



LG UPLUS CORP.

**SEPARATE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED
DECEMBER 31, 2015 AND 2014**

ATTACHMENT: INDEPENDENT AUDITORS' REPORT

LG UPLUS CORP.

Independent Auditors' Report

English Translation of Independent Auditors' Report Originally Issued in Korean on March 9, 2016

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

Report on the Separate Financial Statements

We have audited the accompanying separate financial statement of LG Uplus Corp. (the "Company"), which comprise the separate statement of financial position as of December 31, 2015 and 2014, and the related separate statement of income, separate statement of comprehensive income, separate statement of changes in shareholders' equity and separate statement of cash flows, all expressed in Korean won, for the years ended December 31, 2015 and 2014, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Separate Financial Statements

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

Auditors' Responsibility

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

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

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



Opinion

In our opinion, the separate financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2015 and 2014, and its financial performance and its cash flows for the year then ended in accordance with K-IFRS.

March 9, 2016

Deloitte Anjin LLC

Notice to Readers

This report is effective as of March 9, 2016, the auditors' report date. Certain subsequent events or circumstances may have occurred between this auditors' report date and the time the auditors' report is read. Such events or circumstances could significantly affect the accompanying separate financial statements and may result in modifications to the auditors' report.

LG UPLUS CORP. (the “Company”)

**SEPARATE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED
DECEMBER 31, 2015 AND 2014**

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

Sang Chul Lee

President of LG Uplus Corp.

LG UPLUS CORP.
SEPARATE STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2015 AND 2014

	Korean won	
	December 31, 2015	December 31, 2014
	(In millions)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents (Notes 5, 6 and 33)	₩ 258,993	₩ 368,423
Financial institution deposits (Notes 5, 7 and 33)	20,850	26,350
Trade receivables, net (Notes 5, 8, 32 and 33)	1,503,648	1,427,001
Loans and other receivables, net (Notes 5, 8, 32 and 33)	212,501	203,713
Inventories, net (Note 9)	363,457	272,499
Other current assets (Note 10)	187,787	120,231
Total current assets	2,547,236	2,418,217
NON-CURRENT ASSETS:		
Non-current financial institution deposits (Notes 5, 7 and 33)	21	21
Non-current AFS financial assets (Notes 5 and 33)	33,750	74,030
Non-current trade receivables, net (Notes 5, 8, 32 and 33)	376,389	285,263
Non-current loans and other receivables, net (Notes 5, 8, 32 and 33)	282,800	274,274
Investments in subsidiaries (Note 14)	64,825	64,825
Investments in jointly controlled entities and associates (Note 15)	5,964	6,024
Deferred tax assets, net (Note 29)	375,166	384,920
Property, plant and equipment, net (Note 11)	7,157,744	7,192,266
Investment property, net (Note 12)	101,367	95,585
Intangible assets, net (Note 13)	957,575	1,108,935
Other non-current assets (Note 10)	36,387	81,980
Total non-current assets	9,391,988	9,568,123
TOTAL ASSETS	₩ 11,939,224	₩ 11,986,340
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Trade payables (Notes 5, 32 and 33)	₩ 308,794	₩ 301,520
Non-trade and other payables (Notes 5, 32 and 33)	1,725,880	1,759,430
Current portion of debentures and long-term borrowings (Notes 5, 11, 16 and 33)	928,833	1,111,527
Current derivative liabilities (Notes 5 and 33)	-	383
Other current financial liabilities (Notes 5, 17, 21 and 33)	224,276	148,855
Income tax payable (Note 29)	56,915	28,502
Other current liabilities (Note 20)	83,088	107,828
Total current liabilities	3,327,786	3,458,045

(Continued)

LG UPLUS CORP.
SEPARATE STATEMENT OF FINANCIAL POSITION (CONTINUED)
AS OF DECEMBER 31, 2015 AND 2014

	Korean won	
	December 31, 2015	December 31, 2014
	(In millions)	
NON-CURRENT LIABILITIES:		
Debentures and long-term borrowings (Notes 5, 11, 16 and 33)	₩ 3,631,344	₩ 3,787,140
Other non-current financial liabilities (Notes 5, 17 and 33)	376,885	457,303
Retirement benefit obligation (Notes 2, 19 and 32)	72,886	55,478
Provisions (Note 18)	38,616	27,165
Other non-current liabilities (Note 20)	14,150	11,863
Total non-current liabilities	4,133,881	4,338,949
TOTAL LIABILITIES	7,461,667	7,796,994
SHAREHOLDERS' EQUITY:		
Capital stock (Note 22)	2,573,969	2,573,969
Capital surplus (Note 22)	836,561	836,561
Accumulated other comprehensive income (Note 25)	1,326	1,757
Retained earnings (Notes 22 and 23)	1,065,701	777,059
TOTAL SHAREHOLDERS' EQUITY	4,477,557	4,189,346
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	₩ 11,939,224	₩ 11,986,340

(Concluded)

See notes to separate financial statements.

LG UPLUS CORP.
SEPARATE STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2015 AND 2014

	Korean won	
	2015	2014
	(In millions, except for earnings per share)	
Operating revenues (Notes 4 and 32)	₩ 10,780,359	₩ 10,984,928
Operating expenses:		
Cost of merchandise purchased (Notes 9 and 32)	2,505,101	2,336,645
Employee benefits (Notes 19 and 32)	558,030	512,882
Depreciation and amortization (Notes 11, 12 and 13)	1,602,317	1,499,907
Other expenses (Notes 26 and 28)	5,468,579	6,042,411
	<u>10,134,027</u>	<u>10,391,845</u>
Operating income	<u>646,332</u>	<u>593,083</u>
Financial revenues (Note 28)	40,397	39,259
Financial expenses (Note 28)	223,663	274,277
Other non-operating revenues (Notes 27 and 28)	89,849	77,647
Other non-operating expenses (Notes 27 and 28)	<u>71,329</u>	<u>95,109</u>
Income before income tax expense	<u>481,586</u>	<u>340,603</u>
Income tax expense (Note 29)	<u>114,258</u>	<u>96,569</u>
Net income	<u>₩ 367,328</u>	<u>₩ 244,034</u>
Earnings per share (in Korean won) (Note 30):		
Basic and diluted earnings per share	₩ 841	₩ 559

See notes to separate financial statements.

LG UPLUS CORP.
SEPARATE STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2015 AND 2014

	Korean won	
	2015	2014
	(In millions)	
NET INCOME	₩ 367,328	₩ 244,034
OTHER COMPREHENSIVE INCOME (LOSS):		
Items not reclassified subsequently to profit or loss:		
Remeasurement of the net defined benefit liability	(13,194)	(12,577)
Items reclassified subsequently to profit or loss:		
Gain (loss) on valuation of AFS financial assets	(720)	6,707
Gain on valuation of cash flow hedging derivatives	289	1,725
	<u>(13,625)</u>	<u>(4,145)</u>
TOTAL COMPREHENSIVE INCOME	<u>₩ 353,703</u>	<u>₩ 239,889</u>

See notes to separate financial statements.

LG UPLUS CORP.
SEPARATE STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2015 AND 2014

	Korean won				
	Capital stock	Capital surplus	Accumulated other comprehensive income (loss) (In millions)	Retained earnings	Total
Balance at January 1, 2014	₩ 2,573,969	₩ 836,561	₩ (6,675)	₩ 611,094	₩ 4,014,949
Annual dividends	-	-	-	(65,492)	(65,492)
Net income	-	-	-	244,034	244,034
Gain on valuation of AFS financial assets	-	-	6,707	-	6,707
Gain on valuation of cash flow hedging derivatives	-	-	1,725	-	1,725
Remeasurement of the net defined benefit liability	-	-	-	(12,577)	(12,577)
Balance at December 31, 2014	₩ 2,573,969	₩ 836,561	₩ 1,757	₩ 777,059	₩ 4,189,346
Balance at January 1, 2015	₩ 2,573,969	₩ 836,561	₩ 1,757	₩ 777,059	₩ 4,189,346
Annual dividends	-	-	-	(65,492)	(65,492)
Net income	-	-	-	367,328	367,328
Loss on valuation of AFS financial assets	-	-	(720)	-	(720)
Gain on valuation of cash flow hedging derivatives	-	-	289	-	289
Remeasurement of the net defined benefit liability	-	-	-	(13,194)	(13,194)
Balance at December 31, 2015	₩ 2,573,969	₩ 836,561	₩ 1,326	₩ 1,065,701	₩ 4,477,557

See notes to separate financial statements.

LG UPLUS CORP.
SEPARATE STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2015 AND 2014

	Korean won	
	2015	2014
	(In millions)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	₩ 367,328	₩ 244,034
Additions of expenses not involving cash outflows:		
Accrual for retirement and severance benefits	43,942	42,987
Depreciation	1,433,067	1,333,402
Amortization of intangible assets	169,250	166,505
Bad debt expenses	48,971	83,805
Interest expenses	187,417	209,927
Loss on foreign currency translation	7,715	8,141
Loss on disposal of trade receivables	23,968	48,139
Loss on disposal of property, plant and equipment and intangible assets and others	35,775	52,570
Impairment of AFS financial assets	12,184	16,209
Loss on disposal of AFS financial assets	94	-
Income tax expense	114,258	96,569
Others	14,724	4,171
	<u>2,091,365</u>	<u>2,062,425</u>
Deduction of items not involving cash inflows:		
Interest income	36,483	38,654
Gain on foreign currency translation	7,410	7,514
Gain on disposal of property, plant and equipment and intangible assets	1,630	1,023
Gain on disposal of AFS financial assets	3,299	-
Gain on disposal of investment in associates	-	2,899
Dividend income	556	522
Others	27,398	16
	<u>(76,776)</u>	<u>(50,628)</u>
Changes in operating assets and liabilities related to operating activities:		
Decrease (increase) in trade receivables	(225,727)	267,317
Increase in non-trade receivables	(14,473)	(66,228)
Decrease (increase) in inventories	(90,958)	121,886
Increase in other assets	(19,709)	(36,177)
Increase (decrease) in trade payables	7,274	(60,626)
Increase (decrease) in non-trade payables	1,430	(128,936)
Decrease in retirement benefit obligations	(44,004)	(46,273)
Increase (decrease) in other liabilities	37,048	(56,189)
	<u>(349,119)</u>	<u>(5,226)</u>
Interest income received	22,549	31,613
Dividend income received	556	522
Interest expense paid	(182,837)	(198,924)
Income taxes paid	(71,742)	(30,711)
	<u>(231,474)</u>	<u>(197,500)</u>
Net cash provided by operating activities	<u>1,801,324</u>	<u>2,053,105</u>

(Continued)

LG UPLUS CORP.
SEPARATE STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2015 AND 2014

	Korean won	
	2015	2014
	(In millions)	
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash inflows from investing activities:		
Disposal of AFS financial assets	₩ 38,545	₩ 1,994
Decrease in financial institution deposits	11,350	17,281
Disposal of property, plant and equipment	12,291	9,133
Disposal of intangible assets	3,977	1,911
Decrease in loans	26,633	24,831
Decrease in deposits	37,634	26,643
Disposal of investment in associates	-	5,656
	<u>130,430</u>	<u>87,449</u>
Cash outflows for investing activities:		
Acquisition of AFS financial assets	8,112	1,948
Increase of financial institution deposits	5,850	11,350
Acquisition of investments in associates	-	50,000
Acquisition of property, plant and equipment	1,374,325	2,143,897
Acquisition of intangible assets	175,189	176,250
Increase in loans	26,937	27,080
Increase in deposits	44,753	33,453
	<u>(1,635,166)</u>	<u>(2,443,978)</u>
Net cash used in investing activities	<u>(1,504,736)</u>	<u>(2,356,529)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Cash inflows from financing activities:		
Proceeds from short-term borrowings	126,296	340,000
Issuance of debentures	597,475	896,323
Proceeds from long-term borrowings	610,000	710,000
Increase in national subsidy	4,351	529
	<u>1,338,122</u>	<u>1,946,852</u>
Cash outflows for financing activities:		
Redemption of short-term borrowings	126,296	340,000
Redemption of other current financial liabilities	1,211,760	1,236,869
Redemption of long-term borrowings	340,625	10,000
Payment of dividends	65,492	65,492
	<u>(1,744,173)</u>	<u>(1,652,361)</u>
Net cash (used in) provided by financing activities	<u>(406,051)</u>	<u>294,491</u>
Exchange rate fluctuation effect on cash and cash equivalents	33	(2)
Net decrease in cash and cash equivalents	(109,430)	(8,935)
Cash and cash equivalents:		
Beginning of year	368,423	377,358
End of year	₩ 258,993	₩ 368,423

(Concluded)

See notes to separate financial statements.

