Daekyo Co., Ltd. and Subsidiaries

Consolidated Financial Statements
December 31, 2012 and 2011

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December 31, 2012 and 2011

Report of Independent Auditors

To the Board of Directors and Shareholders of
Daekyo Co., Ltd.

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

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

In our opinion, the consolidated financial statements, referred to above, present fairly, in all material respects, the financial position of the Group as of December 31, 2012 and 2011, and their financial performance and cash flows for the years then ended, in accordance with International Financial Reporting Standards as adopted by the Republic of Korea (“Korean IFRS”).

Auditing standards and their application in practice vary among countries. The procedures and practices used in the Republic of Korea to audit such financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report is for use by those who are informed about Korean auditing standards and their application in practice.

Samil PricewaterhouseCoopers

Seoul, Korea
March 14, 2013

This audit report is effective as of March 14, 2013, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

Daekyo Co., Ltd. and Subsidiaries
Consolidated Statements of Financial Position
December 31, 2012 and 2011

(in Korean won)	**Notes**	**2012**	**2011**
Assets			
Current assets			
Cash and cash equivalents	4,6,7	38,604,012,540	49,874,764,951
Financial deposits	4,6,7	9,322,951,126	13,005,550,690
Trade receivables	6,8,41	40,079,039,627	46,084,564,978
Other receivables	6,8,41	41,548,039,125	40,243,966,145
Financial assets at fair value through profit or loss	4,6,9	57,548,068,785	54,443,258,815
Available-for-sale financial assets	4,6,10	81,611,056,374	86,932,387,897
Inventories	11	24,161,843,707	32,429,947,423
Other current assets	12	9,285,733,466	11,467,982,545
		302,160,744,750	334,482,423,444
Non-current assets			
Financial deposits	6,7	305,062,981	5,221,302
Long-term other receivables	6,8	21,430,025,285	19,219,742,706
Available-for-sale financial assets	4,6,10	165,510,215,304	182,333,570,240
Investments in associates	5,13	2,395,226,005	466,016,413
Property, plant and equipment	14	147,787,114,662	149,928,005,281
Investment property	15	90,558,212,739	72,082,141,743
Intangible assets	16	83,557,928,606	98,160,462,494
Other non-current assets	12	408,609,492	1,812,984,797
		511,952,395,074	524,008,144,976
Total assets		814,113,139,824	858,490,568,420

Daekyo Co., Ltd. and Subsidiaries
Consolidated Statements of Financial Position
December 31, 2012 and 2011

(in Korean won)	**Notes**	**2012**	**2011**
Liabilities			
Current liabilities			
Trade payables	4,6,41	10,195,505,884	11,494,751,890
Derivative financial instruments	4,6	-	63,441,493
Other payables	4,6,17,41	67,399,278,670	79,684,259,251
Borrowings	4,6,18	23,274,150,019	20,540,247,051
Income tax payable		5,151,477,094	12,523,249,808
Provisions	19	493,666,331	415,346,041
Other current liabilities	20	58,487,258,347	49,180,819,487
		165,001,336,345	173,902,115,021
Non-current liabilities			
Other payables	4,6,17	3,379,390,583	5,609,012,724
Borrowings	4,6,18	891,174,021	936,214,082
Retirement benefit obligations	21	4,071,156,664	9,573,443,087
Deferred income tax liabilities	22	18,840,534,464	24,688,606,527
		27,182,255,732	40,807,276,420
Total liabilities		192,183,592,077	214,709,391,441
Equity attributable to owners of the Parent			
Capital stock	23	52,064,920,000	52,064,920,000
Capital surplus	24	68,919,275,425	69,422,725,682
Other components of equity	25,26,27	(54,890,574,087)	(47,569,505,865)
Accumulated other comprehensive income	22	76,774,703,864	88,482,807,653
Retained earnings	28	472,739,016,936	475,330,769,940
		615,607,342,138	637,731,717,410
Non-controlling interest			
Non-controlling interest		6,322,205,609	6,049,459,569
Total equity		621,929,547,747	643,781,176,979
Total liabilities and equity		814,113,139,824	858,490,568,420

The accompanying notes are an integral part of these consolidated financial statements.

Daekyo Co., Ltd. and Subsidiaries
Consolidated Statements of Income
Years Ended December 31, 2012 and 2011

(in Korean won)	Notes	2012	2011
Net Sales	5,30,41	869,494,013,911	908,020,301,084
Cost of sales	32,41	718,594,395,558	738,988,928,010
Gross profit		150,899,618,353	169,031,373,074
Selling and administrative expenses	31,32,41	119,244,641,391	107,880,070,540
Operating income	2	31,654,976,962	61,151,302,534
Other income	33	35,446,688,746	28,706,368,802
Other expenses	34	25,785,593,784	15,520,735,504
Share of loss of associates		171,650,218	263,000,141
Financial income	35	2,171,101,449	2,216,300,190
Financial expenses	36	903,701,563	924,981,589
Profit before income tax		42,411,821,592	75,365,254,292
Income tax expense	37	12,840,893,988	20,799,935,443
Profit for the year from continuing operations		29,570,927,604	54,565,318,849
Discontinued operations			
Loss for the year from discontinued operations	42	(8,803,232,809)	(4,137,363,340)
Profit for the year		20,767,694,795	50,427,955,509
Profit for the year attributable to:			
Equity holders of the Parent Company		22,933,324,738	52,684,208,520
Non-controlling interests		(2,165,629,943)	(2,256,253,011)
Earnings per share from continuing operations attributable to the equity holders of the Parent Company during the year:	38		
Basic earnings per share for ordinary shares		338	605
Basic earnings per share for preferred shares		347	613
Loss per share from discontinued operations attributable to the equity holders of the Parent Company during the year:	38		
Basic loss per share for ordinary shares		(94)	(44)
Basic loss per share for preferred shares		(94)	(44)

The accompanying notes are an integral part of these consolidated financial statements.

Daekyo Co., Ltd. and Subsidiaries

Consolidated Statements of Comprehensive Income

Years Ended December 31, 2012 and 2011

(in Korean won)	Notes	2012	2011
Profit for the year		20,767,694,795	50,427,955,509
Other comprehensive income, net of tax:			
Gain(loss) on valuation of available-for-sale financial assets		(11,117,380,656)	(67,434,137,344)
Actuarial loss on retirement benefit obligations	22,28	(1,037,122,857)	(3,209,012,578)
Currency translation differences		(979,533,905)	207,733,175
Other comprehensive loss for the year, net of tax		(13,134,037,418)	(70,435,416,747)
Total comprehensive income(loss) for the year		7,633,657,377	(20,007,461,238)
Comprehensive income (loss) for the year attributable to:			
Equity holders of the Parent Company		10,216,205,637	(17,732,397,542)
Non-controlling interest		(2,582,548,260)	(2,275,063,696)

The accompanying notes are an integral part of these consolidated financial statements.

Daekyo Co., Ltd. and Subsidiaries
Consolidated Statements of Changes in Equity
Years Ended December 31, 2012 and 2011

(in Korean won)

		Attributable to equity holders of the Parent Company						
	Notes	Capital Stock	Capital Surplus	Other components of Equity	Accumulated Other Comprehensive Income(loss)	Retained Earnings	Non-controlling Interest	Total Equity
Balance at January 1, 2011		52,064,920,000	70,497,421,063	(46,764,696,794)	155,749,194,225	448,465,376,580	7,431,870,334	687,444,085,408
Comprehensive income (loss)								
Profit for the year		-	-	-	-	52,684,208,520	(2,256,253,011)	50,427,955,509
Gain(loss) on valuation of available-for-sale financial assets		-	-	-	(67,434,137,344)	-	-	(67,434,137,344)
Actuarial loss on retirement benefit obligations		-	-	-	-	(3,150,219,490)	(58,793,088)	(3,209,012,578)
Currency translation differences		-	-	-	167,750,772	-	39,982,403	207,733,175
Transactions with equity holders of the Parent Company:								
Dividends	39	-	-	-	-	(12,365,603,850)	-	(12,365,603,850)
Interim dividends	39	-	-	-	-	(10,302,991,820)	-	(10,302,991,820)
Issuance of stocks of subsidiaries		-	(1,708,359,407)	-	-	-	892,652,931	(815,706,476)
Acquisition of treasury stock		-	-	(3,237,050,970)	-	-	-	(3,237,050,970)
Disposal of treasury stock		-	633,664,026	2,775,142,464	-	-	-	3,408,806,490
Stock options		-	-	(342,900,565)	-	-	-	(342,900,565)
Balance at December 31, 2011		52,064,920,000	69,422,725,682	(47,569,505,865)	88,482,807,653	475,330,769,940	6,049,459,569	643,781,176,979
Balance at January 1, 2012		52,064,920,000	69,422,725,682	(47,569,505,865)	88,482,807,653	475,330,769,940	6,049,459,569	643,781,176,979
Comprehensive income (loss)								
Profit for the year		-	-	-	-	22,933,324,738	(2,165,629,943)	20,767,694,795
Gain(loss) on valuation of available-for-sale financial assets		-	-	-	(11,117,380,656)	-	-	(11,117,380,656)
Actuarial loss on retirement benefit obligations		-	-	-	-	(1,009,015,312)	(28,107,545)	(1,037,122,857)
Currency translation differences		-	-	-	(590,723,133)	-	(388,810,772)	(979,533,905)
Transactions with equity holders of the Parent Company:								
Dividends	39	-	-	-	-	(14,233,557,340)	-	(14,233,557,340)
Interim dividends	39	-	-	-	-	(10,282,505,090)	-	(10,282,505,090)
Dividends of subsidiaries		-	-	-	-	-	(117,941,130)	(117,941,130)
Issuance of stocks of subsidiaries		-	(750,553,330)	-	-	-	2,973,235,430	2,222,682,100
Acquisition of treasury stock		-	-	(9,755,776,800)	-	-	-	(9,755,776,800)
Disposal of treasury stock		-	247,103,073	2,580,291,476	-	-	-	2,827,394,549
Stock options		-	-	(145,582,898)	-	-	-	(145,582,898)
Balance at December 31, 2012		52,064,920,000	68,919,275,425	(54,890,574,087)	76,774,703,864	472,739,016,936	6,322,205,609	621,929,547,747

The accompanying notes are an integral part of these consolidated financial statements.

Daekyo Co., Ltd. and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 31, 2012 and 2011

(in Korean won)	**Notes**	**2012**	**2011**
Cash flows from operating activities			
Cash generated from operations	40	73,638,742,227	51,229,165,707
Dividends received		3,785,229,641	3,681,384,890
Interest received		1,849,769,014	1,731,857,371
Interest paid		(1,562,254,298)	(724,575,333)
Income tax paid		(19,466,202,457)	(15,530,279,309)
Net cash generated from operating activities		58,245,284,127	40,387,553,326
Cash flows from investing activities			
Decrease in short-term financial deposits		8,986,217,938	8,564,890,076
Proceeds from disposal of available-for-sale financial assets		74,647,692,485	78,756,267,472
Decrease in other receivables		15,168,847,763	42,360,618,467
Proceeds from disposal of property, plant and equipment		50,776,444	111,536,433
Increase in derivative financial instruments		-	1,238,190,000
Grants from goverments		120,000,000	-
Increase in cash and cash equivalents due to business combination and changes in scope of subsidiaries		-	284,446,060
Increase in long-term financial deposits		(5,806,646,045)	(3,357,573,924)
Acquisition of available-for-sale financial assets		(49,172,416,117)	(81,809,849,432)
Increase in other receivables		(16,808,746,331)	(34,779,377,457)
Acquisition of investments in associates		(2,400,000,000)	(4,994,000,000)
Acquisition of property, plant and equipment		(28,949,751,738)	(18,153,637,501)
Acquisition of investment property		(2,907,896,148)	(39,600,000)
Acquisition of intangible assets		(35,307,368,180)	(24,760,838,667)
Acquisition of other assets		-	(15,287,930,966)
Decrease in cash and cash equivalents due to business combination		-	(2,078,936,240)
Net cash used in investing activities		(42,379,289,929)	(53,945,795,679)
Cash flows from financing activities			
Disposal of treasury stock		1,727,152,949	1,496,563,173
Issuance of stocks of subsidiaries		2,218,039,256	992,493,956
Proceeds from borrowings		7,289,177,859	14,282,681,000
Acquisition of treasury stock		(9,755,776,800)	(3,237,050,970)
Dividends paid		(24,635,179,705)	(22,668,595,670)
Repayments of borrowings		(3,456,107,215)	(6,640,787,839)
Net cash used in financing activities		(26,612,693,656)	(15,774,696,350)
Net decrease in cash and cash equivalents		(10,746,699,458)	(29,332,938,703)
Cash and cash equivalents at the beginning of year		49,874,764,951	79,113,231,187
Exchange gains(losses) on cash and cash equivalents		(524,052,953)	94,472,467
Cash and cash equivalents at the end of year		38,604,012,540	49,874,764,951

The accompanying notes are an integral part of these consolidated financial statements.

