equivalents	Cash and cash equivalents	₩ 377,358	₩ 377,358	₩ 325,761	₩ 325,761
AFS financial assets	Marketable equity securities	33,637	33,637	35,398	35,398
	Unmarketable equity securities	47,695	47,695	49,172	49,172
	Debt securities	-	-	1	1
		81,332	81,332	84,571	84,571
Loans and receivables	Financial institution deposits	32,302	32,302	22,275	22,275
	Trade receivables	2,064,723	2,064,723	2,180,025	2,180,025
	Loans	21,219	21,219	23,179	23,179
	Other receivables	163,502	163,502	160,093	160,093
	Accrued income	249	249	1,273	1,273
	Deposits	266,194	266,194	249,172	249,172
		2,548,189	2,548,189	2,636,017	2,636,017
		₩3,006,879	₩3,006,879	₩3,046,349	₩3,046,349

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 a hedging instrument	Derivative liabilities designated as a hedging instrument	₩ 2,657	₩ 2,657	₩ 4,768	₩ 4,768
Financial liabilities measured at amortized cost	Trade payables	362,146	362,146	455,767	455,767
	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	1,744,892	1,744,892	1,682,791	1,682,791
	Accrued expenses	670,288	670,288	523,325	523,325
	Withholdings	149,863	149,863	98,977	98,977
	Finance lease liabilities	15,380	15,380	43,871	43,871
	Rental deposits	9,605	9,605	10,693	10,693
		7,474,171	7,683,750	7,064,289	7,126,389
		₩7,476,828	₩7,686,407	₩7,069,057	₩7,131,157

(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 asset, whose book value amounts to ₩47,695 million and which does not have its market value quoted in an active market, is measured at cost since its fair value cannot be reliably measured.

6. CASH AND CASH EQUIVALENTS:

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

	December 31, 2013	December 31, 2012
Financial institution deposits	₩ 375,651	₩ 321,671
Other cash equivalents	1,707	4,090
	₩ 377,358	₩ 325,761

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	₩ 21
Term deposits	NongHyup Bank	-	350
	Hana Bank (*1)	1,281	904
	Subtotal	1,281	1,254
		₩ 1,302	₩ 1,275

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

8. TRADE AND OTHER RECEIVABLES:

(1) Details of current portion of 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	₩ 1,782,184	₩ 1,784,435
Allowances for doubtful accounts	(219,587)	(214,365)
Trade receivables, net	1,562,597	1,570,070
Short-term loans	13,674	16,714
Allowances for doubtful accounts	(2,243)	(608)
Short-term loans, net	11,431	16,106
Other accounts receivable	204,441	181,980
Allowances for doubtful accounts	(40,939)	(21,887)
Other accounts receivable, net	163,502	160,093
Accrued income	249	1,273
	₩ 1,737,779	₩ 1,747,542

(2) Details of non-current portion of 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	₩	611,700
Allowances for doubtful accounts		(3,507)		(1,745)
Trade receivables, net		502,126		609,955
Long-term loans		9,788		7,073
Leasehold deposits		243,500		233,711
Guarantee deposits		22,694		15,461
	₩	778,108	₩	866,200

(3) Aging of 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	₩	2,516,115	₩	2,628,970
7–12 months		59,775		65,152
1–3 years		200,204		152,468
More than 3 years		6,069		5,757
	₩	2,782,163	₩	2,852,347

(4) Changes in allowance for 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		Other receivables	
Beginning balance	₩	216,110	₩	22,495
Impairment loss		53,963		30,905
Write-offs		(61,463)		(10,517)
Reversal of impairment loss		14,484		299
Ending balance	₩	223,094	₩	43,182

2) For the year ended December 31, 2012

	Trade receivables		Other receivables	
Beginning balance	₩	211,133	₩	26,926
Impairment loss		67,036		(3,374)
Write-offs		(79,853)		(1,196)
Reversal of impairment loss		17,794		139
Ending balance	₩	216,110	₩	22,495

