LG UPLUS CORP. AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED
DECEMBER 31, 2014 AND 2013

ATTACHMENT: INDEPENDENT AUDITORS' REPORT

LG UPLUS CORP.

Deloitte.

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Independent Auditors' Report

English Translation of Independent Auditor's Report Originally Issued in Korean on February 26, 2015

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of LG Uplus Corp. and its subsidiaries (the "Group"), which comprise the consolidated statements of financial position as of December 31, 2014 and 2013, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in shareholders' equity and consolidated statements of cash flows, for the years ended December 31, 2014 and 2013, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Korean International Financial Reporting Standards ("K-IFRS") and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an audit opinion on these financial statements based on our audits. We conducted our audits in accordance with Korean Standards on Auditing ("KSAs"). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of December 31, 2014, and 2013, and its financial performance and its cash flows for the years then ended in accordance with K-IFRS.

Deloitte.

Others
We conducted our audit of consolidated financial statements of the Group as of December 31, 2013, in accordance with the former KSAs, known as auditing standards generally accepted in Korea.

February 26, 2015

Deloitte Anjin LLC

Notice to Readers

This report is effective as of February 26, 2015, the auditors' report date. Certain subsequent events or circumstances may have occurred between this auditors' report date and the time the auditors' report is read. Such events or circumstances could significantly affect the accompanying consolidated financial statements and may result in modifications to the auditors' report.

LG UPLUS Corp. (the "Company")

CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

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

Sang Chul Lee

President of LG Uplus Corp.

LG UPLUS CORP.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2014 AND 2013

	Korean won			
	December 31, 2014		December 31, 2013	
	(In millions)			
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents (Notes 5, 6 and 32)	₩	415,938	₩	398,335
Financial institution deposits (Notes 5, 7 and 32)		28,652		35,281
Trade receivables, net (Notes 5, 8, 31 and 32)		1,441,077		1,564,234
Loans and other receivables, net (Notes 5, 8, 31 and 32)		205,627		175,373
Inventories, net (Note 9)		276,025		394,530
Current income tax asset		262		-
Other current assets (Note 10)		122,272		129,357
Total current assets		2,489,853		2,697,110
NON-CURRENT ASSETS:				
Non-current financial institution deposits (Notes 5, 7 and 32)		21		21
Non-current AFS financial assets (Notes 5, 31 and 32)		74,065		81,368
Non-current trade receivables, net (Notes 5, 8, 31 and 32)		285,263		502,126
Non-current loans and other receivables (Notes 5, 8, 31 and 32)		274,929		276,309
Investments in jointly controlled entities and associates (Note 15)		8,834		13,190
Deferred income tax assets, net (Note 28)		390,091		426,447
Property, plant and equipment, net (Note 11)		7,254,405		6,392,715
Investment property, net (Note 12)		36,666		95,825
Intangible assets, net (Note 13)		1,116,495		1,258,612
Other non-current assets (Note 10)		82,038		31,324
Total non-current assets		9,522,807		9,077,937
TOTAL ASSETS	₩	12,012,660	₩	11,775,047
LIABILITIES AND SHAREHOLDERS' EQUITY				
CURRENT LIABILITIES:				
Trade payables (Notes 5, 31 and 32)	₩	302,399	₩	362,937
Non-trade and other payables (Notes 5, 31 and 32)		1,768,409		1,830,137
Short-term borrowings (Notes 5, 11, 16 and 32)		15,000		-
Current portion of debentures and long-term borrowings (Notes 5, 11, 16 and 32)		1,111,527		1,221,342
Current derivative liabilities (Notes 5 and 32)		383		2,254
Other current financial liabilities (Notes 5, 17, 21 and 32)		149,759		164,745
Income tax payable (Note 28)		28,533		4,631
Other current liabilities (Note 20)		109,651		152,088
Total current liabilities	₩	3,485,661	₩	3,738,134

(Continued)

LG UPLUS CORP.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)
AS OF DECEMBER 31, 2014 AND 2013

	Korean won			
	December 31, 2014		December 31, 2013	
	(In millions)			
NON-CURRENT LIABILITIES:				
Debentures and long-term borrowings (Notes 5, 11, 16 and 32)	₩	3,787,140	₩	3,300,655
Non-current derivative liabilities (Notes 5 and 32)		-		403
Other non-current financial liabilities (Notes 5, 17, 21 and 32)		457,303		606,529
Retirement benefit obligation (Notes 19 and 31)		65,620		50,425
Provisions (Note 18)		27,261		37,601
Other non-current liabilities (Note 20)		11,863		18,684
Total non-current liabilities		4,349,187		4,014,297
TOTAL LIABILITIES		7,834,848		7,752,431
SHAREHOLDERS' EQUITY:				
Capital stock (Note 22)		2,573,969		2,573,969
Capital surplus (Note 22)		837,050		836,561
Accumulated other comprehensive loss (Note 24)		1,741		(7,110)
Retained earnings		764,381		617,509
NON-CONTROLLING INTERESTS		671		1,687
TOTAL SHAREHOLDERS' EQUITY		4,177,812		4,022,616
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	₩	12,012,660	₩	11,775,047

(Concluded)

See accompanying notes to the consolidated financial statements.

LG UPLUS CORP.
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	Korean won			
	December 31, 2014		December 31, 2013	
	(In millions, except for net income per share)			
Operating revenues and other gains: (Notes 4 and 31)	₩	10,999,828	₩	11,450,300
Operating expenses:				
Cost of merchandise purchased (Notes 9 and 31)		2,332,290		2,903,367
Employee benefits (Notes 19 and 31)		663,165		633,564
Depreciation and amortization (Notes 11, 12 and 13)		1,505,404		1,314,644
Other expenses (Notes 25 and 27)		5,922,631		6,056,596
		10,423,490		10,908,171
Operating income		576,338		542,129
Financial revenues (Note 27)		39,786		59,106
Financial expenses (Note 27)		274,901		255,716
Share of profits (losses) of joint ventures and associates (Note 15)		976		979
Other non-operating revenues(Notes 26 and 27)		74,981		58,872
Other non-operating expenses(Notes 26 and 27)		97,065		71,526
Income before income tax expense		320,115		333,844
Income tax expense (Note 28)		92,394		54,383
Net income	₩	227,721	₩	279,461
Net income attributable to:				
Owners of the Company	₩	228,194	₩	279,463
Non-controlling interests	₩	(473)	₩	(2)
Net income per share (in Korean won)				
Basic and diluted income per share (Note 29)	₩	523	₩	640

See accompanying notes to the consolidated financial statements.

LG UPLUS CORP.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	Korean won	
	December 31, 2014	December 31, 2013
	(In millions)	
NET INCOME	₩ 227,721	₩ 279,461
OTHER COMPREHENSIVE INCOME (LOSS):		
Items not reclassified subsequently to profit or loss:		
Remeasurements of the net defined benefit liability	(15,836)	(5,211)
Items reclassified subsequently to profit or loss:		
Gain (loss) on valuation of AFS financial assets	6,707	(1,334)
Gain on valuation of cash flow hedging derivatives	1,725	1,600
Gain(loss) on translation of foreign operations	(130)	17
Share of other comprehensive income of joint ventures and associates	549	(417)
	(6,985)	(5,345)
TOTAL COMPREHENSIVE INCOME (LOSS)	₩ 220,736	₩ 274,116
Total comprehensive income (loss) attributable to:		
Owners of the Company	₩ 221,215	₩ 274,118
Non-controlling interests	₩ (479)	₩ (2)

See accompanying notes to the consolidated financial statements.

LG UPLUS CORP.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	Korean won							
	Capital stock	Capital surplus	Other capital items	Accumulated other comprehensi -ve income (loss)	Retained earnings	Equity attributable to the owners of the Company	Equity attributable to non-controlling interests	Total equity
				(In millions)				
Balance at January 1, 2013	₩2,573,969	₩ 836,561	₩ (4,096)	₩ (6,976)	₩ 347,353	₩3,746,811	₩ 1,689	₩3,748,500
Net income (loss)	-	-	-	-	279,463	279,463	(2)	279,461
Loss on valuation of AFS financial assets	-	-	-	(1,334)	-	(1,334)	-	(1,334)
Gain on valuation of cash flow hedging derivatives	-	-	-	1,600	-	1,600	-	1,600
Gain on translation of foreign operations	-	-	-	17	-	17	-	17
Share of other comprehensive income of joint ventures and associates	-	-	-	(417)	-	(417)	-	(417)
Remeasurements of the net defined benefit liability	-	-	-		(5,211)	(5,211)	-	(5,211)
Set off of loss on disposal of treasury stock and retained earnings	-	-	4,096	-	(4,096)	-		-
Balance at December 31, 2013	₩2,573,969	₩ 836,561	₩ -	₩ (7,110)	₩ 617,509	₩4,020,929	₩ 1,687	₩4,022,616
Balance at January 1, 2014	₩2,573,969	₩ 836,561	₩ -	₩ (7,110)	₩ 617,509	₩4,020,929	₩ 1,687	₩4,022,616
Annual dividends	-	-	-	-	(65,492)	(65,492)	-	(65,492)
Net income (loss)	-	-	-	-	228,194	228,194	(473)	227,721
Gain on valuation of AFS financial assets	-	-	-	6,707	-	6,707	-	6,707
Gain on valuation of cash flow hedging derivatives	-	-	-	1,725	-	1,725	-	1,725
Loss on translation of foreign operations	-	-	-	(130)	-	(130)	-	(130)
Share of other comprehensive income of joint ventures and associates	-	-	-	549	-	549	-	549
Remeasurements of the net defined benefit liability	-	-	-	-	(15,830)	(15,830)	(6)	(15,836)
Increase in paid-in capital	-	489	-	-	-	489	(537)	(48)
Balance at December 31, 2014	₩2,573,969	₩ 837,050	₩ -	₩ 1,741	₩ 764,381	₩4,177,141	₩ 671	₩4,177,812

See accompanying notes to the consolidated financial statements.

LG UPLUS CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	Korean won	
	December 31, 2014	December 31, 2013
	(In millions)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	₩ 227,721	₩ 279,461
Additions of expenses not involving cash outflows:		
Retirement benefits	52,348	43,130
Depreciation	1,334,396	1,204,295
Amortization of intangible assets	171,008	110,349
Bad debt expenses	83,908	84,864
Interest expenses	210,057	209,867
Loss on foreign currency translation	8,141	4,561
Loss on disposal of trade receivables	48,623	44,675
Loss on disposal of property, plant and equipment, intangible assets and others	54,470	22,930
Impairment loss on AFS financial assets	16,209	1,172
Loss on disposal of investment in associates	51	-
Income tax expense	92,394	54,383
Others	4,185	282
	2,075,790	1,780,508
Deduction of items not involving cash inflows:		
Interest income	39,342	58,663
Gain on foreign currency translation	7,514	4,911
Dividend income	358	394
Gain on disposal of property, plant and equipment, intangible assets and others	1,025	937
Share of profits of associates	976	979
Others	17	-
	(49,232)	(65,884)
Changes in operating assets and liabilities related to operating activities:		
Decrease in trade receivables	254,321	54,784
Increase in loans and other receivables	(68,014)	(31,708)
Decrease (increase) in inventories	118,360	(48,103)
Increase in other current assets	(43,135)	(17,648)
Decrease in trade payables	(60,676)	(93,633)
Increase (decrease) in non-trade payables	(130,675)	185,723
Decrease in retirement benefits obligation	(57,166)	(60,894)
Decrease in non-trade and other liabilities	(55,066)	(2,610)
Increase in translation gain or loss from foreign business	-	18
	₩ (42,051)	₩ (14,071)

(Continued)

LG UPLUS CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	Korean won			
	2014		2013	
	(In millions)			
Interest income received	₩	32,316	₩	11,566
Dividend income received		533		394
Interest expense paid		(199,018)		(199,483)
Income taxes paid		(30,676)		(14,773)
		(196,845)		(202,296)
Net cash provided by operating activities		2,015,383		1,777,718
CASH FLOWS FROM INVESTING ACTIVITIES				
Cash inflows from investing activities:				
Disposal of AFS financial assets		1,994		484
Decrease in financial institution deposits		18,281		16,256
Disposal of property, plant and equipment		9,136		40,452
Disposal of intangible assets		1,945		3,633
Decrease in loans		24,831		22,549
Decrease in deposits		26,668		52,455
Disposal of investments in associates		5,656		-
		88,511		135,829
Cash outflows for investing activities:				
Acquisition of AFS financial assets		1,948		179
Increase of financial institution deposits		11,652		27,281
Acquisition of property, plant and equipment		2,144,799		1,736,277
Acquisition of intangible assets		176,474		248,122
Increase in loans		27,080		22,530
Increase in deposits		33,812		63,663
		(2,395,765)		(2,098,052)
Net cash used in investing activities	₩	(2,307,254)	₩	(1,962,223)

(Continued)

LG UPLUS CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	Korean won	
	2014	2013
	(In millions)	
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash inflows from financing activities:		
Proceeds from short-term borrowings	₩ 355,000	₩ 461,942
Issuance of debentures	896,323	807,124
Proceeds from long-term borrowings	710,000	455,600
Increase in national subsidy	556	1,059
	1,961,879	1,725,725
Cash outflows for financing activities:		
Redemption of short-term borrowings	340,000	511,942
Redemption of current portion of long-term debt	1,236,869	972,311
Redemption of long-term borrowings	10,000	-
Payment of dividends	65,492	-
Increase in paid-in capital of subsidiaries	48	-
	(1,652,409)	(1,484,253)
Net cash provided by financing activities	309,470	241,472
EXCHANGE RATE FLUCTUATION EFFECT OF CASH AND CASH EQUIVALENTS	4	1
Net increase in cash and cash equivalents	17,603	56,968
Cash and cash equivalents:		
Beginning of the year	398,335	341,367
End of the year	₩ 415,938	₩ 398,335

(Concluded)

See accompanying notes to the consolidated financial statements.

