

G L O B A L

D R E A M

C O M P A N Y



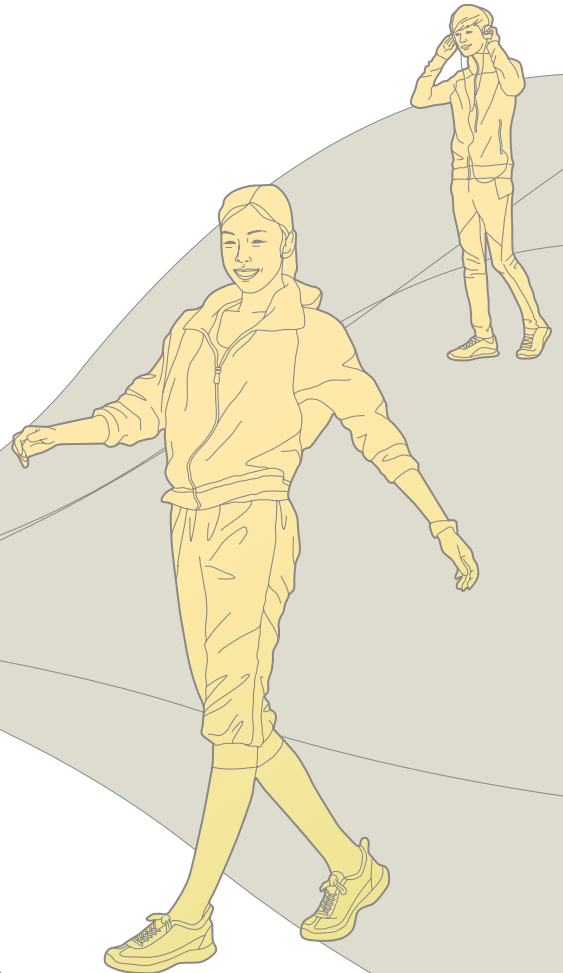
LS Networks is one of Korea's leading consumer goods companies, and the primary consumer goods division of the LS Group. It is engaged in the consumer brand, consumer retail, and global trading businesses.

Despite the negative effects of continuing economic slowdowns throughout the world in 2012, LS Networks managed to record sales growth of more than 50% over the year. In 2013, we will focus on achieving similar results, developing an organizational culture that emphasizes the importance of communications and creativity and laying the foundations for a sustained and sustainable future.



**Consumer
Brand & Retail
Business**

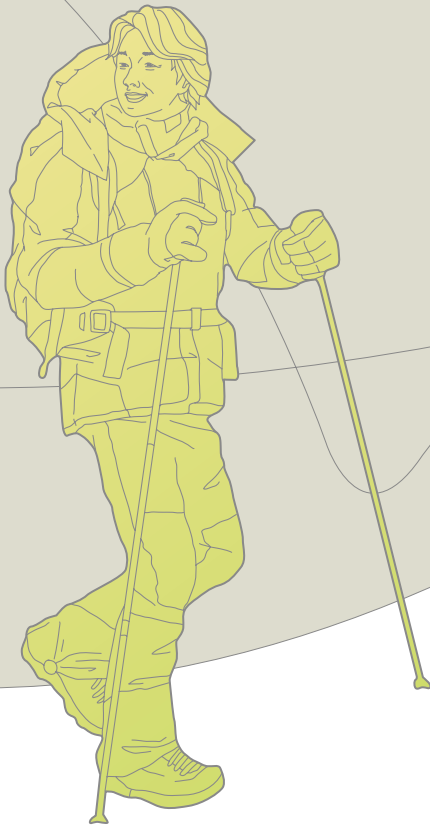
Networking with Happiness



Although all of us come into contact with many brands every day, very few of them make an impression on us or have any noticeable effect on our quality of life.

LS Networks is constantly introducing a wide variety of new brands to its customers, based on the expertise and competitiveness that it has accumulated over the past thirty-plus years with its PROSPECS brand.

All of our products and services are designed to make people's lives healthier and more relaxed.





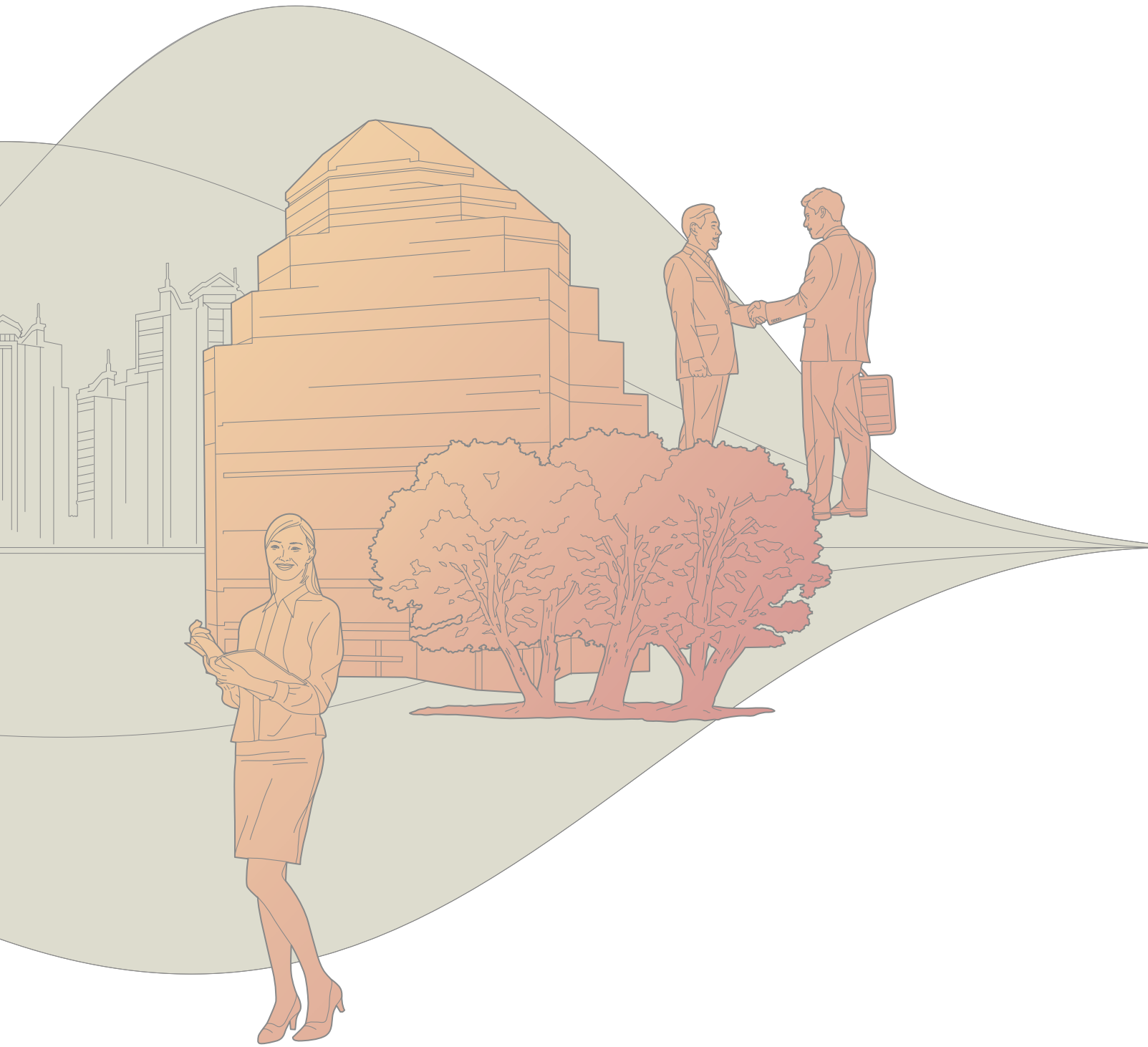
**Asset Management
Business**

Networking with Growth



At some point, every business enterprise finds that it needs to accumulate safe and stable assets if it is to operate profitably and grow sustainably.

However, it is also true that a company can only invest in future growth engines if all of its fundamentals are strong. One of LS Networks' greatest strengths is that it has managed to achieve both stability and growth by undertaking asset management projects that create new values and revenue models.