LG UPLUS CORP.
NOTES TO SEPARATE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2015 AND 2014

1. GENERAL:

LG Uplus Corp. (the “Company”) was incorporated on July 11, 1996, under the Commercial Code of the Republic of Korea to provide personal communication services, including voice, data and value-added communication. The Company commenced its commercial operation on October 1, 1997. The Company listed its shares on the Korea Securities Dealers Automated Quotation stock market on September 21, 2000. The Company listed its shares on the Korea Stock Exchange (“KRX”) on April 21, 2008.

In efforts to enhance operational efficiency and maximize synergy effects between wire and wireless communication business, LG Dacom Corp. and LG Powercom Corp. merged into the Company on January 1, 2010. Through this merger, the Company expanded its business to include landline phone service (including international and long-distance telephone services), Internet access service and value-added telecommunication activities from LG Dacom Corp. and broadband network rentals and broadband Internet service activities from LG Powercom Corp.

Effective July 1, 2010, the Company changed its name from LG Telecom, Ltd. to LG Uplus Corp. to reflect the expanded nature of its business operations.

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

As of December 31, 2015, the Company’s shareholders are as follows:

Name of shareholder	Number of shares owned	Percentage of ownership (%)
LG Corporation	157,376,777	36.05
National Pension Fund	32,437,585	7.43
Shinyoung Asset Management	24,817,490	5.68
Others	221,979,509	50.84
	436,611,361	100.00

2. SIGNIFICANT ACCOUNTING POLICIES:

(1) Basis of preparation

The Company has prepared the separate financial statements in accordance with the Korean International Financial Reporting Standards (“K-IFRS”). These are the separate financial statement of the Company in accordance with K-IFRS 1039 ‘*Financial Instruments: Recognition and Measurement*’ that are presented by a parent, an investor in an associate or a venturer in a jointly controlled entity, in which the investments are accounted for on the basis of the direct equity interest rather than on the basis of the reported results and net assets of the investees.

The significant accounting policies under K-IFRS followed by the Company in the preparation of its separate financial statements are summarized as below. The consistent accounting policies are applied to the separate financial statements for the current period and the comparative period.

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

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

Amendments to K-IFRS 1019 – Employee Benefits

The amendments permit the Company to recognize the amount of contributions as a reduction in the service cost in which the related service is rendered if the amount of the contributions is independent of the number of years of service. The application of these amendments has no significant impact on the disclosure in the Company's separate financial statements.

Annual Improvements to K-IFRS 2010-2012 Cycle

The amendments to K-IFRS 1102 '*Share-Based Payment*' (i) change the definitions of 'vesting condition' and 'market condition' and (ii) add the definitions for 'performance condition' and 'service condition,' which were previously included within the definition of 'vesting condition.' The amendments to K-IFRS 1103 '*Business Combinations*' clarify the classification and measurement of the contingent consideration in business combination. The amendments to K-IFRS 1108 '*Operating Segments*' clarify that a reconciliation of the total of the reportable segments' assets should only be provided if the segment assets are regularly provided to the chief operating decision maker. The application of these amendments has no significant impact on the disclosure in the Company's separate financial statements.

Annual Improvements to K-IFRS 2011-2013 Cycle

The amendments to K-IFRS 1103 clarify the scope of the portfolio exception for measuring the fair values of the group of financial assets and financial liabilities on a net basis and include all contracts that are within the scope. The standard does not apply to the accounting for the formation of all types of joint arrangement in the financial statement of the joint arrangement itself. The amendments to K-IFRS 1113 '*Fair Value Measurements*' and K-IFRS 1040 '*Investment Properties*' exist. The application of these amendments has no significant impact on the disclosure in the Company's separate financial statements.

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

The Company has not applied the following new and revised K-IFRS that have been issued but are not yet effective:

Amendments to K-IFRS 1001 – Presentation of Financial Statements

The amendments to K-IFRS 1001 clarify the concept of applying materiality in practice and restrict an entity reducing the understandability of its financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or functions. The amendments to K-IFRS 1001 are effective for annual periods beginning on or after January 1, 2016.

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

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

Amendments to K-IFRS 1038 – Intangible Assets

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

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

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

Amendments to K-IFRS 1109 – *Financial Instruments*

The amendments to K-IFRS 1109 contain the requirements for a) the classification and measurement of financial assets and financial liabilities based on a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets and based on the contractual terms that give rise on specified dates to cash flows; b) impairment methodology based on the expected credit losses; and c) broadened types of instruments that qualify as hedging instruments, the types of risk components of non-financial items that are eligible for hedge accounting and the change of the hedge effectiveness test. The amendments are effective for annual periods beginning on or after January 1, 2018.

Amendments to K-IFRS 1115 – *Revenue from Contracts with Customers*

The core principle under K-IFRS 1115 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendments introduce a five-step approach to revenue recognition and measurement: 1) Identify the contract with a customer, 2) Identify the performance obligations in the contract, 3) Determine the transaction price, 4) Allocate the transaction price to the performance obligations in the contract and 5) Recognize revenue when (or as) the entity satisfies a performance obligation. This standard will supersede K-IFRS 1011 '*Construction Contracts*,' K-IFRS 1018 '*Revenue*,' K-IFRS 2113 '*Customer Loyalty Programs*,' K-IFRS 2115 '*Agreements for the Construction of Real Estate*,' K-IFRS 2118 '*Transfers of Assets from Customers*' and K-IFRS 2031 '*Revenue : Barter Transactions Involving Advertising Services*.' The amendments are effective for annual periods beginning on or after January 1, 2018.

Annual Improvements to K-IFRS 2012-2014 Cycle

The annual improvements include amendments to a number of K-IFRS. The amendments introduce specific guidance in K-IFRS 1105 '*Non-current Assets Held for Sale and Discontinued Operations*' when an entity reclassifies an asset (or disposal group) from held for sale to held for distribution to owners (or vice versa). Such a change is considered as a continuation of the original plan of disposal but not as a change to a plan of sale. Other amendments in the annual improvements include K-IFRS 1107 '*Financial Instruments: Disclosures*,' K-IFRS 1019 and K-IFRS 1034 '*Interim Financial Reporting*'.

Amendments to K-IFRS 1027 – *Separate Financial Statements*

The following amendments discuss accounting for investment in subsidiaries, related parties and joint ventures at cost basis and allow the selection of the application of K-IFRS 1039 or the application of equity method accounting under K-IFRS 1028 '*Investment in Associates and Joint Ventures*.' The amendments are effective for the annual periods beginning on or after January 1, 2016.

The effect of the application of these new and revised K-IFRS that have been issued on the Company's separate financial statements is under review by the Company.

(2) Business combination

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

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

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognized and measured in accordance with K-IFRS 1012 '*Income Taxes*' and K-IFRS 1019, respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Company entered into to replace share-based payment arrangements of the acquiree are measured in accordance with K-IFRS 1102 at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with K-IFRS 1105 are measured in accordance with that standard.

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

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

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

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

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

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

(3) Investments in subsidiaries, jointly controlled entities and associates

In accordance with K-IFRS 1027, the Company's separate financial statements are prepared to explain investments of controlled entities' and associates' investors on the direct interest investment basis, not the investee's reported performance and net asset basis; the Company chose the cost method based on K-IFRS 1027 to report investments in subsidiaries and associates. Dividends obtained from subsidiaries and associates are recognized in profit or loss when the right to receive dividends is confirmed.

(4) Non-current assets held for sale

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

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

(5) Revenue recognition

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

1) Sale of goods

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

2) Rendering of services

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

3) Dividend and interest income

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

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

4) Rental income

The Company's policy for recognition of revenue from operating leases is described in Note 2. (6).

5) Customer royalty program

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

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

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

(6) Leases

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

1) The Company as lessor

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

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

2) The Company as lessee

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

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Company's general policy on borrowing costs (see Note 2. (8)). Contingent rentals are recognized as expenses in the periods in which they are incurred.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(7) Foreign currencies

The separate financial statement of the Company are presented in the currency of the primary economic environment in which the Company operates (its functional currency). For the purpose of the separate financial statements, the results and financial position of the Company are expressed in Korean won, which is the functional currency of the Company and the reporting currency for the separate financial statements.

In preparation of the Company's separate financial statements, any transaction that occurred in currency other than its functional currency will be recorded in translated amount using the exchange rate of the transaction. At the end of the reporting period, all monetary assets and liabilities will be translated using the exchange rate at the end of the reporting date. Meanwhile, non-monetary assets and liabilities measured at fair value will be retranslated using the exchange rate on the day of fair value evaluation, whereas non-monetary assets and liabilities measured at historical cost will not be translated.

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

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings; and
- exchange differences on transactions entered into in order to hedge certain foreign currency risks.

(8) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

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

(9) Government grants

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

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

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

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

(10) Retirement benefit costs and termination benefits

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

For defined benefit retirement plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each reporting period. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the separate statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss. Past service cost is recognized in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are composed of service cost (including current service cost and past service cost, as well as gains and losses on curtailments and settlements), net interest expense (income) and remeasurement.

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

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

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

(11) Taxation

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

1) Current tax

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

2) Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the separate financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered.

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

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

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

3) Current and deferred taxes for the year

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

(12) Property, plant and equipment

Property, plant and equipment are stated at cost, less subsequent accumulated depreciation and accumulated impairment losses. The cost of an item of property, plant and equipment is directly attributable to its purchase or construction, which includes any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. It also includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

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

The Company does not depreciate land. Depreciation expense is computed using the straight-line method based on the estimated useful lives of the assets as follows:

	<u>Estimated useful lives (years)</u>
Buildings	20–40
Structures	40
Telecommunication facilities	5–8
Tools, furniture and fixtures	3–5
Vehicles	5

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

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

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

(13) Investment property

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

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

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

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

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

(14) Intangible assets

1) Intangible assets acquired separately

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

2) Internally generated intangible assets - research and development expenditure

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

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

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

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

3) Intangible assets acquired in a business combination

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

4) Derecognition of intangible assets

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

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

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

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually and whenever there is an indication that an asset may be impaired.

Recoverable amount is the higher of fair value, less costs to sell, or value in use. If the recoverable amount of an asset (or a CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or the CGU) is reduced to its recoverable amount and the reduced amount is recognized in profit or loss.

