LG Uplus Corp.
AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS
ENDED DECEMBER 31, 2011 AND 2010
AND INDEPENDENT AUDITORS' REPORT

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Audit . Tax . Consulting . Financial Advisory.

Independent Auditors’ Report

English Translation of a Report Originally Issued in Korean

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

We have audited the accompanying consolidated statements of financial position of LG Uplus Corp. (the “Company”) and its subsidiaries (collectively the “Group”) as of December 31, 2011 and 2010, the related consolidated statement of income and comprehensive income, changes in shareholders’ equity and cash flows for the year then ended, all expressed in Korean Won. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that out audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Group as of December 31, 2011 and 2010, and the results of its operations and its cash flows for the years ended in conformity with Korean International Financial Reporting Standards (“K-IFRS”).

March 8, 2012

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<u>Notice to Readers</u>

This report is effective as of March 8, 2012, the auditors’ report date. Certain subsequent events or circumstances may have occurred between this auditors’ report date and the time the auditors’ report is read. Such events or circumstances could significantly affect the accompanying financial statements and may result in modifications to the auditors’ report.

LG Uplus Corp. (the “Company”)

CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

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

Sang Chul Lee

President of LG Uplus Corp.

LG UPLUS CORP.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2011 AND 2010

	Korean Won			
	December 31, 2011		December 31, 2010	
	(In millions)			
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents (Notes 5 and 6)	₩	118,821	₩	537,535
Financial institution deposits (Notes 5 and 7)		12,650		15,350
Trade receivables, net (Notes 5 and 8)		1,907,348		1,221,731
Loans and other receivables, net (Notes 5 and 8)		92,785		127,915
Available-for-sale financial assets (Notes 5)		110		71
Inventories, net (Note 9)		372,218		190,097
Other current assets (Note 10)		119,300		67,382
Total current assets		2,623,232		2,160,081
NON-CURRENT ASSETS:				
Non-current financial institution deposits (Notes 5 and 7)		23		323
Non-current available-for-sale financial assets (Notes 5)		71,992		75,477
Non-current trade receivables, net (Notes 5 and 8)		843,937		188,133
Non-current loans and other receivables (Notes 5 and 8)		255,721		234,836
Investments in jointly-controlled entities and associates (Note 14)		12,071		10,963
Deferred income tax assets, net (Note 26)		377,095		394,161
Property, plant and equipment, net (Note 11)		5,631,486		4,870,145
Investment property, net (Notes 12)		27,940		47,005
Intangible assets, net (Note 13)		1,153,859		517,160
Other non-current assets (Note 10)		51,187		26,945
Total non-current assets		8,425,311		6,365,148
TOTAL ASSETS	₩	11,048,543	₩	8,525,229
LIABILITIES AND SHAREHOLDERS' EQUITY				
CURRENT LIABILITIES:				
Trade payables (Notes 5 and 16)	₩	637,403	₩	315,530
Non-trade and other payables (Notes 5 and 16)		1,795,867		1,101,128
Short-term borrowings (Notes 5 and 15)		270,000		224,910
Current portion of debentures and long-term borrowings (Notes 5 and 15)		993,696		653,767
Derivative liabilities (Notes 5 and 30)		-		699
Other current financial liabilities (Note 5, 16 and 20)		115,848		160,877
Income tax payable (Notes 26)		16,343		37,229
Other current liabilities (Notes 19)		131,261		117,841
Total current liabilities	₩	3,960,418	₩	2,611,981

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LG UPLUS CORP.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)
AS OF DECEMBER 31, 2011 AND 2010

	Korean Won			
	December 31, 2011		December 31, 2010	
	(In millions)			
NON-CURRENT LIABILITIES:				
Debentures and long-term borrowings (Notes 5 and 15)	₩	2,596,114	₩	1,831,899
Non-current derivative liabilities (Notes 5 and 30)		61		-
Other non-current financial liabilities (Notes 5, 16 and 20)		539,568		52,086
Retirement benefit obligation (Note 18)		37,961		28,554
Provisions (Note 17)		40,049		32,592
Other non-current liabilities (Note 19)		14,980		19,635
Total non-current liabilities		3,228,733		1,964,766
TOTAL LIABILITIES		7,189,151		4,576,747
SHAREHOLDERS' EQUITY:				
Capital stock (Note 21)		2,573,969		2,573,969
Capital surplus (Note 21)		836,561		836,593
Other capital items (Note 21)		(703,879)		(703,879)
Accumulated other comprehensive income(loss) (Note 23)		(10,253)		153
Retained earnings (Note 22)		1,161,348		1,240,033
NON-CONTROLLING INTERESTS		1,646		1,613
TOTAL SHAREHOLDERS' EQUITY		3,859,392		3,948,482
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	₩	11,048,543	₩	8,525,229

(Concluded)

See accompanying notes to the consolidated financial statements.

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LG UPLUS CORP.
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	Korean Won			
	2011		2010	
	(In millions, except for net income per share)			
Operating revenues: (Notes 4 and 24)				
Sales	₩	9,185,166	₩	7,974,743
Other gains		71,172		526,008
		9,256,338		8,500,751
Operating expenses:				
Cost of merchandise purchased		2,289,579		1,323,071
Employee benefits (Note 18)		448,317		400,096
Depreciation and amortization (Notes 11, 12 and 13)		1,189,605		1,253,495
Other expenses (Note 24)		5,043,135		4,868,793
		8,970,636		7,845,455
Operating income		285,702		655,296
Financial revenues (Note 25)		71,301		45,501
Financial expenses (Note 25)		184,687		128,938
Share of profits (losses) of joint ventures and associates (Note 14)		1,205		2,019
Other non-operating expenses		5,026		5,644
Income before income tax		168,495		568,234
Income tax expense (income) (Note 26)		83,832		(1,787)
Net income	₩	84,663	₩	570,021
Net income attributable to:				
Owners of the Company	₩	84,634	₩	569,905
Non-controlling interests	₩	29	₩	116
Net income per share (In Korean Won) (Note 27)				
Basic income per share	₩	196	₩	1,318
Diluted income per share	₩	196	₩	1,297

See accompanying notes to the consolidated financial statements.

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LG UPLUS CORP.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	Korean Won	
	2011	2010
	(In millions)	
NET INCOME	₩ 84,663	₩ 570,021
OTHER COMPREHENSIVE INCOME(LOSS):		
Gain on valuation of available-for-sale financial assets	(166)	198
Loss on valuation of available-for-sale financial assets	(10,619)	3,442
Gain on valuation of cash-flow-hedging derivatives	-	(59)
Loss on valuation of cash-flow-hedging derivatives	484	1,243
Gain on foreign currency translation for foreign operations	(8)	11
Share of other comprehensive income of joint ventures and associates	(97)	223
Actuarial gains and losses on defined benefit plans	(11,939)	(7,584)
	(22,345)	(2,526)
TOTAL COMPREHENSIVE INCOME	₩ 62,318	₩ 567,495
Total comprehensive income attributable to:		
Owners of the Company	₩ 62,285	₩ 567,379
Non-controlling interests	₩ 33	₩ 116

See accompanying notes to the consolidated financial statements.

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LG UPLUS CORP.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	Korean Won							
	Capital stock	Capital surplus	Other capital items	Accumulated other comprehensi-ve income (loss)	Retained earnings	Owners of the Company	Non-controlling interests	Total
	(In millions)							
Balance at January 1, 2010	₩ 1,386,392	₩ 11,579	₩ (176,948)	₩ (4,905)	₩ 767,183	₩ 1,983,301	₩ -	₩1,983,301
Annual dividends	-	-	-	-	(89,968)	(89,968)	-	(89,968)
Net income					569,905	569,905	116	570,021
Capital stock issued in merger	1,187,577	823,133	-	-	-	2,010,710	-	2,010,710
Treasury stock acquired in merger	-	-	(526,931)	-	-	(526,931)	1,503	(525,428)
Conversion premium received	-	1,881	-	-	-	1,881	-	1,881
Gain on valuation of available-for-sale financial assets	-	-	-	198	-	198	-	198
Loss on valuation of available-for-sale financial assets	-	-	-	3,442	-	3,442	-	3,442
Gain on valuation of cash-flow-hedging derivatives	-	-	-	(59)	-	(59)	-	(59)
Loss on valuation of cash-flow-hedging derivatives	-	-	-	1,243	-	1,243	-	1,243
Gain(Loss) on foreign currency translation	-	-	-	11	-	11	-	11
Share of other comprehensive income of joint ventures and associates	-	-	-	223	-	223	-	223
Actuarial losses	-	-	-	-	(7,087)	(7,087)	(6)	(7,093)
Balance at December 31, 2010	2,573,969	836,593	(703,879)	153	1,240,033	3,946,869	1,613	3,948,482
Balance at January 1, 2011	2,573,969	836,593	(703,879)	153	1,240,033	3,946,869	1,613	3,948,482
Annual dividends	-	-	-	-	(151,376)	(151,376)		(151,376)
Net income					84,634	84,634	29	84,663
Gain on valuation of available-for-sale financial assets	-	-	-	(166)	-	(166)	-	(166)
Loss on valuation of available-for-sale financial assets	-	-	-	(10,619)	-	(10,619)	-	(10,619)
Loss on valuation of cash-flow-hedging derivatives	-	-	-	484	-	484	-	484
Gain(Loss) on foreign currency translation	-	-	-	(8)	-	(8)	-	(8)
Share of other comprehensive income of joint ventures and associates	-	-	-	(97)	-	(97)	-	(97)
Actuarial losses	-	-	-	-	(11,943)	(11,943)	4	(11,939)
Others	-	(32)	-	-	-	(32)	-	(32)
Balance at December 31, 2011	₩2,573,969	₩ 836,561	₩ (703,879)	₩ (10,253)	₩1,161,348	₩ 3,857,746	₩ 1,646	₩3,859,392

See accompanying notes to the consolidated financial statements.

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LG UPLUS CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	Korean Won	
	2011	2010
	(In millions)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	₩ 84,663	₩ 570,021
Additions of expenses not involving cash outflows:		
Retirement benefits	32,448	29,138
Depreciation	934,514	1,008,184
Amortization of intangible assets	255,091	245,311
Bad debt expenses	19,708	46,979
Interest expenses	166,130	124,902
Adjustments for loss on disposal of trade receivables	18,557	-
Loss on foreign currency translation	6,127	1,743
Loss on valuation of inventories	47,994	1,493
Loss on inventories impairment	534	-
Income tax expense	83,832	-
Loss on disposal of property, plant and equipment	6,171	43,061
Impairment loss on property, plant and equipment	20,609	9,535
Loss on disposal of intangible assets	8	60
Impairment loss on intangible assets	439	9,417
Loss on transactions of derivatives	-	3,383
	1,592,162	1,523,206
Deduction of items not involving cash inflows:		
Income tax income	-	1,787
Interest income	70,822	41,184
Dividend income	384	416
Gain on foreign currency translation	5,555	1,859
Gain on disposal of property, plant and equipment	388	954
Gain on transactions of derivatives	-	566
Share of profits of associates	1,205	2,019
Other revenue	-	46
Bargain purchase gain	-	496,514
	(78,354)	(545,345)
Changes in operating assets and liabilities related to operating activities:		
Increase in trade receivables	(517,000)	(5,619)
Decrease(increase) in other receivables	9,348	(6,358)
Increase in inventories	(230,648)	(23,210)
Decrease(increase) in other current assets	(88,286)	9,773

