# LG Uplus Corp. and Subsidiaries
**Consolidated Financial Statements**
**December 31, 2019 and 2018**

# LG Uplus Corp. and Subsidiaries
**Index**
**December 31, 2019 and 2018**

## Independent Auditor's Report

(English Translation of a Report Originally Issued in Korean)

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

### Opinion

We have audited the accompanying consolidated financial statements of LG Uplus Corp. and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statements of financial position as at December 31, 2019 and 2018, and the consolidated statements of profit or loss, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards as adopted by the Republic of Korea (Korean IFRS).

### Basis for Opinion

We conducted our audits in accordance with Korean Standards on Auditing. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements of the Republic of Korea that are relevant to our audit of the consolidated financial statements and we have fulfilled our other ethical responsibilities in accordance with the ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

(a) Accounting for business combination of LG HelloVision Corp. (formerly, CJ Hello Co., Ltd.)

As explained in Note 22 of the consolidated financial statements, the Group acquired 50.00%+1 shares and obtained control of LG HelloVision Corp. (formerly, CJ Hello Co., Ltd.) for ₩ 800,000 million as at December 31, 2019, and was accounted for in accordance with Korean IFRS 1103 *Business Combination.* The consideration transferred was allocated to various assets acquired and liabilities assumed, and the purchase price allocation relies on fair value estimates. The Group engaged an independent external expert to assist the Group in valuation of the main tangible and intangible assets acquired. We considered business combination to be a key audit matter given the size of the consideration transferred and the extent of management's judgments required for determination of the purchase price allocation.

We performed the following control testing and substantive testing on business combination of LG HelloVision Corp. including the following procedures.

- Obtained understanding and evaluated the business combination process
- Assessed the appropriateness of the methodology applied by the Group in determining the fair value of identifiable intangible assets and other assets acquired and liabilities assumed
- Assessed the competence and objectivity of expert engaged by management in fair value estimation
- Assessed the reasonableness of key fundamental assumptions and variables used in determining fair value
- Tested that the result of calculation of fair value was accurate
- Assessed the appropriateness of the Group's disclosure around the business combination included in the notes to the consolidated financial statements.

(b) Presentation and disclosure of assets held for sale and discontinued operation of payment service

As explained in the Note 21 of the consolidated financial statements, the Group decided to sell operation of payment service in 2020, and presented in consolidated financial statements as a discontinued operation as at and for the year ended December 31, 2019 in accordance with Korean IFRS 1105 *Non-Current Assets Held for Sale and Discontinued Operations.* As the sale of operation of payment service is a non-recurring transaction and considering the significant impact in consolidated financial statements, we focused on presentation and disclosure of assets held for sale and discontinued operations.

We performed the following substantive testing on presentation and disclosure of assets held for sale and discontinued operations including the following procedures.

- Reviewed the appropriateness of basis on classification of assets held for sale and discontinued operations of payment service
- Reviewed the appropriateness of classification date of discontinued operations through review of minutes of the meetings of the Board of Directors and sales contract regarding decision-making on the sale of payment service
- Reviewed the appropriateness of measurement of assets and liabilities held for sale
- Reviewed the appropriateness of financial statement disclosure related to assets held for sale and discontinued operations.

**Other Matter**

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

**Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with Korean IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

**Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Korean Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Korean Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to

cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Seung-Jae Cho, Certified Public Accountant.

Seoul, Korea
March 9, 2020

| |
|---|
| This report is effective as of March 9, 2020, 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 consolidated 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. and Subsidiaries
### Consolidated Statements of Financial Position
### December 31, 2019 and 2018

| *(in millions of Korean won)* | Notes | | 2019 | | 2018 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| **Current assets** | | | | | |
| Cash and cash equivalents | 5,8,21,33 | ₩ | 474,365 | ₩ | 378,631 |
| Financial institution deposits | 5,9,33 | | 21,765 | | 21,270 |
| Trade receivables | 5,6,21,32,33 | | 1,765,630 | | 1,711,963 |
| Other receivables | 5,6,21,32,33 | | 236,225 | | 215,877 |
| Inventories | 10 | | 436,724 | | 455,134 |
| Current tax assets | 29 | | 619 | | 598 |
| Current derivative assets | 5,6,25,28,33 | | 1,119 | | - |
| Other current assets | 7,11 | | 1,661,864 | | 1,463,771 |
| Assets held for sale | 5,6,8,12,21,32 | | 207,183 | | - |
| | | | 4,805,494 | | 4,247,244 |
| **Non-current assets** | | | | | |
| Financial institution deposits | 5,8,33 | | 61 | | 21 |
| Available-for-sale financial assets | 5,33 | | 40,671 | | 33,062 |
| Trade receivables | 5,6,21,32,33 | | 888,130 | | 490,061 |
| Other receivables | 5,6,21,32,33 | | 255,691 | | 264,835 |
| Investments in associates and joint ventures | 15 | | 50,680 | | 41,214 |
| Deferred tax assets | 29 | | 38 | | 41 |
| Property, plant and equipment | 12,21 | | 8,861,052 | | 6,465,781 |
| Investment property | 13 | | 34,241 | | 35,564 |
| Intangible assets | 14 | | 2,218,862 | | 1,705,693 |
| Other non-current assets | 7,11 | | 786,130 | | 656,432 |
| | | | 13,135,556 | | 9,692,704 |
| **Total assets** | | ₩ | 17,941,050 | ₩ | 13,939,948 |
| **Liabilities** | | | | | |
| **Current liabilities** | | | | | |
| Trade payables | 5,21,32,33 | ₩ | 421,487 | ₩ | 333,612 |
| Non-trade and other payables | 5,21,32,33 | | 2,516,085 | | 1,909,147 |
| Short-term borrowings | 5,12,16,33 | | 5,000 | | 10,000 |
| Debentures and long-term borrowings | 5,12,16,33 | | 824,583 | | 884,809 |
| Other financial liabilities | 5,17,21,33 | | 177,437 | | 298,539 |
| Current tax liabilities | 29 | | 17,061 | | 78,771 |
| Current derivative liabilities | 5,25,28,33 | | 151 | | - |
| Other current liabilities | 20,21 | | 520,002 | | 318,089 |
| Liabilities held for sale | 5,21,32 | | 167,047 | | - |
| | | | 4,648,853 | | 3,832,967 |
| **Non-current liabilities** | | | | | |
| Debentures and long-term borrowings | 5,12,16,33 | | 4,356,648 | | 2,076,253 |
| Other financial liabilities | 5,17,33 | | 690,155 | | 907,362 |
| Net defined benefit liabilities | 19,32 | | 136,460 | | 38,153 |
| Deferred tax liabilities | 29 | | 135,051 | | 79,651 |
| Provisions | 18 | | 43,100 | | 40,194 |
| Non-current derivative liabilities | 5,33 | | 746 | | - |
| Other non-current liabilities | 20 | | 580,421 | | 111,999 |
| | | | 5,942,581 | | 3,253,612 |
| **Total liabilities** | | | 10,591,434 | | 7,086,579 |
| **Equity** | | | | | |
| Share capital | 23 | | 2,573,969 | | 2,573,969 |
| Capital surplus | 23 | | 836,918 | | 836,918 |
| Accumulated other comprehensive income | 23 | | (3,596) | | (4,827) |
| Retained earnings | 23 | | 3,673,570 | | 3,447,171 |
| **Equity attributable to owners of the Parent Company** | | | 7,080,861 | | 6,853,231 |
| **Non-controlling interest** | | | 268,755 | | 138 |
| **Total equity** | | | 7,349,616 | | 6,853,369 |
| **Total liabilities and equity** | | ₩ | 17,941,050 | ₩ | 13,939,948 |

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

**LG Uplus Corp. and Subsidiaries**
**Consolidated Statements of Profit or Loss**
**Years Ended December 31, 2019 and 2018**

| *(in millions of Korean won, except for earnings per share)* | **Notes** | | **2019** | | **2018** |
|---|---|---|---|---|---|
| **Operating revenue** | 4,32 | ₩ | 12,381,969 | ₩ | 11,725,650 |
| **Operating expenses** | | | | | |
| Costs of merchandise purchased | 10,32 | | 3,437,694 | | 3,002,186 |
| Employee benefits | 19,32 | | 977,684 | | 920,775 |
| Depreciation and amortization | 12,13,14 | | 2,057,544 | | 1,662,965 |
| Other operating expenses | 26 | | 5,222,803 | | 5,398,991 |
| | | | 11,695,725 | | 10,984,917 |
| **Operating profit** | | | 686,244 | | 740,733 |
| Financial income | 28 | | 41,706 | | 34,975 |
| Financial costs | 28 | | 132,379 | | 127,513 |
| Share of profit of associates and joint ventures | 15 | | 1,201 | | 153 |
| Other non-operating income | 27 | | 59,926 | | 53,978 |
| Other non-operating expenses | 27 | | 82,758 | | 44,271 |
| Profit before income tax | | | 573,940 | | 658,055 |
| Income tax expense | 29 | | 133,029 | | 166,658 |
| **Profit from continuing operations** | | | 440,911 | | 491,397 |
| **Loss from discontinued operations** | 21,32 | | 2,080 | | 9,788 |
| **Profit for the year** | | ₩ | 438,831 | ₩ | 481,609 |
| **Profit is attributable to:** | | | | | |
| Owners of the Parent Company | | ₩ | 438,855 | ₩ | 481,637 |
| Non-controlling interests | | | (24) | | (28) |
| **Basic and diluted earnings per share (in Korean won)** | | | | | |
| From continuing and discontinued operations | 30 | ₩ | 1,005 | ₩ | 1,103 |
| From continuing operations | 30 | | 1,010 | | 1,125 |

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

## LG Uplus Corp. and Subsidiaries
**Consolidated Statements of Comprehensive Income**
**Years Ended December 31, 2019 and 2018**

| *(in millions of Korean won)* | | **2019** | | **2018** |
|---|---|---|---|---|
| **Profit for the year** | ₩ | 438,831 | ₩ | 481,609 |
| **Other comprehensive income (loss) for the year, net of tax** | | | | |
| *Items that will not be reclassified to profit or loss* | | | | |
| Gain (loss) on valuation of FV-OCI equity instruments | | 2,821 | | (1,319) |
| Remeasurements of net defined benefit liability | | (43,403) | | 16,382 |
| *Items that may be subsequently reclassified to profit or loss* | | | | |
| Gain (loss) on valuation of FV-OCI debt instruments | | 4,470 | | (4,795) |
| Loss on valuation of cash flow hedge derivatives | | (664) | | - |
| Gain (loss) on translation of foreign operations | | 248 | | (239) |
| Share of other comprehensive loss of associates and joint ventures | | (52) | | (37) |
| | | (36,580) | | 9,992 |
| **Total comprehensive income for the year** | ₩ | 402,251 | ₩ | 491,601 |
| **Total comprehensive income (loss) for the year is attributable to:** | | | | |
| Owners of the Parent Company | ₩ | 402,275 | ₩ | 491,629 |
| Non-controlling interest | | (24) | | (28) |

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

## LG Uplus Corp. and Subsidiaries
**Consolidated Statements of Changes in Equity**
**Years Ended December 31, 2019 and 2018**

*(in millions of Korean won)*

| | | Attributable to owners of the Parent Company | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Notes | Share Capital | Capital Surplus | Accumulated Other Comprehensive Income | Retained Earnings | Total | Non-controlling Interest | Total Equity |
| **Balance at January 1, 2018** | | ₩ 2,573,969 | ₩ 836,918 | ₩ 1,422 | ₩ 1,820,562 | ₩ 5,232,871 | ₩ 115 | ₩ 5,232,986 |
| Annual dividends | | - | - | - | (174,645) | (174,645) | - | (174,645) |
| Changes in accounting policy | | - | - | - | 1,303,354 | 1,303,354 | 51 | 1,303,405 |
| Profit for the year | | - | - | - | 481,637 | 481,637 | (28) | 481,609 |
| Gain on translation of foreign operations | 25 | - | - | (240) | - | (240) | - | (240) |
| Share of other comprehensive loss of associates and joint ventures | 15 | - | - | (37) | - | (37) | - | (37) |
| Remeasurements of net defined benefit liability | 19 | - | - | - | 16,382 | 16,382 | - | 16,382 |
| Loss on valutaion of debt instruments at fair value through other comprehensive income | 25 | - | - | (4,795) | - | (4,795) | - | (4,795) |
| Loss on valutaion of equity instruments at fair value through other comprehensive income | 25 | - | - | (1,177) | (142) | (1,319) | - | (1,319) |
| Share of reserves of associates and joint ventures | 15 | - | - | - | 23 | 23 | - | 23 |
| **Balance at December 31, 2018** | | ₩ 2,573,969 | ₩ 836,918 | ₩ (4,827) | ₩ 3,447,171 | ₩ 6,853,231 | ₩ 138 | ₩ 6,853,369 |
| | | | | | | | | |
| **Balance at January 1, 2019** | | ₩ 2,573,969 | ₩ 836,918 | ₩ (4,827) | ₩ 3,447,171 | ₩ 6,853,231 | ₩ 138 | ₩ 6,853,369 |
| Annual dividends | | - | - | - | (174,645) | (174,645) | - | (174,645) |
| Profit for the year | | - | - | - | 438,855 | 438,855 | (24) | 438,831 |
| Gain on translation of foreign operations | 25 | - | - | 248 | - | 248 | - | 248 |
| Share of other comprehensive loss of associates and joint ventures | 15 | - | - | (52) | - | (52) | - | (52) |
| Remeasurements of net defined benefit liability | 19 | - | - | - | (43,403) | (43,403) | - | (43,403) |
| Loss on valuation of cash flow hedge derivatives | 25 | - | - | (664) | - | (664) | - | (664) |
| Gain on valutaion of debt instruments at fair value through other comprehensive income | 25 | - | - | 4,470 | - | 4,470 | - | 4,470 |
| Gain on valutaion of equity instruments at fair value through other comprehensive income | 25 | - | - | 2,821 | - | 2,821 | - | 2,821 |
| Reclassification of loss on valutaion of equity instruments at fair value through other comprehensive income | 25 | - | - | (5,592) | 5,592 | - | - | - |
| Changes in consolidation | 22 | - | - | - | - | - | 268,641 | 268,641 |
| **Balance at December 31, 2019** | | ₩ 2,573,969 | ₩ 836,918 | ₩ (3,596) | ₩ 3,673,570 | ₩ 7,080,861 | ₩ 268,755 | ₩ 7,349,616 |

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

## 1. General Information

LG Uplus Corp. (the "Company" or the "Parent 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 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, 2019, the Company's shareholders are as follows:

| | Number of shares | Percentage of ownership (%) |
|---|---|---|
| LG Corporation | 157,376,777 | 36.05% |
| National Pension Fund | 46,874,215 | 10.74% |
| The Capital Group Companies, Inc. | 30,286,950 | 6.94% |
| Others | 202,073,419 | 46.27% |
| | 436,611,361 | 100.00% |

### 1.1 Consolidated Subsidiaries

| | Location | 2019 Ownership interest held by the Group (%) | 2018 Ownership interest held by the Group (%) | Closing month | Main business |
|---|---|---|---|---|---|
| AIN TeleService, LTD. | Korea | 100.00 | 100.00 | December | Telemarketing service |
| CSLEADER | Korea | 100.00 | 100.00 | December | Telemarketing service |
| Medialog corp. | Korea | 99.58 | 99.58 | December | Internet services and etc. |
| DACOM America, Inc. | USA | 100.00 | 100.00 | December | Telecommunication service |
| CS One partner Corporation | Korea | 100.00 | 100.00 | December | Telemarketing services |
| WithU Corporation | Korea | 100.00 | 100.00 | December | Other business support services |
| LG UPLUS FUND I LLC | USA | 100.00 | 100.00 | December | Investment fund |
| LG HelloVision Corp.[1] | Korea | 50.00% + 1 share | - | December | Cable television business and etc. |
| Hana Broadcasting Co., Ltd.[2] | Korea | 50.00% + 1 share | - | December | Cable broadcasting business |

[1] During 2019, the Group acquired 50.00% + 1 share of LG HelloVision Corp.

[2] Subsidiary of LG HelloVision Corp. in 2019.

### 1.2 Changes in Scope for Consolidation

There are no subsidiaries excluded from consolidation for the year ended December 31, 2019, and subsidiary newly included in the consolidation are as follows:

| Subsidiary | Reason |
|---|---|
| LG HelloVision Corp. | During 2019, the Group acquired 50.00% + 1 share of LG HelloVision Corp. |
| Hana Broadcasting Co., Ltd. | Subsidiary of LG HelloVision Corp. in 2019. |

### 1.3 Summarized Financial Information

Summarized financial information for consolidated subsidiaries as at and for the years ended December 31, 2019 and 2018, are as follows:

*(in millions of Korean won)*

| | 2019 | | | | | | |
|---|---|---|---|---|---|---|---|
| Subsidiary | Assets | Liabilities | Equity | Sales | Operating profit (loss) | Profit (loss) for the year | Total comprehensive income (loss) |
| AIN TeleService, LTD. | ₩ 25,028 | ₩ 27,236 | ₩ (2,208) | ₩ 71,835 | ₩ 942 | ₩ 622 | ₩ (634) |
| CSLEADER | 18,602 | 19,017 | (415) | 45,878 | 414 | 218 | (803) |
| Medialog corp. | 103,916 | 50,453 | 53,463 | 202,149 | (9,520) | (11,700) | (11,618) |
| DACOM America, Inc. | 240 | 3,518 | (3,278) | 1,224 | 59 | 40 | (74) |
| CS One partner Corporation | 34,425 | 31,569 | 2,856 | 84,459 | 794 | 392 | (100) |
| WithU Corporation | 3,403 | 2,033 | 1,370 | 8,062 | 659 | 593 | 559 |
| LG UPLUS FUND I LLC | 21,682 | 274 | 21,408 | - | - | (1,273) | (911) |
| LG HelloVision Corp | 1,790,671 | 839,364 | 951,307 | 1,112,180 | 20,613 | (100,778) | (107,953) |

*(in millions of Korean won)*

| | 2018 | | | | | | |
|---|---|---|---|---|---|---|---|
| Subsidiary | Assets | Liabilities | Equity | Sales | Operating profit (loss) | Profit (loss) for the year | Total comprehensive income (loss) |
| AIN TeleService, LTD. | ₩ 14,995 | ₩ 16,568 | ₩ (1,573) | ₩ 71,964 | ₩ 1,583 | ₩ 1,584 | ₩ 183 |
| CSLEADER | 11,364 | 10,977 | 387 | 45,092 | 683 | 646 | (729) |
| Medialog corp. | 115,939 | 50,857 | 65,082 | 183,165 | (12,011) | (13,312) | 10,697 |
| DACOM America, Inc. | 191 | 3,397 | (3,206) | 1,103 | 48 | 32 | (103) |
| CS One partner Corporation | 19,093 | 16,138 | 2,955 | 87,749 | 4,538 | 4,635 | 3,054 |
| WithU Corporation | 1,989 | 1,179 | 810 | 7,016 | 223 | 219 | 104 |
| LG UPLUS FUND I LLC | 10,516 | - | 10,516 | - | - | (654) | (759) |

## 2. Significant Accounting Policies

The principal accounting policies applied in the preparation of these consolidated 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 and its subsidiaries (the “Group”) 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 consolidated 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 Group's financial position, financial performance or cash flows, is not presented in the accompanying consolidated financial statements.

The consolidated financial statements of the Group 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 financial statements have been prepared on a historical cost basis, except for the following:

· Certain financial assets and liabilities (including derivative instruments), certain investment property – measured at fair value

· assets held for sale – measured at fair value less costs to sell, and

· defined benefit pension plans – plan assets measured at fair value.

