

The power of three

Together, governments, entrepreneurs and corporations can spur growth across the G20

The EY G20 Entrepreneurship Barometer 2013

Country profiles

Argentina
Australia
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Canada
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France
Germany
India
Indonesia
Italy
Japan
Mexico
Russia
Saudi Arabia
South Africa
▶ **South Korea**
Turkey
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G20
Young Entrepreneurs'
Alliance

South Korea at a glance



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Emerging from the shadow of the chaebols

Key facts

Overall Barometer ranking	Quartile 1
Population	50 million
GNI per capita (PPP)	US\$30,890
GDP growth	2%
Exports as % GDP	56.2%

Source: The World Bank, 2012

South Korea has many strengths when it comes to providing a good environment for entrepreneurs. It is true that the economy is still dominated by large conglomerates, known as *chaebols*, but entrepreneurial activity is gathering pace.

The regulatory system is business friendly, taxes are low and the Government also offers strong financial support to companies investing in research and development (R&D). Investment in innovation and high levels of education are borne out in the high number of patents granted locally each year.

While South Korea has innovative firms operating at the cutting edge of technology, it is less clear that its broader culture is supportive of entrepreneurs. Data from The World Bank shows that the rate at which new companies are incorporated in South Korea is much lower than in most mature economies. In 2011, about 65,000 new businesses were registered, compared with a typical average across the G20 of about 130,000.¹

One hindrance to entrepreneurship in South Korea is the nature of its education system. Although the country has an abundance of highly educated young people who score well on international tests, a system that emphasizes rote learning may be leaving the country short on people who are eager and able to strike out on their own path.

A further concern is that the continued dominance of the chaebols makes it difficult for new entrants to gain a foothold. Even companies that do succeed are often acquired in takeovers by these conglomerates. The problem has not gone unnoticed by politicians. The current president, Park Geun-hye, has recently promised to level the playing field by clamping down on abuses of market power and providing more support for small firms.²

Another area where more attention is needed is access to funding for entrepreneurs. Although Korea has a highly developed financial sector, not enough funding is being made available to entrepreneurs with risky but innovative ideas. Eighty percent of those polled for this study report difficulties in raising the financing they need.

South Korea performs strongly in the EY G20 Entrepreneurship Barometer 2013, and on the whole its innovators benefit from a well-developed entrepreneurial ecosystem. As our analysis shows, however, the country will need to address some important gaps and shortcomings if it is to fully support the next generation of entrepreneurs.

¹ "New businesses registered (number)," *World Bank website*, <http://data.worldbank.org/>, accessed 24 July 2013.

² "Park promises to give more support to SMEs," *The Korea Herald website*, www.koreaherald.com, accessed 11 July 2013.

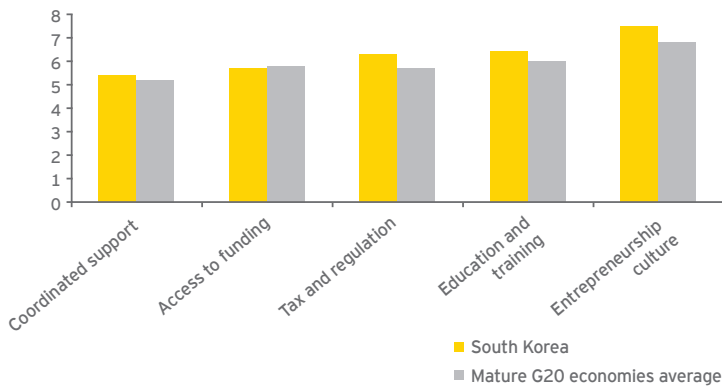
“As the world becomes more globalized, it is important we take a serious view of the importance of cultural dynamism and relevance. The survey results, therefore, need to be interpreted with caution. There is a reluctance to identify problems or gaps in order to present a positive facade. Notwithstanding South Korea is benefiting from an entrepreneurial movement which needs to be supported and nurtured to create jobs and the business leaders of the future.” | **Michael Lee**, G20 YEA President, South Korea