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

(16) Inventories

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

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

(17) Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material). The discount rate used is a pretax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage is recognized in profit or loss as borrowing cost.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

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

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

(18) Cash and cash equivalents

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

(19) Financial instruments

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

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

Financial assets are classified into the following specified categories: 'financial assets at FVTPL,' 'held-to-maturity investments,' 'available-for-sale ("AFS") financial assets' and 'loans and receivables.' The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

1) Effective interest method

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

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

2) Financial assets at FVTPL

Financial assets are classified as at FVTPL when a financial asset is contingent consideration that may be paid by an acquirer as part of a business combination to which K-IFRS 1103 applies, or is held for trading, or is designated as at FVTPL.

A financial asset is classified as held for trading if:

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

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

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

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

3) Held-to-maturity investments

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

4) AFS financial assets

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

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

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

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

5) Loans and receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables.' Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

6) Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

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

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

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

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

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

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in that period.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

With respect to AFS equity securities, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income. With respect to AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

7) Derecognition of financial assets

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

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

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

(20) Financial liabilities and equity instruments

1) Classification as debt or equity

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

2) Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognized at the proceeds received, net of direct issue costs.

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

3) Financial liabilities

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

4) Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is contingent consideration that may be paid by an acquirer as part of a business combination to which K-IFRS 1103 applies, or is held for trading, or is designated as at FVTPL.

A financial liability is classified as held for trading if:

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

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

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

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

5) Other financial liabilities

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

6) Derecognition of financial liabilities

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

(21) Derivative financial instruments

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

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

1) Hedge accounting

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

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

2) Fair value hedges

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

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

3) Cash flow hedges

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

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

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

(22) Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these separate financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of K-IFRS 1102; leasing transactions that are within the scope of K-IFRS 1017 'Leases;' and measurements that have some similarities to fair value but are not fair value, such as net realizable value in K-IFRS 1002 'Inventories' or value in use in K-IFRS 1036 'Impairment of Assets.'

In addition, for financial reporting purposes, fair value measurements are categorized into Levels 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

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

(23) Accounting policies for recognition of allowances and trade for greenhouse gases emission

Allowances for emission are recognized as intangible assets, whereby allowances allocated free of charge by the government are measured at zero amount and allowances acquired from other market participants for nominal consideration are measured at acquisition cost. No liability for emissions is recognized provided that the Company has sufficient allowances allocated free of charge by the government to meet its emission obligations, but if at the end of the reporting period the liability to deliver allowances exceeds the amount of allowances allocated free of charge on hand, then liability for emissions is measured and recognized at the best estimate of the expenditure required to settle the obligation at the end of the reporting period.

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

In the application of the Company's accounting policies that have been described in Note 2, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources.

The estimates and the associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may be different from those estimates. The estimates and underlying assumptions are continuously reviewed. The changes in accounting estimates are recognized in the period in which the estimate is changed if the change affects only that period, or in the period of the change and future periods if the change affects both current and future periods.

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

(1) Fair value of financial instruments

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

(2) Bad debt allowance for loans and receivables

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

(3) Estimation of restoration liabilities

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

(4) Impairment of non-financial assets

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

(5) Defined benefit pension plan

For the defined benefit pension plan, the service cost is determined using actuarial valuations. In order to apply actuarial valuations, it is necessary to assume a discount rate, an expected wage increase rate, death rate, etc. The retirement benefit plan contains significant uncertainties on the estimation due to its long-term nature. The defined benefit obligations as of December 31, 2015, are ₩72,886 million (₩55,478 million as of December 31, 2014) and details are described in Note 19.

(6) Deferred tax

Deferred tax assets and liabilities are recognized and measured based on management's judgment. In particular, to recognize deferred tax assets, the scope of recognition is determined by assumptions on future circumstances and management's judgment.

(7) Revenue and expense recognition

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

4. SEGMENT INFORMATION:

(1) The Company determined that it operates under only one business segment based on the characteristics of goods and services provided and nature of network assets held. As a result, no separate segment information is disclosed in this report.

(2) Details of operating revenues from the Company's sale of goods and provision of services for the year ended December 31, 2015 and 2014, are as follows (Unit: Korean won in millions):

Reporting segment	Major goods and service	2015	2014
LG Uplus Corp.	Telecommunication and related services	₩ 8,627,734	₩ 8,396,752
	Handset sales	2,152,625	2,588,176
		₩ 10,780,359	₩ 10,984,928

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

5. CLASSIFICATION OF FINANCIAL INSTRUMENTS AND FAIR VALUE:

(1) The carrying amount and fair value of financial assets and liabilities as of December 31, 2015 and 2014, are as follows (Unit: Korean won in millions):

1) Financial assets

Financial assets	Account	December 31, 2015		December 31, 2014	
		Book value	Fair value	Book value	Fair value
Cash and cash equivalents	Cash and cash equivalents	₩ 258,993	₩ 258,993	₩ 368,423	₩ 368,423
AFS financial assets	Marketable equity securities	2,700	2,700	35,095	35,095
	Unmarketable equity securities	31,050	31,050	38,935	38,935
		33,750	33,750	74,030	74,030
Loans and receivables	Financial institution deposits	20,871	20,871	26,371	26,371
	Trade receivables	1,880,037	1,880,037	1,712,264	1,712,264
	Loans	25,085	25,085	23,384	23,384
	Other receivables	197,286	197,286	189,962	189,962
	Accrued income	73	73	309	309
	Deposits	272,857	272,857	264,332	264,332
		2,396,209	2,396,209	2,216,622	2,216,622
		₩2,688,952	₩2,688,952	₩2,659,075	₩2,659,075

2) Financial liabilities

Financial liabilities	Account	December 31, 2015		December 31, 2014	
		Book value	Fair value	Book value	Fair value
Derivative liabilities designated as a hedging instrument	Derivative liabilities designated as a hedging instrument	₩ -	₩ -	₩ 383	₩ 383
Financial liabilities measured at amortized cost	Trade payables	308,794	308,794	301,520	301,520
	Borrowings	1,796,607	1,796,607	2,594,837	2,594,837
	Debentures	2,763,570	2,830,119	2,303,830	2,376,846
	Other payables	1,424,169	1,424,169	1,574,154	1,574,154
	Accrued expenses	678,419	678,419	634,628	634,628
	Withholdings	216,786	216,786	146,843	146,843
	Finance lease liabilities	-	-	2,012	2,012
	Rental deposits	7,667	7,667	7,951	7,951
		<u>7,196,012</u>	<u>7,262,561</u>	<u>7,565,775</u>	<u>7,638,791</u>
		<u>₩7,196,012</u>	<u>₩7,262,561</u>	<u>₩7,566,158</u>	<u>₩7,639,174</u>

The carrying values of certain financial assets, such as loans and receivables, and liabilities recognized at amortized cost are considered to approximate their fair values. In addition, an equity instrument, classified as AFS financial asset, whose book value amounts to ₩31,050 million and which does not have its market value quoted in an active market is measured at cost since its fair value cannot be reliably measured.

6. CASH AND CASH EQUIVALENTS:

The Company's cash and cash equivalents in the separate statement of financial position are equivalent to those in the separate statement of cash flows. Details of cash and cash equivalents as of December 31, 2015 and 2014, are as follows (Unit: Korean won in millions):

	December 31, 2015	December 31, 2014
Financial institution deposits	₩ 256,456	₩ 366,895
Other cash equivalents	2,537	1,528
	<u>₩ 258,993</u>	<u>₩ 368,423</u>

7. RESTRICTED FINANCIAL ASSETS:

Restricted financial assets as of December 31, 2015 and 2014, are as follows (Unit: Korean won in millions):

	Financial institution	September 30, 2015	December 31, 2014
Term deposits	KEB Hana Bank (*1)	₩ 350	₩ 350
Guarantee deposits for checking accounts	Woori Bank and others	21	21
	Total	<u>₩ 371</u>	<u>₩ 371</u>

(*1) Amounts are deposited related to guarantee deposits on lease.

8. TRADE AND OTHER RECEIVABLES:

- (1) Details of current portion of trade and other receivables as of December 31, 2015 and 2014, are as follows
(Unit: Korean won in millions):

	December 31, 2015	December 31, 2014
Trade receivables	₩ 1,683,748	₩ 1,631,707
Allowances for doubtful accounts	(180,100)	(204,706)
Trade receivables, net	1,503,648	1,427,001
Short-term loans	16,070	15,767
Allowances for doubtful accounts	(928)	(2,325)
Short-term loans, net	15,142	13,442
Other accounts receivable	247,011	269,509
Allowances for doubtful accounts	(49,725)	(79,547)
Other accounts receivable, net	197,286	189,962
Accrued income	73	309
	₩ 1,716,149	₩ 1,630,714

- (2) Details of non-current portion of trade and other receivables as of December 31, 2015 and 2014, are as follows
(Unit: Korean won in millions):

	December 31, 2015	December 31, 2014
Trade receivables	₩ 377,524	₩ 288,459
Allowances for doubtful accounts	(1,135)	(3,196)
Trade receivables, net	376,389	285,263
Long-term loans	9,943	9,942
Leasehold deposits	251,638	242,583
Guarantee deposits	21,219	21,749
	₩ 659,189	₩ 559,537

- (3) Aging of trade and other receivables as of December 31, 2015 and 2014, are as follows (Unit: Korean won in millions):

	December 31, 2015	December 31, 2014
Less than 6 months	₩ 2,424,226	₩ 2,240,119
7-12 months	43,903	53,626
1 year-3 years	132,625	178,686
More than 3 years	6,472	7,594
	₩ 2,607,226	₩ 2,480,025

- (4) Changes in allowance for trade and other receivables for the year ended December 31, 2015 and 2014, are as follows (Unit: Korean won in millions):

- 1) For the year ended December 31, 2015

	Trade receivables	Other receivables
Beginning balance	₩ 207,902	₩ 81,872
Impairment loss	43,093	5,878
Write-offs	(88,709)	(37,207)
Reversal of write-offs	18,949	110
Ending balance	₩ 181,235	₩ 50,653

2) For the year ended December 31, 2014

	Trade receivables	Other receivables
Beginning balance	₩ 223,094	₩ 43,182
Impairment loss	44,087	39,718
Write-offs	(75,397)	(1,136)
Reversal of write-offs	16,118	108
Ending balance	₩ 207,902	₩ 81,872

9. INVENTORIES:

(1) If the net realizable value of inventories is less than their acquisition cost, the carrying amount is reduced to the net realizable value. Inventories as of December 31, 2015 and 2014, consist of the following (Unit: Korean won in millions):

	December 31, 2015			December 31, 2014		
	Acquisition cost	Valuation allowance	Carrying amount	Acquisition cost	Valuation allowance	Carrying amount
Merchandise	₩ 388,925	₩ (25,706)	₩ 363,219	₩ 294,251	₩ (21,983)	₩ 272,268
Supplies	1,791	(1,553)	238	4,369	(4,138)	231
	₩ 390,716	₩ (27,259)	₩ 363,457	₩ 298,620	₩ (26,121)	₩ 272,499

(2) Inventory costs recognized in operating expenses for the year ended December 31, 2015 and 2014, are ₩2,505,101 million and ₩2,336,645 million, respectively, which include ₩3,723 million of losses on valuation of inventories for the year ended December 31, 2015, and ₩3,532 million of reversal of losses on valuation of inventories for the year ended December 31, 2014.