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

**2.2 Changes in Accounting Policies and Disclosures**

*2.2.1 New and amended standards adopted by the Group*

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing January 1, 2019.

*(a)* Enactment of Korean IFRS 1116 *Leases*

Under the new standard, with implementation of a single lease model, lessee is required to recognize assets and liabilities for all lease which lease term is over 12 months and underlying assets are not low value assets. A lessee is required to recognize a right-of-use asset and a lease liability representing its obligation to make lease payments.

With implementation of Korean IFRS 1116 *Lease*, the Group has changed accounting policy. The Group has adopted Korean IFRS 1116 retrospectively, as permitted under the specific transitional provisions in the standard, and recognized the cumulative impact of initially applying the standard as at January 1, 2019, the date of initial application. The Group has not restated comparatives for the 2018 reporting period. The impact of the adoption of the leasing standard and the new accounting policies are disclosed in Note 36.

*(b)* Amendment to Korean IFRS 1109 *Financial Instruments – Prepayment Features with Negative Compensation*

The narrow-scope amendments made to Korean IFRS *1109 Financial Instruments* enable entities to measure certain prepayable financial assets with negative compensation at amortized cost. When a modification of a financial liability measured at amortized cost that does not result in the derecognition, a modification gain or loss shall be recognized in profit or loss. The amendment does not have a significant impact on the financial statements.

*(c)* Amendments to Korean IFRS 1019 *Employee Benefits –Amendment, Curtailment or Settlement of the Plan*

The amendments require that an entity shall calculate current service cost and net interest for the remainder of the reporting period after a plan amendment, curtailment or settlement based on updated actuarial assumptions from the date of the change. The amendments also require that a reduction in a surplus must be recognized in profit or loss even if that surplus was not previously recognized because of the impact of the asset ceiling. The amendment does not have a significant impact on the financial statements.

*(d)* Amendments to Korean IFRS 1028 *Investments in Associates and Joint Ventures – Long-term Interests in Associates and Joint Ventures*

The amendments clarify that an entity shall apply Korean IFRS 1109 to financial instruments in an associate or joint venture to which the equity method is not applied The amendments also clarify that Korean IFRS 1109 requirements are applied to long-term interests that form part of the entity's net investment in an associate or joint venture before applying the impairment requirements of Korean IFRS 1028. The amendment does not have a significant impact on the financial statements.

*(e)* Enactment to Interpretation of Korean IFRS 2123 *Uncertainty over Income Tax Treatments*

The interpretation explains how to recognize and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment, and includes guidance on how to determine whether each uncertain tax treatment is considered separately or together. It also presents examples of circumstances where a judgement or estimate is required to be reassessed. The significant impact on the financial statements is described in Note 29.

*(f)* Annual Improvements to Korean IFRS 2015 – 2017 Cycle:

- Amendments to Korean IFRS 1103 *Business Combination*

The amendments clarify that when a party to a joint arrangement obtains control of a business that is a joint operation, and had rights to the assets and obligations for the liabilities relating to that joint operation immediately before the acquisition date, the transaction is a business combination achieved in stages. In such cases, the acquirer shall remeasure its entire previously held interest in the joint operation. The amendment does not have a significant impact on the financial statements.

- Amendments to Korean IFRS 1111 *Joint Agreements*

The amendments clarify that when a party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business. In such cases, previously held interests in the joint operation are not remeasured. The amendment does not have a significant impact on the financial statements.

- Amendments to Paragraph 57A of Korean IFRS 1012 *Income Tax*

The amendment is applied to all the income tax consequences of dividends and requires an entity to recognize the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events. The amendment does not have a significant impact on the financial statements.

- Korean IFRS 1023 *Borrowing Costs*

The amendments clarify that if a specific borrowing remains outstanding after the related qualifying asset is ready for its intended use (or sale), it becomes part of general borrowings. The amendment does not have a significant impact on the financial statements.

*2.2.2 New standards and interpretations not yet adopted by the Group*

The following new accounting standards and interpretations have been published that are not mandatory for December 31, 2019 reporting periods and have not been early adopted by the Group.

*(a)* Amendments to Korean IFRS 1001 *Presentation of Financial Statements* and Korean IFRS 1008 *Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material*

The amendments clarify the explanation of the definition of material and amended Korean IFRS 1001 and Korean IFRS 1008 in accordance with the clarified definitions. Materiality is assessed by reference to omission or misstatement of material information as well as effects of immaterial information, and to the nature of the users when determining the information to be disclosed by the Group. These amendments should be applied for annual periods beginning on or after January 1, 2020, and earlier application of permitted. The Group does not expect that these amendments have a significant impact on the financial statements.

*(b)* Amendments to Korean IFRS 1103 *Business Combination – Definition of a Business*

To consider the integration of the required activities and assets as a business, the amended definition of a business requires an acquisition to include an input and a substantive process that together significantly contribute to the ability to create outputs and excludes economic benefits from the lower costs. An entity can apply a concentration test, an optional test, where substantially all of the fair value of gross assets acquired is concentrated in a single asset or a group of similar assets, the assets acquired would not represent a business. These amendments should be applied for annual periods beginning on or after January 1, 2020, and earlier application of permitted. The Group does not expect that these amendments have a significant impact on the financial statements.

**2.3 Consolidation**

The Group has prepared the consolidated financial statements in accordance with Korean IFRS 1110 *Consolidated Financial Statements*.

*(a) Subsidiaries*

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group. The consideration transferred is measured at the fair values of the assets transferred, and identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognizes any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets. All other non-controlling interests are measured at fair values, unless otherwise required by other standards. Acquisition-related costs are expensed as incurred.

The excess of consideration transferred, amount of any non-controlling interest in the acquired entity and acquisition-date fair value of any previous equity interest in the acquired entity over the fair value of the net identifiable assets acquired is recoded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognized directly in the profit or loss as a bargain purchase.

Intercompany transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A changed in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interest to reflect their relative interest in the subsidiary. Any difference between the amount of the adjustment to non-controlling interest and any consideration paid or received is recognized in a separate reserve within equity attributable to owners of the Parent Company.

When the Group ceases to consolidate for a subsidiary because of a loss of control, any retained interest in the subsidiary is remeasured to its fair value with the changed in carrying amount recognized in profit or loss.

*(b) Associates*

Associates are entities over which the Group has significant influence but not control or joint control.

Investments in associates are accounted for using the equity method of accounting, after initially being recognized at cost. Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. If the Group's share of losses of an associate equals or exceeds its interest in the associate (including long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognizing its share of further losses. After the Group's interest is reduced to zero, additional losses are provided for, and a liability is recognized, only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate. If there is an objective evidence of impairment for the investment in the associate, the Group recognizes the difference between the recoverable amount of the associate and its book amount as impairment loss.

If an associate uses accounting policies other than those of the Group for like transactions and events in similar circumstances, if necessary, adjustments shall be made to make the associate′s accounting policies conform to those of the Group when the associate′s financial statements are used by the Group in applying the equity method.

*(c) Joint arrangements*

A joint arrangement, wherein two or more parties have joint control, is classified as either a joint operation or a joint venture. A joint operator recognizes its direct right to the assets, liabilities, revenues and expenses of joint operations and its share of any jointly held or incurred assets, liabilities, revenues and expenses. Interests in joint ventures are accounted for using the equity method, after initially being recognized at cost in the consolidated statement of financial position.

### 2.4 Foreign Currency Translation

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

In preparation of the Group's consolidated 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 transactions entered into in order to hedge certain foreign currency risks.

### 2.5 Financial Assets

*(a) Classification*

The Group classifies its financial assets in the following measurement categories:

- those to be measured at fair value through profit or loss
- those to be measured at fair value through other comprehensive income, and
- those to be measured at amortized cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

For financial assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in debt instruments, this will depend on the business model in which the investment is held. The Group reclassifies debt investments when, and only when its business model for managing those assets changes.

For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income. Changes in fair value of non-designated equity investment are recognized in profit or loss.

*(b) Measurement*

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

*A. Debt instruments*

Subsequent measurement of debt instruments depends on the Group’s business model for managing the asset and the cash flow characteristics of the asset. The Group classifies its debt instruments into one of the following three measurement categories:

- Amortized cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. A gain or loss on a debt investment that is subsequently measured at amortized cost and is not part of a hedging relationship is recognized in profit or loss when the asset is derecognized or impaired. Interest income from these financial assets is included in ‘financial income’ using the effective interest rate method.

- Fair value through other comprehensive income: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets’ cash flows represent solely payments of principal and interest, are measured at fair value through other comprehensive income. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment loss (reversal of impairment loss), interest income and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss. Interest income from these financial assets is included in ‘financial income’ using the effective interest rate method.

- Fair value through profit or loss: Assets that do not meet the criteria for amortized cost or fair value through other comprehensive income are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented net in the statement of profit or loss within ‘financial income and costs’ in the year in which it arises.

*B. Equity instruments*

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments, which held for long-term investment or strategic purpose, in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividend income from such investments continue to be recognized in profit or loss as 'financial income' when the right to receive payments is established.

Changes in the fair value of financial assets at fair value through profit or loss are recognized in 'financial income and costs' in the statement of profit or loss as applicable. Impairment loss (reversal of impairment loss) on equity investments measured at fair value through other comprehensive income are not reported separately from other changes in fair value.

*(c) Impairment*

The Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortized cost and fair value through other comprehensive income. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables and lease receivables, the Group applies the simplified approach, which requires expected lifetime credit losses to be recognized from initial recognition of the receivables.

*(d) Recognition and Derecognition*

Regular way purchases and sales of financial assets are recognized or derecognized on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

If a transfer does not result in derecognition because the Group has retained substantially all the risks and rewards of ownership of the transferred asset, the Group continues to recognize the transferred asset in its entirety and recognizes a financial liability for the consideration received. The Group classified the financial liability as "borrowings" in the statement of financial position.

*(e) Offsetting of financial instruments*

Financial assets and liabilities are offset and the net amount reported in the statements of financial position where there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the assets and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Group or the counterparty.

### 2.6 Derivative Instruments

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group has hedge relationships and designates certain derivatives as either:

- hedges of a particular risk associated with the cash flows of recognized assets and liabilities and highly probable forecast transactions (cash flow hedges)

At inception of the hedge relationship, the Group documents the economic relationship between hedging instruments and hedged items including whether changes in the cash flows of the hedging instruments are expected to offset changes in the cash flows of hedged items.

The fair values of derivative financial instruments designated in hedge relationships are disclosed in Note 33. Movements in the cash flow hedge reserve are shown in Note 25.

The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. A non-derivative financial asset and a non-derivative financial liability is classified as a current or non-current based on its expected maturity and its settlement, respectively.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in the cash flow hedge reserve within equity, limited to the cumulative change in fair value (present value) of the hedged item (the present value of the cumulative change in the future expected cash flows of the hedged item) from the inception of the hedge. The ineffective portion is recognized in ‘finance income or costs’.

Amounts accumulated in equity are reclassified in the periods when the hedged item affects profit or loss, as follows:

- The gain or loss relating to the effective portion of the interest rate swaps hedging variable rate borrowings is recognized in profit or loss within ‘finance cost’ at the same time as the interest expense on the hedged borrowings.

When a hedging instrument expires, or is sold, terminated, exercised, or when a hedge no longer meets the criteria for hedge accounting, any accumulated cash flow hedge reserve at that time remains in equity until the forecast transaction occurs, resulting in the recognition of a non-financial asset such as inventory. When the forecast transaction is no longer expected to occur, the cash flow hedge reserve and deferred costs of hedging that were reported in equity are immediately reclassified to profit or loss.

**2.7 Inventories**

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the total-average method (using the moving-average method for certain inventories).

**2.8 Non-current Assets (or Disposal Group) Held for sale and Discontinued Operations**

Non-current assets (or disposal group) are classified as held for sale when their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. The assets are measured at the lower amount between their carrying amount and the fair value less costs to sell. Assets held for sale and discontinued operations are shown in Note 21.

**2.9 Property, Plant and Equipment**

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation of all property, plant and equipment, except for land, is calculated using the straight-line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives as follows:

| | **Estimated useful lives (years)** |
|---|---|
| Buildings | 20~40 |
| Telecommunication facilities | 3~15 |
| Other property plant and equipment | 3~5 |
| Right-of-use assets | Depreciated over lease period |

The assets' depreciation method, residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

**2.10 Borrowing Costs**

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized during the period of time that is required to complete and prepare the asset for its intended use or sale. Investment income earned on the temporary investment of specific borrowings on qualifying assets is deducted from the borrowing costs eligible for capitalization. Other borrowing costs are expensed in the period in which they are incurred.

### 2.11 Government Grants

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants related to assets are presented in the statement of financial position by deducting the grant in arriving at the carrying amount of the asset, and government grants related to income are deferred and later deducted from the related expense.

### 2.12 Intangible Assets

Intangible assets are initially recognized at its historical cost, and carried at cost less accumulated amortization and accumulated impairment losses.

Software development costs that are directly attributable to internally generated by the Group are recognized when the criteria; such as, technically feasible, generate probable future economic benefits and other, are met. Customer contracts acquired in a business combination are recognized at fair value at the acquisition date. Membership rights that have an indefinite useful life are not subject to amortization because there is no foreseeable limit to the period over which the assets are expected to be utilized. The Group amortizes intangible assets with a limited useful life using the straight-line method over the following periods:

| | **Estimated useful lives (years)** |
|---|---|
| Intellectual property rights | 5~10 |
| Frequency usage rights | 5~10 |
| Other intangible assets | 2~10 |

### 2.13 Investment Property

Investment property is property held to earn rentals or for capital appreciation or both. An investment property is measured initially at its cost. An investment property is measured after initial measurement at depreciated cost (less any accumulated impairment losses). After recognition as an asset, investment property is carried at cost less accumulated depreciation and impairment losses. The Group depreciates investment properties, except for land, using the straight-line method over their useful lives of 20 ~ 40 years.

### 2.14 Impairment of Non-financial Assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset’s carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset’s fair value less costs of disposal and value in use. Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

**2.15 Financial Liabilities**

*(a) Classification and measurement*

The Group's financial liabilities at fair value through profit or loss are financial instruments held for trading. A financial liability is held for trading if it is incurred principally for the purpose of repurchasing in the near term. A derivative that is not a designated as hedging instruments and an embedded derivative that is separated are also classified as held for trading.

The Group classifies non-derivative financial liabilities, except for financial liabilities at fair value through profit or loss, financial guarantee contracts and financial liabilities that arise when a transfer of financial assets does not qualify for derecognition, as financial liabilities carried at amortized cost and present as 'trade payables', 'borrowings', and 'other financial liabilities' in the statement of financial position.

*(b) Derecognition*

Financial liabilities are removed from the statement of financial position when it is extinguished; for example, when the obligation specified in the contract is discharged or cancelled or expired or when the terms of an existing financial liability are substantially modified. The difference between the carrying amount of a financial liability extinguished or transferred to another party and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss.

**2.16 Provisions**

Provisions for service warranties, make good obligation, and legal claims are recognized when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period, and the increase in the provision due to the passage of time is recognized as interest expense.

**2.17 Current and Deferred Tax**

The tax expense for the period consists of current and deferred tax. Current and deferred tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

The current income tax expense is measured at the amount expected to be paid to the taxation authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. The Group recognizes current income tax on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting profit nor taxable profit or loss.

Deferred tax assets are recognized only if it is probable that future taxable amounts will be available to utilize those temporary differences and losses.

The Group recognizes a deferred tax liability all taxable temporary differences associated with investments in subsidiaries, associates, and interests in joint arrangements, except to the extent that the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. In addition, The Group recognizes a deferred tax asset for all deductible temporary differences arising from such investments to the extent that it is probable the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset when the Group has a legally enforceable right to offset and intends either to settle on a net basis, or to realize the assets and settle the liability simultaneously.

**2.18 Employee Benefits**

The Group operates both defined contribution and defined benefit pension plans.

For defined contribution plans, the Group pays contribution to publicly or privately administered pension insurance plans on mandatory, contractual or voluntary basis. The Group has no further payment obligation once the contribution has been paid. The contribution is recognized as employee benefit expense when they are due.

A defined benefit plan is a pension plan that is not a defined contribution plan. Generally, post-employment benefits are payable after the completion of employment, and the benefit amount depended on the employee's age, periods of service or salary levels. The liability recognized in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms approximating to the terms of the related obligation. Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized in the period in which they occur, directly in other comprehensive income.

Changes in the present value of the defined benefit obligation resulting from plan amendments or curtailments are recognized immediately in profit or loss as past service costs.

**2.19 Revenue Recognition**

*(a) Identifying performance obligations*

The Group 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 Group satisfies the performance obligation and recognizes revenue at the point of sale for handset sales. On the other hand, the Group recognizes revenue over time by providing telecommunication services throughout the estimated contract period.

*(b) Allocating the transaction price to performance obligations*

The Group 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 estimated contract period, whereas a certain amount of the discount on plans is added to the telecommunication service revenue over the contract period after immediately deducted from handset sales revenue.

*(c) Incremental costs of obtaining a contract and contract assets*

The Group pays sales commissions to its employees based on customer contracts signed through the employees in telecommunication services. The commission accounts for substantial portion of sales commissions in operating expenses. The Group recognizes as an asset "the incremental costs of obtaining a contract", and costs that are recognized as assets are amortized over the period.

**2.20 Leases**

As explained in Note 2.2 above, the Group has changed its accounting policy for leases. The impact of the new accounting policies is disclosed in Note 36.

*(a) Accounting for lessor*

Lease income from operating leases where the Group is a lessor is recognized in income on a straight-line basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognized as expense over the lease term on the same basis as lease income. The respective leased assets are included in the statement of financial position based on their nature. The Group did not need to make any adjustments to the accounting for assets held as lessor as a result of adopting the new leasing standard.

*(b) Accounting for lessee*

The Group leases various properties, telecommunication facilities and vehicles. Lease contracts are typically made for fixed periods of 2 to 8 years, but may have extension options as described in (a) below.

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until the 2018 financial year, leases of property, plant and equipment were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From January 1, 2019, leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments (including in-substance fixed payments), less any lease incentives receivable
- Variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date
- Amounts expected to be payable by the Group (the lessee) under residual value guarantees
- The exercise price of a purchase option if the Group (the lessee) is reasonably certain to exercise that option, and
- Payments of penalties for terminating the lease, if the lease term reflects the Group (the lessee) exercising that option

In addition, measurement of the lease liabilities include lease payment according to extension option if the Company is reasonably certain to exercise

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee’s incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs

The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Leases of low-value assets are recognized on a straight-line basis as an expense in profit or loss. Low-value assets comprise IT-equipment and small items of office furniture.

*(a) Extension and termination options*

Extension and termination options are included in a number of property and equipment leases across the Group. These terms are used to maximize operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

## 3. Critical Accounting Estimates and Assumptions

The preparation of financial statements requires the Group 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 Group estimates an allowance for doubtful loans and receivables based on aging of receivables, historical loss experience and economic and industrial factors.

**3.3 Income Taxes**

The Group's taxable income generated from these operations are subject to income taxes based on tax laws and interpretations of tax authorities in jurisdictions. There are many transactions and calculations for which the ultimate tax determination is uncertain (Note 29).

The Group estimates the expected average rate applied to future taxable income upon measurement of deferred income tax. Upon determination on possibility of deferred income tax, the expected temporary difference to be deducted, expected taxable income and usefulness of tax credit are estimated.

**3.4 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, 2019, are ₩ 136,460 million (2018: ₩ 38,153 million) and details are described in Note 19.

**3.5 Depreciation of Incremental Costs**

The incremental costs are amortized on a systematic basis consistent with the manner in which goods and services are transferred to customers. The Group determined that the costs are amortized during expected length of time which is estimated based on the period specified in contract and average maintenance period.