LG UPLUS CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

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’s headquarters is located in Seoul, Korea, and it has set up telecommunication networks all over the country to provide fixed-line and wireless services.

As of December 31, 2014, the Company’s shareholders are as follows:

Name of shareholder	Number of shares owned	Percentage of ownership (%)
LG Corporation	157,376,777	36.05
National Pension Fund	34,189,669	7.83
Others	245,044,915	56.12
	436,611,361	100.00

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

(1) Basis of preparing consolidated financial statements

The Company and its subsidiaries (the “Group”) have prepared the consolidated financial statements in accordance with the Korean International Financial Reporting Standards (“K-IFRS”).

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

The accompanying consolidated financial statements have been prepared on the historical cost basis except for certain non-current assets and financial instruments that are measured at fair values, as explained in the accounting policies below. Historical cost is based on the fair values of the consideration given.

The principal accounting policies are set out below.

1) Amendments to K-IFRSs and new interpretations that are mandatorily effective for the current year

In the current year, the Group has applied a number of amendments to K-IFRSs and new interpretations issued that are mandatorily effective accounting periods beginning on or after January 1, 2014.

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

The amendments to K-IFRS 1032 clarify the requirement for the offset presentation of financial assets and liabilities: the right to offset must not be conditional upon the occurrence of future events and can be exercised anytime during the contract periods. The right to offset is executable even in the case of default or insolvency. The application of the amendments has no significant impact on the Group's consolidated financial statements.

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

The amendments introduced an exception to the principle in K-IFRS 1110, *Consolidated Financial Statement*, which required the consolidation of all subsidiaries. If a subsidiary meets definition of an investment entity, the reporting entity measures the subsidiary at fair value through profit or loss ("FVTPL") instead of consolidation. Also, the consequential amendments have been made to K-IFRS 1112, *Disclosure of Interests in Other Entities*, and K-IFRS 1027, *Separate Financial Statements*, to introduce new disclosure requirements for investment entities. The application of the amendments has no significant impact on the Group's consolidated financial statements.

Amendments to K-IFRS 1036 – *Impairment of Assets*

The amendments introduced disclosure requirements of recoverable amount when the recoverable amount of an asset or cash-generating unit is measured at fair value less costs of disposal. The application of these amendments has no impact on the disclosure in the Group's consolidated financial statements.

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

The amendments permit the Group to use hedge accounting when, as a consequence of laws or regulations or the introduction of laws or regulations, the parties to the hedging instrument agree that one or more clearing counterparties replace their original counterparty to become the new counterparty to each of the parties and when meeting certain criteria. The adoption of the amendments has no significant impact on the Group's consolidated financial statements.

Enactment of K-IFRS 2121 – *Levies*

The enactment defines that the obligating event giving rise to the recognition of a liability to pay a levy is the activity that triggers the payment of the levy in accordance with the related legislation. The enactment has no significant impact on the Group's consolidated financial statements.

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

Amendments to K-IFRS 1019 – *Employee Benefits*

The amendments permit the Group to recognize amount of contributions as a reduction in the service cost in which the related service is rendered if the amount of the contributions is independent of the number of years of service. The amendments are effective for the annual periods beginning on or after July 1, 2014.

Amendments to K-IFRS 1016 – *Property, Plant and Equipment*

The amendments to K-IFRS 1016 prohibit the Group from using a revenue-based depreciation method for items of property, plant and equipment. The amendments are effective for the annual periods beginning on or after January 1, 2016.

Amendments to K-IFRS 1038 – *Intangible Assets*

The amendments apply prospectively for annual periods beginning on or after January 1, 2016. The amendments to K-IFRS 1038 do not allow presumption that revenue is an appropriate basis for the amortization of intangible assets, which the presumption can only be limited when the intangible asset expressed as a measure of revenue or when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

Amendments to K-IFRS 1111 – *Accounting for Acquisitions of Interests in Joint Operations*

The amendments to K-IFRS 1111 provide guidance on how to account for the acquisition of a joint operation that constitutes a business as defined in K-IFRS 1103, *Business Combinations*. A joint operator is also required to disclose the relevant information required by K-IFRS 1103 and other standards for business combinations. The amendments to K-IFRS 1111 are effective for the annual periods beginning on or after January 1, 2016.

Annual Improvements to K-IFRS 2010-2012 – *Cycle*

The amendments to K-IFRS 1102 (i) change the definitions of 'vesting condition' and 'market condition,' and (ii) add definition for 'performance condition' and 'service condition' which were previously included within the definition of 'vesting condition.' The amendments to K-IFRS 1103, *Business Combinations,* clarify the classification and measurement of the contingent consideration in business combination. The amendments to K-IFRS 1108 clarify that a reconciliation of the total of the reportable segments' assets should only be provided if the segment's assets are regularly provided to the chief operating decision maker. The amendments are effective for the annual periods beginning on or after July 1, 2014.

Annual Improvements to K-IFRS 2011-2013 – *Cycle*

The amendments to K-IFRS 1103 clarify the scope of the portfolio exception for measuring the fair values of the group of financial assets and financial liabilities on a net basis, including all contracts that are within the scope; the standard does not apply to the accounting for the formation of all types of joint arrangement in the financial statements of the joint arrangement itself. The amendments to K-IFRS 1113 Fair values Measurements and K-IFRS 1040 Investment Properties exist and these amendments are effective for the annual periods beginning on or after July 1, 2014.

The Group does not anticipate that the application of these new and revised K-IFRSs that have been issued but not effective will have no significant impact on the Group's consolidated financial statements.

(2) Basis of consolidation

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

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

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

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

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

All intra-group transactions and related assets and liabilities, income and expenses are eliminated in full on consolidation

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

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

(3) Business Combination

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

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

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognized and measured in accordance with K-IFRS 1012 Income Taxes and K-IFRS 1019 Employee Benefits respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with K-IFRS 1102 Share-based Payment at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with K-IFRS 1105 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that standard.

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

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another K-IFRS.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement-period adjustments are adjustments that arise from additional information obtained during the ‘measurement period’ (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement-period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with K-IFRS 1039 Financial Instruments: Recognition and Measurement, or K-IFRS 1037 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date and the resulting gain or loss, if any, is recognized in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

(4) Investments in associates and joint ventures

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

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

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

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

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

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

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

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

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

(5) Interests in joint operations

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

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

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

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

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

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

(6) Goodwill

Goodwill resulting from an acquisition of a business is carried at cost as established at the date of acquisition of the business, less accumulated impairment losses, if any.

For the purpose of impairment testing, goodwill is allocated to each of the Group’s cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in profit or loss. An impairment loss recognized for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

The Group's policy for goodwill resulting from the acquisition of an associate is described at Note 2. (4).

(7) Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

When the Group is committed to a sale plan involving disposal of an investment, or a portion of an investment, in an associate or joint venture, the investment or the portion of the investment that will be disposed of is classified as held for sale when the criteria described above are met, and the Group discontinues the use of the equity method in relation to the portion that is classified as held for sale. Any retained portion of an investment in an associate or a joint venture that has not been classified as held for sale continues to be accounted for using the equity method. The Group discontinues the use of the equity method at the time of disposal when the disposal results in the Group losing significant influence over the associate or joint venture.

After the disposal takes place, the Group accounts for any retained interest in the associate or joint venture in accordance with K-IFRS 1039, *Financial Instruments: Recognition and Measurement*, unless the retained interest continues to be an associate or a joint venture, in which case the Group uses the equity method.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

(8) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances. The Group recognizes revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below.

1) Sale of goods

Revenue from the sale of goods is recognized when the Group has transferred to the buyer the significant risks and rewards of ownership of the goods.

2) Rendering of services

Revenue from a contract to provide services is recognized by reference to the stage of completion of the contract. Depending on the nature of the transaction, the Group determines the stage of completion by reference to surveys of work performed, services performed to date as a percentage of total services to be performed or the proportion that costs incurred to date bear to the estimated total costs of the transaction, as applicable.

3) Dividend and interest income

Dividend income from investments is recognized when the shareholder's right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably).

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a timely basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition

4) Rental income

The Group's policy for recognition of revenue from operating leases is described in Note 2 (9).

5) Customer Royalty Program

The Group operates a customer loyalty program to provide customers with incentives to buy their goods or services. If a customer buys goods or services, the entity grants the customer award credits (often described as 'points'). The customer can redeem the award credits for awards, such as free or discounted goods or services. The award credits are accounted separately as identifiable component of the sales transaction(s) in which they are granted (the 'initial sales'). The fair value of the consideration received or receivable in respect of the initial sale shall be allocated between the award credits and the other components of the sale.

If the Group supplies the awards itself, it shall recognize the consideration allocated to award credits as revenue when award credits are redeemed and it fulfills its obligation to supply awards. The amount of revenue recognized shall be based on the number of award credits that have been redeemed in exchange for awards, related to the total number expected to be redeemed.

If the third party supplies the awards, the Group shall assess whether it is collecting the consideration allocated to the award credits on its own account (as the principal in the transaction) or on behalf of the third party (as agent for the third party). The amount of revenue recognized shall be net amount retained on its own account.

(9) Lease

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

1) The Group as lessor

Amounts due from lessees under finance leases are recognized as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

2) The Group as lessee

Assets held under finance leases are initially recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statements of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Group's general policy on borrowing costs (see Note 2. (11)). Contingent rentals are recognized 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.

(10) Foreign currencies

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

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

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

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on transactions entered into in order to hedge certain foreign currency risks; and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognized initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the net investment.

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

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

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

(11) 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.

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

(12) Government grants

Government grants are not recognized until there is reasonable assurance that the Group will comply with the conditions attached to them and that the grants will be received.

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

Government grants related to assets are presented in the statement of financial position by deducting the grant from the carrying amount of the asset. The related grant is recognized in profit or loss over the life of a depreciable asset as a reduced depreciation expense.

Government grants related to income are recognized in profit or loss on a systematic basis over the periods in which the Group recognizes as expenses the related costs for which the grants are intended to compensate. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognized in profit or loss in the period in which they become receivable.

(13) Retirement benefit costs and termination benefits

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

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

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

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

A liability for a termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of the termination benefit and when the entity recognizes any related restructuring costs.

(14) Taxation

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

1) Current tax

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

2) Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the 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.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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 apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset if, and only if the Group has a legally enforceable right to set off current tax assets against current tax liabilities, and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

For the purpose of measuring deferred tax liabilities and deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale.

3) Current and deferred tax for the year

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

(15) 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 a separate asset if it is probable that future economic benefits associated with the assets will flow into the Group and the cost of an asset can be measured reliably. Routine maintenance and repairs are expensed as incurred.

The Group does not depreciate land. Depreciation expense is computed using the straight-line 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

If each part of an item of property, plant and equipment has a cost that is significant in relation to the total cost of the item, it is depreciated separately.

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

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized.

(16) Investment property

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

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

While land is not depreciated, all other investment property is depreciated based on the respective assets estimated useful lives ranging from 20−40 years using the straight-line method.

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized.

(17) Intangible assets

1) Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost, less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost, less accumulated impairment losses.

2) Internally generated intangible assets - research and development expenditure

Expenditure on research activities is recognized as an expense in the period in which it is incurred.

