LG Uplus Corp.
Separate Financial Statements
December 31, 2017

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Independent Auditor's Report

(English Translation of a Report Originally Issued in Korean)

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

We have audited the accompanying separate financial statements of LG Uplus Corp. (the "Company") which comprise the separate statement of financial position as at December 31, 2017, and the separate statement of profit or loss, separate statement of comprehensive income, separate statement of changes in equity and separate statement of cash flows for the year then ended, and notes to the separate financial statements, including a summary of significant accounting policies and other explanatory information.

Management's Responsibilities for the Financial Statements

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

Auditor's Responsibilities

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the separate financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the separate 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 separate 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 significant accounting estimates made by management, as well as evaluating the overall presentation of the separate 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 accompanying separate financial statements present fairly, in all material respects, the separate financial position of LG Uplus Corp. as at December 31, 2017, and its separate financial performance and its separate cash flows for the year then ended in accordance with Korean IFRS.

Other Matters

The separate financial statements of the Company for the year ended December 31, 2016, were audited by Deloitte Anjin LLC. who expressed an unqualified opinion on those statements on March 9, 2017.

Auditing standards and their application in practice vary among countries. The procedures and practices used in the Republic of Korea to audit such financial statements may differ from those generally accepted and applied in other countries.

Seoul, Korea
March 8, 2018

This report is effective as of March 8, 2018, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying separate financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

LG Uplus Corp.
Separate Statements of Financial Position
December 31, 2017 and 2016

(in millions of Korean won)	Notes		2017		2016
Assets					
Current assets					
Cash and cash equivalents	5,6,32	₩	391,206	₩	289,294
Financial institution deposits	5,7,32		30,850		20,850
Trade receivables	5,8,31,32		1,927,401		1,552,876
Other receivables	5,8,31,32		194,404		328,871
Inventories	9		333,026		260,843
Other current assets	10		125,719		126,539
			3,002,606		2,579,273
Non-current assets					
Financial institution deposits	5,7,32		21		21
Available-for-sale financial assets	5,32		25,948		29,592
Trade receivables	5,8,31,32		550,470		462,595
Other receivables	5,8,31,32		287,495		297,771
Investments in subsidiaries	14		109,825		64,825
Investments in associates and joint ventures	15		36,960		5,964
Deferred tax assets	28		399,243		355,451
Property, plant and equipment	11		6,443,031		6,886,259
Investment property	12		119,555		97,688
Intangible assets	13		946,633		1,183,492
Other non-current assets	10		26,435		26,193
			8,945,616		9,409,851
Total assets		₩	11,948,222	₩	11,989,124
Liabilities					
Current liabilities					
Trade payables	5,31,32	₩	514,671	₩	296,271
Non-trade and other payables	5,31,32		1,739,800		1,803,299
Debentures and long-term borrowings	5,11,16,32		866,019		1,038,103
Other financial liabilities	5,17,32		333,277		258,610
Current tax liabilities	28		104,221		89,652
Other current liabilities	20		88,704		72,900
			3,646,692		3,558,835
Non-current liabilities					
Debentures and long-term borrowings	5,11,16,32		2,460,571		2,926,058
Other financial liabilities	5,17,32		395,824		524,417
Net defined benefit liabilities	19,31		105,875		68,328
Provisions	18		34,544		34,498
Other non-current liabilities	20		17,627		18,717
			3,014,441		3,572,018
Total liabilities			6,661,133		7,130,853
Equity					
Share capital	22		2,573,969		2,573,969
Capital surplus	22		829,175		829,717
Accumulated other comprehensive income	24		1,372		1,477
Retained earnings	22		1,882,573		1,453,108
Total equity			5,287,089		4,858,271
Total liabilities and equity		₩	11,948,222	₩	11,989,124

The above separate statements of financial position should be read in conjunction with the accompanying notes.

LG Uplus Corp.
Separate Statements of Profit or Loss
Years Ended December 31, 2017 and 2016

(in millions of Korean won, except for earnings per share)	**Notes**		**2017**		**2016**
Operating revenue	4,31	₩	12,261,930	₩	11,434,770
Operating expenses					
Costs of merchandise purchased	9,31		2,932,657		2,597,486
Employee benefits	19,31		706,723		632,301
Depreciation and amortization	11,12,13		1,682,794		1,647,675
Other operating expenses	25		6,096,082		5,801,531
			11,418,256		10,678,993
Operating profit			843,674		755,777
Financial income	27		26,003		34,636
Financial costs	27		138,456		154,270
Other non-operating income	26		67,706		107,032
Other non-operating expenses	26		111,998		90,385
Profit before income tax			686,929		652,790
Income tax expense	28		116,538		151,748
Profit for the year		₩	570,391	₩	501,042
Earnings per share (in Korean won)					
Basic and diluted earnings per share	29	₩	1,306	₩	1,148

The above separate statements of profit or loss should be read in conjunction with the accompanying notes.

LG Uplus Corp.
Separate Statements of Comprehensive Income
Years Ended December 31, 2017 and 2016

(in millions of Korean won)		**2017**		**2016**
Profit for the year	₩	570,391	₩	501,042
Other comprehensive income (loss) for the year, net of tax				
Items that will not be reclassified to profit or loss				
Remeasurements of net defined benefit liability		11,888		(4,482)
Items that may be subsequently reclassified to profit or loss				
Changes in the fair value of available-for-sale financial assets		(105)		151
		11,783		(4,331)
Total comprehensive income for the year	₩	582,174	₩	496,711

The above separate statements of comprehensive income should be read in conjunction with the accompanying notes.

LG Uplus Corp.
Separate Statements of Changes in Equity
Years Ended December 31, 2017 and 2016

(in millions of Korean won)

	Notes	Share Capital	Capital Surplus	Accumulated Other Comprehensive Income	Retained Earnings	Total Equity
Balance at January 1, 2016		₩ 2,573,969	₩ 836,561	₩ 1,326	₩ 1,065,701	₩ 4,477,557
Annual dividends		-	-	-	(109,153)	(109,153)
Profit for the year		-	-	-	501,042	501,042
Changes in the fair value of available-for-sale financial assets	24	-	-	151	-	151
Remeasurements of net defined benefit liability	19	-	-	-	(4,482)	(4,482)
Intragroup equity transactions		-	(6,844)	-	-	(6,844)
Balance at December 31, 2016		₩ 2,573,969	₩ 829,717	₩ 1,477	₩ 1,453,108	₩ 4,858,271
Balance at January 1, 2017		₩ 2,573,969	₩ 829,717	₩ 1,477	₩ 1,453,108	₩ 4,858,271
Annual dividends		-	-	-	(152,814)	(152,814)
Profit for the year		-	-	-	570,391	570,391
Changes in the fair value of available-for-sale financial assets	24	-	-	(105)	-	(105)
Remeasurements of net defined benefit liability	19	-	-	-	11,888	11,888
Intragroup equity transactions		-	(542)	-	-	(542)
Balance at December 31, 2017		₩ 2,573,969	₩ 829,175	₩ 1,372	₩ 1,882,573	₩ 5,287,089

The above separate statements of changes in equity should be read in conjunction with the accompanying notes.

LG Uplus Corp.
Separate Statements of Cash Flows
Years Ended December 31, 2017 and 2016

(in millions of Korean won)	Notes	2017	2016
Cash flows from operating activities			
Profit for the year		₩ 570,391	₩ 501,042
Additions of expenses not involving cash outflows			
Post-employment benefits		53,776	49,081
Depreciation		1,442,911	1,472,679
Amortization		239,883	174,996
Bad debt expenses		70,957	24,002
Interest expense		116,301	142,200
Loss on foreign currency translation		10,430	4,487
Loss on disposal of trade receivables		14,477	12,070
Loss on disposal of property, plant and equipment and intangible assets and others		64,459	62,514
Impairment loss on available-for-sale financial assets		7,634	-
Income tax expense		116,538	151,748
Others		6,429	11,483
		2,143,795	2,105,260
Deduction of income not involving cash inflows			
Interest income		(25,666)	(33,818)
Gain on foreign currency translation		(10,655)	(4,057)
Gain on disposal of property, plant and equipment		(3,300)	(3,482)
Gain on disposal of available-for-sale financial assets		(11)	(270)
Dividend income		(327)	(530)
Others		-	(28,403)
		(39,959)	(70,560)
Changes in operating assets and liabilities			
Increase in trade receivables		(526,728)	(170,650)
Decrease (increase) in other receivables		106,730	(89,652)
Decrease (increase) in inventories		(75,897)	102,614
Decrease in other assets		1,435	54,640
Increase (decrease) in trade payables		218,400	(12,523)
Increase in other payables		36,702	68,463
Decrease in net defined benefit liabilities		(553)	(59,552)
Increase in other liabilities		86,940	21,211
		(152,971)	(85,449)
Cash generated from operations			
Interest income received		19,116	21,622
Dividend received		327	530
Interest expense paid		(110,289)	(145,658)
Income taxes paid		(150,105)	(95,727)
		(240,951)	(219,233)
Net cash inflow from operating activities		₩ 2,280,305	₩ 2,231,060

LG Uplus Corp.
Separate Statements of Cash Flows
Years Ended December 31, 2017 and 2016

(in millions of Korean won)	**Notes**	**2017**	**2016**
Cash flows from investing activities			
Cash inflows from investing activities			
Proceeds from disposal of available-for-sale assets		₩ 177	₩ 6,904
Decrease in financial institution deposits		40,350	350
Proceeds from disposal of property, plant and equipment		9,731	11,956
Proceeds from disposal of intangible assets		5,520	3,016
Decrease in loans		35,295	25,847
Decrease in security deposits provided		35,134	26,014
		126,207	74,087
Cash outflows for investing activities			
Payments for acquisition of available-for-sale assets		(4,250)	(2,277)
Increase in financial institution deposits		(50,350)	(350)
Payments for acquisition of investments in subsidiaries		(45,000)	-
Payments for acquisition of investments in associates		(30,996)	-
Payments for acquisition of property, plant and equipment		(1,180,897)	(1,283,011)
Payments for acquisition of intangible assets		(143,790)	(197,642)
Increase in loans		(36,184)	(42,765)
Increase in security deposits provided		(24,521)	(32,825)
Acquisition of business		-	(9,030)
		(1,515,988)	(1,567,900)
Net cash outflow from investing activities		(1,389,781)	(1,493,813)
Cash flows from financing activities			
Cash inflows from financing activities			
Proceeds from short-term borrowings		208,967	335,860
Issuance of debentures		298,726	298,718
Proceeds from long-term borrowings		100,000	190,000
Increase in government grants		3,790	570
		611,483	825,148
Cash outflows for financing activities			
Repayments of short-term borrowings		(208,967)	(335,860)
Repayments of current portion of long-term liabilities		(1,038,313)	(1,008,810)
Repayments of long-term borrowings		-	(78,287)
Payment of dividends		(152,814)	(109,153)
		(1,400,094)	(1,532,110)
Net cash outflow from financing activities		(788,611)	(706,962)
Effects of exchange rate changes on cash and cash equivalents		(1)	16
Net increase in cash and cash equivalents		101,912	30,301
Cash and cash equivalents at the beginning of the year		289,294	258,993
Cash and cash equivalents at the end of the year		₩ 391,206	₩ 289,294

The above separate statements of cash flows should be read in conjunction with the accompanying notes.

1. General Information

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

In efforts to enhance operational efficiency and maximize synergy effects between wire and wireless communication businesses, 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 at Hangang daero, Yongsan-gu, Seoul, Korea, and it has set up telecommunication networks all over the country to provide fixed-line and wireless services.

As at December 31, 2017, the Company's shareholders are as follows:

	Number of shares	Percentage of ownership (%)
LG Corporation	157,376,777	36.05
National Pension Fund	38,649,866	8.85
The Capital Group Companies, Inc.	33,482,600	7.67
Others	207,102,118	47.43
	436,611,361	100.00

2. Significant Accounting Policies

The principal accounting policies applied in the preparation of these separate financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of Preparation

The Company maintains its accounting records in Korean won and prepares statutory financial statements in the Korean language (Hangul) in accordance with International Financial Reporting Standards as adopted by the Republic of Korea (Korean IFRS). The accompanying separate financial statements have been condensed, restructured and translated into English from the Korean language financial statements.

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

The separate financial statements of the Company have been prepared in accordance with Korean IFRS. These are the standards, subsequent amendments and related interpretations issued by the International Accounting Standards Board (IASB) that have been adopted by the Republic of Korea.

