LG UPLUS CORP.
AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED
DECEMBER 31, 2016 AND 2015

ATTACHMENT: INDEPENDENT AUDITORS' REPORT

LG UPLUS CORP.

Independent Auditors' Report

English Translation of Independent Auditors' Report Originally Issued in Korean on March 9, 2017

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

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of LG Uplus Corp. and its subsidiaries (the "Group"), which comprise the consolidated statements of financial position as of December 31, 2016 and 2015, and the related consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in shareholders' equity and consolidated statements of cash flows, all expressed in Korean won, for the years ended December 31, 2016 and 2015, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 financial statements based on our audits. We conducted our audits 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 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 we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of December 31, 2016, and 2015, and its financial performance and its cash flows for the years ended December 31, 2016, and 2015, in accordance with K-IFRS.

March 9, 2017

Deloitte Anjin LLC

Notice to Readers

This report is effective as of March 9, 2017, 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 consolidated financial statements and may result in modifications to the auditors' report.

LG UPLUS Corp. (the “Company”)
AND ITS SUBSIDIARIES (the “Group”)

CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED
DECEMBER 31, 2016 AND 2015

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

Young Soo Kwon

President of LG Uplus Corp.

LG UPLUS CORP.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2016 AND 2015

	Korean won			
	December 31, 2016		December 31, 2015	
	(In millions)			
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents (Notes 5, 6 and 31)	₩	317,283	₩	292,147
Financial institution deposits (Notes 5, 7 and 31)		21,162		21,158
Trade receivables, net (Notes 5, 8, 30 and 31)		1,566,983		1,514,353
Loans and other receivables, net (Notes 5, 8, 30 and 31)		321,850		215,805
Inventories, net (Note 9)		261,619		364,837
Current income tax asset (Note 27)		190		381
Other current assets (Note 10)		130,464		190,476
Total current assets		2,619,551		2,599,157
NON-CURRENT ASSETS:				
Non-current financial institution deposits (Notes 5, 7 and 31)		21		21
Non-current AFS financial assets (Notes 5, 30 and 31)		32,687		36,548
Non-current trade receivables, net (Notes 5, 8, 30 and 31)		462,652		376,554
Non-current loans and other receivables (Notes 5, 8, 30 and 31)		299,114		283,930
Investments in jointly controlled entities and associates (Note 15)		7,840		7,308
Deferred income tax assets, net (Note 27)		361,136		380,489
Property, plant and equipment, net (Note 11)		6,949,576		7,223,847
Investment property, net (Note 12)		37,172		38,517
Intangible assets, net (Note 13)		1,192,207		966,596
Other non-current assets (Note 10)		27,161		38,031
Total non-current assets		9,369,566		9,351,841
TOTAL ASSETS	₩	11,989,117	₩	11,950,998
LIABILITIES AND SHAREHOLDERS' EQUITY				
CURRENT LIABILITIES:				
Trade payables (Notes 5, 30 and 31)	₩	298,390	₩	309,783
Non-trade and other payables (Notes 5, 30 and 31)		1,803,044		1,737,006
Short-term borrowings (Notes 5, 11, 16 and 31)		15,000		15,000
Current portion of debentures and long-term borrowings (Notes 5, 11, 16 and 31)		1,038,103		928,833
Other current financial liabilities (Notes 5, 17 and 31)		253,980		220,810
Income tax payable (Note 27)		89,984		56,944
Other current liabilities (Note 20)		75,893		85,778
Total current liabilities	₩	3,574,394	₩	3,354,154

(Continued)

LG UPLUS CORP.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)
AS OF DECEMBER 31, 2016 AND 2015

	Korean won			
	December 31, 2016		December 31, 2015	
	(In millions)			
NON-CURRENT LIABILITIES:				
Debentures and long-term borrowings (Notes 5, 11, 16 and 31)	₩	2,926,058	₩	3,631,344
Other non-current financial liabilities (Notes 5, 17 and 31)		524,417		376,885
Retirement benefit obligation (Notes 3, 19 and 30)		84,544		87,339
Provisions (Note 18)		34,659		38,723
Other non-current liabilities (Note 20)		18,717		14,150
Total non-current liabilities		3,588,395		4,148,441
TOTAL LIABILITIES		7,162,789		7,502,595
SHAREHOLDERS' EQUITY:				
Capital stock (Note 21)		2,573,969		2,573,969
Capital surplus (Note 21)		836,920		837,050
Accumulated other comprehensive income (Note 23)		1,138		1,094
Retained earnings (Note 21)		1,414,078		1,035,839
NON-CONTROLLING INTERESTS		223		451
TOTAL SHAREHOLDERS' EQUITY		4,826,328		4,448,403
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	₩	11,989,117	₩	11,950,998

(Concluded)

See notes.

LG UPLUS CORP.
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	Korean won			
	December 31, 2016		December 31, 2015	
	(In millions, except for net earnings per share)			
Operating revenues and other gains: (Notes 4 and 30)	₩	11,451,046	₩	10,795,218
Operating expenses:				
Cost of merchandise purchased (Notes 9 and 30)		2,597,480		2,500,650
Employee benefits (Notes 19 and 30)		806,900		720,341
Depreciation and amortization (Notes 11, 12 and 13)		1,653,505		1,608,943
Other expenses (Notes 24 and 26)		5,646,678		5,332,953
		10,704,563		10,162,887
Operating income		746,483		632,331
Financial revenues (Note 26)		35,287		41,058
Financial expenses (Note 26)		155,190		224,489
Share of profits (losses) of joint ventures and associates (Note 15)		532		(1,249)
Other non-operating revenues (Notes 25 and 26)		107,223		90,051
Other non-operating expenses (Notes 25 and 26)		91,757		71,761
Income before income tax expense		642,578		465,941
Income tax expense (Note 27)		149,839		114,709
Net income	₩	492,739	₩	351,232
Net income attributable to:				
Owners of the Company	₩	492,769	₩	351,445
Non-controlling interests	₩	(30)	₩	(213)
Earnings per share (in Korean won)				
Basic and diluted earnings per share (Note 28)	₩	1,129	₩	805

See notes.

LG UPLUS CORP.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	Korean won			
	December 31, 2016		December 31, 2015	
	(In millions)			
NET INCOME	₩	492,739	₩	351,232
OTHER COMPREHENSIVE INCOME (LOSS):				
Items not reclassified subsequently to profit or loss:				
Remeasurements of the net defined benefit liability		(5,380)		(14,502)
Items reclassified subsequently to profit or loss:				
Gain (loss) on valuation of AFS financial assets		151		(720)
Gain on valuation of cash flow hedging derivatives		-		289
Loss on translation of foreign operations		(107)		(216)
		(5,336)		(15,149)
TOTAL COMPREHENSIVE INCOME	₩	487,403	₩	336,083
Total comprehensive income (loss) attributable to:				
Owners of the Company	₩	487,436	₩	336,303
Non-controlling interests	₩	(33)	₩	(220)

See notes.

LG UPLUS CORP.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	Korean won						
	Capital stock	Capital surplus	Accumulated other comprehensive income (loss)	Retained earnings	Equity attributable to the owners of the Company	Equity attributable to non-controlling interests	Total equity
	(In millions)						
Balance at January 1, 2015	₩2,573,969	₩ 837,050	₩ 1,741	₩ 764,381	₩ 4,177,141	₩ 671	₩ 4,177,812
Annual dividends	-	-	-	(65,492)	(65,492)	-	(65,492)
Net income (loss)	-	-	-	351,445	351,445	(213)	351,232
Loss on valuation of AFS financial assets	-	-	(720)	-	(720)	-	(720)
Gain on valuation of cash flow hedging derivatives	-	-	289	-	289	-	289
Loss on translation of foreign operations	-	-	(216)	-	(216)	-	(216)
Remeasurements of the net defined benefit liability	-	-	-	(14,495)	(14,495)	(7)	(14,502)
Balance at December 31, 2015	₩2,573,969	₩ 837,050	₩ 1,094	₩ 1,035,839	₩ 4,447,952	₩ 451	₩ 4,448,403
Balance at January 1, 2016	₩2,573,969	₩ 837,050	₩ 1,094	₩ 1,035,839	₩ 4,447,952	₩ 451	₩ 4,448,403
Annual dividends	-	-	-	(109,153)	(109,153)	-	(109,153)
Net income (loss)	-	-	-	492,769	492,769	(30)	492,739
Gain on valuation of AFS financial assets	-	-	151	-	151	-	151
Loss on translation of foreign operations	-	-	(107)	-	(107)	-	(107)
Remeasurements of the net defined benefit liability	-	-	-	(5,377)	(5,377)	(3)	(5,380)
Intragroup equity transactions	-	(130)	-	-	(130)	(195)	(325)
Balance at December 31, 2016	₩2,573,969	₩ 836,920	₩ 1,138	₩ 1,414,078	₩ 4,826,105	₩ 223	₩ 4,826,328

See notes.

LG UPLUS CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	Korean won	
	December 31, 2016	December 31, 2015
	(In millions)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	₩ 492,739	₩ 351,232
Additions of expenses not involving cash outflows:		
Accrual for retirement and severance benefits	60,797	54,531
Depreciation	1,473,745	1,434,133
Amortization of intangible assets	179,760	174,810
Bad debt expenses	25,166	49,610
Interest expenses	142,677	187,948
Loss on foreign currency translation	4,487	7,715
Loss on disposal of trade receivables	12,338	24,206
Loss on disposal of property, plant and equipment, intangible assets and others	63,771	35,964
Loss on valuation by equity method	-	1,249
Impairment loss on AFS financial assets	147	12,184
Loss on disposal of AFS financial assets	-	94
Loss on disposal of investment in associates	-	9
Income tax expense	149,839	114,709
Others	11,516	14,754
	2,124,243	2,111,916
Deduction of items not involving cash inflows:		
Interest income	34,392	37,350
Gain on foreign currency translation	4,057	7,410
Dividend income	605	349
Gain on disposal of property, plant and equipment, intangible assets and others	3,485	1,634
Gain on valuation by equity method	532	-
Gain on disposal of AFS financial assets	270	3,299
Others	28,405	27,397
	(71,746)	(77,439)
Changes in operating assets and liabilities related to operating activities:		
Increase in trade receivables	(174,368)	(223,367)
Increase in non-trade receivables	(79,052)	(14,569)
Decrease (increase) in inventories	103,218	(88,811)
Decrease (increase) in other assets	53,424	(26,565)
Increase (decrease) in trade payables	(11,511)	7,155
Increase in non-trade payables	56,848	3,433
Decrease in retirement benefits obligation	(70,541)	(51,729)
Increase in other liabilities	20,581	33,616
	₩ (101,401)	₩ (360,837)

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LG UPLUS CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	Korean won			
	December 31, 2016		December 31, 2015	
	(In millions)			
Interest income received	₩	22,199	₩	23,340
Dividend income received		605		349
Interest expense paid		(146,131)		(183,375)
Income taxes paid		(95,740)		(72,278)
		(219,067)		(231,964)
Net cash provided by operating activities		2,224,768		1,792,908
CASH FLOWS FROM INVESTING ACTIVITIES				
Cash inflows from investing activities:				
Disposal of AFS financial assets		8,171		38,545
Decrease in financial institution deposits		350		13,350
Disposal of property, plant and equipment		11,971		12,295
Disposal of intangible assets		3,016		3,977
Decrease in loans		25,847		26,663
Decrease in deposits		26,016		37,634
		75,371		132,464
Cash outflows for investing activities:				
Acquisition of AFS financial assets		3,287		10,876
Increase of financial institution deposits		354		5,856
Acquisition of property, plant and equipment		1,283,618		1,375,425
Acquisition of intangible assets		204,216		176,147
Increase in loans		42,765		26,937
Increase in deposits		33,020		45,216
Increase in others (Advance payments)		460		2,700
		(1,567,720)		(1,643,157)
Net cash used in investing activities	₩	(1,492,349)	₩	(1,510,693)

(Continued)

LG UPLUS CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	Korean won	
	December 31, 2016	December 31, 2015
	(In millions)	
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash inflows from financing activities:		
Proceeds from short-term borrowings	₩ 335,860	₩ 126,296
Issuance of debentures	298,718	597,475
Proceeds from long-term borrowings	190,000	610,000
Increase in national subsidy	570	4,352
	825,148	1,338,123
Cash outflows for financing activities:		
Redemption of short-term borrowings	335,860	126,296
Redemption of current portion of long-term debt	1,008,810	1,211,760
Redemption of long-term borrowings	78,287	340,625
Payment of dividends	109,153	65,492
Increase in treasury stock	324	-
	(1,532,434)	(1,744,173)
Net cash provided (used) by financing activities	(707,286)	(406,050)
EXCHANGE RATE FLUCTUATION EFFECT OF CASH AND CASH EQUIVALENTS	3	44
Net increase (decrease) in cash and cash equivalents	25,136	(123,791)
Cash and cash equivalents:		
Beginning of the year	292,147	415,938
End of the year	₩ 317,283	₩ 292,147

(Concluded)

See notes

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LG UPLUS CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

1. GENERAL:

LG Uplus Corp. (the "Parent Company" or 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 ("KOSDAQ") 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 telecommunications 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, 2016, 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	33,725,487	7.72
Others	245,509,097	56.23
	436,611,361	100.00

2. STANDARDS AFFECTING PRESENTATION AND DISCLOSURE AND SIGNIFICANT ACCOUNTING POLICIES:

(1) Basis of preparing consolidated financial statements

The Company and its subsidiaries (the "Group") have prepared the consolidated financial statements in accordance with the Korean International Financial Reporting Standards ("K-IFRS").