1. General Information

Daekyo Co., Ltd. (the "Company") and its subsidiaries (collectively referred to as “the Group”) are engaged in educational and cultural work. The Company was incorporated in December 1986, to engage in the publication, manufacturing and sales of home-school materials. The Company, as an education and culture company, provides various products and educational services such as the Noonnoppi education, pre-school education, publishing, educational institutions, home-based teaching, on-line education, and after-school teaching.

In February 2004, the Company listed its shares on the KRX KOSPI Market of the Korean Exchange. As of December 31, 2012, the majority shareholder, Daekyo Holdings Co., Ltd. owns 54.5% of the Company.

1.1 Subsidiaries

Subsidiaries	Percentage of Ownership (%) at December 31, 2012	Location	Closing Month	Major Business
Daekyo Edupia Co., Ltd.	97.41	Korea	December	Education
BSCK (formerly Daekyo Bookscan Co., Ltd.)	100.00	Korea	December	Book sales
Daekyo Book Center Co., Ltd.	97.93	Korea	December	Book sales
Daekyo CSA Co., Ltd.	70.00	Korea	December	Education
DK Educamp Co., Ltd.	98.36	Korea	December	Education
Daekyo New Development Investment Association.	80.00	Korea	December	Investment
Daekyo America, Inc.	50.06	America	December	Education
Daekyo Hong Kong Co., Ltd. [1]	47.89	China	December	Education
Beijing Daekyo Co., Ltd.	100.00	China	December	Education
Daekyo Malaysia Sdn. Bhd.	100.00	Malaysia	December	Education
Shanghai Daekyo Co., Ltd.	100.00	China	December	Education
P.T Daekyo Indonesia	99.71	Indonesia	December	Education
Daekyo Enopi Singapore PTE Ltd.	100.00	Singapore	December	Education

[1] Although the Group has less than 50% of the voting power in the investee, it is included as a subsidiary as the Group has a right to appoint the majority of its Board of Directors.

1.2 Summary of Financial Information of Consolidated Subsidiaries

Summary of financial position and comprehensive income of consolidated subsidiaries as of and for the years ended December 31, 2012 and 2011, follows:

	December 31, 2012					
(in millions of Korean won)	Assets	Liabilities	Equity	Sales	Net income (loss)	Comprehensive income
Daekyo Edupia Co., Ltd.	13,550	14,284	(734)	17,953	(6,265)	(6,449)
BSCK	567	1,091	(524)	-	-	-
Daekyo Book Center Co., Ltd.	6,143	4,492	1,651	12,630	(43)	(51)
Daekyo CSA Co., Ltd.	1,279	1,205	74	9,715	(1,349)	(1,418)
DK Educamp Co., Ltd.	28,579	24,177	4,402	54,800	(158)	(206)
Daekyo New Development Investment Association.	4,624	110	4,514	-	(403)	(403)
Daekyo America, Inc.	25,187	17,375	7,812	6,424	(3,898)	(4,488)
Daekyo Hong Kong Co., Ltd.	5,059	2,363	2,696	4,856	1,138	957
Beijing Daekyo Co., Ltd.	259	48	211	150	(159)	(175)
Daekyo Malaysia Sdn. Bhd.	2,943	1,983	960	1,988	131	87
Shanghai Daekyo Co., Ltd.	1,713	101	1,612	503	(351)	(458)
P.T Daekyo Indonesia	1,113	717	396	546	(220)	(267)
Daekyo Enopi Singapore PTE Ltd.	130	57	73	218	(332)	(328)

	December 31, 2011					
(in millions of Korean won)	Assets	Liabilities	Equity	Sales	Net income (loss)	Comprehensive income
Daekyo Edupia Co., Ltd.	11,984	13,233	(1,249)	13,388	(4,582)	(4,593)
BSCK	567	1,091	(524)	-	(827)	(827)
Daekyo Book Center Co., Ltd.	5,782	4,081	1,701	12,106	89	56
Daekyo CSA Co., Ltd.	2,939	1,447	1,492	10,481	405	226
DK Educamp Co., Ltd.	2,016	409	1,607	5,734	(425)	(454)
Daekyo New Development Investment Association.	5,040	123	4,917	-	(83)	(83)
Daekyo America, Inc.	20,346	12,555	7,791	4,419	(2,312)	(2,283)
Daekyo Hong Kong Co., Ltd.	3,651	1,686	1,965	3,578	775	824
Beijing Daekyo Co., Ltd.	426	40	386	212	20	42
Daekyo Malaysia Sdn. Bhd.	1,551	1,077	474	1,595	104	97
Shanghai Daekyo Co., Ltd.	2,108	38	2,070	653	(142)	(30)
P.T Daekyo Indonesia	1,047	711	336	586	(125)	(124)
Daekyo Enopi Singapore PTE Ltd.	485	85	400	290	(244)	(243)

1.3 Change in the Scope of Consolidation

There was no change in the scope of consolidation for the year ended December 31,2012.

2. Significant Accounting Policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

2.1 Basis of Preparation

The Group's financial statements are prepared in accordance with the International Financial Reporting Standards as adopted by the Republic of Korea ("Korean-IFRS"). These are the standards, subsequent amendments and related interpretations issued by the International Accounting Standards Board ("IASB") that have been adopted by the Republic of Korea.

The preparation of the consolidated financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

2.1.1 Changes in Accounting Policy and Disclosures

(a) New and amended standards adopted by the Group

The Group changed its accounting policy to present the operating income after deducting cost of sales, and selling and administrative expenses from revenue, in accordance with the amendment of Korean IFRS 1001, *Presentation of Financial Statements.*

The Group applies the accounting policy retroactively in accordance with the amended standards and the comparative consolidated statement of income is restated by reflecting adjustments resulting from the retrospective application. As a result of the changes in the accounting policy, other income and expenses of ₩35,447 million and ₩25,786 million, respectively, for the year ended December 31, 2012 (2011: ₩28,706 million and ₩15,521 million, respectively), which include gain(loss) on disposal of property, plant and equipment, gain(loss) on disposal of financial assets at fair value through profit or loss, gain(loss) on disposal of available-for-sale financial assets, impairment loss of assets, classified as operating income under the previous standard, were excluded from operating income. Consequently, operating income for the years ended December 31, 2012 and 2011, was lower by ₩9,661million and ₩13,185 million, respectively, as compared to the amounts under the previous standard. However, there is no material impact on net income and earnings per share for the years ended December 31, 2012 and 2011.

(b) New standards and interpretations not yet adopted

New standards, amendments and interpretations issued but not effective for the financial year beginning January 1, 2012, and not early adopted by the Group are as follows:

- Amendment of Korean IFRS 1001, *Presentation of Financial Statements*

Korean-IFRS 1001, *Presentation of Financial Statements*, requires other comprehensive income items to be presented into two groups on the basis of whether they are potentially reclassifiable to profit or loss subsequently. This is effective for annual periods beginning on or after July 1, 2012, with early adoption permitted. The Group expects that the application of this amendment would not have a material impact on its consolidated financial statements.

- Amendments to Korean IFRS 1019, *Employee Benefits*

According to the amendments to Korean IFRS 1019, *Employee Benefits*, the use of a 'corridor' approach is no longer permitted, and therefore all actuarial gains and losses incurred are immediately recognized in other comprehensive income. All past service costs incurred from changes in pension plan are immediately recognized, and expected returns on interest costs and plan assets that used to be separately calculated are now changed to calculating net interest expense (income) by applying discount rate used in measuring defined benefit obligation in net defined benefit liabilities (assets). This amendment will be effective for annual periods beginning on or after January 1, 2013. The Group expects additional disclosures in relation to employee benefits upon application of the above amended Korean IFRS requirement.

- Enactment of Korean IFRS 1110, *Consolidated Financial Statements*

Korean IFRS 1110, Consolidated Financial Statements, builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included in the consolidated financial statements of the Parent Company. An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. This enactment will be effective for annual periods beginning on or after January 1, 2013, and the Group is reviewing the impact of this standard.

- Enactment of Korean IFRS 1111, *Joint Arrangements*

Korean IFRS 1111, *Joint Arrangements*, aims to reflect the substance of joint arrangements by focusing on the contractual rights and obligations that each party to the arrangement has rather than its legal form. Joint arrangements are classified as either joint operations or joint ventures. A joint operation is when joint operators have rights to the assets and obligations for the liabilities, and account for the assets, liabilities, revenues and expenses, while parties to the joint venture have rights to the net assets of the arrangement and account for their interest in the joint venture using the equity method. This enactment will be effective for annual periods beginning on or after

January 1, 2013, and the Group is reviewing the impact of this standard.

- Enactment of Korean IFRS 1112, *Disclosures of Interests in Other Entities*

Korean IFRS 1112, *Disclosures of Interests in Other Entities*, provides the disclosure requirements for all forms of interests in other entities, including a subsidiary, a joint arrangement, an associate, a consolidated structured entity and an unconsolidated structured entity. This enactment will be effective for annual periods beginning on or after January 1, 2013, and the Group is reviewing the impact of this standard. The Group expects additional disclosures in relation to Disclosures of Interests in Other Entities upon application of the above amended Korean IFRS requirement.

- Enactment of Korean IFRS 1113, *Fair Value Measurement*

Korean IFRS 1113, *Fair Value Measurement*, aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across Korean IFRSs. Korean IFRS 1113 does not extend the use of fair value accounting but provides guidance on how it should be applied where its use is already required or permitted by other standards within the Korean IFRSs. This amendment will be effective for annual periods beginning on or after January 1, 2013, and the Group expects that the application of this enactment would not have a material impact on its consolidated financial statements.

2.2 Consolidation

The Group has prepared the consolidated financial statements in accordance with Korean-IFRS 1027, '*Consolidated and Separate Financial Statements'*.

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Company has the power to govern the financial and operating policies generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. The Group also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control. De-facto control may arise in circumstances where the size of the Group's voting rights relative to the size and dispersion of holdings of other shareholders giving the Group the power to govern the financial and operating policies and others.

Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are de-consolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is measured as the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Company. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognizes any non-controlling interest in the acquiree on an acquisition- by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of acquiree's identifiable net assets.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date and the resulting gain or loss is recognized in profit or loss.

Any contingent consideration to be transferred by the Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with Korean-IFRS1039, either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss.

Intercompany transactions, balances, income, expenses and unrealized gain on transactions between Group companies are eliminated. Unrealized losses are also eliminated after recognizing impairment of transferred assets. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions; that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(c) Disposal of subsidiaries

When the Group ceases to have control any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

(d) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognized at cost, and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of its associates' post-acquisition profit or loss is recognized in the statement of income, and its share of post-acquisition movements in other comprehensive income of associates is recognized in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any unsecured receivables, the Group does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount as 'impairment loss on investment in an associate' in the statement of income.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group. Dilution gains and losses arising in investments in associates are recognized in profit or loss.

2.3 Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors that makes strategic decisions.

2.4 Foreign Currency Translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Korean won, which is the controlling entity's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in 'financial income or expenses' in the statement of income. All other foreign exchange gains and losses are presented in 'other income and expenses' in the statement of income.

(c) Translation to presentation currency

The financial performance and financial position of all Group entities whose functional currency is different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of the reporting period;
- income and expenses for each statement of income are translated at average exchange rates; and
- all resulting exchange differences are recognized in other comprehensive income.

When the Company ceases to control the subsidiary, the cumulative exchange differences that were recorded in equity are recognized in the statement of income as part of the gain or loss on sale.

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

2.5 Cash and Cash Equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less.

2.6 Financial Instruments

2.6.1 Classification

The Group classifies its financial instruments in the following categories: financial assets and liabilities at fair value through profit or loss, loans and receivables, available-for-sale financial assets, held-to-maturity investments, and financial liabilities at amortised cost. The classification depends on the purpose for which the financial instruments were acquired. Management determines the classification of its financial instruments at initial recognition.