The preparation of financial statements requires the use of critical accounting estimates. Management also needs to exercise judgement in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the separate financial statements are disclosed in Note 3.

2.2 Changes in Accounting Policies and Disclosures

(a) New and amended standards adopted by the Company

The Company has applied the following standards and amendments for the first time for their annual reporting period commencing January 1, 2017. The adoption of these amendments did not have any material impact on the financial statements.

- Amendments to Korean IFRS 1007 *Statement of Cash Flows*

Amendments to Korean IFRS 1007 *Statement of Cash flows* require to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash flows.

- Amendments to Korean IFRS 1012 *Income Tax*

Amendments to Korean IFRS 1012 clarify how to account for deferred tax assets related to debt instruments measured at fair value. Korean IFRS 1012 provides requirements on the recognition and measurement of current or deferred tax liabilities or assets. The amendments issued clarify the requirements on recognition of deferred tax assets for unrealized losses, to address diversity in practice.

- Amendments to Korean IFRS 1112 *Disclosures of Interests in Other Entities*

Amendments to Korean IFRS 1112 clarify when an entity's interest in a subsidiary, a joint venture or an associate is classified as held for sales in accordance with Korean IFRS 1105, the entity is required to disclose other information except for summarized financial information in accordance with Korean IFRS 1112.

(b) New standards and interpretations not yet adopted by the Company

Certain new accounting standards and interpretations that have been published that are not mandatory for annual reporting period commencing January 1, 2017 and have not been early adopted by the Company are set out below.

- Amendments to Korean IFRS 1028 *Investments in Associates and Joint Ventures*

When an investment in an associate or a joint venture is held by, or is held indirectly through, an entity that is a venture capital organization, or a mutual fund, unit trust and similar entities including investment-linked insurance funds, the entity may elect to measure that investment at fair value through profit or loss in accordance with Korean IFRS 1109. The amendments clarify that an entity shall make this election separately for each associate of joint venture, at initial recognition of the associate or joint venture. The amendments will be effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company does not expect the amendments to have a significant impact on the financial statements because the Company is not a venture capital organization.

- Amendment to Korean IFRS 1040 *Transfers of Investment Property*

Paragraph 57 of Korean IFRS 1040 clarifies that a transfer to, or from, investment property, including property under construction, can only be made if there has been a change in use that is supported by evidence, and provides a list of circumstances as examples. The amendment will be effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company does not expect the amendment to have a significant impact on the financial statements.

- Amendments to Korean IFRS 1102 *Share-based Payment*

Amendments to Korean IFRS 1102 clarify accounting for a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. Amendments also clarify that the measurement approach should treat the terms and conditions of a cash-settled award in the same way as for an equity-settled award. The amendments will be effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company does not expect the amendments to have a significant impact on the financial statements.

- Enactment of Interpretation 2122 *Foreign Currency Transaction and Advance Consideration*

According to the enactment, the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the entity shall determine a date of the transaction for each payment or receipt of advance consideration. The enactment will be effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company does not expect the enactment to have a significant impact on the financial statements.

- Enactment of Korean IFRS 1116 *Leases*

Korean IFRS 1116 *Leases* issued on May 22, 2017 is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted. This standard will replace Korean IFRS 1017 *Leases*, Interpretation 2104 *Determining whether an Arrangement contains a Lease*, Interpretation

2015 *Operating Leases-Incentives*, and Interpretation 2027 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease.*

At inception of a contract, the entity shall assess whether the contract is, or contains, a lease. Also, at the date of initial application, the entity shall assess whether the contract is, or contains, a lease in accordance with the standard. However, the entity will not need to reassess all contracts with applying the practical expedient because the entity elected to apply the practical expedient only to contracts entered before the date of initial application.

For a contract that is, or contains, a lease, the entity shall account for each lease component within the contract as a lease separately from non-lease components of the contract. A lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. The lessee may elect not to apply the requirements to short-term lease (a lease term of 12 months or less at the commencement date) and low value assets (e.g. underlying assets below $ 5,000). In addition, as a practical expedient, the lessee may elect, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

Lessee accounting

A lessee shall apply this standard to its leases either:

- retrospectively to each prior reporting period presented applying Korean IFRS 1008 *Accounting Policies, Changes in Accounting Estimates and Errors* (full retrospective application); or

- retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application.

The Company has not yet elected the application method.

The Company performed an impact assessment to identify potential financial effects of applying Korean IFRS 1116. The Company is analyzing the effects on the financial statements; however, it is difficult to provide reasonable estimates of financial effects until the analysis is complete.

Lessor accounting

The Company expects the effect on the financial statements applying the new standard will not be significant as accounting for the Company, as a lessor, will not significantly change.

- Enactment of Korean IFRS 1109 *Financial Instruments*

The new standard for financial instruments issued on September 25, 2015 is effective for annual periods beginning on or after January 1, 2018 with early application permitted. This standard will replace Korean IFRS 1039 *Financial Instruments: Recognition and Measurement*. The Company will apply the standards for annual periods beginning on or after January 1, 2018.

The standard requires retrospective application with some exceptions. For example, an entity is not required to restate prior period in relation to classification and measurement (including impairment) of financial instruments. The standard requires prospective application of its hedge accounting requirements for all hedging relationships except the accounting for time value of options and other exceptions.

Korean IFRS 1109 *Financial Instruments* requires three main areas including: (a) classification and measurement of financial assets on the basis of the entity's business model for managing financial assets and the contractual cash flow characteristics of the financial assets, (b) a new impairment model of financial instruments based on the expected credit losses, and (c) hedge accounting including expansion of the range of eligible hedging instruments and hedged items that qualify for hedge accounting or change of a method of hedge effectiveness assessment.

The impact on the Company's financial statements due to the application of Korean IFRS 1109 is dependent on judgements made in applying the standard, financial instruments held by the Company and macroeconomic variables.

The Company performed an impact assessment to identify potential financial effects of applying Korean IFRS 1109. The assessment was performed based on available information as at December 31, 2017, and the results of the assessment are explained as below. The Company plans to perform more detailed analyses on the financial effects based on additional information in the future; therefore, the results of the assessment may change due to additional information that the Company may obtain after the assessment.

(a) Classification and Measurement of Financial Assets

When implementing Korean IFRS 1109, the classification of financial assets will be driven by the Company's business model for managing the financial assets and contractual terms of cash flow. The following table shows the classification of financial assets measured subsequently at amortized cost, at fair value through other comprehensive income and at fair value through profit or loss. If a hybrid contract contains a host that is a financial asset, the classification of the hybrid contract shall be determined for the entire contract without separating the embedded derivative.

Business model for the contractual cash flows characteristics	**Solely represent payments of principal and interest**	**All others**
Hold the financial asset for the collection of the contractual cash flows	Measured at amortized cost[1]	Recognized at fair value through profit or loss[2]
Hold the financial asset for the collection of the contractual cash flows and sale	Recognized at fair value through other comprehensive income[1]	
Hold for sale	Recognized at fair value through profit or loss	

[1] A designation at fair value through profit or loss is allowed only if such designation mitigates an accounting mismatch (irrevocable).

[2] Equity investments not held for trading can be recorded in other comprehensive income (irrevocable).

With the implementation of Korean IFRS 1109, the criteria to classify the financial assets at amortized cost or at fair value through other comprehensive income are more strictly applied than the criteria applied with Korean IFRS 1039. Accordingly, the financial assets at fair value through profit or loss may increase by implementing Korean IFRS 1109 and may result an extended fluctuation in profit or loss.

As at December 31, 2017, the Company owns loans and receivables of ₩ 3,381,847 million and financial assets available-for-sales of ₩ 25,948 million, respectively.

According to Korean IFRS 1109, a debt instrument is measured at amortized cost if: a) the objective of the business model is to hold the financial asset for the collection of the contractual cash flows, and b) the contractual cash flows under the instrument solely represent payments of principal and interest. As at December 31, 2017, the Company measured loans and receivables of ₩ 3,381,847 million at amortized costs.

Based on results from the impact assessment of Korean IFRS 1109, when implementing the new standard as at December 31, 2017, the amount of handset installment receivables will be classified as held for sale and measured at fair value through profit or loss.

According to Korean IFRS 1109, a debt instrument is measured at fair value through other comprehensive income if the objective of the business model is achieved both by collecting contractual cash flows and selling financial assets; and the contractual cash flows represents solely payments of principal and interest on a specific date under contract terms. As at December 31, 2017, the Company does not hold debt instruments classified as financial assets available-for-sale.

According to Korean IFRS 1109, equity instruments that are not held for trading, the Company can make an irrevocable election at initial recognition to classify the instruments as assets measured at fair value through other comprehensive income, which all subsequent changes in fair value being recognized in other comprehensive income and not recycled to profit or loss. As at December 31, 2017, the Company holds equity instruments of ₩ 25,948 classified as financial assets available-for-sale and there are no recycled unrealized gain or loss arose from the equity instruments to profit or loss.

Based on results from the impact assessment of Korean IFRS 1109, the Company plans to designate equity instruments, which are classified in financial assets available-for-sale, as instruments measured at fair value through other comprehensive income for long-term investment purpose. Therefore, the Company expects the application of Korean IFRS 1109 on these financial assets will not have a material impact on the financial statements.

According to Korean IFRS 1109, debt instruments those contractual cash flows do not represent solely payments of principal and interest and held for trading, and equity instruments that are not designated as instruments measured at fair value through other comprehensive income are measured at fair value through profit or loss. As at December 2017, the Company does not hold debt and equity instruments classified as financial assets at fair value through profit or loss.

(b) Impairment: Financial Assets and Contract Assets

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under Korean IFRS 1039. It applies to financial assets classified at amortized cost, debt instruments measured at fair value through other comprehensive income, lease receivables, contract assets, loan commitments and certain financial guarantee contracts.

Under Korean IFRS 1109 'expected loss' model, a credit event (or impairment 'trigger') no longer has to occur before credit losses are recognized. The Company will always recognize (at a minimum) 12-month expected credit losses in profit or loss. Lifetime expected losses will be recognized on assets for which there is a significant increase in credit risk after initial recognition.

<table>
<tr><th colspan="2">Stage[1]</th><th>Loss allowance</th></tr>
<tr><td>1</td><td>No significant increase in credit risk after initial recognition[2]</td><td>12-month expected credit losses (expected credit losses that result from those default events on the financial instrument that are possible within 12 months after the reporting date)</td></tr>
<tr><td>2</td><td>Significant increase in credit risk after initial recognition</td><td rowspan="2">Lifetime expected credit losses (expected credit losses that result from all possible default events over the life of the financial instrument)</td></tr>
<tr><td>3</td><td>Credit-impaired</td></tr>
</table>

[1] A loss allowance for lifetime expected credit losses is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. It is also required for contract assets or trade receivables that are not, according to Korean IFRS 1115 *Revenue from Contracts with Customers*, considered to contain a significant financing component. Additionally, the Company can elect an accounting policy of recognizing lifetime expected credit losses for all contract assets and/or all trade receivables, including those that contain a significant financing component.

[2] If the financial instrument has low credit risk at the end of the reporting period, the Company may assume that the credit risk has not increased significantly since initial recognition.

Under Korean IFRS 1109, the asset that is credit-impaired at initial recognition would recognize all changes in lifetime expected credit losses since the initial recognition as a loss allowance with any changes recognized in profit or loss.

As at December 31, 2017, the Company owns loans and receivables carried at amortized cost of ₩ 3,381,847 million. And, the Company recognized loss allowance of ₩ 234,984 million for these assets.

- Enactment of Korean IFRS 1115 *Revenue from Contracts with Customers*

Korean IFRS 1115 *Revenue from Contracts with Customers* issued on November 6, 2015 will be effective for annual reporting periods beginning on or after January 1, 2018 with early adoption permitted. This standard replaces Korean IFRS 1018 *Revenue*, Korean IFRS 1011 *Construction Contracts*, Interpretation 2031 *Revenue-Barter Transactions Involving Advertising Services*, Interpretation 2113 *Customer Loyalty Programs*, Interpretation 2115 *Agreements for the Construction of Real Estate* and Interpretation 2118 *Transfers of assets from customers.*

The Company must apply Korean IFRS 1115 *Revenue from Contracts with Customers* within annual reporting periods beginning on or after January 1, 2018, and will elect the modified retrospective approach which will recognize the cumulative impact of initially applying the revenue standard as an adjustment to retained earnings as at January 1 2018, the period of initial application.