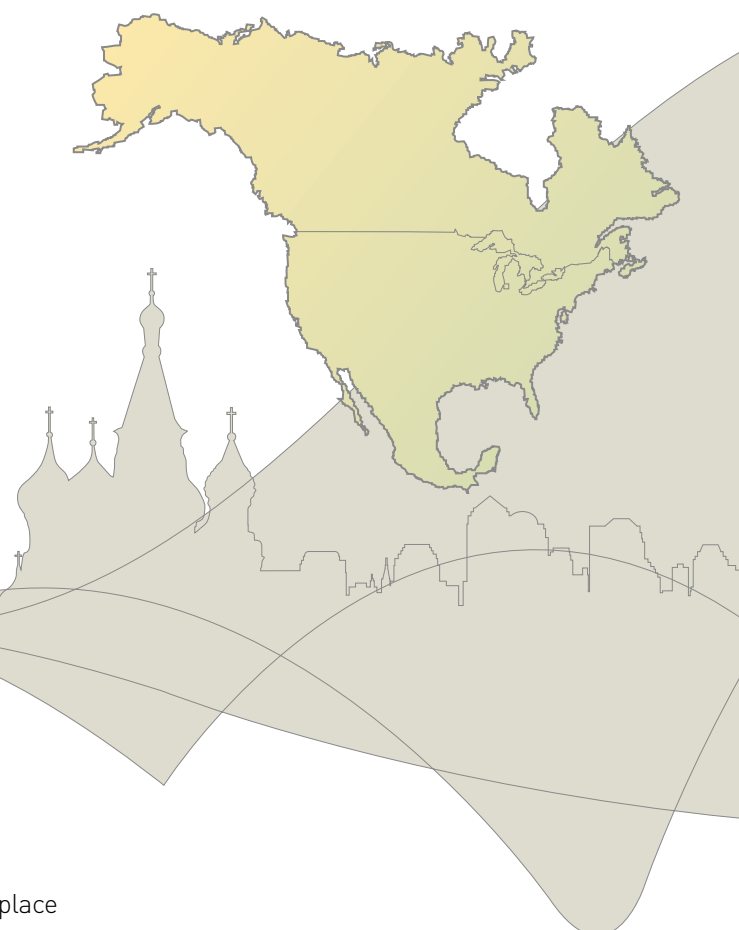


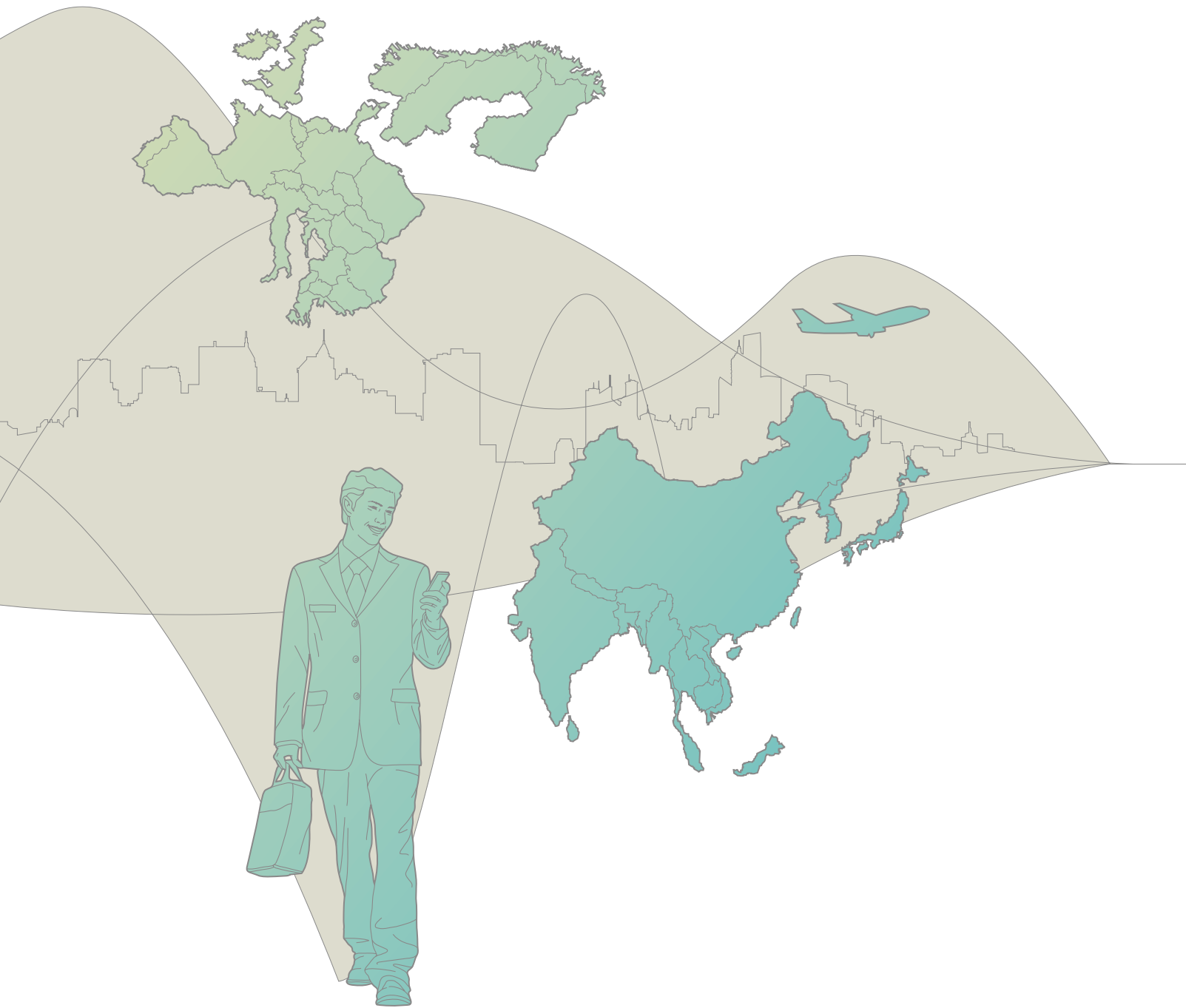


**Global Trading
Business**

Networking with Dreams

Today's business world is a place without borders or boundaries. LS Networks has a goal and a vision of becoming a "Global Dream Company," leveraging the strengths of its global trading business to create new values for future growth. This gives us the flexibility that we need to respond instantaneously to a rapidly changing operating environment.





In 2012, LS Networks achieved all its goals for sales growth and revenue improvements. We did this by strengthening our competitiveness in the consumer brand business and expanding our global trading business.



Dear valued shareholders and customers:

In 2012, the world's economy was wracked by a series of sovereign debt crises in the Euro zone and consumer slowdowns in the United States and China. These difficulties had a direct influence on the Korean economy, especially in terms of reduced consumer spending.

This resulted in a very challenging management environment for us.

Sales and operating income grew by 51.1% and 49.7% over the year

The response of LS Networks to this very problematical situation was to strengthen its sales competitiveness in the consumer brand business and expand the scale of its global trading business.

As a result, we were able to achieve our twin goals of sales growth and revenue improvements, posting sales of KRW 639.6 billion and operating income of KRW 15.0 billion. These figures were up by 51.1% and 49.7%, respectively, over the previous year.

PROSPECS, the leader of our consumer brand business, posted sales of KRW 307.2 billion, up 13.6% year-on-year. Much of this success was due to the continuing popularity of our PROSPECS W, while MONT-BELL and SKECHERS achieved impressive growth of 191.0% and 79.7%, respectively. All of them profited from a healthy market for outdoor goods and a very effective chain of retail outlets.

Our global trading business enjoyed ballooning sales growth of 357.0% over the year. Most of this was due to the satisfactory performance of our optical communications equipment business in Kazakhstan and good showings in our raw materials business, including coal.

639.6 KRW
in billions

Sales grew by 51.1% YoY to KRW 639.6 billion in 2012, due to the increased competitiveness and expansion of our consumer brand and global trading businesses.

Strengthening our operating capabilities

The forecast for our operating environment in 2013 is not very optimistic, with the Korean government recently lowering its economic growth projection for the year to 3% from 4%. LS Networks will deal with this situation and meet the expectations of its shareholders and customers through a combination of sustainable growth and the creation of new values. We have set our 2013 management policy as strengthening our foundations for sustainable growth through the establishment of clear goals and ensuring that they are carried out. In addition, we will continue with our commitment to developing a corporate culture that emphasizes the importance of communications and creativity. We will achieve these goals by pursuing the following management strategies.

First, we will make sure that our management is profitable and practical by strengthening our operational capabilities. This will include adding to our profitability by focusing on our key consumer brand and global trading businesses, splitting off our Toyota dealership, and beefing up our business structure. The latter step will include lowering our costs, improving our business processes, carrying out our marketing activities more expeditiously, and enhancing the product competitiveness of each of our divisions.

We will also make 2013 the first year for putting our "Vision 2020" into practice. We established this vision last year, defining the future goals and core values that all our members should share. Our ambition is to become a "Global Dream Company," employing talented people who use their creativity and professionalism to contribute to the health and happiness of people everywhere. As a key part of this, we outlined our core values, which all of our employees will be expected to act upon and internalize, as creativity, communications, responsibility, and passion.

LS Networks will continue developing a unique and distinctive organizational culture through this new vision and these core values.

357%

The global trading business, one of our key engines for future growth, posted a sales increase of 357% over the year. It did this focusing its activities on the CIS region.

Enhancing our global competitiveness

We will build the foundations for becoming a “Global Dream Company” by expanding our activities overseas.

If we really want to be a profitable and sustainable company in the future, we must be able to compete with everyone else in world markets.

In terms of the global trading business, this means adding to the scale of our overseas operations through a strategy of concentration.

In terms of our consumer brand business, it will involve taking our PROSPECS business into the Chinese market and continuing the development of our MONT-BELL brand, which we introduced there in 2011.

Last, but not least, we will continue working in lockstep with our labor union, which has steadily supported our efforts to focus on sustainable growth and develop a truly progressive labor-management culture.

This included ceding its role in overseeing wage bargaining to management for the past four years. We will also continue practicing win-win management with all our other stakeholders.

LS Networks enjoyed remarkable growth in 2012. Our goal for the future is to continue in this vein, creating added value by strengthening our internal stability and taking on every challenge that we face.

As always, we will put the values of our shareholders and customers first.

I look forward to your continuing support and encouragement.

Thank you.

Seung-Dong Kim
President & CEO



Highlights in 2012

January



Labor union authorized management to oversee wage bargaining for the third consecutive year

LS Networks and its labor union agreed that compromise and cooperation are needed to ensure the company's success in an age of constant crises. As a result, the labor union authorized management to oversee wage bargaining for the third consecutive year.

Acquired Heungup Department Store

LS Networks acquired the Heungup Department Store in the city of Cheongju in December 2011. It resumed its operations after carrying out a series of renovations and changing its name to Heungup Corporation. The company will re-establish itself as Cheongju's leading shopping destination by adding to its sales inventory and carrying out a variety of marketing activities.

July



Completed construction of Alpha Networks optical communications equipment plant in Kazakhstan

LS Networks completed the construction of its Alpha Networks optical communications equipment plant in Kazakhstan in July. The operation, a joint venture with Kazakhtelecom, will produce materials for optical communications. It is expected to make a significant contribution to the revenues of the company's global trading business.

August



Sales of PROSPECS W exceeded 3 million pairs

Sales of PROSPECS W since its launch in September 2009 exceeded 3 million pairs. This success resulted from conducting intensive market surveys of customer preferences and then subdividing the market into walking shoes and running shoes. In addition, its W COOL Yuna Line and W POWER Soo Hyun Line continued to set new records, with sales of more than 100,000 pairs each in about one month.

September



Established new vision and core values

LS Networks established its new vision outlining its future goals and core values. They are to become a "Global Dream Company," employing talented people who use their creativity and professionalism to contribute to the betterment of society.



Opened BICLO Academy

LS Networks opened the BICLO Academy in September 2012. Its goal is to help establish a healthy bicycle-riding culture in Korea while also fulfilling a major part of its corporate social responsibilities.

November



Received Knowledge Economy Minister's Award at Korea Brand Award ceremony

PROSPECS received the Knowledge Economy Minister's Award at the fourteenth annual Korea Brand Award ceremony. Sponsored by the Ministry of Knowledge Economy and organized by the Institute for Industrial Policy Studies, it is the only brand-related award sponsored by the Korean government. It selects five winners from among companies, local governments, and other institutions that have contributed to the nation's economic development. LS Networks was awarded the prize for its success in growing PROSPECS into Korea's leading sports brand.

Change and innovation that are based on global standards are integral to ensuring the development of forward-looking companies. Reflecting the management philosophy of the LS Group ever since its founding, LS Networks practices Board of Directors (BOD)-centered corporate management to ensure the ultimate in openness and transparency.



It does this by making the BOD the ultimate arbiter of its mid- to long-term management strategies and its risk management policies and programs. This means that the BOD is the company's highest decision-making body. In 2012, it held twelve meetings and dealt with twenty agenda items. The attendance rate was 99%.

