

Daum Communications Corporation and Subsidiaries

**Interim Consolidated Financial Statements
September 30, 2013 and 2012**

Daum Communications Corporation and Subsidiaries
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September 30, 2013 and 2012

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Report on Review of Interim Financial Statements

To the Shareholders and Board of Directors of
Daum Communications Corporation

Reviewed Financial Statements

We have reviewed the accompanying interim consolidated financial statements of Daum Communications Corporation and its subsidiaries. These financial statements consist of consolidated statement of financial position of Daum Communications Corporation and its subsidiaries as of September 30, 2013, and the related consolidated statements of income and comprehensive income for the three-month and nine-month periods ended September 30, 2013 and 2012, and consolidated statements of changes in equity and cash flows for the nine-month periods ended September 30, 2013 and 2012, and a summary of significant accounting policies and other explanatory notes, expressed in Korean won.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the International Financial Reporting Standards as adopted by the Republic of Korea ('Korean IFRS') 1034, *Interim Financial Reporting*, and for such internal controls as management determines are necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to issue a report on these consolidated financial statements based on our reviews.

We conducted our reviews in accordance with the quarterly and semi-annual review standards established by the Securities and Futures Commission of the Republic of Korea. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the Republic of Korea and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our reviews, nothing has come to our attention that causes us to believe the accompanying interim consolidated financial statements do not present fairly, in all material respects, in accordance with the Korean IFRS 1034, *Interim Financial Reporting*.

Other Matters

We have audited the consolidated statement of financial position of Daum Communications Corporation and its subsidiaries as of December 31, 2012, and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for the year ended December 31, 2012, in accordance with auditing standards generally accepted in the Republic of Korea. We expressed an unqualified opinion on those financial statements in our audit report dated March 20, 2013. These financial statements are not included in this review report. The consolidated statement of financial position as of December 31, 2012, presented herein for comparative purposes, is consistent, in all material respects, with the above audited statement of financial position as of December 31, 2012.

Review standards and their application in practice vary among countries. The procedures and practices used in the Republic of Korea to review 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 review standards and their application in practice.

SAMIL PRICEWATERHOUSE COOPERS

Seoul, Korea

November 13, 2013

The review report is effective as of November 13, 2013, the review report date. Certain subsequent events or circumstances, which may occur between the review report date and the time of reading this report, could have a material impact on the accompanying consolidated interim financial statements and notes thereto. Accordingly, the readers of the review report should understand that there is a possibility that the above review report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

Daum Communications Corporation and Subsidiaries
Interim Consolidated Statements of Financial Position
September 30, 2013 and December 31, 2012

<i>(in Korean won)</i>	Notes	September 30, 2013	December 31, 2012
Assets			
Current assets			
Cash and cash equivalents		₩ 101,323,366,456	₩ 120,429,025,300
Short-term financial instruments		171,941,116,132	142,389,640,867
Trade receivables		45,623,497,952	57,951,052,219
Other short-term receivables	8	15,335,933,636	11,415,511,649
Derivative instrument assets	5,27	775,229,452	5,338,214,354
Other current assets	9	11,836,110,242	10,002,585,717
		<u>346,835,253,870</u>	<u>347,526,030,106</u>
Non-current assets			
Long-term available-for-sale securities	5,7	27,978,565,455	22,909,230,481
Investments in associates	10	6,747,224,998	7,521,607,012
Other long-term receivables	8	64,656,499,580	54,982,919,199
Property and equipment	11	112,094,717,416	101,224,382,372
Intangible assets	12	92,164,005,699	73,862,723,484
Deferred income tax assets		2,885,513,790	1,889,956,591
Other non-current assets	9	2,295,596,426	1,952,544,416
		<u>308,822,123,364</u>	<u>264,343,363,555</u>
Total assets		<u>₩ 655,657,377,234</u>	<u>₩ 611,869,393,661</u>
Liabilities			
Current liabilities			
Trade payables and other payables	13	₩ 40,656,918,470	₩ 30,511,254,992
Short-term borrowings	14	157,520,757	120,000,000
Provisions	17	575,357,342	-
Other current financial liabilities	13	870,727,098	1,286,681,006
Income taxes payable		3,540,272,589	10,850,024,889
Derivative instrument liabilities		-	3,200,000
Other current liabilities	9	38,053,803,640	33,793,544,399
		<u>83,854,599,896</u>	<u>76,564,705,286</u>
Non-current liabilities			
Non-current trade payables and other payables	13	2,469,506,423	2,471,359,233
Long-term borrowings	14	250,000,000	-
Provisions	17	1,146,576,102	1,146,576,102
Other non-current financial liabilities	13	132,368,000	2,443,676,004
Other non-current liabilities	9	12,101,563,964	7,815,566,275
Deferred income tax liabilities		3,726,764,230	1,499,627,725
		<u>19,826,778,719</u>	<u>15,376,805,339</u>
Total liabilities		<u>103,681,378,615</u>	<u>91,941,510,625</u>
Equity attributable to owners of the Parent Company			
Capital stock	1,18	6,829,514,500	6,802,414,500
Capital surplus	18	187,503,871,403	181,567,459,738
Capital adjustments	19	(28,443,625,122)	1,836,512,734
Accumulated other comprehensive income		5,399,405,076	4,905,782,608
Retained earnings	19	365,534,156,540	320,200,376,666
		<u>536,823,322,397</u>	<u>515,312,546,246</u>
Non-controlling interest		<u>15,152,676,222</u>	<u>4,615,336,790</u>
Total equity		<u>551,975,998,619</u>	<u>519,927,883,036</u>
Total liabilities and equity		<u>₩ 655,657,377,234</u>	<u>₩ 611,869,393,661</u>

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

Daum Communications Corporation and Subsidiaries
Interim Consolidated Statements of Income
Three-Month and Nine-Month Periods Ended September 30, 2013 and 2012

	Notes	Period Ended September 30			
		2013		2012	
(in Korean won)		Three months	Nine months	Three months	Nine months
Revenues	6	₩ 129,736,551,997	₩ 387,148,378,219	₩ 109,466,919,853	₩ 336,211,578,342
Operating expenses	20	<u>109,441,757,973</u>	<u>320,412,042,592</u>	<u>87,221,070,297</u>	<u>256,390,512,376</u>
Operating profit		20,294,794,024	66,736,335,627	22,245,849,556	79,821,065,966
Other revenues	21	7,669,642,034	9,415,691,896	208,814,770	497,287,451
Other expenses	21	1,174,532,112	4,188,505,613	1,118,479,417	2,098,939,362
Finance income	22	4,868,057,714	8,247,966,144	5,931,220,744	10,376,780,900
Finance expenses	22	3,190,250,793	5,142,444,048	1,157,319,419	4,295,933,482
Loss on valuation of equity-method investments	10	<u>916,048,935</u>	<u>1,491,177,189</u>	<u>465,504,261</u>	<u>1,219,936,764</u>
Profit before income tax		27,551,661,932	73,577,866,817	25,644,581,973	83,080,324,709
Income tax expense	23	<u>3,946,891,261</u>	<u>13,048,450,732</u>	<u>6,441,608,711</u>	<u>20,307,337,740</u>
Profit for the period		<u>₩ 23,604,770,671</u>	<u>₩ 60,529,416,085</u>	<u>₩ 19,202,973,262</u>	<u>₩ 62,772,986,969</u>
Profit for the period attributable to:					
Equity holders of the Parent Company		23,367,350,297	60,324,140,064	19,280,884,574	62,763,795,147
Non-controlling interest		237,420,374	205,276,021	(77,911,312)	9,191,822
Earnings per share attributable for the period	25				
Basic earnings per share		₩ 1,744	₩ 4,470	₩ 1,435	₩ 4,681
Diluted earnings per share		1,744	4,469	1,433	4,679

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

Daum Communications Corporation and Subsidiaries
Interim Consolidated Statements of Comprehensive Income
Three-Month and Nine-Month Periods Ended September 30, 2013 and 2012

(in Korean won)	Notes	Period Ended September 30			
		2013		2012	
		Three months	Nine months	Three months	Nine months
Profit for the period	₩	23,604,770,671	₩ 60,529,416,085	₩ 19,202,973,262	₩ 62,772,986,969
Other comprehensive income (loss)					
Items to be subsequently reclassifiable to profit or loss		(659,438,126)	648,950,055	529,585,819	(1,436,658,660)
Gain (loss) on valuation of available-for-sale securities		(441,868,921)	628,866,262	607,500,000	(1,327,500,000)
Gain (loss) on overseas operation translation		(216,196,013)	11,064,464	(77,914,181)	(109,158,660)
Comprehensive income of equity method investee		(1,373,192)	9,019,329	-	-
Tax effect of items recognized directly in other comprehensive income		106,932,279	(152,185,635)	(147,015,000)	321,255,000
Total comprehensive income for the period	₩	<u>23,052,264,824</u>	<u>₩ 61,026,180,505</u>	<u>₩ 19,585,544,081</u>	<u>₩ 61,657,583,309</u>
Comprehensive income for the period attributable to					
Equity holders of the Parent Company	₩	22,865,202,030	₩ 60,817,762,532	₩ 19,684,479,712	₩ 61,683,097,162
Non-controlling interest		187,062,794	208,417,973	(98,935,631)	(25,513,853)
Total comprehensive income for the period	₩	<u>23,052,264,824</u>	<u>₩ 61,026,180,505</u>	<u>₩ 19,585,544,081</u>	<u>₩ 61,657,583,309</u>

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

Daum Communications Corporation and Subsidiaries
Interim Consolidated Statements of Changes in Equity
Nine-Month Periods Ended September 30, 2013 and 2012

(in Korean won)