Korean IFRS 1018 and other current revenue standard identify revenue as income that arises in the course of ordinary activities of an entity and provides guidance on a variety of different types of revenue, such as, sale of goods, rendering of services, interest, dividends, royalties and construction contracts. However, the new standard is based on the principle that revenue is recognized when control of goods or services transfers to a customer so the notion of control replaces the existing notion of risks and rewards. A new five-step process must be applied before revenue from contract with customers can be recognized:

- Identify contracts with customers
- Identify the separate performance obligation
- Determine the transaction price of the contract
- Allocate the transaction price to each of the separate performance obligations, and
- Recognize the revenue as each performance obligation is satisfied.

As at December 31, 2017, the Company is preparing for internal management process and adjusting accounting system in relation to implementation of Korean IFRS 1115. Also, the Company is analyzing the financial effects of applying the standard. The Company plans to perform detailed analysis on financial effects of applying the standard and disclose the result of the analysis in the notes on the financial statement as at March 31, 2018.

The Company performed an impact assessment to identify potential financial effects of applying Korean IFRS 1115. The assessment was performed based on available information as at December 31, 2017, and the results of the assessment are explained as below.

(a) Identifying performance obligations

When applying Korean IFRS 1115, the Company shall identify performance obligations from a contract with a customer, such as telecommunication services and 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. The Company satisfies the performance obligation and recognizes revenue at the point of sale for handset sales. On the other hand, since the Company provides telecommunication services throughout the contract period, it satisfies the performance obligation and recognizes revenue over the contract period.

(b) Allocating the transaction price to performance obligations

When applying Korean IFRS 1115, the Company shall allocate the transaction price to several performance obligations identified from one contract on a relative stand-alone selling price basis. Accordingly, a certain amount of the discount on handsets given at the point of the sale is deducted from the telecommunication service revenue over the contract period, whereas a certain amount of the discount on plans is immediately deducted from handset sales revenue.

(c) Incremental costs of obtaining a contract

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

The operating profit can thereby increase or decrease depending on various conditions, such as the proportion of customers between those who chose to receive discount on plans and those who chose to receive discount of handsets. In addition, retained earnings as of January 1, 2018 are expected to increase due to the recognition of the incremental cost of contracts as assets.

2.3 Subsidiaries, Associates and Joint Ventures

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

2.4 Non-current Assets Held for Sale

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

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

2.5 Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable for the sale of goods or rendering of services arising from the normal course of the business. Amounts disclosed as revenue are net of value added taxes, returns, rebates and discounts. The Company recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Company.

(a) Sale of goods

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

(b) Rendering of services

Revenue from a contract to provide services is recognized by reference to the stage of completion of the contract. Depending on the nature of the transaction, the Company determines the stage of completion by reference to surveys of work performed, 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.

(c) Dividend and interest income

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

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

(d) Rental income

The Company's policy for recognition of revenue from operating leases is described in Note 2.6.

(e) Customer loyalty program

The Company operates a customer loyalty program to provide customers with incentives to buy their goods or services. If a customer buys goods or services, the entity grants the customer award credits (often described as points'). The customer can redeem the award credits for awards, such as free or discounted goods or services. The award credits are accounted separately as identifiable component of the sales transaction(s) in which they are granted (the 'initial 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 Company supplies the awards itself, it shall recognize the consideration allocated to award credits as revenue when award credits are redeemed and it fulfills its obligation to supply awards. The amount of revenue recognized shall be based on the number of award credits that have been redeemed in exchange for awards, related to the total number expected to be redeemed.

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

2.6 Leases

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

(a) The Company as lessor

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

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

(b) The Company as lessee

Assets held under finance leases are initially recognized as assets of the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the separate 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 Company's general policy on borrowing costs (see Note 2.8). Contingent rentals are recognized as expenses in the periods in which they are incurred.

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

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

2.7 Foreign Currency Translation

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

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

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

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings, and

- exchange differences on transactions entered into in order to hedge certain foreign currency risks.

2.8 Borrowing Costs

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

2.9 Government Grants

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

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

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

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

2.10 Retirement Benefit Costs and Termination Benefits

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

For defined benefit retirement plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each reporting period. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the separate 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 Company presents the service cost and net interest expense (income) components in profit or loss, and the remeasurement component in other comprehensive income. Curtailment gains and losses are accounted for as past service costs.

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

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

2.11 Taxation

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

(a) Current tax

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

(b) Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the separate financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent 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 Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent it is probable that there will be sufficient taxable profits against which 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 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 Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

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

For the purpose of measuring deferred tax liabilities and 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.

(c) Current and deferred taxes for the year

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

2.12 Property, Plant and Equipment

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

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

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

	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 Company 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.

2.13 Investment Property

Investment properties are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes). Investment properties are measured initially at cost, including transaction costs.

Subsequent to initial recognition, investment properties are reported at cost, less accumulated depreciation and accumulated impairment losses. Subsequent costs are recognized in the carrying amount of an asset or as a separate asset if it is probable that future economic benefits associated with the assets will flow into the Company and the cost of an asset can be measured reliably. Routine maintenance and repairs are expensed as incurred.

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

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

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

2.14 Intangible Assets

(a) 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.

Estimated useful lives of intangible assets with finite useful lives are as follows.

	Estimated useful lives (years)
Intellectual property rights	5~10
Frequency usage rights	5~10

	Estimated useful lives (years)
Other intangible assets	2~10

(b) Internally generated intangible assets—research and development expenditure

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

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

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

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

(c) 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.

(d) Derecognition of intangible assets

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

2.15 Impairment of Tangible and Intangible Assets Other than Goodwill

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

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that 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 CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or the CGU) is reduced to its recoverable amount and the reduced amount is recognized in profit or loss.

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

2.16 Inventories

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

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

2.17 Provisions

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

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

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

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

The Company leases various land and building sites to base station machinery and repeater, and non-networking asset facilities, to provide countrywide wireless telecommunication services, and has the obligation to restore the site at the end of lease period, when the economic use of related infrastructures are terminated. As a result, the Company 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.

2.18 Cash and Cash Equivalents

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

2.19 Financial Assets

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instruments. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss 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 fair value through profit or loss,’ ‘held-to-maturity financial assets,’ ‘Available-for-sale 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.

(a) Effective interest method

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

Income is recognized on an effective interest basis for debt instruments other than those financial assets classified as at fair value through profit or loss.

(b) Financial assets at fair value through profit or loss

Financial assets are classified as at fair value through profit or loss when the financial asset is contingent consideration that may be paid by an acquirer as part of a business combination to which Korean IFRS 1103 applies, or is held for trading, or is designated as at fair value through profit or loss.

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

A financial asset other than a financial asset held for trading may be designated as at fair value through profit or loss upon initial recognition if:

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

Financial assets at fair value through profit or loss 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 non-operating income (expenses)’ line item in the separate statements of profit or loss.

(c) Held-to-maturity financial assets

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

(d) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity financial assets or (c) financial assets at fair value through profit or loss.

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

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

The fair value of available-for-sale 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.

(e) 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.

(f) Impairment of financial assets

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

For available-for-sale 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;
- default or delinquency in interest or principal payments;
- it becoming probable that the borrower will enter into 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 Company'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 available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in that period.

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

With respect to available-for-sale equity securities, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income. With respect to available-for-sale 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.

(g) Derecognition of financial assets

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

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

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

2.20 Financial Liabilities and Equity Instruments

(a) Classification as debt or equity

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

(b) Equity instruments

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

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

(c) Financial liabilities

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

(d) Financial liabilities at fair value through profit or loss

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

A financial liability is classified as held for trading if:

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

A financial liability other than a financial liability held for trading may be designated as at fair value through profit or loss upon initial recognition if:

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

Financial liabilities at fair value through profit or loss 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 non-operating income (expenses)' line item in the separate statements of profit or loss.

(e) 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.

(f) Derecognition of financial liabilities

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

2.21 Derivative Financial Instruments

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

A derivative with a positive fair value is recognized as a financial asset; 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.

(a) Hedge accounting

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

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

(b) Fair value hedges

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

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

(c) 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 non-operating income (expenses)' line item in the separate statements of profit or loss.

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

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

2.22 Fair Value

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

2.23 Accounting Policies for Recognition of Allowances and Trade for Greenhouse Gas Emission

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

3. Critical Accounting Estimates and Assumptions

The preparation of financial statements requires the Company to make estimates and assumptions concerning the future. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

3.1 Fair Value of Financial Instruments

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

3.2 Provision for Impairment of Trade Receivables, and Loans and Receivables

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

3.3 Estimation of Restoration Liabilities

The Company 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. 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.

3.4 Impairment of Non-financial Assets

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

3.5 Defined Benefit Pension Plan

For the defined benefit pension plan, the service cost is determined using actuarial valuations. In order to apply actuarial valuations, it is necessary to assume a discount rate, an expected wage increase rate, death rate, etc. The retirement benefit plan contains significant uncertainties on the estimation due to its long-term nature. The defined benefit obligations as at December 31, 2017, are ₩105,875 million (2016: ₩68,328 million) and details are described in Note 19.

3.6 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, the scope of recognition is determined by assumptions on future circumstances and management's judgment.

3.7 Revenue and Expense Recognition

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

4. Operating Segment Information

The Company determined that it operates under only one business segment based on the characteristics of goods and services provided and nature of network assets held. As a result, no separate segment information is disclosed in this report. The Company's reportable segments are consistent with the internal business segment reporting provided to the chief operating decision-maker.

Details of operating revenues from the Company's sale of goods and provision of services for the years ended December 31, 2017 and 2016, are as follows:

(in millions of Korean won)	**Major goods and services**	**2017**	**2016**
LG Uplus Corp.	Telecommunication and related services	₩ 9,372,927	₩ 8,995,712
	Handset sales	2,889,003	2,439,058
		₩ 12,261,930	₩ 11,434,770

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

5. Classification of Financial Instruments and Fair Value

Carrying amount and fair value of financial instruments by category as at December 31, 2017 and 2016, are as follows:

(in millions of Korean won)	**2017**		**2016**	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Cash and cash equivalents				
Cash and cash equivalents[1]	₩ 391,206	₩ 391,206	₩ 289,294	₩ 289,294
Available-for-sale financial assets				
Marketable equity securities	2,780	2,780	2,899	2,899
Non-marketable equity securities[2]	23,168	N/A	26,693	N/A
	25,948	2,780	29,592	2,899
Loans and receivables				
Financial institution deposits[1]	30,871	30,871	20,871	20,871
Trade receivables[1]	2,477,871	2,477,871	2,015,471	2,015,471
Loans[1]	42,938	42,938	42,050	42,050
Non-trade receivables[1]	161,420	161,420	294,613	294,613
Accrued income[1]	153	153	64	64
Security deposits provided[1]	277,388	277,388	289,915	289,915
	2,990,641	2,990,641	2,662,984	2,662,984
	₩ 3,407,795	₩ 3,384,627	₩ 2,981,870	₩ 2,955,177

(in millions of Korean won)	2017		2016	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Financial liabilities measured at amortized cost				
Trade payables[1]	₩ 514,671	₩ 514,671	₩ 296,271	₩ 296,271
Borrowings[1]	861,197	861,197	1,269,510	1,269,510
Debentures[1]	2,465,393	2,474,387	2,694,651	2,747,072
Non-trade payables[1]	1,274,051	1,274,051	1,527,652	1,527,652
Accrued expenses[1]	861,453	861,452	799,736	799,736
Withholdings[1]	327,409	327,409	251,807	251,807
Leasehold deposits received[1]	5,988	5,988	7,131	7,131
	₩ 6,310,162	₩ 6,319,155	₩ 6,846,758	₩ 6,899,179

[1] Carrying amount is a reasonable approximation of fair value.
[2] Non-marketable equity securities are measured at cost because they do not have a quoted price in an active market and their fair value cannot be measured reliably, and impairment loss is recognized when they are impaired.

The carrying amounts of certain financial assets and liabilities recognized at amortized cost are considered to approximate their fair values.