Sound and transparent governance is a prerequisite for a company's long-term success. Going forward, LS Networks will consolidate its foundations for sustainable growth by rationalizing its management and enhancing its efficiency.

a. Christopher Koo | Chairman

- Chairman of LS, Chairman of LS Corp. Board of Directors (appointed in 2013)
- Chairman & CEO, LS Cable & System / LS Mtron (2009)
- Vice Chairman & CEO, LS Cable / LS-Nikko Copper / LS Mtron (2008)
- Vice Chairman & CEO, LG Cable (Currently LS Cable & System) (2004)
- Senior Executive Vice President, LG Cable (2002)
- Senior Executive Vice President of Sales, LG Investment & Securities (2000)
- Director, Japan office, LG Corporation (1992)

b. Ja-Yong Koo | Chairman

- Chairman of BOD, LS Networks (appointed in 2013)
- Chairman & CEO, E1 (2011-)
- Chairman & CEO, LS Networks (2010)
- Vice Chairman, Korea International Trade Association (2009)
- President, E1 (2005)
- Managing Director, Corporate Planning & Finance, LG-Caltex Gas (2001)
- Director, EUS, LG Electronics (1996)

**c. Seung-Dong Kim | CEO & President**

- President & CEO, LS Networks (appointed in 2012)
- Senior Executive Vice President, LS Networks (2011)
- Senior Managing Director and Head of Global Business Division, LS Networks (2010)
- Senior Managing Director and Head of Global Trading Development TFT, LS Networks (2010)
- Managing Director and Head of Import & Retail Division, LG International (2007)
- Managing Director and Head of Moscow Branch, LG International (2006)

d. Kyung-Han Ahn | CFO & Sr. Vice President

- Senior Managing Director and Management Support Headquarters, LS Networks (appointed in 2013)
- Managing Director and Head of Management Support Headquarters, LS Networks (2010)
- Director and Head of Corporate Planning & Finance Headquarters, LS Networks (2007)

e. Ho-Soo Oh | Non-Executive Director

- Non-Executive Director, LS Networks (appointed in 2010)
- Chairman, Korea Securities Dealers' Association (2001)
- President & CEO, LG Investment & Securities (1998)
- Senior Executive Vice President, Daewoo Securities (1996)

f. Byong-Joo Kuem | Non-Executive Director

- Non-Executive Director, LS Networks (appointed in 2007)
- President & CEO, Woosung I&C (2007)
- President & CEO, LG International (2004)
- Senior Managing Director, Fashion Business Unit, LG International (2000)

Business Overview



**Consumer Brand
Business**



**Consumer Retail
Business**



**Global Trading
Business**



**Asset Management
Business**

LS Networks has built a future-oriented business structure with a primary focus on growth. It has done this by expanding its interests from brands to distribution and from Korea to overseas. Its key operations involve consumer brand, consumer retail, and global trading businesses.

Our consumer brand business began with PROSPECS and is now forming specialized brand groups including MONT-BELL, SKETCHERS, and JACK WOLFSKIN. The consumer retail business is creating a new bicycle culture by introducing its BICLO professional bicycle brand. Our global trading business is building a portfolio that will enable it to compete and thrive in the world economy and enhance its future competitiveness.



**Consumer Brand
Business**



Yeon-Soo Cha

Director, Brand Strategy Department

LS Networks' consumer brand business is committed to seeing things from the viewpoint of its customers and defining new values and paradigms. We are continuously growing in the outdoor and sports brand market by building a stable portfolio. This includes PROSPECS, Korea's leading sports brand, MONT-BELL, Japan's leading outdoor brand, SKECHERS, a global sports brand, and JACK WOLFSKIN, Germany's leading outdoor brand.





**Consumer Retail
Business**

Woo-Jin Lee

Deputy General Manager, Retail & Distribution Business Division



BICLO, our professional bicycle brand launched in 2012, has always satisfied the needs of customers by supporting a wide range of services, ranging from sales to maintenance, repairs, and riders' programs. Our BICLO Academy is contributing to the development of a bicycle culture in Korea by supporting bicycle-related startups and putting a safe bicycle riding culture into place.





**Global Trading
Business**



Gon-Ho Ham

Deputy General Manager, Global Business Development Division

Launched in 2011, the global trading business entered into full-fledged operations, by establishing a plant to produce materials for optical communications in Kazakhstan. Besides dealing in non-ferrous metals, steel, and coal trading, we are also looking at infrastructure development in Russia and Central Asia and new and renewable energy sources.





**Asset Management
Business**



Yong-Sun Kim

Executive Manager, Management Support Headquarters

Asset management is the core business of LS Networks. For example, the LS Yongsan Tower is raising its value by offering its tenants a wide range of “smart” building technologies. Our logistics sites in Incheon, Gimhae, and Seongnam act as bases that help the company expand its interests from the consumer brand business to consumer retail and global trading.



Consumer Brand Business



PROSPECS



www.prospecs.com

PROSPECS became Korea's leading exercise shoe brand by capturing the market for walking footwear with its PROSPECS W in 2010. In 2012, it started targeting younger buyers with a fresh and new brand image, using ads featuring Yuna Kim, a world-famous figure skater. It also opened a new chapter in the Korean sports scene by turning walking into an activity that anyone could enjoy. In recognition of this, the company received the Knowledge Economy Minister's Award at the fourteenth annual Korea Brand Award.

In 2013, the company launched its "PROSPECS W LITE" line, which was designed to resonate with twenty-somethings. Using the very popular CNBLUE rock band as Yuna Kim's partner in its new advertising efforts, it launched a "Walk Light, Live Better" marketing campaign that was calculated to appeal to this age group. The W LITE line allows its wearers to walk comfortably

anytime and anywhere in total comfort, while its sophisticated designs appeals to their sense of aesthetics. Its offerings include the W LITE LAYER featuring the Move Flame Plate, the W LITE WAVE ultra-light-weight walking shoes, and the W LITE NEO casual walking shoes.

The company's newest marketing strategy is to introduce a line of clothing products to complement its menu of walking shoes. The products feature the use of elasticized materials, bright colors, and slimming lines.

The company's goal is to have PROSPECS evolve into a mega sports brand and a global sports brand that will be also recognized around the world.

It will do this by developing a product portfolio that distinguishes it from its competition, and enhancing its brand and product competitiveness.



Consumer Brand Business



mont-bell



www.montbell.co.kr

MONT-BELL is Japan's number one outdoor brand, boasting innovative products based on independently-developed, world-leading technologies. Launched in Korea by LS Networks in 2008, it is fast becoming a new power in the country's outdoor sports market. Supposedly meaning "beautiful mountain," it carries its philosophy of "Light & Fast" and "Function Is Beauty" in all its products. The line features state-of-the-art, highly-functional clothing and equipment that keep its wearers warm and comfortable in any and all weather conditions.

It has won awards at the New York Festival's World's Best Advertising show and the Busan International Advertising Festival, and received a Customer's Choice Advertising Award from the Korea Advertisers Association. LS Networks established a Chinese subsidiary in July 2011, after acquiring the management rights for that market from MONT-BELL's headquarters in Japan.

This was especially significant because the expansion was carried out by MONT-BELL Korea rather than the parent company. The Chinese subsidiary is making dramatic inroads into the outdoor sports market there by opening a number of retail stores. This includes a directly-managed store in The Place mall in Beijing's central business district and another in the Yansha Department Store, one of the city's top three department stores. It plans to have three hundred stores in operation in the country by 2015. MONT-BELL will have a network of over 160 stores this year. It recently proved the quality of its technologies by sponsoring Kim Chang-ho, who climbed the fourteen tallest mountains in the Himalayas without using oxygen in record-breaking time. This demonstrated that its ultra-light-weight technologies are of great advantage even to professional mountaineers climbing in the world's most extreme conditions.

mont-bell

Consumer Brand Business



SKECHERS



www.skecherskorea.co.kr

SKECHERS is the only brand in the world to boast a lineup of more than sixteen categories, including lifestyle, fashion street, casual, kids, and functional sports shoes. Boasting outstanding quality and designs, it ranks second in sales in the American market, right behind Nike. Available in more than a hundred countries around the world, SKECHERS satisfies the most demanding and fastidious tastes of a wide range of customers. LS Networks launched its SKECHERS performance-based total sports brand in May 2009, followed by its Shape-ups line of walking and running shoes. In 2011, we launched Shape-ups LIV, boasting sophisticated designs, variegated colors, and an enhanced comfort level. Due to its success, we enjoyed explosive sales growth. We developed a retail network of over a hundred stores in 2012, and also added SKETCHERS GOrun, a new running shoe that is designed to help runners land in

the center of their feet, to our portfolio. We also hosted the "GO run! Festival" marathon, positioning ourselves as a sports brand that wants to contribute to the spread of a healthy running culture.

SKETCHERS plans to carry out a broad range of marketing activities in 2013, with a slew of enhanced, light-weight, high-technology products being featured under the campaign slogan - "Light Means Power."

In addition, we hope to add to our Korean market share for walking and running shoes by focusing on our LIV and GOrun2 core products. Our main focus will be on attracting male customers, since they are the main target of our GOrun2 product.

Another way that we plan to appeal to young customers is by using SHINee, a Korean R&B boy group, in our advertisements.

We will also generate additional synergies by linking our sales of shoes and clothing.



Consumer Brand Business



Jack Wolfskin



www.jack-wolfskin.co.kr

Founded in Germany in 1981, JACK WOLFSKIN is a leading outdoor wear and equipment brand that boasts a dominant market position in Europe. It promotes enjoying nature with other people rather than conquering it, as is shown by its slogan, "At Home Outdoors." Featuring original designs and sophisticated colors with a distinctively European flair, its products cover all forms of outdoor activities in a wide range of weather conditions. This is especially the case since its product development and design philosophy lays a great deal of stress on details and practical usage. They include such universally recognized and well-known weather protection materials as TEXAPORE, NANUK, and STORMLOCK.

LS Networks launched JACK WOLFSKIN in Korea in 2008. It features a broad range of products that enthusiasts can use for both everyday living and

outdoor activities, such as climbing, trekking, hiking, camping, and urban sports. In 2012, we took a number of steps to upgrade the brand's status in the Korean outdoor market, such as opening a JACK WOLFSKIN Korean-language website and releasing licensed products. In 2013, we were recognized for our originality and technologies in the world market once again by launching the TEXAPORE SOFTSHELL functional material that adds the elasticity of softshell materials to the vapor permeability and moisture resistance of TEXAPORE.

Going forward, we will continue to position the JACK WOLFSKIN brand in the Korean outdoor market as a leading European outdoor brand that boasts both functionality and style. We will do this by developing licensed products, engaging in aggressive marketing, and adding to our retail network.



Consumer Retail Business



biclo



www.biclo.co.kr

BICLO is a bicycle multi-shop that was launched in 2010. It presents Korean riders with new standards in the country's bicycle culture by offering them variety of "one-stop" services. Its offerings include sales, repairs, maintenance, and riding programs.

BICLO opened the BICLO Academy in 2012 as part of its corporate social responsibilities. Operating as a non-profit educational institution, the Academy offers riders a wide range of solutions for safe and pleasant riding. Its training programs include a course that shows people how to start a bicycle-related business in the areas of operation and repairs, and another one for the general public that teaches them about safe riding and easy maintenance techniques.

In addition, it introduced the TOMA electric bicycle in collaboration with a venture firm. This was done in anticipation of an explosion

in the popularity of the electric bicycle market.

It is also scheduled to launch its own independent brand, called MOUVE, to aid in the development of bicycles and related articles that meet the needs and suit the body types of Koreans.

BICLO is gradually shifting to a bicycle manufacturing, importing, and retailing system from a direct distribution one. It also plans to operate an independent bicycle after-sales center. Its overall goal is to contribute to the development of a mature bicycle culture while earning the trust and respect of Korean riders.