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South Korea's pillar scores compared to mature G20 economies average



Source: EY G20 Entrepreneurship Barometer 2013

Entrepreneurs: well placed, but struggling to emerge

South Korea's entrepreneurs are perfectly positioned to make the most of Asia's rising middle class and the rebalancing of the global economy toward the East. The good business environment, large pool of skilled labor and world-class infrastructure also provide the country's growing businesses with strong assets to build on. Meanwhile, South Korea's entrepreneurs stand to benefit from the Government's plans to level the business playing field. Large conglomerates are responsible for much of South Korea's strong innovation culture, although their dominance also stifles entrepreneurship, often leaving small entrants struggling to compete.

SWOT analysis

Strengths

- ▶ South Korea places a low tax burden on the corporate sector and offers generous subsidies for innovation.
- ▶ A large pool of university graduates means there is an abundance of skilled labor.
- ▶ The burden of red tape faced by businesses is relatively low compared with other G20 countries.

Weaknesses

- ▶ The dominance of large conglomerates makes it difficult and daunting to start a new company.
- ▶ The education system places a high emphasis on rote learning at the expense of understanding and creativity.
- ▶ While the banking sector is highly developed, entrepreneurs can find it difficult to raise funds for innovative but risky ventures.

Opportunities

- ▶ The Government has pledged to improve the business environment for small businesses by restricting unfair practices by conglomerates.
- ▶ Korean entrepreneurs are well placed to take advantage of rapid growth in emerging Asia, particularly in neighboring China.

Threats

- ▶ The political influence and economic importance of South Korea's conglomerates could yet see the Government shy away from taking them on.
- ▶ The recent depreciation of the yen, which followed a radical shift in Japan's monetary policy,³ poses a threat to Korean firms that compete with Japanese rivals.

³ "Japanese Yen depreciation here to stay," *Futures website*, www.futuresmag.com, accessed 5 July 2013.

What to watch for

South Korea needs to level the playing field for its entrepreneurial businesses

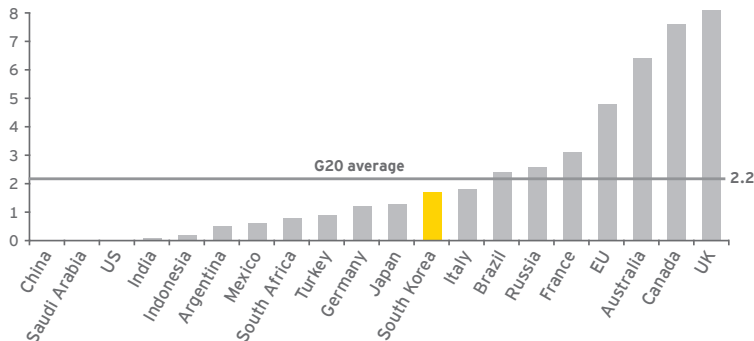
South Korea's new president won December's election on the platform of "economic democratization."⁴ Its main principle is to level the playing field that currently favors the country's large conglomerates over entrepreneurial businesses. A low rate of new business creation relative to other countries in the OECD suggests that the dominance of *chaebols* may be making it difficult for entrepreneurs to break into the market.⁵

In an effort to tackle this, the Fair Trade Commission has said that it will push to eradicate price-rigging by conglomerates and that it will scrutinize deals among affiliated companies.⁶ The Government has also submitted legislation to parliament that would prevent large retailers from abusing their control over franchise stores, as well as make it easier to report unfair practices.⁷

Less progress has been made on boosting support for entrepreneurial businesses. However, the Ministry of Trade, Industry and Energy has set a target of ensuring that half of its R&D funding goes to entrepreneurial businesses by 2017.⁸ The Small and Medium Business Administration also plans to revise the incentives provided to smaller ventures, which at present are phased out quickly as firms grow, creating a deterrent to business expansion.