(a) Financial assets and liabilities at fair value through profit or loss

Financial assets and liabilities at fair value through profit or loss are financial instruments held for trading. Financial assets and liabilities are classified in this category if acquired principally for the purpose of selling in the short term. Derivatives or embedded derivatives are also categorized as held for trading unless they are designated as hedges.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'cash and cash equivalents', 'financial deposits', 'trade receivables' and 'other receivables' in the statement of financial position.

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless their maturities are less than 12 months or management intends to dispose of them within 12 months after the end of the reporting period.

(d) Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity and are classified as 'held-to-maturity financial assets' in the statements of financial position. If the Group were to sell other than an insignificant amounts of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale. Held-to-maturity financial assets are included in non-current assets, except for those with maturities of less than 12 months after the end of the reporting period, which are classified as current assets.

(e) Financial liabilities measured at amortised cost

The Group classifies all non-derivative financial liabilities as financial liabilities measured at amortized cost except for financial liabilities at fair value through profit or loss or financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition. Financial liabilities at amortised cost are classified as 'trade payables', 'borrowings' and 'other payables' in the statements of financial position. Financial liabilities measured at amortized cost are included in non-current liabilities, except for maturities less than 12 months after the end of the reporting period, which are classified as current liabilities.

2.6.2 Recognition and Measurement

Regular purchases and sales of financial assets are recognized on the trade date. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed in the statement of income. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortized cost using the effective interest rate method.

Gains or losses arising from changes in the fair value of the financial assets carried at fair value through profit or loss are presented in the statement of income within 'other income and expenses' in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognized in the statement of income as part of 'other income' when the Group's right to receive dividend payments is established.

When available-for-sale financial assets are sold or impaired, the accumulated fair value adjustments recognized in equity are included in the statement of income as 'other income and expenses'.

Interest on available-for-sale and held-to-maturity financial assets calculated using the effective interest method is recognized in the statement of income as part of 'other income'. Dividends on available-for-sale financial assets are recognized in the statement of income as part of 'other income' when the Group's right to receive dividend payments is established.

2.6.3 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

2.6.4 Derecognition

Financial assets are derecognized when the contractual rights to receive cash flows from the investments have expired or have been transferred and the Group has substantially transferred all risks and rewards of ownership or when the risks and rewards of ownership of transferred assets have not been substantially retained or transferred and the Group has not retained control over these assets.

2.7 Impairment of Financial Assets

(a) Assets carried at amortized cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or a group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- For economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganization;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, such as:
  (i) adverse changes in the payment status of borrowers in the portfolio;
  (ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

Impairment loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted using the initial effective interest rate. The carrying amount of the asset is reduced by the impairment loss amount and the amount of the loss is recognized in the statement of income. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is current effective interest rate determined under the contract. In practice, the Group may measure impairment loss based on the fair value of financial asset using an observable market price.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (for example, an improvement in debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in profit or loss.

(b) Available-for-sale financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the Group uses the criteria refer to in (a) above. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the asset is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from equity and recognized in the statement of income. Impairment losses recognized in the consolidated statement of income on equity instruments are not reversed through the statement of income. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed in profit or loss.

2.8 Derivative Financial Instruments

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The resulting gain or loss is recognized in 'other income and expenses' or 'financial income and expenses' according to the nature of transactions.

2.9 Trade Receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets. Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less allowance for doubtful accounts.

2.10 Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the moving average method. The cost of finished goods and work in progress consists of raw materials, direct labor, other direct costs and related production overheads. It excludes borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.11 Non-current Assets (or disposal group) Held for Sale

Non-current assets (or disposal group) held for sale are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.

2.12 Property, Plant and Equipment

All property, plant and equipment are stated at historical cost less depreciation and accumulated impairment loss. Historical cost includes expenditures directly attribute to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the statement of income during the financial period in which they are incurred.

Land, standing timber and construction-in-progress are not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate the difference between their cost and their residual values over their estimated useful lives, as follows:

Buildings	40 - 60 years
Structures	3 - 40 years
Machinery	4 - 5 years
Vehicles	2 - 10 years
Tools	2 - 6 years
Supplies	2 - 17 years
Equipment	5 years

The assets' depreciation method, residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within 'other income and expenses' in the statement of income.

2.13 Borrowing Costs

General and specific 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.

2.14 Investment Property

Investment property is held to earn rentals or for capital appreciation or both. Investment property also includes property that is being constructed or developed for future use as investment property. Investment property is measured initially at its cost including transaction costs incurred in acquiring the asset. After recognition as an asset, investment property is carried at cost less accumulated depreciation and impairment losses.

Subsequent costs are include in the asset's carrying amount or recognized as a separate asset, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the statement of income during the financial period in which they are incurred.

Land held for investment is not depreciated. Investment property, except for land, is depreciated using straight-line method over their useful lives from 40 to 60 years.

The depreciation method, the residual value and the useful life of an asset are reviewed at the end of each financial year and, if management judges that previous estimates should be adjusted, the change is accounted for as a change in an accounting estimate.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within 'other income and expenses' in the statement of income.

The fair value of investment property disclosed in Note 15 reflects market conditions at the end of the reporting period, with adjustment that reflects specific asset's characteristics, condition and location.

2.15 Intangible Assets

(a) Goodwill

Goodwill is measured as explained in Note 2.2 and goodwill arising on the acquisition of subsidiaries and business is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the CGUs, or group of CGUs, that is expected to benefit from the synergies of the combination.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognized immediately as an expense and is not subsequently reversed.

(b) Membership rights

Membership rights are regarded as intangible assets with indefinite useful life and not amortized because there is no foreseeable limit to the period over which the asset is expected to be utilized

(c) Development Costs

Expenditure on research is recognized as an expense as incurred. Development costs which are individually identifiable and directly related to a new technology or to new products which carry probable future economic benefits are recognized as intangible assets when all the following criteria are met:

- It is technically feasible to complete the intangible asset so that it will be available for use or sale;
- Management intends to complete the intangible asset and use or sell it;
- There is the ability to use or sell the intangible asset;
- It can be demonstrated how the intangible asset will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and
- The expenditure attributable to the intangible asset during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognized as an expense as incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period. Capitalized development costs stated as intangible assets are amortized using the straight-line method over their estimated useful lives of 4 - 5 years when the assets are available for using or selling and are tested for impairment.

(d) *Other intangible assets*

Other intangible assets such as industrial property rights, right to use donated assets and software which meet the definition of an intangible asset are amortized using the following depreciation method and estimated useful lives when the asset is available for use.

	Estimated Useful Lives	Depreciation Method
Industrial property rights	5 - 10 years	Straight-line method
Software	4 - 5 years	Straight-line method
Other intangible assets	1 - 15 years	Straight-line method
Right to use donated assets	1 - 4 years	Straight-line method

2.16 Government Grants

Grants from a government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to property, plant and equipment are presented as a deduction of related assets and are credited to depreciation over the expected lives of the related assets.

Government grants relating to income are deferred and recognized in the statement of income over the period necessary to match them with the costs that they are intended to compensate.

2.17 Impairment of Non-financial Assets

Goodwill or intangible assets with indefinite useful lives are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets, other than goodwill, that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.18 Trade Payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

2.19 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the statement of income over the period of the borrowings using the effective interest method. The Group classifies the liability as current as long as it does not have an unconditional right to defer its settlement for at least 12 months after the reporting date. Sales return provision is for the estimated sales returns based on historical results.

2.20 Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events and an outflow of resources required to settle the obligation is probable and can be reliably estimated. Provisions are not recognized for future operating losses. The Group recognises the sales return provision for the estimated sales return based on historical results.

2.21 Current and Deferred Income Tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in the statement of income, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date in the countries where the Group operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax assets and liabilities are not recognized if they arise from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax liabilities are provided on temporary differences arising on investments in subsidiaries and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax assets are recognized only to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.22 Employee Benefits

(a) *Post-employment benefits*

The Group companies operate various pension schemes. The schemes are generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations. The Group has both defined benefit and defined contribution plans.

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

A defined benefit plan is a pension plan that is not a defined contribution plan. Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The liability recognized in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognized past-service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income in the period in which they arise. Past-service costs are recognized immediately in income, while costs are amortized over the vesting periods.

(b) Share-based payments

The Group operates equity-settled, share-based compensation plans, under which the Group receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognized as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted. The Group makes payments with its treasury shares when the options are exercised.

2.23 Share Capital

Ordinary shares and preferred shares that are not mandatorily redeemable are classified as equity.

Where the Company purchases its own equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received is included in equity attributable to the Company's equity holders.

2.24 Revenue Recognition

Revenue comprises the fair value of the consideration received or receivable for the sales of goods and services supplied in the ordinary course of the Group's activities. Revenue is presented net of value-added tax, returns and discounts, after eliminating sales within the Group.

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. The Group bases its estimate on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) Sales of goods

The Group sells reference books, collections, publications and others. Sales of goods are recognized when products are delivered to the purchaser. Delivery does not occur until the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the wholesaler, and either the purchaser has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed or the Group has objective evidence that all criteria for acceptance have been satisfied.

(b) Sales of services

Revenue is generally recognized on a straight-line basis over the period the service is rendered when weekly home-school services are provided. For the rest of services, revenue is recognized by reference to the stage of completion in accordance with the substance of the relevant agreements.

(c) Interest income

Interest income is recognized using the effective interest method according to the time passed. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount and continues unwinding the discount as interest income. Interest income on impaired loan and receivables is recognized using the original effective interest rate.

(d) Dividend income

Dividend income is recognized when the right to receive payment is established.

(e) Royalty income

Royalty income is recognized on an accrual basis in accordance with the substance of the relevant agreements.

(f) Customer loyalty programmes

The Group operates a customer loyalty programme in which customers are granted rewards to receive discounts on future purchases when purchasing products. The granted reward is recognized as a separately identifiable component of the sale transaction (initial sale transaction) that grants the reward. The fair value of consideration to give or given for the initial sale is allocated to the reward points and remaining of initial sale, and the consideration allocated to the reward points is measured based on the fair value of reward in exchange of reward points, which is the fair value of reward points considered the proportion of reward points that are not expected to be redeemed. Revenue from the award credits is recognized when it is redeemed.

2.25 Lease

Leases in which a substantial portion of the risks and rewards of ownership are retained by the leassor are classified as operating leases. Payments made under operating leases are charged to the statement of income on a straight-line basis over the period of the lease.

2.26 Dividend Distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the financial statements in the period in which the dividends are approved by the Company's shareholders.

3. Critical Accounting Estimates and Judgments

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Estimations and assumptions are continuously evaluated with consideration to factors such as events reasonably predictable in the foreseeable future within the present circumstance according to historical experience. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in Note 2.17. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

(b) Income taxes

The Group is operating in numerous countries and the income generated from these operations is subject to income taxes based on tax laws and interpretations of tax authorities in numerous jurisdictions. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recorded, based on its best estimate, current taxes and deferred taxes that the Group will be liable in the future for the operating results as of the financial year end. However, the final tax outcome in the future may be different from the amounts that were initially recorded. Such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

(c) Fair value of financial instruments

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period.

(d*) Provisions*

As described in Note 19, the Group recognizes provisions for estimated returns as of the reporting date. The amounts are estimated based on historical data.

(e) Retirement benefit obligation

The present value of the defined benefit liability depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of the defined benefit liability. The Group determines the appropriate discount rate at the end of each year. This is the interest rate that is used to determine the present value of estimated future cash outflows expected to be required to settle the defined benefit liability. In determining the appropriate discount rate, the Group considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the pension benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability. Other key assumptions for defined benefit liability are based in part on current market conditions. Additional information is disclosed in Note 21.

4. Financial Risk Management

4.1 Financial Risk Factors

The Group's activities expose it to a variety of financial risks: market risk (interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance.

Risk management is carried out by the Company's financial management department under policies approved by the board of directors. The Company's treasury department identifies evaluates and hedges financial risks in close co-operation with the Company's operating units.

(a) Market risk

i) Interest rate risk

The interest rate risk is the risk that interest expenses arising from borrowings would fluctuate because of changes in market interest rates in the future. The risk mainly arises from borrowings with variable interest rates. The Group holds all fixed rate financial deposits and therefore there is no effect on the net income or net asset due to changes in interest rates.