The significant accounting policies followed by the Group in the preparation of consolidated financial statements are summarized as below. The consistent accounting policies are applied to the consolidated financial statements for the current period and the comparative period.

The accompanying consolidated 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-IFRSs and new interpretations that are mandatorily effective for the current year

Amendments to K-IFRS 1001—*Disclosure Initiative*

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 application of these amendments has no material impact on the disclosures or the amounts recognized in the Group's consolidated financial statements.

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

The amendments to K-IFRS 1016 prohibit the Group from using a revenue-based depreciation method for items of property, plant and equipment. The application of these amendments has no material impact on the disclosures or the amounts recognized in the Group's consolidated financial statements.

Amendments to K-IFRS 1038 – *Intangible Assets*

The amendments to K-IFRS 1038 do not allow presumption that revenue is an appropriate basis for the amortization of intangible assets, which the presumption can only be limited when the 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 application of these amendments has no material impact on the disclosures or the amounts recognized in the Group's consolidated financial statements.

Amendments to K-IFRS 1110 – *Consolidated Financial Statements and K-IFRS 1112 – Disclosure of interests in other entities and K-IFRS 1028 – Investment in associates*

The amendments clarify that in applying the equity method of accounting to an associate or a joint venture that is an investment entity, an investor may retain the fair value measurements that the associate or joint venture used for its subsidiaries. The application of these amendments has no material impact on the disclosures or the amounts recognized in the Group's consolidated financial statements.

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, *'Business Combinations.'* A joint operator is also required to disclose the relevant information required by K-IFRS 1103 and other standards for business combinations. The application of these amendments has no material impact on the disclosures or the amounts recognized in the Group's consolidated financial statements.

Annual Improvements to K-IFRS 2012-2014 – *Cycle*

The annual improvements include amendments to a number of K-IFRSs. 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, and 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, *'Employee Benefits'* and K-IFRS 1034 *'Interim Financial Reporting.'* The application of these amendments has no material impact on the disclosures or the amounts recognized in the Group's consolidated financial statements.

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

The Group has not applied the following new and revised K-IFRSs that have been issued but are not yet effective.

Amendments to K-IFRS 1109 – *Financial Instruments*

The amendments to K-IFRS 1109 contain the requirements for 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, impairment methodology based on the expected credit losses and broadened types of instruments that qualify as hedging instruments and 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 supersede K-IFRS 1039, *'Financial Instruments: Recognition and Measurement'* and are effective for annual periods beginning on or after January 1, 2018.

The new accounting policy shall be applied retrospectively; however some exceptions are allowed, such as restatement of comparative information for classification, measurement and impairment of financial assets and financial liabilities. Hedge accounting is applied prospectively except for accounting for the time value options.

In order to assess the financial impact of the first application of K-IFRS 1109, the Group conducted a preliminary assessment of the potential impact on the financial statements for 2016 based on current situation and available information as of December 31, 2016. The Group will perform further analysis on more specific financial impacts based on additional information in the future.

The general impact of the new standard on the Group's consolidated financial statement is as follows.

1.1 Classification and measurement of financial assets

As of December 31, 2016, the Group retains loans and receivables amounting to ₩2,671,782 million and AFS financial assets amounting to ₩32,687 million.

According to K-IFRS 1109, financial assets shall be measured at amortized costs only when (a) the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (b) objective of holding financial assets is to collect contractual cash flows. As of December 31, 2016, the Group measures loans and receivables amounting to ₩2,671,782 million as amortized costs.

As of December 31, 2016, most of the financial assets consist of cash flows that are solely the payments of principal and interest on the principal amount outstanding according to the contractual terms and the objective of holding financial assets is to collect contractual cash flows. Therefore, when applying K-IFRS 1109 to above financial assets, the financial assets shall be measured at amortized cost and it is considered that there is no significant impact on the financial statements.

According to K-IFRS 1109, an entity may make an irrevocable election to designate equity instruments that is not held for short-term trading, as at fair value through other comprehensive income in initial recognition. And this comprehensive income shall not be reclassified to the current profit and loss subsequently. As of December 31, 2016, equity instruments that are classified as AFS financial assets are ₩32,687 million. And regarding AFS financial assets, ₩270 million are reclassified to current profit and loss by disposal during the fiscal year 2016.

The Group has an intention to designate equity instruments for long-term investment, which comprises most of the AFS equity instruments, as financial assets measured at fair value through other comprehensive income. Therefore, it is considered that there is no significant impact on the financial statements even under application of K-IFRS 1109.

According to K-IFRS 1109, following instruments shall be measured at fair value through profit or loss ("FVTPL") a) financial liabilities that have contractual terms that give rise on specified dates to cash flows that are not solely payments of principal and interest on the principal amount outstanding, b) financial liabilities that are held to collect contractual cash flows c) equity instruments that are not designated as at fair value through other comprehensive income. As of December 31, 2016, the Group does not retain any derivatives classified as financial assets measured at FVTPL for the current term.

When applying K-IFRS 1109 to financial assets recognized as current profit and loss as of December 31, 2016, most of the assets are classified as at FVTPL, it is considered that the relevant financial assets have little or no impact on the financial statements.

1.2 Classification and measurement of financial liabilities

As of December 31, 2016, the Group retains financial liabilities amounting to ₩6,858,992 million and there are no financial liabilities that are designated as at FVTPL. Regarding financial liabilities at FVTPL, the Group did not recognize any current profit or loss during the fiscal year 2016.

1.3 Impairment methodology: financial assets and contractual assets
According to K-IFRS 1109, entity shall only recognize the cumulative changes in lifetime expected credit losses since initial recognition as a loss allowance for purchased or originated credit-impaired financial assets.

As of December 31, 2016, the Group retains loans and receivables measured at amortized coast amounting to ₩2,671,782 million. Also, the Group retains instruments that are classified as AFS financial assets and measured at fair value through other comprehensive income amounting to ₩32,687. The Group recognized loss allowance of ₩207,006 million for loans and receivables.

As retaining loans and receivables have no significant financial elements, it is considered to have no significant difference from the recognized loss allowance of the Group as of December 31, 2016.

1.4 Hedge accounting
When applying hedge accounting of K-IFRS 1109, hedge accounting can be applied to some transactions that does not qualify requirements for hedge accounting on current K-IFRS 1039, which may result in a reduction in fluctuation of the current profit and loss. As of December 31, 2016, there are no liabilities that the Group applies hedge accounting. Also there are no changes in fair value of hedged items recognized as current profit or loss and no amounts reclassified from other comprehensive income to current profit or loss regarding cash flow hedge during the fiscal year 2016. And as of December 31 2016, there are no changes in fair value of cash flow hedge recognized as other comprehensive income.

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

Amended on November 6, 2015, K-IFRS 1115, *'Revenue from Contracts with Customers,'* is effective for annual periods beginning on or after January 1, 2018, but earlier application is permitted. This amendments supersede K-IFRS 1018, *'Revenue'*, K-IFRS 1011, *'Construction Contracts,'* K-IFRS 2031, *'Revenue-Barter Transactions Involving Advertising Services,'* K-IFRS 2113, *'Customer Loyalty Programmes,'* K-IFRS 2115, *'Agreements for the Construction of Real Estate'* and K-IFRS 2118, *'Transfers of Assets from Customers.'*

The Group will apply K-IFRS 1115 for annual periods on or after January 1, 2018. However, according to K-IFRS 1008, *'Accounting Policies, Changes in Accounting Estimates and Errors,'* the Company will review on retrospective application for a prior period presented.

Current K-IFRS 1018 identifies transaction forms, such as sales of goods, rendering of services, interest, royalties, dividends and construction contracts; however, according to K-IFRS 1115, every contract is identified by five-step revenue recognition model (①Identify the contract with a customer, ②Identify the performance obligations in the contract, ③Determine the transaction price, ④Allocate the transaction price to the performance obligations in the contract and ⑤Recognize revenue when (or as) the entity satisfies a performance obligation.)

As of December 31, 2016, the Group is conducting an analysis on impact to financial statements of aligning internal control process, changing accounting system and applying above amendments. The analysis will be completed during fiscal year 2017.

The general impact of the new standard on the consolidated financial statement is as follows.

1.1 Identifying performance obligations
When applying K-IFRS 1115, the Group shall identify performance obligations from a contract with a customer, such as 1) telecommunication service and 2) handset sales. The timing of revenue recognition may vary depending on whether it satisfies the performance obligation at a point in time or satisfies the performance obligation over time.

1.2 Allocating the transaction price to performance obligations
When applying K-IFRS 1115, the Group shall allocate the transaction price to several performance obligations identified form one contract on a relative stand-alone selling price basis.

1.3 Incremental costs of obtaining a contract
The Group pays commission according to the performance of customer attraction and customer maintenance in telecommunication service. The commission accounts for substantial portion of sales commissions in operating expenses. According to K-IFRS 1115, these incremental costs of obtaining a contract shall be recognized as assets and amortized for expected length of time.

Amendments to K-IFRS 1102—*Share-based Payment*

The amendments include 1) when measuring the fair value of share-based payment, the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payment should be consistent with the measurement of equity-settled share-based payment, 2) share-based payment transaction in which the Group settles the share-based payment arrangement net by withholding a specified portion of the equity instruments per statutory tax withholding requirements would be classified as equity-settled in its entirety, if otherwise would be classified as equity-settled without the net settlement feature and 3) when a cash-settled share-based payment changes to an equity-settled share-based payment because of modifications of the terms and conditions, the original liability recognized is derecognized and the equity-settled share-based payment is recognized at the modification date fair value. Any difference between the carrying amount of the liability at the modification date and the amount recognized in equity at the same date would be recognized in profit and loss immediately. The amendments are effective for annual periods beginning on or after January 1, 2018.

Amendments to K-IFRS 1007 – *Statement of Cash Flows*

The amendments require that changes in liabilities arising from financial activities are disclosed. The amendments are effective for annual periods beginning on or after January 1, 2017.

Amendments to K-IFRS 1012 – *Income Taxes*

The amendments clarify that unrealized losses on fixed-rate debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the holder expects to recover the carrying amount of the debt instrument by sale or by use and that the estimate of probable future taxable profit may include the recovery of some of assets for more than their carrying amount. When the Group assesses whether there will be sufficient taxable profit, the Group should compare the deductible temporary differences with future taxable profit that excludes tax deductions resulting from the reversal of those deductible temporary differences. The amendments are effective for annual periods beginning on or after January 1, 2017.

Impact of above new and revised K-IFRSs on Group's consolidated financial statements is under review by the Group.

(2) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company (and its subsidiaries). Control is achieved where the Company 1) has the power over the investee, 2) is exposed, or has rights, to variable returns from its involvement with the investee, and 3) has the ability to use its power to affect its returns. The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary. Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intragroup transactions and related assets and liabilities, income and expenses are eliminated in full on consolidation.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill) and liabilities of the subsidiary and any non-controlling interests. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognized in other comprehensive income and accumulated in equity, the amounts previously recognized in other comprehensive income and accumulated in equity are accounted for as if the Company had directly disposed of the relevant assets (i.e., reclassified to profit or loss or transferred directly to retained earnings). The fair value of any investment retained in the former subsidiary at the date when control is lost is recognized as the fair value on initial recognition for subsequent accounting under K-IFRS 1039, '*Financial Instruments: Recognition and Measurement*' or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

(3) 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 Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group 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, '*Employee Benefits,*' respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with K-IFRS 1102, '*Share-based Payment,*' at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with K-IFRS 1105, '*Non-current Assets Held for Sale and Discontinued Operations,*' 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 and 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 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 Group 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, '*Financial Instruments: Recognition and Measurement,*' 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 Group'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 Group 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.

(4) Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates or joint ventures are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with K-IFRS 1105, *'Non-current Assets Held for Sale and Discontinued Operations.'* Under the equity method, an investment in an associate or a joint venture is initially recognized in the consolidated statements of financial position at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. When the Group's share of losses of an associate or a joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate or a joint venture recognized at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

Upon disposal of an associate or a joint venture that results in the Group losing significant influence over that associate or joint venture, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with K-IFRS 1039, '*Financial Instruments: Recognition and Measurement.'* The difference between the previous carrying amount of the associate or joint venture attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognized in other comprehensive income in relation to that associate or joint venture on the same basis we would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognized in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as reclassification adjustment) when it loses significant influence over that associate or joint venture.

When the Group reduces its ownership interest in an associate or a joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognized in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities. In addition, the Group applies K-IFRS 1105, '*Non-current Assets Held for Sale and Discontinued Operations,*' to a portion of investment in an associate or a joint venture that meets the criteria to be classified as held for sale.

The requirements of K-IFRS 1039, '*Financial Instruments: Recognition and Measurement,*' are applied to determine whether it is necessary to recognize any impairment loss with respect to the Group's investment in an associate or a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with K-IFRS 1036, '*Impairment of Assets,*' by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with K-IFRS 1036, '*Impairment of Assets,*' to the extent that the recoverable amount of the investment subsequently increases.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

When a group entity transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognized in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

(5) Interests in joint operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement that exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

When a group entity undertakes its activities under joint operations, the Group as a joint operator recognizes in relation to its interest in a joint operation:

- its assets, including its share of any assets held jointly;
- its liabilities, including its share of any liabilities incurred jointly;
- its revenue from the sale of its share of the output arising from the joint operation;
- its share of the revenue from the sale of the output by the joint operation; and
- its expenses, including its share of any expenses incurred jointly.