10. OTHER ASSETS:

(1) Details of other current assets as of December 31, 2015 and 2014, are as follows (Unit: Korean won in millions):

	December 31, 2015	December 31, 2014
Advance payments	₩ 23,000	₩ 28,806
Prepaid expenses	108,549	91,425
Others	56,238	-
	₩ 187,787	₩ 120,231

(2) Details of other non-current assets as of December 31, 2015 and 2014, are as follows (Unit: Korean won in millions):

	December 31, 2015	December 31, 2014
Non-current prepaid expenses	₩ 33,819	₩ 35,472
Other non-current assets	2,568	46,508
	₩ 36,387	₩ 81,980

11. PROPERTY, PLANT AND EQUIPMENT:

(1) Carrying amounts

Changes in property, plant and equipment for the year ended December 31, 2015 and 2014, are as follows (Unit: Korean won in millions):

1) For the year ended December 31, 2015

	Land	Buildings	Telecommunication facilities	Other assets	Construction in progress	Total
Beginning acquisition cost	₩ 587,006	₩ 413,701	₩ 13,437,906	₩ 801,924	₩ 369,676	₩ 15,610,213
Accumulated depreciation	-	(111,817)	(7,555,256)	(562,420)	-	(8,229,493)
Accumulated impairment loss	-	-	(186,915)	-	-	(186,915)
Government subsidies	-	-	(1,536)	(3)	-	(1,539)
Beginning balance	587,006	301,884	5,694,199	239,501	369,676	7,192,266
Acquisition	1,189	3,100	207,009	35,180	1,161,677	1,408,155
Transfers	39,098	287,483	991,275	66,043	(1,376,207)	7,692
Disposals	(104)	(190)	(29,038)	(4,906)	(4,142)	(38,380)
Depreciation	-	(21,533)	(1,309,330)	(100,268)	-	(1,431,131)
Impairment loss/reversal	-	-	19,142	-	-	19,142
Ending balance	₩ 627,189	₩ 570,744	₩ 5,573,257	₩ 235,550	₩ 151,004	₩ 7,157,744
Ending acquisition cost	₩ 627,189	₩ 699,522	₩ 14,470,571	₩ 864,671	₩ 151,004	₩ 16,812,957
Accumulated depreciation	-	(128,051)	(8,726,821)	(629,081)	-	(9,483,953)
Accumulated impairment loss	-	-	(165,761)	-	-	(165,761)
Government subsidies	-	(727)	(4,732)	(40)	-	(5,499)
Ending balance	₩ 627,189	₩ 570,744	₩ 5,573,257	₩ 235,550	₩ 151,004	₩ 7,157,744

2) For the year ended December 31, 2014

	Land	Buildings	Telecommunication facilities	Other assets	Construction in progress	Total
Beginning acquisition cost	₩ 585,706	₩ 413,808	₩ 11,469,411	₩ 734,868	₩ 254,212	₩ 13,458,005
Accumulated depreciation	-	(95,493)	(6,492,541)	(470,245)	-	(7,058,279)
Accumulated impairment loss	-	-	(8,760)	-	-	(8,760)
Government subsidies	-	-	(1,319)	(2)	-	(1,321)
Beginning balance	585,706	318,315	4,966,791	264,621	254,212	6,389,645
Acquisition	502	1,694	228,620	38,232	2,103,273	2,372,321
Transfers	801	(771)	1,926,342	41,718	(1,982,638)	(14,548)
Disposals	(3)	(729)	(29,570)	(3,587)	(5,171)	(39,060)
Depreciation	-	(16,625)	(1,213,395)	(101,483)	-	(1,331,503)
Impairment loss/reversal	-	-	(184,589)	-	-	(184,589)
Ending balance	₩ 587,006	₩ 301,884	₩ 5,694,199	₩ 239,501	₩ 369,676	₩ 7,192,266
Ending acquisition cost	₩ 587,006	₩ 413,701	₩ 13,437,906	₩ 801,924	₩ 369,676	₩ 15,610,213
Accumulated depreciation	-	(111,817)	(7,555,256)	(562,420)	-	(8,229,493)
Accumulated impairment loss	-	-	(186,915)	-	-	(186,915)
Government subsidies	-	-	(1,536)	(3)	-	(1,539)
Ending balance	₩ 587,006	₩ 301,884	₩ 5,694,199	₩ 239,501	₩ 369,676	₩ 7,192,266

(2) Assets pledged as collateral

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

12. INVESTMENT PROPERTY:

(1) Changes in investment property for the year ended December 31, 2015 and 2014, are as follows (Unit: Korean won in millions):

1) For the year ended December 31, 2015

	Land	Buildings	Total
Beginning acquisition cost	₩ 39,450	₩ 77,310	₩ 116,760
Accumulated depreciation	-	(21,175)	(21,175)
Beginning balance	39,450	56,135	95,585
Transfers	6,178	1,540	7,718
Depreciation	-	(1,936)	(1,936)
Ending balance	45,628	55,739	101,367
Ending acquisition cost	45,628	84,154	129,782
Accumulated depreciation	-	(28,415)	(28,415)
Ending balance	₩ 45,628	₩ 55,739	₩ 101,367

2) For the year ended December 31, 2014

	Land	Buildings	Total
Beginning acquisition cost	₩ 39,326	₩ 75,764	₩ 115,090
Accumulated depreciation	-	(19,265)	(19,265)
Beginning balance	39,326	56,499	95,825
Transfers	124	1,535	1,659
Depreciation	-	(1,899)	(1,899)
Ending balance	39,450	56,135	95,585
Ending acquisition cost	39,450	77,310	116,760
Accumulated depreciation	-	(21,175)	(21,175)
Ending balance	₩ 39,450	₩ 56,135	₩ 95,585

(2) The Company recognized rental revenue related to investment property in the amount of ₩17,013 million and ₩17,548 million for the year ended December 31, 2015 and 2014, respectively.

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

13. INTANGIBLE ASSETS:

(1) Changes in intangible assets for the year ended December 31, 2015 and 2014, are as follows (Unit: Korean won in millions):

1) For the year ended December 31, 2015

	Intellectual property rights	Computer software	Membership	Frequency usage rights	Other intangible assets	Total
Beginning acquisition cost	₩ 5,942	₩ 9,242	₩ 38,542	₩ 1,342,006	₩ 134,567	₩ 1,530,299
Accumulated amortization	(3,145)	(9,221)	-	(329,615)	(65,363)	(407,344)
Accumulated impairment loss	-	-	(4,603)	-	(9,417)	(14,020)
Beginning balance	2,797	21	33,939	1,012,391	59,787	1,108,935
Acquisition	615	-	1,365	-	20,584	22,564
Disposals	-	-	(181)	-	(3,796)	(3,977)
Impairment loss	-	-	(697)	-	-	(697)
Amortization	(633)	(21)	-	(148,467)	(20,129)	(169,250)
Ending balance	₩ 2,779	₩ -	₩ 34,426	₩ 863,924	₩ 56,446	₩ 957,575
Ending acquisition cost	₩ 6,557	₩ 9,242	₩ 39,726	₩ 1,342,006	₩ 151,354	₩ 1,548,885
Accumulated amortization	(3,778)	(9,242)	-	(478,082)	(85,491)	(576,593)
Accumulated impairment loss	-	-	(5,300)	-	(9,417)	(14,717)
Ending balance	₩ 2,779	₩ -	₩ 34,426	₩ 863,924	₩ 56,446	₩ 957,575

2) For the year ended December 31, 2014

	Intellectual property rights	Computer software	Membership	Frequency usage rights	Other intangible assets	Total
Beginning acquisition cost	₩ 5,000	₩ 9,242	₩ 38,840	₩ 1,342,006	₩ 121,070	₩ 1,516,158
Accumulated amortization	(2,579)	(9,191)	-	(181,148)	(57,477)	(250,395)
Accumulated impairment loss	-	-	(3,707)	-	(9,417)	(13,124)
Beginning balance	2,421	51	35,133	1,160,858	54,176	1,252,639
Acquisition	951	-	4	-	22,547	23,502
Transfer	-	-	(102)	-	2,206	2,104
Disposals	(6)	-	(199)	-	(1,703)	(1,908)
Impairment loss	-	-	(897)	-	-	(897)
Amortization	(569)	(30)	-	(148,467)	(17,439)	(166,505)
Ending balance	₩ 2,797	₩ 21	₩ 33,939	₩ 1,012,391	₩ 59,787	₩ 1,108,935
Ending acquisition cost	₩ 5,942	₩ 9,242	₩ 38,542	₩ 1,342,006	₩ 134,567	₩ 1,530,299
Accumulated amortization	(3,145)	(9,221)	-	(329,615)	(65,363)	(407,344)
Accumulated impairment loss	-	-	(4,603)	-	(9,417)	(14,020)
Ending balance	₩ 2,797	₩ 21	₩ 33,939	₩ 1,012,391	₩ 59,787	₩ 1,108,935

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

(3) Research and development costs

The costs related to research and development for the year ended December 31, 2015 and 2014, are as follows (Unit: Korean won in millions):

	2015	2014
Research costs	₩ 60,424	₩ 54,265

(4) Significant intangible assets

Frequency usage rights are acquired in the amount of ₩880,033 million (including borrowing cost ₩12,119 million) for the year ended December 31, 2011, and amortized on a straight-line method for 10 years of useful lives. In addition, frequency usage rights for 2.6 GHz are acquired in the amount of ₩461,973 million for the year ended December 31, 2013, and amortized on a straight-line method for eight years of useful lives.

14. INVESTMENTS IN SUBSIDIARIES:

(1) Composition of the Company's investments in subsidiaries as of December 31, 2015 and 2014, is as follows (Unit: Korean won in millions):

Companies	Place of incorporation and operation	Percentage of ownership (%)	Acquisition cost	Book value	
				December 31, 2015	December 31, 2014
Ain Tele service	South Korea	100.00	₩ 434	₩ 434	₩ 434
CS Leader	South Korea	100.00	273	273	273
Medialog Corp.	South Korea	98.35	61,085	61,085	61,085
DACOM America Inc. (*1)	USA	100.00	-	-	-
CS One Partner Corporation	South Korea	100.00	2,633	2,633	2,633
With U	South Korea	100.00	400	400	400
			₩ 64,825	₩ 64,825	₩ 64,825

(*1) DACOM America Inc. has negative capital as of December 31, 2015 and 2014.

(2) Summary of financial information of subsidiaries as of and for the year ended December 31, 2015 and 2014, is as follows (Unit: Korean won in millions):

Companies	December 31, 2015				
	Assets	Liabilities	Operating revenues	Net income (loss)	
Ain Tele service	₩ 11,969	₩ 12,684	₩ 66,091	₩ 716	
CS Leader	9,320	8,849	46,877	238	
Medialog Corp.	99,568	67,306	230,347	(15,220)	
DACOM America Inc.	249	3,706	1,045	19	
CS ONE Partner Corporation	12,383	10,691	76,037	136	
With U	935	418	2,816	(66)	

Companies	December 31, 2014				
	Assets	Liabilities	Operating revenues	Net income (loss)	
Ain Tele service	₩ 9,064	₩ 10,383	₩ 63,072	₩ 392	
CS Leader	7,527	7,116	44,838	245	
Medialog Corp.	102,097	54,039	182,987	(14,741)	
DACOM America Inc.	219	3,480	998	48	
CS ONE Partner Corporation	9,221	7,220	67,418	66	
With U	739	158	2,660	154	

15. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES AND IN ASSOCIATES:

(1) Composition of the Company's investments in jointly controlled entities (joint ventures) and in associates as of December 31, 2015 and 2014, is as follows (Unit: Korean won in millions):

Companies	Class	Place of incorporation and operation	Percentage of ownership (%)	December 31, 2015	December 31, 2014
DACOM Crossing Corporation (*1)	Jointly controlled entities	South Korea	51.00	₩ 5,964	₩ 5,964
Mediplus Solution (*2)	Associates	South Korea	15.00	-	60
				₩ 5,964	₩ 6,024

(*1) The Company acquired more than 50% shares of DACOM Crossing Corporation, but as the Company retains joint controlling power, it classifies the shares as jointly controlled entities.