Consumer Retail Business



WALK & TALK



www.walkntalk.co.kr

Launched in 2011, WALK & TALK is an outdoor life multi-shop that sells leading outdoor brands from around the world.

It currently operates three directly-run stores, and is strengthening its lineup of camping gear.

WALK & TALK's product line-up ensures that discerning customers can buy whatever they need for all of their walking tour activities. Its lineup include shoes, clothing, hats, rucksacks, tents, and other items made by renowned outdoor wear and equipment makers based in Korea and around the world. Shoe brands on display include MERRELL, HI-TEC, KEEN, and Columbia.

They can all be used for walking, hiking, and trekking.

WALK & TALK was the very first outdoor store in Korea to start selling goods by PEAK PERFORMANCE, Sweden's premium sports outdoor clothing and gear supplier, and Odlo,

the world's leading sports innerwear brand.

Some of the other products that it offers include a wide variety of outdoor clothing brands, such as MONT-BELL and JACK WOLFSKIN.

Outdoor enthusiasts can also purchase specialized products needed for walking tours.

WALK & TALK is also Korea's main outdoor life consultant, giving expert advice and guidance to anyone who enjoys outdoor leisure activities.

All its salespeople have the experience and expertise needed to suggest the right products to suit the type of hiking a customer is going to be doing—including customized insoles for adventurers going on long-distance walking tours.

It also offers customers information through its website and a book cafe inside its trackers' lounge.



Global Trading Business



Global Trading Business



LS Networks engages in the trading business to help it cope with future changes in its operating environment amid increasingly intensifying global competition. In addition to diversifying into imports and exports, intermediary trade, and imports and retail, we export products that can generate synergies with our existing businesses. We are also planning to import machineries, equipments and raw materials.

LS Networks is particularly focused on Russia and Central Asia, with their great potential for growth. In 2011, we opened branches in Moscow and Vladivostok. The next year, we laid the foundations for increasing our operations in Central Asia by establishing a plant to produce subsidiary materials for optical communications in Kazakhstan. In the future, we plan to expand into North Africa. We are also promoting a heavy equipment business in Russia and a resources development-related trading business in Central Asia that includes construction materials.

We entered the resources and raw materials business in 2012, including non-ferrous metals, steel, and coal trading. Going forward, we will expand our portfolio to include antimony and nickel. We are also seeking investment opportunities in other resources and raw materials, such as mine field developments in Southeast Asia. In addition, we are broadening our interests to include the future-oriented resources and energy sectors, such as new and renewable energy. We are also looking to participate in infrastructure and plant construction projects that utilize funds in support of underdeveloped countries, such as EDCF and World Bank.

There has been a marked increase in new business opportunities in emerging markets since the global economic crisis began. In response, we are strengthening our competencies in such areas as organizing, risk management, and global networking. We will continue to create new values for our future growth through this.

Asset Management Business



LS Yongsan Tower



The LS Yongsan Tower is one of the best-known landmarks in Seoul, serving as the company’s symbol and one of its most substantial revenue generators. Built in 1985, it has evolved into a “smart” building after undergoing three years of large-scale renovations. It offers tenants a premium location, competitive rates, and a pleasant operating environment, including an underground arcade. Going forward, the LS Yongsan

Tower will continue to generate stable earnings and enhance the value of its assets by raising the customer satisfaction levels of its facilities and services.

Asset Management Business



Logistics Sites



LS Networks generates revenue and carries out profitable investments and developments for the future by securing new assets and managing its holdings in an effective and efficient manner. The Gimhae site functions as a rental and logistics center. Since its use may well change in the wake of new development projects nearby, it is seeking ways to create new asset values. Our Incheon site, which is located in the city’s harbor, is used as a container cargo area.

Going forward, it will act as a base camp for LS Networks’ global trading business. Although the Seongnam site is now being used as a cold storage warehouse and logistics center, in the future it will be integrated with a logistics center at the Sangju site that is presently at the planning stage. It will contribute significantly to our future asset values, due to its prime location in the capital region.

About LS Group

Creating greater values by collaborating with LSpartnership®

LSpartnership® is the management philosophy of the entire LS Group. It means achieving exceptional performances by ensuring that our employees share a sense of ownership in the company and are treated with consideration, trust, and respect. It also means growing with our partners and stakeholders through collaboration and open-mindedness. In the end, LSpartnership® is about creating enhanced values for future generations around the world.

Growing from a leading Korean company into a world-class enterprise

Led by LS Cable & System, LS Industrial Systems, LS-Nikko Copper, LS Mtron, Gaon Cable, E1, and YESCO, the LS Group has become a leading Korean company in such areas as electricity, electronics, and materials. In 2007, the Group shifted its focus from the business to business (B2B) sector and entered the business to consumer (B2C) industry. Led by LS Corporation, it carries out responsive and responsible management by collaborating with its affiliates and seeking out future growth engines and new businesses through investments in R&D. It is also growing into a global leader by fulfilling its social responsibilities.

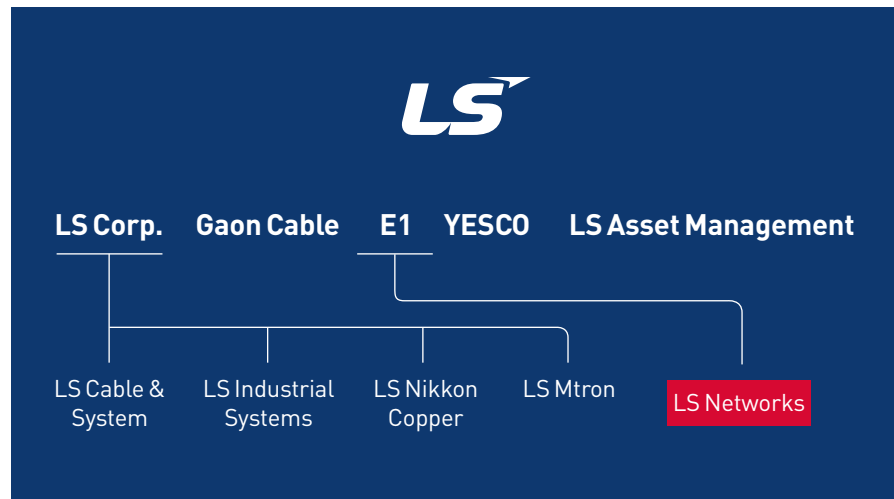
Creating value for future generations through eco-businesses

LS Group is advancing into eco business areas that can generate synergies with its current operations. It is concentrating on developing eco-technologies and products in the new and renewable energy, smart grid, futuristic auto parts and solutions, and environmentally friendly equipment and components industries. Its underlying goal is to develop new growth engines for the Korean economy while also creating value for future generations around the world.

Management Philosophy
of the LS Group



Affiliates



About LS Networks

A specialized consumer brand and retail company

LS Networks engages in the consumer brand and retail businesses as a key company in consumer goods within the LS Group. We offer total solutions for leisure and sports activities by operating a broad range of brands. Our goal is to be a lifestyle companion for our customers by adding vitality to their lives and creating enhanced values for them.

Developing new growth engines

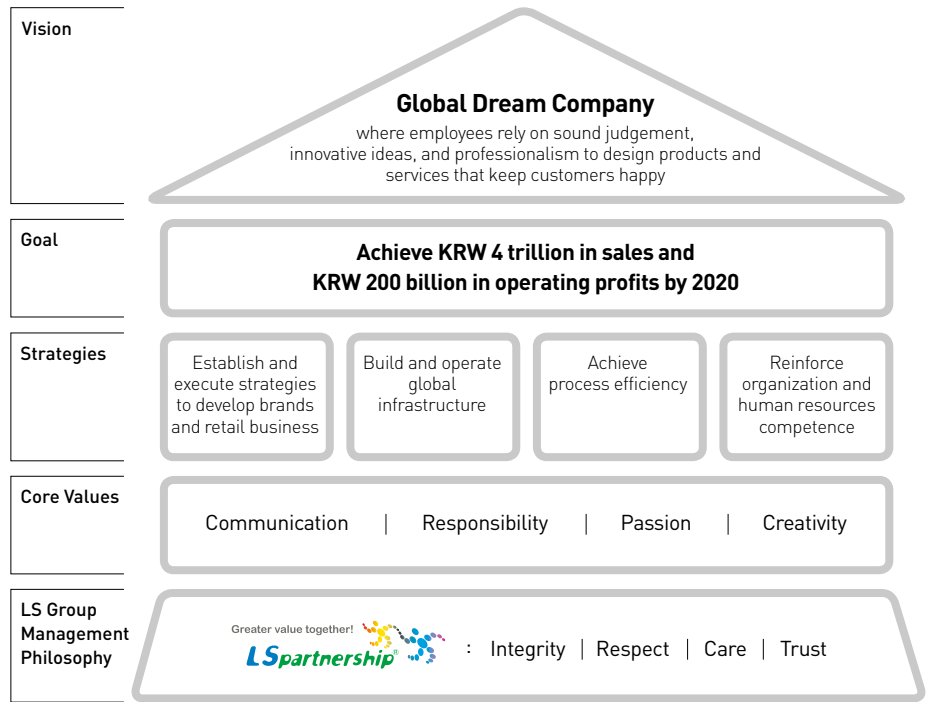
LS Networks pursues sustainable growth by developing future growth engines with its global trading business. We create new values by capturing new business opportunities in emerging markets, with a special focus on the CIS nations. We are also strengthening our competencies in such areas as organizing, risk management, and global networking.

Business Divisions

Consumer Brand Business	Consumer Retail Business	Global Trading Business	Asset anagement Business
PROSPECS	BICLO	Raw Materials and Equipment	LS Yongsan Tower
MONT-BELL	WALK & TALK	Machinery and Plants	Logistics sites in Gimhae, Incheon, Seongnam, and Sangju
SKECHERS		Communications and Electricity	
JACK WOLFSKIN		New and Renewable Energy	
		Steel	
		New Businesses	

Vision and Values

LS Networks established its new vision and values in 2012. They reflect the values and behaviors that all our members must internalize and practice in their daily lives, while also serving as the nucleus for our activities to move toward being a "Global Dream Company."



Model Employees

We look for people who design products and services that add to the happiness and satisfaction of all our customers with a strong sense of responsibility, passion, and creativity. They must also be able to communicate well.

- Strong Responsibility** : People with a sense of responsibility
- Open Communication** : People who communicate with others
- Unlimited Passion** : People with passion
- New Way of Thinking** : People with creativity
- Doing** : People who practice

* Sound implies both "sounds" and "sound and healthy" in body and mind.

History of LS Networks

LS Networks began operations in Busan in 1949. Its predecessor, Kukje Chemicals, had been playing a pioneering role in the nation's economic development since 1962, mainly by exporting basketball shoes. In 1981, it created PROSPECS, the nation's leading sports brand. It made a fresh start as LS Networks in 2007, becoming a member of the LS Group and changing its company name after being in receivership for about eight years. Today, LS Networks is a specialized consumer brand and retail company. Its activities include launching new brands and advancing into the consumer retail business. It is also expanding into asset management and the global trading business, with a special focus on Russia and China.