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LG UPLUS CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	Korean Won			
	2011		2010	
	(In millions)			
Increase in non-current trade receivables	₩	(822,597)	₩	(138,043)
Decrease(increase) in other non-current assets		17,977		(357)
Increase in trade payables		321,873		71,489
Increase in non-trade and other payables		284,190		49,665
Increase(decrease) in other current financial liabilities		(14,512)		27,194
Increase(decrease) in other current liabilities		13,420		(10,161)
Decrease in other non-current financial liabilities		(1,614)		(5,433)
Decrease in retirement benefit obligation		(38,782)		(48,204)
Decrease in provisions		(1,791)		(1,056)
Decrease in other non-current liabilities		(4,655)		(1,664)
Increase(increase) in loss on foreign currency translation of foreign operations		(8)		11
		(1,073,085)		(81,973)
Interest income received		11,733		8,947
Dividend income received		384		416
Interest expense paid		(159,254)		(126,554)
Income taxes paid		(80,614)		(65,149)
Net cash provided by operating activities		297,635		1,283,569
CASH FLOWS FROM INVESTING ACTIVITIES				
Cash inflows from investing activities:				
Decrease in financial institution deposits		9,000		18
Disposal of available-for-sale financial assets		71		640
Decrease in guarantee deposits		9,182		15,121
Decrease in leasehold deposits		88,449		21,126
Decrease in loans		35,787		30,648
Disposal of property, plant and equipment		29,274		20,698
Disposal of intangible assets		3,935		1,864
Increase due to merger		-		122,109
		175,698		212,224
Cash outflows from investing activities:				
Acquisition of available-for-sale financial assets		10,836		20,372
Acquisition of property, plant and equipment		1,356,536		1,183,097
Acquisition of intangible assets		360,427		25,700
Increase in loans		25,511		31,961
Increase in leasehold deposits		106,462		40,240
Increase in guarantee deposits		3,670		-
Increase of financial institution deposits		6,000		4,000
		(1,869,442)		(1,305,370)
Net cash used in investing activities	₩	(1,693,744)	₩	(1,093,146)

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LG UPLUS CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	Korean Won			
	2011		2010	
	(In millions)			
CASH FLOWS FROM FINANCING ACTIVITIES				
Cash inflows from financing activities:				
Proceeds from short-term borrowings	₩	414,110	₩	574,910
Issuance of debentures		650,000		841,427
Proceeds from long-term borrowings		1,110,251		255,304
Increase in finance lease liabilities		21,117		52,998
Increase in government subsidy		-		397
		2,195,478		1,725,036
Cash outflows from financing activities:				
Redemption of short-term borrowings		369,019		925,976
Redemption of current portion of long-term debt		697,690		453,743
Payment of dividends		151,376		119,537
Payment of stock issuance costs		-		5,796
Acquisition of treasury stock		-		120
Settlement of derivatives		-		21,094
		(1,218,085)		(1,526,266)
Net cash provided by financing activities		977,393		198,770
EXCHANGE RATE FLUCTUATION EFFECT OF CASH AND CASH EQUIVALENTS		2		(8)
Net (decrease)increase in cash and cash equivalents		(418,714)		389,185
Cash and cash equivalents:				
Beginning of the year		537,535		148,350
End of the year(Note 33)	₩	118,821	₩	537,535

(concluded)

See accompanying notes to the consolidated financial statements.

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LG UPLUS CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

1. GENERAL:

LG Uplus Corp. Ltd. (the "Company") was incorporated on July 11, 1996, under the Commercial Code of the Republic of Korea to provide personal communication services including voice, data and value-added communication. The Company commenced its commercial operation on October 1, 1997. The Company listed its shares on the Korea Securities Dealers Automated Quotation ("KOSDAQ") stock market on September 21, 2000. In accordance with the resolution from the shareholders' meeting on March 18, 2008, the Company cancelled its listing on the KOSDAQ. Subsequentely, the Company listed its' shares on the Korea Stock Exchange ("KRX") on April 21, 2008.

In efforts to enhance operational efficiency and maximize synergy effects between wire and wireless communication business, LG Dacom Corp. and LG Powercom Corp. merged into the Company on January 1, 2010 (merger registration date: January 5, 2010). Through this merger, the Company expanded its operations to; fixed-line telephony service (including international and long-distance telephone service), internet access service and value-added telecommunication activities from LG Dacom; and broadband network rentals and broadband internet access service activities from LG Powercom.

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 head office is located in Seoul, Korea and it has set up telecommunication networks all over the country to provide fixed-line and wireless services.

As of December 31, 2011, the Company's shareholders are as follows:

Name of shareholder	Number of shares owned	Percentage of ownership (%)
LG Corporation	157,376,777	30.57
KEPCO Corporation	38,409,376	7.46
Treasury stock	82,291,883	15.99
Others	236,715,799	45.98
	514,793,835	100.00

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

The consolidated financial statements of the Company and subsidiaries (collectively, the "Group") have been prepared in accordance with Korean International Financial Reporting Standards ("K-IFRS").
The significant accounting policies followed by the Group in the preparation of financial statements are summarized below. The consistent accounting policies are applied to the consolidated financial statements for the current period and the comparative period.
A parts of statements of cash flows are reclassified in the consolidated financial statements for the comparative period because of the comparability with consolidated financial statements for the current period. As a results, cash flows from operating activities increases amounts of ₩ 21,725 and cash flows from investing activities decreases amounts of ₩ 21,725 for the year of 2010. The outcome of these reclassification will not have a effect on the financial incomes or assets of the Group reported for the year of 2010.

The accompanying financial statements were approved by the board of directors on January 27, 2012

(1) Basis of preparing consolidated financial statements

1) Basis of measurement

The financial statements have been prepared on the historical cost basis except certain non-current assets and financial instruments.

2) Functional and reporting currency

The individual financial statements of each entity in the Group are presented in the currency of the primary economic environment in which the entity operates (its functional currency). The Group's functional currency and the reporting currency for the consolidated financial statements is Korean Won (KRW).

3) Basis for consolidation

The consolidated financial statements comprise the financial statements of the Company and the entities that are controlled by either the Company or its subsidiaries. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the period are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation. Non-controlling interests in subsidiaries are identified separately from the Group's equity in the consolidated statements of financial position. The interests of non-controlling shareholders are initially measured at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance. Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions.

Consolidated subsidiaries as of December 31, 2011 are as follows (Unit: Korean Won in millions):

Consolidated subsidiaries	Place of incorporation and operation	Percentage of ownership (%)	Closing month	Classification of the business	Key financial highlights			
					Assets	Liabilities	Operating income	Net income
Ain Teleservice	South Korea	100.00	December	Service of telemarketing	₩7,175	₩6,250	₩47,448	₩ 583
CS Leader	South Korea	100.00	December	Service of telemarketing	5,204	4,271	33,904	698
DACOM Multimedia Internet Corporation	South Korea	88.06	December	Service of internet	28,887	15,106	59,386	242
DACOM America Inc.	USA	100.00	December	Service of communication	412	3,619	1,474	21
CS ONE Partner	South Korea	100.00	December	Service of telemarketing	6,675	3,869	41,703	1,064

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(2) Enacted or amended standards

1) K- IFRS 1107 *Financial Instruments: Disclosures – Transfers of Financial Assets*
The amendments to K-IFRS 1107 increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period. K-IFRS 1107 is effective for annual periods beginning on or after July 1, 2011.

2) Amendments to K-IFRS 1012 *Deferred Tax – Recovery of Underlying Assets*
The amendments to K-IFRS 1012 provide an exception to the general principles in K-IFRS 1012 that the measurement of deferred tax assets and deferred tax liabilities should reflect the tax consequences that would follow from the manner in which the entity expects to recover the carrying amount of an asset. Investment property or a non-depreciable asset measured using the revaluation model in K-IFRS 1016 Property, Plant and Equipment, are presumed to be recovered through sale for the purposes of measuring deferred taxes, unless the presumption is rebutted in certain circumstances. The amendments to K-IFRS 1012 are effective for annual periods beginning on or after January 1, 2012.

3) K-IFRS 1019 (as revised in 2011) *Employee Benefits*
The amendments require all actuarial gains and losses to be recognized immediately through other comprehensive income in order for the net pension asset or liability recognized in the statement of financial position to reflect the full value of the plan deficit or surplus. The amendments to K-IFRS 1019 are effective for annual periods beginning on or after January 1, 2013 and require retrospective application with certain exceptions.

4) K-IFRS 1113 *Fair Value Measurement*
K-IFRS 1113 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. K-IFRS 1113 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.

The Company does not anticipate that these amendments and new accounting pronouncements referred above will have a significant effect on the Company's financial statements and disclosures.

(3) Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognized in net income as incurred (issuance costs of debt or equity instruments are excluded).

The Company recognizes goodwill at the date control is acquired (the acquisition date). Goodwill is measured as excess of sum of the consideration transferred, the non-controlling interest in the acquisition, if any, and the fair value of the Company's previously held equity interest in the acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed for business combination achieved in stages. Otherwise, the Company reassesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and recognizes the difference after that review in net income as a bargain purchase gain (loss).

Non-controlling interest in the acquiree is measured with the proportionated non-controlling interest in the identifiable net assets.

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(4) Investments in associates

An associate is an entity which the Group has significant influence on and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results of operation from associates and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case, it is accounted for in accordance with K-IFRS 1105 - *Non-current Assets Held for Sale and Discontinued Operations*. Under the equity method, investments in associates are carried in the consolidated statements of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that in substance, form part of the Group's net investment in the associate) are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognized at the date of acquisition is recognized as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of that investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized immediately in net income.

When an entity in the Group transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

(5) Interests in joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control (i.e. when the strategic financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control).

When an entity in the Group directly undertakes its activities under joint venture arrangements, the Group's share of jointly-controlled assets and any liabilities incurred jointly with other venturers are recognized in the financial statements of the relevant entity and classified according to their nature. Liabilities and expenses incurred directly in respect of interests in jointly-controlled assets are accounted for on an accrual basis. Income from the sale or use of the Group's share of the output of jointly-controlled assets and its share of joint venture expenses are recognized when it is probable that the economic benefits associated with the transactions will flow to/from the Group and their amount can be measured reliably.

Joint venture arrangements that involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly-controlled entities. The Group reports its interests in jointly-controlled entities using equity method, except when the investment is classified as held for sale, in which case, it is accounted for in accordance with K-IFRS 1105 *Non-current Assets Held for Sale and Discontinued Operations.* When an entity in the Group transacts with a jointly-controlled entity of the Group, unrealized profits and losses are eliminated to the extent of the Group's interest in the joint venture.

(6) Foreign currencies

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

In preparation of the Group's separate financial statements, any transaction that occurred in currency other than its functional currency will be recorded in translated amount using the exchange rate of the transaction. At the end of reporting period, all monetary assets and liabilities will be translated using the exchange rate at the end of reporting date. Meanwhile, non-monetary assets and liabilities measured at fair value will be re-translated 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 net income in the period in which they arise except for:

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

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

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

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in Korean Won (KRW) using exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case, the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized in other comprehensive income (loss) and accumulated in equity (attributed to non-controlling interests as appropriate).
Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

(7) Cash and cash equivalents

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

(8) Financial assets

All financial assets are recognized and derecognized on trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the time frame established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

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

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1) Financial assets at FVTPL

Financial assets are classified at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL. FVTPL includes a financial asset held for trading and a financial asset designated as at FVTPL upon initial recognition. A financial asset is classified as held for trading if it has been acquired principally for the purpose of selling in near term. A financial instrument, as long as it is not designated as an effective hedge derivative instrument or a financial guarantee contract, and contains one of more embedded derivatives, while it is treated separately from the host contract, is classified as held-for-trading.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in net income. Transaction costs attributable to acquisition upon initial recognition are immediately recognized in net income in the period occurred.

2) Held-to-maturity investments

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

3) AFS financial assets

AFS financial assets are non-derivative financial assets that are either designated as AFS or are not classified as at FVTPL, held-to-maturity investments, or loans and receivables. These are measured at fair value and changes in the fair value of AFS financial assets are recognized in other comprehensive income (loss) except for changes due to foreign currency translation and impairment. However, AFS financial assets that are not traded in an active market and the fair value cannot be reliably measured will be recognized at cost. Gains and losses arising from changes in fair value are recognized in other comprehensive income (loss), with the exception of impairment losses, interest calculated using the effective interest method, and foreign exchange gains and losses on monetary assets, which are recognized in net income. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to net income. Dividends on AFS equity instruments are recognized in net income when the Group’s right to receive the dividends is established.

4) Loans and receivables

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

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5) Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected. Trade receivables that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments as well as observable changes in national or local economic conditions that correlate with default on receivables.

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

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

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through net income to the extent of the previously recognized loss amount. The carrying amount of the investment at the date the impairment is reversed shall not exceed what the amortized cost would have been had no impairment was previously recognized.

In respect of AFS equity securities, impairment losses previously recognized in net income are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income.

6) Derecognition of financial assets

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

(9) Inventories

Inventories are stated at the lower of cost or net realizable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventories by the weighted average method and the moving average method. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

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(10) Property, plant and equipment

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses. The cost of an item of property, plant and equipment is directly attributable to their purchase or construction, which includes any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. It also includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located. Subsequent costs are recognized in carrying amount of an asset or as an asset if it is probable that future economic benefits associated with the assets will flow into the Group and the cost of an asset can be measured reliably. Routine maintenance and repairs are expensed as incurred.