Notes	Attributable to equity holders of the Parent Company						Non-controlling interest	Total equity
	Capital stock	Capital surplus	Capital adjustments	Accumulated other comprehensive income (loss)	Retained earnings	Total		
Balance at January 1, 2012	₩ 6,777,284,500	₩ 177,289,435,179	₩ (1,645,889,998)	₩ 8,574,879,624	₩ 265,512,018,288	₩ 456,507,727,593	₩ (258,581,799)	₩ 456,249,145,794
Comprehensive income								
Profit for the period	-	-	-	-	62,763,795,147	62,763,795,147	9,191,822	62,772,986,969
Loss on valuation of available-for-sale securities	-	-	-	(1,006,245,000)	-	(1,006,245,000)	-	(1,006,245,000)
Loss on overseas operation translation	-	-	-	(74,452,985)	-	(74,452,985)	(34,705,675)	(109,158,660)
Total comprehensive income	-	-	-	(1,080,697,985)	62,763,795,147	61,683,097,162	(25,513,853)	61,657,583,309
Transactions with equity holders of the Parent Company :								
Grant and exercise of stock options	23,230,000	4,749,346,322	(1,312,769,685)	-	-	3,459,806,637	-	3,459,806,637
Change in ownership interest over subsidiaries	-	(411,318,773)	-	-	-	(411,318,773)	(4,295,072,673)	(4,706,391,446)
Change in scope of subsidiaries (Acquisition of subsidiaries)	-	-	12,530,000,000	-	-	12,530,000,000	9,043,615,913	21,573,615,913
Cash dividends	24	-	-	-	(21,589,352,383)	(21,589,352,383)	-	(21,589,352,383)
Acquisition and disposal of treasury stock	-	687,228,400	(7,589,281,940)	-	-	(6,902,053,540)	-	(6,902,053,540)
Total transactions with equity holders of the Parent Company :	23,230,000	5,025,255,949	3,627,948,375	-	(21,589,352,383)	(12,912,918,059)	4,748,543,240	(8,164,374,819)
Balance at September 30, 2012	₩ 6,800,514,500	₩ 182,314,691,128	₩ 1,982,058,377	₩ 7,494,181,639	₩ 306,686,461,052	₩ 505,277,906,696	₩ 4,464,447,588	₩ 509,742,354,284
Balance at January 1, 2013	₩ 6,802,414,500	₩ 181,567,459,738	₩ 1,836,512,734	₩ 4,905,782,608	₩ 320,200,376,666	₩ 515,312,546,246	₩ 4,615,336,790	₩ 519,927,883,036
Comprehensive income								
Profit for the period	-	-	-	-	60,324,140,064	60,324,140,064	205,276,021	60,529,416,085
Gain on valuation of available-for-sale securities	-	-	-	476,680,627	-	476,680,627	-	476,680,627
Others	-	-	-	16,941,841	-	16,941,841	3,141,952	20,083,793
Total comprehensive income	-	-	-	493,622,468	60,324,140,064	60,817,762,532	208,417,973	61,026,180,505
Transactions with equity holders of the Parent Company :								
Grant and exercise of stock options	19	27,100,000	5,832,009,636	(1,632,256,636)	-	4,226,853,000	-	4,226,853,000
Acquisition of treasury stock	-	-	(28,647,881,220)	-	-	(28,647,881,220)	-	(28,647,881,220)
Change in ownership interest over subsidiaries	-	104,402,029	-	-	-	104,402,029	(143,798,029)	(39,396,000)
Change in scope of subsidiaries (Acquisition of subsidiaries)	-	-	-	-	-	-	10,472,719,488	10,472,719,488
Cash dividends	24	-	-	-	(14,990,360,190)	(14,990,360,190)	-	(14,990,360,190)
Total transactions with equity holders of the Parent Company :	27,100,000	5,936,411,665	(30,280,137,856)	-	(14,990,360,190)	(39,306,986,381)	10,328,921,459	(28,978,064,922)
Balance at September 30, 2013	₩ 6,829,514,500	₩ 187,503,871,403	₩ (28,443,625,122)	₩ 5,399,405,076	₩ 365,534,156,540	₩ 536,823,322,397	₩ 15,152,676,222	₩ 551,975,998,619

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

Daum Communications Corporation and Subsidiaries
Interim Consolidated Statements of Cash Flows
Nine-Month Periods Ended September 30, 2013 and 2012

(in Korean won)

	Notes	Period Ended September 30	
		2013	2012
Cash flows from operating activities			
Profit for the period		₩ 60,529,416,085	₩ 62,772,986,969
Adjustments	26	40,676,891,470	47,625,114,564
Changes in operating assets and liabilities	26	19,650,273,695	1,476,035,024
Interest received		5,485,947,175	7,260,092,325
Interest paid		(453,486)	(12,948,112)
Dividends received		11,175,000	52,060,000
Income tax paid		(22,304,827,428)	(24,769,386,316)
Net cash generated from operating activities		<u>104,048,422,511</u>	<u>94,403,954,454</u>
Cash flows from investing activities			
Decrease in short-term financial instruments		212,230,000,000	161,950,000,000
Disposal of derivative instruments		-	1,280,000,000
Decrease in leasehold deposits		457,575,264	2,290,176,301
Decrease in short-term loans receivable		200,000,000	449,000,000
Receipt of government grants		87,060,849	794,431,000
Increase due to other investing activities		466,716,401	758,874,136
Increase in short-term financial instruments		(240,602,462,235)	(128,876,567,480)
Increase in short-term loans receivable		(1,000,000,000)	-
Increase in long-term advance payment		(1,323,883,037)	(350,247,183)
Increase in long-term loans receivable		-	(1,168,000,000)
Increase in long-term loans to employees		(625,000,000)	-
Acquisition of long-term available-for-sale securities		(4,445,556,281)	(3,192,360,000)
Acquisition of property and equipment		(28,868,110,952)	(27,327,531,212)
Acquisition of intangible assets		(5,495,777,552)	(5,396,428,977)
Repayment of government grants		(770,847,830)	-
Acquisition of associates	10	(3,702,007,143)	(3,657,202,900)
Increase in leasehold deposits		(8,121,489,040)	(4,587,162,776)
Net cash flow from acquisition of subsidiaries		(1,901,767,571)	1,067,149,514
Decrease due to other investing activities		(598,489,977)	(170,000,000)
Net cash used in investing activities		<u>(84,014,039,104)</u>	<u>(6,135,869,577)</u>
Cash flows from financing activities			
Exercise of stock options		4,226,853,000	3,342,601,000
Increase in short-term borrowings		580,128,216	19,398,000
Increase in long-term borrowings		250,000,000	-
Repayments of short-term borrowings		(542,607,459)	(500,000,000)
Payments of dividends	24	(14,990,360,190)	(21,589,352,383)
Acquisition of treasury stock	19	(28,647,881,220)	(6,902,053,540)
Acquisition of non-controlling interest		-	(4,686,476,800)
Decrease due to other financing activities		(46,618,911)	(1,074,916,677)
Net cash used in financing activities		<u>(39,170,486,564)</u>	<u>(31,390,800,400)</u>
Exchange gain(loss) on cash and cash equivalents		<u>30,444,313</u>	<u>(31,328,367)</u>
Net increase(decrease) in cash and cash equivalents		(19,105,658,844)	56,845,956,110
Cash and cash equivalents at the beginning of period		<u>120,429,025,300</u>	<u>80,973,296,796</u>
Cash and cash equivalents at the end of period		<u>₩ 101,323,366,456</u>	<u>₩ 137,819,252,906</u>

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

Daum Communications Corporation and Subsidiaries

Notes to the Interim Consolidated Financial Statements

September 30, 2013 and 2012, and December 31, 2012

1. General Information

General information about Daum Communications Corporation (the "Parent Company") and its subsidiaries (collectively referred to "the Group") is as follows:

The Parent Company was incorporated on February 16, 1995, as a company specializing in developing computer programs and providing internet services. The Parent Company is engaged in the business of on-line advertising and transaction services.

On November 9, 1999, the Parent Company completed its initial public offering on the Korean Securities Dealers' Automated Quotations market.

The Parent Company's headquarters are located in Youngpyong-dong, Jeju City, in Jeju Province, Korea.

As of September 30, 2013, the Parent Company's paid in capital amounted to ₩ 6,830 million with 13,559,029 shares outstanding.

The Parent Company's principal shareholders as of September 30, 2013, are as follows:

	<u>Number of shares</u>	<u>Percentage of ownership (%)</u>
Lee, Jae-Woong and related parties	2,045,621	15.1
Others	11,183,408	82.5
	13,229,029	97.6
Treasury stock	330,000	2.4
	13,559,029	100.0

Daum Communications Corporation and Subsidiaries
Notes to the Interim Consolidated Financial Statements
September 30, 2013 and 2012, and December 31, 2012

Daum Communications Corporation's consolidated subsidiaries are as follows:

Subsidiaries	Capital stock (KRW in thousands)	Number of shares	Percentage of ownership(%)	Location	Year end
Daum Global Holdings	₩ 5,080,800	1,016,160	100.0	Korea	December 31
Daum Service	2,040,875	408,175	100.0	Korea	December 31
Pix View	240,000	48,000	100.0	Korea	December 31
Intomos	311,955	62,391	100.0	Korea	December 31
Daum LMC	9,668,805	1,788,453	97.9	Korea	December 31
Daum Finger Touch	1,060,000	212,000	100.0	Korea	December 31
Digital View Operation ¹	10,000	2,000	100.0	Korea	December 31
OnNet ²	3,430,951	6,556,395	86.1	Korea	December 31
OnNet USA Inc. ³	1,955	3,366,301	86.2	United States	December 31
OnNet Europe GmbH. ³	1,503,248	2	100.0	Germany	December 31
OnNet Inc. ³	764,278	1,200	100.0	Japan	December 31
OnNet China Co., Ltd. ³	552,880	1	100.0	China	December 31
Dialoid	58,190	11,638	100.0	Korea	December 31
TNK Factory ⁴	408,200	416,400	51.0	Korea	December 31
Buzzpia ⁵	251,520	27,234	54.1	Korea	December 31

¹ As a subsidiary of Daum Finger Touch, the number of shares and the percentage of ownership represent Daum Finger Touch's ownership.

² During the nine-month period ended September 30, 2013, the Group additionally acquired 13,132 shares (0.2% ownership) of OnNet for ₩ 39 million. As a result, the percentage of ownership has increased to 86.1%.

³ As subsidiaries of OnNet, the number of shares and the percentage of ownership represent OnNet's ownership.

⁴ During the nine-month period ended September 30, 2013, the Group newly acquired 416,400 shares (51.0% ownership) of TNK Factory (Note 28).

⁵ During the nine-month period ended September 30, 2013, the Group newly acquired 27,234 shares (54.1% ownership) of Buzzpia (Note 28).