Expenditure arising from development (or from the development phase of an internal project) is recognized as an intangible asset if, only if, the development project is designed to produce new or substantially improved products, and the Group can demonstrate the technical and economical feasibility and measure reliably the resources attributable to the intangible asset during its development.

The amount initially recognized for internally generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria. Where no internally generated intangible asset can be recognized, development expenditure is recognized in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally generated intangible assets are reported at cost, less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

3) Intangible assets acquired in a business combination

Intangible assets that are acquired in a business combination are recognized separately from goodwill and are initially recognized at their fair value at the acquisition date (which is regarded as their cost). Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost, less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

4) Derecognition of intangible assets

An intangible asset is derecognized on disposal or when no future economic benefits are expected from its use. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized in profit or loss when the asset is derecognized.

(18) Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units 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 and value in use. If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount and the reduced amount is recognized in profit or loss.

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

(19) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost of inventories, except for those in in-transit, are measured under the weighted-average method and consists of the purchase price, cost of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realizable value represents the estimated selling price for inventories, less all estimated costs of completion and costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognized as an expense (cost of sales) in the period in which the related revenue is recognized. The amount of any write-down of inventories to net realizable value and all losses of inventories is recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realizable value, is recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

(20) Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event; it is probable that the Group 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. When 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 (where the effect of the time value of money is material). The discount rate used is a pretax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage is recognized in profit or loss as borrowing cost.

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.

At the end of each reporting period, the remaining provision balance is reviewed and assessed to determine if the current best estimate is being recognized. If the existence of an obligation to transfer economic benefit is no longer probable, the related provision is reversed during the period.

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

(21) Cash and cash equivalents

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

(22) Financial Instruments

Financial assets and financial liabilities are recognized when a group entity becomes a party to the contractual provisions of the instruments. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss.

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

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) Effective interest method

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognized on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

2) Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and K-IFRS 1039 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the ‘other gains and losses’ line item in the consolidated statement of comprehensive income.

3) Held-to-maturity investments

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

4) AFS financial assets

AFS financial assets are non-derivatives that are either designated as AFS or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at FVTPL.

They are subsequently measured at fair value at the end of each reporting period. Changes in the carrying amount of AFS monetary financial assets relating to changes in foreign currency rates (see below), interest income calculated using the effective interest method and dividends on AFS equity investments are recognized in profit or loss. Other changes in the carrying amount of AFS financial assets are recognized in other comprehensive income (as investments revaluation reserve). When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in other comprehensive income is reclassified to profit or loss.

Dividends on AFS equity instruments are recognized in profit or loss when the Group’s right to receive the dividends is established.

The fair value of AFS monetary financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate prevailing at the end of the reporting period. The foreign exchange gains and losses that are recognized in profit or loss are determined based on the amortized cost of the monetary asset. Other foreign exchange gains and losses are recognized in other comprehensive income.

5) 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 effect of discounting is immaterial.

6) 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 more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial reorganization; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets that are carried at cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly 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 are reclassified to profit or loss in the period.

For financial assets measured at amortized cost, 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 that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been 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. In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

7) Derecognition of financial assets

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

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulated gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g., when the Group retains an option to repurchase part of a transferred asset or it retains a residual interest and such a retained interest indicates that the transferor has neither transferred nor retained substantially all the risks and rewards of ownership and has retained control of the transferred asset), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognizes on the basis of the relative fair value of those parts on the date of the transfer. The difference between the carrying amounts allocated to the part that is no longer recognized, the sum of the consideration received for the part that is no longer recognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is recognized in profit or loss. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair value of those parts.

(23) Financial liabilities and equity instruments

1) Classification as debt or equity

Debt and equity instruments are classified either as financial liabilities or as equity in accordance with the substance of the contractual arrangement and the definitions of financial liability and an equity instrument.

2) 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. Equity instruments issued by the Group are recognized at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

3) Financial liabilities

Financial liabilities are recognized when the Group becomes a party to the contractual provisions of the instruments. Financial liabilities are initially measured at fair value. Transaction cost that are directly attributable to the issue of financial liabilities are deducted from the fair value of the financial liabilities on initial recognition. Transaction cost directly attributable to acquisition of financial liabilities at FVTPL are recognized immediately in profit or loss.

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

4) Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is 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
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided

internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and K-IFRS 1039 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item in the consolidated statement of comprehensive income.

5) Other financial liabilities

Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective-yield basis.

6) Derecognition of financial liabilities

The Group derecognizes financial liabilities when the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

(24) Derivative financial instruments

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

A derivative with a positive fair value is recognized as a financial asset; a derivative with a negative fair value is recognized as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realized or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

1) Hedge accounting

The Group designates certain hedging instruments, which include derivatives, embedded derivatives and non-derivatives in respect of foreign currency risk, as either fair value hedges, cash flow hedges or hedges of net investments in foreign operations. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

At the inception of the hedge relationship, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item.

2) Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognized in the line of the statement of comprehensive income relating to the hedged item.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortized to profit or loss from that date.

3) Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss, and is included in the 'other gains and losses' line item.

Amounts previously recognized in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognized in profit or loss, in the same line of the statement of comprehensive income as the recognized hedged item. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated or exercised, or it no longer qualifies for hedge accounting. Any gain or loss accumulated in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit or loss.

(25) Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these [consolidated] financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of K-IFRS 1102 Share-based payment, leasing transactions that are within the scope of K-IFRS 1017 Leases, and measurements that have some similarities to fair value but are not fair value, such as net realizable 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 Levels 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

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

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

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

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

(1) Fair value of financial instruments

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

(2) Bad debt allowance for loans and receivables

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

(3) Estimation of restoration liabilities

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

(4) Impairment of non-financial assets

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

(5) Defined benefit pension plan

For the defined benefit pension plan, the service cost is determined using actuarial valuations. In order to apply actuarial valuations, it is necessary to assume a discount rate, an expected rate of return on plan assets, wage increase rate, etc. The retirement benefit plan contains significant uncertainties on the estimation due to its long-term nature. The defined benefit obligations as of December 31, 2014 and 2013, are ₩65,620 million and ₩50,425 million, respectively, and details are described in Note 18.

(6) 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.

(7) Revenue and expense recognition

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

4. SEGMENT INFORMATION:

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

(2) Details of operating revenues from the Group's sale of goods and provision of services for the years ended December 31, 2014 and 2013, are as follows (Unit: Korean won in millions):

Reporting segment	Major goods and service	2014	2013
The Group	Telecommunication and related services	₩ 8,397,593	₩ 7,851,642
	Handset sales	2,602,235	3,598,658
		₩ 10,999,828	₩ 11,450,300

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

5. CLASSIFICATION OF FINANCIAL INSTRUMENTS AND FAIR VALUE:

(1) The carrying amount and fair value of financial assets and liabilities as of December 31, 2014 and 2013, are as follows (Unit: Korean won in millions):

1) Financial assets

		December 31, 2014		December 31, 2013	
Financial assets	Account	Book value	Fair value	Book value	Fair value
Cash and cash equivalents	Cash and cash equivalents	₩ 415,938	₩ 415,938	₩ 398,335	₩ 398,335
AFS financial assets	Marketable equity securities	35,095	35,095	33,637	33,637
	Unmarketable equity securities	38,970	38,970	47,731	47,731
	Subtotal	74,065	74,065	81,368	81,368
Loans and receivables	Financial institution deposits	28,673	28,673	35,302	35,302
	Trade receivables	1,726,340	1,726,340	2,066,360	2,066,360
	Loans	23,414	23,414	21,248	21,248
	Other receivables	191,757	191,757	163,544	163,544
	Accrued income	398	398	368	368
	Deposits	264,987	264,987	266,522	266,522
	Subtotal	2,235,569	2,235,569	2,553,344	2,553,344
	Total	₩ 2,725,572	₩ 2,725,572	₩ 3,033,047	₩ 3,033,047

2) Financial liabilities

Financial liabilities	Account	December 31, 2014 Book value	December 31, 2014 Fair value	December 31, 2013 Book value	December 31, 2013 Fair Value
Derivative liabilities designated as hedging instrument	Derivative liabilities designated as hedging instrument	₩ 383	₩ 383	₩ 2,657	₩ 2,657
Financial liabilities measured at amortized cost	Trade payables	302,399	302,399	362,937	362,937
	Borrowings	2,609,837	2,609,837	2,516,615	2,516,615
	Debentures	2,303,830	2,376,846	2,005,382	2,214,961
	Other payables	1,573,550	1,573,550	1,735,979	1,735,979
	Accrued expenses	644,211	644,211	689,070	689,070
	Withholdings	147,747	147,747	151,377	151,377
	Finance lease liabilities	2,012	2,012	15,380	15,380
	Rental deposits	7,951	7,951	9,604	9,604
	Subtotal	7,591,537	7,664,553	7,486,344	7,695,923
	Total	₩ 7,591,920	₩ 7,664,936	₩ 7,489,001	₩ 7,698,580

(2) The carrying values of certain financial assets, such as loans and receivables, and liabilities recognized at amortized cost are considered to approximate their fair values. In addition, an equity instrument, classified as AFS financial assets, whose book value amounts to ₩38,970 and which does not have its market value disclosed in an active market, is measured at cost since its fair value cannot be reliably measured.

6. CASH AND CASH EQUIVALENTS:

The Group’s cash and cash equivalents in the consolidated statements of financial position are equivalent to those in the consolidated statements of cash flows. Details of cash and cash equivalents as of December 31, 2014 and 2013, are as follows (Unit: Korean won in millions):

	December 31, 2014	December 31, 2013
Cash on hand	₩ -	₩ 1
Financial institution deposits	414,410	396,627
Other cash equivalents	1,528	1,707
	₩ 415,938	₩ 398,335

7. RESTRICTED FINANCIAL ASSETS:

Restricted financial assets as of December 31, 2014 and 2013, are as follows (Unit: Korean won in millions):

	Financial institution	December 31, 2014	December 31, 2013
Term deposits	Hana Bank (*1)	₩ 350	₩ 1,281
Guarantee deposits for checking accounts	Woori Bank and others	21	21
	Total	₩ 371	₩ 1,302

8. TRADE AND OTHER RECEIVABLES:

(1) Details of current portion of trade and other receivables as of December 31, 2014 and 2013, are as follows (Unit: Korean won in millions):

	December 31, 2014		December 31, 2013	
Trade receivables	₩	1,644,275	₩	1,785,093
Allowances for doubtful accounts		(203,198)		(220,859)
Trade receivables, net		1,441,077		1,564,234
Short-term loans		15,797		13,704
Allowances for doubtful accounts		(2,325)		(2,243)
Short-term loans, net		13,472		11,461
Other accounts receivable		271,540		204,686
Allowances for doubtful accounts		(79,783)		(41,142)
Other accounts receivable, net		191,757		163,544
Accrued income		398		368
	₩	1,646,704	₩	1,739,607

(2) Details of non-current portion of trade and other receivables as of December 31, 2014 and 2013, are as follows (Unit: Korean won in millions):

	December 31, 2014		December 31, 2013	
Trade receivables	₩	288,459	₩	505,633
Allowances for doubtful accounts		(3,196)		(3,507)
Trade receivables, net		285,263		502,126
Long-term loans		9,942		9,787
Leasehold deposits		243,238		243,827
Guarantee deposits		21,749		22,695
	₩	560,192	₩	778,435

(3) Aging of trade and other receivables as of December 31, 2014 and 2013, are as follows (Unit: Korean won in millions):

	December 31, 2014		December 31, 2013	
Less than 6 months	₩	2,254,291	₩	2,519,745
7–12 months		53,666		59,775
1–3 years		178,809		200,204
More than 3 years		8,632		6,069
	₩	2,495,398	₩	2,785,793

(4) Changes in allowance for trade and other receivables for the years ended December 31, 2014 and 2013, are as follows (Unit: Korean won in millions):

1) For the year ended December 31, 2014

	Trade receivables		Other receivables	
Beginning balance	₩	224,366	₩	43,385
Impairment loss		44,160		39,748
Write-offs		(75,462)		(1,136)
Reversal of impairment loss		13,330		111
Ending balance	₩	206,394	₩	82,108

2) For the year ended December 31, 2013

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

9. INVENTORIES:

(1) Inventories are stated at the lower of cost or net realizable value in case that the market value is lower than the acquisition cost. Details of inventories as of December 31, 2014 and 2013, are as follows (Unit: Korean won in millions):

	December 31, 2014			December 31, 2013		
	Acquisition cost	Valuation allowance	Carrying amount	Acquisition cost	Valuation allowance	Carrying amount
Merchandise	₩ 298,282	₩ (22,487)	₩ 275,795	₩ 419,730	₩ (25,514)	₩ 394,216
Supplies	4,369	(4,139)	230	5,094	(4,780)	314
	₩ 302,651	₩ (26,626)	₩ 276,025	₩ 424,824	₩ (30,294)	₩ 394,530

(2) Inventory costs recognized in operating expenses for the years ended December 31, 2014 and 2013, are ₩2,332,290 million and ₩2,903,367 million respectively, which include ₩3.028 million and ₩35,292 million of reversal of losses on valuation of inventories for the years ended December 31, 2014 and 2013.