6. Cash and Cash Equivalents

Cash and cash equivalents as at December 31, 2017 and 2016, consists of:

(in millions of Korean won)	2017	2016
Financial institution deposits	₩ 389,293	₩ 287,202
Other cash equivalents	1,913	2,092
	₩ 391,206	₩ 289,294

7. Restricted Financial Assets

Restricted financial assets as at December 31, 2017 and 2016, are as follows:

(in millions of Korean won)	**Financial institution**		**2017**		**2016**
Financial deposits	Industrial Bank of Korea[1]	₩	20,500	₩	20,500
Term deposits	KEB Hana Bank [2]		350		350
Ordinary deposit	Shinhan Bank and others		64		-
Guarantee deposits for checking accounts	Woori Bank and others		21		21
		₩	20,935	₩	20,871

[1] Financial deposits are restricted in use in relation to Win-win Growth Cooperative Agreements between the big companies and the small and medium enterprises.
[2] Amounts are pledged by BC Card in relation to the payment gateway business.

8. Trade and Other Receivables

Details of current portion of trade and other receivables as at December 31, 2017 and 2016, are as follows:

(in millions of Korean won)		**2017**		**2016**
Trade receivables	₩	2,100,484	₩	1,719,307
Less: Allowances		(173,083)		(166,431)
Trade receivables, net		1,927,401		1,552,876
Short-term loans		32,879		34,240
Less: Allowances		(48)		(46)
Short-term loans, net		32,831		34,194
Non-trade receivables		222,753		335,045
Less: Allowances		(61,333)		(40,432)
Non-trade receivables, net		161,420		294,613
Accrued income		153		64
	₩	2,121,805	₩	1,881,747

Details of non-current portion of trade and other receivables as at December 31, 2017 and 2016, are as follows:

(in millions of Korean won)		**2017**		**2016**
Trade receivables	₩	550,990	₩	463,297
Less: Allowances		(520)		(702)
Trade receivables, net		550,470		462,595
Long-term loans		10,107		7,856
Leasehold deposits		260,522		270,553
Guarantee deposits		16,866		19,362
	₩	837,965	₩	760,366

The aging analysis of trade receivables as at December 31, 2017 and 2016 based on the billing date is as follows:

(in millions of Korean won)		**2017**		**2016**
Less than 6 months	₩	2,929,356	₩	2,653,595
7~12 months		66,202		52,658
1~3 years		183,077		136,030
More than 3 years		16,119		7,441
	₩	3,194,754		2,849,724

Movements in the allowance for trade and other receivables for the years ended December 31, 2017 and 2016, are as follows:

(in millions of Korean won)	2017			
	Trade receivables		**Others receivables**	
Beginning balance	₩	167,133	₩	40,479
Bad debt expenses		42,831		28,125
Write-offs		(57,067)		(7,410)
Reversal of write-offs		20,706		187
Ending balance	₩	173,603	₩	61,381

(in millions of Korean won)	2016			
	Trade receivables		**Others receivables**	
Beginning balance	₩	181,235	₩	50,653
Bad debt expenses (reversal)		31,722		(7,720)
Write-offs		(66,647)		(2,599)
Reversal of write-offs		20,823		145
Ending balance	₩	167,133	₩	40,479

9. Inventories

The Company periodically reviews changes in net realizable value of inventories due to decline in selling prices, obsolescence and others and recognizes loss on inventory valuation. Inventories as at December 31, 2017 and 2016, consist of the following:

(in millions of Korean won)	2017			2016		
	Acquisition cost	**Valuation allowance**	**Carrying amount**	**Acquisition cost**	**Valuation allowance**	**Carrying amount**
Merchandise	₩ 357,442	₩ (24,416)	₩ 333,026	₩ 280,780	₩ (23,553)	₩ 257,227
Supplies[1]	-	-	-	5,544	(1,928)	3,616
	₩ 357,442	₩ (24,416)	₩ 333,026	₩ 286,324	₩ (25,481)	₩ 260,843

[1] Supplies were transferred to property, plant and equipment during the year ended December 31, 2017.

Inventory costs recognized in operating expenses for the years ended December 31, 2017 and 2016, are ₩2,932,657 million and ₩2,597,486 million, respectively, which include ₩863 million of losses on valuation of inventories for the year ended December 31, 2017, and ₩ 2,153 million of reversal of losses on valuation of inventories for the year ended December 31, 2016.

10. Other Assets

Details of other current assets as at December 31, 2017 and 2016, are as follows:

(in millions of Korean won)		2017		2016
Advance payments	₩	20,755	₩	19,027
Prepaid expenses		104,964		106,150
Others		-		1,362
	₩	125,719	₩	126,539

Details of other non-current assets as at December 31, 2017 and 2016, are as follows:

(in millions of Korean won)		2017		2016
Advance payments	₩	26,435	₩	26,193

11. Property, Plant and Equipment

Changes in property, plant and equipment for the years ended December 31, 2017 and 2016, are as follows:

(in millions of Korean won)	2017											
		Land		Buildings		Telecommuni-cation facilities		Others		Construction in progress		Total
Beginning acquisition cost	₩	627,750	₩	702,436	₩	14,968,384	₩	964,945	₩	224,230	₩	17,487,745
Accumulated depreciation		-		(152,584)		(9,619,642)		(706,307)		-		(10,478,533)
Accumulated impairment loss		-		-		(111,352)		(5,805)		(856)		(118,013)
Government grants		-		(939)		(3,966)		(35)		-		(4,940)
Beginning balance		627,750		548,913		5,233,424		252,798		223,374		6,886,259
Acquisitions		-		12,486		211,900		33,355		828,360		1,086,101
Transfers		(8,961)		155,446		694,814		87,591		(946,722)		(17,832)
Disposals		(128)		-		(67,154)		(3,734)		-		(71,016)
Depreciation		-		(25,930)		(1,333,921)		(80,630)		-		(1,440,481)
Ending balance	₩	618,661	₩	690,915	₩	4,739,063	₩	289,380	₩	105,012	₩	6,443,031
Ending acquisition cost	₩	618,661	₩	862,512	₩	13,711,197	₩	912,268	₩	105,012	₩	16,209,650
Accumulated depreciation		-		(170,710)		(8,898,766)		(622,888)		-		(9,692,364)
Accumulated impairment loss		-		-		(65,745)		-		-		(65,745)
Government grants		-		(887)		(7,623)		-		-		(8,510)
Ending balance	₩	618,661	₩	690,915	₩	4,739,063	₩	289,380	₩	105,012	₩	6,443,031

(in millions of Korean won)	2016					
	Land	Buildings	Telecommuni-cation facilities	Others	Construction in progress	Total
Beginning acquisition cost	₩ 627,189	₩ 699,522	₩ 14,470,571	₩ 864,671	₩ 151,004	₩ 16,812,957
Accumulated depreciation	-	(128,051)	(8,726,821)	(629,081)	-	(9,483,953)
Accumulated impairment loss	-	-	(165,761)	-	-	(165,761)
Government grants	-	(727)	(4,732)	(40)	-	(5,499)
Beginning balance	627,189	570,744	5,573,257	235,550	151,004	7,157,744
Acquisitions	-	2,539	264,205	40,428	935,406	1,242,578
Transfers	561	1,335	773,517	85,304	(862,104)	(1,387)
Disposals	-	-	(45,497)	(2,305)	(76)	(47,878)
Depreciation	-	(25,705)	(1,344,506)	(100,374)	-	(1,470,585)
Impairment loss(reversal)	-	-	12,448	(5,805)	(856)	5,787
Ending balance	₩ 627,750	₩ 548,913	₩ 5,233,424	₩ 252,798	₩ 223,374	₩ 6,886,259
Ending acquisition cost	₩ 627,750	₩ 702,436	₩ 14,968,384	₩ 964,945	₩ 224,230	₩ 17,487,745
Accumulated depreciation	-	(152,584)	(9,619,642)	(706,307)	-	(10,478,533)
Accumulated impairment loss	-	-	(111,352)	(5,805)	(856)	(118,013)
Government grants	-	(939)	(3,966)	(35)	-	(4,940)
Ending balance	₩ 627,750	₩ 548,913	₩ 5,233,424	₩ 252,798	₩ 223,374	₩ 6,886,259

The Company has pledged a portion of land, buildings and telecommunication facilities, carrying amounts of which are ₩30,041 million, as collateral in relation to borrowings from Korea Development Bank ("KDB") and the maximum amount of bonds are ₩58,000 million.

12.Investment Property

Changes in investment property for the years ended December 31, 2017 and 2016, are as follows:

(in millions of Korean won)	2017					
	Land		**Buildings**		**Total**	
Beginning acquisition cost	₩	45,125	₩	84,300	₩	129,425
Accumulated depreciation		-		(31,737)		(31,737)
Beginning balance		45,125		52,563		97,688
Transfers		8,961		15,336		24,297
Depreciation		-		(2,430)		(2,430)
Ending balance	₩	54,086	₩	65,469	₩	119,555
Ending acquisition cost	₩	54,086	₩	106,896	₩	160,982
Accumulated depreciation		-		(41,427)		(41,427)
Ending balance	₩	54,086	₩	65,469	₩	119,555

(in millions of Korean won)	2016					
	Land		**Buildings**		**Total**	
Beginning acquisition cost	₩	45,628	₩	84,154	₩	129,782
Accumulated depreciation		-		(28,415)		(28,415)
Beginning balance		45,628		55,739		101,367
Transfers		(503)		(1,082)		(1,585)
Depreciation		-		(2,094)		(2,094)
Ending balance	₩	45,125	₩	52,563	₩	97,688
Ending acquisition cost	₩	45,125	₩	84,300	₩	129,425
Accumulated depreciation		-		(31,737)		(31,737)
Ending balance	₩	45,125	₩	52,563	₩	97,688

The Company recognized rental revenue related to investment property in the amount of ₩16,590 million and ₩16,373 million for the years ended December 31, 2017 and 2016, respectively.

The Company assessed that the difference between the carrying value and the fair value of the investment property was insignificant.

13.Intangible Assets

Changes in intangible assets for the years ended December 31, 2017 and 2016, are as follows:

(in millions of Korean won)	2017				
	Intellectual property rights	Membership	Frequency usage rights	Other intangible assets	Total
Beginning acquisition cost	₩ 7,625	₩ 39,397	₩ 1,714,475	₩ 188,673	₩ 1,950,170
Accumulated amortization	(4,458)	-	(632,757)	(114,375)	(751,590)
Accumulated impairment loss	-	(5,671)	-	(9,417)	(15,088)
Beginning balance	3,167	33,726	1,081,718	64,881	1,183,492
Acquisition	992	1,833	-	6,100	8,925
Disposals	-	(2,145)	-	(3,408)	(5,553)
Impairment loss	-	(348)	-	-	(348)
Amortization	(748)	-	(222,961)	(16,174)	(239,883)
Ending balance	₩ 3,411	₩ 33,066	₩ 858,757	₩ 51,399	₩ 946,633
Ending acquisition cost	₩ 8,617	₩ 39,085	₩ 1,714,475	₩ 182,123	₩ 1,944,300
Accumulated amortization	(5,206)	-	(855,718)	(121,307)	(982,231)
Accumulated impairment loss	-	(6,019)	-	(9,417)	(15,436)
Ending balance	₩ 3,411	₩ 33,066	₩ 858,757	₩ 51,399	₩ 946,633

(in millions of Korean won)	2016				
	Intellectual property rights	Membership	Frequency usage rights	Other intangible assets	Total
Beginning acquisition cost	₩ 6,557	₩ 39,726	₩ 1,342,006	₩ 160,596	₩ 1,548,885
Accumulated amortization	(3,778)	-	(478,082)	(94,733)	(576,593)
Accumulated impairment loss	-	(5,300)	-	(9,417)	(14,717)
Beginning balance	2,779	34,426	863,924	56,446	957,575
Acquisition	1,091	629	372,469	30,233	404,422
Transfers	(23)	-	-	23	-
Disposals	-	(958)	-	(2,180)	(3,138)
Impairment loss	-	(371)	-	-	(371)
Amortization	(680)	-	(154,675)	(19,641)	(174,996)
Ending balance	₩ 3,167	₩ 33,726	₩ 1,081,718	₩ 64,881	₩ 1,183,492
Ending acquisition cost	₩ 7,625	₩ 39,397	₩ 1,714,475	₩ 188,673	₩ 1,950,170
Accumulated amortization	(4,458)	-	(632,757)	(114,375)	(751,590)
Accumulated impairment loss	-	(5,671)	-	(9,417)	(15,088)
Ending balance	₩ 3,167	₩ 33,726	₩ 1,081,718	₩ 64,881	₩ 1,183,492

The Company classifies membership as intangible assets with indefinite useful lives and does not amortize them. Meanwhile, the Company recognizes an impairment loss by performing impairment test annually.