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

	Estimated useful lives (years)
Buildings	20 - 40
Structures	40
Telecommunication facilities	5 - 8
Tools, furniture and fixtures	3 - 5
Vehicles	5

The Group reviews the depreciation method, the estimated useful lives and residual values of property, plant and equipment at the end of each annual reporting period. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate. In addition, when an acquisition of a tangible asset occurs free-of-charge or at a value less than fair market value, due to government subsidy, the acquisition cost less government subsidy is recorded as the acquisition cost upon initial acquisition and depreciation expense is calculated based on the carrying amount.

(11) Investment property

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

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

Amongst the investment properties, land is not depreciated. However, investment properties other than land are depreciated over 20-40 years of their useful lives using the straight-line method.

The depreciation method, residual value and useful lives of investment properties are reassessed or reviewed at the end of each annual reporting period, and any changes from them are treated as change in accounting estimates.

(12) Intangible assets

Intangible assets acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Intangible assets comprise of intellectual property rights, membership, customer relationships and others, and are amortized by the straight-line method over 2-20 years with no residual value. Some intellectual property rights and memberships have indefinite useful lives; such intangibles are not amortized but tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

In relation to intangible assets with definite useful lives, the estimated useful life and amortization method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for as change in accounting estimates.

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(13) Goodwill

Goodwill arising in a business combination is recognized as an asset at the date when control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

Goodwill is not amortized but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units ("CGU") expected to benefit from the synergies of the combination. CGUs to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the CGU is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro-rata basis of the carrying amount of each asset in the unit. An impairment loss recognized for goodwill is not reversed in a subsequent period. On disposal of a subsidiary, the relevant amount of goodwill is included in the determination of the gain or loss on disposal.

(14) Impairment of non-financial assets

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

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired. Recoverable amount is the higher of fair value less costs to sell or value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is immediately recognized as an expense.

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

(15) Financial liabilities and equity instruments

1) Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

2) Financial liabilities at FVTPL

Financial liabilities at FVTPL include a financial liability held for trading and a financial liability designated at FVTPL. A financial liability is classified as held for trading if it has been acquired principally for the purpose of repurchasing it in the near term or it is a derivative that is not designated and effective as a hedging instrument. Gains and losses arising on remeasurement are recognized in net income and interest expenses paid in financial liabilities are recognized in net income, as well.

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3) Other financial liabilities

Other financial liabilities are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

4) Financial guarantee liabilities

Financial guarantee contract liabilities are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

- the amount of the obligation under the contract, as determined in accordance with K-IFRS 1037 Provisions, Contingent Liabilities and Contingent Assets; and
- the amount initially recognized less, cumulative amortization recognized in accordance with the K-IFRS 1018 Revenue

5) Derecognition of financial liabilities

The Group derecognizes financial liabilities only when, the Group's obligations are discharged, cancelled or expired. Difference between paid charges and derecognition of financial liabilities is recognized immediately in net income.

(16) Lease

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

1) The Group as lessee

Assets held under finance leases are initially recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. The financial charge, except for the case that it is capitalized as part of the cost of that asset according to the Group's accounting for borrowing costs, is immediately expensed in the period in which it is incurred. Contingent rents are charged as expenses in the periods in which they are incurred.
Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred. In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

2) The Group as lessor

Amounts due from lessees under finance leases are recognized as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect an effective interest rate on the Group's net investment outstanding in respect of the leases. Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

(17) Borrowing costs

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

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. Additionally, borrowing costs eligible for capitalization reflects hedge effectiveness in case that the hedge accounting for interest rate risk can be applied for borrowing costs directly related to qualifying assets.

All other borrowing costs are recognized in net income in the period in which they are incurred.

(18) Derivative financial instruments

Derivatives are initially recognized at fair value at the date the derivative contract is entered into and transaction costs are recognized in net income as incurred.

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

When designating a cash flow hedge, the Group formally designates a hedging relationship and the Group’s risk management objective and strategy for undertaking hedge at the inception of the hedge and documents identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedge and how the Group will assess the hedging instrument’s effectiveness in offsetting the exposure to changes. Additionally, the hedge is assessed on an ongoing basis and determined actually to have been highly effective throughout the financial reporting periods for which the hedge was designated.

Under a cash flow hedge, the effective portion of the gain or loss on the cash flow hedging instrument is recognized in other comprehensive income (loss) and the ineffective portion is recognized in net income. The associated gains or losses that are recognized in other comprehensive income are reclassified from equity to net income as a reclassification adjustment in the same period or periods, during which the asset acquired or liability assumed affects net income. If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, the associated gains and losses are removed from other comprehensive income (loss) and included in the initial cost or other carrying amount of the asset or liability.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, exercised, or when it no longer qualifies for hedge accounting. Amounts previously recognized in other comprehensive income and accumulated in equity are reclassified to net income in the periods when the forecast transaction ultimately occurs. However, when a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in net income.

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(19) Retirement benefit costs

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

The retirement benefit obligation recognized in the statements of financial position represents the present value of the defined benefit obligation as adjusted for unrecognized actuarial gains and losses and unrecognized past service cost, and as reduced by the fair value of plan assets. For defined benefit retirement plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each reporting period. The present value of defined benefit obligations is expressed in a currency in which retirement benefits will be paid and is calculated by discounting expected future cash outflows with the interest rate of high quality corporate bonds which maturity is similar to the payment date of retirement benefit obligations. Actuarial gains and losses comprise the effects of differences between the previous actuarial assumptions and what has actually occurred and the effects of changes in actuarial assumptions. They are recognized in other comprehensive income (loss) in the statements of comprehensive income in the period in which they occur. Actuarial gains and losses recognized in other comprehensive income (loss) are immediately recognized in retained earnings and not be reclassified to net income in a subsequent period. Past service cost is recognized immediately to the extent that the benefits are already vested, and otherwise is amortized on a straight-line basis over the average period until the benefits become vested.

(20) Provisions

A provision is recognized when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.
Provisions are calculated as present value of the best estimate of the expenditure required to settle the present obligation, using a pre-tax discount rate that reflects current market assessments of the time value of money and those risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense. The Group reviews provision balance at the end of reporting period and adjusts the amount reflecting the best estimate.

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

(21) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold or services provided in the Group's normal course of business, net of discounts, customer returns, rebates and related taxes. The Group recognizes revenues when the amount of revenue can be measured reliably and it is probable that the economic benefits associated with the transaction will flow to the Group.

With regard to the customer's reward points (EZ points and EZ money mileage) granted on the use of PCS services, rendering PCS services is considered as multiple deliverable transactions. The total consideration received or receivable in exchange for the PCS services is allocated between the sale of PCS services and reward points. For reward points, the allocation of the total consideration is measured at fair value and shall be accounted for as unearned revenue for initial measurement. Afterwards, when the reward points are either used or redeemed, it is recognized as revenue.

(22) Current tax payable and deferred tax

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

1) Current tax payable

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

2) Deferred tax

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

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income tax levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

3) Recognition of current tax payable and deferred tax

Deferred tax is recognized in net income, except when it relates to items that are recognized in other comprehensive income (loss) or directly in equity, in which case the deferred tax is also recognized in other comprehensive income (loss) or directly in equity, respectively. In case of business combination, the tax effect is considered when calculating goodwill or when determining the excess (bargain purchase gain) of the fair value, net of tax, of identifiable assets, liabilities and contingent liabilities over the exceed business combination costs

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realized, based on tax rates (and tax law) that have been enacted or substantively enacted by the end of the reporting period in a country where a subsidiary or an associate manages its operation and generates taxable profits. Management regularly assesses determining the excess (bargain purchase grain) of position taken with regard to tax reporting in a case that an applicable tax code relies on its interpretation and accounts the expected amounts which will be paid to a taxing authority as a liability.

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(23) Treasury stock

When the Group repurchases its equity instruments (Treasury stock), the incremental costs, net of tax effect, are deducted from the shareholders' equity and recognized as other capital items deducted from the total equity in the consolidated statements of financial position. In addition, profits or losses from purchase, sale, or retirement of treasury stocks are directly recognized in shareholders' equity.

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY:

In the application of the Group's accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may be different from those estimates. The estimates and underlying assumptions are continuously reviewed. The changes in accounting estimates are recognized in the period in which the estimate is changed if the change affects only that period, or in the period of the change and future periods if the change affects both current and future periods.
The following are the key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

(1) Fair value of financial instruments

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

(2) Bad debt allowance for loans and receivables

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

(3) Measurement of tangible and intangible assets

When tangible or intangible assets are acquired as part of a business combination, management uses judgment in addition to other factors, to estimate the fair value at the acquisition date. In addition, an estimate of the associated assets' useful lives for depreciation is made.

(4) Estimation of restoration liabilities

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

(5) Impairment of non-financial assets

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

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(6) Defined benefit pension plan

For the defined benefit pension plan, the service cost is determined using actuarial valuations. In order to apply actuarial valuations, it is necessary to assume a discount rate, an expected rate of return on plan assets, and wage increase rate, etc. The retirement benefit plan contains significant uncertainties on the estimation due to its long-term nature. The defined benefit obligations as of December 31, 2011 and 2010 are ₩37,961 million and ₩28,554 million, respectively,) and details are described in Note 18.

(7) Deferred tax

Deferred tax assets and liabilities are recognized and measured based on management's judgment. In particular, whether or not to recognize deferred tax assets and the scope of recognition are determined by assumptions on future circumstances and management's judgment.

(8) Revenue and expense recognition

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

4. SEGMENT INFORMATION:

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

(2) Details of operating revenues from the Group's sale of goods and provision of services for the years ended December 31, 2011 and 2010 are as follows (Unit: Korean Won in millions):

Reporting segment	Major goods and service	2011	2010
The Group	Telecommunication and related services	₩ 6,432,648	₩ 6,321,404
	Handset sales	2,752,518	1,653,339
	Other	71,172	526,008
		₩ 9,256,338	₩ 8,500,751

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

5. CLASSIFICATION OF FINANCIAL INSTRUMENTS AND FAIR VALUE:

(1) The carrying amount and fair value of financial assets and liabilities as of December 31, 2011 , and 2010 are as follows (Unit: Korean Won in millions):

1) Financial assets

Financial assets	Account	December 31, 2011 Book value	December 31, 2011 Fair value	December 31, 2010 Book value	December 31, 2010 Fair value
Cash and cash equivalents	Cash and cash equivalents	₩ 118,821	₩ 118,821	₩ 537,535	₩ 537,535
AFS financial assets	Marketable equity securities	26,149	26,149	40,361	40,361
	Unmarketable equity securities	45,843	45,843	35,043	35,043
	Debt securities	110	110	144	144
	Sub-total	72,102	72,102	75,548	75,548
Loans and receivables	Financial institution deposits	12,673	12,673	15,673	15,673
	Trade receivables	2,751,285	2,751,285	1,409,864	1,409,864
	Loans	32,928	32,928	42,962	42,962
	Other receivables	71,136	71,136	91,093	91,093
	Accrued income	355	355	561	561
	Deposits	244,088	244,088	228,135	228,135
	Sub-total	3,112,465	3,112,465	1,788,288	1,788,288
	Total	₩ 3,303,388	₩ 3,303,388	₩ 2,401,371	₩ 2,401,371

2) Financial liabilities

Financial liabilities	Account	December 31, 2011 Book value	December 31, 2011 Fair value	December 31, 2010 Book value	December 31, 2010 Fair Value
Derivative liabilities designated as a hedging instrument	Derivative liabilities designated as a hedging instrument	₩ 61	₩ 61	₩ 699	₩ 699
Financial liabilities measured at amortized cost	Trade payables	637,403	637,403	315,530	315,530
	Borrowings	1,679,332	1,679,332	679,899	679,899
	Debentures	2,180,478	2,146,745	2,030,677	2,030,677
	Other payables	1,268,939	1,268,939	678,205	678,205
	Accrued expenses	526,928	526,928	422,946	422,946
	Withholdings	85,266	85,266	123,855	123,855
	Finance lease liabilities	57,059	57,059	74,628	74,628
	Rental deposits	11,762	11,762	14,457	14,457
	Sub-total	6,447,167	6,413,434	4,340,197	4,340,197
	Total	₩ 6,447,228	₩ 6,413,495	₩ 4,340,896	₩ 4,340,896

The carrying values of certain financial assets such as loans and receivables, and liabilities recognized at amortized cost are considered to approximate their fair values. In addition, an equity instrument, classified as AFS financial assets but does not have market value disclosed in an active market, is measured at cost if the fair value cannot be reliably measured.