It should be noted that big businesses are resisting the Government's efforts to boost competition. There is also some concern that this is a bad time to try clamping down on the *chaebols*, given the weakness of the global economy and increased competition from Japanese firms, which are benefitting from the weakening yen. Fear of undermining the economy could yet persuade the Government to backtrack, which would continue to leave smaller entrepreneurs in the shadow of the country's conglomerates.

New business density (new registrations per 1,000 people aged 15-64)



Note: Data for 2009 except South Korea, Japan, Germany, South Africa, India (2008); Australia (2007)
Source: *The World Bank*

⁴ "Economic democratisation' buzzword of S.Korea presidential race," *Asia One News website*, news.asiaone.com, accessed 16 June 2013.

⁵ "Entrepreneurship at a glance: 2012," Organisation for Economic Co-operation and Development, 6 June 2012.

⁶ "South Korea: Renewed focus lands on price-fixing, abuse of dominance for FTC," Competition Policy International, April 25 2013.

How the government is helping

Youth 1000 CEO Project

The Youth 1000 CEO Project provides young entrepreneurs in Seoul with free office space and grants. The city gives financial and advisory support to 1,000 young entrepreneurs with ground-breaking ideas but no capital. They are also offered office space and training at the Business Establishment Centre. The project is estimated to have generated 5,892 jobs in its first year.

Launch date: 2009

Most relevant pillars: access to funding, entrepreneurship culture, coordinated support

South Korea's five largest conglomerates account for

57%

 of GDP⁹

In 2011 South Korea had only 1.8 new businesses per year per 1000 people of working age; this is less than half of the OECD average of 4.6¹⁰

⁷ "Korean Franchise Law Basics: Korea's Act on Fairness in Franchise Transactions," *The Korean Law Blog*, www.thekoreanlawblog.com, accessed June 4 2013.

⁸ "How should small business be supported?," *The Korea Herald*, www.koreaherald.com, accessed 19 June 2013.

⁹ "Business as usual for South Korea's chaebol under Park," *Reuters website*, uk.reuters.com, accessed 12 June 2013.

¹⁰ "Entrepreneurship at a glance: 2012," Organisation for Economic Co-operation and Development, 6th June 2012.

Korea Fund of Funds

The Korea Fund of Funds (KFoF) is a government fund that provides a stable source of finance to private funds that invest in entrepreneurial businesses. In the five years to 2010, KFoF committed US\$1.2b into 160 venture capital and private equity funds, which in turn invested in more than 1,000 small businesses. Firms that received funding have grown at an average annual rate of 57.5%, compared with 14.9% growth for firms that did not receive any funding.

Launch date: 2005

Most relevant pillar: **access to funding**

Small and Medium Business Administration

The Small and Medium Business Administration (SMBA) provides a range of initiatives to support entrepreneurial ventures, including business incubation, management advice and start-up finance. It also offers seed loans of up to US\$63,000 and working capital loans of up to US\$450,000, both at interest rates of 2.7% per annum.

Launch date: 1996

Most relevant pillars: **access to funding, education and training**



Key insight: developing an entrepreneurial culture in South Korea

Alex Lim, Founder, Coolapsible, South Korea

Coolapsible sells collapsible water bottles that fold down to the size of a fist and can fit into your pocket. These dramatically reduce the use of disposable water bottles. Alex Lim is the founder, having set up the company while studying in America.

On his return to South Korea, after several years studying in the US, Coolapsible founder Alex Lim has been reminded of the dramatic difference in the cultures and attitudes to business and success in the two countries – and in particular the importance of educational achievement in South Korea. “There is a huge focus on academic success in South Korea: parents effectively define their children’s success in terms of academic success. Traditionally, success at university is seen as pretty much the only way to succeed here.”

Hand in hand with this academic focus, young people have a highly conservative approach to jobs and careers. “Over the last three decades, the focus has been on the big multinationals that have doubled and tripled in size. The goal for young people has been to do well at university and get a job in one of these. But now it’s becoming apparent that following the old social norms is no longer the key to success in South Korea.”