**3.6 Lease**

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

For determining lease terms of warehouses, retail stores and equipment, the following factors are normally the most relevant:

- If there are significant penalties to terminate (or not extend), the Group is typically reasonably certain to extend (or not terminate).

- If any leasehold improvements are expected to have a significant remaining value, the Group is typically reasonably certain to extend (or not terminate).

- Otherwise, the Group considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

The lease term is reassessed if an option is actually exercised (or not exercised) or the Group becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee.

**3.7 Estimated goodwill impairment**

The Group tests whether goodwill has suffered any impairment on an annual basis. The recoverable amount of a cash generating unit (CGU) is determined based on value-in-use calculations (Note 14).

**3.8 Business combination**

There is uncertainty measuring fair value of acquired assets and liabilities and identifiable intangible assets in relation to accounting for business combination. The Group determined reasonable estimates and assumptions for measurement of fair value as at the business combination date (Note 22).

**3.9 Measurement of non-current assets held for sale**

The Group measured fair value considering the costs incurred upon reacquisition of assets for fair value measurement of non-current assets held for sale.

## 4. Operating Segment Information

The Group determined that it operates under two business segments of LG Uplus Corp. and LG HelloVision Corp. based on the characteristics of goods and services provided and nature of network assets held. The deemed acquisition date of LG HelloVision Corp. segment is December 31, 2019, and there is no profit or loss to be recognized in consolidated financial statements. As a result, information on profit or loss of consolidated financial statements is equivalent to profit or loss of LG Uplus Corp. segment. The Group's reportable segments are consistent with the internal business segment reporting provided to the chief operating decision-maker.

Details of operating revenues from the Group's sale of goods and provision of services for the years ended December 31, 2019 and 2018, are as follows:

| *(in millions of Korean won)* | **Revenue recognition** | **Major goods and services** | **2019** | **2018** |
|---|---|---|---|---|
| LG Uplus Corp. | At a point in time | Telecommunication and related services | ₩ 9,205,595 | ₩ 8,945,088 |
| | Over time | Handset sales | 3,176,374 | 2,780,562 |
| | Total of continuing operations | | 12,381,969 | 11,725,650 |
| | Discontinued operations[1] | | 375,986 | 399,401 |
| | | | ₩ 12,757,955 | ₩ 12,125,051 |

[1] Operating profit on electronic payment services classified as discontinued operations in 2019.

The Group'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 assets by category as at December 31, 2019 and 2018, are as follows:

| *(in millions of Korean won)* | 2019 | | 2018 | |
|---|---|---|---|---|
| | **Carrying amount** | **Fair value** | **Carrying amount** | **Fair value** |
| Financial assets at amortized costs | | | | |
| Cash and cash equivalents[1] | ₩ 637,315 | ₩ 637,315 | ₩ 378,631 | ₩ 378,631 |
| Financial institution deposits | 21,826 | 21,826 | 21,291 | 21,291 |
| Trade receivables[2] | 2,168,686 | 2,168,686 | 1,343,654 | 1,343,654 |
| Loans | 98,641 | 98,641 | 62,785 | 62,785 |
| Non-trade receivables[3] | 169,048 | 169,048 | 167,853 | 167,853 |
| Accrued income | 458 | 458 | 73 | 73 |
| Deposits provided | 234,632 | 234,632 | 250,001 | 250,001 |
| | 3,330,606 | 3,330,606 | 2,224,288 | 2,224,288 |
| Financial assets at fair value through profit or loss | | | | |
| Available-for-sale financial assets | 30,024 | 30,024 | 25,206 | 25,206 |
| Short-term derivatives held for trading | 1,119 | 1,119 | - | - |
| | 31,143 | 31,143 | 25,206 | 25,206 |
| Financial assets at fair value through other comprehensive income | | | | |
| Available-for-sale financial assets | 10,647 | 10,647 | 7,856 | 7,856 |
| Trade receivables | 489,392 | 489,392 | 858,370 | 858,370 |
| | 500,039 | 500,039 | 866,226 | 866,226 |
| | ₩ 3,861,788 | ₩ 3,861,788 | ₩ 3,115,720 | ₩ 3,115,720 |

[1] Carrying amount of cash and cash equivalents included in assets held for sale amount to ₩ 162,950 million as at December 31, 2019.

[2] Carrying amount of trade receivables included in assets held for sale amount to ₩ 4,318 million as at December 31, 2019.

[3] Carrying amount of non-trade receivables included in assets held for sale amount to ₩ 10,862 million as at December 31, 2019.

Carrying amount and fair value of financial liabilities by category as at December 31, 2019 and 2018, are as follows:

| *(in millions of Korean won)* | 2019 | | 2018 | |
|---|---|---|---|---|
| | **Carrying amount** | **Fair value** | **Carrying amount** | **Fair value** |
| Financial liabilities at amortized cost | | | | |
| Trade payables | ₩ 421,487 | ₩ 421,487 | ₩ 333,612 | ₩ 333,612 |
| Borrowings[1] | 1,607,123 | 1,623,664 | 635,000 | 635,000 |
| Debentures[1] | 3,579,108 | 3,626,611 | 2,336,062 | 2,366,838 |
| Non-trade payables | 2,096,921 | 2,096,921 | 1,870,235 | 1,870,235 |
| Accrued expense[2] | 995,285 | 995,285 | 840,679 | 840,679 |
| Withholdings[3] | 330,332 | 330,332 | 293,441 | 293,441 |
| Leasehold deposits received | 6,276 | 6,276 | 5,136 | 5,136 |
| | 9,036,532 | 9,100,576 | 6,314,165 | 6,344,941 |
| Derivative liabilities | | | | |
| Interest swap liabilities | 897 | 897 | - | - |
| Others | | | | |
| Lease liabilities | 585,402 | 585,402 | - | - |
| | ₩ 9,622,831 | ₩ 9,686,875 | ₩ 6,314,165 | ₩ 6,344,941 |

[1] The fair value of the borrowings and debentures are the discounted amount of the future cash flow under the terms of the contract by using current market interest rate (borrowings 2019: 1.63%~1.88%, 2018: 2.04%~2.34%) (debentures 2019: 1.63%~2.63%, 2018: 2.06%~2.53%) applied on similar financial instruments.

[2] Carrying amount of accrued expense included in liabilities held for sale amount to ₩ 8,234 million as at December 31, 2019.

[3] Carrying amount of withholdings included in liabilities held for sale amount to ₩ 158,813 million as at December 31, 2019.

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

## 6. Financial Assets

### 6.1 Financial assets at fair value through profit or loss

| *(in millions of Korean won)* | | 2019 | | 2018 |
|---|---|---|---|---|
| Current | | | | |
| Short-term derivatives held for trading | ₩ | 1,119 | ₩ | - |
| Non-current | | | | |
| Debt instruments | | 26,810 | | 25,206 |
| Equity instruments | | 3,214 | | - |
| | ₩ | 31,143 | ₩ | 25,206 |

### 6.2 Financial assets at fair value through other comprehensive income

*(a) Equity investments at fair value through other comprehensive income*

| *(in millions of Korean won)* | | 2019 | | 2018 |
|---|---|---|---|---|
| Non-current | | | | |
| Listed equity securities | ₩ | 201 | ₩ | 4,671 |
| Unlisted equity securities | | 10,446 | | 3,185 |
| | ₩ | 10,647 | ₩ | 7,856 |

Upon disposal of these equity investments, any balance within the accumulated other comprehensive income for these equity investments is reclassified to retained earnings and is not reclassified to profit or loss.

*(b) Debt investments at fair value through other comprehensive income*

Debt investments at fair value through other comprehensive income comprise the following investments in bonds having solely payments of principal and interest:

| *(in millions of Korean won)* | | 2019 | | 2018 |
|---|---|---|---|---|
| Trade receivables | | | | |
| Handset installment sales (current) | ₩ | 192,522 | ₩ | 421,516 |
| Handset installment sales (non-current) | | 296,870 | | 436,854 |
| | ₩ | 489,392 | ₩ | 858,370 |

Upon disposal of these debt investments, any balance within the accumulated other comprehensive income for these debt investments is reclassified to profit or loss.

### 6.3 Trade receivables and other financial assets at amortized costs

*(a) Trade receivables and provision for impairment*

| *(in millions of Korean won)* | | 2019 | | 2018 |
|---|---|---|---|---|
| Trade receivables[1,2] | ₩ | 2,332,251 | ₩ | 1,499,410 |
| Less: provision for impairment | | (163,565) | | (155,756) |
| Trade receivables - net | ₩ | 2,168,686 | ₩ | 1,343,654 |

[1] Trade receivables classified as debt instruments at fair value through other comprehensive income are excluded.

[2] Includes trade receivables classified as assets held for sale amounting to ₩ 4,318 million as at December 31, 2019.

*(b) Other financial assets at amortized costs*

| *(in millions of Korean won)* | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | Current | Non-current | Total | Current | Non-current | Total |
| Loans | ₩ 75,781 | ₩ 22,894 | ₩ 98,675 | ₩ 48,004 | ₩ 14,834 | ₩ 62,838 |
| Non-trade receivables[1] | 264,024 | - | 264,024 | 254,501 | - | 254,501 |
| Accrued income | 458 | - | 458 | 73 | - | 73 |
| Deposits | 1,836 | 232,797 | 234,633 | - | 250,001 | 250,001 |
| | 342,099 | 255,691 | 597,790 | 302,578 | 264,835 | 567,413 |
| Less: provision for impairment[1] | (95,011) | - | (95,011) | (86,701) | - | (86,701) |
| | ₩ 247,088 | ₩ 255,691 | ₩ 502,779 | ₩ 215,877 | ₩ 264,835 | ₩ 480,712 |

[1] Includes non-trade receivables classified as assets held for sale amounting to ₩ 39,992 million (provision for impairment amounting to ₩ 29,130 million) as at December 31, 2019.

## 7. Contract Assets and Liabilities

The Group has recognized the following assets and liabilities, which are presented as other current (non-current) assets and other current (non-current) liabilities, respectively:

| *(in millions of Korean won)* | | 2019 | | 2018 |
|---|---|---|---|---|
| Contract assets | | | | |
| Allocating the transaction price | ₩ | 354,069 | ₩ | 290,933 |
| Costs to fulfill a contract | | 69,937 | | 69,715 |
| Others | | 2,971 | | 12,688 |
| | ₩ | 426,977 | ₩ | 373,336 |
| Contract liabilities | | | | |
| Allocating the transaction price | ₩ | 310,785 | | 298,916 |
| Others | | 49,894 | ₩ | 49,893 |
| | ₩ | 360,679 | | 348,809 |

*Significant changes in contract assets and liabilities*

There are increase in contract assets and liabilities amounting to ₩ 7,245 million and ₩ 3,242 million, respectively, on allocation of transaction price due to business combination with LG HelloVision Corp. for the year ended December 31, 2019 (Note 22).

*Revenue recognized in relation to contract liabilities*

The following table shows how much of the revenue recognized in the current and prior reporting periods relates to carried-forward contract liabilities and how much relates to performance obligations that were satisfied in a prior year.

| *(in millions of Korean won)* | | 2019 | | 2018 |
|---|---|---|---|---|
| Contract liabilities | | | | |
| Allocating the transaction price | ₩ | 236,094 | ₩ | 160,427 |
| Others | | 34,355 | | 42,926 |

## 8. Cash and Cash Equivalents

Cash and cash equivalents in the consolidated statement of cash flows are the same as the cash and cash equivalents in the consolidated statement of financial position. Cash and cash equivalents as at December 31, 2019 and 2018, consists of:

| *(in millions of Korean won)* | | **2019** | | **2018** |
|---|---|---|---|---|
| Financial institution deposits[1] | ₩ | 637,315 | ₩ | 378,101 |
| Other cash equivalents | | - | | 530 |
| | ₩ | 637,315 | ₩ | 378,631 |

[1] Carrying amount of financial institution deposits included in assets held for sale amounting to ₩ 162,950 million as at December 31, 2019.

## 9. Restricted Financial Assets

Restricted financial assets as at December 31, 2019 and 2018, are as follows:

| *(in millions of Korean won)* | **Financial institution** | | **2019** | | **2018** |
|---|---|---|---|---|---|
| Financial deposits | Industrial Bank of Korea[1] | ₩ | 20,500 | ₩ | 20,500 |
| Term deposits | KEB Hana Bank [2] | | 350 | | 350 |
| Ordinary deposit | Woori Bank[3] | | 393 | | - |
| Guarantee deposits for checking accounts | Woori Bank and others | | 24 | | 21 |
| | | ₩ | 21,267 | ₩ | 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 and included in assets held for sale.

[3] Restricted to use in relation to guarantee insurance of registration on mechanical equipment construction business.

## 10. Inventories

The Group periodically reviews a possibility of the significant changes in net realizable value of inventories from decrease in market value and obsolescence, and recognizes as valuation allowances of inventories. Details of inventories as at December 31, 2019 and 2018, are as follows:

| *(in millions of Korean won)* | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | Acquisition cost | Valuation allowance | Carrying amount | Acquisition cost | Valuation allowance | Carrying amount |
| Merchandise | ₩ 501,579 | ₩ (64,855) | ₩ 436,724 | ₩ 491,110 | ₩ (35,976) | ₩ 455,134 |

Inventory costs recognized in operating expenses for the years ended December 31, 2019 and 2018, are ₩ 3,437,716 million and ₩ 3,002,449 million, respectively, which include ₩ 28,879 million (2018: ₩ 9,046 million) of losses on valuation of inventories for the year ended December 31, 2019, and ₩ 22 million (2018: ₩ 263 million) of cost of sales from discontinued operations for the year ended December 31, 2019.

## 11. Other Assets

Details of other current assets as at December 31, 2019 and 2018, are as follows:

| *(in millions of Korean won)* | 2019 | 2018 |
|---|---|---|
| Advance payments | ₩ 31,049 | ₩ 13,382 |
| Prepaid expenses | 62,721 | 106,447 |
| Contract assets | | |
| Allocating the transaction price | 265,798 | 206,684 |
| Costs to fulfill a contract[1] | 39,467 | 38,341 |
| Others | 2,971 | 9,568 |
| Incremental costs of obtaining a contract[2] | 1,134,981 | 974,161 |
| Others | 124,877 | 115,188 |
| | ₩ 1,661,864 | ₩ 1,463,771 |

[1] The Group recognizes costs related to installment services of home services such as internet, IPTV and others, as “contract assets - costs to fulfill a contract”, and amortizes it over the expected contract period.

[2] The Group recognizes commissions that is paid by the Group to agencies related to the activities to obtain a contract with customer and to maintain a customer in telecommunication services as “incremental costs of obtaining a contract”, and amortizes it over the expected contract period.

Details of other non-current assets as at December 31, 2019 and 2018, are as follows:

| *(in millions of Korean won)* | | **2019** | | **2018** |
|---|---|---|---|---|
| Prepaid expenses | ₩ | 36,275 | ₩ | 30,893 |
| Contract assets | | | | |
| Allocating the transaction price | | 88,271 | | 84,249 |
| Costs to fulfill a contract[1] | | 30,471 | | 31,374 |
| Others | | - | | 3,120 |
| Incremental costs of obtaining a contract[2] | | 524,820 | | 407,333 |
| Others | | 106,293 | | 99,462 |
| | ₩ | 786,130 | ₩ | 656,432 |

[1] The Group recognizes costs related to installment services of home services such as internet, IPTV and others, as “contract assets - costs to fulfill a contract”, and amortizes it over the expected contract period.

[2] The Group recognizes commissions that is paid by the Group to agencies related to the activities to obtain a contract with customer and to maintain a customer in telecommunication services as “incremental costs of obtaining a contract”, and amortizes it over the expected contract period.

Amortization of costs to fulfill a contact and incremental costs of obtaining a contract for the years ended December 31, 2019 and 2018, are as follows:

| *(in millions of Korean won)* | **2019** | | | |
|---|---|---|---|---|
| | | **Costs to fulfill a contract** | | **Incremental costs of obtaining a contract** |
| Beginning balance | ₩ | 69,715 | ₩ | 1,381,494 |
| Recognition | | 52,897 | | 1,785,741 |
| Amortization | | (52,674) | | (1,507,434) |
| Ending balance | ₩ | 69,938 | ₩ | 1,659,801 |

| *(in millions of Korean won)* | **2018** | | | |
|---|---|---|---|---|
| | | **Costs to fulfill a contract** | | **Incremental costs of obtaining a contract** |
| Beginning balance | ₩ | 65,429 | ₩ | 1,454,408 |
| Recognition | | 54,174 | | 1,387,214 |
| Amortization | | (49,888) | | (1,460,128) |
| Ending balance | ₩ | 69,715 | ₩ | 1,381,494 |

## 12. Property, Plant and Equipment

Changes in property, plant and equipment for the years ended December 31, 2019 and 2018, are as follows:

| *(in millions of Korean won)* | 2019 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Land | Buildings | Telecommunication facilities | Others | Construction in progress | Right of use assets | Total |
| Beginning acquisition cost | ₩ 656,579 | ₩ 1,018,981 | ₩ 14,065,819 | ₩ 939,951 | ₩ 333,120 | ₩ - | ₩ 17,014,450 |
| Accumulated depreciation | - | (235,059) | (9,640,164) | (609,340) | - | - | (10,484,563) |
| Accumulated impairment loss | - | - | (56,505) | - | - | - | (56,505) |
| Government grants | - | (836) | (6,596) | (169) | - | - | (7,601) |
| Beginning balance | 656,579 | 783,086 | 4,362,554 | 330,442 | 333,120 | - | 6,465,781 |
| Changes in accounting policy | - | - | - | (13,999) | - | 678,549 | 664,550 |
| | 656,579 | 783,086 | 4,362,554 | 316,443 | 333,120 | 678,549 | 7,130,331 |
| Acquisitions | 3,181 | 4,417 | 354,219 | 72,318 | 2,214,516 | 226,931 | 2,875,581 |
| Transfers | 2,869 | 137,306 | 1,669,865 | 150,363 | (1,956,216) | - | 4,187 |
| Disposals | (33) | (56) | (42,380) | (2,655) | - | (42,267) | (87,391) |
| Transfer to assets held for sale[1] | - | - | (28,321) | (731) | - | - | (29,052) |
| Increase due to business combination | 63,969 | 62,615 | 456,413 | 49,426 | 5,164 | 88,199 | 725,786 |
| Depreciation[2] | - | (31,885) | (1,316,011) | (124,812) | - | (281,320) | (1,754,028) |
| Impairment loss | - | - | (4,363) | - | - | - | (4,363) |
| Ending balance | ₩ 726,565 | ₩ 955,483 | ₩ 5,451,976 | ₩ 460,352 | ₩ 596,584 | ₩ 670,092 | ₩ 8,861,052 |
| Ending acquisition cost | ₩ 726,565 | ₩ 1,259,576 | ₩ 16,861,666 | ₩ 1,192,573 | ₩ 596,584 | ₩ 877,602 | ₩ 21,514,566 |
| Accumulated depreciation | - | (303,202) | (11,350,188) | (732,081) | - | (207,510) | (12,592,981) |
| Accumulated impairment loss | - | - | (53,786) | - | - | - | (53,786) |
| Government grants | - | (891) | (5,716) | (140) | - | - | (6,747) |
| Ending balance | ₩ 726,565 | ₩ 955,483 | ₩ 5,451,976 | ₩ 460,352 | ₩ 596,584 | ₩ 670,092 | ₩ 8,861,052 |

[1] Carrying amount of property, plant and equipment in relation to payment service transferred as assets held for sale amount to ₩ 29,052 million (Note 21).