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6. CASH AND CASH EQUIVALENTS:

The Group's cash and cash equivalents in the consolidated statements of financial position are equivalent to those in the statements of cash flows. Details of cash and cash equivalents as of December 31, 2011 and 2010 are as follows (Unit: Korean Won in millions):

	December 31, 2011	December 31, 2010
Cash on hand	₩ 1	₩ 1
Financial institution deposits	117,373	535,215
Other cash equivalents	1,447	2,319
	₩ 118,821	₩ 537,535

7. RESTRICTED FINANCIAL ASSETS:

Restricted financial assets as of December 31, 2011 and 2010 are as follows (Unit: Korean Won in millions):

	Financial institution	December 31, 2011	December 31, 2010
Guarantee deposits for checking accounts	Woori Bank and others	₩ 24	₩ 24
Term deposits	NongHyup Bank (*1)	350	350
	Hana Bank (*2)	300	300
	Sub-total	650	650
	Total	₩ 674	₩ 674

(*1) These deposits are pledged to BC Card Co., Ltd. in relation to the Group's corporate purchase card.
(*2) Amounts are deposited for Asia-Pacific Satellite Communications Council (APSCC).

8. TRADE AND OTHER RECEIVABLES:

(1) Details of current portion of trade and other receivables as of December 31, 2011 and 2010 are as follows (Unit: Korean Won in millions):

	December 31, 2011	December 31, 2010
Trade receivables	₩ 2,118,844	₩ 1,448,124
Allowances for doubtful accounts	(211,496)	(226,393)
Trade receivables, net	1,907,348	1,221,731
Short-term loans	21,972	37,180
Allowances for doubtful accounts	(678)	(919)
Short-term loans, net	21,294	36,261
Other accounts receivable	97,633	110,831
Allowances for doubtful accounts	(26,497)	(19,738)
Other accounts receivable, net	71,136	91,093
Accrued income	355	561
	₩ 2,000,133	₩ 1,349,646

(2) Details of non-current portion of trade and other receivables as of December 31, 2011 and 2010 are as follows (Unit: Korean Won in millions):

	December 31, 2011	December 31, 2010
Trade receivables	₩ 844,623	₩ 190,234
Allowances for doubtful accounts	(686)	(2,101)
Trade receivables, net	843,937	188,133
Long-term loans	11,634	6,701
Leasehold deposits	228,591	207,127
Guarantee deposits	15,497	21,008
	₩ 1,099,659	₩ 422,969

(3) Aging of trade and other receivables as of December 31, 2011 and 2010 are as follows (Unit: Korean Won in millions):

	December 31, 2011	December 31, 2010
Less than 6 months	₩ 3,123,164	₩ 1,791,043
7–12 months	49,189	42,096
1–3 years	162,394	182,439
More than 3 years	4,402	6,188
	₩ 3,339,149	₩ 2,021,766

(4) Changes in allowance for trade and other receivables for the years ended December 31, 2011 and 2010 are as follows (Unit: Korean Won in millions):

	2011	2010
Beginning balance	₩ 249,151	₩ 174,021
Increase due to merger	-	68,833
Impairment loss	19,708	46,979
Write-off of accounts receivable	(60,104)	(49,606)
Reversal of impairment loss	30,602	8,924
Ending balance	₩ 239,357	₩ 249,151

9. <u>INVENTORIES:</u>

(1) Inventories are stated at the lower of cost or net realizable value in case that the market value is lower than the acquisition cost. Details of inventories as of December 31, 2011 and 2010 are as follows (Unit: Korean Won in millions):

	December 31, 2011			December 31, 2010		
	Acquisition cost	Valuation allowance	Carrying amount	Acquisition cost	Valuation allowance	Carrying amount
Merchandise	₩ 426,609	₩ (56,722)	₩369,887	₩ 196,638	₩ (8,728)	₩ 187,910
Supplies	8,124	(5,793)	2,331	7,146	(4,959)	2,187
	₩ 434,733	₩ (62,515)	₩372,218	₩ 203,784	₩(13,687)	₩ 190,097

(2) Inventory costs recognized in operating expenses for the year ended December 31, 2011 are ₩2,289,579 million, which include ₩47,993 million of losses on valuation of inventories.

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10. OTHER ASSETS:

(1) Details of other current assets as of December 31, 2011 and 2010 are as follows (Unit: Korean Won in millions):

	December 31, 2011	December 31, 2010
Advanced payments	₩ 31,183	₩ 9,622
Prepaid expenses	87,729	57,376
Income tax refund receivables	388	384
Total	₩ 119,300	₩ 67,382

(2) Details of other non-current assets as of December 31, 2011 and 2010 are as follows (Unit: Korean Won in millions):

	December 31, 2011	December 31, 2010
Non-current prepaid expenses	₩ 51,187	₩ 26,945

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11. PROPERTY, PLANT AND EQUIPMENT:

(1) Carrying amounts

Changes in property, plant and equipment for the years ended December 31, 2011 and 2010 are as follows (Unit: Korean Won in millions):

1) For the year ended December 31, 2011

	Land	Buildings	Telecom-munication facilities	Other assets	Construction in progress	Total
Beginning acquisition cost	₩ 552,149	₩ 477,723	₩7,459,415	₩ 464,319	₩ 124,955	₩9,078,561
Accumulated depreciation	-	(55,989)	(3,906,984)	(235,145)	-	(4,198,118)
Accumulated impairment loss	-	-	(1,492)	(8,044)	-	(9,536)
Government subsidies	-	-	(490)	(272)	-	(762)
Beginning balance	552,149	421,734	3,550,449	220,858	124,955	4,870,145
Acquisition	182	806	333,076	52,523	1,348,728	1,735,315
Transfers	16,199	3,928	922,779	45,750	(973,031)	15,625
Disposals	-	(98)	(16,794)	(1,436)	(17,483)	(35,811)
Depreciation	-	(18,306)	(845,223)	(69,650)	-	(933,179)
Impairment loss	-	(16,864)	-	(3,019)	(726)	(20,609)
Ending balance	568,530	391,200	3,944,287	245,026	482,443	5,631,486
Ending acquisition cost	568,530	484,214	8,605,458	545,450	483,392	10,687,044
Accumulated depreciation	-	(76,150)	(4,660,090)	(297,346)	(223)	(5,033,809)
Accumulated impairment loss	-	(16,864)	(522)	(3,019)	(726)	(21,131)
Government subsidies	-	-	(559)	(59)	-	(618)
Ending balance	₩ 568,530	₩ 391,200	₩ 3,944,287	₩ 245,026	₩ 482,443	₩5,631,486

2) For the year ended December 31, 2010

	Land	Buildings	Telecom-munication facilities	Other assets	Construction in progress	Total
Beginning acquisition cost	₩ 66,583	₩ 233,649	₩4,808,736	₩ 307,042	₩ 171,461	₩ 5,587,471
Accumulated depreciation	-	(35,620)	(3,143,905)	(190,306)	-	(3,369,831)
Government subsidies	-	-	(231)	(484)	-	(715)
Beginning balance	66,583	198,029	1,664,600	116,252	171,461	2,216,925
Acquisition due to merger	484,639	231,413	1,746,780	69,585	32,884	2,565,301
Acquisition	1	134	287,747	221,370	652,120	1,161,372
Transfers	926	12,019	811,523	(110,596)	(709,108)	4,764
Disposals	-	(74)	(33,066)	(7,262)	(22,402)	(62,804)
Depreciation	-	(19,787)	(925,643)	(60,447)	-	(1,005,877)
Impairment loss	-	-	(1,492)	(8,044)	-	(9,536)
Ending balance	552,149	421,734	3,550,449	220,858	124,955	4,870,145
Ending acquisition cost	552,149	477,723	7,459,415	464,319	124,955	9,078,561
Accumulated depreciation	-	(55,989)	(3,906,984)	(235,145)	-	(4,198,118)
Accumulated impairment loss	-	-	(1,492)	(8,044)	-	(9,536)
Government subsidies	-	-	(490)	(272)	-	(762)
Ending balance	₩ 552,149	₩ 421,734	₩3,550,449	₩ 220,858	₩ 124,955	₩ 4,870,145

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(2) Assets pledged as collateral

The Group has pledged a portion of land, buildings and telecommunication facilities , in the amount of ₩ 33,648 million worth, as collateral related to its borrowings from Korea Development Bank (KDB).

12. INVESTMENT PROPERTY:

(1) Changes in investment property for the years ended December 31, 2011 and 2010 are as follows (Unit: Korean Won in millions):

1) For the year ended December 31, 2011

	Land	Buildings	Total
Beginning acquisition cost	₩ 24,418	₩ 27,278	₩ 51,696
Accumulated depreciation	-	(4,691)	(4,691)
Beginning balance	24,418	22,587	47,005
Transfers	(13,803)	(3,928)	(17,731)
Depreciation	-	(1,335)	(1,335)
Ending balance	10,615	17,325	27,940
Ending acquisition cost	10,615	21,424	32,039
Accumulated depreciation	-	(4,099)	(4,099)
Ending balance	₩ 10,615	₩ 17,325	₩ 27,940

2) For the year ended December 31, 2010

	Land	Buildings	Total
Beginning acquisition cost	₩ 3,152	₩ 10,297	₩ 13,449
Accumulated depreciation	-	(2,984)	(2,984)
Beginning balance	3,152	7,313	10,465
Acquisition due to merger	20,992	15,435	36,427
Transfers	274	2,146	2,420
Depreciation	-	(2,307)	(2,307)
Ending balance	24,418	22,587	47,005
Ending acquisition cost	24,418	27,278	51,696
Accumulated depreciation	-	(4,691)	(4,691)
Ending balance	₩ 24,418	₩ 22,587	₩ 47,005

(2) The Group recognized rental revenue related to investment property, in the amount of ₩3,638 million and ₩3,586million, for the years ended December 31, 2011 and 2010, respectively.

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13. INTANGIBLE ASSETS:

(1) Changes in intangible assets for the years ended December 31, 2011 and 2010 are as follows (Unit: Korean Won in millions):

1) For the year ended December 31, 2011

	Intellectual property rights	Computer software	Membership	Goodwill	Customer relationship	Frequency usage rights	Other intangible assets	Total
Beginning acquisition cost	₩ 3,099	₩ 10,919	₩ 39,032	₩ 932	₩ 647,600	₩ -	₩ 96,080	₩ 797,662
Accumulated amortization	(1,433)	(9,218)	-	-	(215,867)	-	(44,567)	(271,085)
Impairment loss	-	-	-	-	-	-	(9,417)	(9,417)
Beginning balance	1,666	1,701	39,032	932	431,733	-	42,096	517,160
Acquisition	478	391	117	-	-	867,913	25,188	894,087
Transfer	-	-	-	-	-	-	2,085	2,085
Disposals	-	-	(876)	-	-	-	(3,067)	(3,943)
Impairment loss	-	-	-	-	-	-	(439)	(439)
Amortization	(327)	(934)	-	-	(215,866)	(22,068)	(15,895)	(255,090)
Ending balance	1,817	1,158	38,273	932	215,867	845,845	49,967	1,153,860
Ending acquisition cost	3,577	11,311	38,273	932	647,600	867,913	108,469	1,678,075
Accumulated amortization	(1,760)	(10,153)	-	-	(431,733)	(22,068)	(48,647)	(514,361)
Accumulated impairment loss	-	-	-	-	-	-	(9,855)	(9,855)
Ending balance	₩ 1,817	₩ 1,158	₩ 38,273	₩ 932	₩ 215,867	₩ 845,845	₩ 49,967	₩1,153,859

2) For the year ended December 31, 2010

	Intellectual property rights	Computer software	Membership	Goodwill	Customer relationship	Other intangible assets	Total
Beginning acquisition cost	₩ 2,655	₩ 4,979	₩ 19,248	₩ 932	₩ -	₩ 35,071	₩ 62,885
Accumulated amortization	(1,073)	(4,807)	-	-	-	(19,894)	(25,774)
Beginning balance	1,582	172	19,248	932	-	15,177	37,111
Acquisition due to merger	109	5,809	16,804	-	647,600	40,678	711,000
Acquisition	335	131	3,370	-	-	21,864	25,700
Disposals	-	-	(390)	-	-	(1,533)	(1,923)
Impairment loss(*1)	-	-	-	-	-	(9,417)	(9,417)
Amortization	(360)	(4,411)	-	-	(215,867)	(24,673)	(245,311)
Ending balance	1,666	1,701	39,032	932	431,733	42,096	517,160
Ending acquisition cost	3,099	10,919	39,032	932	647,600	96,080	797,662
Accumulated amortization	(1,433)	(9,218)	-	-	(215,867)	(44,567)	(271,085)
Accumulated Impairment loss	-	-	-	-	-	(9,417)	(9,417)
Ending balance	₩ 1,666	₩ 1,701	₩ 39,032	₩ 932	₩ 431,733	₩ 42,096	₩ 517,160

(*1) For the year ended December 31, 2010, the Group determined the recoverable amount of its trademark related to Xspeed is less than the carrying amount and accordingly recognized ₩9,417 million of impairment loss.