Lim notes that attitudes to entrepreneurship and risk-taking are changing. “Over the past five years or so I have seen big changes here. In fact, the term ‘entrepreneurship’ practically didn’t even exist 5 or 10 years ago. Trying to start and establish your own business was looked down upon. But in recent years, largely because of a wide range of government support programs – seminars, conferences and workshops for entrepreneurs – there has been a lot more interest in entrepreneurship and new business creation. The whole scene has begun to take off.”

The media also has an important role to play in helping to stimulate interest. “Rather than focusing on executives that have made money at large chaebol companies, for example, the media has begun to focus on stories of self-made people who decided to take the initiative, and overcame their environment and circumstances to succeed. They became role models locally. But we still lack any significant examples of icons like Steve Jobs or Mark Zuckerberg, which would make young people really sit up and see they can succeed in taking the initiative and overcoming risks.”

80%

of local entrepreneurs say it's difficult to raise the finance they need, above the G20 average of 70%

Access to funding

Pillar ranking: 8

Funding gaps are holding entrepreneurs back

Access to funding	South Korea	G20 average	Period
IPO market activity			
IPO amount invested (% of GDP)	0.53	0.22	2009-11 average
Access to credit			
Domestic credit to private sector (% of GDP)	105.6	99.0	2008-10 average
Venture capital availability (Scale of 1=impossible to 7=very easy)	2.2	3.0	2009-11 average
M&A deal value (% of GDP)	3.8	3.4	2010-12 average

Sources: The World Bank, Dealogic, IMF, World Economic Forum

At face value, South Korea has a financial system that caters well to business. It has a well-developed financial system, with a credit-to-GDP ratio that is over 100%, while the amount raised through initial public offerings (IPOs) is the second highest in the G20 as a proportion of GDP.

But digging below the surface, it seems that entrepreneurs need much better access to funding. Eighty percent of survey respondents from South Korea claim that it was difficult for entrepreneurs to get the finance they need, and that figure rises to 90% for entrepreneurs under 40.

It appears that entrepreneurs are being neglected in a financial system that favors big business. With the top 10 conglomerates accounting for over half of stock market capitalization and with the number of companies linked to the top 35 conglomerates doubling from 300 in 2008 to 600 in 2012, IPO levels are thus a somewhat inflated representation of the funding available to small firms.

According to the World Economic Forum, the availability of venture capital (VC) funding to entrepreneurs with innovative but risky projects is among the lowest in the G20. This is despite the

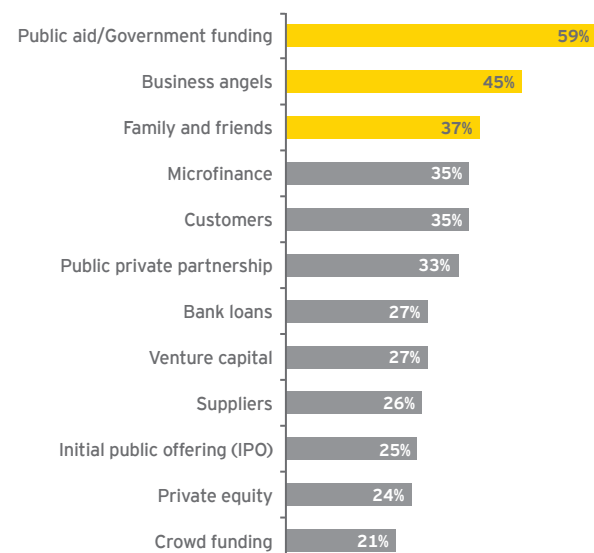
The amount raised through IPOs is the second highest in the G20 as a proportion of GDP (2009-11 average)

¹¹ "Korea Fund of Funds," Korea Venture Investment Corp website, www.k-vic.co.kr, accessed 24 June 2013.