1949~1980: Beginnings

LS Networks began life as Kukje Chemicals in Busan in 1949.

- 1949 • Founded as Kukje Chemicals
- 1962 • Became first Korean company to export basketball shoes
- 1969 • Began operation of Sasang plant
- 1973 • Conducted initial public offering

1981~1997: Growth

Launched in 1981, PROSPECS has grown into a global sports brand, assisting in Korea's successful hosting of the 1986 Asian Games and the 1988 Seoul Olympics.

- 1981 • Developed PROSPECS brand and exported 50 million pairs of footwear to Sears in the US
- 1982 • Provided footwear to athletes participating in New Delhi Asian Games
- 1983 • Established Sports Products R&D Center
- 1984 • Company name changed to Kukje Trading
• Developed 31 types of specialized sports footwear
• Provided footwear for athletes participating in Los Angeles Olympic Games
- 1985 • Relocated to Yongsan company building
- 1986 • Became official sponsor of Asian Games
• Signed contract with Satec of France for brand exports
• Won grand prize for trademark at Korea Trademark Exhibition and completed applications for trademarks in over 40 countries



1987	<ul style="list-style-type: none"> • Signed contract with MALSO of Italy for brand exports • Established exclusive distributorship in Finland, Sweden, Norway, and Iceland • Became official sponsor of Pakistani Hockey Federation
1988	<ul style="list-style-type: none"> • Became official sponsor of Seoul Olympics
1992	<ul style="list-style-type: none"> • Production of "Grand Slam" tennis footwear exceeded two million pairs
1994	<ul style="list-style-type: none"> • Developed AI-5100 special rubber for footwear soles and obtained ISO 9001 certification
1995	<ul style="list-style-type: none"> • Obtained Good Design (GD) mark for sports and hiking footwear • Named Company with World-Class Products by Ministry of Trade and Industry
1997	<ul style="list-style-type: none"> • Started PROSPECS Cup professional soccer tournament

<p>1998~2007: Adjustment LS Networks started afresh by becoming a member of the LS Group in 2007.</p>	
1998	<ul style="list-style-type: none"> • Ranked first in sports footwear category in National Consumer Satisfaction Index (NCSI) survey
2000	<ul style="list-style-type: none"> • Placed in receivership(~2007)
2007	<ul style="list-style-type: none"> • Incorporated into LS Group as affiliate

<p>2008~Present: New Take-Off LS Networks is strengthening its foundations for growth by entering the sports and outdoor brands fields and the consumer retail business.</p>	
2008	<ul style="list-style-type: none"> • Changed company name to LS Networks and launched new BI for PROSPECS • Incorporated OD CAMP, MONT-BELL brand operator, as subsidiary • Carried out third restructuring, including spinoff of ARTIS business
2009	<ul style="list-style-type: none"> • Launched PROSPECS W sports shoe brand • Acquired FAST, SKETCHERS' brand operator • Launched JACK WOLFSKIN, leading European outdoor brand • Launched TOYOTA dealership
2010	<ul style="list-style-type: none"> • Launched trading business • Launched BICLO bicycle retail business • Completed remodeling of LS Yongsan Tower (2007.11~2010.3)
2011	<ul style="list-style-type: none"> • Launched WALK & TALK outdoor life multi-shop • Acquired Sports Motorcycle Korea • Established Chinese subsidiary • Merged with OD CAMP subsidiary • Opened company-run MONT-BELL store in Beijing • Established branches in Moscow and Vladivostok • Acquired Heungup Corporation
2012	<ul style="list-style-type: none"> • Heungup Department Store resumed operations • Established new vision and core values • Improved evaluation and remuneration programs (salaries range according to evaluation results) • Sales exceeded KRW 600.0 billion • Completed construction of plant for optical communications equipment in Kazakhstan (Alpha Networks, a joint venture with Kazakhtelecom) • Opened BICLO Academy

Management Discussion and Analysis

This management discussion and analysis has been prepared in accordance with the Korean International Financial Reporting Standard (K-IFRS).

It contains forward-looking statements with respect to LS Networks' operations, financial situation, operating results, and management plans and objectives. Statements that are not based on objectively provable facts, such as both known and unknown risks, uncertainties, and other factors, may affect the actual results or performance of the company. LS Networks does not make any guarantee, either expressed or implied, as to the accuracy or completeness of the information contained in this section, and undue reliance should not be placed on it.

Forward-looking statements refer only to the conditions on the date they were made, and the company is under no obligation to update them in light of new information or future events. The term "the company," when used without any other qualifying description, refers to LS Networks.

I. Introduction

In 2012, the world economy faced a raft of problems, including sovereign debt crises in the Euro zone, an extremely slow economic recovery in the USA, and economic slowdowns in China and emerging markets. As a result, the Korean economy was marked by dampened consumer sentiment, mainly due to slow economic growth and a sluggish real estate market. On the plus side, its volume of trade increased significantly. In response to these conditions, LS Networks took steps to further its evolution into a global consumer brand and retail company.

It also laid the groundwork for its continuing sustainable growth by developing promising new growth engines.

II. Business Results

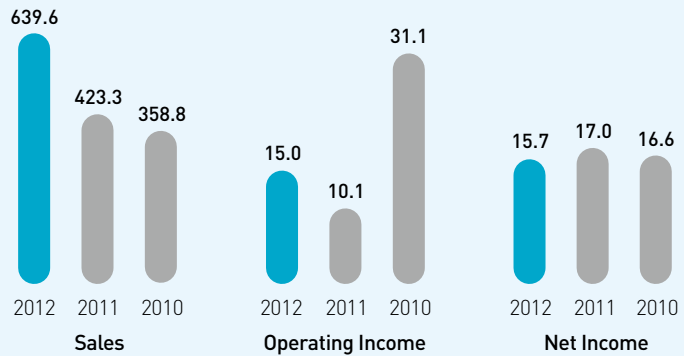
In terms of its consumer brand business, the company concentrated on tapping the domestic and overseas sports brand markets through its PROSPECS W walking shoes and R running shoes. It also positioned itself as a new power in the outdoor market following a rise in the brand awareness of MONT-BELL.

The global trading business that it has been promoting since 2011 recorded an impressive increase of 357% in sales over the year.

Total sales and operating income for 2012 surged by 51.1% and 49.7%, respectively, to KRW 639.6 billion and KRW 15.0 billion. Net income fell by 7.8% to KRW 15.7 billion. Most of this was due to income tax expenses.

Sales, Operating Income, and Net Income for the Past Three Years

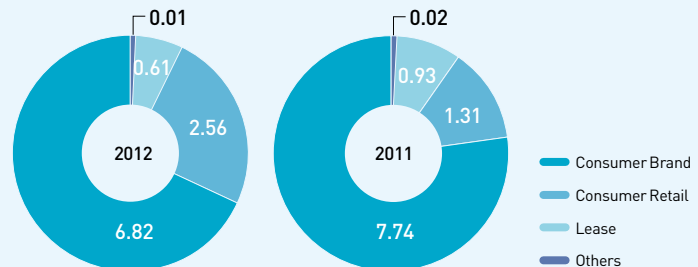
(Unit: KRW in billions)



In 2012, the company’s consumer brand business (including PROSPECS, SKECHERS, MONTBELL, and JACK WOLFSKIN) accounted for 68.2% of its total sales. The global trading and consumer retail businesses made up a further 25.6%, while the lease business and others accounted for 6.1% and 0.1%, respectively. The proportion of the global trading and consumer retail businesses expanded by 12.5% points, while that of the consumer brand and lease businesses decreased by 9.2% points and 3.2% points, respectively.

2012 Sales Breakdown

(Unit: KRW in billions)



1. Results by Business

Sales and operating income in the consumer brand business rose by 33.2% and 163.7%, respectively, over the year to KRW 436.1 billion and KRW 18.3 billion. This occurred despite a marked drop in Korea’s level of consumer confidence. In response, the company focused on tapping the consumer brand market, building up the brand image of PROSPECS through celebrity marketing and

Management Discussion and Analysis

strengthening the sales concepts and lineups of SKETCHERS, MONT-BELL, and JACK WOLFSKIN. Sales of its Chinese subsidiaries rose steadily during the year. The company continued to add to its awareness in other countries, including the USA.

The global trading sector recorded remarkable growth. In the consumer retail sector, our BICLO, WALK & TALK, and multi-brand businesses all performed well, while the size of our retail network grew appreciably. Sales at our Toyota dealership rose by 125% over the year, mainly due to the launch of new models of cars. Total sales in the consumer retail business surged by 194.5% to KRW 163.9 billion.

In the lease business sector, the Korean property market remained depressed in spite of the central government's pump-priming policies, while demand also continued to decrease. The company generated stable earnings led by the LS Yongsan Tower. The LS Yong Tower contributed to the company's revenue generation, including the development of an underground arcade. Total sales decreased marginally, easing off by 0.5% year-on-year to KRW 39.2 billion. Operating income fell by 21.9% to KRW 15.0 billion, reflecting an increase in depreciation expenses due to the company's ongoing investments.

Gross Profit	(Unit: KRW in billions)			
	2012	2011	YoY Change	Change(%)
Sales	639.6	423.3	216.2	51.1%
Cost of goods and services sold	360.3	209.5	150.8	72.0%
Gross profit	279.3	213.8	65.4	30.6%
Gross margin	43.7%	50.5%	-	-
Selling and administrative expenses	264.2	203.8	60.4	29.7%
Operating income	15.0	10.1	5.0	49.7%
Operating margin	2.4%	2.4%	-	-

2. Net Income

Net income edged down by 7.8% over the year to KRW 15.7 billion, while the ratio of net income to net sales fell by 1.5% points to 2.5%. This reflected a rising ratio of income tax expenses over refunds following the company's merger with OD CAMP the previous year.

Net Income		(Unit: KRW in billions)		
	2012	2011	YoY Change	Change(%)
Financial revenue	26.1	16.6	9.5	57.5%
Financial costs	21.7	15.8	5.8	37.0%
Income before income taxes	23.3	12.4	10.9	87.7%
Net income	15.7	17.0	(1.3)	(7.8)%
Net margin	2.5%	4.0%	-	-

III. Financial Position

1. Total Assets

The company's total assets were worth KRW 1,257.2 billion at the end of 2012, up 5.1% from the previous year. This was led by increases in trade receivables in the global trading and consumer brand sectors and higher inventories in the global trading business. There were no major changes in the collection period of trade receivables, while that of our inventories decreased sharply. This had a positive effect on our level of liquidity.