9. INVENTORIES:

(1) If the net realizable value of inventories is less than its acquisition cost, the carrying amount is reduced to the net realizable value. Inventories as of December 31, 2013 and 2012, consist of the following (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	6,961	(5,663)	1,298
	₩ 424,824	₩ (30,294)	₩ 394,530	₩ 412,896	₩ (66,470)	₩ 346,426

(2) Inventory costs recognized in operating expenses for the year ended December 31, 2013 and December 31, 2012, are ₩2,903,367 million and ₩3,294,714 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
Advance payments	₩ 33,579	₩ 19,545
Prepaid expenses	92,821	84,302
	₩ 126,400	₩ 103,847

(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	₩ 31,274	₩ 37,124

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	₩10,258,723	₩ 673,713	₩ 185,399	₩12,075,644
Accumulated depreciation	-	(80,530)	(5,531,268)	(378,194)	-	(5,989,992)
Accumulated impairment loss	-	-	(9,798)	-	-	(9,798)
Government subsidies	-	-	(541)	(5)	-	(546)
Beginning balance	538,828	338,451	4,717,116	295,514	185,399	6,075,308
Acquisition	-	233	238,719	30,378	1,313,259	1,582,589
Transfers	47,771	(3,629)	1,124,099	38,385	(1,214,601)	(7,975)
Disposals	(893)	(50)	(26,496)	(1,450)	(29,845)	(58,734)
Depreciation	-	(16,690)	(1,086,647)	(98,206)	-	(1,201,543)
Ending balance	₩ 585,706	₩ 318,315	₩ 4,966,791	₩ 264,621	₩ 254,212	₩ 6,389,645
Ending acquisition cost	₩ 585,706	₩ 413,808	₩11,469,411	₩ 734,868	₩ 254,212	₩13,458,005
Accumulated depreciation	-	(95,493)	(6,492,541)	(470,245)	-	(7,058,279)
Accumulated impairment loss	-	-	(8,760)	-	-	(8,760)
Government subsidies	-	-	(1,319)	(2)	-	(1,321)
Ending balance	₩ 585,706	₩ 318,315	₩ 4,966,791	₩ 264,621	₩ 254,212	₩ 6,389,645

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

(2) Assets pledged as collateral

The Company 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 Company 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	Membership	Frequency usage rights	Other intangible assets	Total
Beginning acquisition cost	₩ 4,380	₩ 10,165	₩ 37,777	₩ 880,033	₩ 124,772	₩ 1,704,727
Accumulated amortization	(2,151)	(10,084)	-	(85,614)	(63,644)	(809,093)
Accumulated impairment loss	-	-	-	-	(9,855)	(9,855)
Beginning balance	2,229	81	37,777	794,419	51,273	885,779
Acquisition	661	-	1,063	461,973	16,289	479,986
Transfer	-	-	-	-	2,849	2,849
Disposals	-	-	-	-	(3,633)	(3,633)
Impairment loss	-	-	(3,707)	-	-	(3,707)
Amortization	(469)	(30)	-	(95,534)	(12,602)	(108,635)
Ending balance	₩ 2,421	₩ 51	₩ 35,133	₩ 1,160,858	₩ 54,176	₩ 1,252,639
Ending acquisition cost	₩ 5,000	₩ 9,242	₩ 38,840	₩ 1,342,006	₩ 121,070	₩ 1,516,158
Accumulated amortization	(2,579)	(9,191)	-	(181,148)	(57,477)	(250,395)
Accumulated impairment loss	-	-	(3,707)	-	(9,417)	(13,124)
Ending balance	₩ 2,421	₩ 51	₩ 35,133	₩ 1,160,858	₩ 54,176	₩ 1,252,639

2) For the year ended December 31, 2012

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

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

(2) The Company classifies membership 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	₩ 71,530

(4) Significant intangible assets

As part of the merger with LG Dacom Corp. and LG Powercom Corp. in 2010, the Company 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 Corp. and ₩369,500 million related to broadband Internet access, broadband network rentals and VoIP services of LG Powercom Corp. Recognized customer relationships are amortized using the straight-line method for three years of useful lives; amortization of recognized customer relationships had been completed as of December 31, 2012.