¹² "Economic democratization not to weigh on chaebol," The Korea Times website, http://www.koreatimes.co.kr, accessed 4 July 2013.

Government's efforts, through its Korea Fund of Funds (KFoF), to provide a stable baseline of funding to VC firms and private equity sectors.¹¹ In addition, responses to the survey suggest that access to start-up capital has not really improved over the last three years. On the positive side, the shortage of funding to entrepreneurial businesses should be one of the problems that the new president looks to address if she is serious about "economic democratization."¹² Delivering on this would be a vital step forward in enabling better access to finance for South Korea's promising smaller businesses.

Proportion of entrepreneurs surveyed citing improvement in areas of access to funding



Source: EY G20 Entrepreneurship Barometer 2013

Entrepreneurship culture

Pillar ranking: 2

60%

of local entrepreneurs claim that South Korea has a supportive entrepreneurial culture

South Korea is highly innovative, but the big conglomerates dominate

Entrepreneurship culture	South Korea	G20 average	Period
R&D spending (% of GDP)	3.4	1.6	2007-09 average
Scientific and technical journal articles (per 10,000 people)	4.2	3.3	2007-09 average
Cost of resolving insolvency (% of estate)	4.0	11.8	2010-12 average

Source: The World Bank

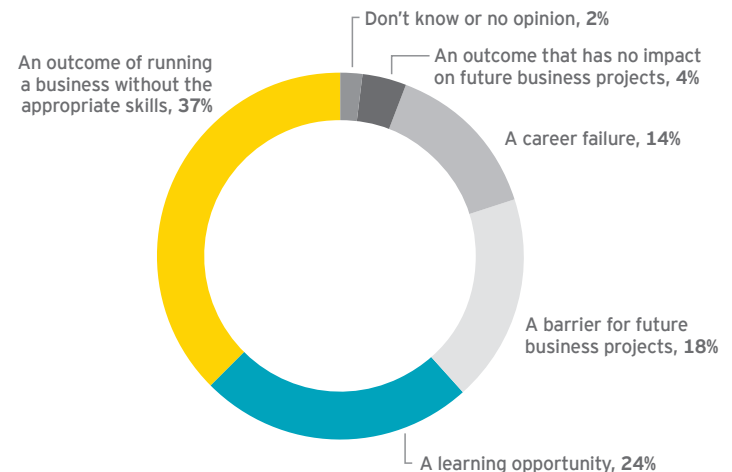
South Korea achieves a high score for its entrepreneurship culture in the Barometer, putting it ahead of all other G20 economies apart from the US. For locals, this result may come as a surprise, given ongoing concerns about the need for improvements in this area. However, the result is partly explained by the fact that the Barometer places a strong emphasis on innovation activity as an indicator of an entrepreneurship culture. South Korea's spending on R&D, as a proportion of GDP (2007-09 average), tied Japan's as the highest in the G20. The number of patents granted to South Koreans in 2011 was the fourth highest in the world, according to the World Intellectual Property Organization.

South Korea's strong R&D performance is also reflected in the publication of an above-average number of scientific and technical journal articles, as well as in the commercial success of large companies, such as Hyundai Motor Company, in sectors where technological innovation is essential. But while the country's large firms are innovative, they might also be stifling the broader entrepreneurship culture, by making life difficult for new entrants – a common local complaint.

South Korea spent 3.4% of GDP on R&D: that is more than double the G20 average of 1.6% (2007-09 average)

Overall, despite some real challenges, entrepreneurs surveyed from South Korea are relatively bullish about the entrepreneurship culture. In total, 60% of entrepreneurs surveyed agree or partly agree that the country provides a supportive culture. One factor in this is that South Korean businesses that fail do not incur the same high costs that apply under bankruptcy laws in many other countries. Even so, failure may be stigmatized in other ways judging from the survey: while 24% of the country's entrepreneurs viewed business failure as a learning opportunity, many others saw it as a less positive outcome. A greater acceptance that risk is an integral part of creating and growing a business will help South Korea develop its culture to foster entrepreneurship further.