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

(3) R&D costs

The costs related to research and development for the years ended December 31, 2011 and 2010 are as follows (Unit: Korean Won in millions):

	2011	2010
Research costs	₩ 63,577	₩ 48,844

(4) Significant intangible assets

As part of the merger between LG Dacom and LG Powercom during the period, the Group recognized customer relationships as intangible assets. Such customer relationships consists of; ₩278,100 million from VoIP, corporate internet access, fixed-line telepony and eBiz services of LG Dacom; and ₩369,500 million from broadband internet access, broadband network rentals, and VoIP services of LG Powercom. Recognized customer relationships are amortized on a straight-line method for 3 years of useful lives.

And frequency usage rights are acquired , in the amount of ₩867,913 million for the year ended December 31, 2011, and amortized on a straight-line method for 10 years of useful lives.

14. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES AND INVESTMENTS IN ASSOCIATES:

(1) Composition of the Group's investments in jointly-controlled entities (joint ventures) and investments in associates as of December 31, 2011 and 2010 are as follows (Unit: Korean Won in millions):

Companies	Class	Place of incorporation and operation	Percentage of ownership (%)	December 31, 2011	December 31, 2010
Dacom Crossing	Jointly controlled entities	South Korea	51.00	₩ 7,905	₩ 7,361
True Internet Data Center Company	Associates	Thailand	30.00	4,166	3,602
				₩ 12,071	₩ 10,963

Investment in above jointly-controlled entities and associates were acquired as part of the merger of LG Dacom on January 1, 2010. Acquisition cost is the fair value at the time of merger and changes in net assets of the investees are accounted by applying the equity method.

(2) Equity securities accounted for using the equity method for the year ended December 31, 2011 and 2010 are as follows(Unit: Korean Won in millions):

1) For the year ended December 31, 2011

	January 1, 2011	Share of profits of associates under the equity method	Share of profits of associates in other comprehensive income under the equity method	December 31, 2011
Dacom Crossing	₩ 7,361	₩ 544	₩ -	₩ 7,905
True Internet Data Center Company	3,602	661	(97)	4,166
	₩ 10,963	₩ 1,205	₩ (97)	₩ 12,071

2) For the year ended December 31, 2010

	January 1, 2010	Acquisition due to the merger	Share of profits of associates under the equity method	Share of profits of associates in other comprehensive income under the equity method	December 31, 2010
Dacom Crossing	₩ -	₩ 5,964	₩ 1,397	₩ -	₩ 7,361
True Internet Data Center Company	-	2,757	622	223	3,602
	₩ -	₩ 8,721	₩ 2,019	₩ 223	₩ 10,963

(3) Summary of financial information for jointly-controlled entities and associates as of and for the year ended December 31, 2011 is as follows (Unit: Korean Won in millions):

Companies	Assets	Liabilities	Sales	Net income
Dacom Crossing	₩ 69,811	₩ 54,310	₩ 28,648	₩ 1,067
True Internet Data Center Company	17,129	3,243	11,454	2,203

15. <u>DEBENTURES AND BORROWINGS:</u>

(1) The Group's short-term borrowings as of December 31, 2011 and 2010 consist of the following (Unit: Korean Won in millions):

Type of borrowings	Creditor	Annual interest rate (%)	December 31, 2011	December 31, 2010
Bank overdraft	Woori Bank and others	-	-	₩ 4,910
General loans	Shinhan Bank and others	3.64 ~ 4.98	270,000	170,000
Facilities financing	Korea Development Bank	CD(91days)+0.85	-	50,000
			₩ 270,000	₩ 224,910

(2) The Group's long-term borrowings as of December 31, 2011 and 2010 consist of the following (Unit: Korean Won in millions):

Type of borrowings	Creditor	Annual interest rate (%)	December 31, 2011	December 31, 2010
General loans	Korea Exchange Bank	CD(91days)+1.00	₩ 50,000	₩ 50,000
Facilities financing	Shinhan Bank	finance bond (6months)+1.1~1.26	195,000	175,000
	Korea Development Bank	4.45 ~ 5.32	697,074	60,000
	Korea Finance Corporation	4.43 ~ 5.57	330,000	130,000
	Kookmin Bank	4.86	100,000	-
IT promotion funds	Hana Bank	Variable interest rate (3.75~3.80)	37,259	39,989
Before current maturities	Face value		1,412,259	454,989
	Discount on long-term borrowings		(2,926)	-
Current maturities	Face value of long-term borrowings		49,562	152,981
	Discount on long-term borrowings		-	-
After current maturities	Face value		1,362,697	302,008
	Discount on long-term borrowings		(2,926)	-

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(3) The Group's debentures as of December 31, 2011 and 2010 consist of the following (Unit: Korean Won in millions):

		Annual interest rate (%)	December 31, 2011	December 31, 2010
Debentures issued under public offering		3.86–6.70	₩ 1,740,000	₩ 1,490,000
Debentures issued privately		4.34	100,000	200,000
Foreign exchangeable bonds		5.00	348,225	348,225
Before current maturities	Face value		2,188,225	2,038,225
	Discount on debentures		(7,050)	(9,301)
	Premium on debentures		460	4,214
	CB adjustment		(1,157)	(2,461)
Current maturities	Current portion of debentures		948,225	500,000
	Current portion of discount on debentures		(3,393)	(46)
	Current portion of premium on debentures		460	832
	CB adjustment		(1,157)	-
After current maturities	Face value		1,240,000	1,538,225
	Discount on debentures		(3,657)	(9,255)
	Premium on debentures		-	3,382
	CB adjustment		-	(2,461)
	Book value		₩ 1,236,343	₩ 1,529,891

As of December 31, 2010, the Group issued convertible bonds with the following terms.

1)	Face value	₩348,255 million (USD 300,000,000)
2)	Issue and maturity dates	Issue date: September 29, 2010 Maturity date: September 29, 2012
3)	Coupon interest rate	The bonds have a stated interest rate of 2.5%, which is applied to the Korean Won equivalent of face value of the bond (USD 300,000,000) using the fixed exchange rate of 1 USD to 1,160.75 KRW, payable on March 29, 2011 and September 29, 2011.
4)	Redemption at maturity	Upon maturity, the bondholder would be repaid the Korean Won equivalent of face value of the bond (USD 300,000,000), that is not converted into treasury shares, using the fixed exchange rate of 1 USD to 1,160.75 KRW.
5)	Early redemption feature	Bondholder is able to exercise an early redemption right for one day on March 29, 2012. At the exercise of the redemption option, the bondholder would be repaid the same amount as if paid upon maturity.
6)	Conversion period	November 9, 2010 – September 22, 2012
7)	Convertible instrument(*1)	The convertible bond will be converted into treasury stock at the stated conversion price, except in case of deficiency in treasury stock or difficulty in purchase of and payment of treasury shares, the Group shall pay bondholder cash equivalent of amount using conversion price determined as the arithmetic mean of closing price of treasury shares for ten (10) consecutive days following the conversion request date. In addition, in case the Group is unable to issue treasury stock due to the limit of equity held by foreigners (49%) pursuant to Article 6 of Telecommunications Business Law, the Group shall sell its treasury stock before the eleventh (11th) day following the conversion date and pay the proceeds to the bondholder.

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8) Conversion price — As of December 31, 2010, the conversion price is ₩9,273.75 per share of treasury stock, and as of December 31, 2011, the conversion price is ₩8,812.80 per share of treasury stock according to be adjusted to conversion price due to cash dividends during the year of 2011. The price may be adjusted for any issuance of shares without consideration, stock split, reverse stock split and cash dividend.

(*1) In connection with the convertible bonds, the Group deposited 39,513,569 shares of treasury stock with the Korea Securities Depository, and the Group cannot transfer its rights to, provide as collateral, or otherwise dispose of such treasury shares.

(4) The repayment schedule of long-term borrowings and debentures as of December 31, 2011 is as follows (Unit: Korean Won in millions):

Period	Debentures	Long-term borrowings	Total
Jan. 1, 2013 ~ Dec. 31, 2013	₩ 490,000	₩ 299,654	₩ 789,654
Jan. 1, 2014 ~ Dec. 31, 2014	700,000	422,000	1,122,000
Jan. 1, 2015 and thereafter	50,000	641,043	691,043
	₩ 1,240,000	₩ 1,362,697	₩ 2,602,697

16. OTHER FINANCIAL LIABILITIES:

Other financial liabilities as of December 31, 2011 and 2010 are as follows (Unit: Korean Won in millions):

	December 31, 2011		December 31, 2010	
	Current	Non-current	Current	Non-current
Trade payables	₩ 637,403	₩ -	₩ 315,530	₩ -
Other accounts payable	1,268,939	501,329	678,182	23
Accrued expenses	526,928	-	422,946	-
Withholdings	85,266	-	123,855	-
Rental deposits	-	11,762	-	14,457
Finance lease liabilities	30,582	26,477	37,022	37,606
	₩ 2,549,118	₩ 539,568	₩ 1,577,535	₩ 52,086

17. PROVISIONS:

Changes in restoration liabilities for the years ended 2011 and 2010 are as follows (Unit: Korean Won in millions):

1) For the year ended December 31,2011

	Beginning balance	Increase	Decrease	Ending balance
Restoration liabilities	₩ 32,592	₩ 9,247	₩ (1,790)	₩ 40,049

2) For the year ended December 31, 2010

	Beginning balance	Increase	Decrease	Ending balance
Restoration liabilities	₩ 24,845	₩ 8,803	₩ (1,056)	₩ 32,592

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18. RETIREMENT BENEFIT PLAN:

(1) Defined contribution plan

The Group operates a defined contribution plan for employees, under which the Group is obligated to make payments to third party funds. The employee benefits under the plan are determined by payments made to the funds by the Group and the investment earnings from the funds. Additionally, plan assets are managed by the third party funds and are segregated from the Group's assets. The Group recognized ₩2,461 million and ₩1,125 of service cost relating to its defined contribution plan in the statement of income for the years ended December 31, 2011 and 2010 respectively.