Daum Communications Corporation and Subsidiaries
Notes to the Interim Consolidated Financial Statements
September 30, 2013 and 2012, and December 31, 2012

A summary of financial information on subsidiaries as of September 30, 2013 and 2012, and for the three-month and nine-month periods ended September 30, 2013 and 2012, is as follows:

	2013									
	At September 30			Three months			Nine months			
	Assets	Liabilities	Capital	Revenue	Net income (loss)	Comprehensive income (loss)	Revenue	Net income (loss)	Comprehensive income (loss)	
(in thousands of Korean won)										
Daum Global Holdings	₩ 59,131,082	₩ 6,521,856	₩ 52,609,226	₩ -	₩ 140,959	₩ (336,581)	₩ -	₩ (758,457)	₩ (297,972)	
Daum Service	8,422,521	2,960,211	5,462,310	4,661,030	386,838	386,838	13,178,393	959,573	959,573	
Pix View	1,304,905	2,113,986	(809,081)	538,281	18,955	18,955	1,638,696	94,165	94,165	
Intomos	182,822	129,029	53,793	91,000	77,806	77,806	128,200	58,271	58,271	
Daum LMC	104,473	12,333	92,140	-	(12,127)	(12,127)	15,488	(993,188)	(993,188)	
Daum Finger Touch	3,577,004	7,712,715	(4,135,711)	527,461	(322,481)	(322,481)	1,969,020	(604,056)	(604,056)	
Digital View Operation	62,454	102,916	(40,462)	110,485	2,410	2,410	329,088	5,654	5,654	
OnNet	23,469,809	5,971,515	17,498,294	2,608,873	381,085	381,085	8,369,410	1,451,841	1,451,841	
OnNet USA Inc.	3,538,988	1,016,176	2,522,812	1,231,407	63,821	(107,140)	4,024,621	(55,213)	(42,904)	
OnNet Europe GmbH.	2,041,725	1,285,206	756,519	1,480,775	(155,597)	(186,101)	4,914,268	121,619	136,547	
OnNet Inc.	572,256	426,097	146,159	556,380	(83,030)	(94,379)	1,857,611	(154,310)	(187,835)	
OnNet China Co., Ltd.	234,622	229,678	4,944	12,998	(117,266)	(120,648)	51,608	(412,962)	(395,609)	
Dialoid	104,118	27,627	76,491	-	(30,324)	(30,324)	270,000	165,878	165,878	
TNK Factory	7,886,118	2,187,354	5,698,764	3,570,063	661,477	661,477	8,658,968	1,723,269	1,723,269	
Buzzpia	7,032,401	85,564	6,946,837	-	(556,434)	(556,434)	-	(1,179,819)	(1,179,819)	
Total	₩ 117,665,298	₩ 30,782,263	₩ 86,883,035	₩ 15,388,753	₩ 456,092	₩ (237,644)	₩ 45,405,371	₩ 422,265	₩ 893,815	

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	2012								
	At September 30			Three months			Nine months		
	Assets	Liabilities	Capital	Revenue	Net income (loss)	Comprehensive income (loss)	Revenue	Net income (loss)	Comprehensive income (loss)
(in thousands of Korean won)									
Daum Global Holdings	₩ 70,156,022	₩ 9,325,820	₩ 60,830,202	₩ -	₩ (58,115)	₩ 402,370	₩ -	₩ (695,547)	₩ (1,701,792)
Daum Service	6,595,586	1,906,261	4,689,325	3,886,397	344,446	344,446	12,050,705	997,377	997,377
Pix View	1,259,644	979,072	280,572	972,586	199,682	199,682	2,831,942	596,736	596,736
Intomos	146,967	109,075	37,892	80,870	(58,940)	(58,940)	368,022	(78,231)	(78,231)
Daum LMC	2,319,423	458,229	1,861,194	567,114	(723,566)	(723,566)	1,244,496	(2,999,620)	(2,999,620)
Daum Finger Touch	6,070,067	9,249,900	(3,179,833)	536,120	(522,881)	(522,881)	1,646,586	(1,019,637)	(1,019,637)
OnNet	20,681,742	5,526,357	15,155,385	2,996,368	607,091	607,091	10,321,926	2,099,744	2,099,744
OnNet USA Inc.	3,608,811	932,414	2,676,397	1,329,128	(117,029)	(201,811)	4,559,963	285,068	205,668
OnNet Europe GmbH.	1,629,217	769,699	859,518	1,627,411	6,966	20,292	5,734,611	557,873	547,766
OnNet Inc.	913,613	356,695	556,918	590,745	(114,975)	(121,432)	2,202,681	(75,856)	(95,507)
Total	₩ 113,381,092	₩ 29,613,522	₩ 83,767,570	₩ 12,586,739	₩ (437,321)	₩ (54,749)	₩ 40,960,932	₩ (332,093)	₩ (1,447,496)

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2. Significant Accounting Policies

2.1 Basis of Preparation

The Group's interim consolidated financial statements for the three-month and nine-month periods ended September 30, 2013, have been prepared in accordance with Korean IFRS 1034, *Interim Financial Reporting*. These interim financial statements have been prepared in accordance with Korean IFRS which is effective as of September 30, 2013.

The Group maintains its accounting records in Korean won and prepares statutory financial statements in the Korean language (Hangul) in conformity with Korean IFRS. The accompanying consolidated financial statements have been condensed, restructured and translated into English from the Korean language financial statements.

Certain information attached to the Korean language financial statements, but not required for a fair presentation of the Group's financial position, financial performance or cash flows, is not presented in the accompanying consolidated financial statements.

The Group newly applied the following amended and enacted standards for the annual period beginning on January 1, 2013:

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

The amendment requires entities to group items presented in other comprehensive income based on whether they are potentially reclassifiable to profit or loss subsequently. The Group applies the amendment retroactively and the amendment does not have an impact on total comprehensive income or loss.

- Amendment to Korean IFRS 1019, *Employee Benefits*

The amendment requires entities to immediately recognize all actuarial gains and losses incurred in other comprehensive income or loss. All past service costs incurred are immediately recognized in accordance with the change of the plan, and the previous separate calculation of the interest cost and the expected returns on plan assets has been revised to calculate net interest expense(income) by applying the discount rate used in the defined benefit obligation measurement in the net defined benefit liabilities/assets). There is no material impact of the application of this amendment on the consolidated financial statements.

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

Korean IFRS 1110, *Consolidated Financial Statements*, introduces a single control concept and provides a specific guidance for the control. The adoption of this standard does not have an impact on the consolidation scope in the consolidated financial statements.

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

Korean IFRS 1112, *Disclosure of Interests in Other Entities*, provides disclosure requirements for all types of equity investments in other entities including subsidiaries, associates, joint ventures and unconsolidated structured entities.

- Amendment to Korean IFRS 1027, *Separate Financial Statements*

Korean IFRS 1027, *Separate Financial Statements*, contains accounting treatments and requirements for investments in subsidiaries, associates and joint ventures relating only to the separate financial statements of the Parent Company.

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

Korean IFRS 1113, *Fair Value Measurement*, provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements. The Group has applied this Standard prospectively in accordance with the transition of Korean IFRS 1113 and there is no material impact of the application of this standard on the consolidated financial statements.

New standards, amendments and interpretations issued but not effective for the financial year beginning January 1, 2013, and not early adopted by the Group are as follows:

- Amendment to Korean IFRS 1110, *Consolidated financial statements*

Amendment to Korean IFRS 1110, *Consolidated Financial Statements*, requires an investment entity that meets specified conditions to measure its investments in subsidiaries at fair value through profit or loss, and need not present consolidated financial statements. The amendment does not apply for a parent of an investment entity if the parent itself is not an investment entity. This amendment will be effective for annual periods beginning on or after January 1, 2014, with early adoption permitted. The Group expects that the application of this amendment would not have an impact on its consolidated financial statements.

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- Amendment to Korean IFRS 1032, *Financial Instruments: Presentation*

Amendment to Korean IFRS 1032, *Financial Instruments: Presentation*, clarifies the facts that; a right to offset must not be contingent on a future event and legally enforceable in all of circumstances; and if an entity can settle amounts in a manner such that outcome is, in effect, equivalent to net settlement, the entity will meet the net settlement criterion. This amendment will be effective for annual periods beginning on or after January 1, 2014, and the Group expects that the application of this amendment would not have a material impact on the separate financial statements.

- Amendment to Korean IFRS 1039, *Financial Instruments: Recognition and measurement*

Amendment to Korean IFRS 1039, *Financial Instruments: Recognition and Measurement*, allows the continuation of hedge accounting for a derivative that has been designated as a hedging instrument in certain circumstances in which novation of a hedging instrument to a central counterparty (CCP) as a consequence of laws or regulations. This amendment will be effective for annual periods beginning on or after January 1, 2014, with early adoption permitted. The Group expects that the application of this amendment would not have a material impact on the separate financial statements.

2.2 Consolidation

(a) Subsidiaries

Subsidiaries are all entities including special purpose entities over which the Parent 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 Parent Company controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Parent 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.

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The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of the acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the consolidated statement of income.

(b) Non-controlling interests

The Group shall attribute the profit or loss and each component of other comprehensive income to the owners of the parent and to the non-controlling interests. The Group shall also attribute total comprehensive income to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Changes in a parent's ownership interest in a subsidiary that do not result in the parent losing control of the subsidiary are equity transactions.

(c) 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 and are initially recognized at cost. The Group's investment in associates includes goodwill identified at acquisition, net of any accumulated impairment loss.

The Group's share of its associates' post-acquisition profits or losses is recognized in the statement of income, and its share of post-acquisition movements in reserves is recognized in other comprehensive income. The cumulative post-acquisition movements are adjusted against 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 obligations or made payments on behalf of the associate.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

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 making

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strategic decisions on resource allocation and performance assessment of the operating segments, has been identified as the Group's Management Committee.

2.4 Foreign Currency Translation

(a) Functional and presentation currency

Items included in the consolidated financial statements of the Group are measured using the currency of the primary economic environment in which an entity operates ('the functional currency'). The consolidated financial statements are presented in Korean won, which is the Daum Communications Corporation's functional 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 remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the exchange rate at the end of the reporting period of monetary assets denominated in foreign currencies are recognized in the statement of income, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale financial assets are analyzed between translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortized cost are recognized in profit or loss, and other changes in carrying amount are recognized in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognized in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available for sale are included in other comprehensive income.

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(c) Translation into the presentation currency

The results and financial position of all Group entities that have a functional currency 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;
- all resulting exchange differences are recognized in other comprehensive income.

2.5. Significant Accounting Policies

Significant accounting policies and methods adopted in the preparation of the interim consolidated financial statements are consistent with the accounting policies and method adopted for the annual consolidated financial statements of the prior period, except for changes due to the application of amendment and enactments of standards described in Note 2.1 and the one described below.

- Income Tax Expense

Income tax expense for the interim period is recognized based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate is applied to the pre-tax income for the interim period.

3. Critical Accounting Estimates and Assumptions

The preparation of the interim financial statements requires management to make estimates and assumptions that affect amounts reported therein. 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 resulting accounting estimates will, by definition, seldom equal the related actual results.

The critical accounting estimates and assumptions applied in the preparation of interim financial consolidated statements are the same as the consolidated financial statements of the prior year.