As of December 31, 2012 and 2011, if interest rates fluctuate by 100bp without other variables changing, the effects on interest expense are as follows:

	December 31, 2012		December 31, 2011	
(in millions of Korean won)	**100bp increase**	**100bp decrease**	**100bp increase**	**100bp decrease**
Interest expense	205	(205)	179	(179)

ii) Price risk

The Group is exposed to equity securities price risk because of investments held by the Group and classified on the consolidated statement of financial position as available-for-sale financial assets, financial assets at fair value through profit or loss or derivative financial instruments. To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the group.

As of December 31, 2012 and 2011, if the prices of equity instruments fluctuated by 5% while other variables were fixed, the effects on net income (loss) and total comprehensive income (loss) would be as follows:

	December 31, 2012		December 31, 2011	
(in millions of Korean won)	**5% increase**	**5% decrease**	**5% increase**	**5% decrease**
Net income(loss)	2,181	(2,181)	2,031	(2,043)
Comprehensive income(loss)	11,158	(11,158)	11,956	(11,967)

(b) Credit Risk

Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions. For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are accepted. Corporate customers are evaluated taking into account its financial position, past experience and other factors and individual customers are settled in cash or using major credit cards.

(c) Liquidity Risk

The Group forecasts its cash flow and liquidity status and sets action plans on a regular basis to manage liquidity risk proactively. In addition, the Group copes with potential financial distress by maintaining adequate amount of cash and financial deposits. The balances of cash and cash equivalents, and current-financial deposits as of December 31, 2012, are ₩47,927 million (2011: ₩62,880 million).

The analyses of the Group's financial liabilities into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date as of December 31, 2012 and 2011, are as follows:

	2012					
(In millions of Korean won)	Book value	Cash flow on contract	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Trade payables	10,196	10,196	10,196	-	-	-
Other payables (current)	67,399	67,445	67,445	-	-	-
Borrowings (current)	23,274	23,772	23,772	-	-	-
Other payables (non-current)	3,379	3,571	-	3,571	-	-
Borrowings (non-current)	891	1,221	55	55	238	873

	2011					
(In millions of Korean won)	Book value	Cash flow on contract	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Trade payables	11,495	11,495	11,495	-	-	-
Derivative financial instruments	63	63	63	-	-	-
Other payables (current)	79,684	79,887	79,887	-	-	-
Borrowings (current)	20,540	21,361	21,361	-	-	-
Other payables (non-current)	5,609	5,667	-	5,667	-	-
Borrowings (non-current)	936	1,542	60	60	222	1,200

The amounts disclosed in the table are the contractual undiscounted cash flows, prepared based on the earliest date of the payments that can be requested and the cash flow of interest is included.

4.2 Capital Management

The Group's objectives when managing capital are to maintain a sound capital structure. The Group monitors capital on the basis of the liabilities/equity ratio which is calculated as total liabilities divided by total equity on statements of financial position.

Debt-to-equity ratios as of December 31, 2012 and 2011, are as follows:

(in millions of Korean won)	2012	2011
Total liabilities (A)	192,184	214,709
Total equity (B)	621,930	643,781
Debt-to-equity ratio (A/B)(%)	31%	33%

4.3 Fair Value Estimation

The Group classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in measurements.

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The carrying amount of trade receivables and other financial assets is estimated by a reasonable approximation of fair value. The fair value of equity instruments that do not have quoted prices in active markets and cannot be reasonably estimated are measured at cost.

The Group's financial assets and financial liabilities that are measured at fair value as of December 31, 2012 and 2011, are as follows:

	2012			
(In millions of Korean won)	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at fair value through profit or loss	57,548	-	-	57,548
Available-for-sale financial assets	236,860	-	-	236,860

	2011			
(In millions of Korean won)	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at fair value through profit or loss	54,443	-	-	54,443
Available-for-sale financial assets	261,863	-	-	261,863
Derivative financial instruments	-	63	-	63

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, an entity in the same industry, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in Level 1.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses various valuation techniques and makes judgments based on current market conditions. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to measure the fair value an instrument are observable, the instrument is included in 'level 2'.

If one or more of the significant inputs is not based on observable market data, the instrument is included in 'level 3'.

5. Segment Information

Management has determined the operating segments based on the reports reviewed by the board of directors that are used to make strategic decisions.

The segments of the Group are strategic business divisions providing different products and services. They are reported separately because each business division requires different technologies and marketing strategies. The main products and services of each business division for the year ended December 31, 2011, follows:

	Products and services
Noonnoppi business	Noonnoppi home-school material, Premium home-school material (CHAIHONG, Soluny)
Media business	Publication, library, textbook, media business and others
Other	Managing and supporting non-operating business
Subsidiaries	Domestic/Overseas subsidiaries

As the Group transferred the ownership of Growing business division to subsidiaries at January 1, 2012, classification of division was changed. As a result, the comparative financial information has been reclassified based on the new division classification.

The segment information for sales and operating income for the years ended December 31, 2012 and 2011, are as follows:

	2012		2011	
(in millions of Korean won)	Segment sales	Operating income (loss)	Segment sales	Operating income (loss)
Noonnoppi business	707,868	53,499	732,528	65,144
Media business	52,868	(10,893)	41,635	(875)
Other	23,942	(2,332)	36,901	1,166
Subsidiaries	109,784	(8,772)	126,812	(4,007)
	894,462	31,502	937,876	61,428
Other segments and inter-segment transactions[1]	(24,968)	153	(29,856)	(277)
	869,494	31,655	908,020	61,151

[1] Sales between segments are carried out at arm's length.

Segment information of share of profit from associates, depreciation, amortization and fluctuation of non-current assets for the years ended December 31, 2012 and 2011, follows:

	2012			2011		
(in millions of Korean won)	Loss from associates	Depreciation/ Amortization	Fluctuation of non-current assets[1]	Loss from associates	Depreciation/ Amortization	Fluctuation of non-current assets[1]
Noonnoppi business	-	18,628	(5,260)	-	14,104	11,090
Media business	-	6,760	(2,772)	-	5,631	421
Other	(172)	5,836	14,018	(263)	5,202	(5,444)
Subsidiaries	-	19,968	(6,048)	-	23,242	2,859
	(172)	51,192	(62)	(263)	48,179	8,926

[1] Financial instrument, deferred income tax asset and investment in associates are excluded from 'fluctuation of non-current assets'.

Details of segment information of assets, liabilities and investments in associates are as follows:

(in millions of Korean won)	December 31, 2012			December 31, 2011		
	Assets	Investments in associates	Liabilities	Assets	Investments in associates	Liabilities
Noonnoppi business	79,739	-	92,253	90,740	-	113,073
Media business	37,926	-	21,633	42,043	-	9,069
Other	674,175	2,395	44,920	657,410	466	61,214
Subsidiaries	22,273	-	33,378	68,297	-	31,353
	814,113	2,395	192,184	858,490	466	214,709

Sales by geographic areas for the years ended December 31, 2012 and 2011, are as follows:

(in millions of Korean won)	2012	2011
Domestic	856,083	896,688
Overseas	13,411	11,332
	869,494	908,020

There is no external customer attributing to more than 10% of total sales for the years ended December 31, 2012 and 2011.

6. Financial Instruments by Category

Categorizations of financial instruments are as follows:

(in millions of Korean won)	December 31, 2012			
	Financial assets at fair value through profit or loss	Loans and receivables	Available-for-sale financial assets	Total
Financial assets				
Current				
Cash and cash equivalents	-	38,604	-	38,604
Financial deposits	-	9,323	-	9,323
Trade receivables	-	40,079	-	40,079
Other receivables		41,548		41,548
Financial assets at fair value through profit or loss	57,548	-	-	57,548
Available-for-sale financial assets	-	-	81,611	81,611
	57,548	129,554	81,611	268,713
Non-current				
Financial deposits	-	305	-	305
Other receivables	-	21,430	-	21,430
Available-for-sale financial assets	-	-	165,510	165,510
	-	21,735	165,510	187,245
	57,548	151,289	247,121	455,958

	Financial liabilities at fair value through profit or loss	Financial liabilities carried at amortized cost	Total
Financial liabilities			
Current			
Trade payables	-	10,196	10,196
Other payables	-	67,399	67,399
Borrowings	-	23,274	23,274
	-	100,869	100,869
Non-current			
Other payables	-	3,379	3,379
Borrowings	-	891	891
	-	4,270	4,270
	-	105,139	105,139

	December 31, 2011			
(in millions of Korean won)	Financial assets at fair value through profit or loss	Loans and receivables	Available-for-sale financial assets	Total
Financial assets				
Current				
Cash and cash equivalents	-	49,875	-	49,875
Financial deposits	-	13,006	-	13,006
Trade receivables	-	46,084	-	46,084
Other receivables	-	40,244	-	40,244
Financial assets at fair value through profit or loss	54,443	-	-	54,443
Available-for-sale financial assets	-	-	86,932	86,932
	54,443	149,209	86,932	290,584
Non-current				
Financial deposits	-	5	-	5
Other receivables	-	19,220	-	19,220
Available-for-sale financial assets	-	-	182,334	182,334
	-	19,225	182,334	201,559
	54,443	168,434	269,266	492,143

	Financial liabilities at fair value through profit or loss	Financial liabilities carried at amortized cost	Total
Financial liabilities			
Current			
Trade payables	-	11,495	11,495
Derivative financial instruments	63	-	63
Other payables	-	79,684	79,684
Borrowings	-	20,540	20,540
	63	111,719	111,782
Non-current			
Other payables	-	5,609	5,609
Borrowings	-	936	936
	-	6,545	6,545
	63	118,264	118,327

Income and loss of financial instruments by category for the years ended December 31, 2012 and 2011, are as follows:

(in millions of Korean won)	2012 Financial assets at fair value through profit or loss	Loans and Receivables	Available-for-sale financial assets	Financial liabilities at fair value through profit or loss	Financial liabilities carried at amortized cost	Total
Dividend income	-	-	3,785	-	-	3,785
Gain (loss) on foreign currency translation	-	(473)	-	-	203	(270)
Gain (loss) on foreign currency transactions	-	(62)	-	-	44	(18)
Interest income (expenses)	-	4,216	1	-	(1,052)	3,165
Reversal of : allowance for doubtful accounts (expenses)	-	(1,957)	-	-	-	(1,957)
Gain (loss) on valuation of financial assets[1,2]	5,043	-	(11,117)	-	-	(6,074)
Gain (loss) on disposal of financial assets	516	-	18,000	-	-	18,516
Gain (loss) on disposal of derivatives	-	-	-	63	-	63

(in millions of Korean won)	2011 Financial assets at fair value through profit or loss	Loans and Receivables	Available-for-sale financial assets	Financial liabilities at fair value through profit or loss	Financial liabilities carried at amortized cost	Total
Dividend income	-	-	3,681	-	-	3,681
Gain (loss) on foreign currency translation	-	212	-	-	(102)	110
Gain (loss) on foreign currency transactions	-	(89)	-	-	20	(69)
Interest income (expenses)	-	4,359	-	-	(1,303)	3,056
Reversal of : allowance for doubtful accounts (expenses)	-	(2,086)	-	-	-	(2,086)
Gain (loss) on valuation of financial assets[1,2]	(1,592)	-	(67,434)	-	-	(69,026)
Gain (loss) on disposal of financial assets	532	-	19,301	-	-	19,833
Gain (loss) on valuation of derivatives	-	-	-	1,175	-	1,175

[1] The amounts recognized as other comprehensive income(loss) are included.

[2] The reclassified amounts from other comprehensive income(loss) into the statement of income include ₩11,452 million (2011: ₩15,152 million).