Total Assets		(Unit: KRW in billions)		
	2012	2011	YoY Change	Change(%)
Current assets	265.1	201.4	63.7	31.6%
Cash and cash equivalents	7.3	3.8	3.5	92.1%
Trade receivables	70.5	38.6	31.9	82.6%
Other receivables	9.5	6.3	3.2	50.8%
Inventories	174.4	148.1	26.3	17.8%
Other current assets	3.4	4.6	(1.2)	(26.1)%
Non-current assets	992.1	994.3	(2.2)	(0.2)%
Tangible assets	217.3	198.8	18.5	9.3%
Investment assets	566.9	582.7	(15.8)	(2.7)%
Other intangible assets	207.9	212.8	(4.9)	(2.3)%
Total assets	1257.2	1195.7	61.5	5.1%

2. Total Liabilities and Shareholders' Equity

Total liabilities increased by 9.6% over the year to reach KRW 562.4 billion at the end of 2012. This was attributed to rises in short-term and long-term borrowings of

Management Discussion and Analysis

KRW 22.0 billion and KRW 20.3 billion, respectively, due to increased investments and the enlistment of new customers in our global trading and consumer retail businesses.

Our debt-to-equity ratio rose to 81.0% from 75.2% the previous year, demonstrating the stability of our financial structure in the context of the agreed-upon limits established by the financial institutions that we borrow from. Financing through borrowings is believed to be of benefit to a company's shareholders, due to its leverage effects.

Total shareholders' equity edged up by 1.8% to KRW 694.8 billion. Retained earnings increased by KRW 12.9 billion, reflecting net income of KRW 15.7 billion and the payment of dividends. The company plans to raise its shareholder value by paying dividends every year.

Total Liabilities		[Unit: KRW in billions]		
	2012	2011	YoY Change	Change(%)
Current liabilities	345.4	83.4	262.0	314.1%
Trade payables	23.4	17.9	5.5	30.7%
Borrowings	261.8	39.6	222.2	561.1%
Other current liabilities	60.2	25.9	34.3	132.4%
Non-current liabilities	217.0	429.9	(212.9)	(49.5)%
Other notes and accounts payable	52.6	48.9	3.7	7.6%
Borrowings	92.6	258.1	(165.5)	(64.1)%
Other non-current liabilities	71.8	122.9	(51.1)	(41.6)%
Total liabilities	562.4	513.3	49.1	9.6%

Total shareholders' equity		[Unit: KRW in billions]		
	2012	2011	YoY Change	Change(%)
Shareholders' equity				
Capital stock	394.1	3,941	-	0.0%
Other contributed capital	(7.9)	(8.2)	0.3	3.7%
Components of other capital	3.4	4.2	(0.8)	(19.0)%
Retained earnings	305.2	292.3	12.9	4.4%
Total shareholders' equity	694.8	682.4	12.4	1.8%

IV. Cash Flow

Cash flow from the company's operating activities resulted in a net outflow of KRW 17.2 billion. This was due to rises in our trade receivables and inventories.

It rose by KRW 11.7 billion over the year, and is expected to improve even more in 2013 if the turnover time of our inventories continues to shorten.

Cash outflow for investing activities was KRW 14.3 billion. This was caused by the acquisition of tangible assets and an increase in capital for the company's subsidiary in Beijing. It was still up by KRW 51.1 billion from the previous year's figure.

Cash flow from financing activities resulted in an inflow of KRW 35.1 billion, mostly due to the issuance of corporate bonds. Our overall cash balance in 2012 had a net inflow of KRW 3.6 billion, meaning that our overall cash flow was satisfactory.

Cash flow	(Unit: KRW in billions)			
	2012	2011	YoY Change	Change(%)
Cash flow				
Net cash flow from operating activities	(17.2)	(28.9)	11.7	40.5%
Net cash flow from investing activities	(14.3)	(65.4)	51.1	78.1%
Net cash flow from financing activities	35.1	80.4	(45.3)	(56.3)%
Increase (Decrease) in cash balance	3.6	(13.9)	17.5	125.9%

V. Outlook for 2013

LS Networks continued to demonstrate its potential for sustainable growth in 2012, with sales breaking the KRW 600.0 billion mark for the first time since it joined the LS Group. In the consumer brand business, the company will strive to rank its PROSPECS brand third in the industry and add to the profitability of such new brands as MONT-BELL and SKETCHERS. The global trading sector will take advantage of any and all business opportunities in new markets, while also consolidating its existing resources trading business. The consumer retail sector will concentrate on ensuring the internal stability of its existing businesses.

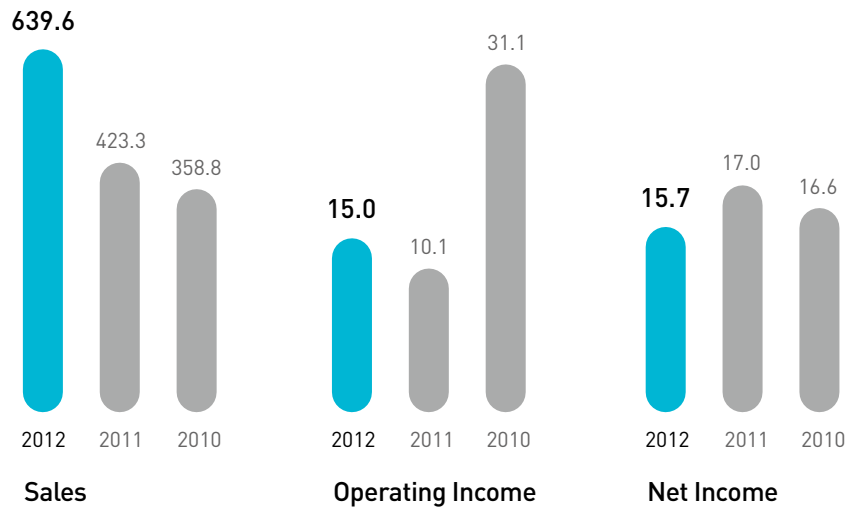
The Korean economy in 2013 is forecast to continue being sluggish.

In response, LS Networks will take steps to reorganize its business divisions to maximize synergies among them. The company will also maintain its responsible management system, enabling it to make quick and bold decisions in preparation for greater growth when the economy improves.

2012 Financial Highlights

1. Profit and Loss

(Unit: KRW in billions)



2. Financial Position

(Unit: KRW in billions)



Financial Statements

LS Networks took a number of steps to enhance its management environment in 2012. This included adopting progressive and proactive strategies in each of its business areas, including its production and operating activities.

As a result, the company posted growth in sales and operating income of 51.1% and 49.7% to KRW 639.6 billion and KRW 15.0 billion, respectively. Total assets increased by 5.1% to KRW 1,257.2 billion. The debt-to-equity ratio was 81.0%, demonstrating that we had a relatively satisfactory financial position.

Separate Statements of Financial Position

As at December 31, 2012 and 2011 and January 1, 2011

LS Networks Co., Ltd.

(Unit: KRW)

	Dec. 31, 2012		Dec. 31, 2011		Jan. 1, 2011
Assets					
Current assets					
Cash and cash equivalents	₩	7,318,964,733	₩	3,775,561,798	₩ 17,657,187,096
Trade accounts and notes receivable		70,492,246,035		38,641,910,583	22,882,506,785
Other accounts receivable		9,502,138,340		6,272,085,310	4,623,101,257
Other current financial assets		1,105,879,278		1,456,601,780	10,485,036,000
Derivatives assets		310,286,119		-	-
Other current assets		1,997,158,508		3,135,639,228	12,336,505,368
Inventories		174,386,887,205		148,123,633,832	86,071,842,782
		265,113,560,218		201,405,432,531	154,056,179,288
Non-current assets					
Other accounts receivable		20,459,257,300		21,938,858,619	17,251,984,808
Investment in subsidiaries		26,644,569,616		21,710,111,816	18,322,821,307
Investment in associates		141,401,008,105		143,520,296,105	141,401,008,105
Investment in a jointly controlled entity		1,534,460,654		650,696,654	-
Other non-current financial assets		8,021,763,353		13,912,550,855	10,444,451,073
Other non-current assets		1,447,763,780		1,635,003,544	922,045,045
Property, plant and equipment		217,335,499,314		198,827,775,183	165,218,307,240
Investment properties		566,915,543,823		582,690,562,364	570,417,471,225
Intangible assets		8,329,352,430		9,446,507,766	8,926,265,439
		992,089,218,375		994,332,362,906	932,904,354,242
Total assets	₩	1,257,202,778,593	₩	1,195,737,795,437	₩ 1,086,960,533,530

As at December 31, 2012 and 2011 and January 1, 2011

(Unit: KRW)

	Dec. 31, 2012		Dec. 31, 2011		Jan. 1, 2011
Equity and liabilities					
Current liabilities					
Trade accounts and notes payables	₩	23,427,622,814	₩	17,870,863,499	₩ 12,482,596,623
Other accounts payables		18,553,344,638		18,462,956,077	11,240,791,961
Borrowings		261,824,950,766		39,587,222,308	1,969,774,184
Other current liabilities		8,169,092,119		5,059,469,937	4,835,782,770
Derivatives liabilities		32,260,525,294		-	-
Income tax payable		1,173,158,197		2,441,065,229	6,034,259,342
		345,408,693,828		83,421,577,050	36,563,204,880
Non-current liabilities					
Other accounts payables		52,642,961,460		48,888,787,533	43,624,555,425
Bonds		49,870,669,280		-	-
Borrowings		42,692,566,635		258,068,974,123	173,842,197,892
Other non-current liabilities		1,638,419,914		1,849,672,857	2,050,589,131
Derivatives liabilities		794,153,994		56,561,598,815	70,156,064,323
Defined benefit liability		3,171,605,451		-	15,931,517
Deferred tax liabilities		66,215,496,620		64,537,512,105	63,832,416,967
		217,025,873,354		429,906,545,433	353,521,755,255
Total liabilities		562,434,567,182		513,328,122,483	390,084,960,135
Equity					
Issued capital		394,091,500,000		394,091,500,000	393,464,130,000
Capital adjustments		(7,920,703,249)		(8,199,953,098)	(46,418,640,044)
Other components of equity		3,445,790,527		4,247,453,938	6,231,212,862
Retained earnings		305,151,624,133		292,270,672,114	343,598,870,577
Total equity		694,768,211,411		682,409,672,954	696,875,573,395
Total equity and liabilities	₩	1,257,202,778,593	₩	1,195,737,795,437	₩ 1,086,960,533,530

Separate Statements of Comprehensive Income

For the years ended December 31, 2012 and 2011

LS Networks Co., Ltd.

(Unit: KRW)

	2012		2011	
Sales	₩	639,561,787,379	₩	423,313,531,527
Cost of sales		(360,281,626,361)		(209,465,133,630)
Gross profit		279,280,161,018		213,848,397,897
Selling and administrative expenses		(264,237,048,696)		(203,796,772,657)
Operating profit		15,043,112,322		10,051,625,240
Other operating income		14,013,692,582		3,457,461,663
Other operating expense		(10,201,204,523)		(1,855,726,832)
Finance income		26,123,570,997		16,582,041,320
Finance costs		(21,667,115,943)		(15,817,518,957)
Profit for the year before tax		23,312,055,435		12,417,882,434
Income tax expense(benefit)		7,624,973,798		(4,587,449,756)
Profit for the year		15,687,081,637		17,005,332,190
Other comprehensive income				
Loss on valuation of available-for-sale financial assets		(25,585,001)		(1,983,758,924)
Loss on valuation of derivatives		(776,078,410)		-
Actuarial loss on defined benefit plans		(1,621,793,094)		(469,230,825)
Total comprehensive income for the year, net of tax	₩	13,263,625,132	₩	14,552,342,441
Earnings per share:				
- Basic and diluted earnings per share	₩	200	₩	211

Separate Statements of Changes in Equity

For the years ended December 31, 2012 and 2011

LS Networks Co., Ltd.