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4. Financial Risk Management

The Group's activities expose it to a variety of financial risks: market risk (including currency 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 Group's financial performance. There is no significant change in the Group's risk management policies after December 31, 2012.

5. Fair Value Estimation

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

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- 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 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

The following table presents the Group's financial assets that are measured at fair value as of September 30, 2013 and December 31, 2012:

(in thousands of Korean won)

	September 30, 2013			
	Level 1	Level 2	Level 3	Total
Long-term available-for-sale securities ¹	₩ 11,776,095	₩ -	₩ 12,840,291	₩ 24,616,386
Derivative instruments	-	-	775,229	775,229
	<u>₩ 11,776,095</u>	<u>₩ -</u>	<u>₩ 13,615,520</u>	<u>₩ 25,391,615</u>

¹ As the long-term available-for-sale securities of ₩ 3,362 million do not have a quoted market price in an active market and their fair value cannot be measured reliably, they are measured at cost (Note 7).

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(in thousands of Korean won)

	December 31, 2012			
	Level 1	Level 2	Level 3	Total
Long-term available-for-sale securities ¹	₩ 9,180,000	₩ -	₩ 12,005,692	₩ 21,185,692
Derivative instruments	-	-	5,338,214	5,338,214
	₩ 9,180,000	₩ -	₩ 17,343,906	₩ 26,523,906

¹ As the long-term available-for-sale securities of ₩ 1,724 million do not have a quoted market price in an active market and their fair value cannot be measured reliably, they are measured at cost (Note 7).

There are no transfers between levels of the fair value hierarchy as of September 30, 2013 and December 31, 2012.

Valuation Technique and Inputs

The fair value of financial instruments traded in active markets is based on quoted market prices at the statement of financial position date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, a company 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. Instruments included in Level 1 consist primarily of KOSPI and KOSDAQ equity investments classified as trading securities or available for sale.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximize 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 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.

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As of September 30, 2013, valuation technique and the inputs used for recurring and non-recurring fair value measurements and disclosed fair value that are categorized within Level 2 and Level 3 of the fair value hierarchy are as follows:

(in thousands of Korean won)

	Fair value	Level	Valuation technique	Inputs of level 3
Long-term available-for-sale securities				
Kyobo Book Centre	₩ 6,732,204	3	Calculated by estimating stock dispersion(using DCF model, IMV model)	Estimated cash flow, discount rate / stock index
TransLink Capital Partners II, L.P.	4,408,887	3	Net assets value model	-
Mediacreate	1,699,200	3	Net assets value model	-
	<u>12,840,291</u>			
Derivative financial assets				
Stock warrants(Neowiz games)	557,740	3	Monte Carlo model	Volatility, credit spread
Right for redemption(NBT Partners)	217,490	3	Binominal tree model	Probability of risk neutral, increase in risk neutral, decrease in risk neutral
	<u>775,230</u>			
	<u>₩ 13,615,521</u>			

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6. Segment Information

The management is responsible for making strategic decisions based on its review of the Group's internal reporting. The management has determined the operating segments based on these reports.

The management reviews operating profit of each operating segment in order to assess performance and make decisions about resources to be allocated to the segment. The Group distinguishes its operating segments into five: search advertising, display advertising, transaction services, games, and others, to describe more clearly its operating segments to investors.

Revenue information by segment for the nine-month periods ended September 30, 2013 and 2012, is as follows:

<i>(in thousands of Korean won)</i>	2013						
	Search advertising	Display advertising	Transaction services	Games	Others	Consolidation adjustments	After adjustments
Total segment revenue	₩ 193,652,352	₩ 163,812,422	₩ 4,167,867	₩ 28,613,743	₩ 17,538,530	₩ (20,636,536)	₩ 387,148,378
Inter-segment revenue	(249)	(304,972)	(121,858)	(3,203,445)	(17,006,012)	20,636,536	-
Segment revenue	₩ 193,652,103	₩ 163,507,450	₩ 4,046,009	₩ 25,410,298	₩ 532,518	₩ -	₩ 387,148,378

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<i>(in thousands of Korean won)</i>	2012						
	Search advertising	Display advertising	Transaction services	Games	Others	Consolidation adjustments	After adjustments
Total segment revenue	₩ 138,243,312	₩ 166,758,674	₩ 6,210,927	₩ 28,900,206	₩ 18,141,750	₩ (22,043,291)	₩ 336,211,578
Inter-segment revenue	-	(2,000)	(175,002)	(4,019,895)	(17,846,394)	22,043,291	-
Segment revenue	₩ 138,243,312	₩ 166,756,674	₩ 6,035,925	₩ 24,880,311	₩ 295,356	₩ -	₩ 336,211,578

Due to the inherent nature of the Group's businesses, operating expenses and profit for the period are not presented by segment.

All of the Group's revenues are service revenues, and there is no external single customer contributing more than 10% of the total revenues for the nine-month periods ended September 30, 2013 and 2012.

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Revenue information by geographical for the nine-month periods ended September 30, 2013 and 2012, is as follows:

(in thousands of Korean won)

	2013				
	Local	United States	Asia	Europe	Total
Total segment revenue	₩ 396,621,805	₩ 4,024,621	₩ 1,909,219	₩ 4,914,268	₩ 407,469,913
Inter-segment revenue	(20,269,607)	-	(51,928)	-	(20,321,535)
Segment revenue	<u>₩ 376,352,198</u>	<u>₩ 4,024,621</u>	<u>₩ 1,857,291</u>	<u>₩ 4,914,268</u>	<u>₩ 387,148,378</u>

(in thousands of Korean won)

	2012				
	Local	United States	Asia	Europe	Total
Total segment revenue	₩ 345,757,614	₩ 4,559,963	₩ 2,202,681	₩ 5,734,611	₩ 358,254,869
Inter-segment revenue	(22,043,291)	-	-	-	(22,043,291)
Segment revenue	<u>₩ 323,714,323</u>	<u>₩ 4,559,963</u>	<u>₩ 2,202,681</u>	<u>₩ 5,734,611</u>	<u>₩ 336,211,578</u>

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7. Long-term Available-for-sale Securities

Long-term available-for-sale securities as of September 30, 2013 and December 31, 2012, are as follows:

(in thousands of Korean won)

	September 30, 2013			December 31, 2012	
	Acquisition Cost	Fair Value	Book Value	Book Value	
Equity investments					
ESTsoft	₩ 5,017,500	₩ 9,787,500	₩ 9,787,500	₩	9,180,000
Kyobo Book Centre	5,295,000	6,732,204	6,732,204		6,732,204
Daum Soft ¹	326,539	326,539	326,539		326,539
Mediacreate	1,500,000	1,699,200	1,699,200		1,699,200
2010 KIF–Stonebridge IT Venture Fund ¹	1,650,000	1,650,000	1,650,000		1,250,000
CareerNet	199,093	-	-		-
Digital Community	12,566	-	-		-
M2COMM ¹	147,000	147,000	147,000		147,000
TransLink Capital Partners II, L.P.	3,417,313	4,408,887	4,408,887		3,574,287
Collaborative Fund II, L.P. ¹	551,160	551,160	551,160		-
Altos Korea opportunity Fund ¹	343,740	343,740	343,740		-
Strong Seed Fund I ¹	343,740	343,740	343,740		-
	<u>18,803,651</u>	<u>25,989,970</u>	<u>25,989,970</u>		<u>22,909,230</u>
Debt securities					
20-year government bond	1,972,316	1,988,595	1,988,595		-
	<u>₩ 20,775,967</u>	<u>₩ 27,978,565</u>	<u>₩ 27,978,565</u>	<u>₩</u>	<u>22,909,230</u>

¹ As the above-mentioned equities do not have a quoted market price in an active market and their fair value cannot be measured reliably, they are measured at cost. The Group does not have any plans to dispose of the equities in the near future. These instruments will be measured at fair value when the Group can develop a reliable estimate of the fair value (Note 5).

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8. Other Short-term and Long-term Receivables

Other short-term and long-term receivables as of September 30, 2013 and December 31, 2012, are as follows:

<i>(in thousands of Korean won)</i>	<u>September 30, 2013</u>	<u>December 31, 2012</u>
Other short-term receivables		
Non-trade receivables	₩ 11,412,214	₩ 9,721,317
Accrued revenues	2,763,720	1,401,493
Short-term loans receivable	1,000,000	200,000
Short-term loans to employees	160,000	92,702
	<u>15,335,934</u>	<u>11,415,512</u>
Other long-term receivables		
Long-term non-trade receivables ¹	21,538,639	21,392,418
Long-term loans to employees	2,061,333	1,400,083
Deposits	25,415,624	17,625,145
Others	15,640,904	14,565,273
	<u>64,656,500</u>	<u>54,982,919</u>
	<u>₩ 79,992,434</u>	<u>₩ 66,398,431</u>

¹ Long-term non-trade receivables arising from the disposal of Lycos Inc. which was a subsidiary of the Group (Note 27).

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9. Other Assets and Liabilities

Other assets as of September 30, 2013 and December 31, 2012, are as follows:

(in thousands of Korean won)

	<u>September 30, 2013</u>	<u>December 31, 2012</u>
Other current assets		
Advance payments	₩ 3,165,889	₩ 3,060,222
Prepaid expenses	8,619,718	6,872,730
Others	50,503	69,634
	<u>11,836,110</u>	<u>10,002,586</u>
Other non-current assets		
Long-term advance payments	2,195,356	1,846,358
Other investments	100,240	106,186
	<u>2,295,596</u>	<u>1,952,544</u>
	<u>₩ 14,131,706</u>	<u>₩ 11,955,130</u>

Other liabilities as of September 30, 2013 and December 31, 2012, are as follows:

Other current liabilities		
Advances from customers	₩ 17,630,336	₩ 16,293,055
Unearned revenues	12,766,212	10,654,554
Withholdings	1,487,676	1,328,004
Value added tax withheld	5,689,240	5,240,753
Government grants	480,340	277,178
	<u>38,053,804</u>	<u>33,793,544</u>
Other non-current liabilities		
Net defined benefit liabilities(Note 15)	5,941,538	2,364,563
Other long-term employee benefits liabilities(Note 16)	6,160,026	5,451,003
	<u>12,101,564</u>	<u>7,815,566</u>
	<u>₩ 50,155,368</u>	<u>₩ 41,609,110</u>

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10. Investments in Associates

The Group's investments in associates as of September 30, 2013, are as follows:

Classification	Name	Number of shares	Percentage of ownership(%)	Location	Year end
Associate	Daum TV	125,000	38.5	Korea	December 31
Associate	Flowgamez	161,500	34.0	Korea	December 31
Associate	Add2paper ¹	37,037	19.1	Korea	December 31
Associate	Playplus Co., Ltd. ¹	1,491	19.9	Korea	December 31
Associate	DMS Network, Inc. ¹	2,250,000	17.5	United States	December 31
Associate	Nine Flava	248	20.0	Korea	December 31
Associate	NBT Partners ¹	3,888	12.5	Korea	December 31

¹ The Group has less than 20% ownership, but it is classified as an associate. As the Group holds voting power through the board of directors, it is considered as having significant influence.