Entrepreneurs' view of how business failure is perceived



Source: EY G20 Entrepreneurship Barometer 2013

Tax and regulation

Pillar ranking: 3

It costs
14.6%
 of income per capita to start a business in South Korea – well above the G20 average of 9.4% (2010-12 average)

A good business environment, but starting up is costly

Tax and regulation	South Korea	G20 average	Period
Ease of starting a business			
Start-up procedures (number)	6.0	7.6	2010-12 average
Time to start a business (days)	9	22	2010-12 average
Cost to start a business (% of income per capita)	14.6	9.4	2010-12 average
Paid-in minimum capital to start a business (% of income per capita)	0.0	17.9	2010-12 average
Business regulations			
Time spent on tax issues (hours)	227	347	2010-12 average
Labor market rigidity			
Cost of firing (weeks of wages)	24	50	2007-09 average
Labor and tax contributions (% of commercial profits)	13.2	24.0	2012
Taxation			
Total tax rate (taxes and mandatory contributions borne by the business expressed as a share of commercial profit)	29.8	49.7	2012
Indirect tax rate (taxes collected by the company and remitted to the tax authorities)	10.0	14.2	2012

Source: The World Bank

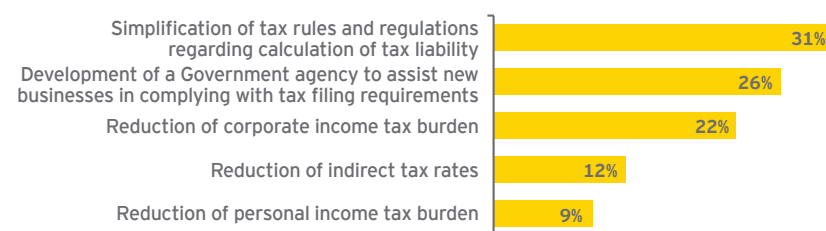
South Korea's regulatory environment is generally supportive of entrepreneurs. The bureaucracy involved in exporting products is very low, as would be expected in a country that has based its development on exports. When it comes to labor market flexibility, the cost of firing a worker is less than half the G20 average – although in other areas, labor laws are more restrictive.

The Government imposes a relatively light tax burden on the corporate sector and offers strong financial backing for R&D. What's more, the survey suggests that government incentives for innovation are improving. However, South Korea would

benefit from reforms to simplify the tax system. According to local respondents, this would be the best way to improve the tax environment for entrepreneurs in the country.

The average cost of starting a business is a stand-out weakness in the regulatory environment, however. At 14.6% of annual per capita income, it is well above the average for G20 economies and acts as a deterrent to would-be entrepreneurs. This ought to be an easy reform to implement, with clear benefits both to new businesses and the wider economy.

Preferred single initiative to most improve the tax system



Source: EY G20 Entrepreneurship Barometer 2013

At 24 weeks wages, it costs less than half the G20 average (50) to fire a worker in South Korea (2007-09 average)

Education and training

Pillar ranking: 4

96%

of respondents from South Korea say that students need specific education to become entrepreneurs

Build on educational strengths by bringing entrepreneurship thinking into schools

Education and training	South Korea	G20 average	Period
Public spending on education (% of GDP)	4.9	4.8	2008-10 average
Secondary school enrollment (total enrollment expressed as a percentage of the population of official secondary education age)	96.9	95.0	2008-10 average
Tertiary enrollment (total enrollment expressed as a percentage of the total population of the five-year age group following on from secondary school leaving)	103.5	53.5	2008-10 average