(*2) The share ratio decreased to 15% because the Company has not participated in the capital increase by issuing new stocks. The shares have been reclassified as AFS financial assets.

(2) Summary of financial information for jointly controlled entities and associates as of and for the year ended December 31, 2015 and 2014, is as follows (Unit: Korean won in millions):

Companies	December 31, 2015			
	Assets	Liabilities	Sales	Net income
DACOM Crossing Corporation	₩ 62,751	₩ 48,421	₩ 35,479	₩ (2,536)

Companies	December 31, 2014			
	Assets	Liabilities	Sales	Net income
DACOM Crossing Corporation	₩ 70,404	₩ 53,124	₩ 33,654	₩ 493
Mediplus Solution	456	385	107	126

16. DEBENTURES AND BORROWINGS:

(1) The Company's long-term borrowings as of December 31, 2015 and 2014, consist of the following (Unit: Korean won in millions):

Type of borrowings	Creditor	Annual interest rate (%)	December 31, 2015	December 31, 2014
General loans (including loan on bills)	Shinhan Bank	4.25	₩ -	₩ 200,000
Facilities financing	KDB and others	2.32-4.53	1,503,333	2,070,833
	Others	2.60-4.53	284,830	309,167
IT promotion funds	KEB Hana Bank	1.98	8,444	16,979
Before current maturities	Face value		1,796,607	2,596,979
	Discount on long-term borrowings		-	(2,142)
Current maturities	Current portion of face value of long-term borrowings		559,170	972,873
	Current portion of discount on long-term borrowings		-	(1,233)
After current maturities	Face value		1,237,437	1,624,106
	Discount on long-term borrowings		-	(909)
	Book value		₩ 1,237,437	₩ 1,623,197

(2) The Company's debentures as of December 31, 2015 and 2014, consist of the following (Unit: Korean won in millions):

		Annual interest rate (%)	December 31, 2015	December 31, 2014
Debentures issued under public offering		2.00-4.47	₩ 2,660,000	₩ 2,200,000
Debentures issued privately		3.54	110,000	110,000
Before current maturities	Face value		2,770,000	2,310,000
	Discount on debentures		(6,430)	(6,170)
Current maturities	Current portion of debentures		370,000	140,000
	Current portion of discount on debentures		(337)	(113)
After current maturities	Face value		2,400,000	2,170,000
	Discount on debentures		(6,093)	(6,057)
	Book value		₩ 2,393,907	₩ 2,163,943

(3) The repayment schedule of long-term borrowings and debentures as of December 31, 2015, is as follows (Unit: Korean won in millions):

Period	Debentures	Long-term borrowings	Total
January 1, 2017, to December 31, 2017	₩ 609,260	₩ 530,000	₩ 1,139,260
January 1, 2018, to December 31, 2018	391,927	430,000	821,927
January 1, 2019, and thereafter	236,250	1,440,000	1,676,250
Total	₩ 1,237,437	₩ 2,400,000	₩ 3,637,437

17. **OTHER FINANCIAL LIABILITIES:**

Other financial liabilities as of December 31, 2015 and 2014, are as follows (Unit: Korean won in millions):

	December 31, 2015		December 31, 2014	
	Current	Non-current	Current	Non-current
Non-trade payable (*1)	₩ -	₩ 376,708	₩ -	₩ 449,352
Withholdings	216,786	-	146,843	-
Rental deposits	7,490	177	-	7,951
Finance lease liabilities	-	-	2,012	-
Total	₩ 224,276	₩ 376,885	₩ 148,855	₩ 457,303

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

18. **PROVISIONS:**

Changes in restoration liabilities are as follows (Unit: Korean won in millions):

1) For the year ended December 31, 2015

	Beginning balance	Increase	Decrease	Ending balance
Restoration liabilities	₩ 27,165	₩ 12,317	₩ (866)	₩ 38,616

2) For the year ended December 31, 2014

	Beginning balance	Increase	Decrease	Ending balance
Restoration liabilities	₩ 37,572	₩ 4,881	₩ (15,288)	₩ 27,165

19. RETIREMENT BENEFIT PLAN:

(1) Defined contribution plan

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

The Company recognized expenses of ₩3,788 million and ₩3,510 million related to defined contribution plan for the year ended December 31, 2015 and 2014, respectively.

(2) Defined benefit plan

The Company operates a defined benefit plan for employees, and according to the plan, employees will be paid his or her average salary amount of the final three months multiplied by the number of years vested; adjusted for salary pay rate and other. The valuation of the defined benefit plan remeasurements is performed by an independent reputable actuary specialist under the projected unit credit method.

1) As of December 31, 2015 and 2014, amounts recognized in the separate statement of financial position related to retirement benefit obligation are as follows (Unit: Korean won in millions):

	December 31, 2015	December 31, 2014
Present value of defined benefit obligation	₩ 314,153	₩ 258,246
Fair value of plan assets	(241,267)	(202,768)
Net defined benefit liability	₩ 72,886	₩ 55,478

2) Changes in defined benefit obligation for the year ended December 31, 2015 and 2014, are as follows (Unit: Korean won in millions):

	2015	2014
Beginning balance	₩ 258,246	₩ 203,250
Current service cost	42,264	37,216
Past service cost	-	3,902
Interest cost	7,934	7,935
Remeasurements:	16,432	15,647
Actuarial gain or loss from changes in demographic assumptions	7,291	(258)
Actuarial gain or loss from changes in financial assumptions	11,472	21,994
Actuarial gain or loss from difference between estimated and actual	(1,875)	(5,946)
Actuarial gain or loss arising from transfer in/out adjustment	(456)	(143)
Benefits paid	(9,771)	(9,145)
Transferred affiliated companies	(952)	(559)
Ending balance	₩ 314,153	₩ 258,246

- 3) Income or loss recognized relating to defined benefit plan for the year ended December 31, 2015 and 2014, is as follows (Unit: Korean won in millions):

	2015		2014	
Service cost:	₩	42,264	₩	41,118
Current service cost		42,264		37,216
Past service cost		-		3,902
Net interest on the net defined benefit liability (asset)		1,742		1,907
Interest cost of defined benefit obligations		7,934		7,935
Interest income on plan assets		(6,192)		(6,028)
Other		407		265
Total	₩	44,413	₩	43,290

- 4) Changes in plan assets for the year ended December 31, 2015 and 2014, are as follows (Unit: Korean won in millions):

	2015		2014	
Beginning balance	₩	202,768	₩	161,116
Interest income on plan assets		6,192		6,028
Remeasurements-Return on plan assets		(975)		(944)
Contributions from the employer		42,900		43,900
Transferred affiliated companies		(940)		(90)
Other		(407)		(265)
Benefits paid		(8,271)		(6,977)
Ending balance	₩	241,267	₩	202,768

- 5) The principal assumptions used for the actuarial valuations as of December 31, 2015 and 2014, are as follows:

	December 31, 2015	December 31, 2014
Discount rate (%)	2.78%	3.14%
Expected rate of salary increase (%)	5.90%	5.90%

- 6) All of the plan assets are invested in financial instruments with guaranteed principal and interest rate as of December 31, 2015 and 2014.

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

	Center scenario		+ 1%	- 1%	
Changes in discount rate (*)	₩	314,153	₩	280,667	₩ 353,545
Changes in rate of salary increase (*)	₩	314,153	₩	351,938	₩ 281,256

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

8) Remeasurements related to net defined benefit liability for the year ended December 31, 2015 and 2014, are as follows (Unit: Korean won in millions):

	2015	2014
Actuarial gain or loss from changes in demographic assumptions	₩ 7,291	₩ (258)
Actuarial gain or loss from changes in financial assumptions	11,472	21,994
Actuarial gain or loss from difference between estimated and actual	(1,875)	(5,946)
Actuarial gain or loss arising from transfer in/out adjustment	(456)	(143)
Return on plan assets excluding amounts included in interest income	975	944
Total	₩ 17,407	₩ 16,591

20. OTHER LIABILITIES:

Other liabilities as of December 31, 2015 and 2014, are as follows (Unit: Korean won in millions):

	December 31, 2015		December 31, 2014	
	Current	Non-current	Current	Non-current
Advances received	₩ 69,448	₩ -	₩ 70,647	₩ -
Unearned income	13,640	4,706	37,181	11,863
Other	-	9,444	-	-
	₩ 83,088	₩ 14,150	₩ 107,828	₩ 11,863

21. FINANCE LEASE LIABILITIES:

Finance lease liabilities as of December 31, 2015 and 2014, are as follows (Unit: Korean won in millions):

	Creditor	Lease term	Annual interest rate (%)	Quarterly lease payment (*)	December 31, 2015	December 31, 2014
Finance lease	Hewlett-Packard Korea Financial Service, Ltd.	Jan. 31, 2012–Jan. 31, 2015	4.08	2,033	₩ -	₩ 2,012
		Subtotal			-	2,012
		Less current maturities			-	2,012
		Book value of financial lease liabilities			₩ -	₩ -

(*) The quarterly lease payment is the gross amount of quarterly principal and interest paid.

22. EQUITY:

(1) Capital stock

Details of capital stock as of December 31, 2015 and 2014, are as follows:

Type of stock	Number of authorized shares	Par value	December 31, 2015		December 31, 2014	
			Number of issued shares	Amount of capital stock	Number of issued shares	Amount of capital stock
Common stock	700,000,000 shares	₩5,000	436,611,361 shares	₩2,573,969 million	436,611,361 shares	₩2,573,969 million

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

(2) Capital surplus

Capital surplus of the Company is composed of paid-up capital in excess of par value, an option premium on convertible bonds and other capital surplus. As of December 31, 2015 and 2014, capital surplus amounted to ₩836,561 million. Paid-up capital in excess of par value shall only be used for capitalization or disposition of accumulated deficit.

(3) Legal reserve

As of December 31, 2015, earned surplus reserve in the form of legal reserve of ₩57,584 million is included in retained earnings. The Commercial Code of the Republic of Korea requires the Company to appropriate, as a legal reserve, an amount equal to a minimum of 10% of cash dividends paid until such reserve equals 50% of its issued capital stock. The reserve is not available for the payment of cash dividends, but may be transferred to capital stock or used to reduce accumulated deficit.