Frequency usage rights are acquired in the amount of ₩867,913 million for the year ended December 31, 2011, and amortized on a straight-line method for 10 years of useful lives. In addition, frequency usage rights for 2.6GHz are 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 lives.

14. INVESTMENTS IN SUBSIDIARIES:

(1) Composition of the Company's investments in subsidiaries as of December 31, 2013 and 2012, is as follows (Unit: Korean won in millions):

Companies	Place of incorporation and operation	Percentage of ownership (%)	Acquisition cost	Book value December 31, 2013	Book value December 31, 2012
Ain Teleservice	South Korea	100.00	₩ 434	₩ 434	₩ 434
CS Leader	South Korea	100.00	273	273	273
Medialog	South Korea	88.06	11,085	11,085	11,085
DACOM America Inc. (*1)	USA	100.00	-	-	-
CS One Partner	South Korea	100.00	2,633	2,633	2,633
With U(*2)	South Korea	100.00	400	400	-
			₩ 14,825	₩ 14,825	₩ 14,425

(*1) DACOM America Inc. has negative capital as of December 31, 2013 and 2012.
(*2) It is the subsidiary of the Company which was established for the year ended December 31, 2013.

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

Companies	December 31, 2013 Assets	Liabilities	Operating revenues	Net income (loss)
Ain Teleservice	₩ 9,720	₩ 10,337	₩ 63,519	₩ 98
CS Leader	7,786	6,975	40,433	442
Medialog	35,852	21,718	97,409	(17)
DACOM America Inc.	148	3,326	394	(357)
CS ONE Partner	10,377	7,317	63,397	781
With U	681	259	1,538	28

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

15. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES:

(1) Composition of the Company's investments in jointly controlled entities (joint ventures) and investments in associates as of December 31, 2013 and 2012, is as follows (Unit: Korean won in millions):

Companies	Class	Place of incorporation and operation	Percentage of ownership (%)	December 31, 2013	December 31, 2012
DACOM Crossing	Joint venture	South Korea	51.00	₩ 5,964	₩ 5,964
Mediplus Solution	Associates	South Korea	30.00	60	60
True Internet Data Center Company	Associates	Thailand	30.00	2,757	2,757
				₩ 8,781	₩ 8,781

(2) Summary of financial information for associates and joint venture as of and for the years ended December 31, 2013 and 2012, is as follows (Unit: Korean won in millions):

Companies	December 31, 2013 Assets	Liabilities	Operating revenue	Net income (loss)
DACOM Crossing	₩ 72,434	₩ 55,548	₩ 33,513	₩ 693
Mediplus Solution	384	439	-	(209)
True Internet Data Center Company	19,216	3,955	13,654	2,286

Companies	December 31, 2012 Assets	Liabilities	Operating revenue	Net income (loss)
DACOM Crossing	₩ 73,274	₩ 57,080	₩ 30,079	₩ 693
Mediplus Solution	140	-	-	-
True Internet Data Center Company	18,253	3,887	11,685	1,124

16. DEBENTURES AND BORROWINGS:

(1) The Company'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 Company'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 and others	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)	-
Current maturities 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 Company'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 payable	₩ -	₩ 594,913	₩ -	₩ 399,786
Withholdings	149,863	-	98,977	-
Rental deposits	-	9,605	-	10,693
Finance lease liabilities	13,369	2,011	28,491	15,380
	₩ 163,232	₩ 606,529	₩ 127,468	₩ 425,859

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	₩ 36,227	₩ 3,185	₩ (1,840)	₩ 37,572

2) For the year ended December 31, 2012

	Beginning balance	Increase	Decrease	Ending balance
Restoration liabilities	₩ 40,049	₩ 1,386	₩ (5,208)	₩ 36,227

19. RETIREMENT BENEFIT PLAN:

(1) Defined contribution plan

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

The Company recognized expense of ₩3,093 million and ₩2,917 million related to defined contribution plan for the years ended December 31, 2013 and 2012, respectively.