[2] Depreciation in relation to discontinued operations amount to ₩ 10,021 million and ₩ 8,908 million are included for the year ended December 31, 2019 and 2018, respectively.

| *(in millions of Korean won)* | 2018 | | | | | |
|---|---|---|---|---|---|---|
| | Land | Buildings | Telecommuni-cation facilities | Others | Construction in progress | Total |
| Beginning acquisition cost | ₩ 652,555 | ₩ 942,130 | ₩ 13,715,746 | ₩ 919,357 | ₩ 105,012 | ₩ 16,334,800 |
| Accumulated depreciation | - | (203,381) | (8,902,562) | (627,447) | - | (9,733,390) |
| Accumulated impairment loss | - | - | (65,750) | (77) | - | (65,827) |
| Government grants | - | (887) | (7,623) | (99) | - | (8,609) |
| Beginning balance | 652,555 | 737,862 | 4,739,811 | 291,734 | 105,012 | 6,526,974 |
| Acquisitions | 2,814 | 46,571 | 225,407 | 67,494 | 1,045,812 | 1,388,098 |
| Transfers | 1,210 | 29,537 | 715,700 | 80,819 | (817,704) | 9,562 |
| Disposals | - | - | (30,419) | (2,649) | - | (33,068) |
| Depreciation | - | (30,884) | (1,287,945) | (106,956) | - | (1,425,785) |
| Ending balance | ₩ 656,579 | ₩ 783,086 | ₩ 4,362,554 | ₩ 330,442 | ₩ 333,120 | ₩ 6,465,781 |
| Ending acquisition cost | ₩ 656,579 | ₩ 1,018,981 | ₩ 14,065,819 | ₩ 940,060 | ₩ 333,120 | ₩ 17,014,559 |
| Accumulated depreciation | - | (235,059) | (9,640,164) | (609,449) | - | (10,484,672) |
| Accumulated impairment loss | - | - | (56,505) | - | - | (56,505) |
| Government grants | - | (836) | (6,596) | (169) | - | (7,601) |
| Ending balance | ₩ 656,579 | ₩ 783,086 | ₩ 4,362,554 | ₩ 330,442 | ₩ 333,120 | ₩ 6,465,781 |

The Group has pledged a portion of land and buildings carrying amounts of which are ₩ 28,757 million and ₩ 7,891 million, as collateral in relation to borrowings from Korea Development Bank ("KDB") and SAMSUNG ELECTRONICS CO.,LTD., respectively, and the maximum amount of bonds are ₩ 58,000 million and ₩ 4,726 million, respectively.

The Group recognized the entire amount of property, plant and equipment in relation to 2G service which is to be terminated in 2021, as impairment loss by considering its recoverable amount. The amount of impairment loss recognized is ₩ 4,363 million, and is included in other non-operating expenses.

## 13.Investment Property

Changes in investment property for the years ended December 31, 2019 and 2018, are as follows:

| *(in millions of Korean won)* | 2019 | | |
|---|---|---|---|
| | Land | Buildings | Total |
| Beginning acquisition cost | ₩ 18,982 | ₩ 23,667 | ₩ 42,649 |
| Accumulated depreciation | - | (7,085) | (7,085) |
| Beginning balance | 18,982 | 16,582 | 35,564 |
| Transfers | (2,869) | 153 | (2,716) |
| Increase due to business combination | 4,362 | - | 4,362 |
| Depreciation | - | (2,969) | (2,969) |
| Ending balance | ₩ 20,475 | ₩ 13,766 | ₩ 34,241 |
| Ending acquisition cost | ₩ 20,475 | ₩ 20,328 | ₩ 40,803 |
| Accumulated depreciation | - | (6,562) | (6,562) |
| Ending balance | ₩ 20,475 | ₩ 13,766 | ₩ 34,241 |

| *(in millions of Korean won)* | 2018 | | |
|---|---|---|---|
| | Land | Buildings | Total |
| Beginning acquisition cost | ₩ 20,192 | ₩ 27,278 | ₩ 47,470 |
| Accumulated depreciation | - | (8,755) | (8,755) |
| Beginning balance | 20,192 | 18,523 | 38,715 |
| Transfers | (1,210) | 839 | (371) |
| Depreciation | - | (2,780) | (2,780) |
| Ending balance | ₩ 18,982 | ₩ 16,582 | ₩ 35,564 |
| Ending acquisition cost | ₩ 18,982 | ₩ 23,667 | ₩ 42,649 |
| Accumulated depreciation | - | (7,085) | (7,085) |
| Ending balance | ₩ 18,982 | ₩ 16,582 | ₩ 35,564 |

The Group recognized rental revenue related to investment property in the amount of ₩ 4,394 million and ₩ 4,931 million for the years ended December 31, 2019 and 2018, respectively.

The Group performs annual valuation of fair value using the future cash flow discounts considering the official price of land held by the Group and rent income from buildings. As at December 31, 2019, the fair value of investment property amount to ₩ 33,198 million.

### 14.Intangible Assets

Changes in intangible assets for the years ended December 31, 2019 and 2018, are as follows:

| *(in millions of Korean won)* | 2019 | | | | | |
|---|---|---|---|---|---|---|
| | **Intellectual property rights** | **Membership** | **Goodwill** | **Frequency usage rights** | **Other intangible assets** | **Total** |
| Beginning acquisition cost | ₩ 9,283 | ₩ 39,695 | ₩ 932 | ₩ 2,700,151 | ₩ 216,172 | ₩ 2,966,233 |
| Accumulated amortization | (5,897) | - | - | (1,085,192) | (150,910) | (1,241,999) |
| Accumulated impairment loss | - | (5,839) | - | - | (12,702) | (18,541) |
| Beginning balance | 3,386 | 33,856 | 932 | 1,614,959 | 52,560 | 1,705,693 |
| Acquisition | 370 | 208 | - | - | 8,271 | 8,849 |
| Increase due to business combination | 4 | 9,134 | 531,358 | - | 309,776 | 850,272 |
| Disposals | - | (395) | - | - | (5,720) | (6,115) |
| Impairment loss | - | - | - | (28,869) | (400) | (29,269) |
| Amortization | (647) | - | - | (301,106) | (8,815) | (310,568) |
| Ending balance | ₩ 3,113 | ₩ 42,803 | ₩ 532,290 | ₩ 1,284,984 | ₩ 355,672 | ₩ 2,218,862 |
| Ending acquisition cost | 9,657 | 46,322 | 532,290 | 2,700,151 | 518,477 | 3,806,897 |
| Accumulated amortization | (6,544) | - | - | (1,386,297) | (159,120) | (1,551,961) |
| Accumulated impairment loss | - | (3,519) | - | (28,870) | (3,685) | (36,074) |
| Ending balance | ₩ 3,113 | ₩ 42,803 | ₩ 532,290 | ₩ 1,284,984 | ₩ 355,672 | ₩ 2,218,862 |

| *(in millions of Korean won)* | 2018 | | | | | |
|---|---|---|---|---|---|---|
| | **Intellectual property rights** | **Membership** | **Goodwill** | **Frequency usage rights** | **Other intangible assets** | **Total** |
| Beginning acquisition cost | ₩ 8,617 | ₩ 39,130 | ₩ 932 | ₩ 1,714,475 | ₩ 211,554 | ₩ 1,974,708 |
| Accumulated amortization | (5,206) | - | - | (855,718) | (137,766) | (998,690) |
| Accumulated impairment loss | - | (6,019) | - | - | (12,657) | (18,676) |
| Beginning balance | 3,411 | 33,111 | 932 | 858,757 | 61,131 | 957,342 |
| Acquisition | 666 | 971 | - | 985,675 | 10,421 | 997,733 |
| Disposals | - | (406) | - | - | (5,803) | (6,209) |
| Impairment loss (reversal) | - | 180 | - | - | (45) | 135 |
| Amortization | (691) | - | - | (229,473) | (13,144) | (243,308) |
| Ending balance | ₩ 3,386 | ₩ 33,856 | ₩ 932 | ₩ 1,614,959 | ₩ 52,560 | ₩ 1,705,693 |
| Ending acquisition cost | 9,283 | 39,695 | 932 | 2,700,151 | 216,172 | 2,966,233 |
| Accumulated amortization | (5,897) | - | - | (1,085,192) | (150,910) | (1,241,999) |
| Accumulated impairment loss | - | (5,839) | - | - | (12,702) | (18,541) |
| Ending balance | ₩ 3,386 | ₩ 33,856 | ₩ 932 | ₩ 1,614,959 | ₩ 52,560 | ₩ 1,705,693 |

The Group classifies membership and goodwill as intangible assets with indefinite useful lives and performs impairment test annually.

Carrying amount of goodwill attributed to cash generating unit (CGU) as at December 31, 2019 and 2018, are as follows:

| *(in millions of Korean won)* | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | **Acquisition cost** | **Accumulate impairment loss** | **Carrying amount** | **Acquisition cost** | **Accumulate impairment loss** | **Carrying amount** |
| LG Uplus Corp. | ₩ 320,108 | ₩ - | ₩ 320,108 | ₩ 932 | ₩ - | ₩ 932 |
| LG HelloVision Corp.[1] | 212,182 | - | 212,182 | - | - | - |
| | ₩ 532,290 | ₩ - | ₩ 532,290 | ₩ 932 | ₩ - | ₩ 932 |

[1] LG HelloVision Corp. provides services through own network and operation data processing system, therefore, group of assets that generates cash inflows are largely independent of the cash inflows from other assets or groups of assets.

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on business plan approved by management covering a five-year period. The cash flow over five years is estimated within a range that does not exceed the long-term average growth rate of the telecommunications and broadcasting industry to which the group belongs.

Management determined the estimated pre-tax cash flow based on past performance and its expectations of market development. Value in use is measured by applying the pre-tax discount rates reflecting specific risks relating to the relevant operating segments. Long-term growth rates and discount rates used for calculating the value in use of major operating segments are as follows:

| *(in percentage)* | **LG Uplus Corp.** | **LG HelloVision Corp.** |
|---|---|---|
| Long-term growth rates | 0.5% | 0.5% |
| Discount rates | 5.2% | 6.9% |

**R&D costs**

The costs related to research and development for the years ended December 31, 2019 and 2018, are as follows:

| *(in millions of Korean won)* | | **2019** | | **2018** |
|---|---|---|---|---|
| Other operating expenses – R&D costs[1] | ₩ | 62,577 | ₩ | 71,920 |

[1] Includes R&D costs amounting to ₩ 180 million and ₩ 273 million in relation to profit or loss on discontinued operations for the years ended December 31, 2019 and 2018, respectively.

**Impairment of asset**

The Group recognized the entire amount of frequency usage rights in relation to 2G service which is to be terminated in 2021, as impairment loss by considering its recoverable amount. The amount of impairment loss recognized is ₩ 28,870 million, and is included in other non-operating expenses.

**Significant intangible assets**

Frequency usage rights were acquired for ₩ 880,033 million (including borrowing cost ₩ 12,119 million) during the year ended December 31, 2011, and amortized on a straight-line method for ten years of useful lives. Frequency usage rights for 2.6 GHz were acquired for ₩ 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 were acquired for ₩ 372,470 million during the year ended December 31, 2016, and amortized on a straight-line method for five years of useful lives.

Frequency usage rights for 3.5 GHz and 28GHz were acquired for ₩ 781,445 million and ₩ 204,231 million, respectively, during the year ended December 31, 2018. And, frequency usage right to 3.5 GHz is amortized on a straight-line method for ten years of useful lives and 28 GHz will be amortized on a straight-line method from time of use.

### 15. Investments in Associates and Joint Ventures

Composition of the Group's investments in associates and joint ventures as at December 31, 2019 and 2018, are as follows:

| *(in millions of Korean won)* | Class | Location | 2019 Percentage of ownership (%) | 2019 Book amount | 2018 Percentage of ownership (%) | 2018 Book amount |
|---|---|---|---|---|---|---|
| DACOM Crossing Corporation[1] | Joint venture | South Korea | 51.00 | ₩ 10,024 | 51.00 | ₩ 9,072 |
| Genie Music Corporation[2] | Associate | South Korea | 12.70 | 28,701 | 12.70 | 28,493 |
| Focus Media Korea Corporation | Associate | South Korea | 9.00 | 1,839 | 20.00 | 2,696 |
| VENTA VR Co., Ltd. [3] | Associate | South Korea | 26.32 | 1,497 | 25.00 | 953 |
| 8i corporation [4] | Associate | USA | 26.17 | 4,861 | - | - |
| Home Choice Corp.[5] | Associate | South Korea | 17.75 | 3,237 | - | - |
| Highway Solar Co., Ltd.[5] | Associate | South Korea | 21.00 | 521 | - | - |
| | | | | ₩ 50,680 | | ₩ 41,214 |

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

[2] Although the Group holds less than 20% of Genie Music Corporation's equity shares, the Group classified it as an associate because the Group can exercise significant influence over the investee's Board of Directors and others.

[3] There are changes in percentage of ownership through capital increase in the form of an allotment to the third party for the year ended December 31, 2019.

[4] Invested through LG UPLUS FUND I LLC, a subsidiary, and the Group classified it as an associate because the Group can exercise significant influence.

[5] The Group classified it as an associate because the Group can exercise significant influence through LG HelloVision Corp, a subsidiary.

Details of valuation of investments in associates and joint ventures that are accounted for using the equity method for the years ended December 31, 2019 and 2018, are as follows:

| *(in millions of Korean won)* | 2019 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Beginning balance** | **Acquisition** | **Business combination** | **Share of profit or loss of associates and joint ventures** | **Share of other comprehensive loss of associates and joint ventures** | **Others[2]** | **Disposal** | **Ending balance** |
| DACOM Crossing Corporation | ₩ 9,072 | ₩ - | ₩ - | ₩ 977 | ₩ (25) | ₩ - | ₩ - | ₩ 10,024 |
| Genie Music Corporation | 28,493 | - | - | 228 | (21) | - | - | 28,701 |
| Focus Media Korea Corporation[1] | 2,696 | - | - | (48) | (6) | 933 | (1,735) | 1,839 |
| VENTA VR Co., Ltd.[3] | 953 | 500 | - | 44 | - | - | - | 1,497 |
| 8i corporation | - | 4,861 | - | - | - | - | - | 4,861 |
| Home Choice Corp. | - | - | 3,237 | - | - | - | - | 3,237 |
| Highway Solar Co., Ltd. | - | - | 521 | - | - | - | - | 521 |
| | ₩ 41,214 | ₩ 5,361 | ₩ 3,758 | ₩ 1,201 | ₩ (52) | ₩ 933 | ₩ (1,735) | ₩ 50,680 |

[1] Gain on disposal amounting to ₩ 5,108 million occurred for the year ended December 31, 2019.

[2] Effect on changes in percentage of ownership through capital increase in the form of an allotment to the third party for the year ended December 31, 2019.

[3] Includes goodwill amounting to ₩ 98 million due to additional investment.

| *(in millions of Korean won)* | 2018 | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Beginning balance** | **Acquisition** | **Share of profit or loss of associates and joint ventures** | **Share of other comprehensive loss of associates and joint ventures** | **Share of movement in retained earnings of associates and joint ventures** | **Others[1]** | **Ending balance** |
| DACOM Crossing Corporation | ₩ 8,316 | ₩ - | ₩ 756 | ₩ - | ₩ - | ₩ - | ₩ 9,072 |
| Genie Music Corporation | 25,780 | - | 592 | (37) | 22 | 2,136 | 28,493 |
| Focus Media Korea Corporation | 3,844 | - | (1,148) | - | - | - | 2,696 |
| VENTA VR Co., Ltd. | - | 1,000 | (47) | - | - | - | 953 |
| | ₩ 37,940 | ₩ 1,000 | ₩ 153 | ₩ (37) | ₩ 22 | ₩ 2,136 | ₩ 41,214 |

[1] Others are the effect of changes in percentage of ownership from share issuance of Genie Music Corporation.

Details of reconciliation between net assets of joint ventures and associates and the carrying amount of the investments in associates and joint ventures as at and for the years ended December 31, 2019 and 2018, are as follows:

| (in millions of Korean won) | 2019 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Net assets at the end of the year (A) | The ownership interest of the consolidated entity (B) | The ownership amount of net assets (AxB) | (+) Goodwill | (-) Elimination of internal transaction effect | (-) Others | December 31, 2019 |
| DACOM Crossing Corporation | ₩ 19,654 | 51.00% | ₩ 10,024 | ₩ - | ₩ - | ₩ - | ₩ 10,024 |
| Genie Music Corporation | 155,001 | 12.70% | 19,685 | 10,626 | - | 1,610 | 28,701 |
| Focus Media Korea Corporation | 20,189 | 9.00% | 1,817 | - | - | (22) | 1,839 |
| VENTA VR Co., Ltd. | 2,359 | 26.32% | 621 | 876 | - | - | 1,497 |
| 8i corporation | 6,424 | 26.17% | 1,681 | 3,180 | - | - | 4,861 |
| Home Choice Corp. | 18,238 | 17.75% | 3,237 | - | - | - | 3,237 |
| Highway Solar Co., Ltd. | 2,919 | 21.00% | 613 | - | 92 | - | 521 |

| (in millions of Korean won) | 2018 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Net assets at the end of the year (A) | The ownership interest of the consolidated entity (B) | The ownership amount of net assets (AxB) | (+) Goodwill | (-) Elimination of internal transaction effect | (-) Others | December 31, 2018 |
| DACOM Crossing Corporation | ₩ 17,789 | 51.00% | ₩ 9,072 | ₩ - | ₩ - | ₩ - | ₩ 9,072 |
| Genie Music Corporation | 152,698 | 12.70% | 19,393 | 10,626 | - | 1,526 | 28,493 |
| Focus Media Korea Corporation | 13,234 | 20.00% | 2,647 | - | (49) | - | 2,696 |
| VENTA VR Co., Ltd. | 700 | 25.00% | 175 | 778 | - | - | 953 |

Summary of financial information of associates and joint ventures as at December 31, 2019 and 2018, are as follows:

| | 2019 | | | | | | |
|---|---|---|---|---|---|---|---|
| *(in millions of Korean won)* | **Assets** | **Liabilities** | **Equity** | **Sales** | **Operating profit (loss)** | **Profit for the year** | **Total comprehensive income** |
| DACOM Crossing Corporation | ₩ 60,130 | ₩ 40,475 | ₩ 19,654 | ₩ 36,842 | ₩ 2,130 | ₩ 1,916 | ₩ 1,866 |
| Genie Music Corporation | 244,311 | 89,310 | 155,001 | 230,591 | 8,476 | 2,456 | 2,303 |
| Focus Media Korea Corporation | 34,032 | 13,843 | 20,189 | 24,930 | (1,073) | 281 | 358 |
| VENTA VR Co., Ltd. | 2,938 | 580 | 2,359 | 5,333 | 18 | 14 | 659 |
| 8i corporation | 8,599 | 2,175 | 6,424 | - | - | - | - |
| Home Choice Corp. | 51,175 | 32,937 | 18,238 | 86,074 | 859 | 859 | 859 |
| Highway Solar Co., Ltd. | 17,295 | 14,376 | 2,919 | 2,090 | 234 | 234 | 234 |

| | 2018 | | | | | | |
|---|---|---|---|---|---|---|---|
| *(in millions of Korean won)* | **Assets** | **Liabilities** | **Equity** | **Sales** | **Operating profit (loss)** | **Profit (loss) for the year** | **Total comprehensive income (loss)** |
| DACOM Crossing Corporation | ₩ 58,807 | ₩ 41,018 | ₩ 17,789 | ₩ 30,190 | ₩ 768 | ₩ 1,483 | ₩ 1,482 |
| Genie Music Corporation | 262,928 | 110,230 | 152,698 | 171,259 | 3,216 | 3,824 | 3,786 |
| Focus Media Korea Corporation | 23,119 | 9,885 | 13,234 | 11,535 | (5,581) | (5,611) | (5,611) |
| VENTA VR Co., Ltd. | 1,038 | 338 | 700 | 850 | (1,107) | (402) | (402) |