10. OTHER ASSETS:

(1) Details of other current assets as of December 31, 2014 and 2013, are as follows (Unit: Korean won in millions):

	December 31, 2014		December 31, 2013	
Advanced payments	₩	30,718	₩	36,159
Prepaid expenses		91,554		93,198
Total	₩	122,272	₩	129,357

(2) Details of other non-current assets as of December 31, 2014 and 2013, are as follows (Unit: Korean won in millions):

	December 31, 2014		December 31, 2013	
Non-current prepaid expenses	₩	35,530	₩	31,324
Other non-current assets		46,508		−
		82,038		31,324

11. PROPERTY, PLANT AND EQUIPMENT:

(1) Changes in property, plant and equipment for the years ended December 31, 2014 and 2013, are as follows (Unit: Korean won in millions):

1) For the year ended December 31, 2014

	Land	Buildings	Telecommunication facilities	Other assets	Construction in progress	Total
Beginning acquisition cost	₩ 585,706	₩ 413,808	₩11,476,330	₩ 737,856	₩ 254,212	₩13,467,912
Accumulated depreciation	-	(95,493)	(6,496,977)	(472,427)	-	(7,064,897)
Accumulated impairment loss	-	-	(8,903)	-	-	(8,903)
Government subsidies	-	-	(1,385)	(12)	-	(1,397)
Beginning balance	585,706	318,315	4,969,065	265,417	254,212	6,392,715
Acquisition	502	1,694	228,641	39,355	2,103,273	2,373,465
Transfers	25,166	34,722	1,926,342	41,718	(1,982,638)	45,310
Disposals	(3)	(729)	(29,570)	(3,587)	(5,171)	(39,060)
Depreciation	-	(17,564)	(1,213,879)	(101,993)	-	(1,333,436)
Impairment loss	-	-	(184,589)	-	-	(184,589)
Ending balance	611,371	336,438	5,696,010	240,910	369,676	7,254,405
Ending acquisition cost	611,371	463,761	13,443,597	806,462	369,676	15,694,867
Accumulated depreciation	-	(127,323)	(7,559,027)	(565,517)	-	(8,251,867)
Accumulated impairment loss	-	-	(186,991)	-	-	(186,991)
Government subsidies	-	-	(1,569)	(35)	-	(1,604)
Ending balance	₩ 611,371	₩ 336,438	₩ 5,696,010	₩ 240,910	₩ 369,676	₩ 7,254,405

2) For the year ended December 31, 2013

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

(2) Assets pledged as collateral

The Group has pledged a portion of land, buildings and telecommunication facilities as collateral related to borrowings from Korea Development Bank (KDB) and the maximum obligation amount arising from the pledge is ₩58,000 million.

12. INVESTMENT PROPERTY:

(1) Changes in investment property for the years ended December 31, 2014 and 2013, are as follows (Unit: Korean won in millions):

1) For the year ended December 31, 2014

	Land	Buildings	Total
Beginning acquisition cost	₩ 39,326	₩ 75,764	₩ 115,090
Accumulated depreciation	-	(19,265)	(19,265)
Beginning balance	39,326	56,499	95,825
Transfers	(24,241)	(33,958)	(58,199)
Depreciation	-	(960)	(960)
Ending balance	15,085	21,581	36,666
Ending acquisition cost	15,085	27,250	42,335
Accumulated depreciation	-	(5,669)	(5,669)
Ending balance	₩ 15,085	₩ 21,581	₩ 36,666

2) 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) The Group recognized rental revenue related to investment property, in the amount of ₩8,136 million and ₩18,595 million, for the years ended December 31, 2014 and 2013, respectively.

(3) The Group determines that the difference between the carrying value and the fair value of the investment property is insignificant.

3. INTANGIBLE ASSETS:

(1) Changes in intangible assets for the years ended December 31, 2014 and 2013, are as follows (Unit: Korean won in millions):

1) For the year ended December 31, 2014

	Intellectual property rights	Computer software	Membership	Goodwill	Frequency usage rights	Other intangible assets	Total
Beginning acquisition cost	₩ 5,000	₩ 17,108	₩ 39,192	₩ 932	₩1,342,005	₩122,274	₩ 1,526,511
Accumulated amortization	(2,579)	(13,195)	-	-	(181,147)	(57,854)	(254,775)
Accumulated impairment loss	-	-	(3,707)	-	-	(9,417)	(13,124)
Beginning balance	2,421	3,913	35,485	932	1,160,858	55,003	1,258,612
Acquisition	951	7,920	4	-	-	22,651	31,526
Transfer	-	-	(102)	-	-	2,206	2,104
Disposals	(6)	(34)	(200)	-	-	(1,702)	(1,942)
Impairment loss	-	(1,374)	(897)	-	-	(526)	(2,797)
Amortization	(569)	(4,221)	-	-	(148,467)	(17,751)	(171,008)
Ending balance	2,797	6,204	34,290	932	1,012,391	59,881	1,116,495
Ending acquisition cost	5,942	15,815	38,893	932	1,342,006	135,877	1,539,465
Accumulated amortization	(3,145)	(9,611)	-	-	(329,615)	(66,053)	(408,424)
Accumulated impairment loss	-	-	(4,603)	-	-	(9,943)	(14,546)
Ending balance	₩ 2,797	₩ 6,204	₩ 34,290	₩ 932	₩1,012,391	₩ 59,881	₩ 1,116,495

2) For the year ended December 31, 2013

	Intellectual property rights	Computer software	Membership	Goodwill	Frequency usage rights	Other intangible assets	Total
Beginning acquisition cost	₩ 4,339	₩ 13,846	₩ 38,129	₩ 932	₩ 880,032	₩125,954	₩ 1,063,232
Accumulated amortization	(2,110)	(11,056)	-	-	(85,614)	(63,828)	(162,608)
Accumulated impairment loss	-	-	-	-	-	(9,855)	(9,855)
Beginning balance	2,229	2,790	38,129	932	794,418	52,271	890,769
Acquisition	661	2,576	1,063	-	461,973	16,410	482,683
Transfer	-	-	-	-	-	2,849	2,849
Disposals	-	-	-	-	-	(3,633)	(3,633)
Impairment loss	-	-	(3,707)	-	-	-	(3,707)
Amortization	(469)	(1,453)	-	-	(95,533)	(12,894)	(110,349)
Ending balance	₩ 2,421	₩ 3,913	₩ 35,485	₩ 932	₩ 1,160,858	₩ 55,003	₩ 1,258,612
Ending acquisition cost	₩ 5,000	₩ 17,108	₩ 39,192	₩ 932	₩ 1,342,005	₩ 122,274	₩ 1,526,511
Accumulated amortization	(2,579)	(13,195)	-	-	(181,147)	(57,854)	(254,775)
Accumulated impairment loss	-	-	(3,707)	-	-	(9,417)	(13,124)
Ending balance	₩ 2,421	₩ 3,913	₩ 35,485	₩ 932	₩1,160,858	₩ 55,003	₩ 1,258,612

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

(3) R&D costs

The costs related to research and development for the years ended December 31, 2014 and 2013, are as follows (Unit: Korean won in millions):

	2014	2013
Research costs	₩ 51,423	₩ 59,502

(4) Significant intangible assets

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 2.6 GHz are acquired in the amount of ₩461,973 million for the year ended December 31, 2013, and amortized on a straight-line method for eight years of useful lives.

14. INVESTMENTS IN SUBSIDIARIES:

(1) Details of subsidiaries as of December 31, 2014 and 2013, are as follows (Unit: Korean won in millions):

Company	Place of incorporation and operation	Business	Closing date	Percentage of ownership (%) 2014.12	2013.12
Ain Tele Service	South Korea	Telemarketing Service	December	100.00	100.00
CSLeader	South Korea	Telemarketing Service	December	100.00	100.00
Medialog Corp.(*1)	South Korea	Internet Service and others	December	98.35	88.06
DACOM America Inc.	USA	Telecommunication Service	December	100.00	100.00
CS ONE Partner Corporation	South Korea	Telemarketing Service	December	100.00	100.00
With U	South Korea	Other office support service	December	100.00	100.00

(2) Summary of financial position of subsidiaries as of December 31, 2014 and 2013, are as follows (Unit: Korean won in millions):

	December 31, 2014					
	Ain Tele Service	CSLeader	Medialog Corp.	DACOM America Inc.	CS ONE Partner Corporation	With U
Current assets	₩ 8,929	₩ 7,157	₩ 87,030	₩ 195	₩ 9,059	₩ 587
Non-current assets	135	370	15,067	24	162	152
Total assets	9,064	7,527	102,097	219	9,221	739
Current liabilities	7,493	5,185	49,298	3,480	6,571	131
Non-current liabilities	2,890	1,931	4,741	-	649	27
Total liabilities	10,383	7,116	54,039	3,480	7,220	158
Total equity	(1,319)	411	48,058	(3,261)	2,001	581

December 31, 2013

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

(3) Summary of financial performance of subsidiaries for the years ended December 31, 2014 and 2013, are as follows (Unit: Korean won in millions):

	For the year ended December 31, 2014					
	Ain Tele Service	CSLeader	Medialog Corp.	DACOM America Inc.	CS ONE Partner Corporation	With U
Sales	₩ 63,072	₩ 44,838	₩ 182,987	₩ 998	₩ 67,418	₩ 2,660
Operating income (loss)	304	100	(17,831)	67	(121)	32
Net income (loss)	392	245	(14,741)	48	66	154
Other comprehensive income (loss)	(1,094)	(644)	(406)	(130)	(1,125)	10
Total comprehensive income (loss)	₩ (702)	₩ (399)	₩ (15,147)	₩ (82)	₩ (1,059)	₩ 164

	For the year ended December 31, 2013					
	Ain Tele Service	CSLeader	Medialog Corp.	DACOM America Inc.	CS ONE Partner Corporation	With U
Sales	₩ 63,519	₩ 40,433	₩ 97,409	₩ 394	₩ 63,397	₩ 1,538
Operating income (loss)	(277)	165	(404)	(357)	385	(3)
Net income (loss)	98	442	(17)	(357)	781	28
Other comprehensive income (loss)	(398)	(616)	2	-	(490)	-
Total comprehensive income (loss)	₩ (300)	₩ (174)	₩ (15)	₩ (357)	₩ 291	₩ 28

(4) Summary of cash flows of subsidiaries for years ended December 31, 2014 and 2013, are as follows (Unit: Korean won in millions):

For the year ended December 31, 2014

	Ain Tele Service	CSLeader	Medialog Corp.	DACOM America Inc.	CS ONE Partner Corporation	With U
Cash flows from operating activities:	₩ 556	₩ 89	₩ (38,122)	₩ 63	₩ (565)	₩ 256
Cash flows from investing activities	520	2,500	(1,329)	-	917	(233)
Cash flows from financing activities	-	-	64,953	-	-	27
Net increase in cash and cash equivalents	1,076	2,589	25,502	63	352	50
Beginning of the period	2,699	1,005	10,278	124	3,540	230
Exchange rate fluctuation effect on cash and cash equivalents	-	-	-	8	-	-
End of the period	₩ 3,775	₩ 3,594	₩ 35,780	₩ 195	₩ 3,892	₩ 280

For the year ended December 31, 2013

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

Summary of cash flow as above includes the adjustments of differences in accounting policy of controlled entities and the fair value of the goodwill recognized on the business combination. In addition, internal transaction amount is not excluded.

(5) Ownership percentage held by non-controlling interests of subsidiary and financial position, financial performance, dividend amount attributable to non-controlling interest as of December 31, 2014 and 2013, are as follows (Unit: Korean won in millions):

	Medialog Corp.	
	December 31, 2014	December 31, 2013
Ownership percentage held by non-controlling interests(*1)	1.65%	11.94%
Cumulative non-controlling interests	671	1,687
Net loss attributable to non-controlling interests	(473)	(2)
Total comprehensive loss attributable to non-controlling interests	(479)	(2)
Dividends paid to non-controlling interests	-	-

(*1) The percentage of voting shares and the percentage of ownership are different due to treasury stock without voting rights.