7. Cash and Cash Equivalents, and Financial Deposits

Details of cash and cash equivalents are as follows:

(in millions of Korean won)	**December 31, 2012**	**December 31, 2011**
Ordinary deposits	29,756	17,293
Short-term bank deposits	8,848	32,582
	38,604	49,875

The financial deposits restricted in use are as follows:

(in millions of Korean won)	**December 31, 2012**	**December 31, 2011**	**Reason**
Financial deposits	1,192	4,063	Security deposits and others

8. Trade Receivables and Other Receivables

Details of trade receivables and other receivables are as follows:

	December 31, 2012		
(in millions of Korean won)	Original amount	Less : allowance for doubtful accounts	Carrying amount
Current			
Trade receivables	46,498	(6,419)	40,079
Other receivables	10,046	(4,540)	5,506
Accrued income	276	(257)	19
Loans	364	-	364
Deposits	35,659	-	35,659
	92,843	(11,216)	81,627
Non-Current			
Loans	552	-	552
Deposits	20,878	-	20,878
	21,430	-	21,430
	114,273	(11,216)	103,057

	December 31, 2011		
(in millions of Korean won)	Original amount	Less : allowance for doubtful accounts	Carrying amount
Current			
Trade receivables	53,810	(7,725)	46,085
Other receivables	7,262	(4,376)	2,886
Accrued income	319	(257)	62
Loans	598	-	598
Deposits	36,697	-	36,697
	98,686	(12,358)	86,328
Non-Current			
Loans	1,002	-	1,002
Deposits	18,218	-	18,218
	19,220	-	19,220
	117,906	(12,358)	105,548

The aging analyses of trade and other receivables are as follows:

	December 31, 2012						
		Past due but not impaired					
(in millions of Korean won)	Current	Up to 3 months	3 to 6 months	6 to 12 months	Over one year	Impaired[1]	Total
Current							
Trade receivables	36,363	811	1,191	1,179	1,026	5,928	46,498
Other receivables	5,531	-	-	1	93	4,421	10,046
Accrued income	19	-	-	-	-	257	276
Loans	365	-	-	-	-	-	365
Deposits	35,659	-	-	-	-	-	35,659
	77,937	811	1,191	1,180	1,119	10,606	92,844
Non-Current							
Loans	552	-	-	-	-	-	552
Deposits	20,854	-	-	-	24	-	20,878
	21,406	-	-	-	24	-	21,430
	99,343	811	1,191	1,180	1,143	10,606	114,274

	December 31, 2011						
		Past due but not impaired					
(in millions of Korean won)	Current	Up to 3 months	3 to 6 months	6 to 12 months	Over one year	Impaired[1]	Total
Current							
Trade receivables	43,824	1,570	525	463	299	7,129	53,810
Other receivables	2,636	3	-	-	247	4,376	7,262
Accrued income	62	-	-	-	-	257	319
Loans	598	-	-	-	-	-	598
Deposits	36,697	-	-	-	-	-	36,697
	83,817	1,573	525	463	546	11,762	98,686
Non-Current							
Loans	1,002	-	-	-	-	-	1,002
Deposits	18,218	-	-	-	-	-	18,218
	19,220	-	-	-	-	-	19,220
	103,037	1,573	525	463	546	11,762	117,906

[1] All impaired receivables have been provided with allowance for doubtful accounts.

The Group assesses whether a loss event exists for individual receivables and recognizes impairment loss with the difference between the recoverable amount and its carrying amount based on such assessment. The impairment loss for the overdue receivables is recognized by applying the setup rate of allowance for bad debts using historic experiences according to the period.

The movements in bad debts allowance for the years ended December 31, 2012 and 2011, are as follows:

	2012					
(in millions of Korean won)	At January 1	Addition (reversal)	Write-off	Exchange differences	Changes in scope of subsidiaries	At December 31
Trade receivables	7,725	1,490	(2,783)	(13)	-	6,419
Other receivables	4,376	467	(159)	(144)	-	4,540
Accrued income	257	-	-	-	-	257
	12,358	1,957	(2,942)	(157)	-	11,216

	2011					
(in millions of Korean won)	At January 1	Addition (Reversal)	Write-off	Exchange differences	Changes in scope of subsidiaries	At December 31
Trade receivables	5,908	1,077	(317)	2	1,055	7,725
Other receivables	3,802	1,009	(611)	135	41	4,376
Accrued income	257	-	-	-	-	257
	9,967	2,086	(928)	137	1,096	12,358

The provision of bad debts allowance for impaired receivables have been included in ‘selling and administrative expenses’ in the statement of income and the provision of bad debts allowance of other receivables have been included in ‘other expenses’ in the statement of income.

9. Financial Assets at Fair Value through Profit or Loss

Details of financial assets at fair value through profit or loss are as follows:

(in millions of Korean won)	December 31, 2012	December 31, 2011
Equity-Linked Securities	57,548	54,443

Financial assets at fair value through profit or loss are presented within operating activities as part of changes in working capital in the statements of cash flows.

10. Available-for-sale financial assets

Details of available-for-sale financial assets are as follows:

(in millions of Korean won)	December 31, 2012	December 31, 2011
Current		
Beneficiary certificate	81,611	86,932
Non-Current		
Marketable equity securities	155,249	174,930
Non-marketable equity securities	10,261	7,404
	165,510	182,334
	247,121	269,266

Beneficiary securities and marketable equity securities are measure based on quoted price in active market. Non-marketable equity securities are measured at cost. Due to initial stage of business operation of non-marketable securities, the ranges of expected cash flows are significant and the probabilities of the various estimates cannot be reasonably assessed.

Details of marketable equity securities are as follows:

	December 31, 2012				
(in millions of Korean won)	Number of shares owned	Percentage of ownership (%)	Acquisition cost	Fair value	Carrying value
Shinhan Financial Group Co., Ltd.	3,994,975	0.84	50,272	155,205	155,205
Inzi Controls Co., Ltd.	6,000	0.04	68	44	44
	4,000,975		50,340	155,249	155,249

	December 31, 2011				
(in millions of Korean won)	Number of shares owned	Percentage of ownership (%)	Acquisition cost	Fair value	Carrying value
Shinhan Financial Group Co., Ltd.	4,399,975	0.93	52,665	174,899	174,899
Inzi Controls Co., Ltd.	6,000	0.04	68	31	31
	4,405,975		52,733	174,930	174,930

11. Inventories

Details of inventories are as follows:

(In millions of Korean won)	December 31, 2012	December 31, 2011
Merchandise	9,439	10,371
Finished goods	14,504	20,386
Stored goods	2,276	2,192
Raw materials	966	560
	27,185	33,509
Allowance for losses on Valuation of Inventories	(3,023)	(1,079)
Total	24,162	32,430

The cost of inventories recognized as expense and included in 'cost of sales' amounts to ₩72,257 million (2011: ₩43,577 million) including 'losses on valuation of inventories' of ₩1,944 million (2011: ₩76 million) and there was no reversal of allowance for 'losses on valuation of inventories' for the year ended December 31,2012 (2011: ₩72 million).

12. Other Assets

Details of other assets are as follows:

(In millions of Korean won)	December 31, 2012	December 31, 2011
Current		
Advances	4,917	4,230
Prepaid expenses	4,369	7,238
	9,286	11,468
Non-Current		
Advances	409	-
Prepaid expenses	-	20
Initial throw-in equipment	-	1,793
	409	1,813
	9,695	13,281

13. Investments in associates

Details of investments in associates are as follows:

	(in millions of Korean won)	Country	Percentage of ownership (%) at December 31, 2012	December 31, 2012	December 31, 2011
Domestic corporation	Child-Care Consortium[1]	Korea	16.44	-	466
	DKI Growing Star 1 Investment partnership[2]	Korea	24.00	2,395	-
Foreign corporation	Daekyo Bertelsmann Educational Service Limited	China	50.00	-	-
				2,395	466

[1] Even though the Group holds less than 20% of shares of the investee, it is classified as an associate as the Group has significant influence on it.
[2] It was newly acquired in 2012.

Changes in investments in associates for the years ended December 31, 2012 and 2011, are as follows:

(in millions of Korean won)	2012	2011
Beginning balance	466	729
Acquisition	2,400	-
Share of profit(loss)	(172)	(263)
Impairment losses	(299)	-
Ending balance	2,395	466

Summarized financial information of associates for the year ended December 31, 2012, is as follows:

(in millions of Korean won)	Assets	Liabilities	Net sales	Loss for the year
Child-Care Consortium	4,104	2,284	7,036	(1,017)
DKI Growing Star 1 Investment partnership	10,037	57	38	(20)
Daekyo Bertelsmann Educational Service Limited	-	-	-	-

14. Property, Plant and Equipment

Details of property, plant and equipment are as follows:

	December 31, 2012										
(in millions of Korean won)	Land	Buildings	Structures	Machinery	Vehicles	Tools	Supplies	Equipment	Standing timber	Construction -in-progress	Total
Acquisition cost	35,956	100,810	3,409	468	1,475	146	50,985	2,844	528	16,971	213,592
Accumulated depreciation	-	(32,219)	(862)	(468)	(797)	(122)	(28,960)	(2,377)	-	-	(65,805)
Net book amount	35,956	68,591	2,547	-	678	24	22,025	467	528	16,971	147,787

	December 31, 2011										
(in millions of Korean won)	Land	Buildings	Structures	Machinery	Vehicles	Tools	Supplies	Equipment	Standing timber	Construction -in-progress	Total
Acquisition cost	37,783	115,284	3,451	468	862	74	40,935	3,020	528	2,694	205,099
Accumulated depreciation	-	(31,613)	(882)	(468)	(676)	(62)	(18,929)	(2,541)	-	-	(55,171)
Net book amount	37,783	83,671	2,569	-	186	12	22,006	479	528	2,694	149,928

Changes in property, plant and equipment for the years ended December 31, 2012 and 2011, are as follows:

	2012									
(in millions of Korean won)	Land	Buildings	Structures	Vehicles	Tools	Supplies	Equipment	Standing timber	Construction -in-progress	Total
At January 1	37,783	83,671	2,569	186	12	22,006	479	528	2,694	149,928
Acquisitions	-	3,867	79	690	78	11,412	305	-	12,902	29,333
Disposal/disuse	-	-	-	-	-	(247)	(152)	-	-	(399)
Depreciation	-	(2,483)	(100)	(190)	(65)	(11,094)	(166)	-	-	(14,098)
Reclassification to investment property	(1,746)	(15,963)	-	-	-	-	-	-	-	(17,709)
Transfer-in	-	-	-	-	-	-	-	-	1,383	1,383
Exchange differences	(81)	(501)	(1)	(8)	(1)	(52)	1	-	(8)	(651)
At December 31	35,956	68,591	2,547	678	24	22,025	467	528	16,971	147,787

	2011									
(in millions of Korean won)	Land	Buildings	Structures	Vehicles	Tools	Supplies	Equipment	Standing timber	Construction -in-progress	Total
At January 1	35,223	63,927	2,678	239	23	23,915	526	528	2,235	129,294
Acquisitions	-	10,187	-	45	-	7,198	266	-	457	18,153
Transfer to Business combination	-	-	-	-	-	217	-	-	-	217
Disposal/disuse	-	-	-	-	-	(88)	(46)	-	-	(134)
Depreciation	-	(1,877)	(109)	(102)	(11)	(9,329)	(267)	-	-	(11,695)
Reclassification to investment property	2,546	11,015	-	-	-	-	-	-	-	13,561
Transfer-in	-	-	-	-	-	34	-	-	-	34
Changes in scope of subsidiaries	-	-	-	4	-	57	-	-	-	61
Exchange differences	14	419	-	-	-	2	-	-	2	437
At December 31	37,783	83,671	2,569	186	12	22,006	479	528	2,694	149,928

Depreciation for the years ended December 31, 2012 and 2011, is charged as follows:

(In millions of Korean won)	**2012**	**2011**
Cost of sales	7,950	5,665
Selling and administrative expenses	6,148	6,030
	14,098	11,695

15. Investment Property

Details of investment property are as follows:

	December 31, 2012		
(in millions of Korean won)	**Acquisition cost**	**Accumulated depreciation**	**Carrying amount**
Land	32,892	69,260	102,152
Buildings	-	(11,594)	(11,594)
	32,892	57,666	90,558

	December 31, 2011		
(in millions of Korean won)	**Acquisition cost**	**Accumulated depreciation**	**Carrying amount**
Land	31,146	-	31,146
Buildings	49,138	(8,202)	40,936
	80,284	(8,202)	72,082

Changes in carrying amounts of investment property for the years ended December 31, 2012 and 2011, are as follows:

	2012		
(in millions of Korean won)	**Land**	**Buildings**[1]	**Total**
At January 1	31,146	40,936	72,082
Acquisition	-	2,908	2,908
Transfer	1,746	15,963	17,709
Depreciation	-	(1,549)	(1,549)
Currency exchanges	-	(592)	(592)
At December 31	32,892	57,666	90,558

	2011		
(in millions of Korean won)	**Land**	**Buildings**[1]	**Total**
At January 1	33,692	53,921	87,613
Acquisition	-	40	40
Transfer	(2,546)	(11,014)	(13,560)
Depreciation	-	(2,011)	(2,011)
At December 31	31,146	40,936	72,082

[1] Depreciation is calculated using the straight-line method over the estimated useful lives of 40 to 60 years.