### 16. Borrowings and Debentures

Details of short-term borrowings as at December 31, 2019 and 2018, are as follows:

| *(in millions of Korean won)* | Financial institution | 2019 | 2018 |
|---|---|---|---|
| General loans | Shinhan Bank | ₩ - | ₩ 5,000 |
| | KEB Hana Bank | 5,000 | 5,000 |
| | | ₩ 5,000 | ₩ 10,000 |

Details of long-term borrowings as at December 31, 2019 and 2018, are as follows:

| *(in millions of Korean won)* | Creditor | Annual interest rate (%) | 2019 | 2018 |
|---|---|---|---|---|
| Facilities financing | Shinhan Bank and others | 1.91~2.43 | ₩ 850,000 | ₩ 600,000 |
| | Others | - | - | 25,000 |
| General financing | Shinhan Bank and others | 1.80~2.20 | 600,000 | - |
| ABL | CJH 1st LLC. | 3.14 | 152,123 | - |
| | | | 1,602,123 | 625,000 |
| Less: current portion | | | (150,000) | (275,000) |
| | | | ₩ 1,452,123 | ₩ 350,000 |

Details of debentures as at December 31, 2019 and 2018, are as follows:

| *(in millions of Korean won)* | Annual interest rate (%) | 2019 | 2018 |
|---|---|---|---|
| Debentures issued under public offering | 1.77~3.67 | ₩ 3,440,000 | ₩ 2,230,000 |
| Debentures issued privately | 2.56~3.54 | 144,734 | 110,000 |
| Total | Face value | 3,584,734 | 2,340,000 |
| | Discount on debentures | (5,626) | (3,938) |
| | Book amount | 3,579,108 | 2,336,062 |
| Less: current portion | Face value | 674,734 | 610,000 |
| | Discount on debentures | (151) | (191) |
| | Book amount | 674,583 | 609,809 |
| Non-current portion | Face value | 2,910,000 | 1,730,000 |
| | Discount on debentures | (5,475) | (3,747) |
| | Book amount | ₩ 2,904,525 | ₩ 1,726,253 |

The repayment schedule of long-term borrowings and debentures as at December 31, 2019, is as follows:

| (in millions of Korean won) | Long-term borrowings | Debentures | Total |
|---|---|---|---|
| January 1, 2021 ~ December 31, 2021 | ₩ 337,500 | ₩ 270,000 | ₩ 607,500 |
| January 1, 2022 ~ December 31, 2022 | 462,500 | 1,230,000 | 1,692,500 |
| January 1, 2023, and thereafter | 652,123 | 1,410,000 | 2,062,123 |
| | ₩ 1,452,123 | ₩ 2,910,000 | ₩ 4,362,123 |

## 17. Other Financial Liabilities

Details of other financial liabilities as at December 31, 2019 and 2018, are as follows:

| (in millions of Korean won) | 2019 | | 2018 | |
|---|---|---|---|---|
| | Current | Non-current | Current | Non-current |
| Non-trade payables[1] | ₩ - | ₩ 689,797 | ₩ - | ₩ 907,324 |
| Withholdings[2] | 330,332 | - | 293,441 | - |
| Leasehold deposits received | 5,917 | 358 | 5,098 | 38 |
| | ₩ 336,249 | ₩ 690,155 | ₩ 298,539 | ₩ 907,362 |

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

[2] Includes withholdings amounting to ₩ 158,813 million classified as liabilities held for sale as at December 31, 2019.

## 18. Provisions

Changes in restoration liabilities for the years ended December 31, 2019 and 2018, are as follows:

| (in millions of Korean won) | 2019 | | | | |
|---|---|---|---|---|---|
| | Beginning balance | Increase | Business combination | Decrease | Ending balance |
| Restoration liabilities | ₩ 40,194 | ₩ 1,133 | ₩ 3,970 | ₩ (2,197) | ₩ 43,100 |

| (in millions of Korean won) | 2018 | | | |
|---|---|---|---|---|
| | Beginning balance | Increase | Decrease | Ending balance |
| Restoration liabilities | ₩ 34,744 | ₩ 9,721 | ₩ (4,271) | ₩ 40,194 |

## 19. Post-employment Benefits

### 19.1 Defined Contribution Plan

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

The Group recognized expense of ₩ 7,576 million and ₩ 6,331 million related to defined contribution plan for the years ended December 31, 2019 and 2018, respectively.

### 19.2 Defined Benefit Plan

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

Details of net defined benefit liabilities recognized in the statements of financial position as at December 31, 2019 and 2018, are as follows:

| *(in millions of Korean won)* | | **2019** | | **2018** |
|---|---|---|---|---|
| Present value of defined benefit obligations | ₩ | 634,662 | ₩ | 463,645 |
| Fair value of plan assets | | (498,202) | | (425,492) |
| Net defined benefit liabilities | ₩ | 136,460 | ₩ | 38,153 |

Movements in the defined benefit obligations for the years ended December 31, 2019 and 2018, are as follows:

| *(in millions of Korean won)* | | **2019** | | **2018** |
|---|---|---|---|---|
| Beginning balance | ₩ | 463,645 | ₩ | 445,588 |
| Current service cost | | 67,516 | | 65,007 |
| Past service cost | | - | | (4,919) |
| Interest expense | | 11,654 | | 13,526 |
| Remeasurements: | | 55,740 | | (26,106) |
| Actuarial loss (gain) from change in demographic assumptions | | 2,228 | | (2,542) |
| Actuarial loss (gain) from change in financial assumptions | | 43,820 | | (17,572) |
| Actuarial loss (gain) from experience adjustments | | 9,654 | | (5,545) |
| Actuarial loss (gain) arising from transfer in/out adjustment | | 38 | | (447) |
| Benefit payments | | (28,559) | | (31,513) |
| Transferred from affiliated companies | | 304 | | 2,062 |
| Liabilities acquired in a business combination | | 64,362 | | - |
| Ending balance | ₩ | 634,662 | ₩ | 463,645 |

Income or loss recognized relating to defined benefit plan for the years ended December 31, 2019 and 2018, are as follows:

| *(in millions of Korean won)* | | **2019** | | **2018** |
|---|---|---|---|---|
| Service cost | | | | |
| Current service cost | ₩ | 67,516 | ₩ | 65,007 |
| Past service cost | | - | | (4,919) |
| | | 67,516 | | 60,088 |
| Net interest on the net defined benefit liability | | | | |
| Interest cost of defined benefit obligations | | 11,654 | | 13,526 |
| Interest income on plan assets | | (10,694) | | (9,648) |
| | | 960 | | 3,878 |
| Others | | 709 | | 717 |
| | ₩ | 69,185 | ₩ | 64,683 |

Movements in the fair value of plan assets for the years ended December 31, 2019 and 2018, are as follows:

| *(in millions of Korean won)* | | **2019** | | **2018** |
|---|---|---|---|---|
| Beginning balance | ₩ | 425,491 | ₩ | 316,438 |
| Interest income | | 10,694 | | 9,648 |
| Remeasurements: | | | | |
| Return on plan assets (excluding amounts included in interest income) | | (1,731) | | (2,425) |
| Contributions from the employer | | 27,760 | | 129,190 |
| Transferred to affiliated companies | | 76 | | (11) |
| Others | | (709) | | (717) |
| Benefit payments | | (24,962) | | (26,631) |
| Assets acquired in a business combination | | 61,583 | | - |
| Ending balance | ₩ | 498,202 | ₩ | 425,492 |

All of the plan assets are invested in financial instruments that provide guaranteed principal and interest rate as at December 31, 2019 and 2018.

The significant actuarial assumptions as at December 31, 2019 and 2018, are as follows:

| *(in percentage, %)* | **2019** | **2018** |
|---|---|---|
| Discount rate | 1.76~3.25% | 2.23% ~ 3.10% |
| Salary growth rate | 4.20~5.29% | 4.00% ~ 4.99% |

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 | 9.2% decrease | 10.8% increase |
| Salary growth rate | 1.0% point | 10.4% increase | 9.1% 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 Group 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, 2020, are ₩ 58,992 million.

The expected maturity analysis of undiscounted pension benefits as at December 31, 2019, 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 | ₩ 39,331 | ₩ 34,835 | ₩ 117,395 | ₩ 770,402 | ₩ 961,963 |

The weighted average duration of the defined benefit obligation is 10.42 years.

## 20. Other Liabilities

Details of other liabilities as at December 31, 2019 and 2018, are as follows:

| *(in millions of Korean won)* | **2019** | | **2018** | |
|---|---|---|---|---|
| | **Current** | **Non-current** | **Current** | **Non-current** |
| Advances received | ₩ 114,795 | ₩ - | ₩ 62,287 | ₩ - |
| Unearned income | 7,008 | - | 1,726 | - |
| Contract liabilities – allocating the transaction price | 229,286 | 82,499 | 222,003 | 76,913 |
| Contract liabilities - others | 32,382 | 16,511 | 32,072 | 17,821 |
| Lease liabilities | 136,531 | 448,871 | - | - |
| Other | - | 32,540 | - | 17,265 |
| | ₩ 520,002 | ₩ 580,421 | ₩ 318,088 | ₩ 111,999 |

## 21. Assets Held for Sale and Discontinued Operations

On December 20, 2019, the Group decided to sell payment service with the resolution of the Board of Directors to focus on the success of 5G service and media and content business. The associated assets and liabilities related to payment service are presented as held for sale, and the profit and loss on the related operations are presented as profit or loss from discontinued operations. The transaction is expected to be completed by newly establishing an entity after splitting the business on June 1, 2020, and selling 100% of shares of the newly established entity to Viva Republica, Inc.

Details of assets and liabilities of disposal group classified as held for sale as at December 31, 2019, are as follows:

| *(in millions of Korean won)* | | **2019** |
|---|---|---|
| Assets of disposal group held for sale | | |
| Cash equivalents | ₩ | 162,950 |
| Trade receivables | | 4,318 |
| Other receivables[1] | | 10,862 |
| Property, plant and equipment | | 29,053 |
| | ₩ | 207,183 |
| Liabilities associated with assets of disposal group held for sale | | |
| Trade and other payables | ₩ | 8,234 |
| Other financial liabilities[2] | | 158,813 |
| | ₩ | 167,047 |

[1] Provision for impairment of ₩ 29,130 million is included as non-trade receivables in relation to payment service.

[2] The amount is the remaining balance of unsettled amounts from customers in relation to payment service.

In accordance with Korean IFRS 1105, the assets and liabilities held for sale were measured at lower of the net fair value or carrying amount Impairment loss or reversal of impairment loss was not recognized for classifying the assets and liabilities as held for sale.

Profit and loss from discontinued operation for the years ended December 31, 2019 and 2018, are as follows:

| *(in millions of Korean won)* | | **2019** | | **2018** |
|---|---|---|---|---|
| Revenue | ₩ | 375,986 | ₩ | 399,401 |
| Expense[1] | | 378,066 | | 409,189 |
| Profit before income tax of discontinued operation | | (2,080) | | (9,788) |
| Income tax expense | | - | | - |
| Profit after income tax of discontinued operation | ₩ | (2,080) | ₩ | (9,788) |

[1] An amount allocated from common expense is included in expense for discontinued operation.

Cash flows from discontinued operations for the years ended December 31, 2019 and 2018, are as follows:

| *(in millions of Korean won)* | | **2019** | | **2018** |
|---|---|---|---|---|
| Net cash inflow from operating activities | ₩ | 42,278 | ₩ | (13,793) |
| Net cash outflow from investing activities | | (3,927) | | (5,209) |
| Net cash outflow from financing activities | | - | | - |
| Net increase (decrease) in cash generated from discontinued operations | ₩ | 38,351 | ₩ | (19,002) |

## 22. Business Combination

On December 24, 2019, the Group acquired 38,723,433 shares (50% + 1 share) of LG HelloVision Corp., and obtained a control of the entity.

The acquisition is expected to strengthen the Group's business competitiveness in the paid broadcasting market, increase the Group's market share in the market and reduce cost through sharing of network facilities.

The goodwill of ₩ 531,358 million arising from the acquisition is attributable to the cost reduction effect arising from sharing of the network facilities between the Group and LG HelloVision Corp. and others. The recognized goodwill will not be deductible for tax purpose.

After December 31, 2019, as deemed acquisition date, the Group did not recognize any revenue or income through LG HelloVision Corp., and the direct costs for acquisition of the shares were accounted for an expense for the year ended December 31, 2019.

Details of the transferred consideration, the assets and liabilities recognized as a result of the acquisition, and fair value of the non-controlling interest at the acquisition date are as follows:

| *(in millions of Korean won)* | | **Amount** |
|---|---|---|
| Transferred consideration | | |
| Cash and cash equivalents | ₩ | 800,000 |
| Total consideration | ₩ | 800,000 |
| Recognized amounts of identifiable assets acquired and liabilities assumed | | |
| Cash and cash equivalents | ₩ | 80,742 |
| Financial institution deposits | | 3 |
| Trade receivables | | 207,445 |
| Other receivables | | 39,169 |
| Inventories | | 5,152 |
| Other financial assets | | 1,119 |
| Other assets[1] | | 15,020 |
| Available-for-sale financial assets | | 4,334 |
| Investments in associates and joint ventures | | 3,759 |
| Property, plant and equipment | | 725,786 |
| Investment property | | 4,362 |
| Intangible assets | | 318,914 |
| Assets acquired | | 1,405,805 |
| Trade payables | | 19,815 |
| Non-trade and other payables | | 192,427 |
| Debentures and long-term borrowings | | 518,642 |
| Other financial liabilities | | 11,062 |
| Current tax liabilities | | 5,422 |
| Other liabilities[1] | | 97,569 |
| Net defined benefit liabilities | | 2,779 |
| Deferred tax liabilities | | 16,835 |
| Provisions | | 3,970 |
| Liabilities acquired | | 868,521 |
| Net identifiable assets acquired | | 537,284 |
| Non-controlling interest | | (268,642) |
| Goodwill | | 531,358 |
| | ₩ | 800,000 |

[1] Contract assets of ₩ 7,245 million and contract liabilities of ₩ 3,242 million are included in other assets and other liabilities, respectively.

The fair value of trade receivables acquired by the Group is ₩ 207,445 million. The gross contractual amount for trade receivables at the acquisition date is ₩ 241,112 million, of which ₩ 33,667 million is expected to be uncollectible.

The fair value of other receivables acquired by the Group is ₩ 39,169 million. The gross contractual amount for other receivables at the acquisition date is ₩ 44,145 million, of which ₩ 4,976 million is expected to be uncollectible.

Had LG HelloVision Corp. been consolidated from January 1, 2019, the consolidated statement of comprehensive income would have shown a revenue of ₩ 13,492,414 million and profit of ₩ 453,234 million.

## 23. Equity

### 23.1 Share Capital

Details of share capital as at December 31, 2019 and 2018, are as follows:

| Type of share | Number of authorized shares | Par value | 2019 Number of issued shares | 2019 Share capital | 2018 Number of issued shares | 2018 Share capital |
|---|---|---|---|---|---|---|
| Ordinary shares | 700,000,000 | ₩ 5,000 | 436,611,361 | ₩ 2,573,969 million | 436,611,361 | ₩ 2,573,969 million |

The Parent 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.

### 23.2 Capital Surplus

Capital surplus consisting of share premium and other capital surplus, amount to ₩ 836,918 million as at December 31, 2019 and 2018. The Group’s share premium is available only for transfer to share capital or use to reduce accumulated deficit.

### 23.3 Retained Earnings

Retained earnings as at December 31, 2019 and 2018, consist of:

| *(in millions of Korean won)* | | 2019 | | 2018 |
|---|---|---|---|---|
| Legal reserves[1] | ₩ | 118,710 | ₩ | 101,245 |
| Retained earnings before appropriation | | 3,554,860 | | 3,345,926 |
| | ₩ | 3,673,570 | ₩ | 3,447,171 |

[1]The Commercial Code of the Republic of Korea requires the Group 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.

## 24. Dividends

A dividend is to be proposed to shareholders at the annual general meeting on March 20, 2020.

Details of dividend paid for the years ended December 31, 2019 and 2018, are as follows:

| | | 2019 | | 2018 |
|---|---|---|---|---|
| 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% | | 8% |
| Dividends per share | ₩ | 400 | ₩ | 400 |
| Total dividends | ₩ | 174,645 million | ₩ | 174,645 million |

Dividend payout ratio of the Parent Company for the years ended December 31, 2019 and 2018, is as follows:

| *(in millions of Korean won)* | | 2019 | | 2018 |
|---|---|---|---|---|
| Total dividends | ₩ | 174,645 | ₩ | 174,645 |
| Profit attributable to the owners of the Group | | 445,644 | | 476,752 |
| Dividend payout ratio | | 39.19% | | 36.63% |

## 25. Accumulated Other Comprehensive Income

Changes in accumulated other comprehensive income for the years ended December 31, 2019 and 2018, are as follows:

| *(in millions of Korean won)* | Defined benefit obligations | Equity investments at fair value through other comprehensive income | Debt investments at fair value through other comprehensive income | Cash flow hedge derivatives | Share of other comprehensive income of associates and joint venture | Foreign currency translation for foreign operations | Total |
|---|---|---|---|---|---|---|---|
| January 1, 2018 | ₩ - | ₩ 1,372 | ₩ - | ₩ - | ₩ 54 | ₩ (4) | ₩ 1,422 |
| Fair value estimation | - | (1,319) | (4,795) | - | - | - | (6,114) |
| Foreign currency translation for foreign operations | - | - | - | - | - | (240) | (240) |
| Changes in share of other comprehensive income of associates | - | - | - | - | (37) | - | (37) |
| Remeasurement of defined benefit plan | 16,382 | - | - | - | - | - | 16,382 |
| Reclassification to retained earnings | (16,382) | 142 | - | - | - | - | (16,240) |
| December 31, 2018 | ₩ - | ₩ 195 | ₩ (4,795) | ₩ - | ₩ 17 | ₩ (244) | ₩ (4,827) |
| January 1, 2019 | ₩ - | ₩ 195 | ₩ (4,795) | ₩ - | ₩ 17 | ₩ (244) | ₩ (4,827) |
| Fair value estimation | - | 2,821 | 4,470 | - | - | - | 7,291 |
| Foreign currency translation for foreign operations | - | - | - | - | - | 248 | 248 |
| Changes in share of other comprehensive income of associates | - | - | - | - | (52) | - | (52) |
| Loss on valuation of cash flow hedge derivatives | - | - | - | (664) | - | - | (664) |
| Remeasurement of defined benefit plan | (43,403) | - | - | - | - | - | (43,403) |
| Reclassification to retained earnings | 43,403 | (5,592) | - | - | - | - | 37,811 |
| December 31, 2019 | ₩ - | ₩ (2,576) | ₩ (325) | ₩ (664) | ₩ (35) | ₩ 4 | ₩ (3,596) |

## 26. Other Expenses

Details of other expenses for the years ended December 31, 2019 and 2018, are as follows:

| *(in millions of Korean won)* | | **2019**[1] | | **2018**[1] |
|---|---|---|---|---|
| Operating lease payment | ₩ | 57,713 | ₩ | 326,169 |
| Advertising expense | | 291,523 | | 271,111 |
| Sales commissions | | 1,809,710 | | 1,701,923 |
| Commission charge | | 1,561,035 | | 1,509,575 |
| Interconnection charge | | 528,875 | | 573,407 |
| Telecommunication equipment rental fees | | 188,521 | | 200,301 |
| Outsourcing expense | | 254,839 | | 344,092 |
| Bad debt expenses | | 61,592 | | 65,025 |
| Settlement expenses | | 86,352 | | 87,271 |
| Others | | 725,728 | | 696,628 |
| | ₩ | 5,565,888 | ₩ | 5,775,502 |

[1] Other operation expenses from discontinued operations for the year ended December 31, 2019, amounting to ₩ 343,085 million is included (2018: ₩ 376,511 million).