(Unit: KRW)

	Issued capital	Capital adjustments	Other components of equity	Retained earnings	Total
As at January 1, 2011	₩ 393,464,130,000	(46,418,640,044)	6,231,212,862	343,598,870,577	696,875,573,395
Profit for the year	-	-	-	17,005,332,190	17,005,332,190
Other comprehensive income:					
Gain on valuation of available-for-sale financial assets	-	-	(1,983,758,924)	-	(1,983,758,924)
Actuarial loss on defined benefit plan	-	-	-	(469,230,825)	(469,230,825)
Total comprehensive income	-	-	(1,983,758,924)	16,536,101,365	14,552,342,441
Cash dividends	-	-	-	(1,073,884,500)	(1,073,884,500)
Stock dividends	627,370,000	-	-	(627,370,000)	-
Loss on capital reduction	-	45,431,417,853	-	(45,431,417,853)	-
Loss on discount on stock issuance	-	279,249,849	-	(279,249,849)	-
Acquisition of treasury stock	-	(7,491,980,756)	-	-	(7,491,980,756)
Transaction costs	-	-	-	(8,594,070,438)	(8,594,070,438)
Adjustments in deferred income tax arising from revaluation of PP&E	-	-	-	(11,858,307,188)	(11,858,307,188)
At December 31, 2011	₩ 394,091,500,000	(8,199,953,098)	4,247,453,938	292,270,672,114	682,409,672,954
As at January 1, 2012	₩ 394,091,500,000	(8,199,953,098)	4,247,453,938	292,270,672,114	682,409,672,954
Profit for the year	-	-	-	15,687,081,637	15,687,081,637
Other comprehensive income:					
Loss on valuation of available-for-sale financial assets	-	-	(25,585,001)	-	(25,585,001)
Loss on valuation of derivatives	-	-	(776,078,410)	-	(776,078,410)
Actuarial loss on defined benefit plan	-	-	-	(1,621,793,094)	(1,621,793,094)
Total comprehensive income	-	-	(801,663,411)	14,065,288,543	13,263,625,132
Cash dividends	-	-	-	(905,086,675)	(905,086,675)
Loss on discount on stock issuance	-	279,249,849	-	(279,249,849)	-
At December 31, 2012	₩ 394,091,500,000	(7,920,703,249)	3,445,790,527	305,151,624,133	694,768,211,411

Separate Statements of Cash Flows

For the years ended December 31, 2012 and 2011

LS Networks Co., Ltd.

[Unit: KRW]

	2012		2011	
Operating activities:				
Profit for the year	₩	15,687,081,637	₩	17,005,332,190
Non-cash adjustment to reconcile profit for the year to net cash flows				
Depreciation		14,151,091,449		11,739,033,251
Amortization of intangible assets		1,419,621,975		1,107,665,372
Bad debt expenses		64,399,474		2,280,000
Advertising and marketing expenses		-		692,317,333
Loss on scrap of inventory		1,599,561,278		164,375,661
Loss(gain) on foreign currency translation, net		(150,967,170)		146,741,202
Provision for pension benefits		2,838,290,497		2,186,348,002
Loss(gain) on disposal of property, plant and equipment, net		(7,331,475,466)		94,944,124
Other bad debt expenses		2,396,948,440		-
Impairment loss on investment asset		2,119,288,000		-
Impairment loss on intangible asset		682,077,640		-
Loss on valuation of definitive commitments, net		(81,712,248)		-
Gain on valuation of derivatives, net		82,120,235		-
Income tax expense(benefit)		7,624,973,798		(4,587,449,756)
Finance income		(26,123,570,997)		(16,582,041,320)
Finance costs		21,667,115,943		15,817,518,957
Working capital adjustments:				
Trade accounts and notes receivable		(32,005,291,031)		(13,323,263,889)
Other accounts receivable		(95,680,877)		(4,807,967,457)
Other financial assets		352,342,502		9,985,659,220
Inventories		(27,862,814,651)		(40,103,726,564)
Other current assets		1,138,480,720		(2,755,167,971)
Other non-current assets		187,239,764		(712,958,499)

For the years ended December 31, 2012 and 2011

(Unit: KRW)

	2012	2011
Trade accounts and notes payables	5,589,855,343	1,627,997,055
Other accounts payables	3,137,350,518	5,643,500,247
Other current liabilities	3,109,622,182	(154,354,129)
Other non-current liabilities	(211,252,943)	1,454,266,328
Payment of defined benefit obligation	(744,872,085)	(436,120,338)
Defined benefit liability transferred from related party	16,499,165	36,921,940
Pension assets	-	(3,500,000,000)
Income tax paid	(6,441,180,649)	(9,602,201,129)
Net cash flows used in operating activities	(17,184,857,557)	(28,860,350,170)
Investing activities:		
Disposal of other current assets	-	12,000,000,000
Purchase of investment properties	(204,382,777)	(27,262,267,646)
Purchase of property, plant, and equipment	(13,716,343,764)	(28,675,856,191)
Proceeds from disposal of property, plant, and equipment	822,288,409	593,294,495
Purchase of intangible assets	(984,544,279)	(1,996,317,272)
Purchase of other financial assets	(518,450)	(4,722,870,330)
Proceeds from other financial assets	4,778,051,800	4,510,000
Interest received	325,755,404	552,240,019
Proceeds from disposal of available-for-sale financial assets	-	1,400,000,000
Dividends received	450,749,100	542,978,350
Increase in investment in subsidiaries	(4,934,457,800)	(15,038,880,000)
Increase in investment in associates	-	(2,119,288,000)
Increase in investment in a jointly controlled entity	(883,764,000)	(650,696,654)
Acquisition of a subsidiary, net of cash acquired	-	2,236,810
Net cash flows used in investing activities	(14,347,166,357)	(65,370,916,419)

Separate Statements of Cash Flows, continued

For the years ended December 31, 2012 and 2011

LS Networks Co., Ltd.

(Unit: KRW)

	2012	2011
Financing activities:		
Proceeds from borrowings	167,905,029,663	260,062,075,634
Repayment of borrowings	(175,311,406,285)	(169,417,323,206)
Proceeds from bonds	49,811,200,000	-
Acquisition of treasury stock	-	(7,491,980,756)
Interest paid	(6,353,995,308)	(1,725,963,917)
Dividends paid	(905,086,675)	(1,073,884,500)
Net cash flows from financing activities	35,145,741,395	80,352,923,255
Net decrease in cash and cash equivalents	3,613,717,481	(13,878,343,334)
Cash and cash equivalents at January 1	3,775,561,798	17,657,187,096
Net foreign exchange difference	(70,314,546)	(3,281,964)
Cash and cash equivalents at December 31	₩ 7,318,964,733	₩ 3,775,561,798

Consolidated Statements of Financial Position

For the years ended December 31, 2012 and 2011, 2010

Ownership of LS Networks and its consolidated subsidiaries

(Unit: KRW)

	63		62		61	
Assets						
Current assets						
Cash and cash equivalents	₩	10,511,298,692	₩	7,149,504,443	₩	17,701,168,345
Trade accounts and notes receivable		71,926,736,403		40,483,417,499		26,286,985,743
Other accounts receivable		9,377,833,900		6,503,413,259		4,836,952,848
Other current financial assets		1,105,879,278		1,466,601,780		11,445,036,000
Derivatives		310,286,119		-		-
Other current assets		2,741,565,299		3,253,945,625		12,403,481,068
Inventories		179,821,483,555		151,234,383,021		101,583,472,431
Current tax assets		5,310,870		9,020,120		8,659,440
		275,800,394,116		210,100,285,747		174,265,755,875
Non-current assets						
Other accounts receivable		21,986,277,435		23,295,507,468		18,632,764,808
Investment in associates		285,504,896,552		288,754,696,882		273,549,421,585
Investment in a jointly controlled entity		1,209,166,774		635,809,914		-
Other non-current financial assets		8,029,113,353		9,199,900,855		10,503,082,673
Other non-current assets		1,447,763,780		1,635,003,544		922,045,045
Property, plant and equipment		233,685,480,930		215,418,617,906		167,513,079,265
Investment properties		566,915,543,823		582,690,562,364		570,417,471,225
Intangible assets		9,379,886,292		10,455,185,565		9,021,845,687
		1,128,158,128,939		1,132,085,284,498		1,050,559,710,288
Total assets	₩	1,403,958,523,055	₩	1,342,185,570,245	₩	1,224,825,466,163

Consolidated Statements of Financial Position, continued

For the years ended December 31, 2012 and 2011. 2010

Ownership of LS Networks and its consolidated subsidiaries

(Unit: KRW)

	63		62		61	
Equity and liabilities						
Current liabilities						
Trade accounts and notes payables	₩	25,782,891,935	₩	19,382,766,456	₩	13,330,853,673
Other accounts payables		18,968,118,614		18,864,020,269		13,687,733,224
Borrowings		262,924,950,766		40,549,444,919		10,672,861,774
Other current liabilities		8,903,433,932		6,051,050,094		4,990,624,770
Derivatives liabilities		32,260,525,294		-		-
Income tax payable		1,173,158,197		2,441,065,229		6,034,259,342
		350,013,078,738		87,288,346,967		48,716,332,783
Non-current liabilities						
Other accounts payables		49,600,014,793		45,855,340,866		41,941,555,425
Bonds		49,870,669,280		-		-
Borrowings		46,292,566,635		258,068,974,123		173,842,197,892
Other non-current liabilities		1,638,419,914		1,849,672,857		2,050,589,131
Derivatives liabilities		794,153,994		56,561,598,815		70,156,064,323
Defined benefit liability		3,353,911,297		111,565,730		242,254,735
Deferred tax liabilities		101,188,551,441		100,064,967,541		92,905,067,933
		252,738,287,354		462,512,119,932		381,137,729,439
Total liabilities		602,751,366,092		549,800,466,899		429,854,062,222
Equity						
Issued capital		394,091,500,000		394,091,500,000		393,464,130,000
Capital adjustments		(7,920,703,249)		(8,290,757,498)		(46,451,918,644)
Other components of equity		(1,552,379,170)		6,815,305,179		9,138,491,623
Retained earnings		416,588,739,382		399,769,055,665		438,820,700,962
Total equity attributable to owner of parent		801,207,156,963		792,385,103,346		794,971,403,941
Non-controlling interests		-		-		-
Total equity		801,207,156,963		792,385,103,346		794,971,403,941
Total equity and liabilities	₩	1,403,958,523,055	₩	1,342,185,570,245	₩	1,224,825,466,163

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2012 and 2011

Ownership of LS Networks and its consolidated subsidiaries

(Unit: KRW)