The changes in the carrying amounts of investments in associates for the nine-month periods ended September 30, 2013 and 2012, are as follows:

(in thousands of Korean won)

	2013							At September 30
	At January 1	Changes in scope of subsidiaries	Acquisition	Disposal and impairment	Loss on valuation of equity-method investments	Others		
Daum TV	₩ 1,276,737	₩ -	₩ -	₩ -	₩ (271,005)	₩ -	₩ 1,005,732	
Flowgamez	1,527,114	-	-	(1,527,114)	-	-	-	
Add2paper	265,160	-	-	-	(41,396)	170,459	394,223	
Playplus Co., Ltd.	1,239,787	-	-	-	(123,826)	-	1,115,961	
DMS Network, Inc.	2,212,809	-	-	-	(143,367)	(37,345)	2,032,097	
Nine Flava	1,000,000	-	-	-	(152,997)	-	847,003	
Buzzpia ¹	-	(1,591,212)	1,920,015	-	(328,803)	-	-	
NBT Partners ²	-	-	1,781,992	-	(429,783)	-	1,352,209	
	₩ 7,521,607	₩ (1,591,212)	₩ 3,702,007	₩ (1,527,114)	₩ (1,491,177)	₩ 133,114	₩ 6,747,225	

¹ During the nine-month period ended September 30, 2013, the Group initially acquired 15,390 shares (40% ownership) and subsequently acquired 11,844 shares (14.1% ownership) of Buzzpia. As a result, the percentage of ownership increased to 54.1% and it was reclassified to a subsidiary (Note 28).

² During the nine-month period ended September 30, 2013, the Group newly acquired 3,888 shares (12.5% ownership) of NBT Partners.

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	2012					
	At January 1	Changes in scope of subsidiaries	Acquisition	Disposal and impairment	Loss on valuation of equity-method investments	At September 30
Daum TV	₩ 2,375,510	₩ -	₩ -	₩ -	₩ (937,298)	₩ 1,438,212
Flowgamez	1,905,700	-	-	-	(209,843)	1,695,857
Add2paper	300,000	-	-	-	(35,927)	264,073
OnNet ¹	10,219,174	(10,219,174)	-	-	-	-
Ncrew Entertainment	-	192,544	-	-	-	192,544
Playplus Co., Ltd. ²	-	-	1,300,003	-	(36,869)	1,263,134
DMS Network, Inc. ³	-	-	2,357,200	-	-	2,357,200
GamesCampus Co., Ltd.	-	-	-	-	-	-
	<u>₩ 14,800,384</u>	<u>₩ (10,026,630)</u>	<u>₩ 3,657,203</u>	<u>₩ -</u>	<u>₩ (1,219,937)</u>	<u>₩ 7,211,020</u>

¹ During the nine-month period ended September 30, 2012, the Group additionally acquired 3,703,282 shares (43% ownership) of OnNet. As a result, the percentage of ownership increased to 86% and it was reclassified from an associate to a subsidiary.

² During the nine-month period ended September 30, 2012, the Group newly acquired 1,491 shares (19.9% ownership) of Playplus Co., Ltd.

³ During the nine-month period ended September 30, 2012, the Group newly acquired 2,250,000 shares (20% ownership) of DMS Network, Inc.

Impairment of investments in associates resulted from the decline of expected cashflows. After adjustments, the carrying value of investments in associates exceeded the recoverable value by ₩ 1,527 million for the nine-month period ended September 30, 2013, and the amount exceeding the recoverable value is recognized as other expense in the consolidated statement of income (Note 21).

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11. Property and Equipment

Changes in carrying amounts of property and equipment for the nine-month periods ended September 30, 2013 and 2012, are as follows:

(in thousands of Korean won)

	2013							
	At January 1	Changes in scope of subsidiaries	Acquisition	Disposal	Depreciation	Transfer	Others ¹	At September 30
Acquisition costs								
Land	₩ 14,590,914	₩ -	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 14,590,914
Buildings	34,128,722	-	-	-	-	-	-	34,128,722
Structures	194,843	-	4,110	-	-	-	-	198,953
Machinery and equipment	141,172,567	29,141	17,820,683	(968,422)	-	-	-	158,053,969
Vehicles	893,909	46,204	48,872	(30,160)	-	-	122	958,947
Furniture and fixtures	20,780,445	64,055	3,338,724	(1,440,823)	-	-	(20,267)	22,722,134
Construction-in-progress	640,339	-	6,094,445	(18,326)	-	-	-	6,716,458
	<u>212,401,739</u>	<u>139,400</u>	<u>27,306,834</u>	<u>(2,457,731)</u>	<u>-</u>	<u>-</u>	<u>(20,145)</u>	<u>237,370,097</u>
Accumulated depreciation								
Buildings	(2,151,557)	-	-	-	(639,914)	-	-	(2,791,471)
Structures	(33,970)	-	-	-	(7,358)	-	-	(41,328)
Machinery and equipment	(86,701,274)	(4,810)	-	967,834	(14,800,736)	-	-	(100,538,986)
Vehicles	(390,625)	(5,944)	-	26,849	(116,200)	-	65	(485,855)
Furniture and fixtures	(11,534,871)	(9,063)	-	1,058,147	(2,529,198)	(51,623)	5,848	(13,060,760)
	<u>(100,812,297)</u>	<u>(19,817)</u>	<u>-</u>	<u>2,052,830</u>	<u>(18,093,406)</u>	<u>(51,623)</u>	<u>5,913</u>	<u>(116,918,400)</u>
Government grants								
Land	(6,893,580)	-	-	-	-	1,290,000	-	(5,603,580)
Buildings	(3,179,347)	-	-	-	49,899	700,311	-	(2,429,137)
Machinery and equipment	(263,041)	-	-	-	50,667	(87,061)	-	(299,435)
Furniture and fixtures	(29,092)	-	-	-	9,106	(4,842)	-	(24,828)
	<u>(10,365,060)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>109,672</u>	<u>1,898,408</u>	<u>-</u>	<u>(8,356,980)</u>
	<u>₩ 101,224,382</u>	<u>₩ 119,583</u>	<u>₩ 27,306,834</u>	<u>₩ (404,901)</u>	<u>₩ (17,983,734)</u>	<u>₩ 1,846,785</u>	<u>₩ (14,232)</u>	<u>₩ 112,094,717</u>

¹ Others include changes in carrying amounts due to foreign exchange rate fluctuation.

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	2012							
	At January 1	Changes in scope of subsidiaries	Acquisition	Disposal	Depreciation	Transfer	Others ¹	At September 30
Acquisition costs								
Land	₩ 14,590,914	₩ -	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 14,590,914
Buildings	9,572,808	-	8,431,882	-	-	16,124,032	-	34,128,722
Structures	154,933	-	17,000	-	-	17,083	-	189,016
Machinery and equipment	144,438,573	-	14,106,543	(10,181,370)	-	38,919	-	148,402,665
Vehicles	597,387	70,700	224,682	(19,350)	-	-	(933)	872,486
Furniture and fixtures	14,581,844	2,468,594	4,044,127	(1,112,841)	-	7,307	(23,121)	19,965,910
Construction-in-progress	16,273,631	-	503,298	-	-	(16,187,341)	-	589,588
	<u>200,210,090</u>	<u>2,539,294</u>	<u>27,327,532</u>	<u>(11,313,561)</u>	<u>-</u>	<u>-</u>	<u>(24,054)</u>	<u>218,739,301</u>
Accumulated depreciation								
Buildings	(1,370,412)	-	-	-	(567,841)	-	-	(1,938,253)
Structures	(24,849)	-	-	-	(6,734)	-	-	(31,583)
Machinery and equipment	(93,303,546)	-	-	10,138,852	(14,214,485)	-	-	(97,379,179)
Vehicles	(244,723)	(39,281)	-	19,348	(90,064)	-	331	(354,389)
Furniture and fixtures	(8,431,039)	(1,128,222)	-	775,398	(2,202,080)	-	8,938	(10,977,005)
	<u>(103,374,569)</u>	<u>(1,167,503)</u>	<u>-</u>	<u>10,933,598</u>	<u>(17,081,204)</u>	<u>-</u>	<u>9,269</u>	<u>(110,680,409)</u>
Government grants								
Land	(6,893,580)	-	-	-	-	-	-	(6,893,580)
Buildings	(681,667)	-	-	-	57,946	(2,576,730)	-	(3,200,451)
Machinery and equipment	(118,869)	-	(30,134)	-	26,959	(43,294)	-	(165,338)
Furniture and fixtures	(15,376)	-	-	-	4,694	-	-	(10,682)
	<u>(7,709,492)</u>	<u>-</u>	<u>(30,134)</u>	<u>-</u>	<u>89,599</u>	<u>(2,620,024)</u>	<u>-</u>	<u>(10,270,051)</u>
	<u>₩ 89,126,029</u>	<u>₩ 1,371,791</u>	<u>₩ 27,297,398</u>	<u>₩ (379,963)</u>	<u>₩ (16,991,605)</u>	<u>₩ (2,620,024)</u>	<u>₩ (14,785)</u>	<u>₩ 97,788,841</u>

¹ Others include changes in carrying amounts due to foreign exchange rate fluctuation.

Depreciation expenses and loss on retirement of property and equipment are recorded in operating expenses and other expenses in the consolidated statement of income, respectively (Notes 20 and 21).

As of September 30, 2013, the land with a book value of ₩ 11,351 million is pledged as guarantee for contract fulfillment (Note 27).