Source: The World Bank

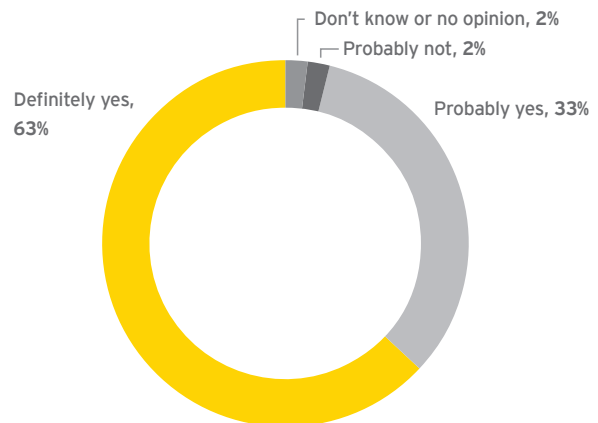
South Korea has one of the best-educated populations in the world. The vast majority of young Koreans now pass high school and most of them go on to university. The country's students do well in international tests of numeracy, literacy and science, which reflect the strong educational system. The glut of graduates means that Korean firms do not lack for well-educated labor. High levels of education should also result in a pool of young entrepreneurs with the skills to create successful businesses.

Nevertheless, the Korean school system has been criticized for the emphasis placed on hard work and passive memorization, rather than understanding, creativity and critical thinking – traits that are crucial to successful entrepreneurship. The need for a different approach to training is reinforced by the fact that 96% of local respondents to the survey say that students need specific education to become entrepreneurs. Reforms are needed within the educational system, with a focus on developing

entrepreneurial thinking at a much younger age. Similarly, more could be done to encourage entrepreneurialism as a realistic alternative career path.

As with most mature economies, relatively few Korean respondents to our survey reported that informal education opportunities, such as entrepreneur networks or mentoring schemes, are improving. However, they do report that training for entrepreneurship within the formal education system is getting better, thanks in part to work by groups such as the National Foundation for Teaching Entrepreneurship (NFTE).

Entrepreneurs' view as to whether specific training is required to become an entrepreneur



Source: EY G20 Entrepreneurship Barometer 2013

South Korea's tertiary enrollment rate is a staggering 103.5%: nearly double the G20 average of 53.5% (2008-10 average)¹³

¹³ Note: the gross enrollment ratio can be greater than 100% as a result of grade repetition and entry stages younger or older than the typical age at that grade level.

Coordinated support

Pillar ranking: 14

44%

of entrepreneurs surveyed from South Korea say that access to Government start-up programs was improving

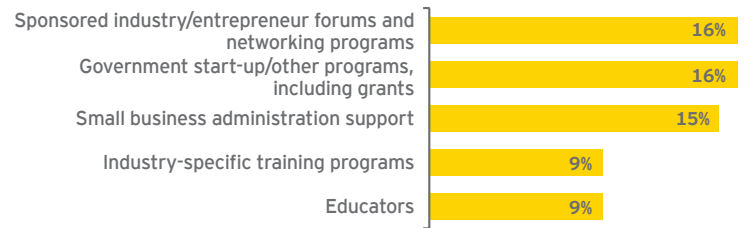
More government attention needed

South Korea scores much lower on coordinated support than it does in other areas of this survey. Coordinated support is measured purely on survey data in the Barometer. South Korea's entrepreneurs clearly think that more could be done to create a better ecosystem of support for growing businesses.

A particular weak point was access to entrepreneurial networks. This explains why South Korea's entrepreneurs in the survey said that they are particularly keen to see improvements in access to mentoring opportunities. In part, this reflects the relatively small community of entrepreneurs within the country, although if numbers increase over the coming years this should improve. By contrast, though, access to business incubators, which entrepreneurs consider a vital element of the support they need, appears to be improving more than in most mature economies. In combination with increased funding, the input and advice from these incubators provide a crucial support mechanism for successfully launching new ventures.

In addition, 44% of South Korea's entrepreneurs surveyed indicate that access to Government start-up programs was improving. This is a step in the right direction, although the Government will be looking to build on this statistic if it is serious about "economic democratization."