(2) Defined benefit plan

The Company operates a defined benefit plan for employees and according to the plan, employees will be paid his or her average salary amount of the final three months multiplied by the number of years vested; adjusted for salary pay rate and other. The valuation of the 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 separate 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	₩	203,250	₩	168,707
Fair value of plan assets		(161,116)		(114,802)
Retirement benefit obligation	₩	42,134	₩	53,905

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	₩	168,707	₩	120,612
Current service cost		32,662		27,254
Interest cost		6,108		5,444
Remeasurements:		5,001		23,537
Actuarial gain or loss from changes in demographic assumptions		4,648		(2,224)
Actuarial gain or loss from changes in financial assumptions		(1,505)		19,557
Actuarial gain or loss from difference between estimated and actual		1,818		5,913
Transfer in/out adjustment		40		291
Benefits paid		(9,533)		(8,981)
Transferred affiliated companies		305		841
Ending balance	₩	203,250	₩	168,707

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	₩	32,662	₩	27,254
Current service cost		32,662		27,254
Net interest on the net defined benefit liability(asset)		2,000		1,477
Interest cost of defined benefit obligations		6,108		5,445
Interest income on plan assets		(4,108)		(3,968)
Other		268		200
Total	₩	34,930	₩	28,931

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	₩	114,802	₩	88,171
Interest income on plan assets		4,108		3,968
Remeasurements of plan assets gain or loss		105		11
Contributions from the employer		48,000		27,100
Transferred affiliated companies		874		1,327
Other		(268)		(200)
Benefits paid		(6,505)		(5,575)
Ending balance	₩	161,116	₩	114,802

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	4.06%	3.71%
Expected rate of salary increase	6.00%	5.95%

6) All of the plan assets is invested in financial instruments is guaranteed principal and 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	₩	203,250	₩	181,460	₩	229,156
Changes in rate of salary increase	₩	203,250	₩	228,418	₩	181,612

(*) The above sensitivity is estimated based on the assumption all the assumptions will not change except discount rate and rate of salary increase.

8) Remeasurements related to net defined benefit liability for the years ended December 31, 2013 and 2012, are as follows (Unit: Korean won in millions):

	2013		2012	
Actuarial gain or loss from changes in demographic assumptions	₩	4,648	₩	(2,224)
Actuarial gain or loss from changes in financial assumptions		(1,505)		19,557
Actuarial gain or loss from difference between estimated and actual		1,818		5,913
Return on plan assets excluding amounts included in interest income		(105)		(11)
Difference of estimation and adjustment in liabilities related to employee transfer		40		291
Total	₩	4,896	₩	23,526

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	₩	92,252	₩	-	₩	94,043	₩	-
Unearned income		59,333		18,683		57,152		18,816
	₩	151,585	₩	18,683	₩	151,195	₩	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 (*1)		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	4.05		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

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

22. EQUITY:

(1) Capital stock

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

(3) Other capital

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 Company to appropriate, as a legal reserve, an amount equal to a minimum of 10% of cash dividends paid until such reserve equals 50% of its issued capital stock. The reserve is not available for the payment of cash dividends, but may be transferred to capital stock or used to reduce accumulated deficit.