The Group accounts for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the K-IFRSs applicable to the particular assets, liabilities, revenues and expenses.

When a group entity transacts with a joint operation in which a group entity is a joint operator (such as a sale or contribution of assets), the Group is considered to be conducting the transaction with the other parties to the joint operation, and gains and losses resulting from the transactions are recognized in the Group's consolidated financial statements only to the extent of other parties' interests in the joint operation.

When a group entity transacts with a joint operation in which a group entity is a joint operator (such as a purchase of assets), the Group does not recognize its share of the gains and losses until it resells those assets to a third party.

(6) Goodwill

Goodwill resulting from an acquisition of a business is carried at cost as established at the date of acquisition of the business, less accumulated impairment losses, if any.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in profit or loss. An impairment loss recognized for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

The Group's policy for goodwill resulting from the acquisition of an associate is described at Note 2. (4).

(7) 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 continuing 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.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

When the Group is committed to a sale plan involving disposal of an investment, or a portion of an investment, in an associate or joint venture, the investment or the portion of the investment that will be disposed of is classified as held for sale when the criteria described above are met, and the Group discontinues the use of the equity method in relation to the portion that is classified as held for sale. Any retained portion of an investment in an associate or a joint venture that has not been classified as held for sale continues to be accounted for using the equity method. The Group discontinues the use of the equity method at the time of disposal when the disposal results in the Group losing significant influence over the associate or joint venture.

After the disposal takes place, the Group accounts for any retained interest in the associate or joint venture in accordance with K-IFRS 1039 *'Financial Instruments: Recognition and Measurement*' unless the retained interest continues to be an associate or a joint venture, in which case the Group uses the equity method.

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.

(8) 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 Group recognizes revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below.

1) Sale of goods

Revenue from the sale of goods is recognized when the Group 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 Group determines the stage of completion by reference to surveys of work performed, 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 the shareholder's right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Group 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 Group 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 Group's policy for recognition of revenue from operating leases is described in Note 2. (9).

5) Customer Royalty Program

The Group 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 sales'). The fair value of the consideration received or receivable in respect of the initial sale shall be allocated between the award credits and the other components of the sale. If the Group 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 Group 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.

(9) Lease

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 Group as lessor

Amounts due from lessees under finance leases are recognized as receivables at the amount of the Group’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 Group’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 Group as lessee

Assets held under finance leases are initially recognized as assets of the Group 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 consolidated statements 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 Group’s general policy on borrowing costs (see Note 2. (11)). 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.

(10) Foreign currencies

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each group entity are expressed in Korean won, which is the functional currency of the entity and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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;
- exchange differences on transactions entered into in order to hedge certain foreign currency risks; and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognized initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the net investment.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Company's foreign operations are expressed in Korean won using exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e., a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the accumulated exchange differences in respect of that operation attributable to the owners of the Company are reclassified to profit or loss. Any exchange differences that have previously been attributed to non-controlling interests are derecognized, but they are not reclassified to profit or loss.

In the case of a partial disposal (i.e., no loss of control) of a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences is reattributed to non-controlling interests in equity and is not recognized in profit or loss. For all other partial disposals (i.e., partial disposals of associates or joint arrangements that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.
Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate. Exchange differences arising are recognized in other comprehensive income.

(11) 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 as the assets are substantially ready for their intended use or sale.

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

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

(12) Government grants

Government grants are not recognized until there is a reasonable assurance that the Group will comply with the conditions attached 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 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 Group 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 Group with no future related costs are recognized in profit or loss in the period in which they become receivable.

(13) 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 benefit 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 consolidated statements 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, past service cost, as well as gains and losses on curtailments and settlements), net interest expense (income) and remeasurement.

The Group 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 consolidated statements of financial position represents the actual deficit or surplus in the Group'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.

(14) 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 consolidated 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 Group'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 consolidated financial statements and the 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 that 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 Group 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 that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences 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 that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset 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 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 Group 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 Group 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 deferred tax 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 tax for the year

Current and deferred tax 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 tax 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.

(15) 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 their 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 Group and the cost of an asset can be measured reliably. Routine maintenance and repairs are expensed as incurred.

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

	Estimated useful lives (years)
Buildings	20–40
Structures	40
Telecommunication facilities	3–8
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 Group reviews the depreciation method, the estimated useful lives and 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.

(16) 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 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 Group 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.

(17) 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 Group can demonstrate the technical and economical 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, and are recognized in profit or loss when the asset is derecognized.

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

At the end of each reporting period, the Group 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 Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units 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 the asset may be impaired.

Recoverable amount is the higher of fair value, less costs to sell and value in use. If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) 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 a cash-generating unit) is increased to the revised estimate of its recoverable amount, but 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 cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

(19) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost of inventories, except for those in in-transit, are 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 recognized as an expense in the period in which the reversal occurs.

(20) Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event; it is probable that the Group 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 the period.

The Group leases various land and building sites for base station machinery and repeater, and non-networking assets 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 are terminated. As a result, the Group recognizes restoration liabilities for the amount that it estimates that will be incurred for removing, dismantling and restoring the site in order to restore the leased site at the end of lease contract.

(21) Cash and cash equivalents

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

(22) Financial Instruments

Financial assets and financial liabilities are recognized when a group entity 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 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 of 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 the financial asset is contingent consideration that may be paid by an acquirer as part of a business combination to which K-IFRS 1103, '*Business Combination,*' 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 it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group 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 or contingent consideration that may be paid by an acquirer as part of a business combination to which K-IFRS 1103, '*Business Combination,*' applies 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; or
- 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 Group'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, '*Financial Instruments: Recognition and Measurement*' 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 consolidated statement of comprehensive income.

3) Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group 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 investments 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 Group'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 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 include:

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

For certain categories of financial asset, 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 Group's past experience of collecting payments, 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 the 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.

In respect of 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. In respect of 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 Group 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 Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group 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 cumulated 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 Group retains an option to repurchase part of a transferred asset or it retains a residual interest and such 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 Group 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 amounts allocated to the part that is no longer recognized, 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.

(23) Financial liabilities and equity instruments

1) Classification as debt or equity

Debt and equity instruments are classified either as 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 Group 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 Group 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 that 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, '*Business Combination,*' 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; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group 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 or contingent consideration that may be paid by an acquirer as part of a business combination 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; or
- 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 Group'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, '*Financial Instruments: Recognition and Measurement,*' 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 consolidated 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 Group derecognizes financial liabilities when the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

(24) 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; 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 Group designates certain hedging instruments, which include derivatives, embedded derivatives and non-derivatives in respect of 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 Group 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 statement of comprehensive income relating to the hedged item.

Hedge accounting is discontinued when the Group 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 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 Group 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.

(25) 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 Group 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 consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of K-IFRS 1102, '*Share-based Payment,*' 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; and
- Level 3 inputs are unobservable inputs for the asset or liability.

(26) 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 Group 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 Group's accounting policies that have been described on 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 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 financial assets AFS 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 Group 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 Group recognizes restoration liabilities for the amount that it estimates that will be incurred for removing, dismantling and restoring the site in order to restore the leased site at the end of lease contract. The 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 Group 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 rate of return on plan assets, wage increase 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, 2016 and 2015, are ₩84,544 million and ₩87,339 million, respectively, 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, whether or not to recognize deferred tax assets and 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 are 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 revenue and expenses for the period by taking all the related circumstances at the end of reporting period into account.

4. SEGMENT INFORMATION:

(1) The Group determined that it operates under only one operating segment for segment reporting purposes, taking the characteristics of goods and services and the nature of network assets to provide telecommunications services into consideration. As a result, no separate segment information is disclosed in this report.

(2) Details of operating revenues from the Group's sale of goods and provision of services for the years ended December 31, 2016 and 2015, are as follows (Unit: Korean won in millions):

Reporting segment	Major goods and service	2016		2015	
The Group	Telecommunication and related services	₩	9,027,507	₩	8,654,054
	Handset sales		2,423,539		2,141,164
		₩	11,451,046	₩	10,795,218

(3) The Group's operating revenues are mostly generated from domestic customers based on 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, 2016 and 2015, are as follows (Unit: Korean won in millions):

1) Financial assets

Financial assets	Account	December 31, 2016 Book value	December 31, 2016 Fair value	December 31, 2015 Book value	December 31, 2015 Fair value
Cash and cash equivalents	Cash and cash equivalents	₩ 317,283	₩ 317,283	₩ 292,147	₩ 292,147
AFS financial assets	Marketable equity securities	2,899	2,899	4,181	4,181
	Unmarketable equity securities	29,788	29,788	32,367	32,367
	Subtotal	32,687	32,687	36,548	36,548
Loans and receivables	Financial institution deposits	21,183	21,183	21,179	21,179
	Trade receivables	2,029,635	2,029,635	1,890,907	1,890,907
	Loans	43,670	43,670	26,345	26,345
	Other receivables	285,966	285,966	199,242	199,242
	Accrued income	69	69	161	161
	Deposits	291,259	291,259	273,987	273,987
	Subtotal	2,671,782	2,671,782	2,411,821	2,411,821
	Total	₩ 3,021,752	₩ 3,021,752	₩ 2,740,516	₩ 2,740,516

2) Financial liabilities

Financial liabilities	Account	December 31, 2016 Book value	December 31, 2016 Fair value	December 31, 2015 Book value	December 31, 2015 Fair Value
Financial liabilities measured at amortized cost	Trade payables	298,390	298,390	309,783	309,783
	Borrowings	1,284,510	1,284,510	1,811,607	1,811,607
	Debentures	2,694,651	2,747,072	2,763,570	2,830,119
	Other payables	1,518,369	1,518,369	1,421,540	1,421,540
	Accrued expenses	808,764	808,764	692,174	692,174
	Withholdings	247,172	247,172	213,315	213,315
	Rental deposits	7,136	7,136	7,672	7,672
	Total	₩ 6,858,992	₩ 6,911,413	₩ 7,219,661	₩ 7,286,210

(2) 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 assets, whose book value amounts to ₩29,788 million and which does not have its market value disclosed in an active market, is measured at cost since its fair value cannot be reliably measured.

6. CASH AND CASH EQUIVALENTS:

The Group's cash and cash equivalents in the consolidated statements of financial position are equivalent to those in the consolidated statements of cash flows. Details of cash and cash equivalents as of December 31, 2016 and 2015, are as follows (Unit: Korean won in millions):

	December 31, 2016		December 31, 2015	
Financial institution deposits	₩	315,191	₩	289,610
Other cash equivalents		2,092		2,537
	₩	317,283	₩	292,147

7. RESTRICTED FINANCIAL ASSETS:

Restricted financial assets as of December 31, 2016 and 2015, are as follows (Unit: Korean won in millions):

	Financial institution	December 31, 2016		December 31, 2015	
Term deposits	KEB Hana Bank (*1)	₩	350	₩	350
Guarantee deposits for checking accounts	Woori Bank and others		21		21
	Total	₩	371	₩	371

(*1) Amounts are in pledge by BC card and are related to Payment Gateway business.

8. TRADE AND OTHER RECEIVABLES:

(1) Details of current portion of trade and other receivables as of December 31, 2016 and 2015, are as follows (Unit: Korean won in millions):

	December 31, 2016		December 31, 2015	
Trade receivables	₩	1,732,740	₩	1,693,574
Allowances for doubtful accounts		(165,757)		(179,221)
Trade receivables, net		1,566,983		1,514,353
Short-term loans		35,861		17,330
Allowances for doubtful accounts		(46)		(928)
Short-term loans, net		35,815		16,402
Other accounts receivable		326,467		248,993
Allowances for doubtful accounts		(40,501)		(49,751)
Other accounts receivable, net		285,966		199,242
Accrued income		69		161
	₩	1,888,833	₩	1,730,158

(2) Details of non-current portion of trade and other receivables as of December 31, 2016 and 2015, are as follows (Unit: Korean won in millions):

	December 31, 2016		December 31, 2015	
Trade receivables	₩	463,354	₩	377,689
Allowances for doubtful accounts		(702)		(1,135)
Trade receivables, net		462,652		376,554
Long-term loans		7,855		9,943
Leasehold deposits		271,830		252,702
Guarantee deposits		19,429		21,285
	₩	761,766	₩	660,484

(3) Aging of trade and other receivables as of December 31, 2016 and 2015, are as follows (Unit: Korean won in millions):

	December 31, 2016		December 31, 2015	
Less than six months	₩	2,685,898	₩	2,440,355
7–12 months		40,054		44,566
1–3 years		126,914		132,729
More than three years		4,739		4,027
	₩	2,857,605	₩	2,621,677

(4) Changes in allowance for trade and other receivables for the years ended December 31, 2016 and 2015, are as follows (Unit: Korean won in millions):

1) For the year ended December 31, 2016

	Trade receivables		Other receivables	
Beginning balance	₩	180,356	₩	50,679
Impairment loss		31,928		(7,677)
Write-offs		(66,648)		(2,600)
Reversal of write-offs		20,823		145
Ending balance	₩	166,459	₩	40,547

2) For the year ended December 31, 2015

	Trade receivables		Other receivables	
Beginning balance	₩	206,394	₩	82,108
Impairment loss		43,751		5,859
Write-offs		(88,738)		(37,398)
Reversal of write-offs		18,949		110
Ending balance	₩	180,356	₩	50,679

9. INVENTORIES:

(1) Inventories are stated at the lower of cost or net realizable value in case that the market value is lower than the acquisition cost. Details of inventories as of December 31, 2016 and 2015, are as follows (Unit: Korean won in millions):

	December 31, 2016			December 31, 2015		
	Acquisition cost	Valuation allowance	Carrying amount	Acquisition cost	Valuation allowance	Carrying amount
Merchandise	₩ 284,172	₩ (26,169)	₩ 258,003	₩ 392,376	₩ (27,778)	₩ 364,598
Supplies	5,544	(1,928)	3,616	1,792	(1,553)	239
	₩ 289,716	₩ (28,097)	₩ 261,619	₩ 394,168	₩ (29,331)	₩ 364,837

(2) Inventory costs recognized in operating expenses for the years ended December 31, 2016 and 2015, are ₩2,597,480 million and ₩2,500,650 million, respectively, which include ₩1,609 million of reversal of losses on valuation of inventories for the year ended December 31, 2016, and ₩5,291 million of losses on valuation of inventories for the year ended December 31, 2015.