(2) Defined benefit plan

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

1) As of December 31, 2011 and 2010, amounts recognized in the consolidated statements of financial position related to retirement benefit obligation are as follows (Unit: Korean Won in millions):

	December 31, 2011	December 31, 2010
Present value of defined benefit obligation	₩ 138,545	₩ 109,127
Fair value of plan assets	(100,584)	(80,573)
Retirement benefit obligation	₩ 37,961	₩ 28,554

2) Changes in defined benefit obligation for the years ended December 31, 2011 and 2010 are as follows (Unit: Korean Won in millions):

	2011	2010
Beginning balance	₩ 109,127	₩ 47,109
Increase due to merger	-	56,493
Actuarial losses(gains)	16,091	9,587
Current service cost	30,542	29,214
Interest cost	5,502	5,645
Benefits paid	(22,117)	(37,317)
Other (*1)	(600)	(1,604)
Ending balance	₩ 138,545	₩ 109,127

(*1) Change of liabilities from transfer of employees between the Group and the related companies

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3) Changes in plan asset for the years ended December 31, 2011 and 2010 are as follows (Unit: Korean Won in millions):

	2011	2010
Beginning balance	₩ 80,573	₩ 34,526
Increase due to merger	-	35,027
Expected return on plan assets	3,596	3,765
Actuarial gains(losses)	16	(136)
Contributions from the employer	32,742	44,850
Benefits paid	(16,343)	(37,317)
Other (*1)	-	(142)
Ending balance	₩ 100,584	₩ 80,573

(*1) Change of liabilities from transfer of employees between the Group and the related companies

4) Income and loss related to defined benefit plan during the years ended December 31, 2011 and 2010 are as follows (Unit: Korean Won in millions):

	2011	2010
Current service cost	₩ 30,542	₩ 29,214
Interest cost	5,502	5,645
Expected return on plan assets	(3,596)	(3,765)
	₩ 32,448	₩ 31,094

5) The principal assumptions used for the actuarial valuations as of December 31, 2011 and 2010 are as follows:

	December 31, 2011	December 31, 2010
Discount rate (%)	4.18% - 5.50%	4.18% - 5.50%
Expected return on plan assets (%)	4.28% - 5.70%	4.28% - 5.70%
Expected rate of salary increase (%)	4.50% - 5.15%	4.50% - 5.10%

19. OTHER LIABILITIES:

Other liabilities as of December 31, 2011 and 2010 are as follows (Unit: Korean Won in millions):

	December 31, 2011		December 31, 2010	
	Current	Non-current	Current	Non-current
Advances received	₩ 70,553	₩ -	₩ 51,388	₩ -
Unearned revenue	60,708	14,980	66,453	19,635
	₩ 131,261	₩ 14,980	₩ 117,841	₩ 19,635

20. FINANCE LEASE LIABILITIES:

Finance lease liabilities as of December 31, 2011 and 2010 are as follows (Unit: Korean Won in millions):

	Creditor	Lease term	Annual interest rate (%)	Minimum lease payment(*1)	December 31, 2011	December 31, 2010
Finance lease	Hewlett Packard Korea Financial Service, Ltd.	Oct. 31, 2008–Oct. 31, 2011	6.60	₩ 739	₩ -	₩ 7,174
		Dec. 31, 2008–Dec. 31, 2011	6.97	335	-	3,868
		Jul. 29, 2009–Jul. 29, 2012	4.78	649	4,473	11,858
		Apr. 30, 2010–Apr. 29, 2013	3.94	3,058	17,731	28,983
		Oct. 29, 2010–Oct.31, 2013	3.17	1,995	15,402	22,745
		Jul. 29, 2011–Jul. 29, 2014	4.04	1,878	19,453	-
		Sub-total			57,059	74,628
		Less current maturities			(30,582)	(37,022)
		Book value of financial lease liabilities			₩ 26,477	₩ 37,606

(*1) The minimum lease payment is the gross amount of monthly, or annual principal and interest paid.

21. EQUITY:

(1) Capital stock

Details of capital stock as of December 31, 2011 are as follows:

Type of stock	Number of authorized shares	Par value	Number of issued shares	Amount of capital stock
Common stock	700,000,000 shares	₩ 5,000	514,793,835 shares	₩ 2,573,969 million

As of January 1, 2010, additional 237,515,405 shares were issued as part of the merger process of LG Dacom and LG Powercom. As of December 31, 2011 and 2010, the number of issued common stocks is 514,793,835 shares.

(2) Capital surplus
Capital surplus of the Group is comprised of paid-in capital in excess of par value and option premium on convertible bonds, and during the year of 2010, the Group acquired LG Dacom and LG Powercom, increasing the capital surplus by ₩823,133 million. As result, as of December 31, 2011, capital surplus amounted to ₩834,712 million. In addition, On September 2010, the Group issued convertible bonds, resulting in conversion price of ₩1,881 million recorded as capital surplus. Paid-in capital in excess of par value may only be used for capitalization or disposition of accumulated deficit.

(3) Legal reserve
As of December 31, 2011, earned surplus reserve in form of legal reserve of ₩37,998 million is included in retained earnings. The Commercial Code of the Republic of Korea requires the Company to appropriate, as a legal reserve, an amount equal to a minimum of 10% of cash dividends paid until such reserve equals 50% of its issued capital stock. The reserve is not available for the payment of cash dividends, but may be transferred to capital stock or used to reduce accumulated deficit.

(4) Treasury stock
On January 1, 2010, the Group acquired LG Dacom and LG Powercom and purchased 20,227,229 shares of treasury stock (₩8,748 per share) from shareholders who exercised their appraisal rights and recognized it as other capital item amounting to ₩176,948 million as of December 30, 2009.

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In addition, as part of the merger of LG Dacom and LG Powercom the Group also issued 62,050,804 shares for the treasury shares which LG Dacom and LG Powercom had acquired from their shareholders who exercised their respective appraisal rights. The Group accounted for the merger with LG Dacom and LG Powercom in accordance with Korean IFRS 1103 *Business Combinations* and recognized the treasury stock at fair value of ₩526,811 million as other capital items. Also, the Group recognized additional ₩120 million for 13,850 shares acquired subsequent to the merger.

In compliance with the Capital Market and Financial Investment Business Act, Article 165-5, Section 4 and Article 176-7, Section 3, the Group plans to dispose of its treasury stocks within three years from the date of purchase.

During the year ended December 31, 2010, the Group issued exchangeable bonds for which the Group deposited 37,549,534 shares of treasury stock with the Korea Securities Depository. During the year ended December 31, 2011, the Group additionally deposited 1,964,035 shares of treasury stock adjusted to convertible price of convertible bonds due to cash dividends, as of the year ended December 31, 2011, the Group deposited 39,513,569 shares of treasury stock with the Korea Securities Depository totally. The Group cannot transfer its rights, such that it cannot provide such treasury stock as collateral or dispose of them.

22. DIVIDENDS:

(1) The details of dividend paid for the years ended December 31, 2011 and 2010 are as follows:

	2011		2010	
Number of shares issued and outstanding		514,793,835 shares		514,793,835 shares
Number of treasury stocks		82,291,883 shares		82,291,883 shares
Number of shares eligible for dividends		432,501,952 shares		432,501,952 shares
Par value per share	₩	5,000	₩	5,000
Dividend rate		3%		7%
Dividends per share	₩	150	₩	350
Total dividends	₩	64,875 million	₩	151,376 million

(2) Dividend payout ratio for the years ended December 31, 2011 and 2010 are as follows (Unit: Korean Won in millions):

	2011		2010	
Total dividends	₩	64,875	₩	151,376
Net income attributable to the owners of the company		84,634		569,905
Dividend payout ratio		76.65%		26.56%

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23. ACCUMULATED OTHER COMPREHENSIVE INCOME(LOSS):

(1) Composition of accumulated other comprehensive income or loss for the years ended December 31, 2011 and 2010, is as follows (Unit: Korean Won in millions):

	Gain on valuation of AFS financial assets	Loss on valuation of AFS financial assets	Gain on valuation of cash flow hedging derivatives	Loss on valuation of cash flow hedging derivatives	Share of other comprehensive income of joint ventures and associates	Gain on foreign currency translation for foreign operations	Total
January 1, 2010	₩ 250	₩ (3,442)	₩ 58	₩ (1,771)	₩ -	₩ -	₩ (4,905)
Fair value assessment	198	3,442	-	-	-	-	3,640
Hedge accounting	-	-	(58)	1,242	-	-	1,184
Equity method	-	-	-	-	223	-	223
Foreign currency translation for foreign operations	-	-	-	-	-	11	11
December 31,2010	₩ 448	₩ -	₩ -	₩ (529)	₩ 223	₩ 11	₩ 153
January 1, 2011	₩ 448	₩ -	₩ -	₩ (529)	₩ 223	₩ 11	₩ 153
Fair value assessment	(166)	(10,619)	-	-	-	-	(10,785)
Hedge accounting	-	-	-	484	-	-	484
Equity method	-	-	-	-	(97)	-	(97)
Foreign currency translation for foreign operations	-	-	-	-	-	(8)	(8)
December 31,2011	₩ 282	₩(10,619)	₩ -	₩ (45)	₩ 126	₩ 3	₩(10,253)

24. OTHER OPERATING INCOME AND EXPENSES:

(1) Other operating income for the years ended December 31, 2011 and 2010 are as follows (Unit: Korean Won in millions):

	2011	2010
Gain on disposal of tangible assets	₩ 388	₩ 955
Gain on foreign currency transactions (operating)	5,517	3,880
Gain on foreign currency translation (operating)	5,552	1,859
Miscellaneous income	59,715	22,800
Bargain purchase gain from the merger (*1)	-	496,514
	₩ 71,172	₩ 526,008

(*1) The Group recognized a bargain purchase gain from the acquisition of LG Dacom and LG Powercom on January 1, 2010 as part of net income for the year ended December 31, 2010.

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(2) Composition of other operating expenses for the years ended December 31, 2011 and 2010 are as follows (Unit: Korean Won in millions):

	2011	2010
Operating lease payment	₩ 280,349	₩ 263,943
Sales commissions	1,828,149	1,874,030
Commission charge	828,221	644,393
Interconnection charge	670,733	707,171
Telecommunication equipment rental fees	272,333	261,986
Outsourcing expense	264,692	242,970
Bad debt expenses	19,708	46,979
International interconnection charge	166,870	169,708
Advertising expenses	218,175	181,343
Other	493,905	476,270
	₩ 5,043,135	₩ 4,868,793

25. <u>FINANCIAL REVENUES AND FINANCIAL EXPENSES:</u>

(1) Financial revenues for the years ended December 31, 2011 and 2010 are as follows (Unit: Korean Won in millions):

	2011	2010
Interest income	₩ 70,821	₩ 41,184
Gain on foreign currency transactions (non-operating)	93	3,118
Gain on foreign currency translation (non-operating)	3	-
Dividend income	384	416
Gain on trading of derivative instruments	-	566
Other	-	217
	₩ 71,301	₩ 45,501

(2) Interest income included in financial revenues for the years ended December 31, 2011 and 2010 are as follows (Unit: Korean Won in millions):

	2011	2010
Cash and cash equivalents and financial institution deposits	₩ 9,982	₩ 7,649
Installment receivables interest and others	60,839	33,535
	₩ 70,821	₩ 41,184

(3) Financial expenses for the years ended December 31, 2011 and 2010 are as follows (Unit: Korean Won in millions):

	2011	2010
Interest expense	₩ 166,130	₩ 124,901
Loss on foreign currency transactions (non-operating)	-	646
Loss on foreign currency translation (non-operating)	-	8
Loss on trading of derivative instruments	-	3,383
Trade receivables	18,557	-
	₩ 184,687	₩ 128,938

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(4) Interest expenses included in financial expenses for the years ended December 31, 2011 and 2010 are as follows (Unit: Korean Won in millions):

	2011	2010
Bank overdrafts and loan interest	51,119	₩ 26,473
Finance lease liabilities interest	2,621	2,879
Debentures interest	104,489	93,905
Other interest expense	7,901	1,644
Less: capitalized interest expense	-	-
	₩ 166,130	₩ 124,901

26. <u>INCOME TAX:</u>

(1) Composition of income tax expense for the years ended December 31, 2011 and 2010 are as follows (Unit: Korean Won in millions):

	2011	2010
Current income tax payable	₩ 60,165	₩ 64,170
Changes in deferred tax assets:		
Income tax payable due to the merger	-	(17,618)
Changes in deferred tax assets due to temporary differences	17,026	(170,283)
Succession of deferred tax assets due to the merger	-	121,654
Income tax expenses reflected directly in equity	6,641	290
Income tax expense	₩ 83,832	₩ (1,787)

(2) Reconciliation between income before income tax and income tax expense of the Group for the years ended December 31, 2011 and 2010 are as follows (Unit: Korean Won in millions):

	2011	2010
Income before income tax expense	₩ 168,495	₩ 568,234
Tax expense calculated on book income (tax rate: 24.2%)	40,776	137,486
Adjustments:		
Non-taxable income	(10)	(120,324)
Non-deductible expense	7,355	2,198
Changes in the assets or liabilities relating to deferred taxes and tax rate	(13,033)	10,686
Tax credits	48,744	(31,640)
Others	-	(193)
Income tax expense	₩ 83,832	₩ (1,787)
Effective tax rate (income tax expense/ income before income tax expense)	49.75%	-

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(3) Income taxes directly reflected in equity for the years ended December 31, 2011 and 2010 is as follows (Unit: Korean Won in millions):