23. STATEMENTS OF RETAINED EARNINGS:

The statements of retained earnings for the years ended December 31, 2013 and 2012, are as follows (Unit: Korean won in millions):

		2013		2012
RETAINED EARNINGS BEFORE APPROPRIATION:				
Undisposed accumulated earnings carried forward from prior year	₩	276,007	₩	1,020,714
Retired shares of treasury stock		-		(668,729)
Net income(loss)		277,512		(62,584)
Actuarial losses		(3,711)		(17,698)
		549,808		271,703
VOLUNTARY RESERVE				
Reservation for research and development of human resources		8,400		8,400
		8,400		8,400
APPROPRIATIONS:				
Loss on sales of treasury shares		-		4,096
Legal reserve		6,549		-
Dividend (Cash dividend (rate per share) 2013: ₩ 150 (3%) 2012: ₩ - (-%)		65,492		-
		72,041		4,096
UNAPPROPRIATED RETAINED EARNINGS TO BE CARRIED FORWARD TO SUBSEQUENT YEAR	₩	486,167	₩	276,007

24. 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		3shares		1 share
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	₩	-

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

		2013		2012
Total dividends	₩	65,492	₩	-
Net income(loss) attributable to the owners of the Company		277,512		(62,584)
Dividend payout ratio		23.6%		-

25. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS):

Changes in accumulated other comprehensive income (loss) after the deduction of income tax effect for the years ended December 31, 2013 and 2012, are as follows (Unit: Korean won in millions):

	Gain on valuation of AFS financial assets	Loss on valuation of AFS financial assets	Loss on valuation of cash flow hedging derivatives	Total
January 1, 2012	₩ 282	₩ (10,619)	₩ (46)	₩ (10,383)
Fair value assessment	443	6,567	-	7,010
Hedge accounting	-	-	(3,568)	(3,568)
December 31, 2012	₩ 725	₩ (4,052)	₩ (3,614)	₩ (6,941)
January 1, 2013	₩ 725	₩ (4,052)	₩ (3,614)	₩ (6,941)
Fair value assessment	244	(1,578)	-	(1,334)
Hedge accounting	-	-	1,600	1,600
December 31, 2013	₩ 969	₩ (5,630)	₩ (2,014)	₩ (6,675)

26. OTHER EXPENSES:

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

	2013	2012
Operating lease payment	₩ 306,456	₩ 293,748
Advertising expense	285,337	262,018
Sales commissions	2,337,951	2,151,712
Commission charge	1,071,799	926,447
Interconnection charge	641,425	608,289
Telecommunication equipment rental fees	289,343	284,063
Outsourcing expense	486,795	414,687
Bad debt expenses	84,868	63,662
International interconnection charge	177,661	171,698
Other	520,499	492,991
	₩ 6,202,134	₩ 5,669,315

27. OTHER NON-OPERATING REVENUES AND EXPENSES:

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

	2013		2012	
Gain on disposal of tangible assets	₩	935	₩	1,423
Gain on foreign currency transactions		3,790		6,047
Gain on foreign currency translation		4,909		8,993
Miscellaneous income		48,322		39,697
	₩	57,956	₩	56,160

(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 disposal of tangible assets	₩	19,221	₩	30,602
Impairment loss of tangible assets		-		9,798
Loss on disposal of intangible assets		-		62
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		5,555
Miscellaneous loss		36,431		16,694
	₩	71,521	₩	76,593

28. FINANCIAL REVENUES AND FINANCIAL EXPENSES:

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

	2013		2012	
Interest income	₩	57,958	₩	68,827
Gain on foreign currency transactions		46		-
Gain on foreign currency translation		2		1
Dividend income		394		593
	₩	58,400	₩	69,421

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

	2013		2012	
Cash and cash equivalents and financial institution deposits	₩	10,179	₩	10,662
Other loans and receivables		47,779		58,165
	₩	57,958	₩	68,827

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

	2013		2012	
Interest expense	₩	209,867	₩	212,642
Loss on foreign currency transactions		-		30
Loss on disposal of AFS financial assets		-		7
Impairment loss of AFS financial assets		1,172		-
Loss on disposition of trade receivables		44,676		94,485
	₩	255,715	₩	307,164