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12. Intangible Assets

Changes in carrying amounts of intangible assets for the nine-month periods ended September 30, 2013 and 2012, are as follows:

(in thousands
of Korean won)

	2013							At September 30
	At January 1	Changes in scope of subsidiaries	Acquisition	Disposal and impairment ¹	Amortization	Transfer ²	Others ³	
Acquisition costs								
Goodwill	₩ 27,266,185	₩ 9,874,284	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 37,140,469
Industrial rights	8,209,218	4,063	813,275	(526,616)	-	65,368	(2,632)	8,562,676
Development costs	19,014,472	9,185,150	1,573,928	-	-	187,723	-	29,961,273
Membership rights	2,420,795	-	1,022,001	-	-	-	-	3,442,796
Others	77,029,657	3,812,262	2,086,574	(25,958)	-	1,001,619	-	83,904,154
	<u>133,940,327</u>	<u>22,875,759</u>	<u>5,495,778</u>	<u>(552,574)</u>	<u>-</u>	<u>1,254,710</u>	<u>(2,632)</u>	<u>163,011,368</u>
Accumulated amortization and impairment losses								
Goodwill	(6,408,520)	-	-	-	-	-	-	(6,408,520)
Industrial rights	(2,331,003)	(34)	-	385,302	(1,223,496)	-	4,270	(3,164,961)
Development costs	(5,479,889)	-	-	-	(1,312,715)	-	-	(6,792,604)
Membership rights	(1,247,077)	-	-	-	-	-	-	(1,247,077)
Others	(44,232,339)	(410)	-	(96,555)	(8,493,994)	(136,100)	-	(52,959,398)
	<u>(59,698,828)</u>	<u>(444)</u>	<u>-</u>	<u>288,747</u>	<u>(11,030,205)</u>	<u>(136,100)</u>	<u>4,270</u>	<u>(70,572,560)</u>
Government grants								
Others	(378,776)	-	-	-	103,974	-	-	(274,802)
	<u>₩ 73,862,723</u>	<u>₩ 22,875,315</u>	<u>₩ 5,495,778</u>	<u>₩ (263,827)</u>	<u>₩ (10,926,231)</u>	<u>₩ 1,118,610</u>	<u>₩ 1,638</u>	<u>₩ 92,164,006</u>

¹ The Group recognized impairment loss of ₩ 141 million and ₩ 122 million on industrial right and other intangible assets, respectively, for the nine-month period ended September 30, 2013.

² Part of short-term and long-term advance payments were reclassified as industrial rights and other intangible assets.

³ Others include changes in carrying amounts due to foreign exchange rate fluctuation.

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	2012							
	At January 1	Changes in scope of subsidiaries	Acquisition	Disposal and impairment	Amortization	Transfer ¹	Others ²	At September 30
Acquisition costs								
Goodwill	₩ 12,138,087	₩ 9,775,735	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 21,913,822
Industrial rights	1,827,261	6,140,656	586,956	(568,069)	-	80,911	(61,786)	8,005,929
Development costs	4,069,169	13,039,573	1,017,513	-	-	133,701	-	18,259,956
Membership rights	3,560,456	295,500	84,839	-	-	-	-	3,940,795
Others	61,988,781	3,460,469	3,707,121	-	-	3,473,773	-	72,630,144
	<u>83,583,754</u>	<u>32,711,933</u>	<u>5,396,429</u>	<u>(568,069)</u>	<u>-</u>	<u>3,688,385</u>	<u>(61,786)</u>	<u>124,750,646</u>
Accumulated amortization and impairment losses								
Goodwill	(2,026,059)	-	-	-	-	-	-	(2,026,059)
Industrial rights	(249,850)	(1,012,560)	-	492,951	(1,172,949)	-	20,180	(1,922,228)
Development costs	(3,776,955)	-	-	-	(1,277,200)	-	-	(5,054,155)
Membership rights	(1,214,502)	-	-	-	-	-	-	(1,214,502)
Others	(33,139,547)	(395,348)	-	(135,632)	(7,314,378)	(133,701)	-	(41,118,606)
	<u>(40,406,913)</u>	<u>(1,407,908)</u>	<u>-</u>	<u>357,319</u>	<u>(9,764,527)</u>	<u>(133,701)</u>	<u>20,180</u>	<u>(51,335,550)</u>
Government grants								
Others	(517,408)	-	-	-	103,974	-	-	(413,434)
	<u>₩ 42,659,433</u>	<u>₩ 31,304,025</u>	<u>₩ 5,396,429</u>	<u>₩ (210,750)</u>	<u>₩ (9,660,553)</u>	<u>₩ 3,554,684</u>	<u>₩ (41,606)</u>	<u>₩ 73,001,662</u>

¹ Parts of short-term and long-term advance payments were reclassified as industrial rights and other intangible assets.

² Others include changes in carrying amounts due to foreign exchange rate fluctuation.

Amortization and impairment loss are recorded under operating expenses and other expenses, respectively, in the consolidated statement of income(Notes 20 and 21).

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13. Trade Payables and Other Financial Liabilities

Trade payables and other financial liabilities as of September 30, 2013 and December 31, 2012, are as follows:

(in thousands of Korean won)

	<u>September 30, 2013</u>	<u>December 31, 2012</u>
Trade payables and other payables		
Trade payables	₩ 18,036,376	₩ 10,446,553
Non-trade payables	22,265,922	19,880,321
Current portion of long-term non-trade payables	354,620	184,381
	<u>40,656,918</u>	<u>30,511,255</u>
Other current financial liabilities		
Accrued expenses	<u>870,727</u>	<u>1,286,681</u>
Non-current trade payables and other payables		
Long-term non-trade payables	<u>2,469,506</u>	<u>2,471,359</u>
Other non-current financial liabilities		
Long-term accrued expenses	-	2,311,308
Deposits received	132,368	132,368
	<u>132,368</u>	<u>2,443,676</u>
	<u>₩ 44,129,519</u>	<u>₩ 36,712,971</u>

14. Borrowings

Short-term borrowings as of September 30, 2013 and December 31, 2012, are as follows:

(in thousands of Korean won)

<u>Classification</u>	<u>Bank</u>	<u>Interest rate as of September 30, 2013 (%)</u>	<u>September 30, 2013</u>	<u>December 31, 2012</u>
Operational borrowing	Shinhan Bank	6.00	157,521	-
Operational borrowing	Others	-	-	120,000
			<u>157,521</u>	<u>120,000</u>

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Long-term borrowings as of September 30, 2013 and December 31, 2012, are as follows:

(in thousands of Korean won)

<u>Classification</u>	<u>Bank</u>	<u>Interest rate as of September 30, 2013 (%)</u>	<u>September 30, 2013</u>	<u>December 31, 2012</u>
Borrowing for establishing childcare facilities in the workplace	Woori Bank	2.00	250,000	-
			<u>250,000</u>	<u>-</u>
Less: Current portion			<u>-</u>	<u>-</u>
			<u>250,000</u>	<u>-</u>

15. Net Defined Benefit Liabilities

The amounts of net defined benefit liabilities recognized in the consolidated statements of financial position as of September 30, 2013 and December 31, 2012, are as follows:

(in thousands of Korean won)

	<u>September 30, 2013</u>	<u>December 31, 2012</u>
Present value of funded defined benefit obligation	₩ 7,362,833	₩ 4,839,695
Present value of unfunded defined benefit obligation	1,644,855	986,869
Subtotal	<u>9,007,688</u>	<u>5,826,564</u>
Fair value of plan assets	<u>(3,066,150)</u>	<u>(3,462,001)</u>
Liability in the statement of financial position	<u>₩ 5,941,538</u>	<u>₩ 2,364,563</u>

The movements in the defined benefit obligation for the nine-month periods ended September 30, 2013 and 2012, are as follows:

(in thousands of Korean won)

	<u>2013</u>	<u>2012</u>
At January 1	₩ 5,826,564	₩ 1,119,183
Changes in scope of subsidiaries	83,528	-
Current service cost	4,294,070	1,426,036
Interest cost	134,916	-
Transfer	-	(884,017)
Benefits paid	<u>(1,331,390)</u>	<u>(254,931)</u>
At September 30	<u>₩ 9,007,688</u>	<u>₩ 1,406,271</u>

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Total expenses recorded in the consolidated statements of income for the nine-month periods ended September 30, 2013, and 2012, are as follows:

<i>(in thousands of Korean won)</i>	<u>2013</u>	<u>2012</u>
Current service cost	₩ 4,294,070	₩ 1,426,036
Net interest cost	1,359	-
Total, included in staff costs	<u>₩ 4,295,429</u>	<u>₩ 1,426,036</u>

The total expenses amounting to ₩ 4,295 million (2012: ₩ 1,426 million) were included in operating expenses.

The actuarial assumptions as of September 30, 2013 and December 31, 2012, are as follows:

	<u>September 30, 2013</u>	<u>December 31, 2012</u>
Discount rate	3.75%	3.75%
Future salary increase rate	5.00%	5.00%

16. Other Long-term Employee Benefits Liabilities

The amounts of other long-term employee benefits liabilities recognized in the consolidated statements of financial position as of September 30, 2013 and December 31, 2012, are as follows:

<i>(in thousands of Korean won)</i>	<u>September 30, 2013</u>	<u>December 31, 2012</u>
Present value of other long-term employee benefits obligation	₩ 6,160,026	₩ 5,451,003
Fair value of plan assets	-	-
Other long-term employee benefits liabilities	<u>₩ 6,160,026</u>	<u>₩ 5,451,003</u>

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Changes in the other long-term employee benefits liabilities for the nine-month periods ended September 30, 2013 and 2012, are as follows:

<i>(in thousands of Korean won)</i>	<u>2013</u>	<u>2012</u>
At January 1	₩ 5,451,003	₩ 4,268,099
Current service cost	878,830	833,141
Interest cost	130,443	125,535
Benefit paid	(300,250)	(856,727)
At September 30	<u>₩ 6,160,026</u>	<u>₩ 4,370,048</u>

Total expense amounts recognized in the consolidated statements of income for the nine-month periods ended September 30, 2013 and 2012, are as follows:

<i>(in thousands of Korean won)</i>	<u>2013</u>	<u>2012</u>
Current service cost	₩ 878,830	₩ 833,141
Interest cost	130,443	125,535
Total, included in staff cost	<u>₩ 1,009,273</u>	<u>₩ 958,676</u>

The total expenses amounting to ₩ 1,009 million (2012: ₩ 959 million) were included in operating expenses.

The actuarial assumptions as of September 30, 2013 and December 31, 2012, are as follows:

	<u>September 30, 2013</u>	<u>December 31, 2012</u>
Discount rate	3.75%	3.75%
Future salary increase rate	5.00%	5.00%

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17. Provisions

Changes in provisions for the nine-month periods ended September 30, 2013 and 2012, are as follows:

(in thousands of Korean won)

	2013			
	Current portion	Non-current portion		Total
	Provision for reward points	Provision for business losses¹	Provision for restoration	
At January 1	₩ -	₩ 965,425	₩ 181,151	₩ 1,146,576
Changes in scope of subsidiaries	570,984	-	-	570,984
Addition	575,357	-	-	575,357
Reversal	-	-	-	-
Utilization	(570,984)	-	-	(570,984)
At September 30	₩ 575,357	₩ 965,425	₩ 181,151	₩ 1,721,933

¹ Related to the stock disposal agreement with Ergo Daum Direct General Insurance Co., Ltd. (Note 27).