10. OTHER ASSETS:

(1) Details of other current assets as of December 31, 2016 and 2015, are as follows (Unit: Korean won in millions):

	December 31, 2016	December 31, 2015
Advanced payments	₩ 22,818	₩ 25,553
Prepaid expenses	106,285	108,685
Others	1,361	56,238
Total	₩ 130,464	₩ 190,476

(2) Details of other non-current assets as of December 31, 2016 and 2015, are as follows (Unit: Korean won in millions):

	December 31, 2016	December 31, 2015
Long-term Advanced payments	₩ 950	₩ 1,600
Non-current prepaid expenses	26,211	33,863
Other non-current assets	-	2,568
Total	₩ 27,161	₩ 38,031

11. PROPERTY, PLANT AND EQUIPMENT:

(1) Changes in property, plant and equipment for the years ended December 31, 2016 and 2015, are as follows (Unit: Korean won in millions):

1) For the year ended December 31, 2016

	Land	Buildings	Telecommunication facilities	Other assets	Construction in progress	Total
Beginning acquisition cost	₩ 654,980	₩ 756,243	₩ 14,475,636	₩ 870,214	₩ 151,013	₩ 16,908,086
Accumulated depreciation	-	(149,713)	(8,730,436)	(632,709)	-	(9,512,858)
Accumulated impairment loss	-	-	(165,836)	-	-	(165,836)
Government subsidies	-	(727)	(4,754)	(64)	-	(5,545)
Beginning balance	654,980	605,803	5,574,610	237,441	151,013	7,223,847
Acquisition	-	2,539	264,283	41,009	935,406	1,243,237
Transfers	696	294	773,517	85,304	(862,113)	(2,302)
Disposals	-	-	(45,503)	(2,335)	(76)	(47,914)
Depreciation	-	(27,133)	(1,344,905)	(101,041)	-	(1,473,079)
Impairment loss/reversal	-	-	12,448	(5,805)	(856)	5,787
Ending balance	655,676	581,503	5,234,450	254,573	223,374	6,949,576
Ending acquisition cost	655,676	759,875	14,972,897	970,930	224,230	17,583,608
Accumulated depreciation	-	(177,434)	(9,623,045)	(710,499)	-	(10,510,978)
Accumulated impairment loss	-	-	(111,428)	(5,805)	(856)	(118,089)
Government subsidies	-	(938)	(3,974)	(53)	-	(4,965)
Ending balance	₩ 655,676	₩ 581,503	₩ 5,234,450	₩ 254,573	₩ 223,374	₩ 6,949,576

2) For the year ended December 31, 2015

	Land	Buildings	Telecommunication facilities	Other assets	Construction in progress	Total
Beginning acquisition cost	₩ 611,371	₩ 463,761	₩ 13,443,597	₩ 806,462	₩ 369,676	₩ 15,694,867
Accumulated depreciation	-	(127,323)	(7,559,027)	(565,517)	-	(8,251,867)
Accumulated impairment loss	-	-	(186,991)	-	-	(186,991)
Government subsidies	-	-	(1,569)	(35)	-	(1,604)
Beginning balance	611,371	336,438	5,696,010	240,910	369,676	7,254,405
Acquisition	1,188	3,100	207,051	36,242	1,161,686	1,409,267
Transfers	42,525	289,217	991,273	66,043	(1,376,207)	12,851
Disposals	(104)	(190)	(29,048)	(4,910)	(4,142)	(38,394)
Depreciation	-	(22,762)	(1,309,819)	(100,844)	-	(1,433,425)
Impairment loss	-	-	19,143	-	-	19,143
Ending balance	654,980	605,803	5,574,610	237,441	151,013	7,223,847
Ending acquisition cost	654,980	756,243	14,475,636	870,214	151,013	16,908,086
Accumulated depreciation	-	(149,713)	(8,730,436)	(632,709)	-	(9,512,858)
Accumulated impairment loss	-	-	(165,836)	-	-	(165,836)
Government subsidies	-	(727)	(4,754)	(64)	-	(5,545)
Ending balance	₩ 654,980	₩ 605,803	₩ 5,574,610	₩ 237,441	₩ 151,013	₩ 7,223,847

(2) Assets pledged as collateral

The Group has pledged a portion of land, buildings and telecommunication facilities, carrying amount of which are ₩30,383 million, as collateral related to borrowings from Korea Development Bank (KDB) and the maximum obligation amount arising from the pledge is ₩58,000 million.

12. INVESTMENT PROPERTY:

(1) Changes in investment property for the years ended December 31, 2016 and 2015, are as follows (Unit: Korean won in millions):

1) For the year ended December 31, 2016

	Land	Buildings	Total
Beginning acquisition cost	₩ 17,836	₩ 27,434	₩ 45,270
Accumulated depreciation	-	(6,753)	(6,753)
Beginning balance	17,836	20,681	38,517
Transfers	(637)	(42)	(679)
Depreciation	-	(666)	(666)
Ending balance	17,199	19,973	37,172
Ending acquisition cost	17,199	26,860	44,059
Accumulated depreciation	-	(6,887)	(6,887)
Ending balance	₩ 17,199	₩ 19,973	₩ 37,172

2) For the year ended December 31, 2015

	Land	Buildings	Total
Beginning acquisition cost	₩ 15,085	₩ 27,250	₩ 42,335
Accumulated depreciation	-	(5,669)	(5,669)
Beginning balance	15,085	21,581	36,666
Transfers	2,751	(192)	2,559
Depreciation	-	(708)	(708)
Ending balance	17,836	20,681	38,517
Ending acquisition cost	17,836	27,434	45,270
Accumulated depreciation	-	(6,753)	(6,753)
Ending balance	₩ 17,836	₩ 20,681	₩ 38,517

(2) The Group recognized rental revenue related to investment property, in the amount of ₩6,199 million and ₩7,120 million, for the years ended December 31, 2016 and 2015, respectively.

(3) The Group 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 years ended December 31, 2016 and 2015, are as follows (Unit: Korean won in millions):

1) For the year ended December 31, 2016

	Intellectual property rights	Memberships	Goodwill	Frequency usage rights	Other intangible assets	Total
Beginning acquisition cost	₩ 6,557	₩ 40,078	₩ 932	₩1,342,006	₩ 175,675	₩ 1,565,248
Accumulated amortization	(3,778)	-	-	(478,082)	(101,374)	(583,234)
Impairment loss	-	(5,300)	-	-	(10,118)	(15,418)
Beginning balance	2,779	34,778	932	863,924	64,183	966,596
Acquisition	1,091	629	-	372,470	36,830	411,020
Transfer	(23)	-	-	-	(883)	(906)
Disposals	-	(958)	-	-	(2,182)	(3,140)
Impairment loss	-	(371)	-	-	(1,232)	(1,603)
Amortization	(680)	-	-	(154,675)	(24,405)	(179,760)
Ending balance	3,167	34,078	932	1,081,719	72,311	1,192,207
Ending acquisition cost	7,625	39,749	932	1,714,476	209,440	1,972,222
Accumulated amortization	(4,458)	-	-	(632,757)	(125,779)	(762,994)
Accumulated impairment loss	-	(5,671)	-	-	(11,350)	(17,021)
Ending balance	₩ 3,167	₩ 34,078	₩ 932	₩ 1,081,719	₩ 72,311	₩ 1,192,207

2) For the year ended December 31, 2015

	Intellectual property rights	Computer software	Memberships	Goodwill	Frequency usage rights	Other intangible assets	Total
Beginning acquisition cost	₩ 5,942	₩ 15,815	₩ 38,893	₩ 932	₩1,342,006	₩ 135,877	₩ 1,539,465
Accumulated amortization	(3,145)	(9,611)	-	-	(329,615)	(66,053)	(408,424)
Impairment loss	-	-	(4,603)	-	-	(9,943)	(14,546)
Beginning balance	2,797	6,204	34,290	932	1,012,391	59,881	1,116,495
Acquisition	615	112	1,366	-	-	21,428	23,521
Transfer	-	6,239	-	-	-	-	6,239
Disposals	-	-	(181)	-	-	(3,796)	(3,977)
Impairment loss	-	(174)	(697)	-	-	-	(871)
Amortization	(633)	(5,408)	-	-	(148,467)	(20,303)	(174,811)
Ending balance	2,779	6,973	34,778	932	863,924	57,210	966,596
Ending acquisition cost	6,557	22,167	40,078	932	1,342,006	153,508	1,565,248
Accumulated amortization	(3,778)	(15,019)	-	-	(478,082)	(86,355)	(583,234)
Accumulated impairment loss	-	(175)	(5,300)	-	-	(9,943)	(15,418)
Ending balance	₩ 2,779	₩ 6,973	₩ 34,778	₩ 932	₩ 863,924	₩ 57,210	₩ 966,596

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

(3) R&D costs

The costs related to research and development for the years ended December 31, 2016 and 2015, are as follows (Unit: Korean won in millions):

	2016	2015
Research costs	₩ 52,689	₩ 59,479

(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. 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.
In addition, frequency usage rights for 2.1 GHz are acquired in the amount of ₩372,470 million on December 3, 2016, and amortized on a straight-line method for five years of useful lives.

14. INVESTMENTS IN SUBSIDIARIES:

(1) Details of subsidiaries as of December 31, 2016 and 2015, are as follows (Unit: Korean won in millions):

Company	Place of incorporation and operation	Business	Closing date	Percentage of ownership (%) 2016	2015
Ain Tele Service	South Korea	Telemarketing Service	December	100.00	100.00
CS Leader	South Korea	Telemarketing Service	December	100.00	100.00
Medialog Corp.	South Korea	Internet Service and others	December	98.35	98.35
DACOM America Inc.	USA	Telecommunication Service	December	100.00	100.00
CS ONE Partner Corporation	South Korea	Telemarketing Service	December	100.00	100.00
With U	South Korea	Other office support service	December	100.00	100.00

(2) Summary of financial position of subsidiaries as of December 31, 2016 and 2015, is as follows (Unit: Korean won in millions):

	December 31, 2016					
	Ain Tele Service	CS Leader	Medialog Corp.	DACOM America Inc.	CS ONE Partner Corporation	With U
Current assets	₩ 12,163	₩ 8,798	₩ 56,422	₩ 238	₩ 14,955	₩ 915
Non-current assets	319	323	20,794	27	159	109
Total assets	12,482	9,121	77,216	265	15,114	1,024
Current liabilities	9,194	6,195	41,255	3,823	10,769	424
Non-current liabilities	3,284	2,311	8,625	-	2,083	75
Total liabilities	12,478	8,506	49,880	3,823	12,852	499
Total equity	4	615	27,336	(3,558)	2,262	525

	December 31, 2015					
	Ain Tele Service	CS Leader	Medialog Corp.	DACOM America Inc.	CS ONE Partner Corporation	With U
Current assets	₩ 11,632	₩ 8,986	₩ 78,159	₩ 223	₩ 12,213	₩ 808
Non-current assets	337	334	21,409	26	170	127
Total assets	11,969	9,320	99,568	249	12,383	935
Current liabilities	9,099	6,169	60,605	3,706	9,164	351
Non-current liabilities	3,585	2,680	6,701	-	1,527	67
Total liabilities	12,684	8,849	67,306	3,706	10,691	418
Total equity	(715)	471	32,262	(3,457)	1,692	517

(3) Summary of financial performance of subsidiaries for the years ended December 31, 2016 and 2015, is as follows (Unit: Korean won in millions):

For the year ended December 31, 2016

	Ain Tele Service	CS Leader	Medialog Corp.	DACOM America Inc.	CS ONE Partner Corporation	With U
Sales	₩ 64,873	₩ 45,913	₩ 223,963	₩ 1,121	₩ 83,249	₩ 3,208
Operating income (loss)	699	414	(11,933)	27	1,219	17
Net income (loss)	612	398	(4,232)	6	940	24
Other comprehensive income (loss)	108	(253)	(368)	(107)	(368)	(16)
Total comprehensive income (loss)	₩ 720	₩ 145	₩ (4,600)	₩ (101)	₩ 572	₩ 8