(4) Interest expense included in financial expenses for the years ended December 31, 2013 and 2012, is 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 expense		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) Details of net income by type of financial assets or financial liabilities 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	₩	10,227	₩	10,633
AFS financial assets		(779)		586
Loans and receivables		(84,977)		(109,874)
Subtotal	₩	(75,529)	₩	(98,655)
FINANCIAL LIABILITIES				
Financial liabilities at amortized cost		(206,631)		(201,593)
Subtotal		(206,631)		(201,593)
	₩	(282,160)	₩	(300,248)

29. INCOME TAX:

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

	2013		2012	
Current income tax payable	₩	26,628	₩	66
Changes in deferred tax assets due to temporary differences		26,503		(75,659)
Income tax expenses reflected directly in equity		1,101		5,859
Income tax expense (income)	₩	54,232	₩	(69,734)

(2) Reconciliation between income(loss) before income tax and income tax expense(income) of the Company 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	₩ 331,744	₩ (132,318)
Tax expense calculated on book income (tax rate: 24.2%)	80,282	(32,021)
Adjustments:		
Non-taxable income	(17)	(13)
Non-deductible expense	8,705	2,933
Tax credits	(34,274)	(40,633)
Other	(464)	-
Income tax expense(income)	₩ 54,232	₩ (69,734)
Effective tax rate (income tax expense/income before income tax expense)(*1)	16.35%	-

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

(3) Income tax directly reflected in equity for the years ended December 31, 2013 and 2012, is 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) Current tax asset and current tax liabilities in gross amount before offsetting as of December 31, 2013 and 2012, are as follows (Unit: Korean won in millions):

	December 31, 2013	December 31, 2012
Current tax asset	₩ 22,256	₩ 7,792
Current tax liabilities	26,629	66
Income tax payable, net	₩ 4,373	₩ (7,726)

(5) 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
Share of profits (losses) of associates and joint ventures under the equity method	2,740	-	-	2,740
Loss on foreign currency translation	8,694	-	8,694	-
Adjustment on revenues	118,496	182,875	189,955	111,416
Investment asset	-	3,707	-	3,707
Other	1,571	-	387	1,184
Subtotal of temporary differences to be deducted	1,347,001	728,844	872,838	1,203,007
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)	-
Estimate of assets for restoration	(14,897)	(13,824)	(14,897)	(13,824)
Tax reserves	(16,800)	-	(8,400)	(8,400)
Subtotal of temporary differences to be added	(165,317)	(73,729)	(43,801)	(195,245)
Realizable temporary differences	1,178,784			1,004,862
Unrealizable temporary differences	2,900			2,900
Tax rate	24.2%			24.2%
Income tax effect due to temporary differences	285,266			243,177
Income tax effect due to tax credit carryforwards	166,563			182,149
Deferred income tax assets	₩ 451,829			₩ 425,326

(6) Changes in the 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)
Other		974	597	-	1,571
Subtotal of temporary differences to be deducted		1,218,848	826,845	702,457	1,343,236
TEMPORARY DIFFERENCES TO BE ADDED					
Accrued interest income		(145)	(689)	(145)	(689)
Deposits for severance benefits		(85,298)	(26,587)	(5,586)	(106,299)
Interest expenses (capitalized interest expense)		(18,238)	-	(4,365)	(13,873)
Gain on foreign currency translation		(5,554)	(8,994)	(5,554)	(8,994)
Estimate of assets for restoration		(22,515)	(14,897)	(22,515)	(14,897)
Tax reserves		(25,200)	-	(8,400)	(16,800)
Conversion feature on convertible bonds		(1,158)	-	(1,158)	-
Subtotal of temporary differences to be added		(158,108)	(51,167)	(47,723)	(161,552)
Realizable temporary differences		1,057,840			1,178,784
Unrealizable temporary differences		2,900			2,900
Tax rate		24.2%			24.2%
Income tax effect due to temporary differences		255,997			285,266
Income tax effect due to tax credit carryforwards		120,173			166,563
Deferred tax assets	₩	376,170			₩ 451,829