R&D costs

The costs related to research and development for the years ended December 31, 2017 and 2016, are as follows:

(in millions of Korean won)		2017		2016
Other operating expenses – R&D costs	₩	57,687	₩	54,177

Significant intangible assets

Frequency usage rights are acquired in the amount of ₩880,033 million (including borrowing cost ₩12,119 million) during 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 during 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 during the year ended December 31, 2016, and amortized on a straight-line method for five years of useful lives.

14. Investments in Subsidiaries

Composition of the Company's investments in subsidiaries as at December 31, 2017 and 2016, is as follows:

(in millions of Korean won)	Location	Main business	Percentage of ownership (%)	Acquisition cost	Book amount 2017	Book amount 2016
Ain Tele Service	South Korea	Telemarketing service	100.00	₩ 434	₩ 434	₩ 434
CS Leader	South Korea	Telemarketing service	100.00	273	273	273
Medialog Corp.	South Korea	Internet service and others	99.58	106,085	106,085	61,085
DACOM America, Inc.	USA	Telecommunication service	100.00	-	-	-
CS One Partner Corporation	South Korea	Telemarketing service	100.00	2,633	2,633	2,633
With U	South Korea	Other office support service	100.00	400	400	400
				₩ 109,825	₩ 109,825	₩ 64,825

Summary of financial information of subsidiaries as at and for the years ended December 31, 2017 and 2016, is as follows:

(in millions of Korean won)	2017			
	Assets	**Liabilities**	**Operating revenue**	**Profit (loss) for the year**
Ain Tele Service	₩ 13,173	₩ 14,929	₩ 60,810	₩ (1,109)
CS Leader	10,402	9,285	40,073	106
Medialog Corp.	105,480	51,095	173,541	(18,176)
DACOM America, Inc.	293	3,395	1,099	55
CS One Partner Corporation	17,169	17,267	81,439	(2,351)
With U	1,314	607	4,742	113

(in millions of Korean won)	2016			
	Assets	**Liabilities**	**Operating revenue**	**Profit (loss) for the year**
Ain Tele Service	₩ 12,482	₩ 12,478	₩ 64,873	₩ 612
CS Leader	9,121	8,506	45,913	398
Medialog Corp.	77,216	49,880	223,963	(4,232)
DACOM America, Inc.	265	3,823	1,121	6
CS One Partner Corporation	15,114	12,852	83,249	940
With U	1,024	499	3,208	24

15.Investments in Associates and Joint Ventures

Composition of the Company's investments in associates and joint ventures as at December 31, 2017 and 2016, is as follows:

(in millions of Korean won)	Class	Location	Percentage of ownership (%)	Book amount 2017	Book amount 2016
DACOM Crossing Corporation[1]	Joint venture	South Korea	51.00	₩ 5,964	₩ 5,964
Genie Music Corporation[2]	Associate	South Korea	15.00	26,871	-
Focus Media Korea Corporation[3]	Associate	South Korea	20.00	4,125	-
				₩ 36,960	₩ 5,964

[1] The Company acquired more than 50% shares of DACOM Crossing Corporation, but as the Company retains joint controlling power, it classified the shares as jointly controlled entities.

[2] The Company acquired 7,378,920 shares of Genie Music Corporation (percentage of ownership: 15.0%) during the year ended December 31, 2017. Although the Company holds less than 20% of Genie Music Corporation's equity shares, the Company classified it as an associate because the Company can exercise significant influence over the investee's Board of Directors and others.

[3] The Company acquired 90,609 shares of Focus Media Korea Corporation (percentage of ownership: 20.0%) during the year ended December 31, 2017 and classified it as an associate.

Summary of financial information of associates and joint ventures as at and for the years ended December 31, 2017 and 2016, is as follows:

(in millions of Korean won)	2017			
	Assets	Liabilities	Operating revenue	Profit (loss) for the year
DACOM Crossing Corporation	₩ 55,774	₩ 39,468	₩ 30,676	₩ 951
Genie Music Corporation	152,832	52,620	155,642	(6,282)
Focus Media Korea Corporation	20,050	1,078	3,745	(1,636)

(in millions of Korean won)	2016			
	Assets	Liabilities	Operating revenue	Profit for the year
DACOM Crossing Corporation	₩ 57,141	₩ 41,768	₩ 34,046	₩ 1,035

16. Borrowings and Debentures

Details of long-term borrowings as at December 31, 2017 and 2016, are as follows:

(in millions of Korean won)	Creditor	Annual interest rate (%)		2017		2016
Facilities financing	KDB and others	1.91~3.78	₩	800,000	₩	1,166,666
	Others	2.60~3.39		60,730		100,010
IT promotion funds	KEB Hana Bank	1.62		467		2,834
				861,197		1,269,510
Less: current portion				436,197		508,313
			₩	425,000	₩	761,197

Details of debentures as at December 31, 2017 and 2016, are as follows:

(in millions of Korean won)	Annual interest rate (%)		2017		2016
Debentures issued under public offering	1.77~3.67	₩	2,360,000	₩	2,590,000
Debentures issued privately	3.54		110,000		110,000
Total	Face value		2,470,000		2,700,000
	Discount on debentures		(4,607)		(5,349)
	Book amount		2,465,393		2,694,651
Less: current portion	Face value		430,000		530,000
	Discount on debentures		(178)		(210)
	Book amount		429,822		529,790
Non-current portion	Face value		2,040,000		2,170,000
	Discount on debentures		(4,429)		(5,139)
	Book amount	₩	2,035,571	₩	2,164,861

The repayment schedule of long-term borrowings and debentures as at December 31, 2017, is as follows:

(in millions of Korean won)		Long-term borrowings		Debentures		Total
January 1, 2019 ~ December 31, 2019	₩	275,000	₩	610,000	₩	885,000
January 1, 2020 ~ December 31, 2020		100,000		340,000		440,000
January 1, 2021, and thereafter		50,000		1,090,000		1,140,000
	₩	425,000	₩	2,040,000	₩	2,465,000

17. Other Financial Liabilities

Details of other financial liabilities as at December 31, 2017 and 2016, are as follows:

(in millions of Korean won)	2017		2016	
	Current	**Non-current**	**Current**	**Non-current**
Non-trade payables[1]	₩ -	₩ 395,704	₩ -	₩ 524,089
Withholdings	327,409	-	251,807	-
Leasehold deposits received	5,868	120	6,803	328
	₩ 333,277	₩ 395,824	₩ 258,610	₩ 524,417

[1] Current portion of non-trade payables are included in non-trade and other payables.

18. Provisions

Changes in restoration liabilities for the years ended December 31, 2017 and 2016, are as follows:

(in millions of Korean won)	2017			
	Beginning balance	**Increase**	**Decrease**	**Ending balance**
Restoration liabilities	₩ 34,498	₩ 2,053	₩ (2,007)	₩ 34,544

(in millions of Korean won)	2016			
	Beginning balance	**Increase**	**Decrease**	**Ending balance**
Restoration liabilities	₩ 38,616	₩ 702	₩ (4,820)	₩ 34,498

19. Post-employment Benefits

19.1 Defined Contribution Plan

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

The Company recognized expense of ₩5,159 million and ₩4,309 million related to defined contribution plan for the years ended December 31, 2017 and 2016, respectively.

19.2 Defined Benefit Plan

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

Details of net defined benefit liabilities recognized in the statements of financial position as at December 31, 2017 and 2016, are as follows:

(in millions of Korean won)		2017		2016
Present value of defined benefit obligations	₩	389,968	₩	362,772
Fair value of plan assets		(284,093)		(294,444)
Net defined benefit liabilities	₩	105,875	₩	68,328

Movements in the defined benefit obligations for the years ended December 31, 2017 and 2016, are as follows:

(in millions of Korean won)		**2017**		**2016**
Beginning balance	₩	362,772	₩	314,153
Current service cost		51,841		47,055
Interest expense		10,266		8,574
Remeasurements:		(18,580)		4,550
Actuarial loss(gain) from change in demographic assumptions		(930)		5,309
Actuarial gain from change in financial assumptions		(15,781)		(4,619)
Actuarial loss (gain) from experience adjustments		(2,676)		2,085
Actuarial loss arising from transfer in/out adjustment		807		1,775
Benefit payments		(18,041)		(16,965)
Transferred from (to) affiliated companies		1,710		5,405
Ending balance	₩	389,968	₩	362,772

Income or loss recognized relating to defined benefit plan for the years ended December 31, 2017 and 2016, are as follows:

(in millions of Korean won)		**2017**		**2016**
Service cost				
Current service cost	₩	51,841	₩	47,055
Net interest on the net defined benefit liability (asset)				
Interest cost of defined benefit obligations		10,266		8,574
Interest income on plan assets		(8,298)		(6,548)
		1,968		2,026
Others		543		397
	₩	54,352	₩	49,478

Movements in the fair value of plan assets for the years ended December 31, 2017 and 2016, are as follows:

(in millions of Korean won)		**2017**		**2016**
Beginning balance	₩	294,444	₩	241,267
Interest income		8,298		6,548
Remeasurements:				
Return on plan assets (excluding amounts included in interest income)		(2,901)		(1,364)
Contributions from the employer		-		62,800
Transferred from (to) affiliated companies		703		193
Others		(543)		(397)
Benefit payments		(15,908)		(14,603)
Ending balance	₩	284,093	₩	294,444

All of the plan assets are invested in financial instruments that provide guaranteed principal and interest rate as at December 31, 2017 and 2016.

The significant actuarial assumptions as at December 31, 2017 and 2016, are as follows:

(in percentage, %)	**2017**	**2016**
Discount rate	3.16%	2.88%
Salary growth rate	5.81%	5.89%

The sensitivity of the defined benefit obligation to changes in the principal assumptions is:

(in percentage)	**Impact on defined benefit obligation**		
	Changes in assumption	**Increase in assumption**	**Decrease in assumption**
Discount rate	1.0% point	10.4% decrease	12.2% increase
Salary growth rate	1.0% point	11.8% increase	10.2% decrease

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. The sensitivity of the defined benefit obligation to changes in principal actuarial assumptions is calculated using the projected unit credit method, the same method applied when calculating the defined benefit obligations recognized on the statement of financial position.

The Company reviews the funding level on an annual basis and has a policy of eliminating deficit from the fund.

Expected contributions to post-employment benefit plans for the year ending December 31, 2018, are ₩ 38,239 million.

The expected maturity analysis of undiscounted pension benefits as at December 31, 2017, is as follows:

(in millions of Korean won)	Less than 1 year	Between 1-2 years	Between 2-5 years	Over 5 years	Total
Pension benefits	₩ 12,506	₩ 11,870	₩ 56,944	₩ 499,850	₩ 581,170

The weighted average duration of the defined benefit obligation is 11.94 years.

20. Other Liabilities

Details of other liabilities as at December 31, 2017 and 2016, are as follows:

(in millions of Korean won)	2017		2016	
	Current	Non-current	Current	Non-current
Advances received	₩ 85,448	₩ -	₩ 66,753	₩ -
Unearned income	3,256	2,782	6,147	3,652
Other	-	14,845	-	15,065
	₩ 88,704	₩ 17,627	₩ 72,900	₩ 18,717

21. Lease

Total minimum lease payments in relation to operating leases that are payable at the end of the reporting period are as follows:

(in millions of Korean won)	2017
Within one year	₩ 99,498
Later than one year but not later than five years	56,656
	₩ 156,154

Lease payments of ₩ 153,971 million under the above operating lease are recognized in the separate statements of profit or loss.

22. Equity

22.1 Share Capital

Details of share capital as at December 31, 2017 and 2016, are as follows:

Type of share	Number of authorized shares	Par value	2017 Number of issued shares	2017 Share capital	2016 Number of issued shares	2016 Share capital
Ordinary shares	700,000,000	₩ 5,000	436,611,361	₩ 2,573,969 million	436,611,361	₩ 2,573,969 million

The Company retired 78,182,474 shares of treasury share 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 share.

22.2 Capital Surplus

Details of capital surplus as at December 31, 2017 and 2016, are as follows:

(in millions of Korean won)		2017		2016
Share premium	₩	834,712	₩	834,712
Other capital surplus		(5,537)		(4,995)
	₩	829,175	₩	829,717

22.3 Legal Reserve

As at December 31, 2017, earned surplus reserve in the form of legal reserve of ₩83,780 million is included in retained earnings. The Commercial Code of the Republic of Korea requires the Company to appropriate for each financial period, as a legal reserve, an amount equal to a minimum of 10% of cash dividends paid until such reserve equals 50% of its issued share capital. The reserve is not available for cash dividends payment, but may be transferred to share capital or used to reduce accumulated deficit. When the accumulated legal reserves (the sum of capital reserves and earned profit reserves) are greater than 1.5 times the paid-in capital amount, the excess legal reserves may be distributed.