## 27. Other Non-operating Income and Expenses

Details of other non-operating income for the years ended December 31, 2019 and 2018, are as follows:

| *(in millions of Korean won)* | | **2019** | | **2018** |
|---|---|---|---|---|
| Gain on disposal of property, plant and equipment | ₩ | 1,981 | ₩ | 2,200 |
| Gain on foreign currency transactions | | 4,236 | | 2,602 |
| Gain on foreign currency translation | | 1,617 | | 4,104 |
| Gain on disposal of investments in associates | | 5,107 | | 2,137 |
| Miscellaneous income | | 46,985 | | 42,935 |
| | ₩ | 59,926 | ₩ | 53,978 |

Details of other non-operating expenses for the years ended December 31, 2019 and 2018, are as follows:

| *(in millions of Korean won)* | | **2019** | | **2018** |
|---|---|---|---|---|
| Loss on disposal of property, plant and equipment | ₩ | 28,353 | ₩ | 27,954 |
| Impairment loss of property, plant and equipment | | 4,363 | | - |
| Loss on disposal of intangible assets | | 121 | | 67 |
| Impairment loss of intangible assets (reversal) | | 29,269 | | (135) |
| Loss on foreign currency transactions | | 4,899 | | 2,963 |
| Loss on foreign currency translation | | 1,516 | | 4,295 |
| Donation | | 4,940 | | 3,684 |
| Miscellaneous expenses | | 9,297 | | 5,443 |
| | ₩ | 82,758 | ₩ | 44,271 |

## 28. Finance Income and Costs

Details of finance income for the years ended December 31, 2019 and 2018, are as follows:

| *(in millions of Korean won)* | | **2019** | | **2018** |
|---|---|---|---|---|
| Interest income | ₩ | 41,290 | ₩ | 34,286 |
| Gain on foreign currency transactions | | 69 | | 155 |
| Dividend income | | 347 | | 534 |
| | ₩ | 41,706 | ₩ | 34,975 |

Details of interest income included in finance income for the years ended December 31, 2019 and 2018, are as follows:

| *(in millions of Korean won)* | | **2019** | | **2018** |
|---|---|---|---|---|
| Cash and cash equivalents and financial institution deposits | ₩ | 12,569 | ₩ | 8,926 |
| Equity investments at fair value through other comprehensive income (other loans and receivables) and others | | 28,721 | | 25,360 |
| | ₩ | 41,290 | ₩ | 34,286 |

Details of finance costs for the years ended December 31, 2019 and 2018, are as follows:

| *(in millions of Korean won)* | | 2019 | | 2018 |
|---|---|---|---|---|
| Interest expense | ₩ | 111,182 | ₩ | 101,468 |
| Loss on foreign currency transactions | | 3 | | 2 |
| Loss on foreign currency translation | | - | | 2 |
| Loss on valuation of financial assets at fair value through profit or loss | | 2,002 | | 3,658 |
| Loss on disposal of trade receivables | | 19,192 | | 22,384 |
| | ₩ | 132,379 | ₩ | 127,513 |

Details of interest expense in finance costs for the years ended December 31, 2019 and 2018, are as follows:

| *(in millions of Korean won)* | | 2019 | | 2018 |
|---|---|---|---|---|
| Bank overdrafts and loan interest | ₩ | 12,658 | ₩ | 16,561 |
| Financial lease liability interest | | 6,468 | | - |
| Debentures interest | | 72,498 | | 71,060 |
| Other interest expense | | 19,558 | | 13,847 |
| | ₩ | 111,182 | ₩ | 101,468 |

Net gains or losses on each category of financial instruments for the years ended December 31, 2019 and 2018, are as follows:

| *(in millions of Korean won)* | | **2019** | | **2018** |
|---|---|---|---|---|
| Financial assets | | | | |
| Financial assets at amortized cost | | | | |
| Interest income | ₩ | 41,290 | ₩ | 34,286 |
| Gain on foreign currency translation | | 3,392 | | 4,920 |
| Bad debt expenses | | (60,775) | | (63,587) |
| | | (16,093) | | (24,381) |
| Financial assets at fair value through profit or loss | | | | |
| Loss on valuation | | (2,003) | | (3,658) |
| Dividend income | | 99 | | 95 |
| | | (1,904) | | (3,563) |
| Financial assets at fair value through other comprehensive income | | | | |
| Gain (loss) on valuation | | 7,291 | | (6,114) |
| Dividend income | | 249 | | 439 |
| Loss on disposal | | (19,192) | | (22,384) |
| Bad debt expenses[1] | | (91) | | (1,438) |
| | | (11,743) | | (29,497) |
| | | (29,740) | | (57,441) |
| Financial liabilities | | | | |
| Financial liabilities at amortized cost | | | | |
| Interest expense | | (104,117) | | (100,289) |
| Loss on foreign currency translation | | (3,888) | | (5,321) |
| | | (108,005) | | (105,610) |
| Cash flow hedge derivative liabilities | | | | |
| Loss on valuation of cash flow hedge derivatives (other comprehensive income) | | (664) | | - |
| Lease liabilities | | | | |
| Interest expense | | (6,468) | | - |
| | | (115,137) | | (105,609) |
| | ₩ | (144,877) | ₩ | (163,050) |

[1] The amounts are bad debt expenses incurred from installment receivables for handsets.

## 29. Tax Expense

Income tax expense for the years ended December 31, 2019 and 2018, consists of:

| *(in millions of Korean won)* | | 2019 | | 2018 |
|---|---|---|---|---|
| Current tax[1] | ₩ | 82,556 | ₩ | 145,329 |
| Changes in deferred tax due to temporary differences | | 38,538 | | 26,524 |
| Beginning deferred tax assets (liabilities) | | (79,610) | | 403,213 |
| Adjustments of beginning deferred tax assets due to changes in accounting policy | | - | | (456,299) |
| Adjustments of deferred tax due to business combination and others | | (16,866) | | - |
| Ending deferred tax liabilities | | (135,014) | | (79,610) |
| Tax that are charged or credited directly to equity | | 11,935 | | (5,195) |
| Income tax expense | ₩ | 133,029 | ₩ | 166,658 |

[1] ₩ 447 million recognized in relation to uncertainty over income tax treatments is included.

Reconciliation between profit before income tax and income tax expense of the Group for the years ended December 31, 2019 and 2018, are as follows:

| *(in millions of Korean won)* | | 2019 | | 2018 |
|---|---|---|---|---|
| Profit before income tax expense[1] | ₩ | 573,940 | ₩ | 648,267 |
| Tax at domestic tax rates applicable to profits | | 147,116 | | 169,510 |
| Tax effects of: | | (14,087) | | (2,853) |
| Income not subject to tax | | (663) | | (999) |
| Expenses not deductible for tax purposes | | 2,551 | | 7,056 |
| Tax credits | | (15,955) | | (5,709) |
| Others | | (20) | | (3,201) |
| Income tax expense | ₩ | 133,029 | ₩ | 166,658 |
| Effective tax rate (income tax expense/profit before income tax) | | 23.18% | | 25.71% |

[1] before loss from discontinued operations

The aggregate current and deferred tax relating to items that are charged or credited directly to equity for the years ended December 31, 2019 and 2018, is as follows:

| *(in millions of Korean won)* | | **2019** | | **2018** |
|---|---|---|---|---|
| Loss on valuation of cash flow hedge derivatives | ₩ | 233 | ₩ | - |
| Gain (loss) on valuation of financial assets at fair value through other comprehensive income | | (991) | | 414 |
| Remeasurement of defined benefit plan | | 14,264 | | (7,299) |
| Gain (loss) on valuation of debt investments at fair value through other comprehensive income | | (1,571) | | 1,685 |
| | ₩ | 11,935 | ₩ | (5,200) |

The movements in deferred tax assets and liabilities for the year ended December 31, 2019, are as follows:

| *(in millions of Korean won)* | 2019 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | **Beginning balance** | | **Increase** | | **Decrease** | | **Ending balance** |
| Deductible temporary differences: | | | | | | | | |
| Net defined benefit liabilities | ₩ | 437,415 | ₩ | 194,310 | ₩ | 25,688 | ₩ | 606,037 |
| Bad debt expenses and others | | 183,783 | | 207,561 | | 183,162 | | 208,182 |
| Loss on valuation of inventories | | 43,916 | | 69,273 | | 43,640 | | 69,549 |
| Unsettled expenses | | 174,263 | | 348,147 | | 204,004 | | 318,406 |
| Property, plant and equipment | | 467,233 | | 187,250 | | 112,994 | | 541,489 |
| Provisions | | 41,353 | | 46,194 | | 41,353 | | 46,194 |
| Impairment loss on available-for-sale financial assets | | 7,953 | | 1,033 | | - | | 8,986 |
| Loss on valuation of investment securities | | 7,091 | | 7,557 | | 3,666 | | 10,982 |
| Intangible assets | | 57,804 | | - | | 57,804 | | - |
| Deemed dividends | | 160 | | - | | - | | 160 |
| Government grants | | 7,717 | | 5,154 | | 2,367 | | 10,504 |
| Adjustments on revenues | | 82,033 | | 81,854 | | 72,589 | | 91,298 |
| Investment assets | | 4,068 | | 464 | | 548 | | 3,984 |
| Prepaid expenses | | 2,188 | | 1,518 | | 1,567 | | 2,139 |
| Present value discount | | 9 | | 52 | | 9 | | 52 |
| Goodwill | | 4,515 | | - | | 4,515 | | - |
| Valuation on installment receivables | | 6,500 | | - | | 6,061 | | 439 |
| Impairment loss on investments in subsidiaries | | 9,046 | | - | | - | | 9,046 |
| Contract liabilities | | 306,930 | | 362,459 | | 359,649 | | 309,740 |
| Lease liabilities | | - | | 558,741 | | 137 | | 558,604 |
| Derivative instruments | | - | | 897 | | - | | 897 |
| | | 1,843,977 | | 2,072,464 | | 1,119,753 | | 2,796,688 |

| *(in millions of Korean won)* | 2019 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Beginning balance | | Increase | | Decrease | | Ending balance | |
| Taxable temporary differences: | | | | | | | | |
| Accrued interest income | | (73) | | (458) | | (73) | | (458) |
| Deposits for severance benefits | | (422,276) | | (97,221) | | (24,952) | | (494,545) |
| Share of profit of associates and joint venture | | (2,694) | | (1,149) | | - | | (3,843) |
| Intangible assets | | - | | (257,320) | | - | | (257,320) |
| Equipment allowances | | (70,867) | | - | | (20,382) | | (50,485) |
| Estimate of assets for restoration | | (14,716) | | (14,646) | | (14,716) | | (14,646) |
| Other assets | | (1,587,155) | | (2,005,319) | | (1,706,000) | | (1,886,474) |
| Contract assets | | (353,792) | | (325,959) | | (366,141) | | (313,610) |
| Right-of-use assets | | - | | (558,240) | | (10) | | (558,230) |
| Goodwill | | - | | (476,394) | | (2,709) | | (473,685) |
| Others | | (6,661) | | (34,949) | | - | | (41,610) |
| | | (2,458,234) | | (3,771,655) | | (2,134,983) | | (4,094,906) |
| Tax loss carryforwards | | 45,967 | | 15,265 | | - | | 61,232 |
| | | (568,290) | | (1,683,926) | | (1,015,230) | | (1,236,986) |
| Realizable temporary differences and tax loss carryforwards | | (636,895) | | (1,195,675) | | (1,004,643) | | (827,927) |
| Unrealizable temporary differences and tax loss carryforwards | | 68,605 | | (488,251) | | (10,587) | | (409,059) |
| Tax rate | | 11%, 22%, 26% | | | | | | 11%, 22%, 24,2%, 26% |
| Tax effect due to temporary differences and tax loss carryforwards | | (160,737) | | (325,244) | | (274,280) | | (211,701) |
| Tax effect due to tax credit carryforwards | | 81,127 | | 14,377 | | 18,816 | | 76,688 |
| Deferred tax liabilities | ₩ | (79,610) | ₩ | (310,867) | ₩ | (255,464) | ₩ | (135,013) |

The movements in deferred tax assets and liabilities for the year ended December 31, 2018, are as follows:

| *(in millions of Korean won)* | 2018 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Beginning balance | | Increase | | Decrease | | Ending balance | |
| Deductible temporary differences: | | | | | | | | |
| Net defined benefit liabilities | ₩ | 417,357 | ₩ | 47,583 | ₩ | 27,525 | ₩ | 437,415 |
| Bad debt expenses and others | | 179,786 | | 176,309 | | 172,312 | | 183,783 |
| Loss on valuation of inventories | | 34,583 | | 43,785 | | 34,452 | | 43,916 |
| Unsettled expenses | | 205,482 | | 174,263 | | 205,482 | | 174,263 |
| Property, plant and equipment | | 466,236 | | 91,164 | | 90,167 | | 467,233 |
| Provisions | | 35,623 | | 41,353 | | 35,623 | | 41,353 |
| Impairment loss on available-for-sale financial assets | | 14,953 | | - | | 7,000 | | 7,953 |
| Loss on valuation of investment | | 2,598 | | 6,392 | | 1,899 | | 7,091 |

| *(in millions of Korean won)* | 2018 | | | |
|---|---|---|---|---|
| | **Beginning balance** | **Increase** | **Decrease** | **Ending balance** |
| securities | | | | |
| Intangible assets | 70,806 | 3,102 | 16,104 | 57,804 |
| Deemed dividends | 160 | - | - | 160 |
| Government grants | 9,780 | 736 | 2,799 | 7,717 |
| Adjustments on revenues | 80,867 | 67,180 | 66,014 | 82,033 |
| Investment assets | 3,707 | 361 | - | 4,068 |
| Prepaid expenses | 456 | 3,954 | 2,222 | 2,188 |
| Present value discount | 22 | 9 | 22 | 9 |
| Goodwill | 6,321 | - | 1,806 | 4,515 |
| Valuation on installment receivables | - | 6,500 | - | 6,500 |
| Impairment loss on investments in subsidiaries | - | 9,046 | - | 9,046 |
| Contract liabilities | - | 599,891 | 292,961 | 306,930 |
| | 1,528,737 | 1,271,628 | 956,388 | 1,843,977 |
| Taxable temporary differences: | | | | |
| Accrued interest income | (166) | (73) | (166) | (73) |
| Deposits for severance benefits | (316,387) | (132,623) | (26,734) | (422,276) |
| Share of profit of associates and joint venture | (2,578) | - | 116 | (2,694) |
| Estimate of assets for restoration | (10,159) | (15,287) | (10,730) | (14,716) |
| Equipment allowances | (91,251) | - | (20,384) | (70,867) |
| Other assets | - | (3,215,810) | (1,628,655) | (1,587,155) |
| Contract assets | - | (697,026) | (343,234) | (353,792) |
| Others | (4,898) | (1,789) | (26) | (6,661) |
| | (425,439) | (4,062,608) | (2,029,813) | (2,458,234) |
| Tax loss carryforwards | 41,374 | 4,593 | - | 45,967 |
| | 1,144,672 | (2,786,387) | (1,073,425) | (568,290) |
| Realizable temporary differences and tax loss carryforwards | 1,079,223 | (2,777,764) | (1,061,646) | (636,895) |
| Unrealizable temporary differences and tax loss carryforwards | 65,449 | (8,623) | (11,779) | 68,605 |
| Tax rate | 11%, 22%, 26% | | | 11%, 22%, 26% |
| Tax effect due to temporary differences and tax loss carryforwards | 283,218 | (724,328) | (280,373) | (160,737) |
| Tax effect due to tax credit carryforwards | 119,995 | 3,468 | 42,336 | 81,127 |
| Deferred tax assets (liabilities) | ₩ 403,213 | ₩ (720,860) | ₩ (238,037) | ₩ (79,610) |

Details of unrecognized deductible (taxable) temporary differences as deferred tax assets and liabilities as at December 31, 2019 and 2018, are as follows:

| *(in millions of Korean won)* | | 2019 | | 2018 |
|---|---|---|---|---|
| Temporary differences | ₩ | (470,128) | ₩ | 22,802 |
| Tax loss | | 61,069 | | 45,803 |
| Tax credit carryforwards | | 12,488 | | 18,458 |

The maturity of tax loss and tax credit carryforwards that are not recognized as deferred tax assets is as follows:

| | 2019 | | | |
|---|---|---|---|---|
| *(in millions of Korean won)* | | Tax loss | | Tax credit carryforwards |
| Less than 1 year | ₩ | - | ₩ | 6,003 |
| Between 1 and 3 years | | - | | 5,627 |
| More than 3 years | | 61,069 | | 858 |
| | ₩ | 61,069 | ₩ | 12,488 |

## 30. Earnings per Share

Basic earnings per share for the years ended December 31, 2019 and 2018, are as follows.

Basic earnings per share are the profit attributable to one share of ordinary shares of the Group. 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, 2019 and 2018, are as follows:

| *(in Korean won)* | | **2019** | | **2018** |
|---|---|---|---|---|
| Basic earnings per share | | | | |
| from continuing operations | ₩ | 1,010 | ₩ | 1,125 |
| from discontinued operations | | (5) | | (22) |
| | ₩ | 1,005 | ₩ | 1,103 |

Diluted earnings per share are same as basic earnings per share as the Group has no dilutive potential ordinary shares as at December 31, 2019 and 2018.

Details of profit for the year and the weighted average number of ordinary shares outstanding used for calculating basic earnings per share are as follows:

| *(in millions of Korean won)* | | **2019** | | **2018** |
|---|---|---|---|---|
| Profit attributable to the ordinary equity holders of the Parent Company | ₩ | 438,855 | ₩ | 481,637 |
| Profit used to determine basic earnings per share | | | | |
| Loss from discontinued operations | ₩ | (2,080) | ₩ | (9,788) |
| Profit from continuing operations | | 440,911 | | 491,398 |
| | ₩ | 438,831 | ₩ | 481,609 |
| Weighted average number of ordinary shares outstanding | | 436,611,358 shares | | 436,611,358 shares |

## 31. Contingencies and Commitments

As at December 31, 2019, there are 79 lawsuits ongoing where the Group is a defendant in the Republic of Korea; total claim amount the Group is being sued for is ₩ 17,589 million. Management believes the outcome of these lawsuits will not likely have a significant effect on the consolidated financial positon of the Group.

The Group entered into agreements with Woori Bank and others for a line of credit and commercial paper up to ₩ 134,500 million. These agreements include bank overdraft agreement with Woori Bank and others up to ₩ 30,000 million.

As at December 31, 2019, the Group has entered into agreement with Woori Bank and three other banks for a limit of ₩ 65,800 million in relation to payment of its trade payables. It is a loan agreement secured by an electronic trade receivable, where the Group guarantees the payment of trade receivable when the vendors of the Group transfer their trade receivables due from the Group prior to its maturity to banks.

The Group is provided with payment guarantees amounting to ₩ 62,466 million, ₩ 44,833 million and ₩ 100 million in relation to the contract guarantees, bid guarantees, payment guarantees in foreign currencies and payment guarantees in Korean won from Seoul Guarantee Insurance Company, Korea Software Financial Cooperative and KEB Hana Bank, respectively. In this regard, the Company's contribution paid of ₩ 500 million is provided as collateral to Korea Software Financial Cooperative, and a deposit of ₩ 38 million in Woori Bank is pledged against Seoul Guarantee Insurance Company. In relation to the payment guarantee from Korea Software Financial Cooperative, the right for the guarantee does not expire until the end of extinctive prescription by the applicable laws even after the guarantee period is ended.