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

	December 31, 2013	December 31, 2012
Investments in associates and joint ventures	₩ 2,900	₩ 2,900

30. EARNINGS PER SHARE:

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

	2013	2012
Net income (loss)	₩ 277,512	₩ (62,584)
Weighted-average number of common shares outstanding	436,611,360 shares	436,484,393 shares
Earnings per share (in Korean won)	₩ 636 per share	₩ (144) per share

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

31. COMMITMENTS AND CONTINGENCIES:

(1) As of December 31, 2013, there are 93 lawsuits ongoing where the Company is a defendant in the Republic of Korea; total claim amount the Company 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 Company.

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

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

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

(5) The Company 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 Company cannot be reliably estimated as of December 31, 2013.

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

(2) Major transactions with the related parties for the years ended December 31, 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 Company:						
LG Corporation	₩ 211	₩ -	₩ 29,742	₩ 225	₩ -	₩ 28,611
Subsidiaries:						
Ain Teleservice	3,210	-	63,518	1,582	-	53,365
CS Leader	1,832	-	40,433	734	-	32,830
Medialog	1,831	4,352	84,314	2,565	5,529	65,654
Dacom America Inc.	-	-	395	-	-	1,181
CS One Partner	3,717	-	63,395	1,929	-	45,976
With U	160	-	1,384	-	-	-
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(*1)	65,541	115,333	111,342	66,709	90,928	108,149
Lusem	63	-	-	73	-	-
LG Solar Energy	1	-	-	-	-	-
Total	₩ 91,574	₩ 204,131	₩438,423	₩ 89,706	₩ 182,294	₩ 378,193

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

(3) 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 Company:				
LG Corporation	₩ 5,396	₩ 1,060	₩ 5,323	₩ 3,377
Subsidiaries				
Ain Teleservice	-	6,191	-	2,640
CS Leader	-	3,777	1	3,048
Medialog	11	12,540	25	9,623
Dacom America Inc.	2,520	12	2,557	67
CS One Partner	-	3,473	-	2,577
With U	-	153	-	-
Joint Venture:				
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 (*1)	3,958	97,748	9,168	74,165
	₩ 34,686	₩ 163,511	₩ 39,567	₩ 125,165

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

Those receivables and payables are unsecured and to be settled in cash. Also, there are no payment guarantees which was given or received related to those receivables and payables.

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

	2013	2012
Short-term employee benefits	₩ 23,452	₩ 29,551
Postemployment benefits (*1)	5,916	3,344
	₩ 29,368	₩ 32,895

(*1) The above balances refer to retirement benefits incurred for key management during 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.

33. RISK MANAGEMENT:

(1) Capital risk management

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

The Company's capital structure consists of net liability which is borrowing (including bonds and finance lease liability) less cash and cash equivalents and equity; the overall capital risk management policy of the Company remains unchanged from prior period. In addition, items managed as capital by the Company as of December 31, 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		(377,358)		(325,761)
Borrowings, net	₩	4,160,019	₩	3,966,974
Total shareholders' equity	₩	4,014,949	₩	3,740,882
Net borrowings to equity ratio		103.61%		106.04%

(2) Financial risk management

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

1) Foreign currency risk

The Company is exposed to exchange rate fluctuation risk since it undertakes transactions denominated in foreign currencies. The carrying amounts of Company's monetary assets and liabilities denominated in foreign currencies that is not the functional currency as of December 31, 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		122,088		137,009
	₩	122,661	₩	140,170

The Company internally assesses the foreign currency risk from changes in exchanges rates on a regular basis. The Company's sensitivity to a 10% increase and decrease in the KRW (functional currency of the Company) against the major foreign currencies as of December 31, 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

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

2) Interest rate risk

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

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

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

① As of December 31, 2013

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

② As of December 31, 2012

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

In order to manage its interest risks, the Company enters into interest rate swap contracts. The Company applies cash flow hedge accounting for its interest swap contracts; the value of the unsettled interest swap contract as of December 31, 2013 and 2012, is 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	₩	(3,615)	₩	-	₩	4,768

3) Price risk

The Company is exposed to price risks arising from AFS equity instruments. As of December 31, 2013, the 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 to equity will be ₩2,550 million.