23. STATEMENT OF RETAINED EARNINGS:

The statement of retained earnings for the year ended December 31, 2015 and 2014, are as follows (Unit: Korean won in millions):

	2015	2014
RETAINED EARNINGS BEFORE APPROPRIATION:		
Undisposed accumulated earnings carried forward from prior year	₩ 653,983	₩ 486,167
Retired shares of treasury stock	-	-
Net income	367,328	244,034
Remeasurements of defined benefit plan	(13,194)	(12,577)
	<u>1,008,117</u>	<u>717,624</u>
VOLUNTARY RESERVE:		
Reservation for research and development of human resources	-	8,400
	<u>-</u>	<u>8,400</u>
APPROPRIATION:		
Legal reserve	10,915	6,549
Dividend		
(Cash dividend (rate per share)		
2015: ₩250 (5%)		
2014: ₩150 (3%)	109,153	65,492
	<u>120,068</u>	<u>72,041</u>
UNAPPROPRIATED RETAINED EARNINGS TO BE CARRIED FORWARD TO SUBSEQUENT YEAR	<u>₩ 888,049</u>	<u>₩ 653,983</u>

24. DIVIDENDS:

(1) Details of dividend paid for the year ended December 31, 2015 and 2014, are as follows:

	2015 (*1)	2014
Number of shares issued and outstanding	436,611,361 shares	436,611,361 shares
Number of treasury stocks	3 shares	3 shares
Number of shares eligible for dividends	436,611,358 shares	436,611,358 shares
Par value per share	₩ 5,000	₩ 5,000
Dividend rate	5%	3%
Dividends per share	₩ 250	₩ 150
Total dividends	<u>₩ 109,153 million</u>	<u>₩ 65,492 million</u>

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

(2) Dividend payout ratio for the year ended December 31, 2015 and 2014, is as follows (Unit: Korean won in millions):

	2015	2014
Total dividends	₩ 109,153	₩ 65,492
Net income attributable to the owners of the Company	367,328	244,034
Dividend payout ratio	29.72%	26.84%

25. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS):

Changes in accumulated other comprehensive income (loss) after the deduction of income tax effect for the year ended December 31, 2015 and 2014, are as follows (Unit: Korean won in millions):

	Gain on valuation of AFS financial assets	Loss on valuation of AFS financial assets	Loss on valuation of cash flow hedging derivatives	Total
January 1, 2014	₩ 970	₩ (5,631)	₩ (2,014)	₩ (6,675)
Fair value assessment	1,076	5,631	-	6,707
Hedge accounting	-	-	1,725	1,725
December 31, 2014	₩ 2,046	₩ -	₩ (289)	₩ 1,757
January 1, 2015	₩ 2,046	₩ -	₩ (289)	₩ 1,757
Fair value assessment	(720)	-	-	(720)
Hedge accounting	-	-	289	289
December 31, 2015	₩ 1,326	₩ -	₩ -	₩ 1,326

26. OTHER EXPENSES:

Composition of other expenses for the year ended December 31, 2015 and 2014, is as follows (Unit: Korean won in millions):

	2015	2014
Operating lease payment	₩ 330,026	₩ 319,943
Advertising expense	349,379	300,222
Sales commissions	1,326,831	2,077,248
Commission charge	1,247,141	1,132,080
Interconnection charge	582,354	616,433
Telecommunication equipment rental fees	267,194	294,651
Outsourcing expense	588,394	517,999
Bad debt expenses	48,971	83,805
Settlement expenses	134,926	151,360
Other	593,363	548,670
	₩ 5,468,579	₩ 6,042,411

27. OTHER NON-OPERATING REVENUES AND EXPENSES:

- (1) Other non-operating revenues for the year ended December 31, 2015 and 2014, are as follows (Unit: Korean won in millions):

	2015	2014
Gain on disposal of tangible assets	₩ 1,630	₩ 1,020
Gain on disposal of intangible assets	-	3
Gain on disposal of investment in associates	-	2,899
Gain on foreign currency transactions	3,745	7,135
Gain on foreign currency translation	7,380	7,514
Miscellaneous income	77,094	59,076
	₩ 89,849	₩ 77,647

- (2) Other non-operating expenses for the year ended December 31, 2015 and 2014, are as follows (Unit: Korean won in millions):

	2015	2014
Loss on disposal of tangible assets	₩ 27,719	₩ 30,947
Impairment loss of tangible assets	7,359	20,727
Impairment loss of intangible assets	697	896
Loss on foreign currency transactions	5,378	7,338
Loss on foreign currency translation	7,715	8,139
Donation	5,730	3,787
Miscellaneous loss	16,731	23,275
	₩ 71,329	₩ 95,109

28. FINANCIAL REVENUES AND FINANCIAL EXPENSES:

- (1) Financial revenues for the year ended December 31, 2015 and 2014, are as follows (Unit: Korean won in millions):

	2015	2014
Interest income	₩ 36,483	₩ 38,654
Gain on disposal of AFS financial assets	3,299	-
Gain on foreign currency transactions	29	83
Gain on foreign currency translation	30	-
Dividend income	556	522
	₩ 40,397	₩ 39,259

- (2) Interest income included in financial revenues for the year ended December 31, 2015 and 2014, is as follows (Unit: Korean won in millions):

	2015	2014
Cash and cash equivalents and financial institution deposits	₩ 6,230	₩ 8,994
Other loans and receivables	30,253	29,660
	₩ 36,483	₩ 38,654

- (3) Financial expenses for the year ended December 31, 2015 and 2014, are as follows (Unit: Korean won in millions):

	2015	2014
Interest expense	₩ 187,417	₩ 209,927
Loss on foreign currency translation	-	2
Impairment loss of AFS financial assets	12,184	16,209
Loss on disposition of trade receivables	23,968	48,139
Loss on disposal of AFS financial assets	94	-
	₩ 223,663	₩ 274,277

- (4) Interest expense included in financial expenses for the year ended December 31, 2015 and 2014, is as follows (Unit: Korean won in millions):

	2015	2014
Bank overdrafts and loan interest	₩ 84,025	₩ 109,915
Finance lease liabilities interest	7	305
Debentures interest	90,601	82,045
Other interest expense	15,954	21,013
(-) Borrowing cost, as part of the cost of the qualifying asset (*)	(3,170)	(3,351)
	₩ 187,417	₩ 209,927

(*) Capitalization rate for calculating borrowing costs, which is eligible for capitalization as of December 31, 2015 and 2014, is 3.62% and 4%, respectively.

- (5) Details of net income by type of financial assets or financial liabilities for the year ended December 31, 2015 and 2014, are as follows (Unit: Korean won in millions):

	2015	2014
FINANCIAL ASSETS:		
Cash and cash equivalents	₩ 6,288	₩ 9,074
AFS financial assets	(9,352)	(9,153)
Loans and receivables	(37,124)	(96,087)
Subtotal	(40,188)	(96,166)
FINANCIAL LIABILITIES:		
Financial liabilities at amortized cost	(194,098)	(215,739)
Liabilities of derivative instruments designated as hedging	289	1,725
Subtotal	(193,809)	(214,014)
Total	₩ (233,997)	₩ (310,180)

29. INCOME TAX:

- (1) Composition of income tax expense for the year ended December 31, 2015 and 2014, is as follows (Unit: Korean won in millions):

	2015	2014
Current income tax payable	₩ 100,154	₩ 54,840
Changes in deferred tax assets due to temporary differences	9,754	40,406
Beginning deferred tax assets	384,920	425,326
Ending deferred tax assets	375,166	384,920
Income tax expenses reflected directly in equity	4,350	1,323
Income tax expense	₩ 114,258	₩ 96,569

- (2) Reconciliation between income before income tax and income tax expense of the Company for the years ended December 31, 2015 and 2014, is as follows (Unit: Korean won in millions):

	2015	2014
Income before income tax expense	₩ 481,586	₩ 340,603
Tax expense calculated on book income	₩ 116,082	₩ 81,964
Adjustments:		
Non-taxable income	(62)	(34)
Non-deductible expense	6,515	5,737
Tax credits	(17,330)	8,902
Other	9,053	-
Income tax expense	₩ 114,258	₩ 96,569
Effective tax rate (income tax expense/income before income tax expense)	23.73%	28.35%

- (3) Income tax directly reflected in equity for the year ended December 31, 2015 and 2014, is as follows (Unit: Korean won in millions):

	2015	2014
Loss on valuation of cash flow hedging derivatives	₩ (94)	₩ (550)
Gain from valuation of AFS financial assets	231	(352)
Loss from valuation of AFS financial assets	-	(1,789)
Remeasurement of defined benefit plan	4,213	4,014
	₩ 4,350	₩ 1,323

- (4) Current tax assets and current tax liabilities in gross amount before offsetting as of December 31, 2015 and 2014, are as follows (Unit: Korean won in millions):

	December 31, 2015	December 31, 2014
Current tax assets	₩ 20,318	₩ 16,425
Current tax liabilities	(77,233)	(44,927)
Income tax payable, net	₩ (56,915)	₩ (28,502)

(5) Changes in deferred tax assets (liabilities) for the year ended December 31, 2015, are as follows (Unit: Korean won in millions):

	Beginning balance	Increase	Decrease	Ending balance
TEMPORARY DIFFERENCES TO BE DEDUCTED:				
Defined benefit obligations	₩ 232,339	₩ 66,629	₩ 8,270	₩ 290,698
Allowance for doubtful accounts	234,863	143,463	225,640	152,686
Prepaid expenses	-	4,753	3,640	1,113
Loss on valuation of inventories	37,689	47,858	44,602	40,945
Unsettled expenses	163,162	167,832	170,957	160,037
Property, plant and equipment	405,801	100,971	96,005	410,767
Investment asset	3,707	-	-	3,707
Provisions	29,968	39,779	29,968	39,779
Impairment losses on investment securities	43,268	9,784	35,263	17,789
Derivatives	383	-	383	-
Intangible assets	54,081	18,444	10,016	62,509
Deemed dividends	160	-	-	160
Government subsidies	3,383	6,541	2,751	7,173
Share of profits (losses) of associates under the equity method	2,740	(996)	-	1,744
Adjustment on revenues	95,400	96,583	103,662	88,321
Present value discount account	639	3,435	2,780	1,294
Other	1,288	683	-	1,971
Subtotal of temporary differences to be deducted	1,308,871	705,759	733,937	1,280,693
TEMPORARY DIFFERENCES TO BE ADDED:				
Accrued interest income	(183)	(70)	(183)	(70)
Loss on valuation of investment securities	(2,003)	261	6	(1,748)
Deposits for severance benefits	(201,787)	(46,053)	(8,270)	(239,570)
Interest expenses (capitalized interest expense)	(5,844)	-	(3,292)	(2,552)
Estimate of assets for restoration	(412)	(8,137)	(412)	(8,137)
Equipment allowances	(152,448)	20,011	-	(132,437)
Subtotal of temporary differences to be added	(362,677)	(33,988)	(12,151)	(384,514)
Realizable temporary differences	943,294			894,275
Unrealizable temporary differences	2,900			1,904
Tax rate	24.2%			24.2%
Income tax effect due to temporary differences	228,277			216,415
Income tax effect due to tax credit carryforwards	156,643			158,751
Deferred income tax assets	₩ 384,920			₩ 375,166

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

	Beginning balance	Increase	Decrease	Ending balance
TEMPORARY DIFFERENCES TO BE DEDUCTED:				
Defined benefit obligations	₩ 174,614	₩ 64,701	₩ 6,976	₩ 232,339
Allowance for doubtful accounts	209,495	233,772	208,404	234,863
Loss on valuation of inventories	40,665	37,688	40,664	37,689
Unsettled expenses	120,728	197,623	155,189	163,162
Property, plant and equipment	284,201	177,444	55,844	405,801
Investment asset	3,707	-	-	3,707
Provisions	43,472	29,968	43,472	29,968
Impairment losses on investment securities	27,059	16,209	-	43,268
Loss on valuation of investment securities	6,149	698	8,850	(2,003)
Derivatives	2,657	-	2,274	383
Intangible assets	172,556	23,180	141,655	54,081
Deemed dividends	160	-	-	160
Government subsidies	2,204	1,776	597	3,383
Share of profits (losses) of associates under the equity method	2,740	-	-	2,740
Adjustment on revenues	111,416	135,980	151,996	95,400
Equipment allowances	-	10,752	163,200	(152,448)
Other	1,184	104	-	1,288
Subtotal of temporary differences to be deducted	<u>1,203,007</u>	<u>929,895</u>	<u>979,121</u>	<u>1,153,781</u>
TEMPORARY DIFFERENCES TO BE ADDED:				
Accrued interest income	(250)	(183)	(250)	(183)
Present value discount account	(3,655)	4,504	210	639
Deposits for severance benefits	(159,418)	(49,345)	(6,976)	(201,787)
Interest expenses (capitalized interest expense)	(9,698)	-	(3,854)	(5,844)
Estimate of assets for restoration	(13,824)	(412)	(13,824)	(412)
Tax reserves	(8,400)	-	(8,400)	-
Subtotal of temporary differences to be added	<u>(195,245)</u>	<u>(45,436)</u>	<u>(33,094)</u>	<u>(207,587)</u>
Realizable temporary differences	1,004,862			943,294
Unrealizable temporary differences	2,900			2,900
Tax rate	24.2%			24.2%
Income tax effect due to temporary differences	243,177			228,277
Income tax effect due to tax credit carryforwards	182,149			156,643
Deferred income tax assets	<u>₩ 425,326</u>			<u>₩ 384,920</u>

(7) As of December 31, 2015 and 2014, temporary differences not recognized as deferred tax assets related to investment asset and equity interest are as follows (Unit: Korean won in millions):

	December 31, 2015	December 31, 2014
Investments in associates	<u>₩ 1,904</u>	<u>₩ 2,900</u>

Carryforwarded taxation credits that are not recognized as deferred tax assets as of December 31, 2015 and 2014, are ₩34,838 million and ₩38,509 million, respectively.