For the year ended December 31, 2015

	Ain Tele Service	CS Leader	Medialog Corp.	DACOM America Inc.	CS ONE Partner Corporation	With U
Sales	₩ 66,091	₩ 46,877	₩ 230,347	₩ 1,045	₩ 76,037	₩ 2,816
Operating income (loss)	959	234	(14,712)	40	156	(81)
Net income (loss)	716	238	(15,220)	19	136	(66)
Other comprehensive income (loss)	(112)	(178)	(576)	(215)	(445)	3
Total comprehensive income (loss)	₩ 604	₩ 60	₩ (15,796)	₩ (196)	₩ (309)	₩ (63)

(4) Summary of cash flows of subsidiaries for years ended December 31, 2016 and 2015, is as follows (Unit: Korean won in millions):

For the year ended December 31, 2016

	Ain Tele Service	CS Leader	Medialog Corp.	DACOM America Inc.	CS ONE Partner Corporation	With U
Cash flows from operating activities	₩ 1,276	₩ (12)	₩ (11,826)	₩ 25	₩ 4,128	₩ 117
Cash flows from investing activities	-	(12)	1,553	-	(48)	(31)
Cash flows from financing activities	-	-	(325)	-	-	-
Net increase in cash and cash equivalents	1,276	(24)	(10,598)	25	4,080	86
Beginning of the period	1,707	2,097	27,128	223	1,535	464
Exchange rate fluctuation effect on cash and cash equivalents	-	-	-	(10)	-	-
End of the period	₩ 2,983	₩ 2,073	₩ 16,530	₩ 238	₩ 5,615	₩ 550

For the year ended December 31, 2015

	Ain Tele Service	CS Leader	Medialog Corp.	DACOM America Inc.	CS ONE Partner Corporation	With U
Cash flows from operating activities	₩ (1,818)	₩ (1,527)	₩ (987)	₩ 15	₩ (4,298)	₩ 198
Cash flows from investing activities	(250)	30	(7,665)	-	1,941	(14)
Cash flows from financing activities	-	-	-	-	-	-
Net increase in cash and cash equivalents	(2,068)	(1,497)	(8,652)	15	(2,357)	184
Beginning of the period	3,775	3,594	35,780	195	3,892	280
Exchange rate fluctuation effect on cash and cash equivalents	-	-	-	13	-	-
End of the period	₩ 1,707	₩ 2,097	₩ 27,128	₩ 223	₩ 1,535	₩ 464

Summary of cash flow as above includes the adjustments of differences in accounting policy of controlled entities and the fair value of the goodwill recognized on the business combination. In addition, internal transaction amount is not excluded.

(5) Ownership percentage held by non-controlling interests of subsidiary and financial position, financial performance and dividend amount attributable to non-controlling interest as of December 31, 2016 and 2015, is as follows (Unit: Korean won in millions):

	Medialog Corp.	
	December 31, 2016	December 31, 2015
Ownership percentage held by non-controlling interests(*1)	1.65%	1.65%
Cumulative non-controlling interests	223	451
Net loss attributable to non-controlling interests	(30)	(213)
Total comprehensive loss attributable to non-controlling interests	(33)	(220)
Dividends paid to non-controlling interests	-	-

(*1) The percentage of voting shares and the percentage of ownership are different due to treasury stock without voting rights.

15. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES:

(1) The composition of the Group's investments in joint ventures and investments in associates as of December 31, 2016 and 2015, is as follows (Unit: Korean won in millions):

Companies	Class	Place of incorporation and operation	Percentage of ownership (%)	December 31, 2016	December 31, 2015
DACOM Crossing Corporation (*1)	Jointly controlled entities	South Korea	51.00	₩ 7,840	₩ 7,308

(*1) The Company acquired more than 50.0% shares of DACOM Crossing Corporation, but as the Company retains joint controlling power, it classifies the shares as jointly controlled entities.

(2) Equity securities accounted for using the equity method for the years ended December 31, 2016 and 2015, are as follows (Unit: Korean won in millions):

1) For the year ended December 31, 2016

	January 1, 2016	Gain on valuation by equity method	Receipt of dividends	Replacements	December 31, 2016
Dacom Crossing Corporation	₩ 7,308	₩ 532	₩ -	₩ -	₩ 7,840

2) For the year ended December 31, 2015

	January 1, 2016	Gain on valuation by equity method	Receipt of dividends	Replacements	December 31, 2016
Dacom Crossing Corporation	₩ 8,813	₩ (1,297)	₩ (208)	₩ -	₩ 7,308
Mediplus Solution (*1)	21	48	-	(69)	-
	₩ 8,834	₩ (1,249)	₩ (208)	₩ (69)	₩ 7,308

(*1) The share ratio decreased to 15% because the Company has not participated in the capital increase by issuing new stocks for the year ended December 31, 2015. The shares have been excluded from associates.

(3) Details of reconciliation between net assets of associates and the carrying value of the investments in associates as of and for the years ended December 31, 2016 and 2015, are as follows (Unit: Korean won in millions):

	December 31, 2016
	Dacom Crossing Corporation
Net assets of associates as of and for the year ended December 31, 2016 (A)	₩ 15,373
The ownership interest of the consolidated entity (B)	51.00%
The ownership amount of net assets (A*B)	7,840
(+) Goodwill	-
(-) Elimination of internal transaction effect	-
December 31, 2016	₩ 7,840

	December 31, 2015
	Dacom Crossing Corporation
Net assets of associates as of and for the year ended December 31, 2016 (A)	₩ 14,330
The ownership interest of the consolidated entity (B)	51.00%
The ownership amount of net assets (A*B)	7,308
(+) Goodwill	-
(-) Elimination of internal transaction effect	-
December 31, 2016	₩ 7,308

(4) Summary of financial information of associates and joint ventures as of and for the years ended December 31, 2016 and 2015, is as follows (Unit: Korean won in millions):

	December 31, 2016	
	Dacom Crossing Corporation	
Current assets	₩	11,587
Non-current assets		45,554
Total assets		57,141
Current liabilities		8,340
Non-current liabilities		33,428
Total liabilities		41,768
Ownership interest of controlling entity		15,373
Non-controlling interest		-
Total equity	₩	15,373

	December 31, 2015	
	Dacom Crossing Corporation	
Current assets	₩	12,031
Non-current assets		50,720
Total assets		62,751
Current liabilities		8,824
Non-current liabilities		39,597
Total liabilities		48,421
Ownership interest of controlling entity		14,330
Non-controlling interest		-
Total equity	₩	14,330

(5) Summary of financial performances of associates and joint ventures for the years ended December 31, 2016 and 2015, is as follows (Unit: Korean won in millions):

	December 31, 2016	
	Dacom Crossing Corporation	
Sales	₩	34,046
Operating income (loss)		1,035
Gross comprehensive income (loss)		1,043

	December 31, 2015	
	Dacom Crossing Corporation	
Sales	₩	35,479
Operating income (loss)		(2,536)
Gross comprehensive income (loss)		(2,543)

(6) The composition details from the summary of financial information of joint ventures for the years ended December 31, 2016 and 2015, are as follows (Unit: Korean won in millions):

	Dacom Crossing Corporation	
	2016.12	2015.12
Cash and cash equivalents	₩ 1,012	₩ 5,631
Depreciation	1,332	1,087
Amortization	725	681

16. DEBENTURES AND BORROWINGS:

(1) The Group's short-term borrowings as of December 31, 2016 and 2015, consist of the following (Unit: Korean won in millions):

Type of borrowings	Creditor	Annual interest rate (%)	December 31, 2016	December 31, 2015
General loans	Shinhan Bank	3.57	₩ 10,000	₩ 10,000
	KEB Hana Bank	3.58	5,000	5,000
			₩ 15,000	₩ 15,000

(2) The Group's long-term borrowings as of December 31, 2016 and 2015, consist of the following (Unit: Korean won in millions):

Type of borrowings	Creditor	Annual interest rate (%)	December 31, 2016	December 31, 2015
Facilities financing	Korea Development Bank and others	1.91 ~ 3.78	₩ 1,166,666	₩ 1,503,333
	Others	2.60 ~ 3.39	100,010	284,830
IT promotion funds	KEB Hana Bank	1.69	2,834	8,444
Before current maturities	Face value of long-term borrowings		1,269,510	1,796,607
	Discount on long-term borrowings		-	-
Current maturities	Current portion of face value of long-term borrowings		508,313	559,170
	Current portion of discount on long-term borrowings		-	-
After current maturities	Face value		761,197	1,237,437
	Discount on long-term borrowings		-	-
	Book value		₩ 761,197	₩ 1,237,437

(3) The Group's debentures as of December 31, 2016 and 2015, consist of the following (Unit: Korean won in millions):

		Annual interest rate (%)	December 31, 2016	December 31, 2015
Debentures issued under public offering		1.94–4.47	₩ 2,590,000	₩ 2,660,000
Debentures issued privately		3.54	110,000	110,000
Before current maturities	Face value		2,700,000	2,770,000
	Discount on debentures		(5,349)	(6,430)
Current maturities	Current portion of debentures		530,000	370,000
	Current portion of discount on debentures		(210)	(337)
After current maturities	Face value		2,170,000	2,400,000
	Discount on debentures		(5,139)	(6,093)
	Book value		₩ 2,164,861	₩ 2,393,907

(4) The repayment schedule of long-term borrowings and debentures as of December 31, 2016, is as follows (Unit: Korean won in millions):

Period	Long-term borrowings	Debentures	Total
January 1, 2018, to December 31, 2018	₩ 411,197	₩ 430,000	₩ 841,197
January 1, 2019, to December 31, 2019	250,000	610,000	860,000
January 1, 2020, and thereafter	100,000	1,130,000	1,230,000
Total	₩ 761,197	₩ 2,170,000	₩ 2,931,197

17. OTHER FINANCIAL LIABILITIES:

Other financial liabilities as of December 31, 2016 and 2015, are as follows (Unit: Korean won in millions):

	December 31, 2016		December 31, 2015	
	Current	Non-current	Current	Non-current
Non-trade payable (*1)	₩ -	₩ 524,089	₩ -	₩ 376,708
Withholdings	247,172	-	213,315	-
Rental deposits	6,808	328	7,495	177
Total	₩ 253,980	₩ 524,417	₩ 220,810	₩ 376,885

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

18. PROVISIONS:

Changes in restoration liabilities for the years ended December 31, 2016 and 2015, are as follows (Unit: Korean won in millions):

1) For the year ended December 31, 2016

	Beginning balance		Increase		Decrease		Ending balance	
Restoration liabilities	₩	38,723	₩	756	₩	(4,820)	₩	34,659

2) For the year ended December 31, 2015

	Beginning balance		Increase		Decrease		Ending balance	
Restoration liabilities	₩	27,261	₩	12,332	₩	(870)	₩	38,723

19. RETIREMENT BENEFIT PLAN:

(1) Defined contribution plan

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

The Group recognized ₩4,309 million and ₩3,788 million of service cost relating to its defined contribution plan in the consolidated statements of income for the years ended December 31, 2016 and 2015, respectively.

(2) Defined benefit plan

The Group 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, 2016 and 2015, amounts recognized in the consolidated statements of financial position related to retirement benefit obligation are as follows (Unit: Korean won in millions):

	December 31, 2016		December 31, 2015	
Present value of defined benefit obligation	₩	413,023	₩	359,340
Fair value of plan assets		(328,479)		(272,001)
Net defined benefit liability	₩	84,544	₩	87,339

2) Changes in defined benefit obligation for the years ended December 31, 2016 and 2015, are as follows (Unit: Korean won in millions):

		2016		2015
Beginning balance	₩	359,340	₩	297,114
Current service cost		58,419		52,593
Past service cost		-		-
Interest cost		9,575		8,799
Remeasurement:		5,539		18,033
Actuarial gain or loss from changes in demographic assumptions		5,729		7,623
Actuarial gain or loss from changes in financial assumptions		(4,730)		11,777
Actuarial gain or loss from difference between estimated and actual		2,766		(911)
Actuarial gain or loss arising from transfer in/out adjustment		1,774		(456)
Benefits paid		(25,187)		(16,337)
Transferred affiliated companies		5,337		(862)
Ending balance	₩	413,023	₩	359,340

3) Income or loss recognized relating to defined benefit plan for the years ended December 31, 2016 and 2015, are as follows (Unit: Korean won in millions)

		2016		2015
Service cost	₩	58,419	₩	52,593
Current service cost		58,419		52,593
Net interest cost of net defined benefit obligations		2,378		2,000
Interest cost of defined benefit obligations		9,575		8,799
Interest income of plan assets		(7,197)		(6,799)
Other		457		464
Total	₩	61,254	₩	55,057

4) Changes in plan asset for the years ended December 31, 2016 and 2015, are as follows (Unit: Korean won in millions):

		2016		2015
Beginning balance	₩	272,001	₩	231,494
Interest income on plan assets		7,197		6,799
Remeasurements-Return on plan assets		(1,378)		(860)
Contributions from the employer		72,766		50,570
Transferred affiliated companies		49		(943)
Other		(457)		(464)
Benefits paid		(21,699)		(14,595)
Ending balance	₩	328,479	₩	272,001

5) The principal assumptions used for the actuarial valuations as of December 31, 2016 and 2015, are as follows:

	December 31, 2016	December 31, 2015
Discount rate (%)	1.91% ~ 2.88%	2.30% ~ 2.80%
Expected rate of salary increase (%)	3.00% ~ 5.89%	3.00% ~ 5.90%

6) All of the plan assets invested in financial instruments are guaranteed principal and interest rate as of December 31, 2016 and 2015.