4) Credit risk

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

5) Liquidity risk

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

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

① As of December 31, 2013

	Within a year	1–5 years	Total
Non-interest-bearing instruments	₩ 2,332,276	₩ 604,517	₩ 2,936,793
Variable interest instruments	10,444	17,671	28,115
Fixed interest rate instruments	1,270,401	3,436,048	4,706,449
	₩ 3,613,121	₩ 4,058,236	₩ 7,671,357

② As of December 31, 2012

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

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

① As of December 31, 2013

	Within a year	1-5 year
Derivatives designated as a hedging instrument:		
Interest rate swap liabilities	₩ 2,254	₩ 403

② As of December 31, 2012

	Within a year	1-5 year
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 Company's financial instruments are disclosed at the closing price of the market prices.

The fair values of other financial assets and financial liabilities (e.g., over-the-counter derivatives) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

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

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

	December 31, 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
Total	₩ 33,637	₩ 33,637	₩ -	₩ -	₩ 33,637
Financial liabilities:					
Derivative liabilities designated as a hedging instrument	₩ 2,657	₩ -	₩ 2,657	₩ -	₩ 2,657
Total	₩ 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
Total	₩ 35,398	₩ 35,398	₩ -	₩ -	₩ 35,398
Financial liabilities:					
Derivative liabilities designated as a hedging instrument	4,768	₩ -	₩ 4,768	₩ -	₩ 4,768
Total	₩ 4,768	₩ -	₩ 4,768	₩ -	₩ 4,768

34. 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	2,045,667
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

35. EVENTS AFTER THE REPORTING PERIOD:

(1) On January 28, 2014, according to the resolution of the board of directors, the Company 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 Company 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.

Deloitte Anjin LLC
9Fl., One IFC,
10, Gukjegeumyung-ro
Youngdeungpo-gu, Seoul
150-876, Korea

Tel: +82 (2) 6676 1000
Fax: +82 (2) 6674 2114
www.deloitteanjin.co.kr

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

English Translation of a Report Originally Issued in Korean

To the Representative Director of
LG Uplus Corp.:

We have reviewed the accompanying Report on the Management's Assessment of IACS (the "Management's Report") of LG Uplus Corp. (the "Company") as of December 31, 2013. The Management's Report, and the design and operation of IACS are the responsibility of the Company's management. Our responsibility is to review the Management's Report and issue a review report based on our procedures. The Company's management stated in the accompanying Management's Report that "based on the assessment of the IACS as of December 31, 2013, the Company's IACS has been appropriately designed and is operating effectively as of December 31, 2013, in all material respects, in accordance with the IACS Framework established by the Korea Listed Companies Association."

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

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

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

Our review is based on the Company's IACS as of December 31, 2013, and we did not review its IACS subsequent to December 31, 2013. This report has been prepared pursuant to the Acts on External Audit of Stock Companies in the Republic of Korea and may not be appropriate for other purposes or for other users.

Deloitte Anjin LLC

March 5, 2014

Report on the Operations of the Internal Accounting Control System

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

I, as the Internal Accounting Control Officer ("IACO") of LG Uplus Corp. ("the Company"), assessed the status of the design and operations of the Company's Internal Accounting Control System ("IACS") for the year ended December 31, 2013.

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

Based on the assessment on the operations of the IACS, the Company's IACS has been effectively designed and is operating as of December 31, 2013, in all material respects, in accordance with the IACS standards.

January 28, 2014