22.4 Statements of Retained Earnings

The appropriation of retained earnings for the years ended December 31, 2017 and 2016, is as follows:

The appropriation of retained earnings for the year ended December 31, 2017, is expected to be appropriated at the shareholders' meeting on March 16, 2018. The appropriation date for the year ended December 31, 2016, was March 17, 2017.

(in millions of Korean won)		2017		2016
Retained earnings before appropriation:				
Unappropriated retained earnings carried over from prior year	₩	1,216,514	₩	888,049
Profit for the year		570,391		501,042
Remeasurements of net defined benefit liabilities		11,888		(4,482)
		1,798,793		1,384,609
Transfer-in from discretionary reserves		-		-
Appropriation of retained earnings				
Legal reserve		17,464		15,281
Dividends (Cash dividend (%): 2017: ₩ 400 (8%), 2016: ₩ 350 (7%))		174,645		152,814
		192,109		168,095
Unappropriated retained earnings carried to the following year	₩	1,606,684	₩	1,216,514

23. Dividends

Details of dividend paid for the years ended December 31, 2017 and 2016, are as follows:

		2017		2016
Number of shares issued and outstanding		436,611,361	₩	436,611,361
Number of treasury shares		3		3
Number of shares eligible for dividends		436,611,358		436,611,358
Par value per share	₩	5,000	₩	5,000
Dividend rate		8%		7%
Dividends per share	₩	400	₩	350
Total dividends	₩	174,645 million	₩	152,814 million

Dividend payout ratio for the years ended December 31, 2017 and 2016, is as follows:

(in millions of Korean won)		**2017**		**2016**
Total dividends	₩	174,645	₩	152,814
Net income attributable to the owners of the Company		570,391		501,042
Dividend payout ratio		30.62%		30.50%

24. Accumulated Other Comprehensive Income

Changes in accumulated other comprehensive income after the deduction of income tax effect for the years ended December 31, 2017 and 2016, are as follows:

(in millions of Korean won)		**Gain on valuation of available-for-sale financial assets**
January 1, 2016	₩	1,326
Changes in the fair value of available-for-sale financial assets		151
December 31, 2016	₩	1,477
January 1, 2017	₩	1,477
Changes in the fair value of available-for-sale financial assets		(105)
December 31, 2017	₩	1,372

25. Other Expenses

Details of other expenses for the years ended December 31, 2017 and 2016, are as follows:

(in millions of Korean won)		**2017**		**2016**
Operating lease payment	₩	347,100	₩	338,516
Advertising expense		430,820		382,239
Sales commissions		1,810,201		1,465,514
Commission charge		1,361,667		1,355,623
Interconnection charge		602,949		647,793
Telecommunication equipment rental fees		216,997		242,876
Outsourcing expense		531,552		615,751
Bad debt expenses		70,957		24,002
Settlement expenses		103,321		118,452
Others		620,518		610,765
	₩	6,096,082	₩	5,801,531

26. Other Non-operating Income and Expenses

Details of other non-operating income for the years ended December 31, 2017 and 2016, are as follows:

(in millions of Korean won)		2017		2016
Gain on disposal of property, plant and equipment	₩	3,300	₩	3,482
Gain on foreign currency transactions		4,155		4,681
Gain on foreign currency translation		10,655		4,043
Miscellaneous income		49,596		94,826
	₩	67,706	₩	107,032

Details of other non-operating expenses for the years ended December 31, 2017 and 2016, are as follows:

(in millions of Korean won)		2017		2016
Loss on disposal of property, plant and equipment	₩	64,078	₩	39,404
Impairment loss of property, plant and equipment		-		22,616
Loss on disposal of intangible assets		33		122
Impairment loss of intangible assets		348		371
Loss on foreign currency transactions		3,058		4,983
Loss on foreign currency translation		10,430		4,487
Donation		8,180		8,377
Miscellaneous expenses		25,871		10,025
	₩	111,998	₩	90,385

27. Finance Income and Costs

Details of finance income for the years ended December 31, 2017 and 2016, are as follows:

(in millions of Korean won)		2017		2016
Interest income	₩	25,665	₩	33,818
Gain on foreign currency transactions		-		4
Gain on foreign currency translation		-		14
Dividend income		327		530
Gain on disposal of available-for-sale financial assets		11		270
	₩	26,003	₩	34,636

Details of interest income included in finance income for the years ended December 31, 2017 and 2016, are as follows:

(in millions of Korean won)		2017		2016
Cash and cash equivalents and financial institution deposits	₩	5,128	₩	5,299
Other loans and receivables		20,537		28,518
	₩	25,665	₩	33,818

Details of finance costs for the years ended December 31, 2017 and 2016, are as follows:

(in millions of Korean won)		2017		2016
Interest expense	₩	116,301	₩	142,200
Loss on foreign currency transactions		43		-
Loss on foreign currency translation		1		-
Impairment loss on available-for-sale financial assets		7,634		-
Loss on disposal of trade receivables		14,477		12,070
	₩	138,456	₩	154,270

Details of interest expense in finance costs for the years ended December 31, 2017 and 2016, are as follows:

(in millions of Korean won)		2017		2016
Bank overdrafts and loan interest	₩	29,657	₩	46,886
Debentures interest		76,197		92,529
Other interest expense		12,116		3,500
Less: amounts capitalized on qualifying assets [1]		(1,669)		(715)
	₩	116,301	₩	142,200

[1] Capitalization rate for calculating borrowing costs, which is eligible for capitalization as at December 31, 2017 and 2016, is 2.80% and 3.11%, respectively.

Net gains or losses on each category of financial instruments for the years ended December 31, 2017 and 2016, are as follows:

(in millions of Korean won)	**2017**	**2016**
Financial assets		
Cash and cash equivalents		
Interest income	₩ 5,128	₩ 5,299
Gain (loss) on foreign currency translation	(44)	18
	5,084	5,317
Available-for-sale financial assets		
Gain (loss) on valuation	(105)	151
Impairment loss	(7,634)	-
Gain (loss) on disposal	11	270
Dividend income	327	530
	(7,401)	951
Loans and receivables		
Interest income	20,537	28,518
Gain (loss) on foreign currency translation	(11,071)	4,066
Gain (loss) on disposal	(14,477)	(12,070)
Bad debt expenses	(70,957)	(24,002)
	(75,968)	(3,488)
	(78,285)	2,780
Financial liabilities		
Financial liabilities at amortized cost		
Interest expense	(116,164)	(141,673)
Gain (loss) on foreign currency translation	12,394	(4,811)
	(103,770)	(146,484)
	₩ (182,055)	₩ (143,704)

28. Tax Expense

Income tax expense for the years ended December 31, 2017 and 2016, consists of:

(in millions of Korean won)		**2017**		**2016**
Current tax	₩	164,674	₩	128,465
Changes in deferred tax due to temporary differences		(43,792)		19,715
Beginning deferred tax assets		355,451		375,166
Ending deferred tax assets		399,243		355,451
Tax that are charged or credited directly to equity		(4,344)		3,568
Income tax expense	₩	116,538	₩	151,748

Reconciliation between income before income tax and income tax expense of the Company for the years ended December 31, 2017 and 2016, are as follows:

(in millions of Korean won)		**2017**		**2016**
Profit before income tax expense	₩	686,929	₩	652,790
Tax at domestic tax rates applicable to profits		165,776		157,513
Tax effects of:		(49,238)		(5,765)
Income not subject to tax		(117)		(5,042)
Expenses not deductible for tax purposes		1,360		1,897
Tax credits		(30,612)		(14,628)
Effects of change in the Korean tax rate		(19,333)		-
Others		(536)		12,008
Income tax expense	₩	116,538	₩	151,748
Effective tax rate (income tax expense/profit before income tax)		16.97%		23.25%

The aggregate current and deferred tax relating to items that are charged or credited directly to equity for the years ended December 31, 2017 and 2016, is as follows:

(in millions of Korean won)		**2017**		**2016**
Loss on valuation of available-for-sale financial assets	₩	(11)	₩	(48)
Goodwill		(542)		2,185
Remeasurement of defined benefit plan		(3,791)		1,431
	₩	(4,344)	₩	3,568

The movements in deferred tax assets and liabilities for the year ended December 31, 2017, are as follows:

(in millions of Korean won)	2017			
	Beginning balance	**Increase**	**Decrease**	**Ending balance**
Deductible temporary differences:				
Net defined benefit liabilities	₩ 336,278	₩ 43,541	₩ 15,907	₩ 363,912
Bad debt expenses and others	145,914	168,902	138,303	176,513
Loss on valuation of inventories	37,395	32,639	37,395	32,639
Unsettled expenses	163,171	219,630	183,500	199,301
Property plant and equipment	451,561	117,640	99,329	469,872
Provisions	35,460	35,423	35,460	35,423
Impairment loss on available-for-sale financial assets	7,789	7,634	470	14,953
Intangible assets	66,875	13,552	12,182	68,245
Deemed dividends	160	-	-	160
Government grants	8,951	8,527	7,698	9,780
Share of profit of associates and joint ventures	1,744	-	-	1,744
Adjustments on revenues	85,574	63,703	68,410	80,867
Prepaid expenses	4,305	(251)	3,598	456
Goodwill	8,127	-	1,806	6,321
Others	3,307	319	-	3,626
	1,356,611	711,259	604,058	1,463,812
Taxable temporary differences:				
Loss on valuation of investment securities	(1,948)	94	-	(1,854)
Equipment allowances	(111,632)	-	(20,381)	(91,251)
Accrued interest income	(64)	(153)	(64)	(153)
Deposits for severance benefits	(293,193)	(6,700)	(15,907)	(283,986)
Interest expenses (capitalized interest expense)	(625)	-	(625)	-
Estimate of assets for restoration	(1,618)	(10,635)	(1,618)	(10,635)
	(409,080)	(17,394)	(38,595)	(387,879)
Realizable temporary differences	945,627	693,865	565,463	1,074,029
Unrealizable temporary differences	1,904	-	-	1,904
Tax rate	24.20%			26.00%
Tax effect due to temporary differences	228,842	187,247	136,842	279,247
Tax effect due to tax credit carryforwards	126,609	30,159	36,772	119,996
Deferred tax assets	₩ 355,451	₩ 217,406	₩ 173,614	₩ 399,243

The movements in deferred tax assets and liabilities for the year ended December 31, 2016, are as follows:

(in millions of Korean won)	2016			
	Beginning balance	**Increase**	**Decrease**	**Ending balance**
Deductible temporary differences:				
Net defined benefit liabilities	₩ 290,698	₩ 60,179	₩ 14,600	₩ 336,277
Bad debt expenses and others	152,686	135,839	142,611	145,914
Prepaid expenses	1,113	6,685	3,493	4,305
Loss on valuation of inventories	40,945	37,395	40,946	37,394
Unsettled expenses	160,037	174,987	171,853	163,171
Property plant and equipment	410,767	160,501	123,414	447,854
Investment assets	3,707	-	-	3,707
Provisions	39,779	35,460	39,779	35,460
Impairment loss on available-for-sale financial assets	17,789	4,000	14,000	7,789
Intangible assets	62,509	15,252	10,885	66,876
Deemed dividends	160	-	-	160
Government grants	7,173	8,906	7,128	8,951
Share of profit of associates and joint ventures	1,744	-	-	1,744
Adjustments on revenues	88,321	78,456	81,204	85,573
Present value discount	1,294	-	1,294	-
Other capital surplus	-	9,030	903	8,127
Others	1,971	1,335	-	3,306
	1,280,693	728,025	652,110	1,356,608
Taxable temporary differences:				
Accrued interest income	(70)	(64)	(70)	(64)
Loss on valuation of investment securities	(1,748)	5	204	(1,947)
Deposits for severance benefits	(239,570)	(68,223)	(14,600)	(293,193)
Interest expenses (capitalized interest expense)	(2,552)	-	(1,926)	(626)
Estimate of assets for restoration	(8,137)	(1,618)	(8,137)	(1,618)
Equipment allowances	(132,437)	432	(20,374)	(111,631)
	(384,514)	(69,468)	(44,903)	(409,079)
Realizable temporary differences	894,275	658,557	607,207	945,625
Unrealizable temporary differences	1,904	-	-	1,904
Tax rate	24.20%			24.20%
Tax effect due to temporary differences	216,415	159,371	146,944	228,842
Tax effect due to tax credit carryforwards	158,751	1,628	33,770	126,609
Deferred tax assets	₩ 375,166	₩ 160,999	₩ 180,714	₩ 355,451

Details of unrecognized deductible (taxable) temporary differences as deferred tax assets as at December 31, 2017 and 2016, are as follows:

(in millions of Korean won)		2017		2016
Investments in associates and others	₩	1,904	₩	1,904
Tax credit carryforwards		18,882		34,958

The maturity of unused tax credit carryforwards is as follows:

(in millions of Korean won)		2017
Less than 1 year	₩	18,882
Between 1 and 3 years		-
More than 3 years		-
	₩	18,882

29. Earnings per Share

Basic earnings per share are the profit attributable to one share of ordinary shares of the Company. It is measured by dividing profit attributable to ordinary shares during a specified period with weighted-average number of ordinary shares issued during that period. Earnings per share for the years ended December 31, 2017 and 2016, are calculated as follows:

(in millions of Korean won)		2017		2016
Profit for the year	₩	570,391	₩	501,042
Weighted average number of ordinary shares outstanding		436,611,358 shares		436,611,358 shares
Basic earnings per share *(in Korean won)*	₩	1,306	₩	1,148

Diluted earnings per share are same as basic earnings per share as the Company has no dilutive potential ordinary shares as at December 31, 2017 and 2016.