	2011	2010
Revenues and expense related to the change in other comprehensive income (loss)		
Gain on valuation of cash-flow-hedging derivatives	₩ -	₩ 18
Loss on valuation of cash-flow-hedging derivatives	(154)	(376)
Gain from valuation of available-for-sale financial assets	36	(56)
Loss from valuation of available-for-sale financial assets	3,390	(971)
Other capital surplus	(31)	(559)
Actuarial gain(loss)	3,400	2,234
Income tax expense related to the change in other comprehensive income (loss)	₩ 6,641	₩ 290

(4) Changes in deferred tax assets (liabilities) for the year ended December 31, 2011 are as follows (Unit: Korean Won in millions):

	Beginning balance	Increase	Decrease	Ending balance
TEMPORARY DIFFERENCES TO BE DEDUCTED				
Provision for severance benefits	₩ 72,998	₩ 30,697	₩ 5,130	₩ 98,565
Allowance for doubtful accounts	208,482	149,763	211,627	146,618
Loss on valuation of inventories	8,548	60,789	10,628	58,709
Unsettled expenses	104,597	55,008	85,677	73,928
Property, plant and equipment	370,161	85,202	52,490	402,873
Provisions	40,763	50,033	42,383	48,413
Impairment losses on investment securities	26,870	-	-	26,870
Loss on valuation of investment securities	(574)	14,212	-	13,638
Derivatives	699	-	638	61
Intangible assets	112,495	92,371	8,497	196,369
Deemed dividends	160	-	-	160
Government subsidies	980	2,142	1,820	1,302
Share of profits (losses) of associates under the equity method	2,740	-	-	2,740
Loss on foreign currency translation	1,743	6,162	1,743	6,162
Adjustment on revenues	76,809	230,060	202,359	104,510
Present value discount	-	63,810	26,854	36,956
Others	4,216	1,206	243	5,179
Subtotal of temporary differences to be deducted	1,031,687	841,455	650,089	1,223,053
TEMPORARY DIFFERENCES TO BE ADDED				
Accrued interest income	(516)	(145)	(516)	(145)
Deposits for severance benefits	(67,414)	5,130	23,014	(85,298)
Interest expenses (capitalized interest expense)	(22,578)	4,340	-	(18,238)
Gain on foreign currency translation	(1,858)	1,859	5,555	(5,554)
Estimated assets for restoration.	(18,239)	18,239	22,515	(22,515)
Tax reserves	(25,200)	-	-	(25,200)
Conversion feature on convertible bonds	(2,461)	-	(1,303)	(1,158)
Subtotal of temporary differences to be added	(138,266)	₩ 29,423	₩ 49,265	(158,108)
Realizable temporary differences	890,521			1,062,045
Unrealizable temporary differences	2,900			2,900

	Beginning balance	Increase	Decrease	Ending balance
Tax rate	24.2%, 22.0%			24.2%,22%
Income tax effect due to temporary differences	204,429			256,922
Income tax effect due to tax credit carryforwards	189,732			120,173
Deferred income tax assets	₩ 394,161			₩ 377,095

(5) Changes in the deferred tax assets (liabilities) for the year ended December 31, 2010 are as follows (Unit: Korean Won in millions):

	Beginning balance	Merger succession	Increase	Decrease	Ending balance
TEMPORARY DIFFERENCES TO BE DEDUCTED					
Provision for severance benefits	₩ 23,082	₩ 44,795	₩ 19,803	₩ 14,682	₩ 72,998
Allowance for doubtful accounts	134,233	52,466	201,520	179,737	208,482
Loss on valuation of inventories	10,840	-	6,109	8,401	8,548
Unsettled expenses	67,276	18,963	104,597	86,239	104,597
Property, plant and equipment	150,614	-	227,742	8,195	370,161
Provisions	43,396	-	40,763	43,396	40,763
Impairment losses on investment securities	27,870	-	-	1,000	26,870
Loss on valuation of investment securities	4,092	-	-	4,666	(574)
Derivatives	20,519	-	699	20,519	699
Intangible assets	19,552	-	99,786	6,843	112,495
Deemed dividends	160	-	-	-	160
Government subsidies	1,027	-	1,419	1,466	980
Share of profits (losses) of associates under the equity method	3,411	-	-	671	2,740
Loss on foreign currency translation	1	-	1,743	1	1,743
Share of profits (losses) of associates in other comprehensive income (loss) under the equity method	25	-	-	25	-
Adjustment on revenues	76,312	31,476	497	31,476	76,809
Others	1,972	-	2,915	671	4,216
Subtotal of temporary differences to be deducted	584,382	147,700	707,593	407,988	1,031,687
TEMPORARY DIFFERENCES TO BE ADDED					
Accrued interest income	(7)	(118)	(516)	(125)	(516)
Deposits for severance benefits	(25,049)	(34,741)	(22,306)	(14,682)	(67,414)
Interest expenses (capitalized interest expense)	(17,512)	-	-	5,066	(22,578)
Adjustment on revenues	(2,148)	-	-	(2,148)	-
Share of profits (losses) of associates in other comprehensive income (loss) under the equity method	(1,111)	-	-	(1,111)	-
Gain on foreign currency translation	(16,427)	-	(1,859)	(16,428)	(1,858)
Property, plant and equipment	(12,804)	-	(18,239)	(12,804)	(18,239)
Legal reserves	-	(25,200)	-	-	(25,200)
Conversion rights adjustment	-	-	(2,461)	-	(2,461)
Subtotal of temporary differences to be added	₩ (75,058)	₩(60,059)	₩(45,381)	₩(42,232)	₩(138,266)
Realizable temporary differences	506,839				890,521
Unrealizable temporary differences	2,485				2,900
Tax rate	24.2%, 22.0%				24.2%, 22.0%
Income tax effect due to temporary differences	117,421				204,429
Income tax effect due to tax credit carryforwards	105,856				183,732
Deferred income tax assets	₩ 223,277				₩ 394,161

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(6) As of December 31, 2011 and 2010, temporary differences not recognized as deferred tax assets (liabilities) related to investment asset and equity interest are as follows (Unit: Korean Won in millions):

	December 31, 2011	December 31, 2010
Investments in associates	₩ 2,900	₩ 2,900

27. EARNINGS PER SHARE:

(1) Basic Net Income per Share

Basic earnings per share is the net income attributable to one share of common stock of the Group. It is measured by dividing net income attributable to common stocks during a specified period by the weighted average numbers of common shares issued during that period. Earnings per share for the years ended December 31, 2011 and 2010 are calculated as follows (Unit: Korean Won in millions, except for earnings per share):

	2011	2010
Net income	₩ 84,634	₩ 569,905
Weighted average number of common shares outstanding (*1)	432,501,952 shares	432,501,952 shares
Earnings per share (in Korean Won)	₩ 196 per share	₩ 1,318 per share

(*1) Includes 82,291,883 shares of treasury stock due to the dissenting shareholders of LG Dacom and LG Powercom exercising their respective appraisal rights.

(2) Diluted income per share

Diluted earnings per share is computed based on adjusted weighted average number of common shares by assuming that all dilutive potential ordinary shares are transferred to common shares.
Dilutive potential ordinary shares the Company owns are exchangeable bonds and the diluted net income per share for the year ended December 31, 2011 and 2010 is as follows (Unit: In millions except per share amounts):

	2011	2010
Net income belongs to controlling company's common stock	84,634	569,905
Interest of exchangeable bonds (after tax effect)	13,491	3,487
Net income for computing diluted income per share	98,125	573,392
Weighted-average number of common shares outstanding (*1)	472,015,523 shares	442,172,243shares
Diluted earnings per share (in Korean won)	(*2)	₩1,297 /share

(*1) Sum of potential ordinary shares of exchangeable bonds and the weighted average number of common shares shares, which are used to compute basic net income per share.
(*2) As of December 31, 2011, Diluted income per share is not computed because there are no dilutive effects.

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As of December 31, 2011, the potential dilutive shares are as follows.

	Conversion period	Number of treasury shares to be issued in exchange for convertible bonds	Conversion price
Convertible bonds	Nov. 9, 2010 - Sep. 22, 2012	39,513,569	₩8,812.80 per share

28. COMMITMENTS AND CONTINGENCIES:

(1) As of December 31, 2011, there are 34 lawsuits ongoing where the Group is a defendant in the Republic of Korea; total claim amount the Company is being sued for is ₩10,664 million. Management believes the outcome of these lawsuits will likely not have a significant effect on the financial position of the Group.

(2) The Group entered into agreements with Shinhan Bank and others for promissory notes and a line of credit up to ₩260,000 million. Among these agreements includes a bank overdraft agreement with Woori Bank and others up to ₩40,000 million.

(3) As of December 31, 2011, the Group has entered into agreements with Woori Bank for a B2B limit of ₩1,000,000 million, in order to pay off its accounts payable. Among the agreements, the Group has entered into a loan agreement secured by an electronic accounts receivable agreement, where the Group guarantees the payment of accounts receivable up to ₩100,000 million when the Company's vendors transfers the accounts receivable due from the Group prior to its maturity.

In addition, the Group has agreements with; the Industrial Bank of Korea for its corporate purchasing card with a limit of ₩ 18,000 million.

(4) The Group has a telecommunication equipment and facility purchase agreement with LG Ericsson Co., Ltd. amounting to ₩127,839 million.

(5) The Group entered into agreements (syndicated loan) with six financial institutions including Korea Development Bank (KDB) up to ₩1,000,000 million and as of December 31, 2011, the Group borrowed ₩400,000 million.

29. RELATED PARTY TRANSACTIONS:

(1) Major related parties

	Company
Investor with significant influence over the Group	LG Corporation
Jointly controlled entity	Dacom Crossing
Associate	True Internet Data Center Company
Others	Serveone and 4 others, LG Siltron and 2 others, LG CNS and 22 others, LG Sports, LG Management Development Institute, LG Solar Energy, Lusem

As of December 31, 2011, no entity controls the Group; LG Corp. has 30.57% of ownership interest and has significant influence over the Company.

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(2) Major transactions with the related parties for the years ended December 31, 2011 and 2010 are as follows (Unit: Korean Won in millions):

	2011		2010	
	Sales and others	Purchases and others	Sales and others	Purchases and others
Investor with significant influence over the Group:				
LG Corporation	₩ 361	₩ 25,177	₩ 412	₩ 22,006
Jointly controlled entity:				
Dacom Crossing	1,447	14,560	2,055	11,798
Associate:				-
True Internet Data Center Company	-	-	828	-
Others:				
Serveone and others	77,364	321,161	50,356	199,763
	₩ 79,172	₩ 360,898	₩ 53,651	₩ 233,567

(3) Outstanding receivables and payables from transactions with related parties as of December 31, 2011 and 2010 are as follows (Unit: Korean Won in millions):

	December 31, 2011		December 31, 2010	
	Receivables	Payables	Receivables	Payables
Investor with significant influence over the Group:				
LG Corporation	₩ 5,325	₩ 2,350	₩ 4,801	₩ 790
Jointly controlled entity:				
Dacom Crossing	-	1,643	30	1,076
Others:				
Serveone and others	38,189	101,638	23,814	112,066
	₩ 43,514	₩ 105,631	₩ 28,645	₩ 113,932

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

(4) The compensation and benefits for the Company's key management including 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, 2011 and 2010 are summarized as follows (Unit: Korean Won in millions):

	2011	2010
Short-term employee benefits	₩ 8,283	₩ 18,737
Post-employment benefits (*1)	3,926	3,977
	₩ 12,209	₩ 22,714

(*1) The above balances refer to retirement benefits incurred for key management for the years ended December 31, 2011 and 2010. In addition, the present values of defined benefit obligations for key management are ₩18,207 million and ₩17,317 million as of December 31, 2011 and 2010, respectively.