As at December 31, 2019, the Group has entered into purchase agreements with Shinhan Bank and KEB Hana Bank for limits of ₩ 200 billion and ₩ 100 billion, respectively, under which the banks accept any unaccepted bills issued by the Group.

As at December 31, 2019, the Group has entered into agreements with Woori Bank and KEB Hana Bank to provide payment guarantees in relation to housing fund loans for the executives and employees, and the guaranteed amount is ₩ 7 billion.

According to the financial and other covenants included in certain bonds and borrowings, the Group 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.

The Group acquired frequency usage right for 3.5㎓ for the period from December 1, 2018 to November 30, 2028 and 28㎓ for the period from December 1, 2018 to November 30, 2023, in the amounts of for ₩ 809,500 million and ₩ 207,200 million, respectively, through an auction for 5G frequency by Ministry of Science and ICT in June 2018. A quarter of the acquired amounts for each frequency was paid in November 2018, and the remaining amounts are to be paid in every March over the contract period. The Group paid ₩ 91,792 million in March 2019.

The Group has entered into a transfer contract of securitized assets with the SPCs (2019: U Plus 5G SPC 46th~48th and U Plus LTE SPC 43th~45th, 2018: U Plus LTE SPC 37th~42th) and transferred the installment receivables of handset during the years ended December 31, 2019 and 2018. The Group also has entered into asset management contract with each SPC to manage the transferred installment receivables, and committed to be received asset management fees when the SPCs are liquidated.

Due to fire in power storage system established by the other company, the power storage system established by the Group was partially shut down in order to inspect safety and take precautions for fire. And, the Group cannot estimate ultimate effect of these uncertainty as of the date of statement of financial position.

## 32. Related Party Transactions

Major related parties as at December 31, 2019 and 2018, are as follows:

| | 2019 |
|---|---|
| Investor with significant influence over the Group | LG Corporation |
| Joint venture | Dacom Crossing Corporation |
| Associates | Genie Music Corporation, Focus Media Korea Corporation, VENTA VR Co., Ltd., 8i Corporation, Home Choice Corp., Highway Solar Co.,Ltd |
| Others | S&I corp. and 10 others, LG CNS and 21 others, LG Sports, LG Holdings Japan, LG Management Development Institute |
| Other related parties included in Large Business Group defined by the act | LG Chem Ltd. and 42 others; LG Household & Health Care Ltd. and 38 others; LG Hausys, Ltd. and 12 others; LG MMA Corp.; LG Electronics Inc. and 117 others; LG Display Co., Ltd. and 21 others; LG Innotek Alliance Fund and 11 others; Silicon Works Inc. and two others; LG International Corp. and 34 others; Pantos Logistics Co., Ltd and 52 others; GIIR Inc. and 15 others |

| | 2018 |
|---|---|
| Investor with significant influence over the Group | LG Corporation |
| Joint venture | Dacom Crossing Corporation |
| Associates | Genie Music Corporation, Focus Media Korea Corporation, VENTA VR Co., Ltd. |
| Others | S&I corp. and 11 others, LG CNS and 40 others, LG Sports, LG Management Development Institute, Lusem |
| Other related parties included in Large Business Group defined by the act | LG Electronics Inc. and 110 others; L. Best; HS Ad Co., Ltd. and four others; GIIR Inc. and nine others; Hanultari Co., Ltd.; Helistar Air Co., Ltd.; Pantos Busan Newport Logistics Center Co., Ltd.; Pantos Logistics Co., Ltd and 49 others; Sal de Vida Korea Corp; Global Dynasty Natural |

Resource Private Equity Fund; Dangjin Tank Terminal Co., Ltd.; LG International Corp. and 44 others; Robostar Co., Ltd.; Hanuri; LG Fuel Cell Systems (Korea) Inc.; LG-Hitachi Water Solutions Co., Ltd.; Hientech Co., Ltd.; Ace R&A Co., Ltd.; HITeleservice Co., Ltd.; Hi-M Solutec Co., Ltd.; Silicon Works Inc. and two others; Hi Plaza Inc.; Innowith; LG Innotek Alliance Fund and 11 others; Nanumnuri Co., Ltd.; LG Display Co., Ltd. and 20 others; SEETEC Co., Ltd.; LG MMA Corp.; GREENNURI CO., LTD.; LG. Tostem BM Co., Ltd; LG Hausys, Ltd. and 10 others; JS PHARM CO., LTD.; TAI GUK PHARM CO., LTD.; Ulleung Mountain Chu Natural Spring Water Development Company; MiGenstory Co., Ltd.; LG Farouk Co.; Balkeunuri Co., Ltd.; CNP Cosmetics Co., Ltd.; K&I Co., Ltd; Clean Soul Ltd.; HAITAI HTB CO., LTD.; Hankook Beverage Co., Ltd.; The FaceShop Co., Inc. and seven others; Coca-Cola Beverage Co.; LG Household & Health Care Ltd. and 16 others; FarmHanong Co., Ltd. and three others; Ugimag Korea Co., Ltd.; Haengboknuri; LG Chem Ltd. and 38 others; and FMG Inc.

As at December 31, 2019, no entity controls the Group. LG Corporation has 36.05% of ownership interest and has significant influence over the Group.

Sales and purchases with related parties for the years ended December 31, 2019 and 2018, are as follows:

| *(in millions of Korean won)* | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | **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 Group | | | | | | |
| LG Corporation | ₩ 130 | ₩ - | ₩ 32,330 | ₩ 136 | ₩ - | ₩ 31,171 |
| Joint venture | | | | | | |
| Dacom Crossing Corporation | 402 | - | 16,511 | 541 | - | 19,745 |
| Associates | | | | | | |
| Genie Music Corporation | 401 | - | 40,098 | 160 | - | 22,162 |
| Focus Media Korea Corporation | 2,553 | - | 878 | 2,768 | - | 36 |
| VENTA VR Co., Ltd. | 45 | - | 4,111 | - | - | 360 |
| 8I Corporation | - | - | 127 | - | - | - |
| Others | | | | | | |
| S&I corp.[1,2,6] | 6,467 | 107,766 | 49,390 | 6,972 | 75,237 | 43,283 |
| LG CNS[2,6] | 25,902 | 216,799 | 158,926 | 25,429 | 212,443 | 148,134 |
| LG Management Development Institute[6] | 93 | - | 7,950 | 72 | - | 6,164 |
| LG Sports | 25 | - | 3,513 | 30 | - | 3,517 |
| Lusem[3] | - | - | - | 9 | - | - |
| Other related parties | | | | | | |

| (in millions of Korean won) | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | Sales and others | Purchase of property, plant and equipment | Purchase and others | Sales and others | Purchase of property, plant and equipment | Purchase and others |
| included in Large Business Group defined by the act[4] | | | | | | |
| HS Ad Co., Ltd. | 255 | - | 35,527 | 597 | 8,010 | 23,836 |
| LG Display Co., Ltd. | 2,352 | - | - | 1,739 | - | 21 |
| LG Household & Health Care Ltd.[6] | 2,576 | - | 595 | 2,652 | - | 830 |
| LG Innotek Alliance Fund | 345 | 1,843 | 346 | 71 | 8,404 | 37 |
| LG Electronics Inc.[6] | 5,596 | 196 | 470,060 | 6,355 | 6,998 | 529,616 |
| LG Chem Ltd.[6] | 2,113 | - | 54 | 3,352 | 234 | 1,526 |
| The FaceShop Co., Inc.[6] | 1,906 | - | 47 | 2,020 | - | 139 |
| Pantos Logistics Co., Ltd[6] | 104 | - | 9,706 | 75 | - | 8,808 |
| L. Best | 51 | - | 1,322 | 50 | - | 3,010 |
| Hi Plaza Inc. | 51,471 | - | 46,885 | 54,392 | - | 44,081 |
| LG Hausys, Ltd.[6] | 437 | - | 2 | 880 | 159 | 1,462 |
| Coca-Cola Beverage Co.[6] | 380 | - | 44 | 680 | - | 56 |
| Others[6] | 1,585 | 374 | 155 | 2,237 | 2,654 | 278 |
| | ₩ 105,189 | ₩ 326,978 | ₩ 878,577 | ₩ 111,217 | ₩ 314,139 | ₩ 888,272 |

[1] On December 1, 2018, Serveone spun off S&I corp. (existing corporation) and Serveone (newly established corporation), and Serveone (newly established corporation) was excluded from related parties in Large Business Group on July 24, 2019; thus, excluded from the related parties of the Group. The transactions of both corporations until July 2019, are included in the amounts above.

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

[3] Lusem was sold to LB SEMICON CO., LTD. on February 27, 2018, and excluded from related parties as at December 31, 2019.

[4] 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.

[5] LG HelloVision Corp. is deemed as included in subsidiaries of the Group from December 31, 2019, so the transactions of both corporations are not included.

[6] Transactions for payment service that is held for sale are included.

Outstanding balances arising from sales/purchases of goods and services as at December 31, 2019 and 2018, are as follows:

| *(in millions of Korean won)* | 2019 | | 2018 | |
|---|---|---|---|---|
| | **Trade receivables and others** | **Trade payables and others** | **Trade receivables and others** | **Trade payables and others** |
| Investor with significant influence over the Group | | | | |
| LG Corporation[1] | ₩ 5,387 | ₩ 1,159 | ₩ 5,397 | ₩ - |
| Joint venture | | | | |
| Dacom Crossing Corporation | - | 41 | - | 1,992 |
| Associates | | | | |
| Genie Music Corporation | 23 | 11,782 | 47 | 5,235 |
| Focus Media Korea Corporation | 3 | 1 | 14 | - |
| Others | | | | |
| S&I corp.[2,3] | 19,617 | 60,750 | 19,939 | 29,729 |
| LG Management Development Institute | 2,958 | 18 | 3,107 | 176 |
| LG Sports | - | - | - | 10 |
| LG CNS[3] | 766 | 133,364 | 1,057 | 165,623 |
| Other related parties included in Large Business Group defined by the act[4] | | | | |
| HS Ad Co., Ltd. | - | 25,770 | - | 32,904 |
| LG Household & Health Care Ltd. | 86 | - | 135 | 3 |
| LG Innotek Alliance Fund | 182 | 400 | 9 | 2,315 |
| LG Electronics Inc. | 534 | 5,918 | 369 | 14,027 |
| LG Chem Ltd.[5] | 51 | 270 | 111 | 436 |
| Pantos Logistics Co., Ltd | - | 2,239 | - | 2,026 |
| L. Best | - | 690 | - | 2,564 |
| Hi Plaza Inc. | - | 4,043 | - | 2,850 |
| Hi-M Solutec Co., Ltd. | 1 | 433 | - | 209 |
| Others[5] | 566 | 9 | 380 | 1,770 |
| | ₩ 30,174 | ₩ 246,887 | ₩ 30,565 | ₩ 261,869 |

[1] The amount of lease liabilities recognized in accordance with the lease contract entered with LG Corporation is ₩ 53,507 million as at December 31, 2019, and it is not included in the line item of trade receivables and others. The amount of repayment of lease liabilities for the year ended December 31, 2019, is ₩ 6,456 million.

[2] On December 1, 2018, Serveone spun off S&I corp. (existing corporation) and Serveone (newly established corporation), and Serveone (newly established corporation) was excluded from related parties in Large Business Group on July 24, 2019; thus, excluded from the related parties of the Group. As at December 31, 2018, receivables and payables of both corporations are included.

[3] Receivables and payables between the entity and the entity's subsidiaries are included.

[4] 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.

[5] Receivables and payables classified as assets and liabilities held for sale are included.

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.

Fund transactions with related parties for the years ended December 31, 2019 and 2018, are as follows:

| *(in millions of Korean won)* | **2019** | | | | **2018** | | | |
|---|---|---|---|---|---|---|---|---|
| | | **Dividends paid** | | **Contributions in cash** | | **Dividends paid** | | **Contributions in cash** |
| Investor with significant influence over the Group | | | | | | | | |
| LG Corporation | ₩ | 62,950 | ₩ | - | ₩ | 62,950 | ₩ | - |
| Associates | | | | | | | | |
| VENTA VR Co., Ltd. | | - | | 500 | | - | | 1,000 |
| 8i Corporation | | - | | 4,861 | | - | | - |

The compensation and benefits for the Group's key management, including directors (excluding non-executive directors) and executive officers, who have significant control and responsibilities on planning, operating and controlling the Group's business activities for the years ended December 31, 2019 and 2018, are summarized as follows:

| *(in millions of Korean won)* | | **2019** | | **2018** |
|---|---|---|---|---|
| Short-term employee benefits | ₩ | 38,981 | ₩ | 32,250 |
| Long-term employee benefits | | 25 | | 44 |
| Post-employment benefits[1] | | 4,226 | | 5,072 |
| | ₩ | 43,232 | ₩ | 37,366 |

[1] The above balances refer to post-employment benefits incurred for key management during the years ended December 31, 2019 and 2018. In addition, the present values of defined benefit obligations for key management are ₩ 41,387 million and ₩ 38,490 million as at December 31, 2019 and 2018, respectively.

## 33. Risk Management

### 33.1 Capital Risk Management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so the Group 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.

The Group'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 Group has been consistently maintained to all the years presented. In addition, items managed as capital by the Group as at December 31, 2019 and 2018, are as follows:

| *(in millions of Korean won)* | | 2019 | | 2018 |
|---|---|---|---|---|
| Total borrowings[1] | ₩ | 5,771,633 | ₩ | 2,971,062 |
| Less: cash and cash equivalents[2] | | (637,315) | | (378,631) |
| Borrowings, net | ₩ | 5,134,318 | ₩ | 2,592,431 |
| Total equity | ₩ | 7,349,616 | ₩ | 6,853,369 |
| Net borrowings-to-equity ratio | | 69.86% | | 37.83% |

[1] Lease liabilities of ₩ 585,402 are included as a result from application of Korean IFRS 1116.

[2] Cash and cash equivalents classified as assets held for sale of ₩ 162,950 are included.

### 33.2 Financial Risk Management

The Group is exposed to various financial risks, such as market risk (foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk related to financial instruments. The purpose of risk management of the Group is to identify the potential risks to financial performance and reduce, eliminate and evade those risks to a degree acceptable to the Group. The Group makes use of derivative financial instruments to hedge certain risks, such as foreign exchange and interest rate risks. Overall financial risk management policy of the Group has been consistently maintained to all the years presented.

*(a) Foreign currency risk*

The Group is exposed to foreign currency risk since it undertakes transactions denominated in foreign currencies. The carrying amounts of the Group's monetary assets and liabilities denominated in foreign currencies that is not the functional currency as at December 31, 2019 and 2018, are as follows:

| *(in millions of Korean won)* | **2019** | | | |
|---|---|---|---|---|
| | **Assets** | | **Liabilities** | |
| USD | ₩ | 48,327 | ₩ | 94,418 |
| Others | | 4 | | 274 |
| | ₩ | 48,331 | ₩ | 94,692 |

| *(in millions of Korean won)* | **2018** | | | |
|---|---|---|---|---|
| | **Assets** | | **Liabilities** | |
| USD | ₩ | 96,420 | ₩ | 108,085 |
| Others | | 48 | | 783 |
| | ₩ | 96,468 | ₩ | 108,868 |

The Group internally assesses the foreign currency risk from changes in exchanges rates on a regular basis. The Group’s sensitivity to a 10% increase and decrease in the Korean won (functional currency of the Group) against the major foreign currencies as at December 31, 2019 and 2018, is as follows:

| *(in millions of Korean won)* | **2019** | | | |
|---|---|---|---|---|
| | **Loss from 10% increase against foreign currency** | | **Gain from 10% decrease against foreign currency** | |
| USD | ₩ | (3,411) | ₩ | 3,411 |

| *(in millions of Korean won)* | **2018** | | | |
|---|---|---|---|---|
| | **Loss from 10% increase against foreign currency** | | **Gain from 10% decrease against foreign currency** | |
| USD | ₩ | (863) | ₩ | 863 |

Sensitivity analysis above is conducted for monetary assets and liabilities denominated in foreign currencies other than functional currency as at December 31, 2019 and 2018.

*(b) Interest rate risk*

The Group borrows funds at floating interest rates and is exposed to cash flow risk arising from interest rate changes. The carrying amount of liabilities exposed to interest rate risk as at December 31, 2019 and 2018, is as follows:

| *(in millions of Korean won)* | | 2019 | | 2018 |
|---|---|---|---|---|
| Borrowings[1] | ₩ | 300,000 | ₩ | - |
| Debentures | | 34,734 | | - |
| Non-trade payables | | 915,033 | | 1,132,011 |
| | ₩ | 1,249,767 | ₩ | 1,132,011 |

[1] The amount has been borrowed at floating interest rate, but is not exposed to interest rate risk due to an interest rate swap for cash flow hedge.

The Group internally assesses the cash flow risk from changes in interest rates on a regular basis. The effect of changes in interest rates of 1% point to profit or loss and net assets as at December 31, 2019 and 2018, is as follows:

| *(in millions of Korean won)* | 2019 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 1% point increase | | | | 1% point decrease | | | |
| | Profit or loss | | Net assets | | Profit or loss | | Net assets | |
| Debentures | ₩ | (257) | ₩ | (257) | ₩ | 257 | ₩ | 257 |
| Non-trade payables | | (6,970) | | (6,970) | | 6,970 | | 6,970 |
| | ₩ | (7,227) | ₩ | (7,227) | ₩ | 7,227 | ₩ | 7,227 |

| *(in millions of Korean won)* | 2018 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 1% point increase | | | | 1% point decrease | | | |
| | Profit or loss | | Net assets | | Profit or loss | | Net assets | |
| Non-trade payables | ₩ | (8,653) | ₩ | (8,653) | ₩ | 8,653 | ₩ | 8,653 |

The Group manages interest rate risk by entering into an interest rate swap contract. The Group applies cash flow hedge accounting to the interest rate swap contract, and details of an evaluation on the unsettled amount of the interest rate swap contract as at December 31, 2019, are as follows:

| *(in millions of Korean won)* | Unsettled amount of the contract | Gain or loss on valuation | | Gain or loss on valuation (Accumulated other comprehensive income)[1] | Fair value | |
|---|---|---|---|---|---|---|
| | | Gain | Loss | | Assets | Liabilities |
| Interest rate swap | ₩ 300,000 | ₩ - | ₩ 897 | ₩ (664) | ₩ - | ₩ 897 |

[1] There is no ineffectiveness recognized from cash flow hedge, and gain or loss on valuation is an after-tax amount.

*(c) Price risk*

The Group is exposed to price risks arising from marketable equity instruments. The fair value of marketable equity instruments for the years ended December 31, 2019 and 2018, is ₩ 201 million and ₩ 4,671 million, respectively, and when the price of equity instrument changes by 10% with all other variables held constant, the effect to equity will be ₩ 15 million and ₩ 346 million, for the years ended December 31, 2019 and 2018, respectively.

*(d) Credit risk*

Credit risk refers to the risk that counterparty may default on its contractual obligations resulting in financial loss to the Group. Credit risk is managed on respective entity basis, including the Parent Company and its subsidiaries. Credit risk arises from cash and cash equivalents, derivatives, deposits in bank and financial institution as well as receivables and firm commitments to individual customers. The Group's credit risk exposure to bank and financial institutions is limited due to making transactions with high credit rating financial institutions. The Group evaluate credit status of customers based on their financial status, credit history and other factors. The Group does not establish policies to manage credit limits of each customer.