30. Contingencies and Commitments

As at December 31, 2017, there are 76 lawsuits ongoing where the Company is a defendant in the Republic of Korea; total claim amount the Company is being sued for is ₩10,145 million. Management believes the outcome of these lawsuits will likely not have a significant effect on the separate financial positon of the Company.

The Company entered into agreements with Shinhan Bank and others for a line of credit and commercial paper up to ₩110,000 million. These agreements include bank overdraft agreement with Woori Bank and others up to ₩30,000 million.

As at December 31, 2017, the Company has entered into agreement with Woori Bank and three other banks for a limit of ₩76,000 million in relation to payment of its trade payables. It is a loan agreement secured by an electronic trade receivable, where the Company guarantees the payment of trade receivable when the vendors of the Company transfer their trade receivables due from the Company prior to its maturity to banks.

The Company is provided with payment guarantees of ₩89,860 million, ₩19,824 million and USD 1,500,000 in relation to the contract guarantees, bid guarantees and payment guarantees in foreign currencies from Korea Software Financial Cooperative, Seoul Guarantee Insurance Company and KEB Hana Bank, respectively.

According to the financial and other covenants included in certain bonds and borrowings, the Company is required to maintain certain financial ratios such as debt to equity ratio and use the funds for the designated purpose. The covenant also contains restriction on provision of additional collaterals and disposal of certain assets.

31. Related Party Transactions

Major related parties as at December 31, 2017 and 2016, are as follows:

	2017
Investor with significant influence over the Company	LG Corporation
Subsidiaries	Ain Tele Service, CS Leader, Medialog Corp., DACOM America Inc., CS One Partner Corporation, With U
Joint venture	Dacom Crossing Corporation
Associates	Genie Music Corporation, Focus Media Korea Corporation
Others	Serveone and nine others, LG Siltron and two others, LG CNS and 36 others, LG Sports, LG Management Development Institute, Lusem, LG Holdings Japan Co., Ltd., LG Corp. U.S.A., Combustion Synthesis Co.,LTD.
Other related parties included in Large Business Group defined by the act	LG Chem Ltd. and 30 others; SEETEC Co., Ltd.; Haengboknuri; FarmHanong Co., Ltd. and one other; FarmHwaong Co., Ltd.; LG Electronics Inc. and 95 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 11 others; Innowith; LG Household & Health Care Ltd. and 16 others; The FaceShop Co., Inc. and six others; Coca-Cola Beverage Co.; Hankook Beverage Co., Ltd.; HAITAI HTB CO., LTD.; Clean Soul Ltd.; K&I Co., Ltd; CNP Cosmetics Co., Ltd.; Zenisce Co., Ltd.; Balkeunuri Co., Ltd.; LG Farouk Co.; MiGenstory Co., Ltd.; Sarangnuri, LG Hausys, Ltd. and nine others; LG. Tostem BM Co., Ltd; LG Hausys ENG., Ltd.; LG International Corp. and 30 others; Dangjin Tank Terminal Co., Ltd.; Global Dynasty Natural Resource Private Equity Fund; Sal de Vida Korea Corp.; Pantos Logistics Co., Ltd and 49 others; Pantos Busan Newport Logistics Center Co., Ltd.; Helistar Air Co., Ltd.; GIIR Inc. and nine others; HS Ad Co., Ltd. and three others; L. Best; Silicon Works Inc. and two others; LG MMA Corp.; JIHEUNG. Co., Ltd; and LG Hitachi Co., Ltd.

	2016
Investor with significant influence over the Company	LG Corporation
Subsidiaries	Ain Tele Service, CS Leader, Medialog Corp., DACOM America Inc., CS One Partner Corporation, With U
Joint venture	Dacom Crossing Corporation
Others	Serveone and five others, LG Siltron and two others, LG CNS and 22 others, LG Sports, LG Management Development Institute, Lusem, LG Holdings Japan Co., Ltd.,
Other related parties included in Large Business Group defined by the act	LG Chem Ltd. and 28 others; SEETEC Co., Ltd.; Haengboknuri; FarmHanong Co., Ltd. and one 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 six 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.; Balkeunuri Co., Ltd.; LG Farouk Co.; Genstory Co., Ltd.; LG Life Science Co., Ltd. and four others; Sarangnuri, LG Hausys, Ltd. and eight others; LG. Tostem BM Co., Ltd; LG Hausys ENG., Ltd.; LG International Corp. and 31 others; Dangjin Tank Terminal Co., Ltd.; Global 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 Inc. and nine others; HS Ad Co., Ltd. and two others; L. Best; Silicon Works Inc. and one other; LG Siltron; LG MMA Corp.; JIHEUNG. Co., Ltd; and LG Hitachi Co., Ltd.

As at December 31, 2017, no entity controls the Company. LG Corporation has 36.05% of ownership interest and has significant influence over the Company.

Sales and purchases with related parties for the years ended December 31, 2017 and 2016, are as follows:

(in millions of Korean won)	**2017**			**2016**		
	Sales and others	**Purchase of property, plant and equipment**	**Purchase and others**	**Sales and others**	**Purchase of property, plant and equipment**	**Purchase and others**
Investor with significant influence over the Company						
LG Corporation	₩ 165	₩ -	₩ 31,117	₩ 157	₩ -	₩ 29,571
Subsidiaries						

(in millions of Korean won)	2017			2016		
	Sales and others	Purchase of property, plant and equipment	Purchase and others	Sales and others	Purchase of property, plant and equipment	Purchase and others
CS Leader	2,445	-	38,908	2,324	-	45,913
CS One Partner Corporation	4,133	-	81,439	3,802	-	83,249
Ain Tele Service	3,529	-	60,810	3,394	-	64,873
With U	229	-	4,365	237	-	3,126
Medialog Corp.	82,084	-	64,582	62,736	-	135,197
DACOM America Inc.	-	-	1,099	-	-	1,121
Associates and joint venture						
Dacom Crossing Corporation	424	-	11,218	381	211	9,858
Genie Music Corporation	49	-	4,471	-	-	-
Focus Media Korea Corporation	2,192	-	28	-	-	-
Others						
LG CNS[1]	23,349	139,786	145,749	32,653	119,168	140,275
LG Management Development Institute	73	-	6,019	71	-	5,920
LG Sports	30	-	3,097	40	-	3,300
LG Siltron[2]	224	-	3	357	-	5
Lusem	57	-	-	61	-	-
Serveone[1]	54,895	72,554	33,923	12,087	27,700	33,809
Other related parties included in Large Business Group defined by the act[3]						
HS Ad Co., Ltd.	248	7,498	16,225	183	31,962	14,834
LG Display Co., Ltd.	1,854	-	152	431	-	129
LG Household & Health Care Ltd.	3,147	-	1,260	2,914	-	1,169
LG Innotek Alliance Fund	57	1,322	2,470	107	-	1,273
LG Electronics Inc.	3,162	29,901	687,216	2,679	92,516	582,885
LG Chem Ltd.	1,582	417	27	1,033	1,817	31
The FaceShop Co., Inc.	2,200	-	151	1,387	-	130
Pantos Logistics Co., Ltd	63	409	6,287	43	-	2,855
L. Best	50	-	2,103	31	-	2,178
Hi Plaza Inc.	56,317	-	32,949	37,873	-	29,250
LG Life Science Co., Ltd.	-	-	-	608	-	32
LG Hausys, Ltd.	529	-	16	392	985	7
Coca-Cola Beverage Co.	265	-	111	614	-	122
Others	1,056	1,112	128	974	791	606

(in millions of Korean won)	2017			2016		
	Sales and others	Purchase of property, plant and equipment	Purchase and others	Sales and others	Purchase of property, plant and equipment	Purchase and others
	₩ 244,408	₩ 252,999	₩ 1,235,923	₩ 167,569	₩ 275,150	₩ 1,191,718

[1] Transactions with subsidiaries of the related parties are included.

[2] LG Siltron was sold to SK Co., Ltd. on August 17, 2017, and excluded from related parties as at December 31, 2017.

[3] These companies are not related parties defined in paragraph 9 of Korean IFRS 1024 *Related party disclosures*. 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 Korean IFRS 1024.

Outstanding balances arising from sales/purchases of goods and services as at December 31, 2017 and 2016, are as follows:

(in millions of Korean won)	2017		2016	
	Trade receivables and others	Trade payables and others	Trade receivables and others	Trade payables and others
Investor with significant influence over the Company				
LG Corporation	₩ 5,393	₩ 1,558	₩ 5,395	₩ 1,251
Subsidiaries				
Ain Tele Service	-	8,653	-	9,165
CS Leader	-	5,442	-	6,701
Medialog Corp.	11,221	17,382	8,502	19,579
DACOM America Inc.	2,558	24	2,885	25
CS One Partner Corporation	-	9,712	-	9,243
Associates and joint venture				
Dacom Crossing Corporation	-	817	-	710
Genie Music Corporation	-	1,131	-	-
Focus Media Korea Corporation	-	22	-	-
Others				
Serveone[1]	44,831	36,808	21,294	12,831
LG Management Development Institute	2,958	165	2,958	14
LG Sports	-	49	-	259
LG Siltron[2]	-	-	51	-
LG CNS[1]	794	99,023	4,732	108,799
Lusem	4	-	4	-
Other related parties included in Large Business Group defined by the act[3]				

(in millions of Korean won)	2017		2016	
	Trade receivables and others	Trade payables and others	Trade receivables and others	Trade payables and others
LG Chem Ltd.	214	293	84	234
LG Household & Health Care Ltd.	166	22	194	219
LG Electronics Inc.	1	47,451	144	56,655
LG Innotek Alliance Fund	20	1,025	23	408
Hi Plaza Inc.	3,550	5,236	690	4,053
Hi-M Solutec Co., Ltd.	36	-	11	788
Pantos Logistics Co., Ltd	-	1,846	-	2,308
HS Ad Co., Ltd.	-	28,479	14	33,416
L. Best	-	1,318	5	3,538
Others	1,536	30	86	272
	₩ 73,283	₩ 266,486	₩ 47,072	₩ 270,468

[1] Transactions with subsidiaries of the related parties are included.

[2] LG Siltron was sold to SK Co., Ltd. on August 17, 2017, and excluded from related parties as at December 31, 2017.

[3] These companies are not related parties defined in paragraph 9 of Korean IFRS 1024 *Related party disclosures*. 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 Korean IFRS 1024.

Above receivables and payables are unsecured and to be settled in cash. Also, there are no payment guarantees, which were given or received related to above receivables and payables.

On the other hand, the Company established 100% of provision for the trade receivables and others to DACOM America Inc.