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 (*1)	₩	413,023	₩	370,330	₩	463,537
Changes in rate of salary increase (*1)		413,023		461,497		371,068

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

8) The expected contribution to the defined benefit plans during the next financial year is as follows (Unit: Korean won in millions):

	2016		2015	
Actuarial gain or loss from changes in demographic assumptions	₩	5,729	₩	7,623
Actuarial gain or loss from changes in financial assumptions		(4,730)		11,777
Actuarial gain or loss from difference between estimated and actual		2,766		(911)
Actuarial gain or loss arising from transfer in/out adjustment		1,774		(456)
Return on plan assets, excluding amounts included in interest income		1,378		860
Total	₩	6,917	₩	18,893

20. OTHER LIABILITIES:

Other liabilities as of December 31, 2016 and 2015, are as follows (Unit: Korean won in millions):

	December 31, 2016				December 31, 2015			
	Current		Non-current		Current		Non-current	
Advances received	₩	68,873	₩	-	₩	71,668	₩	-
Unearned income		7,020		3,652		14,110		4,706
Other		-		15,065		-		9,444
	₩	75,893	₩	18,717	₩	85,778	₩	14,150

21. EQUITY:

(1) Capital stock
Details of capital stock as of December 31, 2016 and 2015, are as follows:

			December 31, 2016		December 31, 2015	
Type of stock	Number of authorized shares	Par value	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 Group 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-in capital are not identical due to the retirement of treasury stock.

(2) Capital surplus

Details of capital surplus as of December 31, 2016 and 2015, are as follows:

	2016		2015	
Paid-in capital in excess of par value	₩	834,712	₩	834,712
Consideration for conversion rights		1,849		1,849
Other capital surplus		359		489
	₩	836,920	₩	837,050

Paid-in capital in excess of par value shall only be used for capitalization or disposition of accumulated deficit.

(3) Legal reserve
As of December 31, 2016, earned surplus reserve in form of legal reserve of ₩68,499 million is included in retained earnings. The Commercial Code of the Republic of Korea requires the Group 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.

22. DIVIDENDS:

(1) The details of dividend paid of the parent company for the years ended December 31, 2016 and 2015, are as follows:

	2016		2015	
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		7%		5%
Dividends per share	₩	350	₩	250
Total dividends (*1)	₩	152,814 million	₩	109,153 million

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

(2) Dividend payout ratio of the Parent Company for the years ended December 31, 2016 and 2015, is as follows (Unit: Korean won in millions):

	2016		2015	
Total dividends	₩	152,814	₩	109,153
Net income attributable to the owners of the Company		492,739		351,232
Dividend payout ratio		31.01%		31.08%

23. ACCUMULATED OTHER COMPREHENSIVE INCOME(LOSS):

Composition of accumulated other comprehensive income or loss for the years ended December 31, 2016 and 2015, is 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	Share of other comprehensive income of joint ventures and associates	Gain on foreign currency translation for foreign operations	Total
January 1, 2015	₩ 2,046	₩ -	₩ (289)	₩ 65	₩ (81)	₩ 1,741
Fair value assessment	(720)	-	-	-	-	(720)
Hedge accounting	-	-	289	-	-	289
Foreign currency translation for foreign operations	-	-	-	-	(216)	(216)
December 31, 2015	1,326	-	-	65	(297)	1,094
January 1, 2016	1,326	-	-	65	(297)	1,094
Fair value assessment	151	-	-	-	-	151
Foreign currency translation for foreign operations	-	-	-	-	(107)	(107)
December 31, 2016	₩ 1,477	₩ -	₩ -	₩ 65	₩ (404)	₩ 1,138

24. OTHER EXPENSES:

Composition of other expenses for the years ended December 31, 2016 and 2015, are as follows (Unit: Korean won in millions):

	2016	2015
Operating lease payment	₩ 340,362	₩ 331,556
Advertising expenses	382,810	350,633
Sales commissions	1,488,784	1,353,227
Commission charge	1,351,828	1,247,442
Interconnection charge	647,793	582,354
Telecommunication equipment rental fees	242,682	266,977
Outsourcing expense	401,437	383,014
Bad debt expenses	25,166	49,610
Settlement expenses	118,452	134,926
Other	647,364	633,214
	₩ 5,646,678	₩ 5,332,953

25. OTHER NON-OPERATING REVENUES AND EXPENSES:

(1) Other operating revenues for the years ended December 31, 2016 and 2015, are as follows (Unit: Korean won in millions):

	2016		2015	
Gain on disposal of tangible assets	₩	3,485	₩	1,634
Gain on foreign currency transactions		4,681		3,745
Gain on foreign currency translation		4,043		7,380
Miscellaneous income		95,014		77,292
	₩	107,223	₩	90,051

(2) Other non-operating expenses for the years ended December 31, 2016 and 2015, are as follows (Unit: Korean won in millions):

	2016		2015	
Loss on disposal of tangible assets	₩	39,428	₩	27,733
Impairment loss of tangible assets		22,616		7,360
Loss on disposal of intangible assets		124		-
Impairment loss of intangible assets		1,603		871
Loss on disposal of investment in associates		-		9
Loss on foreign currency transactions		4,983		5,378
Loss on foreign currency translation		4,487		7,715
Donation		8,381		5,736
Miscellaneous loss		10,135		16,959
	₩	91,757	₩	71,761

26. FINANCIAL REVENUES AND FINANCIAL EXPENSES:

(1) Financial revenues for the years ended December 31, 2016 and 2015, are as follows (Unit: Korean won in millions):

	2016		2015	
Interest income	₩	34,392	₩	37,350
Gain on disposal of AFS financial assets		270		3,299
Gain on foreign currency transactions		6		30
Gain on foreign currency translation		14		30
Dividend income		605		349
	₩	35,287	₩	41,058

(2) Interest income included in financial revenues for the years ended December 31, 2016 and 2015, is as follows (Unit: Korean won in millions):

	2016		2015	
Cash and cash equivalents and financial institution deposits	₩	5,874	₩	7,097
Other loans and receivables		28,518		30,253
	₩	34,392	₩	37,350

(3) Financial expenses for the years ended December 31, 2016 and 2015, are as follows (Unit: Korean won in millions):

		2016		2015
Interest expense	₩	142,677	₩	187,948
Loss on foreign currency transactions		28		57
Loss on foreign currency translation		-		-
Impairment loss of AFS financial assets		147		12,184
Loss on disposal of trade receivables		12,338		24,206
Loss on disposal of AFS financial assets		-		94
	₩	155,190	₩	224,489

(4) Interest expenses included in financial expenses for the years ended December 31, 2016 and 2015, are as follows (Unit: Korean won in millions):

		2016		2015
Interest on long-term and short-term borrowings	₩	47,362	₩	84,556
Finance lease liabilities interest		-		7
Debentures interest		92,529		90,601
Other interest expense		3,501		15,954
(-)Borrowing cost, as part of the cost of the qualifying asset (*)		(715)		(3,170)
	₩	142,677	₩	187,948

(*) Capitalization rate for calculating borrowing costs that is eligible for capitalization as of December 31, 2016 and 2015, is 3.11% and 3.62%, respectively.

(5) Categorized profit and loss on financial instruments for the years ended December 31, 2016 and 2015, are as follows (Unit: Korean won in millions):

		2016		2015
FINANCIAL ASSETS				
Cash and cash equivalents	₩	5,865	₩	7,099
AFS financial assets		880		(9,352)
Loans and receivables		(4,919)		(38,001)
Subtotal		1,825		(40,254)
FINANCIAL LIABILITIES				
Financial liabilities at amortized cost		(146,785)		(194,630)
Liabilities of derivative instruments designated as hedging instruments		-		289
Subtotal		(146,785)		(194,341)
Total	₩	(144,960)	₩	(234,595)

27. INCOME TAX:

(1) Composition of income tax expense for the years ended December 31, 2016 and 2015, is as follows (Unit: Korean won in millions):

	2016	2015
Current income tax payable	₩ 128,997	₩ 100,579
Changes in deferred tax assets due to temporary differences	19,353	9,602
Beginning deferred tax asset	380,489	390,091
Ending deferred tax asset	361,136	380,489
Income tax expenses reflected directly in equity	1,489	4,528
Income tax expense	₩ 149,839	₩ 114,709

(2) Reconciliation between income before income tax and income tax expense of the Group for the years ended December 31, 2016 and 2015, is as follows (Unit: Korean won in millions):

	2016	2015
Income before income tax expense	₩ 642,578	₩ 465,941
Tax expense calculated on book income (tax rate: 24.2%)	155,880	116,281
Adjustments:	(6,041)	(1,572)
Non-taxable income	(5,595)	(185)
Non-deductible expense	1,920	6,516
Tax credits	(14,628)	(17,330)
Other	12,262	9,427
Income tax expense	₩ 149,839	₩ 114,709
Effective tax rate (income tax expense/income before income tax expense)	23.32%	24.62%

(3) Income taxes directly reflected in equity for the years ended December 31, 2016 and 2015, are as follows (Unit: Korean won in millions):

	2016	2015
Loss on valuation of cash flow hedging derivatives	₩ -	₩ (94)
Gain from valuation of AFS financial assets	(48)	231
Loss from valuation of AFS financial assets	-	-
Remeasurements of defined benefit plan	1,537	4,391
	₩ 1,489	₩ 4,528

(4) Changes in deferred tax assets (liabilities) for the year ended December 31, 2016, are as follows (Unit: Korean won in millions):

	Beginning balance	Increase	Decrease	Ending balance
TEMPORARY DIFFERENCES TO BE DEDUCTED:				
Defined benefit obligations	₩ 331,821	₩ 63,104	₩ 15,239	₩ 379,686
Allowance for doubtful accounts	153,954	138,628	143,879	148,703
Loss on valuation of inventories	43,016	37,344	40,919	39,441
Unsettled expenses	165,722	175,972	172,702	168,992
Property, plant and equipment	410,767	160,501	123,414	447,854
Provisions	39,887	35,513	39,779	35,621
Impairment losses on investment securities	17,789	4,000	14,000	7,789
Loss on valuation of investment securities	2,542	152	204	2,490
Intangible assets	63,087	16,467	11,205	68,349
Deemed dividends	160	-	-	160
Government subsidies	7,193	8,905	7,140	8,958
Adjustment on revenues	88,321	78,457	81,204	85,574
Investment assets	3,707	-	-	3,707
Prepaid expenses	1,113	6,685	3,493	4,305
Other capital surplus	-	9,030	903	8,127
Present value discount account	1,341	29	1,341	29
Others	562	17,392	1,694	16,260
Subtotal of temporary differences to be deducted	1,330,982	752,179	657,116	1,426,045
TEMPORARY DIFFERENCES TO BE ADDED:				
Accrued interest income	(73)	(66)	(73)	(66)
Deposits for severance benefits	(270,024)	(68,485)	(14,700)	(323,809)
Interest expenses (capitalized interest expense)	(2,552)	-	(1,926)	(626)
Estimated assets for restoration	(8,198)	999	(6,065)	(1,134)
Equipment of free charge of Huawei	(132,437)	432	(20,374)	(111,631)
Unrealized inventories	-	-	-	-
Gain or loss on valuation by equity method	(4,191)	-	-	(4,191)
Subtotal of temporary differences to be added	(417,475)	(67,120)	(43,138)	(441,457)
Deficit carried forward	28,209			27,778
Total	941,716			1,012,366
Realizable temporary differences	919,112			978,406
Unrealizable temporary differences	22,604			33,960
Tax rate	11%, 22%, 24.20%			11%, 22%, 24.20%
Income tax effect due to temporary differences	221,738			234,527
Income tax effect due to tax credit carryforwards	158,751			126,609
Deferred income tax assets	₩ 380,489			₩ 361,136

(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	₩ 266,936	₩ 79,259	₩ 14,374	₩ 331,821
Allowance for doubtful accounts	235,717	144,731	226,494	153,954
Loss on valuation of inventories	38,192	49,931	45,107	43,016
Unsettled expenses	167,884	173,517	175,679	165,722
Property, plant and equipment	405,801	100,971	96,005	410,767
Provisions	30,064	39,791	29,968	39,887
Impairment losses on investment securities	43,269	9,783	35,263	17,789
Loss on valuation of investment securities	2,288	260	6	2,542
Derivatives	383	-	383	-
Intangible assets	54,971	18,618	10,502	63,087
Deemed dividends	160	-	-	160
Government subsidies	3,414	6,542	2,763	7,193
Adjustment on revenues	95,400	96,583	103,662	88,321
Investment assets	3,707	-	-	3,707
Prepaid expenses	-	4,753	3,640	1,113
Present value discount account	701	3,483	2,843	1,341
Others	(15,835)	16,723	326	562
Subtotal of temporary differences to be deducted	1,333,052	744,945	747,015	1,330,982
TEMPORARY DIFFERENCES TO BE ADDED:				
Accrued interest income	(270)	(73)	(270)	(73)
Deposits for severance benefits	(229,025)	(55,387)	(14,388)	(270,024)
Interest expenses (capitalized interest expense)	(5,844)	-	(3,292)	(2,552)
Estimated assets for restoration	(487)	(8,148)	(437)	(8,198)
Equipment of free charge of Huawei	(152,448)	20,011	-	(132,437)
Unrealized inventories	(598)	598	-	-
Gain or loss under the equity method	(3,195)	(996)	-	(4,191)
Subtotal of temporary differences to be added	(391,867)	(43,995)	(18,387)	(417,475)
Deficit carried forward	18,423			28,209
Total	959,608			941,716
Realizable temporary differences	966,866			919,112
Unrealizable temporary differences	(7,258)			22,604
Tax rate	11%, 22%, 24.20%			11%, 22%, 24.20%
Income tax effect due to temporary differences	233,449			221,738
Income tax effect due to tax credit carryforwards	156,642			158,751
Deferred income tax assets	₩ 390,091			₩ 380,489

(6) As of December 31, 2016, deferred tax assets that the investment assets and investments are excluded and are not recognized are as follows (Unit: Korean won in millions):

	December 31, 2016
Temporary differences	₩ 22,710
Taxation deficits	11,250

Carried-forward taxation credits that are not recognized as deferred tax assets as of December 31, 2016, are₩34,958 million.