(i) Trade receivables

The Group applies the simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the period. On that basis, the loss allowance as at December 31, 2019 was determined as follows for trade receivables. The expected credit losses reflect forward-looking information.

| *(in millions of Korean won)* | 2019 | | | |
|---|---|---|---|---|
| | **Within 6 months** | **7-12 months** | **More than 1 year** | **Total** |
| Expected loss rate | 2.23% | 57.16% | 67.16% | |
| Gross carrying amount | ₩ 2,153,946 | ₩ 43,031 | ₩ 135,274 | ₩ 2,332,251 |
| Loss allowance provision | 48,121 | 24,598 | 90,847 | 163,566 |

[1] Aging schedule is categorized by claim date for the receivables. The receivables that were not claimed are included in aging schedule of 'Within 6 months'.

[2] Trade receivables classified as assets held for sale are included, and carrying amounts included as at December 31, 2019, amount to ₩ 4,318 million.

Movements in the loss allowance provision for trade receivables for the years ended December 31, 2019 and 2018, are as follows:

| *(in millions of Korean won)* | 2019 | 2018 |
|---|---|---|
| **Beginning balance** | ₩ 155,756 | ₩ 172,878 |
| Increase in loss allowance recognized in profit or loss during the year | 49,613 | 45,229 |
| Receivables written off during the year as uncollectible | (59,504) | (56,151) |
| Unused amounts reversed | 16,180 | 16,679 |
| Transfer of loss allowance due to reclassification of the receivables | 1,521 | (22,879) |
| **Ending balance** | ₩ 163,566 | ₩ 155,756 |

As at December 31, 2019, total carrying amounts of trade receivables that are maximum exposure to credit risk is ₩ 2,332,251 million (2018: ₩ 1,499,410 million).

Following losses are recognized in profit or loss in relation to impaired trade receivables for the years ended December 31, 2019 and 2018, are as follows:

| *(in millions of Korean won)* | | 2019 | | 2018 |
|---|---|---|---|---|
| Impairment loss | | | | |
| Bad debt expenses | ₩ | 49,613 | ₩ | 45,229 |

(ii) Debt investments at fair value through other comprehensive income

Debt investments at fair value through other comprehensive income include trade receivables subject to be sold. The loss allowance for debt investments at fair value through other comprehensive income is recognized in profit or loss and reduces the fair value loss otherwise recognized in other comprehensive income.

Debt investments at fair value through other comprehensive income are considered to be low credit risk when they have a low risk of default and the issuer has a strong capacity to meet its contractual cash flow obligations in the near term, after the initial recognition, and the loss allowance recognized during the period was, therefore, limited to 12 months expected losses. When credit risk is not low and decrease in credit risk is significant, a lifetime expected loss allowance is used.

Movements in loss allowance provision for debt investments at fair value through other comprehensive income for the years ended December 31, 2019 and 2018, are as follows:

| *(in millions of Korean won)* | | 2019 | | 2018 |
|---|---|---|---|---|
| **Beginning balance** | ₩ | 1,521 | ₩ | 984 |
| Increase in loss allowance recognized in profit or loss during the year | | 91 | | 1,438 |
| Receivables written off during the year as uncollectible | | - | | (1,196) |
| Unused amounts reversed | | - | | 295 |
| Transfer of loss allowance due to change of accounts for receivables | | (1,521) | | - |
| **Ending balance** | ₩ | 91 | ₩ | 1,521 |

(iii) Other financial assets at amortized cost

Other financial assets at amortized cost other than trade receivables are considered to be low credit risk when they have a low risk of default and the issuer has a strong capacity to meet its contractual cash flow obligations in the near term, after the initial recognition, and the loss allowance recognized during the period was, therefore, limited to 12 months expected losses. When credit risk is not low and decrease in credit risk is significant, a lifetime expected loss allowance is used.

Movements in loss allowance provision for other financial assets at amortized cost for the years ended December 31, 2019 and 2018, are as follows:

| *(in millions of Korean won)* | 2019 | 2018 |
|---|---|---|
| **Beginning balance** | ₩ 86,701 | ₩ 61,542 |
| Increase in loss allowance recognized in profit or loss during the year | 11,888 | 17,968 |
| Receivables written off during the year as uncollectible | (5,737) | (16,616) |
| Unused amounts reversed | 1,070 | 928 |
| Transfer of loss allowance due to change of accounts for receivables | 1,089 | 22,879 |
| **Ending balance**[1] | ₩ 95,011 | ₩ 86,701 |

[1] Loss allowance for other receivables classified as assets held for sale are included, and the amount of loss allowance included as at December 31, 2019, is ₩ 29,130 million.

*(e) Liquidity risk*

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

Maturity analysis of non-derivative financial liabilities according to its remaining maturity as at December 31, 2019 and 2018, is as follows:

| *(in millions of Korean won)* | 2019 | | | |
|---|---|---|---|---|
| **Type**[1] | **Within a year** | **1-5 years** | **More than 5 years** | **Total** |
| Non-interest-bearing instruments[2] | ₩ 2,927,252 | ₩ 362 | ₩ - | ₩ 2,927,614 |
| Variable interest rate instruments | 268,271 | 471,690 | 242,850 | 982,811 |
| Variable interest rate instruments (for cash flow hedge) | 5,645 | 312,990 | - | 318,635 |
| Fixed interest rate instruments | 894,642 | 3,599,516 | 687,457 | 5,181,615 |
| Lease liabilities | 141,207 | 292,297 | 179,333 | 612,837 |
| | ₩ 4,237,017 | ₩ 4,676,855 | ₩ 1,109,640 | ₩ 10,023,512 |

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

[2] The carrying amount of liabilities held for sale included in non-interest-bearing non-derivative financial liabilities (accrued expenses) with a maturity within one year as at December 31, 2019, is ₩ 8,234 million.

| *(in millions of Korean won)* | 2018 | | | |
|---|---|---|---|---|
| **Type**[1] | **Within a year** | **1-5 years** | **More than 5 years** | **Total** |
| Non-interest-bearing instruments | ₩ 2,205,813 | ₩ 38 | ₩ - | ₩ 2,205,851 |
| Variable interest rate instruments | 232,637 | 638,370 | 303,563 | 1,174,570 |
| Fixed interest rate instruments | 959,568 | 1,697,316 | 504,073 | 3,160,957 |
| | ₩ 3,398,018 | ₩ 2,335,724 | ₩ 807,636 | ₩ 6,541,378 |

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

Maturity analysis of derivative financial liabilities according to its remaining maturity as at December 31, 2019, is as follows:

| *(in millions of Korean won)* | 2019 | |
|---|---|---|
| | **Within a year** | **1-5 years** |
| Derivative instruments designated as hedging instruments | | |
| Interest rate swap liabilities | ₩ 151 | ₩ 746 |

**33.3 Transfer of Financial Assets**

*Transferred Financial Assets that are Derecognized in their Entirety*

The Group transferred trade receivables to special purpose entities and others for ₩ 2,333,840 million in relation to handset installment sales and derecognized the trade receivables from the financial statements as substantially all the risks and rewards are transferred. Accordingly, the Group recognized a loss on disposal for ₩ 19,192 million.

**33.4 Fair Value Hierarchy**

Items that are measured at fair value are categorized by the fair value hierarchy levels, and the defined levels are as follows:

- 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).

Fair value hierarchy classifications of the financial instruments that are measured subsequent at fair value to initial recognition as at December 31, 2019 and 2018, are as follows:

| *(in millions of Korean won)* | 2019 | | | | |
|---|---|---|---|---|---|
| | | **Fair value** | | | |
| | **Carrying amount** | **Level 1** | **Level 2** | **Level 3** | **Total** |
| Financial assets | | | | | |
| Financial assets at fair value through profit or loss | | | | | |
| Available-for-sale financial assets | ₩ 30,024 | ₩ - | ₩ - | ₩ 30,024 | ₩ 30,024 |
| Derivative assets held for sale | 1,119 | - | 1,119 | - | 1,119 |
| Financial assets at fair value through other comprehensive income | | | | | |
| Available-for-sale financial assets | 10,647 | 201 | - | 10,446 | 10,647 |
| Handset installment receivables | 489,392 | - | 489,392 | - | 489,392 |
| Financial liabilities | | | | | |
| Derivative liabilities designated as hedging instruments | 897 | - | 897 | - | 897 |

| *(in millions of Korean won)* | 2018 | | | | |
|---|---|---|---|---|---|
| | | **Fair value** | | | |
| | **Carrying amount** | **Level 1** | **Level 2** | **Level 3** | **Total** |
| Financial assets | | | | | |
| Financial assets at fair value through profit or loss | | | | | |
| Available-for-sale financial assets | ₩ 25,206 | ₩ - | ₩ - | ₩ 25,206 | ₩ 25,206 |
| Financial assets at fair value through other comprehensive income | | | | | |
| Available-for-sale financial assets | 7,856 | 4,671 | - | 3,185 | 7,856 |
| Handset installment receivables | 858,370 | - | 858,370 | - | 858,370 |

There were no significant transfers between levels 1 and 2 for fair value measurements for the years ended December 31, 2019 and 2018.

The financial assets categorized within level 2 of the fair value hierarchy classifications are measured with application of the present value discount method using discount rates that are based on interest rates disclosed in the market as at December 31, 2019. Valuation of the financial assets categorized within level 3 of the fair value hierarchy classifications is performed by using reliable information from a third party or in accordance with B5.2.3 of Korean IFRS 1109. The Group performed valuation of the financial assets categorized within level 3 of the fair value hierarchy classifications considering risk-adjusted discount rate and others.

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 Group.

Valuation techniques and inputs used in the recurring and non-recurring fair value measurements categorized within level 2 of the fair value hierarchy are as follows:

| *(in millions of Korean won)* | **Fair value** | **Level** | **Valuation techniques** | **Inputs** |
|---|---|---|---|---|
| Debt instruments at fair value through other comprehensive income | | | | |
| Trade receivables | ₩ 489,392 | 2 | Discounted cash flow | Interest rate of guarantee debentures |
| Derivative liabilities | | | | |
| Interest rate swap | 897 | 2 | Discounted cash flow | Discount rate observed in the market[1] |
| Derivative assets | | | | |
| Currency swap | 1,119 | 2 | Discounted cash flow | Discount rate observed in the market[1] |

[1] The valuation has been performed based on discount rates derived from margin curves that are observable the market.

## 34. Statements of Cash Flows

The major transactions not involving cash outflows and cash inflows for the years ended December 31, 2019 and 2018, are as follows:

| *(in millions of Korean won)* | **2019** | **2018** |
|---|---|---|
| Reclassification of assets under construction | ₩ 1,956,216 | ₩ 817,703 |
| Current portion of long-term non-trade payables | 227,942 | 134,456 |
| Non-trade payables relating to acquiring property, plant and equipment and intangible assets | 93,015 | 762,585 |
| Current portion of long-term borrowings and debentures | 489,732 | 884,411 |
| Effects of changes in accounting policy | - | 1,303,405 |

Changes in liabilities arising from financial activities for the years ended December 31, 2019 and 2018, 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** | **Lease liabilities** | **Total** |
|---|---|---|---|---|---|---|---|
| At January 1, 2018 | ₩ 429,822 | ₩ 2,035,571 | ₩ 15,000 | ₩ 436,197 | ₩ 425,000 | ₩ - | ₩ 3,341,589 |
| Cash flows – issue / borrowing | - | 298,717 | 487,337 | - | 200,000 | - | 986,054 |
| Cash flows – repayment | (430,000) | - | (492,337) | (436,197) | - | - | (1,358,534) |
| Current portion | 609,411 | (609,411) | - | 275,000 | (275,000) | - | - |
| Others | 576 | 1,376 | - | - | - | - | 1,952 |
| At December 31, 2018 | ₩ 609,809 | ₩ 1,726,253 | ₩ 10,000 | ₩ 275,000 | ₩ 350,000 | ₩ - | ₩ 2,971,062 |
| Cash flows – issue / borrowing | ₩ - | ₩ 1,484,186 | ₩ 63,283 | ₩ - | ₩ 1,100,000 | ₩ | ₩ 2,647,469 |
| Cash flows – repayment | (610,000) | - | (68,283) | (275,000) | - | (298,756) | (1,235,144) |
| Current portion | 339,732 | (339,732) | - | 150,000 | (150,000) | - | - |
| Others | 429 | 1,912 | - | - | - | 801,498 | 786,943 |
| Increase due to business combination | 334,613 | 31,906 | - | - | 152,123 | 82,661 | 601,303 |
| At December 31, 2019 | ₩ 674,583 | ₩ 2,904,525 | ₩ 5,000 | ₩ 150,000 | ₩ 1,452,123 | ₩ 585,403 | ₩ 5,771,633 |

## 35. Unconsolidated Structured Entities

In order to carry out asset securitization with receivables of handset as underlying assets, the Group transferred the receivables of handset to U Plus 5G SPC 48th and 20 other companies (the "SPC"). As a result, SPC is not subject to consolidation according to Korean IFRS 1110 *Consolidated Financial Statement* and the receivables of handset satisfy the requirements of derecognition of Korean IFRS 1109 *Financial Instruments*.

Details of scale of unconsolidated structured entities as at December 31, 2019 and 2018, are as follows:

| *(in millions of Korean won)* | **Asset securitization** |
|---|---|
| Total assets of unconsolidated structured entities | ₩ 3,492,086 |

## 36. Changes in Accounting Policies

### 36.1 Adoption of Korean IFRS 1116 *Leases*

As explained in Note 2, the Group has adopted Korean IFRS 1116, retrospectively, from January 1, 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are, therefore, recognized in the consolidated statement of financial position on January 1, 2019.

(a) Adjustments recognized on adoption of Korean IFRS 1116 *Leases*

On adoption of Korean IFRS 1116, the Group recognized lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of Korean IFRS 1017. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as at January 1, 2019. The lessee's weighted average incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 2.02%.

While the Group has adopted Korean IFRS 1116 from January 1, 2019, as permitted under the specific transitional provisions in the standard, the Group has applied a method that recognizes the cumulative effects of the initial application as an asset for an amount equivalent to the amount of lease liabilities as at January 1, 2019, the initial date of the application.

Right-of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the consolidated statement of financial position as at December 31, 2018 (including prepaid operating lease payments and prepaid amounts accounted for present value discounts on lease deposits).

An amount transferred from estimated assets for restoration cost is also included in right-of use assets

There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

| *(in millions of Korean won)* | | **2019** |
|---|---|---|
| Operating lease commitments disclosed as at December 31, 2018 | ₩ | 244,452 |
| Add: adjustments as a result of a different treatment of extension options | | 245,447 |
| Add: contracts reassessed as lease contracts | | 96,313 |
| Add: amounts added as lease contracts | | 49,270 |
| Less: present value discount for leases as at January 1, 2019 | | (33,241) |
| **Lease liability recognized as at January 1, 2019** | | 602,241 |
| Of which are: | | |
| Current lease liabilities | | 134,431 |
| Non-current lease liabilities | | 467,810 |
| | ₩ | 602,241 |

(i) Amounts recognized in the consolidated statement of financial position

The consolidated statement of financial position shows the following amounts relating to leases:

| *(in millions of Korean won)* | | December 31, 2019 | | January 1, 2019 |
|---|---|---|---|---|
| Right-of-use assets[1,2] | | | | |
| Properties[3] | ₩ | 522,978 | ₩ | 540,718 |
| Telecommunication facilities | | 36,774 | | 26,951 |
| Vehicles | | 22,244 | | 22,228 |
| Others (charge for exclusive use of road, sites along railways) | | 88,096 | | 88,652 |
| | ₩ | 670,092 | ₩ | 678,549 |

[1] The amount is included in property, plant and equipment in the statement of financial position

[2] Right-of-use assets of ₩ 88,199 million arisen from the business combination is included.

[3] On the initial date of the application, prepaid expenses of ₩ 63,098 and estimated assets for restoration cost (property, plant and equipment) of ₩ 13,213 million related to make good obligation on properties were reclassified to right-of-use assets.

| *(in millions of Korean won)* | | December 31, 2019 | | January 1, 2019 |
|---|---|---|---|---|
| Lease liabilities[1,2] | | | | |
| Current | ₩ | 136,531 | ₩ | 134,431 |
| Non-current | | 448,871 | | 467,810 |
| | ₩ | 585,402 | ₩ | 602,241 |

[1] The amount is included in other liabilities in the statement of financial position

[2] Lease liabilities of ₩ 82,661 million arisen from the business combination is included.

Deduction to the right-of-use assets during the 2019 financial year were ₩ 8,457 million.

(ii) Amounts recognized in the consolidated statement of profit or loss

The consolidated statement of profit or loss shows the following amounts relating to leases:

| *(in millions of Korean won)* | | **2019** |
|---|---|---|
| Depreciation of right-of-use assets | | |
| Properties | ₩ | 249,515 |
| Telecommunication facilities | | 8,215 |
| Vehicles | | 10,246 |
| Others (charge for exclusive use of road, sites along railways) | | 13,344 |
| | | 281,320 |
| Interest expense relating to lease liabilities (included in finance cost) | | 6,468 |
| | ₩ | 287,788 |

The total cash outflow for leases in 2019 was ₩ 298,756 million.

The change in accounting policy affected the following items in the consolidated statement of financial position on January 1, 2019:

- right-of-use assets: increase by ₩ 678,549 million
- estimated assets for restoration cost: decrease by ₩ 13,213 million
- prepaid expenses: decrease by ₩ 63,098 million
- lease liabilities: increase by ₩ 602,241 million

*(b) Activities and accounting policy for leases*

The Group leases various properties, telecommunication facilities, vehicles and others. Lease contracts are typically made for fixed periods of two to eight years, but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until the 2018 financial year, leases of property, plant and equipment were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From January 1, 2019, leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate;
- amounts expected to be payable by the Group (the lessee) under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Payments associated with leases of low-value assets are recognized on a straight-line basis as an expense in profit or loss. Low-value assets comprise IT-equipment and small items of office furniture

## 37. Approval of Issuance of the Financial Statements

The consolidated financial statements 2019 were approved for issue by the Board of Directors on February 5, 2020 and will be finally approved with the approval of shareholders at their annual general shareholders' meeting on March 20, 2020.

## 38. Events After the Reporting Period

It was approved to issue the following bonds in order to retain conversion funds and operating funds:

- LG Uplus Corp.: approval of the finance committee on January 3, 2020
- LG HelloVision Corp.: approval of the finance committee on December 24, 2019

*(in millions of Korean won)*

| Issued by (Credit rating) | Issuance date | Issuance No. | Face value | Maturity date |
|---|---|---|---|---|
| LG Uplus Corp. | 2020.01.21 | Public bond No. 106-1st | ₩ 160,000 | 2023.01.20 |
| (AA0) | 2020.01.21 | Public bond No. 106-2nd | 120,000 | 2025.01.21 |
| | 2020.01.21 | Public bond No. 106-3rd | 50,000 | 2030.01.21 |
| | 2020.01.21 | Public bond No. 106-4th | 70,000 | 2035.01.21 |
| LG HelloVision Corp. | 2020.01.17 | Public bond No. 9-1st | 100,000 | 2023.01.17 |
| (AA-) | 2020.01.17 | Public bond No. 9-2nd | 100,000 | 2025.01.17 |

On January 22, 2020, in accordance with the resolution of finance committee, the Group transferred trade receivables (handset installment receivables) with a total face amount of ₩ 418,927 million to UPlus 5G SPC 49th. The proceeds from this sale was settled on February 7, 2020.

On January 2, 2020, the Group newly established Uplus Home Service, a subsidiary, for a purpose of improving its home service. The Group's contribution amounts to ₩ 14,000 million, and its ownership interest is 100%. (The approval date of the Board of directors is December 20, 2019.)

From September 16, 2019 to January 15, 2020 (during four months), a fact-finding investigation was conducted by the Korean Communications Commission against the Group in relation to violation of the *Mobile Device Distribution Improvement Act*, and an administrative measure such as a fine may be prescribed in the future in accordance with the results of the finding.