(6) Details of transaction that the ownership percentage of controlled entities to subsidiaries by not losing the controlling power as of December 31, 2014, increased and the following effects to the capital that is vested to the owner of controlled entities are as follows (Unit: Korean won in millions):

	Medialog Corp.
Ownership percentage before transaction	88.06%
Ownership percentage after transaction(*1)	98.35%
Inflows due to the increase in capital(A)	(48)
Decrease of non-controlling interests(B)	(537)
Increase of other paid-in capital(A-B)	489

(*1) The percentage of ownership has increased, as some shareholders do not participate in the increase in paid-in capital of Medialog Corp.

15. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES:

(1) The composition of the Group's investments in joint ventures and investments in associates as of December 31, 2014 and 2013, is as follows (Unit: Korean won in millions):

Company	Class	Place of incorporation and operation	Percentage of ownership (%)	December 31, 2014	December 31, 2013
Dacom Crossing Corporation (*1)	Joint venture	South Korea	51.00	₩ 8,813	₩ 8,612
Mediplus Solution	Associate	South Korea	30.00	21	-
True Internet Data Center Company(*2)	Associate	Thailand	30.00	-	4,578
				₩ 8,834	₩ 13,190

(*1) The Group acquired over 50% shares of Dacom Crossing, but as the Group retains joint controlling of power, it has classified the shares as jointly controlled entities.
(*2) As True Internet Data Center Company is disposed, it is excluded from the associates.

(2) Equity securities accounted for using the equity method for the years ended December 31, 2014 and 2013, are as follows (Unit: Korean won in millions):

1) For the year ended December 31, 2014

	January 1, 2014	Share of profits of associates and joint ventures under the equity method	Share of other comprehensive income of associates and joint ventures under the equity method	Receipt of dividends	Disposal	December 31, 2014
Dacom Crossing Corporation	₩ 8,612	₩ 311	₩ 65	₩ (175)	-	₩ 8,813
Mediplus Solution	-	21	-	-	-	21
True Internet Data Center Company	4,578	644	484	-	(5,706)	-
	₩ 13,190	₩ 976	₩ 549	₩ (175)	(5,706)	₩ 8,834

2) For the year ended December 31, 2013

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

(3) Details of reconciliation between net assets of associates and the carrying value of the investments in associates as of and for the years ended December 31, 2014 and 2013, are as follows (Unit: Korean won in millions):

	December 31, 2014	
	Dacom Crossing Corporation	Mediplus Solution
Net assets of associates as of and for the year ended December 31, 2014(A)	₩ 17,280	₩ 71
The ownership interest of the consolidated entity (B)	51.00%	30.00%
The ownership amount of net assets (A*B)	8,813	21
(+) Goodwill	-	-
(-) Elimination of internal transaction effect	-	-
December 31, 2014	₩ 8,813	₩ 21

	December 31, 2013		
	Dacom Crossing Corporation	Mediplus Solution	True Internet Data Center Company
Net assets of associates as of and for the year ended December 31, 2014(A)	₩ 16,886	₩ (55)	₩ 15,261
The ownership interest of the consolidated entity (B)	51.00%	30.00%	30.00%
The ownership amount of net assets (A*B)	8,612	-	4,578
(+) Goodwill	-	-	-
(-) Elimination of internal transaction effect	-	-	-
December 31, 2014	₩ 8,612	₩ -	4,578

(4) Summary of financial information associates and joint ventures as of and for the years ended December 31, 2014 and 2013, are as follows (Unit: Korean won in millions):

	December 31, 2014	
Companies	Dacom Crossing Corporation	Mediplus Solution
Current assets	₩ 12,038	₩ 320
Non-current assets	58,366	136
Total assets	70,404	456
Current liabilities	8,534	385
Non-current liabilities	44,590	-
Total liabilities	53,124	385
Ownership interest of controlling entity	17,280	71
Non-controlling interest	-	-
Total equity	₩ 17,280	₩ 71

	December 31, 2013		
Companies	Dacom Crossing Corporation	Mediplus Solution	True Internet Data Center Company
Current assets	₩ 10,230	₩ 353	₩ 448
Non-current assets	62,204	31	18,768
Total assets	72,434	384	19,216
Current liabilities	7,966	439	3,940
Non-current liabilities	47,582	-	15
Total liabilities	55,548	439	3,955
Ownership interest of controlling entity	16,886	(55)	15,261
Non-controlling interest	-	-	-
Total equity	₩ 16,886	₩ (55)	₩ 15,261

(5) Summary of financial performances of associates and joint ventures for the years ended December 31, 2014 and 2013, are as follows (Unit: Korean won in millions):

	December 31, 2014	
Companies	Dacom Crossing Corporation	Mediplus Solution
Sales	₩ 33,654	₩ 107
Operating income	493	126
Gross comprehensive income (loss)	620	126

	December 31, 2013		
Companies	Dacom Crossing Corporation	Mediplus Solution	True Internet Data Center Company
Sales	₩ 33,513	₩ -	₩ 13,654
Operating income	693	(209)	2,286
Gross comprehensive income (loss)	693	(209)	2,286

(6) The composition details from the summary of financial information of joint ventures for the years ended December 31, 2014 and 2013, are as follows (Unit: Korean won in millions):

	Dacom Crossing Corporation	
	2014.12	2013.12
Cash and cash equivalents	₩ 5,327	₩ 4,288
Depreciation	1,052	895
Amortization	682	677
Interest income	85	110

16. DEBENTURES AND BORROWINGS:

(1) The Group's short-term borrowings as of December 31, 2014 and 2013, consist of the following (Unit: Korean won in millions):

Type of borrowings	Creditor	Annual interest rate (%)	December 31, 2014	December 31, 2013
General loans	Shinhan Bank	3.69	₩ 10,000	₩ -
	Hana Bank	3.69	5,000	-
			₩ 15,000	₩ -

(2) The Group's long-term borrowings as of December 31, 2014 and 2013, consist of the following (Unit: Korean won in millions):

Type of borrowings	Creditor	Annual interest rate (%)	December 31, 2014	December 31, 2013
General loans	Korea Exchange Bank	4.25	₩ -	₩ 100,000
(including loan on bills)	Shinhan Bank	4.25	200,000	200,000
Facilities financing	KDB	2.87−4.78	1,527,500	1,387,500
	Korea Finance Corporation	3.54−4.53	543,333	600,000
	Others	3.00−4.86	309,167	205,833
IT promotion funds	Hana Bank	2.77	16,979	27,147
Before current maturities	Face value		2,596,979	2,520,480
	Discount on long-term borrowings		(2,142)	(3,865)
Current maturities	Face value of long-term borrowings		972,873	623,501
	Discount on long-term borrowings		(1,233)	(1,723)
After current maturities	Face value		1,624,106	1,896,979
	Discount on long-term borrowings		(909)	(2,142)
	Book value		₩ 1,623,197	₩ 1,894,837

(3) The Group's debentures as of December 31, 2014 and 2013, consist of the following (Unit: Korean won in millions):

		Annual interest rate (%)	December 31, 2014	December 31, 2013
Debentures issued under public offering		2.37−4.47	₩ 2,200,000	₩ 1,900,000
Debentures issued privately		3.54	110,000	110,000
Before current maturities	Face value		2,310,000	2,010,000
	Discount on debentures		(6,170)	(4,618)
Current maturities	Current portion of debentures		140,000	600,000
	Current portion of discount on debentures		(113)	(436)
After current maturities	Face value		2,170,000	1,410,000
	Discount on debentures		(6,057)	(4,182)
	Book value		₩ 2,163,943	₩ 1,405,818

(4) The repayment schedule of long-term borrowings and debentures as of December 31, 2014, is as follows (Unit: Korean won in millions):

Period	Long-term borrowings	Debentures	Total
Jan. 1, 2016–Dec. 31, 2016	₩ 760,002	₩ 320,000	₩ 1,080,002
Jan. 1, 2017–Dec. 31, 2017	635,927	580,000	1,215,927
Jan. 1, 2018 and thereafter	228,177	1,270,000	1,498,177
Total	₩ 1,624,106	₩ 2,170,000	₩ 3,794,106

17. OTHER FINANCIAL LIABILITIES:

Other financial liabilities as of December 31, 2014 and 2013, are as follows (Unit: Korean won in millions):

	December 31, 2014		December 31, 2013	
	Current	Non-current	Current	Non-current
Non-trade payable(*1)	₩ -	₩ 449,352	₩ -	₩ 594,913
Withholdings	147,747	-	151,377	-
Rental deposits	-	7,951	-	9,604
Finance lease liabilities	2,012	-	13,368	2,012
Total	₩ 149,759	₩ 457,303	₩ 164,745	₩ 606,529

(*1) Current portion of non-trade payables are included in non-trade payables and other payables.

18. PROVISIONS:

Changes in restoration liabilities for the years ended December 31, 2014 and 2013, are as follows (Unit: Korean won in millions):

1) For the year ended December 31, 2014

	Beginning balance	Increase	Decrease	Ending balance
Restoration liabilities	₩ 37,601	₩ 4,948	₩ (15,288)	₩ 27,261

2) For the year ended December 31, 2013

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

19. RETIREMENT BENEFIT PLAN:

(1) Defined contribution plan

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

The Group recognized ₩3,510 million and ₩3,903 million of service cost relating to its defined contribution plan in the consolidated statements of income for the years ended December 31, 2014 and 2013, respectively.

(2) Defined benefit plan

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

1) As of December 31, 2014 and 2013, amounts recognized in the consolidated statements of financial position related to retirement benefit obligation are as follows (Unit: Korean won in millions):

	December 31, 2014		December 31, 2013	
Present value of defined benefit obligation	₩	297,114	₩	234,761
Fair value of plan assets		(231,494)		(184,336)
Net defined benefit liability	₩	65,620	₩	50,425

2) Changes in defined benefit obligation for the years ended December 31, 2014 and 2013, are as follows (Unit: Korean won in millions):

	2014		2013	
Beginning balance	₩	234,761	₩	193,120
Current service cost		46,312		40,882
Past service cost		3,902		-
Interest cost		8,797		6,806
Remeasurement:		19,160		6,624
Actuarial gain or loss from changes in demographic assumptions		(40)		4,694
Actuarial gain or loss from changes in financial assumptions		23,024		(1,580)
Actuarial gain or loss from difference between estimated and actual		(3,681)		3,469
Actuarial gain or loss arising from transfer in/out adjustment		(143)		41
Benefits paid		(15,753)		(13,623)
Transferred affiliated companies		(65)		952
Ending balance	₩	297,114	₩	234,761

3) Income or loss recognized relating to defined benefit plan for the years ended December 31, 2014 and 2013, are as follows (Unit: Korean won in millions)

	2014		2013	
Service cost	₩	50,214	₩	40,882
Current service cost		46,312		40,882
Past service cost		3,902		-
Net interest cost of net defined benefit obligations		2,172		2,248
Interest cost of defined benefit obligations		8,797		6,806
Interest income of plan assets		(6,625)		(4,558)
Other		297		281
Total	₩	52,683	₩	43,411

4) Changes in plan asset for the years ended December 31, 2014 and 2013, are as follows (Unit: Korean won in millions):

	2014		2013	
Beginning balance	₩	184,336	₩	131,608
Interest income on plan assets		6,625		4,558
Remeasurements-Return on plan assets		(805)		228
Contributions from the employer		53,744		57,503
Transferred affiliated companies		49		876
Other		(317)		(281)
Benefits paid		(12,138)		(10,156)
Ending balance	₩	231,494	₩	184,336

5) The principal assumptions used for the actuarial valuations as of December 31, 2014 and 2013, are as follows:

	December 31, 2014	December 31, 2013
Discount rate (%)	2.30%−4.06%	3.17%−4.06%
Expected rate of salary increase (%)	3.00%−6.00%	3.00%−6.00%

6) All of the plan assets invested in financial instruments are guaranteed principal and interest rate as of December 31, 2014 and 2013.