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30. RISK MANAGEMENT:

(1) Capital risk management

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

The Group's capital structure consists of net liability which is borrowings (including bonds and finance lease liability) less cash and cash equivalents and equity; the overall capital risk management policy of the Group remains unchanged from prior period. In addition, items managed as capital by the Group as of December 31, 2011 and 2010 are as follows (Unit: Korean Won in millions):

	December 31, 2011	December 31, 2010
Total borrowings	₩ 3,916,869	₩ 2,785,204
Less: Cash and cash equivalents	(118,821)	(537,535)
Borrowings, net	3,798,048	2,247,669
Total shareholder's equity	₩ 3,859,392	₩ 3,948,482
Net borrowings to equity ratio	98.41%	56.92%

(2) Financial risk management

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

1) Foreign currency risk

The Group is exposed to exchange rate fluctuation risk since it undertakes transactions denominated in foreign currencies. The carrying amounts of Group's monetary assets and liabilities denominated in foreign currencies that is not the functional currency as of December 31, 2011 are as follows (Unit: Korean Won in millions):

Currency	Assets	Liabilities
EUR	₩ 120	₩ 1,043
HKD	160	-
JPY	10	523
SDR	77	256
AUD	-	2
USD	131,134	154,081
Other	5	2
	₩ 131,506	₩ 155,907

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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 KRW(functional currency of the Group) against the major foreign currencies as of December 31, 2011 is as follows (Unit: Korean Won in millions):

Currency	Gain(loss) from 10% increase against foreign currency	Gain(loss) from 10% decrease against foreign currency
EUR	₩ (70)	₩ 70
HKD	12	(12)
JPY	(39)	39
SDR	(14)	14
USD	(1,739)	1,739
	₩ (1,850)	₩ 1,850

Sensitivity analysis above is conducted for monetary assets and liabilities denominated in foreign currencies other than functional currency as of December 31, 2011.

2) Interest rate risk

The Group borrows funds on floating interest rates and is exposed to cash flow risk arising from interest rate changes. The book value of liability exposed to interest rate risk as for December 31, 2011 is as follows (Unit: Korean Won in millions):

	December 31, 2011
Debentures	₩ 502,259
Borrowings	100,000

The Group internally assesses the cash flow risk from changes in interest rates on a regular basis. Effect of changes in interest rates of 1% to net income as of December 31, 2011 is as follows (Unit: Korean Won in millions):

	1% increase		1% decrease	
	Gain(Loss)	Net Asset	Gain(Loss)	Net Asset
Borrowings	₩ (3,807)	₩ (3,807)	₩ 3,807	₩ 3,807
Debentures	(758)	(758)	758	758
	₩ (4,565)	₩ (4,565)	₩ 4,565	₩ 4,565

In order to manage its interest rate risks, the Group enters into interest rate swap contracts. The Group applies cash flow hedge accounting for its interest swap contracts; the value of the unsettled interest swap contract as of December 31, 2011 is as follows (Unit: Korean Won in millions):

		Valuation gain and loss			Fair value	
	Notional principal value	Gain	Loss	Accumulated other comprehensive income	Assets	Liabilities
Interest rate swap	50,000	₩ -	₩ 61	₩ (46)	₩ -	₩ 61

3) Price risk

The Group is exposed to price risks arising from available-for-sale equity instruments. As of December 31, 2011, fair value of available for sale equity instruments is ₩26,149 million and when all the other variables are constant and when the price of equity instrument changes by 10%, the effect to equity will be ₩1,982 million.

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4) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group; Credit risk is being managed at the each entity level (controlling company, subsidiaries and others). Credit risk arises from cash and cash equivalents, derivatives, bank and financial institution deposits as well as receivables and firm commitments. As for banks and financial institutions, the Group is making transactions with reputable financial institutions; therefore, the credit risk from it is limited. For ordinary transactions, customer's financial status, credit history and other factors are considered to evaluate their credit status. The Group does not have policies to manage credit limits of each customer.

The book value of financial asset in the Group's financial statements is the amount after deduction of impairment loss and represents as a maximum exposure to credit risk, without taking into account collateral or other credit enhancements held. The aging of trade and other receivables are described in Note 8.

5) Liquidity risk

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

Maturity analysis of non-derivative financial liabilities according to its remaining maturity as of December 31, 2011 is as follows. (Unit: Korean Won in millions):

	Within a year	1 - 5 years	Total
Variable interest instruments	₩ 407,561	₩ 26,155	₩ 433,716
Fixed interest rate instruments	917,702	2,598,170	3,515,872
Non-interest bearing instruments	2,518,536	513,091	3,031,627
	₩ 3,843,799	₩ 3,137,416	₩ 6,981,215

(*) Maturity analysis above is based on the book value and the earliest maturity date by which the payments should be made.

Maturity analysis of derivative financial liabilities according to its remaining maturity as of December 31, 2011 is as follows (Unit: Korean Won in millions):

	1 - 5 years
Derivative financial liabilities:	
Interest Rate Swap	₩ 61

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(3) Fair value hierarchy

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

The fair values of other financial assets and financial liabilities (e.g. over the counter derivatives) are determined by fair value assessment method. The Group performs several valuation methods and makes assumptions based on market circumstance at the end of the reporting period. Financial liabilities such as long-term liabilities are evaluated their fair value by prices from observable current market transactions or dealer quotes for similar instruments and the other financial instruments by various techniques such as discounted estimated cash flow. Fair value of trade receivables and trade payables is impairment deducted book value and fair value of financial liabilities is discounted cash flow using current market rate which is applied similar financial instruments the Company held.

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

- Level 1: Fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

- Level 2: Fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

- Level 3: Fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Financial instruments that are measured subsequent to initial recognition at fair value by fair value hierarchy levels as of December 31, 2011 and 2010 are as follows (Unit: Korean won in millions):

	December 31, 2011				
		Fair value			
	Carrying amount	Level 1	Level 2	Level 3	Total
Financial assets:					
Marketable equity securities	₩ 26,149	₩ 26,149	₩ -	₩ -	₩ 26,149
	26,149	26,149	-	-	26,149
Financial liabilities:					
Derivative liabilities designated as a hedging instrument	61	-	61	-	61
Ending balance	₩ 61	₩ -	₩ 61	₩ -	₩ 61

	December 31, 2010				
		Fair value			
	Carrying amount	Level 1	Level 2	Level 3	Total
Financial assets:					
Marketable equity securities	₩ 40,361	₩ 40,361	₩ -	₩ -	₩ 40,361
	40,361	40,361	-	-	40,361
Financial liabilities:					
Derivative liabilities designated as a hedging instrument	699	-	699	-	699
Ending balance	₩ 699	₩ -	₩ 699	₩ -	₩ 699

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31. MERGER (BUSINESS COMBINATION):

(1) On January 1, 2010 (registered January 5, 2010), the Group acquired LG Dacom and LG Powercom which operates in the wire communication business, in order to increase operational efficiency and create synergies by combining its wire and wireless communication businesses

Below is the summary of companies participated in the acquisition.

	LG Telecom	LG Dacom	LG Powercom
Location	Seoul Mapo-gu Sangam-dong 1600	Seoul Gangnam-gu Yuksam-dong 706-1	Seoul Seocho-gu Seocho-dong 1329-7
CEO	Jeong, Iljae	Park, Jongeung	Lee, Jeongsik
Major sales activity	Wireless communications	Wire communications	Wire communications

Due to the merger of LG Dacom, Dacom Multimedia Internet Corp. and DACOM America Inc. are newly consolidated and Dacom Crossing Corp. and True Internet Data Center Company are newly accounted as a jointly-controlled entity and associate, respectively. In addition, due to the merger of LG Powercom, CSOne Partner Corp. is newly consolidated(See Notes 2 and 15).

(2) The Group issued 237,515,405 shares (2.1488702 shares per 1 common stock of LG Dacom and 0.7421356 share per 1 common stock of LG Powercom) of registered common stocks (par value ₩5,000) to registered shareholders of LG Dacom and LG Powercom as of acquisition date however, no stock was issued related to LG Powercom common stocks held by LG Dacom.

(3) The acquisition of LG Dacom and LG Powercom is accounted for in accordance with K- IFRS 1103 - *Business Combinations*; therefore, acquired assets and assumed liabilities are measured at fair value.

(4) The 237,515,405 shares of common stock issued by the Group in order to acquire LG Dacom and LG Powercom are measured by applying fair value of the Company’s stocks as of acquisition date, January 1, 2010, which is ₩8,490 per share; while the total consideration to acquire LG Dacom and LG Powercom is ₩2,016,506 million.
Of this amount, the fair value of consideration transferred less treasury stocks which LG Dacom and LG Powercom had purchased in cash from their shareholders who exercised appraisal rights of dissenting shareholders is ₩1,489,695 million.

(5) Measurement of non-controlling interest

The non-controlling interest (11.9% ownership interest in LG Dacom) is measured as of the date of acquisition by reference to the non-controlling interests’ share of recognized identifiable net asset of LG Dacom, which amounted to ₩1,503 million.

(6) Bargain purchase gain

After applying the purchase method, the Group incurred a bargain purchase gain on the acquisition of LG Dacom and LG Powercom of₩193,173 million and ₩303,341 million, respectively, which is recognized in operating income in the consolidated statement of comprehensive income. The bargain purchase gain recognized was measured as the excess of the fair value of acquired net assets over the consideration transferred and the acquired net assets included the intangible assets that were not previously recognized in the consolidated statement of financial position of the acquires, such as customer relationships.

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(7) Summary of acquired assets and assumed liabilities of LG Dacom and LG Powercom as of January 1, 2010, the acquisition date, is as follows (Unit: Korean Won in millions):

	LG Dacom		LG Powercom	
	Book Value before merger K-IFRS(*1)	Fair value	Book Value before the merger K-IFRS(*1)	Fair value
CURRENT ASSETS	₩ 369,617	₩ 370,144	₩ 276,204	₩ 278,745
NON-CURRENT ASSETS:				
Investment assets	723,180	377,549	65	65
Property, plant, and equipment	837,377	1,231,038	1,570,948	1,334,262
Investment property	78,444	30,634	5,817	5,794
Intangible assets	47,634	310,692	18,792	400,309
Other non-current assets	38,049	21,365	172,475	205,084
Total non-current assets	1,724,684	1,971,278	1,768,097	1,945,514
TOTAL ASSETS(*2)	₩ 2,094,301	₩ 2,341,422	₩ 2,044,301	₩ 2,224,259
CURRENT LIABILITIES	₩ 659,274	₩ 651,700	₩ 694,184	₩ 713,420
NON-CURRENT LIABILITIES	412,438	416,276	445,469	453,079
TOTAL LIABILITIES(*2)	₩ 1,071,712	₩ 1,067,976	₩ 1,139,653	₩ 1,166,499

(*1) Carrying amounts are obtained from unaudited or unreviewed financial statements.

(*2) The acquired assets and assumed liabilities from LG Dacom and LG Powercom, include the assets and liabilities of Dacom Multimedia Internet Corp. and DACOM America Inc. which are the subsidiaries of LG Dacom, and the assets and liabilities of CSOne Partner Corp. which is the subsidiary of LG Powercom. Also, the above acquired net assets include the fair value of investments in Dacom Crossing Corp. and True Internet Data Center Company, which are the jointly-controlled entity and associate of LG Dacom, respectively, as investment assets.

The fair value of loans and receivables acquired from LG Dacom and LG Powercom is ₩301,658 million and ₩207,623 million, respectively, whereas, their contractual amounts are ₩339,121 million and ₩239,723 million, respectively. Additionally, the cash flows from loans and receivables acquired from LG Dacom and LG Powercom of ₩37,463 million and ₩32,100 million, respectively, are not expected to be collected (Unit: Korean Won in millions):

	LG Dacom			LG Powercom		
	Fair value	Gross contractual amount	Amount deemed uncollectable	Fair value	Gross contractual amount	Amount deemed uncollectable
Trade receivables	₩ 275,633	₩ 311,721	₩ 36,088	₩ 165,158	₩ 196,574	₩ 31,416
Other accounts receivable	25,955	27,330	1,375	7,794	8,278	484
Loans	70	70	-	34,672	34,871	200
	₩ 301,658	₩ 339,121	₩ 37,463	₩ 207,624	₩ 239,723	₩ 32,100

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32. EVENTS AFTER THE REPORTING PERIOD

On February 9, 2012, under the resolution of the Board of Directors held on January 27, 2012, the Company transferred ₩889,857 million of trade receivables to U plus LET 2nd SPC for ₩837,000 million.

33. STATEMENTS OF CASH FLOWS

The major transactions not involving cash outflows and cash inflows for the years ended December 31, 2011 and 2010 are as follows (Unit: Korean won in millions):

	2011		2010	
Mutual reclassification between trade receivables and long-term trade receivables	₩	199,811	₩	93,868
Abandonment of trade receivables		49,586		47,467
Account reclassification between prepaid expenses and Non-current prepaid expenses		36,372		8,758
Valuation of available-for-sale security		14,212		4,667
Reclassification of Assets under-construction		862,370		709,108
Addition of long-term accrued expenses relating to acquiring intangible assets		500,226		-
Current maturities of debentures and long-term borrowings	₩	993,697	₩	653,767

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