(in thousands of Korean won)

	2012		
	Non-current portion		Total
	Provision for business losses¹	Provision for restoration	
At January 1	₩ 965,425	₩ 181,151	₩ 1,146,576
Addition	-	-	-
Reversal	-	-	-
Utilization	-	-	-
At September 30	₩ 965,425	₩ 181,151	₩ 1,146,576

¹ Related to the stock disposal agreement with Ergo Daum Direct General Insurance Co., Ltd. (Note 27).

18. Capital Stock

As of September 30, 2013, the Parent Company is authorized to issue 99,900 thousand common shares with a par value of ₩ 500 per share, and the number of common shares issued and outstanding is 13,559,029 shares.

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Changes in capital stock for the nine-month period ended September 30, 2013, are as follows:

(in thousands of Korean won and number of shares)

	Description	Number of shares	Capital stock	Additional paid-in capital	Total
At January 1, 2013		13,604,829	₩ 6,802,415	₩ 169,472,598	₩ 176,275,013
At January 2, 2013	Exercise of stock options	17,150	8,575	1,841,352	1,849,927
At February 19, 2013	"	11,400	5,700	1,223,989	1,229,689
At March 14, 2013	"	25,250	12,625	2,710,281	2,722,906
At September 3, 2013	"	400	200	42,947	43,147
At September 30, 2013		<u>13,659,029</u>	<u>₩ 6,829,515</u>	<u>₩ 175,291,167</u>	<u>₩ 182,120,682</u>

During the year ended December 31, 2011, the Parent Company retired its treasury stock out of profit. Therefore, the par value of capital stock differs from total book value of shares issued.

(in Korean won and number of shares)

Total book value of shares issued					
Number of shares issued	Par value per share	Total	Capital Stock	Difference	
13,559,029	₩ 500	₩ 6,779,514,500	₩ 6,829,514,500	₩ 50,000,000	

19. Retained Earnings and Capital Adjustment

Retained Earnings

The Korean Commercial Code requires the Parent Company to appropriate a legal reserve in an amount equal to at least 10% of cash dividends for each accounting period until the reserve equals 50% of stated capital. The reserve is not available for the payment of cash dividends, but may be transferred to capital stock or used to reduce accumulated deficit, if any, with the ratification of the Company's majority shareholders.

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Capital Adjustment

During the nine-month period ended September 30, 2013, the Group acquired 330,000 treasury shares for ₩ 28,648 million to stabilize the stock price and increase the shareholders' value, and the amount is recognized as capital adjustment.

20. Operating Expenses

Operating expenses for the three-month and nine-month periods ended September 30, 2013 and 2012, are as follows:

(in thousands of Korean won)

	2013		2012	
	Three months	Nine months	Three months	Nine months
Wages and salaries	₩ 22,783,083	₩ 67,692,815	₩ 20,988,622	₩ 61,642,351
Severance benefits	1,706,972	4,901,105	1,559,520	5,139,153
Welfare	5,920,118	17,008,378	5,213,159	16,090,094
Depreciation expenses	6,188,384	17,983,734	5,830,403	16,991,605
Rent expenses	2,144,219	6,140,052	2,197,641	6,905,149
Commission and service charges	31,900,580	88,383,691	19,828,749	57,321,968
Advertising expenses	4,806,210	17,021,844	2,814,974	7,075,720
Amortization expenses	3,795,561	10,926,231	3,341,234	9,660,553
Outsourcing fee	6,295,665	17,665,380	6,397,785	18,082,256
Advertising agency fee	20,339,180	61,203,241	15,293,425	45,954,791
Others	3,561,786	11,485,572	3,755,558	11,526,872
	<u>₩ 109,441,758</u>	<u>₩ 320,412,043</u>	<u>₩ 87,221,070</u>	<u>₩ 256,390,512</u>

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21. Other Revenues and Expenses

Other revenues and expenses for the three-month and nine-month periods ended September 30, 2013 and 2012, are as follows:

(in thousands of Korean won)

	2013		2012	
	Three months	Nine months	Three months	Nine months
Other revenues				
Reversal of allowance for doubtful accounts	₩ 20,170	₩ 30,170	₩ 50,000	₩ 90,000
Gains on disposal of property and equipment	5,045	21,504	13,968	26,301
Reversal of impairment losses on intangible assets	-	198,000	-	-
Gains on disposal of investments in associates	7,511,219	7,681,678	-	-
Miscellaneous revenues	133,208	1,484,340	144,847	380,986
	<u>₩ 7,669,642</u>	<u>₩ 9,415,692</u>	<u>₩ 208,815</u>	<u>₩ 497,287</u>
Other expenses				
Losses on disposal of property and equipment	₩ -	₩ 227,810	₩ 114,096	₩ 114,361
Losses on retirement of property and equipment	526	72,160	-	142,413
Impairment losses on intangible assets	126	263,000	210,750	210,750
Impairment losses on investments in associates	-	1,527,114	-	-
Donations	928,582	1,765,527	659,528	999,783
Others	245,298	332,895	134,105	631,632
	<u>₩ 1,174,532</u>	<u>₩ 4,188,506</u>	<u>₩ 1,118,479</u>	<u>₩ 2,098,939</u>

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22. Finance Income and Expenses

Finance income and expenses for the three-month and nine-month periods ended September 30, 2013 and 2012, are as follows:

(in thousands of Korean won)

	2013		2012	
	Three months	Nine months	Three months	Nine months
Finance income				
Interest income	₩ 2,637,408	₩ 7,976,739	₩ 2,719,866	₩ 8,301,327
Dividend income	-	11,175	-	52,060
Gains on transactions of derivative instruments	2,200,000	-	3,181,453	1,865,600
Gains on foreign currency translation	3,967	166,727	-	29,866
Others	26,683	93,325	29,902	127,928
	<u>₩ 4,868,058</u>	<u>₩ 8,247,966</u>	<u>₩ 5,931,221</u>	<u>₩ 10,376,781</u>
Finance expenses				
Interest expense	₩ 43,991	₩ 132,214	₩ 653	₩ 12,948
Losses on valuation of derivative instruments	655,978	4,780,475	-	2,533,223
Losses on transactions of derivative instruments	-	132,800	-	544,000
Losses on foreign currency translation	2,441,685	6,005	1,141,204	1,134,143
Others	48,597	90,950	15,462	71,619
	<u>₩ 3,190,251</u>	<u>₩ 5,142,444</u>	<u>₩ 1,157,319</u>	<u>₩ 4,295,933</u>

23. Income Tax Expenses

Income tax expense is recognized based on the best estimate of the weighted average annual income tax rate for the full financial year. The expected average annual income tax rate is 17.73% (2012: 24.44%) for the year ending December 31, 2013. Decrease in this income tax rate primarily results from increase in the expected exemption of tax amount.

24. Dividends

A dividend in respect of the year ended December 31, 2012, of ₩ 14,990 million, was paid during April 2013. Dividends in respect of the year ended December 31, 2011, paid in 2012 were ₩ 21,589 million.

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25. Earnings per Share

Basic earnings per share for the three-month and nine-month periods ended September 30, 2013 and 2012, is calculated as follows:

<i>(in Korean won and number of shares)</i>	2013		2012	
	Three months	Nine months	Three months	Nine months
Profit for the period	₩ 23,367,350,297	₩ 60,324,140,064	₩ 19,280,884,574	₩ 62,763,795,147
Weighted-average common stock in circulation	13,401,746	13,495,904	13,437,482	13,406,807
Basic earnings per share	₩ 1,744	₩ 4,470	₩ 1,435	₩ 4,681

(in number of shares)

Period	Common stock	Days outstanding	Weighted-average common stock in circulation
2013.01.01 ~ 2013.09.30	3,684,381,719	273	13,495,904
2012.01.01 ~ 2012.09.30	3,673,465,246	274	13,406,807

(in number of shares)

Period	Common stock	Days outstanding	Weighted-average common stock in circulation
2013.07.01 ~ 2013.09.30	1,232,960,620	92	13,401,746
2012.07.01 ~ 2012.09.30	1,236,248,368	92	13,437,482

Diluted earnings per share for the three-month and nine-month periods ended September 30, 2013 and 2012, is calculated as follows:

<i>(in Korean won and number of shares)</i>	2013		2012	
	Three months	Nine months	Three months	Nine months
Profit for the period	₩ 23,367,350,297	₩ 60,324,140,064	₩ 19,280,884,574	₩ 62,852,637,020
Weighted-average common stock in circulation	13,401,746	13,495,904	13,437,482	13,406,807
Weighted-average diluted common stock in circulation	727	2,170	18,431	25,484
Basic earnings per share	₩ 1,744	₩ 4,469	₩ 1,433	₩ 4,679

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(in number of shares)

Period	Diluted securities	Days outstanding	Weighted-average diluted common stock in circulation
2013.01.01 ~ 2013.09.30	592,423	273	2,170
2012.01.01 ~ 2012.09.30	6,982,616	274	25,484

(in number of shares)

Period	Diluted securities	Days outstanding	Weighted-average diluted common stock in circulation
2013.07.01 ~ 2013.09.30	66,884	92	727
2012.07.01 ~ 2012.09.30	1,695,652	92	18,431

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26. Cash Generated from Operations

Cash generated from operations for the nine-month periods ended September 30, 2013 and 2012, is as follows:

(in thousands of Korean won)

	2013	2012
Adjustments :		
Income tax expense	₩ 13,048,451	₩ 20,307,338
Interest income	(7,976,739)	(8,301,327)
Interest expense	132,214	12,948
Dividend income	(11,175)	(52,060)
Depreciation expense	17,983,734	16,991,605
Amortization expense	10,926,231	9,660,553
Other long-term employee benefits	1,009,273	61,806
Severance benefits	4,633,032	5,139,153
Impairment losses on intangible assets	263,000	210,750
Compensation expenses associated with stock options	786,407	1,251,676
Gain on disposal of investments of associates	(7,681,678)	-
Impairment losses on investments in associates	1,527,114	-
Losses on valuation of equity-method investments	1,491,177	1,219,937
Losses on valuation of derivative instruments	4,780,475	2,533,223
Gains on transactions of derivative instruments	-	(1,865,600)
Gains on foreign currency translation	(151,793)	(9,829)
Losses on foreign currency translation	6,005	1,129,378
Others	(88,837)	(664,436)
	₩ 40,676,891	₩ 47,625,115