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

	Center scenario		+ 1%		- 1%	
Changes in discount rate	₩	297,114	₩	260,515	₩	320,817
Changes in rate of salary increase	₩	297,114	₩	319,649	₩	260,893

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

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

	2014		2013	
Actuarial gain or loss from changes in demographic assumptions	₩	(40)	₩	4,694
Actuarial gain or loss from changes in financial assumptions		23,024		(1,580)
Actuarial gain or loss from difference between estimated and actual		(3,681)		3,469
Actuarial gain or loss arising from transfer in/out adjustment		(143)		41
Return on plan assets, excluding amounts included in interest income		805		(228)
Total	₩	19,965	₩	6,396

20. OTHER LIABILITIES:

Other liabilities as of December 31, 2014 and 2013, are as follows (Unit: Korean won in millions):

	December 31, 2014				December 31, 2013			
	Current		Non-current		Current		Non-current	
Advances received	₩	71,650	₩	-	₩	92,754	₩	-
Unearned income		38,001		11,863		59,334		18,684
	₩	109,651	₩	11,863	₩	152,088	₩	18,684

21. FINANCE LEASE LIABILITIES:

Finance lease liabilities as of December 31, 2014 and 2013, are as follows (Unit: Korean won in millions):

	Creditor	Lease term	Annual interest rate (%)	Quarterly lease payment (*1)	December 31, 2014	December 31, 2013
Finance lease	Hewlett-Packard Korea	Jul. 29, 2011–Jul. 29, 2014	4.04	1,878	₩ -	₩ 5,521
	Financial Service, Ltd	Jan. 31, 2013–Jan. 31, 2015	4.08	2,033	2,012	9,859
		Subtotal			2,012	15,380
		Less current maturities			(2,012)	(13,368)
		Book value of financial lease liabilities			₩ -	₩ 2,012

(*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, 2014 and 2013, are as follows:

Type of stock	Number of authorized shares	Par value	December 31, 2014		December 31, 2013	
			Number of issued shares	Amount of capital stock	Number of issued shares	Amount of capital stock
Common stock	700,000,000 shares	₩5,000	436,611,361 shares	₩2,573,969 million	436,611,361 shares	₩2,573,969 million

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

(2) Capital surplus
Capital surplus of the Group is composed of paid-in capital in excess of par value, an option premium on convertible bonds and other capital surplus. As of December 31, 2014 and 2013, capital surplus amounted to ₩837,050 million and ₩836,561 million. Paid-in capital in excess of par value shall only be used for capitalization or disposition of accumulated deficit.

(3) Legal reserve
As of December 31, 2014, earned surplus reserve in form of legal reserve of ₩51,035 million is included in retained earnings. The Commercial Code of the Republic of Korea requires the Group to appropriate, as a legal reserve, an amount equal to a minimum of 10% of cash dividends paid until such reserve equals 50% of its issued capital stock. The reserve is not available for the payment of cash dividends, but may be transferred to capital stock or used to reduce accumulated deficit.

23. DIVIDENDS:

(1) The details of dividend paid of the parent company for the years ended December 31, 2014 and 2013, are as follows:

	2014(*1)	2013
Number of shares issued and outstanding	436,611,361 shares	436,611,361 shares
Number of treasury stocks	3 shares	3 shares
Number of shares eligible for dividends	436,611,358 shares	436,611,358 shares
Par value per share	₩ 5,000	₩ 5,000
Dividend rate	3%	3%
Dividends per share	₩ 150	₩ 150
Total dividends	₩ 65,492 million	₩ 65,492 million

(*1) The amount that is proposed before the date of issuance of financial statements but is not recognized as dividend during the period.

(2) Dividend payout ratio of the parent company for the years ended December 31, 2014 and 2013, are as follows (Unit: Korean won in millions):

	2014	2013
Total dividends	₩ 65,492	₩ 65,492
Net income attributable to the owners of the company	227,721	279,463
Dividend payout ratio	28.76%	23.44%

24. ACCUMULATED OTHER COMPREHENSIVE INCOME(LOSS):

(1) Composition of accumulated other comprehensive income or loss for the years ended December 31, 2014 and 2013, is as follows (Unit: Korean won in millions):

	Gain on valuation of AFS financial assets	Loss on valuation of AFS financial assets	Loss on valuation of cash flow hedging derivatives	Share of other comprehensive income of joint ventures and associates	Gain on foreign currency translation for foreign operations	Total
January 1, 2013	₩ 726	₩ (4,053)	₩ (3,614)	₩ (67)	₩ 32	₩ (6,976)
Fair value assessment	244	(1,578)	-	-	-	(1,334)
Hedge accounting	-	-	1,600	-	-	1,600
Equity method	-	-	-	(417)	-	(417)
Foreign currency translation for foreign operations	-	-	-	-	17	17
December 31, 2013	970	(5,631)	(2,014)	(484)	49	(7,110)
January 1, 2014	970	(5,631)	(2,014)	(484)	49	(7,110)
Fair value assessment	1,076	5,631	-	-	-	6,707
Hedge accounting	-	-	1,725	-	-	1,725
Equity method	-	-	-	549	-	549
Foreign currency translation for foreign	-	-	-	-	(130)	(130)

	Gain on valuation of AFS financial assets	Loss on valuation of AFS financial assets	Loss on valuation of cash flow hedging derivatives	Share of other comprehensive income of joint ventures and associates	Gain on foreign currency translation for foreign operations	Total
operations						
December 31, 2014	₩ 2,046	₩ -	₩ (289)	₩ 65	₩ (81)	₩ 1,741

25. OTHER EXPENSES:

Composition of other expenses for the years ended December 31, 2014 and 2013, are as follows (Unit: Korean won in millions):

	2014	2013
Operating lease payment	₩ 320,813	₩ 307,325
Advertising expenses	299,552	284,791
Utility expense	185,826	162,044
Sales commissions	2,116,033	2,337,951
Commission charge	1,131,353	1,073,783
Repair expense	128,962	109,921
Interconnection charge	616,433	641,425
Telecommunication equipment rental fees	294,377	289,658
Outsourcing expense	331,267	310,626
Bad debt expenses	83,908	84,864
International interconnection charge	151,360	177,661
Other	262,747	276,547
	₩ 5,922,631	₩ 6,056,596

26. OTHER NON-OPERATING REVENUES AND EXPENSES:

(1) Other operating revenues for the years ended December 31, 2014 and 2013, are as follows (Unit: Korean won in millions):

	2014	2013
Gain on disposal of tangible assets	₩ 1,022	₩ 937
Gain on disposal of intangible assets	3	-
Gain on foreign currency transactions	7,135	3,790
Gain on foreign currency translation	7,514	4,909
Miscellaneous income	59,307	49,236
	₩ 74,981	₩ 58,872

(2) Other non-operating expenses for the years ended December 31, 2014 and 2013, are as follows (Unit: Korean won in millions):

	2014	2013
Loss on disposal of tangible assets	₩ 30,946	₩ 19,223
Impairment loss of tangible assets	20,727	-
Impairment loss of intangible assets	2,797	3,707
Loss on disposal of investment in associates	51	-

Loss on foreign currency transactions		7,338		4,114
Loss on foreign currency translation		8,138		4,561
Donation		3,787		3,487
Miscellaneous loss		23,281		36,434
	₩	97,065	₩	71,526

27. FINANCIAL REVENUES AND FINANCIAL EXPENSES:

(1) Financial revenues for the years ended December 31, 2014 and 2013, are as follows (Unit: Korean won in millions):

	2014		2013	
Interest income	₩	39,342	₩	58,663
Gain on foreign currency transactions		86		47
Gain on foreign currency translation		-		2
Dividend income		358		394
	₩	39,786	₩	59,106

(2) Interest income included in financial revenues for the years ended December 31, 2014 and 2013, are as follows (Unit: Korean won in millions):

	2014		2013	
Cash and cash equivalents and financial institution deposits	₩	9,682	₩	10,876
Other loans and receivables		29,660		47,787
	₩	39,342	₩	58,663

(3) Financial expenses for the years ended December 31, 2014 and 2013, are as follows (Unit: Korean won in millions):

	2014		2013	
Interest expense	₩	210,057	₩	209,867
Loss on foreign currency transactions		9		2
Loss on foreign currency translation		3		-
Impairment loss of AFS financial assets		16,209		1,172
Loss on disposal of trade receivables		48,623		44,675
	₩	274,901	₩	255,716

(4) Interest expenses included in financial expenses for the years ended December 31, 2014 and 2013, are as follows (Unit: Korean won in millions):

	2014		2013	
Interest on long-term and short-term borrowings	₩	110,045	₩	110,413
Finance lease liabilities interest		305		1,066
Debentures interest		82,045		82,733
Other interest expense		21,013		16,473
(-)Borrowing cost, as part of the cost of the qualifying asset(*)		(3,351)		(818)
	₩	210,057	₩	209,867

(*) Capitalization rate for calculating borrowing costs which is eligible for capitalization as of December 31, 2014 and 2013, are 4% and 4.32%, respectively.

(5) Categorized profit and loss on financial instruments for the years ended December 31, 2014 and 2013, are as follows (Unit: Korean won in millions):

	2014	2013
FINANCIAL ASSETS		
Cash and cash equivalents	₩ 9,756	₩ 10,932
AFS financial assets	(9,142)	(3,286)
Loans and receivables	(96,674)	(84,973)
Subtotal	(96,060)	(77,327)
FINANCIAL LIABILITIES		
Financial liabilities at amortized cost	(215,869)	(206,631)
Liabilities of derivative instruments designated as hedging instruments	1,725	1,600
Subtotal	(214,144)	(205,031)
	₩ (310,204)	₩ (282,358)

28. INCOME TAX:

(1) Composition of income tax expense for the years ended December 31, 2014 and 2013, are as follows (Unit: Korean won in millions):

	2014	2013
Current income tax payable	₩ 54,601	₩ 26,909
Changes in deferred tax assets due to temporary differences	36,356	26,373
Beginning deferred tax asset	426,447	452,820
Ending deferred tax asset	390,091	426,447
Income tax expenses reflected directly in equity	1,437	1,101
Income tax expense	₩ 92,394	₩ 54,383

(2) Reconciliation between income before income tax and income tax expense of the Group for the years ended December 31, 2014 and 2013, is as follows (Unit: Korean won in millions):

	2014	2013
Income before income tax expense	₩ 320,115	₩ 333,844
Tax expense calculated on book income (tax rate: 24.2%)	77,006	80,790
Adjustments:	15,388	(26,407)
Non-taxable income	(33)	(17)
Non-deductible expense	5,761	8,705
Tax credits	8,902	(34,274)
Other	758	(821)
Income tax expense	₩ 92,394	₩ 54,383
Effective tax rate (income tax expense/income before income tax expense)	28.86%	16.29%

(3) Income taxes directly reflected in equity for the years ended December 31, 2014 and 2013, are as follows (Unit: Korean won in millions):

	2014	2013
Loss on valuation of cash flow hedging derivatives	₩ (551)	₩ (511)
Gain from valuation of AFS financial assets	(352)	(78)
Loss from valuation of AFS financial assets	(1,789)	505
Remeasurements	4,129	1,185
	₩ 1,437	₩ 1,101

(4) Changes in deferred tax assets (liabilities) for the year ended December 31, 2014, are as follows (Unit: Korean won in millions):

	Beginning balance	Increase	Decrease	Ending balance
TEMPORARY DIFFERENCES TO BE DEDUCTED:				
Defined benefit obligations	₩ 174,614	₩ 104,804	₩ 12,482	₩ 266,936
Allowance for doubtful accounts	209,495	235,649	209,427	235,717
Loss on valuation of inventories	40,665	38,192	40,665	38,192
Unsettled expenses	120,728	205,895	158,739	167,884
Property, plant and equipment	284,201	178,159	56,559	405,801
Provisions	43,472	30,064	43,472	30,064
Impairment losses on investment securities	27,059	16,210	-	43,269
Loss on valuation of investment securities	6,149	698	4,559	2,288
Derivatives	2,657	-	2,274	383
Intangible assets	172,556	23,182	140,767	54,971
Deemed dividends	160	-	-	160
Government subsidies	2,204	1,841	631	3,414
Adjustment on revenues	111,416	135,980	151,996	95,400
Investment assets	3,707	-	-	3,707
Others	5,816	(17,319)	4,332	(15,835)
Subtotal of temporary differences to be deducted	1,204,899	953,355	825,903	1,332,351
TEMPORARY DIFFERENCES TO BE ADDED:				
Accrued interest income	(250)	(388)	(368)	(270)
Present value discount account	(3,655)	4,621	265	701
Deposits for severance benefits	(159,418)	(81,923)	(12,316)	(229,025)
Interest expenses (capitalized interest expense)	(9,698)	-	(3,854)	(5,844)
Estimated assets for restoration	(13,824)	(497)	(13,834)	(487)
Equipment of free charge of Huawei	-	10,752	163,200	(152,448)
Unrealized inventories	-	-	598	(598)
Tax reserves	(8,400)	-	(8,400)	-
Income or loss under the equity method	(2,638)	(557)	-	(3,195)
Subtotal of temporary differences to be added	(197,883)	(67,992)	125,291	(391,166)
Deficit carried forward	-	-	-	18,423
Total	1,007,017	-	-	959,608
Realizable temporary differences	1,009,495			966,866
Unrealizable temporary differences	(2,478)			(7,258)
Tax rate	11%, 22%, 24.20%			11%, 22%, 24.20%
Income tax effect due to temporary differences	244,298			233,449
Income tax effect due to tax credit carryforwards	182,149			156,642