(7) As of December 31, 2016, expiration period of taxation deficits and unused taxation credits that are not recognized as deferred tax assets are as follows (Unit: Korean won in millions):

	Taxation deficits		Carried-forward taxation credits	
Less than one year	₩	-	₩	28,380
1–2 years		-		1,576
2–3 years		-		5,002
More than three years		11,250		-
	₩	11,250	₩	34,958

(8) As of December 31, 2016, temporary differences not recognized as deferred tax assets (liabilities) related to investment asset and equity interest are as follows (Unit: Korean won in millions):

	December 31, 2016	
Investment in subsidiaries, etc.	₩	38,360

28. EARNINGS PER SHARE:

Basic earnings per share are the net income attributable to one share of common stock of the Company. It is measured by dividing net income attributable to common stocks during a specified period by the weighted-average numbers of common shares issued during that period. Earnings per share for the years ended December 31, 2016 and 2015, are calculated as follows (Unit: Korean won in millions, except for earnings per share):

	2016		2015	
Net income	₩	492,769	₩	351,445
Weighted-average number of common shares outstanding		436,611,358 shares		436,611,358 shares
Earnings per share (in Korean won)	₩	1,129 per share	₩	805 per share

Diluted earnings per share are same to basic earnings per share as the Group has no dilutive potential common stocks as of December 31, 2016.

29. COMMITMENTS AND CONTINGENCIES:

(1) As of December 31, 2016, there are 88 lawsuits ongoing where the Group is a defendant in the Republic of Korea; total claim amount the Group is being sued for is ₩15,437 million. Management believes the outcome of these lawsuits will likely not have a significant effect on the financial position of the Group.

(2) The Group entered into agreements with Shinhan Bank and others for a line of credit and commercial paper up to ₩211,500 million. Among these agreements, includes a bank overdraft agreement with Woori Bank and others up to ₩30,000 million.

(3) As of December 31, 2016, the Group has entered into agreements with Woori and other two banks for a limit of ₩78,000 million in order to pay off its accounts payable. Among the agreements, the Group has entered into loan agreement secured by an electronic accounts receivable, where Group guarantees the payment of accounts receivable when the vendors of the Group transfer the accounts receivable due from the Group prior to its maturity.

30. RELATED-PARTY TRANSACTIONS:

(1) Major related parties for the years ended December 31, 2016 and 2015, are as follows:

1) For the year ended December 31, 2016

	Company
Investor with significant influence over the Group	LG Corporation
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, LG Holdings Japan Co., Ltd.
Other related parties affiliates by the act:	LG Chem Ltd. and 28 others, SEETEC Co.,Ltd., Haengboknuri, FarmHannong Co., Ltd. and 1 other, Agrotech. co., Ltd., FarmBiotec Co., Ltd., Sesil Corp., FarmHwaong Co., Ltd., LG Electronics Inc. and 94 others, Hi Plaza Inc. Hi-M Solutec Co., Ltd., HITeleservice Co., Ltd., Ace R&A Co., Ltd., Hientech Co., Ltd., LG-Hitachi Water Solutions Co., Ltd., LG Fuel Cell Systems (Korea) Inc., Hanuri, LG Display Co., Ltd. and 18 others, Nanumnuri Co., Ltd., LG Innotek Alliance Fund and 10 others, Innowith, LG Household & Health Care Ltd. and 15 others, The FaceShop Co., Inc. and 6 others, Coca-Cola Beverage Co., Hankook Beverage Co., Ltd., HAITAI HTB CO., LTD., Clean Soul Ltd., Future Co., Ltd, K&I Co., Ltd, CNP Cosmetics Co., Ltd., Zenisce Co., Ltd., Balkeunnuri Co., Ltd., LG Farouk Co., Genstory Co., Ltd., LG Life Science Co., Ltd. and 4 others, Sarangnuri, LG Hausys, Ltd. and 8 others, LG. Tostem BM Co., Ltd, LG Hausys ENG., Ltd., LG International Corp. and 31 others, Dangjin Tank Terminal Co., Ltd., Globla Dynasty Natural Resource Private Equity Fund, Sal de Vida Korea Corp., Pantos Logistics Co., Ltd and 50 others, Pantos Busan Newport Logistics Center Co., Ltd., Helistar Air Co., Ltd., GIIR Corporation and 9 others, HS Ad Co., Ltd. and 2 others, L. Best, Silicon Works Inc. and 1 other, LG Siltron Inc., LG MMA Corp., JIHEUNG. Co., Ltd, LG Hitachi Co., Ltd.

2) For the year ended December 31, 2015

	Company
Investor with significant influence over the Group	LG Corporation
Jointly controlled entity	Dacom Crossing Corporation
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.
Other related parties affiliates by the act:	LG Chem Ltd. and 26 others, SEETEC Co.,Ltd., Haengboknuri, LG Electronics Inc. and 94 others, Hi Plaza Inc. Hi-M Solutec Co., Ltd., HITeleservice Co., Ltd., Ace R&A Co., Ltd., Hientech Co., Ltd., LG-Hitachi Water Solutions Co., Ltd., LG Fuel Cell Systems (Korea) Inc., Hanuri, LG Display Co., Ltd. and 17 others, Nanumnuri Co., Ltd., LG Innotek Alliance Fund and 9 others, Innowith, LG Household & Health Care Ltd. and 11 others, The FaceShop Co., Inc. and 7 others, Coca-Cola Beverage Co., Hankook Beverage Co., Ltd., HAITAI HTB CO., LTD., Clean Soul Ltd., Future Co., Ltd, K&I Co., Ltd, CNP Cosmetics Co., Ltd., Zenisce Co., Ltd., Balkeunnuri Co., Ltd., LG Life Science Co., Ltd. and 4 others, Sarangnuri, LG Hausys, Ltd. and 8 others, LG. Tostem BM Co., Ltd, LG Hausys ENG., Ltd., LG Hausys Interpane, LG International Corp. and 30 others, Dangjin Tank Terminal Co., Ltd., Globla Dynasty Natural Resource Private Equity Fund, Sal de Vida Korea Corp., Pantos Logistics Co., Ltd and 40 others, Hi Logistics and 11 others, Pantos Busan Newport Logistics Center Co., Ltd., Helistar Air Co., Ltd., GIIR Corporation and 9 others, HS Ad Co., Ltd. and 2 others, L. Best, Silicon Works Inc. and 1 others, LG Siltron Inc., LG MMA Corp., JIHEUNG. Co., Ltd, LG Hitachi Co., Ltd.

As of December 31, 2016, no entity controls the Group. LG Corp. has 36.05% of ownership interest and has significant influence over the Group. Transactions between a parent and all its subsidiaries was removed when consolidated financial statements presented, related-party transactions and related receivables and debt balances will not be disclosed the notes.

(2) Major transactions with the related parties for the years ended December 31, 2016 and 2015, are as follows (Unit: Korean won in millions):

	2016			2015		
	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 Group:						
LG Corporation	₩ 157	₩ -	₩ 29,571	₩ 151	₩ -	₩ 28,560
Jointly controlled entity:						
Dacom Crossing Corporation	382	211	9,858	394	-	9,567
Others:						
Serveone (*1)	12,087	27,700	33,872	10,280	176,041	35,629
LG Management Development Institute	71	-	5,924	67	-	5,584
LG Sports	40	-	3,300	46	-	3,187
LG Siltron	357	-	5	417	-	6
LG CNS (*1)	33,536	119,174	140,874	40,805	123,620	121,730
Lusem	61	-	-	46	-	-
Other related parties affiliates by the act: (*2) :						
LG Chem Ltd.	1,033	1,817	31	943	2,422	39
LG Household & Health Care Ltd.	2,914	-	1,169	3,055	-	295
The FaceShop Co., Ltd.	1,387	-	130	146	-	105
LG Electronics Inc.	6,868	92,516	582,921	13,951	153,059	613,672
Hi Plaza Inc.	40,097	-	32,505	40,852	-	40,191
GIIR Corporation	47	-	-	18	-	-
HS Ad Co., Ltd.	183	31,962	14,834	173	30,338	14,883
L. Best	31	-	2,178	25	-	5,507
Others	3,122	1,776	5,031	3,649	216	7,443
Total	₩102,373	₩ 275,156	₩862,203	₩115,018	₩485,696	₩886,391

(*1) Transactions of other related parties' subsidiaries are included.

(*2) These companies are not related parties as defined in paragraph 9 of K-IFRS 1024. However, the companies are designated by the Fair Trade Commission as a related parties in accordance with the resolution of the Securities and Futures Commission in accordance with the substantive relationship stipulated in paragraph 10 of K-IFRS 1024.

(3) Outstanding receivables and payables from transactions with related parties as of December 31, 2016 and 2015, are as follows (Unit: Korean won in millions):

	December 31, 2016		December 31, 2015	
	Receivables	Payables	Receivables	Payables
Investor with significant influence over the Group:				
LG Corporation	₩ 5,395	₩ 1,251	₩ 5,902	₩ -
Jointly controlled entity:				
Dacom Crossing Corporation	-	710	13	65
Others:				
Serveone (*1)	21,594	12,832	19,298	53,144
LG Management Development Institute	2,958	14	2,958	48
LG Sports	-	259	-	221
LG Siltron	51	-	51	-
LG CNS (*1)	4,835	108,938	1,404	94,590
Lusem	4	-	-	-
Other related parties affiliates by the act: (*2)				
LG Chem Ltd.	84	234	-	1,075
LG Household & Health Care Ltd.	194	219	1,376	61
The FaceShop Co., Ltd.	4	14	-	13
LG Electronics Inc.	218	56,655	387	98,685
Hi Plaza Inc.	690	4,655	22	5,438
GIIR Corporation	1	-	-	-
HS Ad Co., Ltd.	14	33,416	-	46,266
L. Best	5	3,538	-	3,370
Others	115	3,762	68	2,367
	₩ 36,162	₩ 226,497	₩ 31,479	₩ 305,343

(*1) Transactions of other related parties' subsidiaries are included.
(*2) These companies are not related parties as defined in paragraph 9 of K-IFRS 1024. However, the companies are designated by the Fair Trade Commission as related parties in accordance with the resolution of the Securities and Futures Commission in accordance with the substantive relationship stipulated in paragraph 10 of K-IFRS 1024.

Above receivables and payables are unsecured and will be settled in cash. Also, there are no payment guarantees the Group has given or received related to above receivables and payables.

(4) The compensation and benefits for the Group's key management, including directors (excluding non-executive directors) and executive officers, who have significant control and responsibilities on planning, operating and controlling the Group's business activities for the years ended December 31, 2016 and 2015, are summarized as follows (Unit: Korean won in millions):

	2016		2015	
Short-term employee benefits	₩	33,145	₩	29,349
Postemployment benefits (*1)		7,397		6,210
	₩	40,542	₩	35,559

(*1) The above balances refer to retirement benefits incurred for key management for the years ended December 31, 2016 and 2015. In addition, the present values of defined benefit obligations for key management are ₩38,787 million and ₩35,816 million as of December 31, 2016 and 2015, respectively.

32. RISK MANAGEMENT:

(1) Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue 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 Group may adjust dividend payments, redeem paid-in capital to shareholders, issue stocks to reduce liability or sell assets.

The Group's capital structure consists of net liability, which is borrowings (including bonds and finance lease liability), less cash and cash equivalents and equity; the overall capital risk management policy of the Group remains unchanged from prior period. In addition, items managed as capital by the Group as of December 31, 2016 and 2015, are as follows (Unit: Korean won in millions):

	December 31, 2016		December 31, 2015	
Total borrowings	₩	3,979,161	₩	4,575,177
Less cash and cash equivalents		(317,283)		(292,147)
Borrowings, net		3,661,878		4,283,030
Total shareholder's equity	₩	4,826,328	₩	4,448,403
Net borrowings to equity ratio		75.87%		96.28%

(2) Financial risk management

The Group 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 Group is to identify the potential risks to financial performance and reduce, eliminate and evade those risks to a degree acceptable to the Group. The Group 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 Group remains unchanged as prior period.