Fund transactions with related parties for the years ended December 31, 2017 and 2016, are as follows:

(in millions of Korean won)	2017		2016	
	Dividends paid	Contributions in cash	Dividends paid	Contributions in cash
Investor with significant influence over the Company				
LG Corporation	₩ 55,082	₩ -	₩ 39,344	₩ -
Subsidiaries				
Medialog Corp.	-	45,000	-	-
Associates				
Genie Music Corporation	-	26,749	-	-
Focus Media Korea Corporation	-	4,125	-	-
Other related parties included in				

(in millions of Korean won)	2017		2016	
	Dividends paid	**Contributions in cash**	**Dividends paid**	**Contributions in cash**
Large Business Group defined by the act				
Others	69	-	50	-

The compensation and benefits for the Company's key management, including directors (excluding non-executive directors) and executive officers, who have significant control and responsibilities on planning, operating and controlling the Company's business activities for the years ended December 31, 2017 and 2016, are summarized as follows:

(in millions of Korean won)	2017	2016
Short-term employee benefits	₩ 30,433	₩ 32,039
Long-term employee benefits	30	55
Post-employment benefits[1]	5,119	5,100
	₩ 35,582	₩ 37,194

[1] The above balances refer to post-employment benefits incurred for key management during the years ended December 31, 2017 and 2016. In addition, the present values of defined benefit obligations for key management are ₩35,514 million and ₩37,013 million as at December 31, 2017 and 2016, respectively.

32. Risk Management

32.1 Capital Risk Management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern, so the Company can continue to provide returns for shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Company's capital structure consists of net liability, which is borrowing (including bonds and finance lease liability) less cash and cash equivalents, and equity; the overall capital risk management policy of the Company remains unchanged from prior period. In addition, items managed as capital by the Company as at December 31, 2017 and 2016, are as follows:

(in millions of Korean won)		2017		2016
Total borrowings	₩	3,326,590	₩	3,964,161
Less: cash and cash equivalents		(391,206)		(289,294)
Borrowings, net	₩	2,935,383	₩	3,674,867
Total equity	₩	5,287,089	₩	4,858,271
Net borrowings-to-equity ratio		55.52%		75.64%

32.2 Financial Risk Management

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

(a) Foreign currency risk

The Company is exposed to exchange rate fluctuation risk since it undertakes transactions denominated in foreign currencies. The carrying amounts of Company's monetary assets and liabilities denominated in foreign currencies that is not the functional currency as at December 31, 2017 and 2016, are as follows:

(in millions of Korean won)	2017			
		Assets		Liabilities
EUR	₩	20	₩	175
JPY		-		65
SDR		116		56
USD		96,778		107,442
	₩	96,914	₩	107,738

(in millions of Korean won)	2016			
		Assets		Liabilities
EUR	₩	32	₩	158
JPY		-		9
SDR		134		102
SGD		1		-
USD		90,576		115,284

(in millions of Korean won)	2016	
	Assets	**Liabilities**
	₩ 90,743	₩ 115,553

The Company internally assesses the foreign currency risk from changes in exchanges rates on a regular basis. The Company's sensitivity to a 10% increase and decrease in the Korean won (functional currency of the Company) against the major foreign currencies as at December 31, 2017 and 2016, is as follows:

(in millions of Korean won)	2017	
	Gain (loss) from 10% increase against foreign currency	**Gain (loss) from 10% decrease against foreign currency**
EUR	₩ (12)	₩ 12
JPY	(5)	5
SDR	5	(5)
USD	(808)	808
	₩ (820)	₩ 820

(in millions of Korean won)	2016	
	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

Sensitivity analysis above is conducted for monetary assets and liabilities denominated in foreign currencies other than functional currency as at December 31, 2017 and 2016.

(b) Interest rate risk

The Company borrows funds on floating interest rates and is exposed to cash flow risk arising from interest rate changes. The book amount of borrowings exposed to interest rate risk as at December 31, 2017 and 2016, is as follows:

(in millions of Korean won)		**2017**		**2016**
Borrowings	₩	467	₩	2,834

The Company internally assesses the cash flow risk from changes in interest rates on a regular basis. Effect of changes in interest rates of 1% point to profit or loss and net assets as at December 31, 2017 and 2016, is as follows:

(in millions of Korean won)	**2017**							
	1% point increase				**1% point decrease**			
	Profit or loss		**Net assets**		**Profit or loss**		**Net assets**	
Borrowings	₩	(4)	₩	(4)	₩	4	₩	4

(in millions of Korean won)	**2016**							
	1% point increase				**1% point decrease**			
	Profit or loss		**Net assets**		**Profit or loss**		**Net assets**	
Borrowings	₩	(21)	₩	(21)	₩	21	₩	21

(c) Price risk

The Company is exposed to price risks arising from available-for-sale equity instruments. The fair value of available-for-sale equity instruments for the years ended December 31, 2017 and 2016, is ₩2,780 million and ₩2,899 million, respectively and when all the other variables are constant and when the price of equity instrument changes by 10%, the effect to equity will be ₩211 million and ₩220 million, for the years ended December 31, 2017 and 2016, respectively.

(d) Credit risk

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

The maximum exposure amount of credit risk of loans and receivable and available-for-sale financial assets (debt securities) is similar with their carrying amount.

(e) Liquidity risk

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

Maturity analysis of non-derivative financial liabilities according to its remaining maturity as at December 31, 2017 and 2016, is as follows:

(in millions of Korean won)	2017			
	Within a year	**1-5 years**	**More than 5 years**	**Total**
Non-interest-bearing instruments	₩ 2,450,205	₩ 124	₩ -	₩ 2,450,329
Variable interest rate instruments	139,575	406,800	-	546,375
Fixed interest rate instruments	944,105	2,153,800	453,279	3,551,184
	₩ 3,533,885	₩ 2,560,724	₩ 453,279	₩ 6,547,888

[1] Maturity analysis above is based on the earliest maturity for the Company to bay based on the carrying amount.

(in millions of Korean won)	2016			
	Within a year	**1-5 years**	**More than 5 years**	**Total**
Non-interest-bearing instruments	₩ 2,279,837	₩ 335	₩ -	₩ 2,280,172
Variable interest rate instruments	82,671	542,868	-	625,539
Fixed interest rate instruments	1,134,261	2,559,117	560,085	4,253,463
	₩ 3,496,769	₩ 3,102,320	₩ 560,085	₩ 7,159,174

[1] Maturity analysis above is based on the earliest maturity for the Company to bay based on the carrying amount.

32.3 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 (include financial assets held for trading, available-for-sale financial assets and others). The Company's financial instruments are disclosed at the closing price of the market prices.

The fair values of other financial assets and financial liabilities (e.g., over-the-counter derivatives) are determined by fair value assessment method. The Company performs several valuation methods and makes assumptions based on market 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 loans and receivables, and financial liabilities is book amount less impairment loss and fair value of financial liabilities is discounted cash flows using current market rate (2017: 1.77%~3.67%), which is applied to the similar financial instruments the Company held.

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

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- All inputs other than quoted prices included in level 1 that are observable (either directly that is, prices, or indirectly that is, derived from prices) for the asset or liability (Level 2).
- Unobservable inputs for the asset or liability (Level 3).

Financial instruments that are measured subsequent to initial recognition at fair value by fair value hierarchy levels as at December 31, 2017 and 2016, are as follows:

(in millions of Korean won)	**2017**				
		Fair value			
	Carrying amount	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets					
Marketable equity securities	₩ 2,780	₩ 2,780	₩ -	₩ -	₩ 2,780

(in millions of Korean won)	**2016**				
		Fair value			
	Carrying amount	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets					
Marketable equity securities	₩ 2,899	₩ 2,899	₩ -	₩ -	₩ 2,899

There were no transfers between levels 1 and 2 for fair value measurements during the years ended December 31, 2017 and 2016.

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

33. Separate Statements of Cash Flows

The major transactions not involving cash outflows and cash inflows for the years ended December 31, 2017 and 2016, are as follows:

(in millions of Korean won)	2017	2016
Reclassification of assets under construction	₩ 946,722	₩ 862,180
Current portion of long-term non-trade payables	135,975	77,600
Non-trade payables relating to acquiring property, plant and equipment and intangible assets	229,661	248,075
Current portion of long-term borrowings and debentures	865,795	1,117,394

Changes in liabilities arising from financial activities for the years ended December 31, 2017 and 2016, are as follows:

(in millions of Korean won)	Current portion of debentures	Debentures	Short-term borrowings	Current portion of long-term borrowings	Long-term borrowings	Total
At January 1, 2016	₩ 369,663	₩ 2,393,907	₩ -	₩ 559,170	₩ 1,237,437	₩ 4,560,177
Cash flows – issue / borrowing	-	298,718	335,860	-	190,000	824,578
Cash flows – repayment	(370,000)	-	(335,860)	(638,810)	(78,287)	(1,422,957)
Current portion	529,441	(529,441)	-	587,953	(587,953)	-
Others	685	1,677	-	-	-	2,362
At December 31, 2016	₩ 529,789	₩ 2,164,861	₩ -	₩ 508,313	₩ 761,197	₩ 3,964,160
Cash flows – issue / borrowing	-	298,726	208,967	-	100,000	607,693
Cash flows – repayment	(530,000)	-	(208,967)	(508,313)	-	(1,247,280)
Current portion	429,598	(429,598)	-	436,197	(436,197)	-
Others	435	1,582	-	-	-	2,017
At December 31, 2017	₩ 429,822	₩ 2,035,571	₩ -	₩ 436,197	₩ 425,000	₩ 3,326,590

34. Approval of Issuance of the Financial Statements

The separate financial statements 2017 were approved for issue by the Board of Directors on January 23, 2018 and will be finally approved with the approval of shareholders at their Annual General Shareholders' Meeting on March 16, 2018.

35. Events After the Reporting Period

On January 23, 2018, in accordance with the resolution of finance committee, the Company transferred trade receivables with total face amount of ₩457,142 million to U Plus LTE SPC 37th. The proceeds from this sale was settled on February 7, 2018.

In addition, it was approved at the finance committee on January 10, 2018 to issue the 103rd bond in order to retain conversion funds and operating funds. According to this resolution, unsecured public bonds (Credit rate of AA0) of ₩160,000 million, ₩80,000 million and ₩60,000 million with expiration dates of January 26, 2021, January 26, 2023, and January 26, 2025, respectively, were issued on January 26, 2018.

Report on Independent Accountants' Review of Internal Accounting Control System

To the President of
LG Uplus Corp.

We have reviewed the accompanying management's report on the operations of the Internal Accounting Control System ("IACS") of LG Uplus Corp. (the "Company") as at December 31, 2017. The Company's management is responsible for designing and operating IACS and for its assessment of the effectiveness of IACS. Our responsibility is to review the management's report on the operations of the IACS and issue a report based on our review. The management's report on the operations of the IACS of the Company states that "based on its assessment of the operations of the IACS as at December 31, 2017, the Company's IACS has been effectively designed and is operating as at December 31, 2017, in all material respects, in accordance with the IACS standards."

Our review was conducted in accordance with the IACS review standards established by the Korean Institute of Certified Public Accountants. Those standards require that we plan and perform, in all material respects, the review of management's report on the operations of the IACS to obtain a lower level of assurance than an audit. A review is to obtain an understanding of a company's IACS and consists principally of inquiries of management and, when deemed necessary, a limited inspection of underlying documents, which is substantially less in scope than an audit.

A company's IACS is a system to monitor and operate those policies and procedures designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the Republic of Korea. Because of its inherent limitations, IACS may not prevent or detect a material misstatement of the financial statements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on our review, nothing has come to our attention that causes us to believe that management’s report on the operations of the IACS, referred to above, is not presented fairly, in all material respects, in accordance with the IACS standards.

Our review is based on the Company’s IACS as at December 31, 2017, and we did not review management’s assessment of its IACS subsequent to December 31, 2017. This report has been prepared pursuant to the Acts on External Audit for Stock Companies in Korea and may not be appropriate for other purposes or for other users.

Samil PricewaterhouseCoopers
March 8, 2018

Report on the Operations of the Internal Accounting Control System

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

I, as the Internal Accounting Control Officer (“IACO”) of LG Uplus Corp. (the “Company”), assessed the status of the design and operations of the Company’s internal accounting control system (“IACS”) for the year ended December 31, 2017.

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

Based on the assessment on the operations of the IACS, the Company’s IACS has been effectively designed and is operating as at December 31, 2017, in all material respects, in accordance with the IACS standards.

January 23, 2018

Hyukju Lee, Internal Accounting Control Officer

Youngsoo Kwon, Chief Executive Officer and President