	Beginning balance	Increase	Decrease	Ending balance
Deferred income tax assets	₩ 426,447			₩ 390,091

(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
Loss on foreign currency translation	8,694	-	8,694	-
Adjustment on revenues	118,496	182,875	189,955	111,416
Investment assets	-	3,707	-	3,707
Others	2,766	3,050	-	5,816
Subtotal of temporary differences to be deducted	1,345,456	731,894	872,451	1,204,899
TEMPORARY DIFFERENCES TO BE ADDED:				
Accrued interest income	(689)	(250)	(689)	(250)
Discount on present value	(3,765)	(32)	(142)	(3,655)
Deposits for severance benefits	(106,299)	(59,623)	(6,504)	(159,418)
Interest expenses (capitalized interest expense)	(13,873)	-	(4,175)	(9,698)
Gain on foreign currency translation	(8,994)	8,994	-	-
Estimated assets for restoration	(14,897)	(13,824)	(14,897)	(13,824)
Tax reserves	(16,800)	-	(8,400)	(8,400)
Income (loss) under the equity method	(1,108)	(1,530)	-	(2,638)
Subtotal of temporary differences to be added	(166,425)	(66,265)	(34,807)	(197,883)
Realizable temporary differences	1,179,979			1,009,494
Unrealizable temporary differences	(948)			(2,478)
Tax rate	11%, 22%, 24.20%			11%, 22%, 24.20%
Income tax effect due to temporary differences	286,257			244,298
Income tax effect due to tax credit carryforwards	166,563			182,149
Deferred tax assets	₩ 452,820			₩ 426,447

(6) As of December 31, 2014, deferred tax assets that the investment assets and investments are excluded and are not recognized are as follows (Unit: Korean won in millions):

	December 31, 2014
Temporary differences	₩ 4,291
Taxation deficits	₩ 8,837

(7) As of December 31, 2014 and 2013, temporary differences not recognized as deferred tax assets (liabilities) related to investment asset and equity interest are as follows (Unit: Korean won in millions):

		December 31, 2014
Investment in subsidiaries	₩	(17,351)
Investments in associates	₩	(3,035)

Carried-forward taxation credits that are not recognized as deferred tax assets as of December 31, 2014, are ₩38,509 million.

29. 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 by the weighted-average numbers of common shares issued during that period. Earnings per share for the years ended December 31, 2014 and 2013, are calculated as follows (Unit: Korean won in millions, except for earnings per share):

		2014		2013
Net income	₩	228,194	₩	279,463
Weighted-average number of common shares outstanding		436,611,358 shares		436,611,360 shares
Earnings per share (in Korean won)	₩	523 per share	₩	640 per share

Diluted earnings per share are same to basic earnings per share as the Group has no dilutive potential common stocks as of December 31, 2014.

30. COMMITMENTS AND CONTINGENCIES:

(1) As of December 31, 2014, there are 101 lawsuits ongoing where the Group is a defendant in the Republic of Korea; total claim amount the Group is being sued for is ₩50,672 million. Management believes the outcome of these lawsuits will likely not have a significant effect on the financial position of the Group.

(2) The Group entered into agreements with KDB and others for a line of credit and commercial paper up to ₩370,000 million. Among these agreements, includes a bank overdraft agreement with Woori Bank and others up to ₩40,000 million.

(3) As of December 31, 2014, the Group has entered into agreements with Woori Bank for a B2B limit of ₩1,450,000 million, in order to pay off its accounts payable. Among the agreements, the Group has entered into a loan agreement secured by an electronic accounts receivable agreement, where the Group guarantees the payment of accounts receivable up to ₩120,000 million when the Group's vendors transfers the accounts receivable due from the Group prior to its maturity. In addition, the Group has agreements with the Industrial Bank of Korea for its corporate purchasing card with a limit of ₩18,000 million.

(4) The Group entered into agreements (syndicated loan) with six financial institutions, including KDB up to ₩1,000,000 million and as of December 31, 2014, the Group borrowed ₩687,500 million.

31. RELATED-PARTY TRANSACTIONS:

(1) Major related parties for the years ended December 31, 2014 and 2013, are as follows:

1) For the year ended December 31, 2014

	Company
Investor with significant influence over the Group	LG Corporation
Subsidiaries	Ain Tele Service, CSLeader, Medialog Corp., Dacom America Inc. and CS One Partner Corporation, With U
Jointly controlled entity	Dacom Crossing Corporation
Associate	Mediplus Solution
Others	Serveone and seven others, LG Siltron and two others, LG CNS and 27 others, LG Sports, LG Management Development Institute, LG Solar Energy, Lusem, LG Holdings Japan Co., Ltd.

2) For the year ended December 31, 2013

	Company
Investor with significant influence over the Group	LG Corporation
Subsidiaries	Ain Tele Service, CSLeader, Medialog Corp., Dacom America Inc. and CS One Partner Corporation, With U
Jointly controlled entity	Dacom Crossing Corporation
Associate	True Internet Data Center Company, Mediplus Solution
Others	Serveone and four others, LG Siltron and two others, LG CNS and 27 others, LG Sports, LG Management Development Institute, LG Solar Energy, Lusem

As of December 31, 2014, no entity controls the Group. LG Corp. has 36.05% of ownership interest and has significant influence over the Group. Transactions between a parent and all its subsidiaries was removed when consolidated financial statements presented, related-party transactions and related receivables and debt balances will not be disclosed the notes.

(2) Major transactions with the related parties for the years ended December 31, 2014 and 2013, are as follows (Unit: Korean won in millions):

	2014			2013		
	Sales and others	Purchase of Property, plant and equipment	Other Purchases	Sales and others	Purchase of Property, plant and equipment	Other Purchases
Investor with significant influence over the Group:						
LG Corporation	₩ 157	₩ -	₩ 28,583	₩ 211	₩ -	₩ 29,742
Jointly controlled entity:						
Dacom Crossing Corporation	512	1,559	10,150	454	5,331	7,830
Others:						
Serveone	12,259	171,197	27,960	13,569	79,115	27,110
LG Management Development Institute	79	-	5,050	134	-	5,051
LG Sports	58	-	3,007	71	-	2,307
LG Siltron	434	-	2	780	-	1,602
LG CNS(*1)	43,432	95,486	113,018	65,541	115,333	111,342
Lusem	51	-	-	63	-	-
LG Solar Energy	1	-	-	1	-	-
Total	₩ 56,983	₩ 268,242	₩187,770	₩80,824	₩199,779	₩184,984

(*1) Transactions of other related parties' subsidiaries are included.

(3) Outstanding receivables and payables from transactions with related parties as of December 31, 2014 and 2013, are as follows (Unit: Korean won in millions):

	December 31, 2014		December 31, 2013	
	Receivables	Payables	Receivables	Payables
Investor with significant influence over the Group:				
LG Corporation	₩ 6,598	₩ -	₩ 5,396	₩ 1,060
Jointly controlled entity:				
Dacom Crossing Corporation	30	240	35	376
Others:				
Serveone	20,008	91,907	19,499	37,872
LG Management Development Institute	2,958	224	2,958	270
LG Sports	-	2	-	39
LG Siltron	59	1	309	-
LG CNS (*1)	2,512	74,090	3,958	97,748
	₩ 32,165	₩ 166,464	₩ 32,155	₩ 137,365

(*1) Transactions of other related parties' subsidiaries are included.

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

(4) The compensation and benefits for the Group's key management, including directors (excluding non-executive directors) and executive officers, who have significant control and responsibilities on planning, operating and controlling the Group's business activities for the years ended December 31, 2014 and 2013, are summarized as follows (Unit: Korean won in millions):

	2014		2013	
Short-term employee benefits	₩	32,534	₩	23,452
Postemployment benefits (*1)		5,006		5,916
	₩	37,540	₩	29,368

(*1) The above balances refer to retirement benefits incurred for key management for the years ended December 31, 2014 and 2013. In addition, the present values of defined benefit obligations for key management are ₩30,332 million and ₩26,451 million as of December 31, 2014 and 2013, respectively.

32. RISK MANAGEMENT:

(1) Capital risk management

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

The Group's capital structure consists of net liability, which is borrowings (including bonds and finance lease liability), less cash and cash equivalents and equity; the overall capital risk management policy of the Group remains unchanged from prior period. In addition, items managed as capital by the Group as of December 31, 2014 and 2013, are as follows (Unit: Korean won in millions):

	December 31, 2014		December 31, 2013	
Total borrowings	₩	4,915,679	₩	4,537,377
Less cash and cash equivalents		(415,938)		(398,335)
Borrowings, net		4,499,741		4,139,042
Total shareholder's equity	₩	4,177,812	₩	4,022,616
Net borrowings to equity ratio		107.71%		102.89%

(2) Financial risk management

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

1) Foreign currency risk

The Group is exposed to exchange rate fluctuation risk since it undertakes transactions denominated in foreign currencies. The carrying amounts of Group's monetary assets and liabilities denominated in foreign currencies that is not the functional currency as of December 31, 2014 and 2013, are as follows (Unit: Korean won in millions):

① As of December 31, 2014

Currency	Assets		Liabilities	
AUD	₩	-	₩	1
EUR		336		1,064
HKD		198		-
JPY		6		14
SDR		35		138
SGD		1		1
USD		100,927		117,035
GBP		2		-
	₩	101,505	₩	118,253

② 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

The Group internally assesses the foreign currency risk from changes in exchange rates on a regular basis. The Group's sensitivity to a 10% increase and decrease in the KRW (functional currency of the Group) against the major foreign currencies as of December 31, 2014 and 2013, is as follows (Unit: Korean won in millions):

① As of December 31, 2014

Currency	Gain (loss) from 10% increase against foreign currency		Gain (loss) from 10% decrease against foreign currency	
EUR	₩	(55)	₩	55
HKD		15		(15)
JPY		(1)		1
SDR		(8)		8
USD		(1,222)		1,222
	₩	(1,271)	₩	1,271

② 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

Sensitivity analysis above is conducted for monetary assets and liabilities denominated in foreign currencies other than functional currency as of December 31, 2014 and 2013.

2) Interest rate risk

The Group borrows funds on floating interest rates and is exposed to cash flow risk arising from interest rate changes. The book value of liability exposed to interest rate risk as of December 31, 2014 and 2013, is as follows (Unit: Korean won in millions):

	December 31, 2014	December 31, 2013
Borrowings	₩ 216,979	₩ 328,115

The Group internally assesses the cash flow risk from changes in interest rates on a regular basis. Effect of changes in interest rates of 1% to net income as of December 31, 2014 and 2013, is as follows (Unit: Korean won in millions):

① As of December 31, 2014

	1% increase		1% decrease	
	Gain (loss)	Net asset	Gain (loss)	Net asset
Borrowings	₩ (1,645)	₩ (1,645)	₩ 1,645	₩ 1,645

② As of December 31, 2013

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

In order to manage its interest rate risks, the Group enters into interest rate swap contracts. The Group applies cash flow hedge accounting for its interest swap contracts; the value of the unsettled interest swap contract as of December 31, 2014 and 2013, are as follows (Unit: Korean won in millions):

① As of December 31, 2014

		Valuation gain and loss			Fair value	
	Notional principal value	Gain	Loss	Accumulated other comprehensive income	Assets	Liabilities
Interest rate swap	100,000	₩ -	₩ 383	₩ (289)	₩ -	₩ 383

② 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

3) Price risk

The Group is exposed to price risks arising from AFS equity instruments. As of December 31, 2014, fair value of AFS equity instruments is ₩35,095 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 ₩2,660 million.

4) Credit risk

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

The maximum exposure amount of credit risk of loans, receivables and AFS financial assets (debt securities) are similar with the amount of carrying value and the maximum exposure amount of credit risk due to other commitments are ₩2,973,000 million.

5) Liquidity risk

The Group 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 Group believes that financial liability may be redeemed by cash flow arising from operating activities and financial assets.