(in thousands of Korean won)

	2013	2012
Changes in operating assets and liabilities :		
Decrease in trade receivables	₩ 13,657,424	₩ 9,595,447
Increase in non-trade receivables	(1,676,166)	(1,338,420)
Decreases in accrued revenues	62,802	77,518
Decrease(Increase) in prepaid expenses	(1,740,191)	886,093
Increase(Decrease) in trade payables	7,593,824	(232,563)
Increase(Decrease) in non-trade payables	2,960,788	(5,432,950)
Increase(Decrease) in short-term unearned revenues	2,111,657	(622,789)
Increase in withholdings	158,187	-
Decrease in accrued expenses	(424,681)	(121,166)
Decrease in long-term accrued expenses	(3,061,090)	-
Decrease in provisions for reward points	(570,984)	-
Others	578,704	(1,335,135)
	₩ 19,650,274	₩ 1,476,035

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Non-cash transactions for the nine-month periods ended September 30, 2013 and 2012, are as follows:

<i>(in thousands of Korean won)</i>		<u>2013</u>		<u>2012</u>
Reclassification of advance payments to intangible assets	₩	1,070,254	₩	3,554,684
Reclassification of construction-in-progress		-		16,187,341
Acquisition of subsidiaries paid by treasury shares		-		12,530,000

27. Commitments and Contingencies

Guarantees provided to others

The Group has the following guarantees provided to others as of September 30, 2013 and December 31, 2012:

(in thousands of Korean won)

<u>Warrantee</u>	<u>Contents</u>	<u>Guaranteed amount</u>		<u>Beneficiary</u>
		<u>September 30, 2013</u>	<u>December 31, 2012</u>	
Employees	Employee loan	₩ 1,298,827	₩ 1,479,927	Shinhan Bank

Guarantees provided by others

The Group has the following guarantees provided by others as of September 30, 2013 and December 31, 2012:

(in thousands of Korean won)

<u>Guarantor</u>	<u>Contents</u>	<u>Guaranteed amount</u>		<u>Beneficiary</u>
		<u>September 30, 2013</u>	<u>December 31, 2012</u>	
Seoul Guarantee Insurance and others	Performance bond and judicial (court) bond and others	₩ 4,148,123	₩ 4,854,536	Korea Creative Content Agency and others

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Litigation

As of September 30, 2013, the Group is involved in eight legal cases, wherein it is either the defendant or the co-defendant. The aggregate amount of claims for cases in which the Group is the defendant amounted to approximately ₩ 1,175 million. The Group believes that, although the outcome of these cases is uncertain, they would not result in a material loss for the Group.

During the prior period, the Group had filed arbitration against Ybrant Media Acquisition, Inc., for the collection of the proceeds from the disposal of Lycos, Inc. amounting to USD 34,177,365. The Group has recognized provisions for doubtful accounts of ₩13,411 million related to the non-trade receivables of ₩ 34,950 million (Note 8).

Agreements

In 2008, the Group sold shares of stock in Ergo Daum Direct General Insurance Co., Ltd. through an agreement which includes a clause that requires the Group to pay the losses from Ergo Daum Direct General Insurance's investment assets for up to ₩ 2,450 million. As of September 30, 2013, the Group recognized ₩ 965 million as provision for losses related to this obligation (Note 17).

As of September 30, 2013, the Group has purchasing card loan agreement with Kookmin Bank with the credit limit of ₩ 5,000 million. In addition, the Group has general loan agreement for small business with Industrial Bank of Korea with credit limit of ₩ 50 million.

As of September 30, 2013, the Group has foreign currency borrowing agreements of up to ₩ 541 million with Shinhan Bank.

Restricted Financial Instruments

Restricted financial instruments as of September 30, 2013 and December 31, 2012, are as follows:

(in thousands of Korean won)

	September 30, 2013	December 31, 2012	Purpose of restriction
	₩ 27,000,000	₩ 26,600,000	Guarantee deposit
	4,000,000	7,000,000	Forward contract
Cash and cash equivalents	1,430,000	1,430,000	Indemnification agreement
	800,000	650,000	Borrowing guarantee
	200,000	200,000	Others
	<u>₩ 33,430,000</u>	<u>₩ 35,880,000</u>	

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Pledged Assets and Guarantees

The following asset is pledged as collateral as of September 30, 2013:

(in thousands of Korean won)

<u>Asset</u>	<u>Beneficiary</u>	<u>Book value</u>	<u>Collateralized amount</u>	<u>Type of Guarantee</u>
Land	Jeju Provincial Government	₩ 11,351,198	₩ 8,180,310	Guarantee for contract fulfillment

As of September 30, 2013, the Group has provided a note with par value of ₩ 10 million as collateral to Seongnam Industry Promotion Agency in relation with a lease of an office.

Derivative instruments

Derivative instruments under assets as of September 30, 2013 and December 31, 2012, are as follows:

(in thousands of Korean won)

	<u>September 30, 2013</u>	<u>December 31, 2012</u>
Stock warrants(Neowiz games) ¹	₩ 557,740	₩ 5,338,214
Right for redemption(NBT Partners) ²	217,490	-
	<u>₩ 775,230</u>	<u>₩ 5,338,214</u>

¹ A stock warrant of Neowiz Games stock which grants rights to acquire a registered common stock for ₩ 33,016 per share from March 11, 2012 to March 10, 2016. If the share price falls, the Parent Company adjusts the previous exercise price every three months from the issue date. Adjusted price would be the minimum between the previous exercise price and the contract price at the day before adjustment day.

² Stock redemption right provided to NBT Partners preferred stock is granted with a ten-year life from issue date of preferred stock with a vesting period of two years. The guaranteed yield on redemption premium is 8% per year.

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28. Business Combinations

The Group acquired 51.0% of TNK Factory for ₩ 5,413 million on July 1, 2013, and 54.1% of Buzzpia during the current period (initially acquired 40.0% for ₩ 1,920 million and subsequently acquired 14.1% for ₩ 7,000 million on September 24, 2013). The goodwill (₩ 1,846 million from TNK Factory and ₩ 8,028 million from Buzzpia) arising from the acquisition is attributable to the economic effects on operation from business combination and the acquired customer base. The recognized goodwill is not deductible for tax purposes.

The consideration paid for TNK Factory and Buzzpia, the assets acquired, the liabilities assumed at the acquisition date and the non-controlling interest in TNK Factory and Buzzpia at the acquisition date are as follows:

(In thousands of Korean won)

	TNK Factory	Buzzpia
Consideration at September 30, 2013		
Cash and others	₩ 5,413,200	₩ 6,999,804
Investment in associates ¹	-	9,102,431
Total consideration transferred	<u>5,413,200</u>	<u>16,102,235</u>
Recognized amounts of identifiable assets acquired and liabilities assumed ²		
Cash and cash equivalents	₩ 3,603,186	₩ 6,908,050
Short-term financial instruments	1,152,232	-
Trade and other receivables	1,686,681	34,251
Property and equipment	82,245	37,339
Intangible assets	2,510,093	10,490,938
Other assets	93,000	40,000
Trade and other payables	(1,114,103)	(41,581)
Other liabilities	(610,528)	(43,984)
Deferred income tax liabilities	(408,750)	(2,305,199)
Total identifiable net assets	<u>6,994,056</u>	<u>15,119,814</u>
Non-controlling interest ³	(3,426,779)	(7,045,940)
Goodwill	1,845,923	8,028,361
	<u>₩ 5,413,200</u>	<u>₩ 16,102,235</u>
Acquisition-related costs ⁴	₩ 50,442	₩ 38,159

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¹ The fair value of the investment in associates as part of the consideration paid for Buzzpia was based on the fair value on the date of business combinations. The Group recognized a gain of ₩ 7,511 million as a result of measuring at fair value its 40% equity interest in Buzzpia held before the business combination. The gain is included in the consolidated statement of income as gains on disposal of investment in associates of other revenues for the period ended September 30, 2013(Note 21).

² Assets acquired and liabilities assumed are measured at fair value in the consolidated statement of financial position of TNK Factory and Buzzpia as of acquisition date.

³ Non-controlling interest is calculated considering the fair value of stock option and ownership interest of net identifiable assets.

⁴ Direct cost related to acquisition is recorded in operating expenses in the consolidated statement of income for nine-month period ended September 30, 2013.

Revenues and profit of TNK Factory and Buzzpia on the consolidated statement of comprehensive income for nine-month period ended September 30, 2013, are as follows:

(In thousands of Korean won)

	TNK Factory		Buzzpia	
	Revenues	Profit(loss)	Revenues	Profit(loss)
Amount recognized in the statements of comprehensive income	3,295,091	288,667	-	-
Amount under the assumption that the subsidiaries were consolidated as of January 1, 2013	8,319,781	1,090,566	-	(2,405,765)

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29. Related Party Transactions

The Parent Company is the ultimate parent, and the Group's related parties as of September 30, 2013, are as follows:

Classification	Name
Associates	Daum TV, Add2paper, Flowgamez, Playplus, DMS Network, Inc., Nine Flava, NBT Partners, NTB Partners Japan

Transactions with the related parties for the nine-month periods ended September 30, 2013 and 2012, and the relating receivables and payables as of September 30, 2013 and December 31, 2012, are as follows:

(in thousands of Korean won)

	Revenues		Purchases	
	2013	2012	2013	2012
Associates				
Daum TV	₩ 223	₩ 1,229,055	₩ -	₩ 8,182
Add2paper	-	-	2,757	-
Flowgamez	-	7,693	649	-
Nine Flava	58	-	-	-
NBT Partners	42	-	155,977	-
	₩ 323	₩ 1,236,748	₩ 159,383	₩ 8,182

(in thousands of Korean won)

	Receivables		Payables	
	2013	2012	2013	2012
Associates				
Daum TV	₩ 231	₩ -	₩ -	₩ -
Add2paper	-	-	3,033	-
Flowgamez	70,000	70,000	-	403
NBT Partners	50,000	-	199,984	-
	₩ 120,231	₩ 70,000	₩ 203,017	₩ 403

The compensation paid or payable to key management personnel(listed director) for employee services for the nine-month periods ended September 30, 2013 and 2012, consists of:

(in thousands of Korean won)

	2013	2012
Salaries and others	₩ 1,351,169	₩ 1,543,750
Compensation expenses associated with stock options	58,696	166,430

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30. Event after the Reporting Period

On October 18, 2013, the Group acquired 20,000 shares(100% ownership) of common stock of Velosh for ₩ 350 million. As a result, the Group obtained control over the investee.