1) Foreign currency risk

The Group is exposed to exchange rate fluctuation risk since it undertakes transactions denominated in foreign currencies. The carrying amounts of Group's monetary assets and liabilities denominated in foreign currencies that is not the functional currency as of December 31, 2016 and 2015, are as follows (Unit: Korean won in millions):

① As of December 31, 2016

Currency	Assets	Liabilities
EUR	32	158
JPY	-	9
SDR	134	102
SGD	1	-
USD	90,576	115,284
	90,743	115,553

② As of 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

The Group internally assesses the foreign currency risk from changes in exchange rates on a regular basis. The Group's sensitivity to a 10% increase and decrease in the KRW (functional currency of the Group) against the major foreign currencies as of December 31, 2016 and 2015, is as follows (Unit: Korean won in millions):

① As of December 31, 2016

Currency	Gain (loss) from 10% increase against foreign currency	Gain (loss) from 10% decrease against foreign currency
EUR	(10)	10
JPY	(1)	1
SDR	2	(2)
USD	(1,873)	1,873
	(1,882)	1,882

② As of 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

Sensitivity analysis above is conducted for monetary assets and liabilities denominated in foreign currencies other than functional currency as of December 31, 2016 and 2015.

2) Interest rate risk

The Group 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, 2016 and 2015, is as follows (Unit: Korean won in millions):

	December 31, 2016		December 31, 2015	
Borrowings	₩	2,834	₩	8,444

The Group 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, 2016 and 2015, is as follows (Unit: Korean won in millions):

① As of December 31, 2016

	1% increase				1% decrease			
	Gain (loss)		Net asset		Gain (loss)		Net asset	
Borrowings	₩	(21)	₩	(21)	₩	21	₩	21

② As of December 31, 2015

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

3) Price risk

The Group is exposed to price risks arising from AFS equity instruments. As of December 31, 2016, fair value of AFS equity instruments is ₩2,899 million and when all the other variables are constant and when the price of equity instrument changes by 10%, the effect to equity will be ₩220 million.

4) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group; credit risk is being managed at each entity level (controlling company, subsidiaries and others). 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 Group is making transactions with reputable financial institutions; therefore, the Group's exposure to credit risk related to the transactions with these institution is limited. For ordinary transactions, customer's financial status, credit history and other factors are considered to evaluate their credit status. The Group 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) are similar with the amount of carrying value.

5) Liquidity risk

The Group 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 Group 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, 2016 are as follows (Unit: Korean won in millions):

	Within a year	One to five years	More than five years	Total
Non-interest-bearing instruments	₩ 2,277,072	₩ 335	-	₩ 2,277,407
Variable interest instruments	82,671	542,868	-	625,539
Fixed interest rate instruments	1,149,708	2,559,117	560,085	4,268,910
	₩ 3,509,451	₩ 3,102,320	560,085	₩ 7,171,856

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

(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 Group' 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 Group performs several valuation methods and makes assumptions based on market circumstance at the end of the reporting period. Financial liabilities, such as long-term liabilities, are evaluated at their fair value by prices from observable current market transactions or dealer quotes for similar instruments and the other financial instruments by various techniques, such as discounted estimated cash flow.

Fair value of trade receivables and trade payables is the impairment deducted book value, and fair value of financial liabilities is measured by discounted cash flow method using current market rate, which is applied for similar financial instruments held by the Group.

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

	December 31, 2016	December 31, 2015
Debentures	1.59%–2.94%	1.70%–2.91%

Financial instruments that are measured subsequent to initial recognition at fair value are grouped 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, 2016 and 2015, are as follows (Unit: Korean won in millions):

① For the year ended December 31, 2016

	December 31, 2016				
		Fair value			
	Carrying amount	Level 1	Level 2	Level 3	Total
Financial assets:					
Marketable equity securities	₩ 2,899	₩ 2,899	₩ -	₩ -	₩ 2,899

② 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

There is no significant transfer between Level 1 and Level 2 as of December 31, 2016 and 2015.

2) The fair value hierarchy of financial instruments with fair value cannot be reliably measured at fair value in the statements of financial position as of December 31, 2016 and 2015, are as follows (Unit: Korean won in millions):

Description	December 31, 2016				
		Fair value			
	Book value	Level 1	Level 2	Level 3	Total
Loans and receivables					
Financial institution deposits	₩ 21,183	₩ -	₩ -	₩ 21,183	₩ 21,183
Trade receivables (*)	2,029,635	-	-	2,029,635	2,029,635
Loans (*)	43,670	-	-	43,670	43,670
Other accounts receivable (*)	285,966	-	-	285,966	285,966
Accrued income (*)	69	-	-	69	69
Deposits (*)	291,259	-	-	291,259	291,259
Total	₩ 2,671,782	₩ -	₩ -	₩ 2,671,782	₩ 2,671,782
Financial liabilities measured at amortized cost					
Trade payables (*)	₩ 298,390	₩ -	₩ -	₩ 298,390	₩ 298,390
Borrowings (*)	1,284,510	-	-	1,284,510	1,284,510
Debentures	2,694,651	-	2,747,072	-	2,747,072
Other accounts payables (*)	1,518,369	-	-	1,518,369	1,518,369
Accrued expenses (*)	808,764	-	-	808,764	808,764
Withholdings (*)	247,172	-	-	247,172	247,172
Deposits received (*)	7,136	-	-	7,136	7,136
Total	₩ 6,858,992	₩ -	₩ 2,747,072	₩ 4,164,341	₩ 6,911,413

Description	December 31, 2015				
		Fair value			
	Book value	Level 1	Level 2	Level 3	Total
Loans and receivables					
Financial institution deposits	₩ 21,179	₩ -	₩ -	₩ 21,179	₩ 21,179
Trade receivables (*)	1,890,907	-	-	1,890,907	1,890,907
Loans (*)	26,345	-	-	26,345	26,345
Other accounts receivable (*)	199,242	-	-	199,242	199,242
Accrued income (*)	161	-	-	161	161
Deposits (*)	273,987	-	-	273,987	273,987
Total	₩ 2,411,821	₩ -	₩ -	₩ 2,411,821	₩ 2,411,821
Financial liabilities measured at amortized cost					
Trade payables (*)	₩ 309,783	₩ -	₩ -	₩ 309,783	₩ 309,783
Borrowings (*)	1,811,607	-	-	1,811,607	1,811,607
Debentures	2,763,570	-	2,830,119	-	2,830,119
Other accounts payables (*)	1,421,540	-	-	1,421,540	1,421,540
Accrued expenses (*)	692,174	-	-	692,174	692,174
Withholdings (*)	213,315	-	-	213,315	213,315
Finance lease obligations (*)	-	-	-	-	-
Deposits received (*)	7,672	-	-	7,672	7,672
Total	₩ 7,219,661	₩ -	₩ 2,830,119	₩ 4,456,091	₩ 7,286,210

(*) 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 Level 2 and 3 are as follows:

- Interest rate swap

Discount rate and the interest rate of forward contract used for the measurement of fair value of interest rate swap is determined based on the applicable rate of return curve that is derived from the interest rate disclosed in the market. Fair values of interest rate swap are measured by the amount that the 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 consolidated entity 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 the measurement of 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 that have impact on the fair values of financial assets and financial liabilities held by the consolidated entity.

32. STATEMENTS OF CASH FLOWS:

The major transactions not involving cash outflows and cash inflows for the years ended December 31, 2016 and 2015, are as follows (Unit: Korean won in millions):

	2016	2015
Valuation of AFS security	151	439
Reclassification of assets under construction	862,180	1,376,004
Other payables relating to acquiring tangible and intangible assets	252,545	114,501
Current maturities of other long-term payables	77,600	78,588
Current maturities of debentures and long-term borrowings	1,117,394	1,027,054

33. UNCONSOLIDATED STRUCTURED ENTITIES:

The Group transferred the receivables of handset to U Plus LTE SPC 18th and 17 other companies (the "SPC") for current maturities of receivables of handset as underlying assets and as a result, SPC is not subject to consolidation according to K-IFRS 1110, '*Consolidated financial statement,*' and the receivables of handset satisfy the requirements of derecognition of K-IFRS 1039, '*Financial Instruments: Recognition and Measurement.*'

Meanwhile, as the Group receives the asset management fees for entering into the contract of asset management with the SPC, receivables of asset management fees (maximum exposure of receivables of the Group for the loss of structured entities) that the Group recognizes for the SPC as of December 31, 2016 and 2015, are ₩42,065 million and ₩46,923 million, respectively.

34. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS:

The Company has issued and approved the consolidated financial statements in the board of directors' meeting in February 1, 2017, and will be finally approved in the shareholders' meeting in March 17, 2017.

35. SUBSEQUENT EVENTS:

(1) On January 20, 2017, according to the financial committee, the Group determined to sold the trade receivables whose total face amount is ₩272,819 million to U Plus LTE SPC 31th. The proceeds from this sale have been already settled on February 9, 2017.

(2) The Group determined to issue the 102th bond in the financial committee, which were opened on January 5, 2017, for retaining conversion funds and operating funds. According to this resolution, unsecured public bonds (Credit rate of AA0) of ₩90,000 million, ₩100,000 million and ₩110,000 million were issued on January 25, 2017, and the expiration dates are January 25, 2020, January 25, 2022, and January 25, 2024, respectively.

Disclosure on Execution of External Audit

We attach 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	2016/1/1	From	2016/12/31	To

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

(Unit: Number of Participant, Hour Executed)

<table>
<tr><th colspan="2" rowspan="2">Participant(s) Number and Hour(s)</th><th rowspan="2">Engagement Quality Reviewer(s) (Including QRM, etc.)</th><th colspan="3">Audit Professional(s)</th><th rowspan="2">IT Specialist(s), Tax Specialist(s) and Valuation Specialist(s)</th><th rowspan="2">Total</th></tr>
<tr><th>Engagement Partner(s)</th><th>KICPA (Registered)</th><th>KICPA (Non-Registered)</th></tr>
<tr><td colspan="2">Number of Participant(s)</td><td>1</td><td>1</td><td>10</td><td>2</td><td>10</td><td>24</td></tr>
<tr><td rowspan="3">Hours Executed</td><td>Quarterly Review, Six-Month Review</td><td>36</td><td>167</td><td>1,975</td><td>512</td><td>-</td><td>2,690</td></tr>
<tr><td>Audit</td><td>23</td><td>104</td><td>1,224</td><td>317</td><td>958</td><td>2,626</td></tr>
<tr><td>Total</td><td>59</td><td>271</td><td>3,199</td><td>829</td><td>958</td><td>5,316</td></tr>
</table>

3. Key Disclosure on Execution of External Audit

<table>
<tr><td>Title</td><td colspan="8">Detail</td></tr>
<tr><td rowspan="2">Audit Planning Stage</td><td colspan="3">Dates Performed</td><td colspan="3">April–September 2016</td><td>5</td><td>Days</td></tr>
<tr><td colspan="3">Main Planning Work Performed</td><td colspan="5">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, Determining the materiality in the application of an audit</td></tr>
<tr><td rowspan="4">Fieldwork Performed</td><td colspan="3" rowspan="2">Dates Performed</td><td colspan="4">Number of Participant(s)</td><td rowspan="2">Main Fieldwork Performed</td></tr>
<tr><td colspan="2">On-Site</td><td colspan="2">Off-Site</td></tr>
<tr><td></td><td></td><td>Days</td><td></td><td>Number of Participant(s)</td><td></td><td>Number of Participant(s)</td><td></td></tr>
<tr><td>2016/11/21–2016/12/02</td><td></td><td>10</td><td></td><td>6</td><td></td><td>2</td><td>Interim audit (Understanding the transaction type of each process and control testing)</td></tr>
<tr><td></td><td>2016/01/09–2016/01/20</td><td></td><td>10</td><td></td><td>5</td><td></td><td>2</td><td>External audit (Substantive procedure for the material account balances and transactions and consolidation audit)</td></tr>
<tr><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td rowspan="3">Physical Counts - Inventory (Observation)</td><td>Time (When Performed)</td><td colspan="5">2017/1/1 and 2017/1/3</td><td>2</td><td>Day(s)</td></tr>
<tr><td>Place (Where Performed)</td><td colspan="7">Gunpo warehouse and direct store</td></tr>
<tr><td>Inventory subjected to Counts</td><td colspan="7">Handset and others</td></tr>
</table>

<table>
<tr><td rowspan="3">Physical Counts - Financial Instruments (Observation)</td><td>Time (When Performed)</td><td colspan="2">2017/1/3</td><td>1</td><td colspan="3">Day(s)</td></tr>
<tr><td>Place (Where Performed)</td><td colspan="6">LG Uplus head office</td></tr>
<tr><td>Financial Instruments subjected to Counts</td><td colspan="6">Cash, investment securities, memberships and others</td></tr>
<tr><td rowspan="2">External Confirmation</td><td>Bank Confirmation</td><td>O</td><td>Accounts Receivable/Payable Confirmation</td><td>O</td><td>Legal Confirmation</td><td>O</td></tr>
<tr><td>Other Confirmation</td><td colspan="6">N/A</td></tr>
<tr><td rowspan="2">Communications with Those Charged with Governance</td><td>Number of Communications</td><td>2</td><td colspan="5">Time(s) Performed</td></tr>
<tr><td>Time (When Performed)</td><td colspan="6">2016/7/27 and 2016/2/1</td></tr>
</table>