	63		62	
I. Sales	₩	654,844,454,198	₩	454,028,664,147
II. Cost of sales		(370,752,359,861)		(225,600,953,568)
III. Gross profit		284,092,094,337		228,427,710,579
Selling and administrative expenses		(274,618,861,002)		(224,736,986,624)
IV. Operating profit		9,473,233,335		3,690,723,955
Other operating income		15,080,606,817		4,409,101,816
Other operating expense		(6,097,850,067)		(2,298,689,299)
Finance income		26,141,568,923		18,545,002,347
Finance costs		(21,935,814,342)		(16,322,384,417)
Income from subsidiaries, joint controlled entities and associates		7,255,330,948		14,669,526,854
Loss from subsidiaries, joint controlled entities and associates		(821,509,715)		(1,160,899,134)
V. Profit for the year before tax		29,095,565,899		21,532,382,122
Income tax expense(benefit)		(9,378,948,164)		(786,228,682)
VI. Profit for the year		19,716,617,735		20,746,153,440
VII. Other comprehensive income				
Loss on valuation of available-for-sale financial assets		(25,585,001)		(1,983,758,924)
Loss on valuation of derivatives		(776,078,410)		-
Actuarial loss on defined benefit plans		(1,621,793,094)		(494,290,747)
Loss on valuation of equity method		(7,315,175,287)		(415,311,668)
Gain(loss) on overseas operations translation		(250,845,651)		75,884,148
VIII. Total comprehensive income for the year, net of tax		9,727,140,292		17,928,676,249
Profit, attributable to				
Attributable to owner of parent		19,716,617,735		20,746,153,440
Attributable to non-controlling interests		-		-
		19,716,617,735		20,746,153,440
Total comprehensive income, attributable to				
Attributable to owner of parent		9,727,140,292		17,928,676,249
Attributable to non-controlling interests		-		-
		9,727,140,292		17,928,676,249
IX. Earnings per share:				
- Basic and diluted earnings per share	₩	249	₩	254

Consolidated Statements of Changes in Equity

Ownership of LS Networks and its consolidated subsidiaries

(Unit: KRW)

	Issued capital		Capital adjustments		Other components of equity	
As at January 1, 2011	₩	393,464,130,000	₩	(46,451,918,644)	₩	9,138,491,623
Profit for the year		-		-		-
Other comprehensive income:						
Gain on valuation of available-for-sale financial assets		-		-		(1,983,758,924)
Actuarial loss on defined benefit plan		-		-		-
Loss on valuation of equity method		-		-		(415,311,668)
Gain(loss) on overseas operations translation		-		-		75,884,148
Total comprehensive income		-		-		(2,323,186,444)
Cash dividends		-		-		-
Stock dividends		627,370,000		-		-
Loss on capital reduction		-		45,431,417,853		-
Loss on discount on stock issuance		-		279,249,849		-
Acquisition of treasury stock		-		(7,491,980,756)		-
Paid-in capital increase of subsidiaries and M&A		-		(57,525,800)		-
Difference from market adjustment of tangible assets recognised in effect of deferred tax transaction		-		-		-
At December 31, 2011	₩	394,091,500,000	₩	(8,290,757,498)	₩	6,815,305,179
As at January 1, 2012	₩	394,091,500,000	₩	(8,290,757,498)	₩	6,815,305,179
Profit for the year		-		-		-
Other comprehensive income:						
Loss on valuation of available-for-sale financial assets		-		-		(25,585,001)
Actuarial loss on defined benefit plan		-		-		-
Loss on valuation of equity method		-		-		(7,315,175,287)
Gain(loss) on overseas operations translation		-		-		(250,845,651)
Loss on valuation of derivatives		-		-		(776,078,410)
Total comprehensive income		-		-		(8,367,684,349)
Cash dividends		-		-		-
Loss on discount on stock issuance		-		370,054,249		-
At December 31, 2012	₩	394,091,500,000	₩	(7,920,703,249)	₩	(1,552,379,170)

For the years ended December 31, 2012 and 2011

(Unit: KRW)

	Retained earnings	Other components of equity	Non-controlling interests	Total		
₩	438,820,700,962	₩	794,971,403,941	-	₩	794,971,403,941
	20,746,153,440		20,746,153,440	-		20,746,153,440
	-		(1,983,758,924)	-		(1,983,758,924)
	(494,290,747)		(494,290,747)	-		(494,290,747)
	-		(415,311,668)	-		(415,311,668)
	-		75,884,148	-		75,884,148
	20,251,862,693		17,928,676,249	-		17,928,676,249
	(1,073,884,500)		(1,073,884,500)	-		(1,073,884,500)
	(627,370,000)		-	-		-
	(45,431,417,853)		-	-		-
	(279,249,849)		-	-		-
	-		(7,491,980,756)	-		(7,491,980,756)
	(33,278,600)		(90,804,400)	-		(90,804,400)
	(11,858,307,188)		(11,858,307,188)	-		(11,858,307,188)
₩	399,769,055,665	₩	792,385,103,346	-	₩	792,385,103,346
₩	399,769,055,665	₩	792,385,103,346	-	₩	792,385,103,346
	19,716,617,735		19,716,617,735	-		19,716,617,735
	-		(25,585,001)	-		(25,585,001)
	(1,621,793,094)		(1,621,793,094)	-		(1,621,793,094)
	-		(7,315,175,287)	-		(7,315,175,287)
	-		(250,845,651)	-		(250,845,651)
	-		(776,078,410)	-		(776,078,410)
	18,094,824,641		9,727,140,292	-		9,727,140,292
	(905,086,675)		(905,086,675)	-		(905,086,675)
	(370,054,249)		-	-		-
₩	416,588,739,382	₩	801,207,156,963	-	₩	801,207,156,963

Consolidated Statements of Cash Flows

Ownership of LS Networks and its consolidated subsidiaries

(Unit: KRW)

	63		62	
I. Operating activities:				
1. Profit for the year	₩	19,716,617,735	₩	20,746,153,440
2. Non-cash adjustment to reconcile profit for the year to net cash flows		-		
Depreciation		14,794,981,277		12,403,770,611
Amortization of intangible assets		1,908,041,675		1,143,825,978
Bad debt expenses		-		34,458,719
Reversal of bad debt expenses		(82,931,337)		-
Other bad debt expenses		2,396,948,440		7,000,000
Advertising and marketing expenses		-		692,317,333
Loss on scrap of inventory		1,601,239,676		230,003,873
Loss on foreign currency translation, net		202,229,510		299,704,303
Gain on foreign currency translation, net		(378,741,763)		(94,962,635)
Loss on valuation using the equity method of accounting		821,509,715		1,160,899,134
Gain on valuation using the equity method of accounting		(7,255,330,948)		(14,669,526,854)
Reversal of negative goodwill		-		(1,932,300,229)
Provision for pension benefits		2,928,963,613		2,352,034,885
Loss on disposal of property, plant and equipment, net		323,656,000		200,509,259
Gain on disposal of property, plant and equipment, net		(7,655,772,491)		(36,661,084)
Impairment loss on intangible asset		682,077,640		286,667
Impairment loss on investment assets		370,478,435		-
Loss on redemption of debentures		-	₩	12,802,932

For the years ended December 31, 2012 and 2011

(Unit: KRW)

		63		62
Loss on valuation of definitive commitments, net	₩	97,767,534		-
Gain on valuation of definitive commitments, net		(179,479,782)		-
Loss on valuation of derivatives, net		212,926,572		-
Income tax expense(benefit)		9,378,948,164		786,228,682
Finance income		(26,272,375,260)		(16,612,702,118)
Finance costs		21,935,814,342		16,309,581,485
3. Working capital adjustments:				
Trade accounts and notes receivable		(31,637,175,577)		(13,742,545,389)
Other accounts receivable		311,357,214		(5,339,249,600)
Other financial assets		352,342,502		9,985,659,220
Inventories		(30,188,340,210)		(49,035,732,298)
Other current assets		(3,015,205,245)		(2,812,149,476)
Other non-current assets		187,239,764		(712,958,499)
Trade accounts and notes payables		(1,243,648,352)		4,475,360,321
Other accounts payables		14,346,015,732		8,083,052,712
Other current liabilities		2,852,383,838		273,106,558
Other non-current liabilities		(211,252,943)		(345,441,076)
Payment of defined benefit obligation		(764,805,085)		(735,312,618)
Defined benefit liability transferred from related party		16,499,165		-
Pension assets		-		(3,500,000,000)
Income tax paid		(6,437,471,399)		(8,487,687,910)
Net cash flows used in operating activities	₩	(19,884,491,849)	₩	(38,860,473,674)

Consolidated Statements of Cash Flows, continued

Ownership of LS Networks and its consolidated subsidiaries

(Unit: KRW)

	63		62
II. Investing activities			
Disposal of other current assets	₩	-	₩ 12,000,000,000
Purchase of investment properties		(204,382,777)	(27,262,267,646)
Purchase of property, plant, and equipment		(14,121,967,026)	(30,555,661,081)
Proceeds from disposal of property, plant, and equipment		822,929,434	631,148,945
Purchase of intangible assets		(1,514,820,042)	(2,519,493,161)
Purchase of other financial assets		(518,450)	(3,905,530)
Proceeds from other financial assets		58,051,800	4,510,000
Interest received		343,753,330	582,900,817
Proceeds from disposal of available-for-sale financial assets		-	1,400,000,000
Dividends received		450,749,100	542,978,350
Increase in investment in associates		-	(2,119,288,000)
Increase in investment in a jointly controlled entity		(883,764,000)	(650,696,654)
Increase in investment in subsidiaries		-	(12,044,746,493)
Net cash flows used in investing activities	₩	(15,049,968,631)	₩ (59,994,520,453)

For the years ended December 31, 2012 and 2011

(Unit: KRW)

		63		62
III. Financing activities:				
Proceeds from borrowings	₩	171,652,927,272	₩	270,002,154,466
Repayment of borrowings		(175,321,526,505)		(170,896,759,830)
Proceeds from bonds		49,811,200,000		-
Acquisition of treasury stock		-		(7,491,980,756)
Interest paid		(6,622,693,707)		(2,218,026,445)
Dividends paid		(905,086,675)		(1,073,884,500)
Increase of capital stock		-		(90,804,400)
Net cash flows from financing activities		38,614,820,385		88,230,698,535
IV. Effect of exchange rate change		(248,251,110)		75,913,654
V. Net decrease in cash and cash equivalents		3,432,108,795		(10,548,381,938)
VI. Cash and cash equivalents at January 1		7,149,504,443		17,701,168,345
VII. Net foreign exchange difference		(70,314,546)		(3,281,964)
VIII. Cash and cash equivalents at December 31	₩	10,511,298,692	₩	7,149,504,443

Global Dream Company

In 2012, LS Networks built the foundations for sustainable growth in each of its businesses while also enjoying sales growth and increased profitability.

We will continue that trend in 2013.

This will be done by continuing our advance into global markets, building more future growth engines, and through the profitable and practical management of our consumer brand business.

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