30. EARNINGS PER SHARE:

Basic earnings per share are the net income attributable to one share of common stock of the Company. They are measured by dividing net income attributable to common stocks during a specified period with weighted-average number of common shares issued during that period. Earnings per share for the year ended December 31, 2015 and 2014, are calculated as follows (Unit: Korean won in millions, except for earnings per share):

	2015	2014
Net income	₩ 367,328	₩ 244,034
Weighted-average number of common shares outstanding	436,611,360 shares	436,611,358 shares
Earnings per share (in Korean won)	₩ 841 per share	₩ 559 per share

Diluted earnings per share are same to basic earnings per share as the Company has no dilutive potential common stocks as of December 31, 2015.

31. COMMITMENTS AND CONTINGENCIES:

- (1) As of December 31, 2015, there are 103 lawsuits ongoing where the Company is a defendant in the Republic of Korea; total claim amount the Company is being sued for is ₩106,065 million. Management believes the outcome of these lawsuits will likely not have a significant effect on the financial position of the Company.
- (2) The Company entered into agreements with KDB and others for a line of credit and commercial paper up to ₩210,000 million. These agreements include a bank overdraft agreement with Woori Bank and others up to ₩40,000 million.
- (3) As of December 31, 2015, the Company has entered into agreements with Woori Bank and two other banks for a limit of ₩98,000 million in order to pay off its accounts payable. Among the agreements, the Company has entered into loan agreement secured by an electronic accounts receivable, where the Company guarantees the payment of accounts receivable when the vendors of the Company transfer the accounts receivable due from the Company prior to its maturity. In addition, the Company has agreements with the Industrial Bank of Korea for its corporate purchasing card with a limit of ₩18,000 million.

32. RELATED-PARTY TRANSACTIONS:

(1) Major related parties for the year ended December 31, 2015 and 2014, are as follows

1) For the year ended December 31, 2015

	Company
Investor with significant influence over the Company	LG Corporation
Subsidiaries	Ain Tele service, CS Leader, Medialog Corp., DACOM America Inc., CS One Partner Corporation, With U
Jointly controlled entity	Dacom Crossing Corporation
Others	Serveone and five others, LG Siltron and two others, LG CNS and 26 others, LG Sports, LG Management Development Institute, Lusem

2) For the year ended December 31, 2014

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

As of December 31, 2015, no entity controls the Company. LG Corporation has 36.05% of ownership interest and has significant influence over the Company.

(2) Major transactions with the related parties for the year ended December 31, 2015 and 2014, are as follows (Unit: Korean won in millions):

	2015			2014		
	Sales and others	Purchase of property, plant and equipment	Other purchases	Sales and others	Purchase of property, plant and equipment	Other purchases
Investor with significant influence over the Company:						
LG Corporation	₩ 151	₩ -	₩ 28,560	₩ 157	₩ -	₩ 28,583
Subsidiaries:						
Ain Tele Service	4,682	-	66,086	3,284	-	63,072
CS Leader	3,136	-	46,876	2,232	-	44,838
Medialog Corp.	41,480	-	160,859	37,300	-	121,359
DACOM America Inc.	-	-	1,045	-	-	999
CS One Partner Corporation	5,051	-	76,037	3,706	-	67,418
With U	286	-	2,713	224	-	2,642
Jointly controlled entity:						
Dacom Crossing Corporation	393	-	9,567	512	1,559	10,150
Others:						
Serveone (*1)	10,280	176,041	35,550	12,259	171,197	27,844
LG Management Development Institute	67	-	5,565	79	-	5,027
LG Sports	46	-	3,187	58	-	3,007
LG Siltron	417	-	6	434	-	2
LG CNS (*1)	40,287	123,547	120,937	43,206	95,486	111,983
Lusem	46	-	-	51	-	-
LG Solar Energy(*2)	-	-	-	1	-	-
Total	<u>₩106,322</u>	<u>₩ 299,588</u>	<u>₩556,988</u>	<u>₩103,503</u>	<u>₩ 268,242</u>	<u>₩486,924</u>

(*1) Transactions of the associate's subsidiaries are included.

(*2) During the year 2015, LG Solar Energy merged with Serveone.

- (3) Outstanding receivables and payables from transactions with related parties as of December 31, 2015 and 2014, are as follows (Unit: Korean won in millions):

	December 31, 2015		December 31, 2014	
	Receivables	Payables	Receivables	Payables
Investor with significant influence over the Company:				
LG Corporation	₩ 5,902	₩ -	₩ 6,598	₩ -
Subsidiaries:				
Ain Tele Service	-	9,823	-	5,139
CSLeader	-	6,728	-	3,339
Medialog Corp.	3,811	28,906	6,503	23,867
DACOM America Inc.	2,798	-	2,624	-
CS One Partner Corporation	-	10,600	-	3,069
With U	59	-	-	-
Jointly controlled entity:				
Dacom Crossing Corporation	13	65	30	240
Others:				
Serveone	19,298	52,842	19,708	91,899
LG Management Development Institute	2,958	46	2,958	222
LG Sports	-	221	-	2
LG Siltron	51	-	59	1
LG CNS (*1)	1,263	94,408	2,455	73,975
	<u>₩ 36,153</u>	<u>₩ 203,639</u>	<u>₩ 40,935</u>	<u>₩ 201,753</u>

(*1) Transactions of the associate's subsidiaries are included.

Those receivables and payables are unsecured and are to be settled in cash. Also, there are no payment guarantees that were given or received related to those receivables and payables.

On the other hand, the Company has set up 100% allowance for receivables and others for Dacom America Inc.

- (4) The compensation and benefits for the Company's key management, including directors (excluding non-executive directors) and executive officers, who have significant control and responsibilities on planning, operating and controlling the Company's business activities for the year ended December 31, 2015 and 2014, are summarized as follows (Unit: Korean won in millions):

	2015	2014
Short-term employee benefits	₩ 28,385	₩ 31,625
Postemployment benefits (*1)	6,085	4,595
	<u>₩ 34,470</u>	<u>₩ 36,220</u>

(*1) The above balances refer to retirement benefits incurred for key management during the year ended December 31, 2015 and 2014. In addition, the present values of defined benefit obligations for key management are ₩34,972 million and ₩29,682 million as of December 31, 2015 and 2014, respectively.

33. RISK MANAGEMENT:

(1) Capital risk management

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

The Company's capital structure consists of net liability, which is borrowing (including bonds and finance lease liability) less cash and cash equivalents and equity; the overall capital risk management policy of the Company remains unchanged from prior period. In addition, items managed as capital by the Company as of December 31, 2015 and 2014, are as follows (Unit: Korean won in millions):

	2015	2014
Total borrowings	₩ 4,560,177	₩ 4,900,679
Less cash and cash equivalents	(258,993)	(368,423)
Borrowings, net	₩ 4,301,184	₩ 4,532,256
Total shareholders' equity	₩ 4,477,557	₩ 4,189,346
Net borrowings-to-equity ratio	96.06%	108.19%

(2) Financial risk management

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

1) Foreign currency risk

The Company is exposed to exchange rate fluctuation risk since it undertakes transactions denominated in foreign currencies. The carrying amounts of the Company's monetary assets and liabilities denominated in foreign currency that is not the functional currency as of December 31, 2015 and 2014, are as follows (Unit: Korean won in millions):

1) For the year ended December 31, 2015

Currency	Assets	Liabilities
EUR	₩ 33	₩ 286
HKD	3	-
JPY	109	11
SDR	87	123
SGD	1	1
USD	107,991	130,797
	₩ 108,224	₩ 131,218

2) For the year ended December 31, 2014

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

The Company internally assesses the foreign currency risk from changes in exchanges rates on a regular basis. The Company's sensitivity to a 10% increase and decrease in the Korean won (functional currency of the Company) against the major foreign currencies as of December 31, 2015 and 2014, is as follows (Unit: Korean won in millions):

1) For the year ended December 31, 2015

Currency	Gain (loss) from 10% increase against foreign currency	Gain (loss) from 10% decrease against foreign currency
EUR	₩ (19)	₩ 19
JPY	7	(7)
SDR	(3)	3
USD	(1,729)	1,729
	₩ (1,744)	₩ 1,744

2) For the year ended December 31, 2014

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

Sensitivity analysis above is conducted for monetary assets and liabilities denominated in foreign currencies other than functional currency as of December 31, 2015 and 2014.

2) Interest rate risk

The Company borrows funds on floating interest rates and is exposed to cash flow risk arising from interest rate changes. The book value of liability exposed to interest rate risk as of December 31, 2015 and 2014, is as follows (Unit: Korean won in millions):

	December 31, 2015		December 31, 2014	
Borrowings	₩	8,444	₩	216,979

The Company internally assesses the cash flow risk from changes in interest rates on a regular basis. Effect of changes in interest rates of 1% to net income as of December 31, 2015 and 2014, is as follows (Unit: Korean won in millions):

① For the year ended December 31, 2015

	1% increase		1% decrease	
	Gain (loss)	Net assets	Gain (loss)	Net assets
Borrowings	₩ (64)	₩ (64)	₩ 64	₩ 64

② For the year ended December 31, 2014

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

In order to manage its interest risks, the Company enters into interest rate swap contracts. The Company applies cash flow hedge accounting for its interest swap contracts. There is no unsettled interest rate swap contract as of December 31, 2015, and the value of the unsettled interest swap contract as of December 31, 2014, is as follows (Unit: Korean won in millions):

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

3) Price risk

The Company is exposed to price risks arising from AFS equity instruments. As of December 31, 2015, the fair value of AFS equity instruments is ₩2,700 million, and when all other variables are constant and when the price of equity instrument changes by 10%, the effect to equity will be ₩205 million.

4) Credit risk

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

The maximum exposure amount of credit risk of loans, receivables and AFS financial assets (debt securities) is similar with the amount of carrying value.

5) Liquidity risk

The Company manages liquidity risk by establishing short-, medium- and long-term funding plans and continuously monitoring actual cash outflow and its budget to match the maturity profiles of financial assets and liabilities. Management of the Company believes that financial liability may be redeemed by cash flow arising from operating activities and financial assets.