Fair value of investment property as of December 31, 2012, is ₩134,149 million (2011: ₩111,387 million).

Rent income from investment property during the year ended December 31, 2012, is ₩4,401 million (2011: ₩6,636 million), and operating expenses (including repairs and maintenance) directly related to those investment property is ₩3,322 million (2011: ₩2,221 million).

16. Intangible Assets

Details of intangible assets are as follows:

	December 31, 2012							
(in millions of Korean won)	Goodwill	Membership rights	Development costs	Industrial property rights	Software	Other intangible assets	Right to use donated assets	Total
Acquisition cost	6,769	5,557	133,370	1,637	23,555	12,241	137,185	320,314
Accumulated amortization	-	-	(69,576)	(1,480)	(13,961)	(8,934)	(121,400)	(215,351)
Accumulated impairments loss	(4,148)	-	(16,292)	(2)	(376)	-	-	(20,818)
Government grants	-	-	-	-	-	(587)	-	(587)
Net book amounts	2,621	5,557	47,502	155	9,218	2,720	15,785	83,558

	December 31, 2011							
(in millions of Korean won)	Goodwill	Membership rights	Development costs	Industrial property rights	Software	Other intangible assets	Right to use donated assets	Total
Acquisition cost	7,845	5,557	132,190	1,547	19,187	8,439	128,150	302,915
Accumulated amortization	-	-	(72,086)	(1,433)	(11,421)	(4,823)	(105,922)	(195,685)
Accumulated impairments loss	(2,027)	-	(5,650)	-	-	(692)	-	(8,369)
Government grants	-	-	-	-	-	(701)	-	(701)
Net book amounts	5,818	5,557	54,454	114	7,766	2,223	22,228	98,160

Changes in intangible assets for the years ended December 31, 2012 and 2011, are as follows:

	2012							
(in millions of Korean won)	Goodwill	Membership rights	Development costs	Industrial property rights	Software	Other intangible assets	Right to use donated assets	Total
At January 1	5,818	5,557	54,454	114	7,766	2,223	22,228	98,160
Acquisitions	-	-	-	92	1,697	1,274	7,247	10,310
Acquisitions by internal development	-	-	24,013	-	-	-	-	24,013
Amortization (including government grants)	-	-	(13,086)	(49)	(3,713)	(3,218)	(15,479)	(35,545)
Impairments	(3,197)	-	(11,389)	(2)	(376)	(104)	-	(15,068)
Transfer-in (out)	-	-	(6,490)	-	3,844	2,667	1,789	1,810
Grants from goverments	-	-	-	-	-	(120)	-	(120)
Exchange differences	-	-	-	-	-	(2)	-	(2)
At December 31	2,621	5,557	47,502	155	9,218	2,720	15,785	83,558

(in millions of Korean won)	2011 Goodwill	Membership rights	Development costs	Industrial property rights	Software	Other intangible assets	Right to use donated assets	Total
At January 1	7,845	5,414	47,619	187	5,960	2,134	21,806	90,965
Acquisitions	-	-	-	39	1,365	1,407	-	2,811
Acquisitions by internal development	-	-	21,950	-	-	-		21,950
Transfer from business Combination	-	-	-	-	-	658	-	658
Amortization (including government grants)	-	-	(11,408)	(112)	(2,816)	(1,283)	(18,854)	(34,473)
Impairments	(2,027)	-	(520)	-	-	(692)	-	(3,239)
Transfer-in (out)	-	-	(3,042)	-	3,058	-	19,276	19,292
Changes in scope of subsidiaries	-	143	(145)	-	199	-	-	197
Exchange differences	-	-	-	-	-	(1)	-	(1)
At December 31	5,818	5,557	54,454	114	7,766	2,223	22,228	98,160

Amortization for the years ended December 31, 2012 and 2011, is charged as follows:

(In millions of Korean won)	2012	2011
Cost of sales	33,130	31,953
Selling and administrative expenses	2,415	2,520
	35,545	34,473

Goodwill is allocated among the Group's cash-generating units (CGUs) according to operating segments. Details of goodwill by operating segments are as follows:

(In millions of Korean won)	December 31, 2012	December 31, 2011
LIBRO division	-	1,333
CHAIHONG division	480	480
Academy division	2,141	4,005
	2,621	5,818

The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering from one year to three years.

Management determined the budgeted EBIT margin based on past performance and its expectations of market development. The discount rates used are pre-tax and reflect specific risks relating to the relevant operating segments. Growth rates and discount rates used for value-in-use calculations of the CHAIHONG division are 3% and 12.6%, and of the Academy division are 0% and 12.6%, respectively.

The carrying value of LIBRO division and Academy division exceeded the recoverable amounts based on value-in-use calculations and the part of exceeded amounts was recognized as impairment loss. No impairment was recognized in other operating segments.

17. Other Payables

Details of other payables are as follows:

(in millions of Korean won)	**December 31, 2012**	**December 31, 2011**
Current		
Non-trade payables	23,312	22,528
Accrued expenses	39,294	47,162
Deposits received	4,793	9,994
	67,399	79,684
Non-Current		
Non-trade payables	-	3,000
Deposits received	3,379	2,609
	3,379	5,609
	70,778	85,293

18. Borrowings

Details of borrowings are as follows:

(in millions of Korean won)	**Details**	**Latest maturity date**	**Annual interest rate (%) at Dec 31, 2012**	**December 31, 2012**	**December 31, 2011**
Current					
Korea Exchange Bank	General loans in foreign currency	2013.11.25	Libor 1M+145bp	2,571	3,610
Hana Bank[1]	General loans	2013.06.08	FTP+194bp	3,000	3,000
Woori Bank[1]	General loans	2013.05.24	3M CD+328bp	1,000	1,000
Woori Bank[1]	General loans	2013.05.24	3M CD+329bp	500	500
Woori Bank[1]	General loans	2013.05.24	3M CD+329bp	600	600
Korea Exchange Bank	Facility loans	2013.06.04	Libor 3M+140bp	8,569	9,230
Korea Exchange Bank	Facility loans	2013.04.02	Libor 3M+140bp	4,284	-
Daekyo Holdings, Inc.	Borrowings from related party	-	8.5	2,750	2,500
Others	Borrowings from related party	-	-	-	100
				23,274	20,540
Non-Current					
Wells Fargo	General loans in foreign currency	2022.03.05	6.75	819	897
HSBC	General loans	2015.12.31	3.34	72	39
				891	936
				24,165	21,476

[1] The Group is provided with payment guarantees from related parties in relation to these borrowings (Note 29).

19. Provisions

Changes in provisions for sales return for the years ended December 31, 2012 and 2011, are as follows:

(in millions of Korean won)	2012	2011
At January 1	415	373
Addition	465	497
Utilization	(386)	(455)
At December 31	494	415

20. Other liabilities

Details of other liabilities are as follows:

(in millions of Korean won)	December 31, 2012	December 31, 2011
Current		
Withholding	8,215	7,673
Advances from customer	49,355	39,145
Unearned income	917	2,363
	58,487	49,181

21. Retirement benefit obligations

Details of retirement benefit obligations recognized on the consolidated statements of financial position are as follows:

(in millions of Korean won)	December 31, 2012	December 31, 2011
Present value of defined benefit liability	45,633	42,624
Fair value of plan assets	(41,562)	(33,051)
Liability on the statement of financial position	4,071	9,573

The amounts recognized in the statements of income for the years ended December 31, 2012 and 2011, are as follows:

(in millions of Korean won)	2012	2011
Current service cost	9,862	8,801
Interest cost	1,605	1,541
Expected return on plan assets	(1,289)	(1,341)
Total expenses	10,178	9,001

Cumulative actuarial losses recognized in the consolidated statements of comprehensive income as of December 31, 2012 and 2011, are as follows:

(in millions of Korean won)	**December 31, 2012**	**December 31, 2011**
Actuarial loss (before tax)	(7,283)	(6,013)
Tax effect	1,609	1,376
Actuarial loss (net of tax)	(5,674)	(4,637)

Total expenses for the years ended December 31, 2012 and 2011, are charged as follows:

(in millions of Korean won)	**2012**	**2011**
Cost of sales	7,704	6,439
Selling and administrative expenses	2,474	2,562
	10,178	9,001

Changes in the carrying amount of defined benefit liability for the years ended December 31, 2012 and 2011, are as follows:

(in millions of Korean won)	**2012**	**2011**
At January 1	42,624	34,804
Current service cost	9,862	8,801
Interest expense	1,605	1,541
Benefits paid	(9,769)	(6,402)
Actuarial loss	1,311	4,157
Changes in scope of subsidiaries	-	(277)
At December 31	45,633	42,624

Changes in the fair value of plan assets for the years ended December 31, 2012 and 2011, are as follows:

(in millions of Korean won)	**2012**	**2011**
At January 1	33,051	27,538
Expected return on plan assets	1,289	1,341
Employer contributions	15,880	6,837
Benefits paid	(8,700)	(2,489)
Actuarial gain (loss)	42	(44)
Changes in scope of subsidiaries	-	(132)
At December 31	41,562	33,051

The actual return on plan assets for the year ended December 31, 2012, is ₩1,331 million (2011: ₩1,297 million).

The principal actuarial assumptions to calculate defined benefit liability are as follows:

(%)	**December 31, 2012**	**December 31, 2011**
Discount rate	3.25 ~ 3.50	3.98 ~ 4.85
Expected rate of return	3.73 ~ 5.00	3.73 ~ 5.39
Future salary increases	2.08 ~ 2.99	2.99 ~ 4.64

Plan assets consist of as follows:

(in millions of Korean won)	**December 31, 2012**	**December 31, 2011**
Time deposits	12,177	8,130
Equity-linked Securities	14,482	10,613
Derivative Linked Securities (Principal and interest assured)	14,903	14,308
	41,562	33,051

Expected future contribution of defined benefit plans by employer is best estimated to be ₩18,860 million after the reporting period.

The sensitivity of the overall pension liability to changes in the principal actuarial assumptions is as follows:

	Changes in principal assumption	**Impact on overall liability**
Discount rate	0.5% increase/decrease	2.46% decrease/2.58% increase
Salary growth rate	0.5% increase/decrease	2.66% increase /2.55% decrease

Adjustments for the differences between initial assumptions and actual figures arising on the defined benefit obligation and the plan assets as of December 31, for the latest four years including year 2012 are as follows:

(in millions of Korean won)	**December 31, 2012**	**December 31, 2011**	**December 31, 2010**	**January 1, 2010**
Present value of defined benefit liability	45,633	42,624	34,804	28,905
Fair value of plan assets	41,562	33,051	27,538	21,424
Deficit(surplus) of the funded plans	4,071	9,573	7,266	7,481
Defined benefit liability adjustments	(478)	(3,056)	(1,153)	-
Plan assets adjustments	42	(44)	387	-

22. Deferred Income Tax

Details of deferred tax assets and deferred tax liabilities are as follows:

(in millions of Korean won)	December 31, 2012	December 31, 2011
Deferred tax assets		
Deferred tax asset to be recovered within 12 months	4,619	6,539
Deferred tax asset to be recovered after more than 12 months	13,575	9,262
Deferred tax assets before offsetting	18,194	15,801
Deferred tax liabilities		
Deferred tax liability to be recovered within 12 months	1,983	1,411
Deferred tax liability to be recovered after more than 12 months	35,052	39,079
Deferred tax liabilities before offsetting	37,035	40,490
Deferred tax assets (liabilities) ,net	(18,841)	(24,689)

The gross movement in the deferred income tax assets and liabilities for the years ended December 31, 2012 and 2011, is as follows:

(in millions of Korean won)	2012	2011
At January 1	(24,689)	(42,556)
Charged/(credited) to the statement of income	2,066	1,069
Charged/(credited) to other comprehensive income	3,782	16,798
At December 31	(18,841)	(24,689)

The movement in deferred income tax assets and liabilities for the years ended December 31, 2011 and 2010, without offsetting balances within the same tax jurisdiction, is as follows:

(in millions of Korean won)	2012			
		Increase(decrease)		
	Beginning balance	Profit or loss	Other comprehensive income	Ending balance
Deferred tax assets				
Retirement benefit obligation	5,585	1,149	-	6,734
Allowance for doubtful accounts	2,362	(945)	-	1,417
Accrued expenses	1,278	107	-	1,385
Loss on valuation of available-for-sale financial assets	1,778	-	(987)	791
Actuarial gain	1,458	-	243	1,701
Impairment loss on intangible assets	559	964	-	1,523