Maturity analysis of non-derivative financial liabilities according to its remaining maturity as of December 31, 2014 and 2013, are as follows (Unit: Korean won in millions):

① As of December 31, 2014

	Within a year	One to five years	More than five years	Total
Non-interest-bearing instruments	₩ 2,218,555	₩ 457,303	-	₩ 2,675,858
Variable interest instruments	211,389	8,659	-	220,048
Fixed interest rate instruments	1,079,479	3,682,272	363,046	5,124,797
	₩ 3,509,423	₩ 4,148,234	363,046	₩ 8,020,703

(*) Maturity analysis above is based on the earliest maturity for the Group to pay based on the carrying value.

② As of December 31, 2013

	Within a year	One to five years	Total
Non-interest-bearing instruments	₩ 2,344,450	₩ 604,516	₩ 2,948,966
Variable interest instruments	110,444	217,671	328,115
Fixed interest rate instruments	1,170,401	3,236,048	4,406,449
	₩ 3,625,295	₩ 4,058,235	₩ 7,683,530

(*) Maturity analysis above is based on the earliest maturity for the Group to pay based on the carrying value.

Maturity analysis of derivative financial liabilities according to its remaining maturity as of December 31, 2014 and 2013, are as follows (Unit: Korean won in millions):

① As of December 31, 2014

	Within a year	One to five years
Derivatives designated as a hedging instrument:		
Interest rate swap liabilities	₩ 383	₩ -

② As of December 31, 2013

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

(3) Fair value hierarchy

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

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

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

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

	December 31, 2014	December 31, 2013
Derivatives	2.14%	2.67%−2.85%
Debentures	2.24%−2.88%	2.73%−3.71%

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).

1) Financial instruments that are measured subsequent to initial recognition at fair value by fair value hierarchy levels as of December 31, 2014 and 2013, are as follows (Unit: Korean won in millions):

① For the year ended December 31, 2014

	December 31, 2014				
		Fair value			
	Carrying amount	Level 1	Level 2	Level 3	Total
Financial assets:					
Marketable equity securities	₩ 35,095	₩ 35,095	₩ -	₩ -	₩ 35,095
Financial liabilities:					
Derivative liabilities designated as hedging instrument	₩ 383	₩ -	₩ 383	₩ -	₩ 383

② For the year ended 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
Financial liabilities:					
Derivative liabilities designated as hedging instrument	₩ 2,657	₩ -	₩ 2,657	₩ -	₩ 2,657

There is no significant transfer between Level 1 and Level 2 as of December 31, 2014 and 2013.

2) Valuation method and input variables that are classified as Level 2 from the financial instruments which are subsequently measured as fair values are as follows (Unit: Korean won in millions):

	Fair values as of December 31, 2014	Valuation technique	Input variables
Financial liabilities			
Derivative liabilities designated as hedging instruments	383	Decision model for future prices	Discount rate

3) The fair value hierarchy of financial instruments with fair value cannot be reliably measured at fair value in the statements of financial position as of December 31, 2014 and 2013, are as follows (Unit: Korean won in millions):

Description	December 31, 2014				
		Fair value			
	Book value	Level 1	Level 2	Level 3	Total
Loans and receivables					
Financial institution deposits	28,673	-	-	28,673	28,673
Trade receivables(*)	1,726,340	-	-	1,726,340	1,726,340
Loans(*)	23,414	-	-	23,414	23,414
Other accounts receivable(*)	191,757	-	-	191,757	191,757
Accrued income(*)	398	-	-	398	398
Deposits(*)	264,987	-	-	264,987	264,987
Total	2,235,569	-	-	2,235,569	2,235,569
Financial liabilities measured at amortized cost					
Trade payables(*)	302,399	-	-	302,399	302,399
Borrowings(*)	2,609,837	-	-	2,609,837	2,609,837
Debentures(*)	2,303,830	-	2,376,846	-	2,376,846
Other accounts payables(*)	1,573,550	-	-	1,573,550	1,573,550
Accrued expenses(*)	644,211	-	-	644,211	644,211
Withholdings(*)	147,747	-	-	147,747	147,747
Finance lease obligations(*)	2,012	-	-	2,012	2,012
Deposits received	7,951	-	-	7,951	7,951
Total	7,591,537	-	2,376,846	5,287,707	7,664,553

Description	December 31, 2013				
		Fair value			
	Book value	Level 1	Level 2	Level 3	Total
Loans and receivables					
Financial institution deposits	35,302	-	-	35,302	35,302
Trade receivables(*)	2,066,360	-	-	2,066,360	2,066,360
Loans(*)	21,248	-	-	21,248	21,248
Other accounts receivable(*)	163,544	-	-	163,544	163,544
Accrued income(*)	368	-	-	368	368
Deposits(*)	266,522	-	-	266,522	266,522
Total	2,553,344	-	-	2,553,344	2,553,344
Financial liabilities measured at amortized cost					
Trade payables(*)	362,937	-	-	362,937	362,937
Borrowings(*)	2,516,615	-	-	2,516,615	2,516,615
Debentures(*)	2,005,382	-	2,214,961	-	2,214,961
Other accounts payables(*)	1,735,979	-	-	1,735,979	1,735,979
Accrued expenses(*)	689,070	-	-	689,070	689,070
Withholdings(*)	151,376	-	-	151,376	151,376
Finance lease obligations(*)	15,380	-	-	15,380	15,380
Deposits received	9,605	-	-	9,605	9,605
Total	7,486,344	-	2,214,961	5,480,962	7,695,923

(*) Short-term receivables and short-term payment obligations denominated in Level 3 are measured at original amount since the discount effect is not significant.

4) Valuation techniques and input variables that are used to measure the fair value of financial instruments that are classified as Level 2 and 3 are as follows:

- Interest rate swap

Discount rate and the interest rate of forward contract used for the measurement of fair value of interest rate swap is determined based on the applicable rate of return curve that is derived from the interest rate disclosed in the market. Fair values of interest rate swap are measured by the amount that the future cash flow of estimated interest rate swap discounted by the appropriate discount rate based on the interest rate of forward contract that is derived from the technique above.

As input variables that are used to measure fair values of interest rate swap is derived from the rate of return curve observable in the market at the end of reporting date, the consolidated entity classified the fair value measurement of interest rate swap as Level 2 of fair value hierarchy.

5) There is no change in valuation technique that is used in the measurement of fair value of financial instruments classified as Level 2 of fair value measurement.

6) There are no significant changes in business environments or economic environments, which have impact on the fair values of financial assets and financial liabilities held by the consolidated entity.

33. STATEMENTS OF CASH FLOWS:

The major transactions not involving cash outflows and cash inflows for the years ended December 31, 2014 and 2013, are as follows (Unit: Korean won in millions):

	2014	2013
Write-off of trade receivables	₩ 59,279	₩ 46,979
Mutual reclassification between trade receivables and non-current trade receivables	19,183	31,916
Valuation of AFS security	1,458	1,761
Reclassification of assets under construction	1,982,638	1,214,615
Current maturities of other long-term payables	145,560	102,259
Other payables relating to acquiring intangible assets	152,758	297,385
Current maturities of debentures and long-term borrowings	1,113,686	1,222,653

34. UNCONSOLIDATED STRUCTURED ENTITIES:

The Group transferred the receivables of handset to U Plus LTE SPC 18th and 16 other companies(the "SPC") for current maturities of receivables of handset as underlying assets and as a result, SPC is not subject to consolidation according to K-IFRS 1110 'Consolidated financial statement' and the receivables of handset satisfy the requirements of derecognition of K-IFRS 1039 'Financial Instruments: Recognition and Measurement.'

Meanwhile, as the Group receives the asset management fees for entering into the contract of asset management with the SPC, receivables of asset management fees (maximum exposure of receivables of the Group for the loss of structured entities) that the Group recognizes for the SPC as of December 31, 2014 and 2013, are ₩40,762 million and ₩18,640 million, respectively.

35. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS:

The Company has issued and approved the consolidated financial statements in the board of directors' meeting in January 22, 2015, and will be finally approved in the shareholders' meeting in March 6, 2015.

36. SUBSEQUENT EVENTS:

(1) On January 22, 2015, according to the financial committee, the Group determined to sell the trade receivables whose total face amount is ₩273,445 million to U Plus LTE SPC 19th. The proceeds from this sale have been already settled on February 9, 2015.

(2) The Group determined to issue the 99th bond in the financial committee, which were opened in December 29, 2014, for retaining conversion funds and operating funds. According to this resolution, unsecured public bonds (Credit rate of AA) of ₩90,000 million, ₩100,000 million and ₩110,000 million were issued in January 20, 2015, and the expiration dates are January 20, 2020, January 20, 2022, and January 20, 2025, respectively.

Disclosure on Execution of External Audit

We attach required disclosure on the execution of external audit performed in accordance with *Article 7-2 of the Act on External Audit of Stock Companies*.

1. Company and Reporting Period subject to External Audit

Company	LG Uplus Corp.			
Reporting Period	2014/1/1	From	2014/12/31	To

2. Number of Participants and Details on the Hours Executed in Audit

(Unit: Number of Participant, Hour Executed)

Participant(s) Number and Hour(s)		Engagement Quality Reviewer(s) (Including QRM, etc.)	Audit Professional(s)			IT Specialist(s), Tax Specialist(s), Valuation Specialist(s)	Total
			Engagement Partner(s)	KICPA (Registered)	KICPA (Non-Registered)		
Number of Participant(s)		3	1	8	2	14	28
Hours Executed	Quarterly Review, Six-Month Review	39	154	2,076	461	-	2,730
	Audit	33	127	1,716	381	607	2,864
	Total	72	281	3,792	842	607	5,594

3. Key Disclosure on Execution of External Audit

<table>
<tr><td>Title</td><td colspan="8">Detail</td></tr>
<tr><td rowspan="2">Audit Planning Stage</td><td colspan="3">Dates Performed</td><td colspan="3">April–September 2014</td><td>3</td><td>Days</td></tr>
<tr><td colspan="3">Main Planning Work Performed</td><td colspan="5">Understanding the Company and business environments, Composing the audit member, Identifying and evaluating significant risk of material misstatements, Deciding the nature/timing/extent of an audit, Reviewing the application of professionals, Determining the materiality in the application of an audit</td></tr>
<tr><td rowspan="5">Fieldwork Performed</td><td colspan="3" rowspan="2">Dates Performed</td><td colspan="4">Number of Participant(s)</td><td rowspan="2">Main Fieldwork Performed</td></tr>
<tr><td colspan="2">On-Site</td><td colspan="2">Off-Site</td></tr>
<tr><td></td><td></td><td>Days</td><td></td><td>Number of Participant(s)</td><td></td><td>Number of Participant(s)</td><td></td></tr>
<tr><td>2014/04/14–2014/04/25</td><td></td><td>10</td><td></td><td>6</td><td></td><td>2</td><td>Review of separate and consolidated financial statement (1st quarter)</td></tr>
<tr><td>2014/7/14–2014/7/25</td><td></td><td>10</td><td></td><td>6</td><td></td><td>2</td><td>Review of separate and consolidated financial statement (2nd quarter)</td></tr>
<tr><td></td><td>2014/10/13–2014/10/24</td><td></td><td>10</td><td></td><td>6</td><td></td><td>2</td><td>Review of separate and consolidate financial statement (3rd quarter)</td></tr>
<tr><td></td><td>2014/11/24–2014/12/05</td><td></td><td>10</td><td></td><td>6</td><td></td><td>2</td><td>Review of separate and consolidate financial statement (3rd quarter)</td></tr>
<tr><td></td><td>2015/1/12–2015/1/23</td><td></td><td>10</td><td></td><td>6</td><td></td><td>2</td><td>Interim audit (Understanding the transaction type of each process, Control testing)</td></tr>
</table>

	2015/1/12–2015/1/23		10		6		2	External audit (Substantive procedure for the material account balances and transactions, consolidation audit)
Physical Counts - Inventory (Observation)	Time (When Performed)	2015/1/1					1	Day(s)
	Place (Where Performed)	Gunpo warehouse and direct store						
	Inventory subjected to Counts	Handset and others						
Physical Counts - Financial Instruments (Observation)	Time (When Performed)	2015/1/2				1	Day(s)	
	Place (Where Performed)	LG Uplus head office						
	Financial Instruments subjected to Counts	Cash, investment securities, memberships and others						
External Confirmation	Bank Confirmation	O	Accounts Receivable/Payable Confirmation			O	Legal Confirmation	O
	Other Confirmation	N/A						
Communications with Those Charged with Governance	Number of Communications	2	Time(s) Performed					
	Time (When Performed)	2014/7/24, 2015/2/9						