Maturity analysis of non-derivative financial liabilities according to its remaining maturity as of December 31, 2015 and 2014, is as follows (Unit: Korean won in millions):

① As of December 31, 2015

	Within a year	One to five years	More than five years	Total
Non-interest-bearing instruments	₩ 2,258,950	₩ 376,885	₩-	₩ 2,635,835
Variable interest instruments	5,727	2,871	-	8,598
Fixed interest rate instruments	1,056,878	3,145,540	738,979	4,941,397
	<u>₩ 3,321,555</u>	<u>₩ 3,525,296</u>	<u>₩ 738,979</u>	<u>₩ 7,585,830</u>

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

② As of December 31, 2014

	Within a year	One to five years	More than five years	Total
Non-interest-bearing instruments	₩ 2,207,793	₩ 457,303	₩-	₩ 2,665,096
Variable interest instruments	211,389	8,659	-	220,048
Fixed interest rate instruments	1,064,064	3,682,272	363,046	5,109,382
	<u>₩ 3,483,246</u>	<u>₩ 4,148,234</u>	<u>₩ 363,046</u>	<u>₩ 7,994,526</u>

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

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

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

(3) Fair value hierarchy

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

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

Fair value of trade receivables and trade payables is impairment-deducted book value, and fair value of financial liabilities is discounted cash flow using current market rate, which is applied to the similar financial instruments the Company held.

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

	December 31, 2015	December 31, 2014
Derivatives	-	2.14%
Debentures	1.70%–2.91%	2.24%–2.88%

Financial instruments that are measured subsequent to initial recognition at fair value are categorized into Levels 1 to 3, based on the degree to which the fair value is observable, as described below:

- Level 1: Fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3: Fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

1) Financial instruments that are measured subsequent to initial recognition at fair value by fair value hierarchy levels as of December 31, 2015 and 2014, are as follows (Unit: Korean won in millions):

① For the year ended December 31, 2015

		December 31, 2015							
		Fair value							
		Carrying amount	Level 1		Level 2		Level 3		Total
Financial assets:									
Marketable equity securities		₩ 2,700	₩ 2,700		₩ -		₩ -		₩ 2,700

② For the year ended December 31, 2014

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

There is no significant transfer between Level 1 and Level 2 as of December 31, 2015 and 2014.

2) The fair value hierarchy of financial instruments with fair value that cannot be reliably measured at fair value in the separate statement of financial position as of December 31, 2015 and 2014, is as follows (Unit: Korean won in millions):

Description	December 31, 2015					
	Book value	Fair value				Total
		Level 1	Level 2	Level 3		
Loans and receivables:						
Financial institution deposits	₩ 20,871	₩ -	₩ -	₩ 20,871	₩	20,871
Trade receivables (*)	1,880,037	-	-	1,880,037		1,880,037
Loans (*)	25,085	-	-	25,085		25,085
Other accounts receivable (*)	197,286	-	-	197,286		197,286
Accrued income (*)	73	-	-	73		73
Deposits (*)	272,857	-	-	272,857		272,857
Total	₩ 2,396,209	₩ -	₩ -	₩ 2,396,209	₩	2,396,209
Financial liabilities measured at amortized cost:						
Trade payables (*)	₩ 308,794	₩ -	₩ -	₩ 308,794	₩	308,794
Borrowings (*)	1,796,607	-	-	1,796,607		1,796,607
Debentures	2,763,570	-	2,830,119	-		2,830,119
Other accounts payable (*)	1,424,169	-	-	1,424,169		1,424,169
Accrued expenses (*)	678,419	-	-	678,419		678,419
Withholdings (*)	216,786	-	-	216,786		216,786
Finance lease obligations (*)	-	-	-	-		-
Deposits received (*)	7,667	-	-	7,667		7,667
Total	₩ 7,196,012	₩ -	₩ 2,830,119	₩ 4,432,442	₩	7,262,561

Description	December 31, 2014					
	Book value	Fair value				Total
		Level 1	Level 2	Level 3		
Loans and receivables:						
Financial institution deposits	₩26,371	₩ -	₩ -	₩26,371		₩26,371
Trade receivables (*)	1,712,264	-	-	1,712,264		1,712,264
Loans (*)	23,384	-	-	23,384		23,384
Other accounts receivable (*)	189,962	-	-	189,962		189,962
Accrued income (*)	309	-	-	309		309
Deposits (*)	264,332	-	-	264,332		264,332
Total	₩2,216,622	₩ -	₩ -	₩2,216,622		₩2,216,622
Financial liabilities measured at amortized cost:						
Trade payables (*)	₩ 301,520	₩ -	₩ -	₩ 301,520	₩ 301,520	
Borrowings (*)	2,594,837	-	-	2,594,837		2,594,837
Debentures	2,303,830	-	2,376,846	-		2,376,846
Other accounts payable (*)	1,574,154	-	-	1,574,154		1,574,154
Accrued expenses (*)	634,628	-	-	634,628		634,628
Withholdings (*)	146,843	-	-	146,843		146,843
Finance lease obligations (*)	2,012	-	-	2,012		2,012
Deposits received (*)	7,951	-	-	7,951		7,951
Total	₩ 7,565,775	₩ -	₩ 2,376,846	₩ 5,261,945	₩ 7,638,791	

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

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

- Interest rate swap

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

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

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

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

34. STATEMENT OF CASH FLOWS:

The major transactions not involving cash outflows and inflows for the year ended December 31, 2015 and 2014, are as follows (Unit: Korean won in millions):

	2015	2014
	₩	₩
Valuation of AFS security	439	1,458
Reclassification of assets under construction	1,376,004	1,982,639
Other payables relating to acquiring tangible and intangible assets	114,501	(72,823)
Current maturities of other long-term payables	78,588	145,560
Current maturities of debentures and long-term borrowings	1,027,054	1,113,686

35. APPROVAL OF NON-CONSOLIDATED FINANCIAL STATEMENTS:

The Company has issued and approved the separate financial statements in the board of directors' meeting on January 29, 2016, and they will be finally approved in the shareholders' meeting on March 18, 2016.

36. SUBSEQUENT EVENTS:

- (1) On January 12, 2016, according to the financial committee, the Company determined to sell the trade receivables whose total face value is ₩320,492 million to U Plus LTE SPC 25th. The proceeds from this sale have been already settled on February 4, 2016.
- (2) The Company determined to issue the 101st bond in the financial committee, which was opened on January 4, 2016, for retaining conversion funds and operating funds. According to this resolution, unsecured public bonds (credit rate of AA0) of ₩120,000 million, ₩110,000 million and ₩70,000 million were issued on January 26, 2016, and the expiration dates are January 26, 2019, January 26, 2021, and January 26, 2026, respectively.

Independent Accountant's Review Report on Internal Accounting Control System ("IACS")

English Translation of a Report Originally Issued in Korean

To the Representative Director of
LG Uplus Corp.:

We have reviewed the accompanying Report on the Management's Assessment of IACS (the "Management's Report") of LG Uplus Corp. (the "Company") as of December 31, 2015. The Management's Report and the design and operation of IACS are the responsibility of the Company's management. Our responsibility is to review the Management's Report and issue a review report based on our procedures. The Company's management stated in the accompanying Management's Report that "based on the assessment of the IACS as of December 31, 2015, the Company's IACS has been appropriately designed and is operating effectively, in all material respects, in accordance with the IACS Framework established by the Korea Listed Companies Association."

We conducted our review in accordance with the IACS Review Standards established by the Korean Institute of Certified Public Accountants. Those standards require that we plan and perform a review, the objective of which is to obtain a lower level of assurance than an audit, of the Management's Report, in all material respects. A review includes obtaining an understanding of a company's IACS and making inquiries regarding the Management's Report and, when deemed necessary, performing a limited inspection of underlying documents and other limited procedures.

A company's IACS represents internal accounting policies and a system to manage and operate such policies to provide reasonable assurance regarding the reliability of financial statements prepared, in accordance with accounting principles generally accepted in the Republic of Korea, for the purpose of preparing and disclosing reliable accounting information. Because of its inherent limitations, IACS may not prevent or detect a material misstatement of the financial statements. Also, projections of any evaluation of effectiveness of IACS to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

Based on our review, nothing has come to our attention that causes us to believe that the Management's Report referred to above is not fairly stated, in all material respects, in accordance with the IACS Framework established by the Korea Listed Companies Association.

Our review is based on the Company's IACS as of December 31, 2015, and we did not review its IACS subsequent to December 31, 2015. This report has been prepared pursuant to the Acts on External Audit of Stock Companies in the Republic of Korea and may not be appropriate for other purposes or for other users.



March 9, 2016

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Report on the Operations of the Internal Accounting Control System ("IACS")

To the Board of Directors and the Audit Committee of LG Uplus Corp.:

I, as the internal accounting control officer ("IACO") of LG Uplus Corp. (the "Company"), assessed the status of the design and operations of the Company's IACS for the year ended December 31, 2015.

The Company's management, including IACO, is responsible for designing and operating IACS. I, as the IACO, assessed whether the IACS has been effectively designed and is operating to prevent and detect any error or fraud that may cause any misstatement of the financial statements for the purpose of establishing the reliability of financial reporting and the preparation of financial statements for external purposes. I, as the IACO, applied the IACS standard for the assessment of design and operations of the IACS.

Based on the assessment on the operations of the IACS, the Company's IACS has been effectively designed and is operating as of December 31, 2015, in all material respects, in accordance with the IACS standards.

January 29, 2016

Disclosure on Execution of External Audit

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

1. Company and Reporting Period Subject to External Audit

Company	LG Uplus Corp.			
Reporting Period	2015/1/1	From	2015/12/31	To

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

(Unit: Number of Participants and Hours Executed)

Participant(s) Number and Hour(s)		Engagement Quality Reviewer(s) (Including QRM, etc.)	Audit Professional(s)			IT Specialist(s), Tax Specialist(s) and Valuation Specialist(s)	Total
			Engagement Partner(s)	KICPA (Registered)	KICPA (Non- Registered)		
Number of Participant(s)		1	1	9	1	16	28
Hours Executed	Quarterly Review and Six- month Review	29	138	2,215	231	-	2,613
	Audit	22	107	1,711	178	660	2,678
	Total	51	245	3,926	409	660	5,291

3. Key Disclosure on Execution of External Audit

Title	Detail							
Audit Planning Stage	Dates Performed			April 2015–September 2015			5	Days
	Main Planning Work Performed			Understanding the Company and business environments, Composing the audit member, Identifying and evaluating significant risk of material misstatements, Deciding the nature/timing/extent of an audit, Reviewing the application of professionals and Determining the materiality in the application of an audit				
Fieldwork Performed	Dates Performed			Number of Participant(s)				Main Fieldwork Performed
				On Site		Off Site		
			Days		Number of Participant(s)		Number of Participant(s)	
	2015/11/23–2015/12/4		10		6		2	Interim audit (Understanding the transaction type of each process and Control testing)
	2016/1/11–2016/1/22		10		5		2	External audit (Substantive procedure for the material account balances and transactions and consolidation audit)
Physical Counts - Inventory (Observation)	Time (When Performed)	2016/1/1				1	Day(s)	
	Place (Where Performed)	Gunpo warehouse and direct store						
	Inventory Subjected to Counts	Handset and others						

Physical Counts - Financial Instruments (Observation)	Time (When Performed)	2016/1/4		1	Day(s)	
	Place (Where Performed)	LG Uplus headquarters				
	Financial Instruments Subjected to Counts	Cash, investment securities and memberships and others				
External Confirmation	Bank Confirmation	O	Accounts Receivable/Payable Confirmation	O	Legal Confirmation	O
	Other Confirmation	N/A				
Communications with Those Charged with Governance	total	2	Time(s) Performed			
	Time (When Performed)	2015/7/27 and 2016/1/29				