Top five factors of Government-tailored support that would be most effective



Source: EY G20 Entrepreneurship Barometer 2013

36%

of local entrepreneurs have used mentoring or teaming programs already, second only to those tapping into corporate and non-governmental advisors as a form of support

Rankings table

Ranking	Access to funding	Score	Entrepreneurship culture	Score	Tax and regulation	Score	Education and training	Score	Coordinated support	Score
1	United States	7.12	United States	7.67	Saudi Arabia	6.40	France	6.58	Russia	6.23
2	United Kingdom	6.86	South Korea	7.53	Canada	6.34	Australia	6.53	Mexico	5.89
3	China	6.75	Canada	7.45	South Korea	6.34	United States	6.50	Brazil	5.87
4	Canada	6.62	Japan	7.28	United Kingdom	6.19	South Korea	6.40	Indonesia	5.84
5	Australia	6.48	Australia	7.18	South Africa	6.10	EU	6.25	India	5.76
6	South Africa	5.95	United Kingdom	7.00	Japan	6.07	United Kingdom	5.98	China	5.75
7	Japan	5.81	Germany	6.88	Germany	5.84	Germany	5.89	Turkey	5.66
8	South Korea	5.75	EU	6.07	Australia	5.75	Argentina	5.85	South Africa	5.65
9	Brazil	5.67	France	5.68	Russia	5.65	Canada	5.81	Argentina	5.64
10	Indonesia	5.53	Russia	5.05	EU	5.48	Brazil	5.78	Germany	5.53
11	India	5.48	India	4.95	Turkey	5.45	South Africa	5.67	France	5.41
12	EU	5.41	Brazil	4.88	Indonesia	5.38	Saudi Arabia	5.66	Saudi Arabia	5.39
13	Saudi Arabia	5.25	Italy	4.67	United States	5.33	Italy	5.47	EU	5.37
14	Germany	5.23	South Africa	4.33	Mexico	5.21	Russia	5.46	South Korea	5.36
15	Russia	5.04	Turkey	4.30	France	5.12	Mexico	5.32	Australia	5.31
16	France	4.74	Argentina	4.06	China	5.07	Japan	4.72	Canada	5.29
17	Turkey	4.57	Mexico	3.96	Brazil	4.83	Turkey	4.39	United Kingdom	5.19
18	Mexico	4.42	China	3.88	Italy	4.76	China	4.35	Japan	5.04
19	Italy	4.03	Indonesia	3.80	India	4.39	Indonesia	3.88	Italy	4.97
20	Argentina	3.27	Saudi Arabia	3.38	Argentina	4.31	India	3.49	United States	4.85

About the EY Entrepreneurship Barometer model

The EY G20 Entrepreneurship Barometer 2013 introduces a model for scoring countries across the five pillars of entrepreneurship.¹⁴ The purpose of this model is to help identify areas of relative strength by country and where opportunities for improvement lie.

The model is composed of qualitative information (from our survey of more than 1,500 entrepreneurs) and quantitative data based upon entrepreneurial conditions across the G20 economies. For each pillar, excluding coordinated support, this information is

weighted 50-50 between qualitative and quantitative inputs. For coordinated support, given a lack of quantitative indicators, this is based solely upon the survey responses.

The advantage of integrating both the survey results and quantitative data is the ability to provide an assessment of the current level and the trends in a G20 entrepreneurial ecosystem based upon local sentiment. To this end, official statistics (for example, on the average time taken to start a business or the tax burden) provide a baseline for each member country.

Survey information is an important complement to the baseline picture these statistics provide. Entrepreneurs' feedback on the pace of improvement or deterioration in conditions in their country's entrepreneurship ecosystem is incorporated in the model alongside the hard statistics.

Full details of the Barometer's methodology can be found on page 66 in the main EY G20 Entrepreneurship Barometer 2013 report.

¹⁴ Note: As per the G20 membership, this list comprises 19 individual countries and also the European Union (EU), as an additional member. Our rankings show the performance of each country, along with an aggregate performance for the 27 EU Member States.

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