Amortization	876	(298)	-	578
Guarantee deposits	656	2	-	658
Depreciation	-	2,227	-	2,227
Other	1,249	(69)	-	1,180
	15,801	3,137	(744)	18,194
Deferred tax liabilities				
Available-for-sale financial assets	(1,227)	-	-	(1,227)
Plan assets	(7,602)	(639)	(10)	(8,251)
Gain on valuation of available-for-sale financial assets	(29,980)	-	4,536	(25,444)
Depreciation	(336)	336	-	-
Other	(1,345)	(768)	-	(2,113)
	(40,490)	(1,071)	4,526	(37,035)
	(24,689)	2,066	3,782	(18,841)

	2011			
		Increase(decrease)		
(in millions of Korean won)	**Beginning balance**	**Profit or loss**	**Other comprehensive income**	**Ending balance**
Deferred tax assets				
Retirement benefit obligation	4,761	824	-	5,585
Allowance for doubtful accounts	1,739	623	-	2,362
Accrued expenses	852	426	-	1,278
Loss on valuation of available-for-sale financial assets	571	-	1,207	1,778
Actuarial gain	466	-	992	1,458
Impairment loss on intangible assets	711	(152)	-	559
Amortization	1,069	(193)	-	876
Guarantee deposits	507	149	-	656
Other	654	595	-	1,249
	11,330	2,272	2,199	15,801
Deferred tax liabilities				
Available-for-sale financial assets	(1,116)	(111)	-	(1,227)
Plan assets	(5,746)	(1,858)	2	(7,602)
Gain on valuation of available-for-sale financial assets	(44,577)	-	14,597	(29,980)
Depreciation	(1,277)	941	-	(336)
Other	(1,170)	(175)	-	(1,345)
	(53,886)	(1,203)	14,599	(40,490)
	(42,556)	1,069	16,798	(24,689)

Tax effects recognized directly in other comprehensive income are as follows:

	December 31, 2012		
(in millions of Korean won)	Before Tax	Tax effects	After Tax
Gain(loss) on valuation of available-for-sale financial assets	101,875	(24,654)	77,221
Actuarial gain (loss)	(7,283)	1,609	(5,674)
Currency translation differences	(908)	-	(908)

	December 31, 2011		
(in millions of Korean won)	Before Tax	Tax effects	After Tax
Gain(loss) on valuation of available-for-sale financial assets	116,542	(28,203)	88,339
Actuarial gain (loss)	(6,013)	1,376	(4,637)
Currency translation differences	72	-	72

Details of temporary differences that are unrecognized as deferred income tax assets are as follows:

(in millions of Korean won)	December 31, 2012	December 31, 2011
Investments in subsidiaries	67,673	57,216

23. Share Capital

The Company is authorized to issue 1,500 million shares with a par value per share of ₩500. As of December 31, 2012, 84.7 million shares (₩42,352 million) of common stock and 19.4 million shares (₩9,713 million) of preferred stock are issued outstanding. There are no movements in common and preferred stocks during 2012 and 2011.

When the dividend rate of common stock exceeds the dividend rate of preferred stock (over 9% of the par value according to the resolution of the Board of Directors), the preferred stock has the right to be entitled to receive dividends at the same rate with the common stock for the excess rate.

24. Capital Surplus

Details of capital surplus are as follows:

(in millions of Korean won)	December 31, 2012	December 31, 2011
Share premium	46,797	46,797
Other capital surplus	22,122	22,626
	68,919	69,423

25. Other Components of Equity

Details of other components of equity are as follows:

(in millions of Korean won)	December 31, 2012	December 31, 2011
Stock options	359	504
Treasury shares	(55,250)	(48,074)
	(54,891)	(47,570)

26. Share-Based Payments

As of December 31, 2012, the summary of stock options to be granted to employees is as follows:

	Details
Date of the first announcement	September 13, 2012
Grant method	Issuance of shares
Exercise period	April 23, 2013 ~ April 30, 2013 (expected)
Vesting conditions	Options are conditional on the employee completing service between July 1, 2012 and December 31, 2012 and achieving performance goals.
Exercise price[1]	Standard price of common stock × (1- discount rate)
Shares to be granted[2]	174,787 shares of common stock (expected)

[1] The standard price of common stock is calculated as mathematical average of closing price on reference date, one month average closing price and one week average closing price rolled-back from the reference date, December 31, 2012. The discount rates are 30%, 40%, 50% and 100%.

[2] Shares to be issued can be replaced with preferred stock of equivalent value, depending on the employees' choice.

The summary of stock options granted to employees for the year ended December 31, 2012, are as follows:

-The second half 2012

	Details
Date of the first announcement	January 16, 2012
Grant method	Issuance of shares
Exercise period	October 23, 2012 ~ October 29, 2012
Vesting conditions	Options are conditional on the employee completing service between January 1, 2012 and June 30, 2012 and achieving performance goals.
Exercise price[1]	Standard price of common stock × (1- discount rate)
Shares to be granted[2]	242,049 shares of common stock

[1] The standard price of common stock is ₩5,590 and the discount rates are 30%, 40%, 50% and 100%.
[2] Shares to be issued can be replaced with preferred stock in equivalent value, depending on the employees' choice. Standard price of preferred stock for replacement was ₩3,935. Vested stock options of 205,839 of common stock and 28,384 of preferred stock were exercised and unexercised options have lapsed.

-The first half 2012

	Details
Date of the first announcement	June 28, 2011
Grant method	Issuance of shares
Exercise period	April 23, 2012 ~ April 27, 2012
Vesting conditions	Options are conditional on the employee completing service between July 1, 2011 and December 31, 2011 and achieving performance goals.
Exercise price[1]	Standard price of common stock × (1- discount rate)
Shares to be granted[2]	256,933 shares of common stock

[1] The standard price of common stock is ₩6,280 and the discount rates are 30%, 40%, 50% and 100%.
[2] Shares to be issued can be replaced with preferred stock in equivalent value, depending on the employees' choice. Standard price of preferred stock for replacement was ₩4,050. Vested stock options of 207,108 of common stock and 55,849 of preferred stock were exercised and unexercised options have been lapsed.

The fair value of stock appreciation rights determined using the Black-Scholes valuation model was ₩359 million (2011: ₩504 million). The significant inputs into the model were the weighted average share price of ₩6,350 (2011: ₩6,240), exercise price ₩4,127 (2011: ₩3,502), volatility of 27% (2011: 33%), dividend yield of 4.1% (2011: 3.9%), an expected option life of 0.83 years (2011: 0.83 years) and an annual risk-free interest rate of 2.8% (2011: 3.4%).

Changes in stock options for the years ended December 31, 2012 and 2011, are as follows:

(in millions of Korean won)	**2012**	**2011**
At January 1	504	847
Compensation cost	761	1,557
Exercise	(906)	(1,900)
At December 31	359	504

27. Treasury Shares

Changes in treasury shares for the years ended December 31, 2012 and 2011, are as follows:

	2012		
(shares, in millions of Korean won)	**Common stock**	**Preferred stock**	**Amounts**
At January 1	6,468,932	3,831,516	48,074
Acquisition	1,442,010	337,150	9,756
Disposal	(412,947)	(90,763)	(2,580)
At December 31	7,497,995	4,077,903	55,250

	2011		
(shares, in millions of Korean won)	**Common stock**	**Preferred stock**	**Amounts**
At January 1	6,373,673	3,835,484	47,612
Acquisition	512,700	83,870	3,237
Disposal	(417,441)	(87,838)	(2,775)
At December 31	6,468,932	3,831,516	48,074

28. Retained Earnings

Details of retained earnings are as follows:

(in millions of Korean won)	**December 31, 2012**	**December 31, 2011**
Legal reserve[1]	32,300	32,300
Discretionary reserve	426,505	394,505
Unappropriated retained earnings	13,934	48,526
	472,739	475,331

[1] The Commercial Code of the Republic of Korea requires the Company to appropriate, as a legal reserve, an amount equal to a minimum of 10% of cash dividends paid until such reserve equals 50% of its issued capital stock. As of December 31, 2012, the Company's reserve equals 50% of the capital, therefore no

additional reserve is needed. The reserve is not available for the payment of cash dividends, but may be transferred to capital stock through an appropriate resolution by the Company's Board of Directors or used to reduce accumulated deficit, if any, with the ratification of the Company's majority shareholders.

The changes in retained earnings for the years ended December 31, 2012 and 2011, are as follows:

(in millions of Korean won)	**2012**	**2011**
At January 1	475,331	448,465
Profit attributable to equity holders of the Parent Company	22,933	52,685
Actuarial loss	(1,009)	(3,150)
Dividend paid	(24,516)	(22,669)
At December 31	472,739	475,331

29. Contingencies and Commitments

As of December 31, 2012, the Group has credit agreements with Woori Bank up to ₩22,000 million in relation to corporate purchase card programs.

As of December 31, 2012, the Group provides short-term financial instruments as collaterals amounting to ₩1,192 million for certain lessees in connection with the lessees' guarantee deposits. Seoul Guarantee Insurance Co., Ltd. has provided guarantees up to ₩1,339 million for the company's execution of contracts.

The Group entered into contracts with free-lance instructors to manage its educational service members. In accordance with the contracts, the Group pays the instructors a certain percentage of monthly cash collections from its educational service members. Expenses in relation to these contracts amounted to ₩361,004 million (2011: ₩ 330,121 million) in 2012.

As of December 31, 2012, the Group is either a plaintiff in two legal cases or a defendant in three legal cases. The outcome of the cases and effect on the financial statements could not be ascertained at the end of the reporting period.

Among aforementioned litigations in which the Group is named as the plaintiff, the Group's appeal on the litigation involving trademark infringement filed at the Supreme Court of Korea was dismissed on January 24, 2013. This dismissal of the appeal will not have a material effect on the consolidated financial statements.

As of December 31, 2012, the Group has been provided with payment guarantees of ₩ 5,100 million from the Parent Company, Daekyo Holdings Co., Ltd., in relation to borrowings of Daekyo Edupia Co., Inc.

30. Sales

Details of sales for the years ended December 31, 2012 and 2011, are as follows:

(in millions of Korean won)	**2012**	**2011**
Sales of goods	766,066	798,191
Sales of services	88,734	96,056
Royalty income	14,694	13,773
	869,494	908,020

31. Selling and Administrative Expenses

Details of selling and administrative expenses for the years ended December 31, 2012 and 2011, are as follows:

(in millions of Korean won)	**2012**	**2011**
Wages and salaries	23,418	21,212
Severance benefits	2,582	2,562
Welfare expense	6,362	5,745
Depreciation	6,148	6,030
Advertising expense	32,935	33,261
Commission expense	24,704	18,050
Amortization	2,415	2,520
Taxes and dues	3,596	2,635
Transportation expense	2,180	2,344
Printing expense	1,830	1,652
Rental expense	4,306	3,990
Other	8,769	7,879
	119,245	107,880

32. Expenses by Nature

Expenses that are recorded by nature as cost of sales and selling and administrative expenses in the statement of income for the years ended December 31, 2012 and 2011, consist of:

(in millions of Korean won)	**2012**	**2011**
Changes in inventories	8,268	(5,097)
Purchase of raw materials and merchandise	63,989	48,674
Depreciation, amortization	51,192	48,179
Employee benefit expenses	173,587	178,485
Commission expenses	428,837	405,715
Rental expenses	29,702	29,476
Advertising expenses	33,014	33,336
Other expenses	49,250	108,101
	837,839	846,869

33. Other Income

Other income for the years ended December 31, 2012 and 2011, consist of:

(in millions of Korean won)	**2012**	**2011**
Interest income (lease)	2,270	2,217
Dividend income	3,785	3,681
Gain on disposal of financial assets at fair value through profit or loss	647	534
Gain on valuation of financial assets at fair value through profit or loss	5,707	380
Gain on disposal of available-for-sale financial assets	18,271	19,387
Gain on valuation of derivatives	-	1,175
Other	4,767	1,332
	35,447	28,706

34. Other Expenses

Other expenses for the years ended December 31, 2012 and 2011, consist of:

(in millions of Korean won)	**2012**	**2011**
Interest expense (lease)	190	439
Foreign exchange loss	49	114
Loss on foreign currency translation	474	67
Contribution expense	2,011	3,040
Commission for investment counseling	1,705	1,040
Loss on disposal of inventories	3,628	2,630
Loss on disposal of financial assets at fair value through profit or loss	664	1,971
Impairment loss of assets	14,578	3,239
Other	2,487	2,981
	25,786	15,521

35. Financial Income

Financial income for the years ended December 31, 2012 and 2011, are as follows:

(in millions of Korean won)	**2012**	**2011**
Interest Income	1,948	2,142
Gain on foreign currency translation	203	-
Gain on foreign currency transaction	20	74
	2,171	2,216

36. Financial Expenses

Financial expenses for the years ended December 31, 2012 and 2011, are as follows:

(in millions of Korean won)	2012	2011
Interest expenses	863	864
Loss on foreign currency translation	41	15
Loss on foreign currency transaction	-	46
	904	925

37. Income Tax Expense

Income tax expense for the years ended December 31, 2012 and 2011, consists of:

(in millions of Korean won)	2011	2010
Current income taxes:		
Current tax on profit for the year	11,249	20,643
Adjustments in respect of prior years	733	(330)
	11,982	20,313
Deferred tax:		
Changes in temporary differences	(2,066)	(1,069)
Other:		
Income tax directly to equity	(6)	278
Difference of changes in currency exchange	120	(43)
Income tax relating to discontinued operations	2,811	1,321
	2,925	1,556
Income tax expense	12,841	20,800

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

(*in millions of Korean won*)	**2012**	**2011**
Profit before tax	42,412	75,365
Tax calculated at domestic tax rates applicable to profits in the respective countries	10,560	17,755
Tax adjustments:		
Income not subject to tax/Expenses not deductible for tax purposes	504	(10)
Effects of unrecognized deferred income tax at the beginning	2,531	1,438
Changes in deferred tax assets	(1,233)	117
Adjustments in respect of prior years	733	(330)
Change in tax rate	-	198
Others	(253)	1,632
Income tax expense	12,841	20,800
Effective tax rate (Income tax over profit before tax)	30.3%	27.6%

38. Earnings per Share

Basic earnings per share is calculated by dividing the profit attributable to shareholders of the Group by the weighted average number of shares in issue excluding shares purchased by the Group and held as treasury shares. Preferred shares have rights to participate in the profits of the Company. These participation rights have been considered in presenting the EPS for ordinary shares and preferred shares. Although the Group granted stock options during the year 2012 and 2011, diluted earnings per share is not computed as the Group has no dilutive ordinary shares.

Basic earnings per ordinary share for the years ended December 31, 2012 and 2011, is as follows:

(*in millions of Korean won*)	**2012**	**2011**
Profit attributable to ordinary shares[1]	19,005	43,798
Profit from continuing operations	26,345	47,247
Loss from discontinued operations	(7,340)	(3,449)
Weighted average number of ordinary shares in issue[2] (Unit: share)	77,835,494	78,139,614
Basic earnings per share (in won)		
Basic earnings per ordinary share from continuing operations	338	605
Basic loss per ordinary share from discontinued operations	(94)	(44)

Basic earnings per preferred share for the years ended December 31, 2012 and 2011, is as follows:

(in millions of Korean won)	2012	2011
Profit attributable to preferred shares[1]	3,928	8,886
Profit from continuing operations	5,391	9,574
Profit from discontinued operations	(1,463)	(688)
Weighted average number of preferred shares in issue[2] (Unit: share)	15,520,403	15,606,726
Basic earnings per share (in won)		
Basic earnings per preferred share from continuing operations	347	613
Basic loss per preferred share from discontinued operations	(94)	(44)

[1] Profit attributable to ordinary and preferred shares is as follows:

(in millions of Korean won)	2012	2011
Profit from continuing operations attributable to equity holders of the Parent Company (A)	22,933	52,684
Ordinary shares dividends (B)	20,073	20,341
Preferred shares dividends (C)	4,144	4,210
Undistributed earnings from continuing operations (D=A-B-C)	(1,284)	28,133
Undistributed earnings available for ordinary shares (E)	6,272	26,906
Undistributed earnings available for preferred shares(F)	1,247	5,364
Profit attributable to ordinary shares from continuing operations (G=B+E)	26,345	47,247
Profit attributable to preferred shares from continuing operations (H=C+F)	5,391	9,574
Profit from discontinued operations(J)	(8,803)	(4,137)
Ordinary shares dividends (K)	-	-
Preferred shares dividends (L)	-	-
Undistributed earnings from discontinued operations(M=J-K-L)	(8,803)	(4,137)
Undistributed earnings available for ordinary shares (N)	(7,340)	(3,449)
Undistributed earnings available for preferred shares (O)	(1,463)	(688)
Profit attributable to ordinary shares from discontinued operations (P=K+N)	(7,340)	(3,449)
Profit attributable to preferred shares from discontinued operations (Q=L+O)	(1,463)	(688)
Profit attributable to ordinary shares (R=G+P)	19,005	43,798
Profit attributable to preferred shares (S=H+Q)	3,928	8,886

[2] Weighted average numbers of shares are calculated as follows:

(Shares)	2012	2011
Ordinary shares outstanding	84,702,850	84,702,850
Ordinary treasury shares	(7,497,995)	(6,468,932)
Ordinary shares	77,204,855	78,233,918
Weighted average number of ordinary shares outstanding	77,835,494	78,139,614
Preferred shares outstanding	19,426,990	19,426,990
Preferred treasury shares	(4,077,903)	(3,831,516)
Preferred shares	15,349,087	15,595,474
Weighted average number of preferred shares outstanding	15,520,403	15,606,726

39. Dividends

The interim dividends for ordinary shares paid in 2012 and 2011 were ₩ 8,566 million (₩ 110 per share, dividend rate: 22%) and ₩ 8,584 million (₩ 110 per share, dividend rate: 22%) and the interim dividends for preferred shares were ₩ 1,717 million (₩ 110 per share, dividend rate: 22%) and ₩ 1,719 million (₩ 110 per share, dividend rate: 22%), respectively.

The dividends for ordinary shares paid in 2012 and 2011 were ₩ 11,736 million (₩ 150 per share, dividend rate: 30%) and ₩ 10,183 million (₩ 130 per share, dividend rate: 26%) and the dividends for preferred shares were ₩ 2,498 million (₩ 160 per share, dividend rate: 32%) and ₩ 2,183 million (₩ 140 per share, dividend rate: 28%), respectively.

A dividend for ordinary share in respect of the year ended December 31, 2012, of ₩ 100 per share (dividend rate: 20%), amounting to a total dividend of ₩ 7,727 million and a dividend for preferred share of ₩ 110 per share (dividend rate: 22%), amounting to a total dividend of ₩ 1,689 million, are to be proposed at the annual general meeting on March 22, 2013. These financial statements do not reflect this dividend payable.

40. Cash Generated from Operations

Cash generated from operations for the years ended December 31, 2012 and 2011, is as follows:

(in millions of Korean won)	2012	2011
Profit for the year	20,768	50,428
Adjustments :		
Severance benefits	10,178	9,001
Depreciation/Amortization	51,192	48,179
Impairment of assets	17,256	3,239
Loss on disposal of inventories	3,628	3,075
Interest income	(4,219)	(4,359)
Gain on disposal of available-for-sale financial assets	(18,271)	(19,387)
Dividend income	(3,785)	(3,681)
Income tax expense	10,030	19,479
Other	3,222	6,397
Changes in operating assets and liabilities		
Decrease(increase) in financial assets at fair value through gain or loss	2,455	(27,944)
Decrease (increase) in trade receivables	3,373	(8,015)
Decrease(increase) in inventories	4,401	(3,437)
Increase in other assets	(3,339)	(5,564)
Increase(decrease) in trade payables	(893)	832
Increase(decrease) in other payables	(13,089)	2,748
Increase(decrease) in provisions	78	(172)
Increase(decrease) in other liabilities	9,618	(7,209)
Payment of net defined benefit liability	(1,069)	(3,913)
Deposit in plan assets, net	(15,880)	(6,837)
Increase(decrease) in other assets, liabilities	(2,015)	(1,631)
Cash generated from operations	73,639	51,229

The significant non-cash transactions for the years ended December 31, 2012 and 2011, are as follows:

(in millions of Korean won)	2012	2011
Valuation of available-for-sale financial assets	(14,667)	(78,526)
Reclassification of Initial throw-in equipment	-	19,276
Exercise of stock options	907	1,900
Reclassification of Investment property	8,564	13,560

41. Related Party Transactions

The Parent Company is Daekyo Holdings Co., Ltd.

The related parties are as follows:

Parent Company	Daekyo Holdings Co., Ltd.
Associates	Child-Care Consortium, DKI Growing Star 1 Investment partnership, Daekyo Bertelsmann Educational Services Limited
Other related parties	Daekyo D&S Co., Ltd., Twohandsmedia Co., Ltd., Tara Distribution Co., Ltd., Tara TPS Co., Ltd., Daekyo Culture foundation., BongAm Institute, Daekyo ENC Co., Ltd., Tara Graphics Co., Ltd., Gangwon Deep Sea Water Co., Ltd., Daekyo CNS Co., Ltd.

Significant transactions for the years ended December 31, 2012 and 2011, are as follows:

(in millions of Korean won)	2012		2011	
	Sales	**Purchases**	**Sales**	**Purchases**
Parent Company	151	1,821	23	3,335
Other related parties	959	62,561	1,109	73,223
	1,110	64,382	1,132	76,558

The balances of significant transactions are as follows:

	December 31, 2012		**December 31, 2011**	
(in millions of Korean won)	**Receivables**	**Payables**	**Receivables**	**Payables**
Parent Company	61	4,038	60	2,856
Other related parties	4,693	9,736	4,719	12,906
	4,754	13,774	4,779	15,762

Key management compensation of the Group for the years ended December 31, 2012 and 2011, consists of:

(in millions of Korean won)	2012	2011
Short-term salaries	3,272	3,508
Severance benefits	1,314	330
	4,586	3,838

Key management refers to the directors who have significant control and responsibilities on the Group's business plans, operations and controls.

42. Discontinued operations

The Company decided to discontinue the Libro business division with the approval of board of directors. As a result, the related loss is presented as discontinued operations.

Details of loss from discontinued operations for the years ended December 31, 2012 and 2011, are as follows:

(in millions of Korean won)	**2012**	**2011**
Net Sales	31,170	24,808
Cost of sales	37,932	27,945
Gross loss	(6,762)	(3,137)
Selling and administrative expenses	2,777	1,885
Operating loss	(9,539)	(5,022)
Other income	604	9
Other expenses	2,679	445
Loss before income tax	(11,614)	(5,458)
Income tax benefit	(2,811)	(1,321)
Loss for the year from discontinued operations	(8,803)	(4,137)

The cash flows from discontinued operations for the years ended December 31, 2012 and 2011, are as follows:

(in millions of Korean won)	**2012**	**2011**
Cash flows from operating activities	(4,555)	(7,222)
Cash flows from investing activities	17	177
	(4,538)	(7,045)

43. Business Combination

On May 1, 2011, the Company acquired the television business from Daekyo CNS Co., Ltd., a subsidiary of the Parent Company, to raise its brand value and awareness, and to boost the synergy of Group contents business through the active media business.

(1) Summary of the business acquisition

Name of business	Daekyo CNS Co., Ltd.,'s TV business
Head office location	4th Floor 107 Michelan Buld., Samseong-dong, Gangnam-gu, Seoul
CEO	Suk-Ju Oh
Type	Stock-unlisted corporation
Relation	Other related party

(2) Accounting of the business acquisition

(in millions of Korean won)	**Amount**
Consideration	
Cash and cash equivalents	2,105
Recognized amounts of identifiable assets acquired and liabilities assumed	
Cash and cash equivalents	26
Trade receivables and other receivables[1]	610
Property, plant and equipment	217
Intangible assets	658
Other payables	(246)
Total identifiable net assets	1,265
Capital surplus[2]	840

[1] The acquired trade receivables and other receivables include trade receivables of ₩479 million.

[2] The assets acquired and liabilities assumed are measured at the carrying value on the consolidated financial statement and the difference between consideration paid and total net assets is treated as capital surplus due to business combination under common control.

44. Approval of financial Statements

The consolidated financial statements for the year ended December 31, 2012, were approved by the Board of Directors on March 4, 2013.