

2015

global dream  
company:

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When a company's vision is consistent with that of its employees, success will follow. At LS Networks, our talented and innovative employees use their progressive thinking and impressive expertise to pave the way for the future under the vision of a "Global Dream Company". LS Networks continuously works to improve value for its shareholders, customers, and employees. The Global Dream Company is a dream shared by all management and employees at LS Networks.



**In 2016, we will be committed to achieving stable and sustained growth by concentrating on fortifying our core businesses and securing growth potential.**

Dear valued shareholders and customers:

The year 2015 was a difficult time for companies, including LS Networks. Despite the gradual recovery of the U.S. economy, the risks in resource-exporting countries continued, leading to a significant decrease in world trade. This was caused by sluggish demand from advanced nations, a slowing economy in China, and downfalls in international oil and raw materials prices. Because of this, the export-dependent South Korean economy also experienced significant downturns.

In addition, the Middle East Respiratory Syndrome (MERS) situation that began in the first half of last year was ongoing, making our key Brand Business unable to avoid a decline in its sales. In relation to our Global Business, the collection of trade receivables was extended over a long period of time due to a drop in oil prices and economic sanctions by the U.S. and Europe on Russia and the CIS nations, which are our strategic regions, creating large-scale bad debts. As a consequence, our business performance unfortunately failed to meet our expectations.

I would like to thank our shareholders and customers for their unending encouragement and support during this challenging economic situation. In 2016, we will be committed to achieving stable and sustained growth by concentrating all our capacity and efforts on fortifying our core businesses and securing growth potential."

The economic situation will not be easy in 2016 either. The recovery of exports will likely be limited, following the weakening global economic recovery and the unstable economic situation in China. There are some positive signs, however, such as a rebound in international oil prices and the partial improvement in consumer confidence. A recovery in domestic demand will probably also be limited due to factors such as household debts, downturns in the property market, and aging.

**We will make extensive efforts to enhance the strengths and core competencies of each of our businesses through stringent risk and investment management.**

The only way to retain customer trust and confidence in such uncertain situations is to produce surefire results. The employees of LS Networks will do their best to rekindle the company’s growth, while effectively addressing the difficult conditions at home and abroad. In 2016, we will be armed with the belief that any difficulties and crises can be overcome if we all cooperate, and we will be reborn as a strong company that accomplishes stable earnings.

To this end, LS Networks will carry forward the following management strategies:

**First, we will create a strong company that places its top priority on performance.**

The nature of management is to make profit. We will transform into an organization that generates profit, by removing or reforming business areas that fail to produce profit and by thoroughly identifying and coping with any factors that stand in the way of our successful performance. I believe that the success or failure of an organization depends on the minds and wills of its people. At LS Networks, our employees will overcome difficulties together, and we will pursue all means necessary to achieve our management goals.

**Second, we will concentrate on reorganizing our business portfolio to focus on our core competencies and build sustainable management foundations.**

No company can guarantee its survival in the current uncertain market situation. At times like this we need to direct our efforts at reinforcing the strengths and core competencies of our businesses, by realigning our organization and efficiently managing our risks and investments. LS Networks will develop its businesses by assessing the key capabilities of each, based on clearly defined goals.

In particular, the Brands Business will strengthen its core items through design and quality innovation, and the Global Business will focus on profitability through quality-oriented business management so as to achieve stable and sustained growth.

**LS Networks will continue to take on and execute bold challenges in order to provide the best value to its customers and shareholders.**

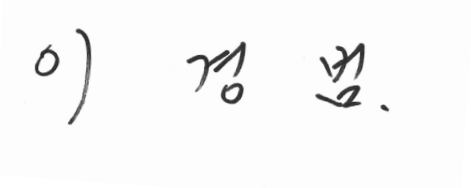
**Third, we will create a performance-oriented fair and efficient corporate culture.**

We will provide fair and transparent HR processes by elaborating our performance management structure. This will involve improvements to our employee promotion system and the establishment of HR development programs.

The year 2016 will be a time in which we will be faced with ever more difficult obstacles. Our management and employees are ready to take on these challenges, however, as we have set clear goals and are confident that we will prevail. The present crisis situation will become an opportunity to shine if we all join forces to work toward a successful and stable future.

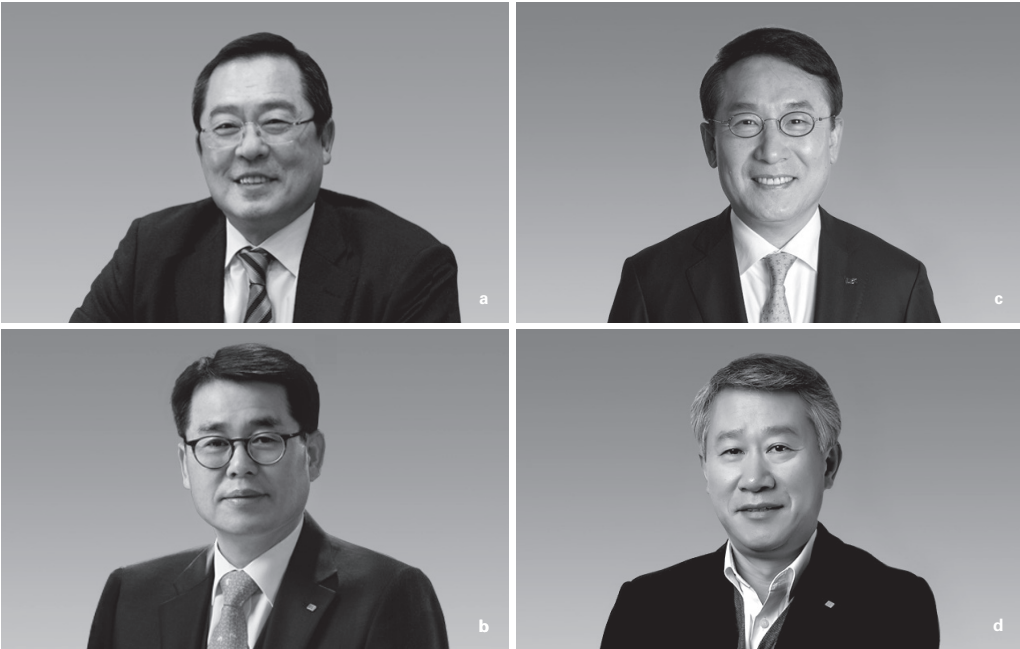
At LS Networks, we will continue to take on and execute bold challenges in order to deliver the best value to our customers and shareholders. By doing so, we are confident that next year we will be able to provide you with positive business performance results. I look forward to your continued support and encouragement. Thank you.

Kyung-Bum Lee  
Senior Executive Vice President





A sound and transparent governance is the key to gaining the trust of constituents and establishing the proper foundation for future growth drivers. It is essential to ensure the prosperity of LS Networks and everything it sets out to achieve. Ever since our founding, the management philosophy of LS Networks has always been Board of Directors (BOD)-centric and responsible when it comes to management transparency as mentioned earlier.



- a. Christopher Koo** | Chairman

  - Chairman of LS Group (2013-Present)
  - Chairman and CEO, LS Cable & System/LS Mtron (2009)
  - Vice Chairman and CEO, LS Cable & System /LS-Nikko Copper/LS Mtron (2008)
  - Vice Chairman and CEO, LG Cable (2004)
  - President and CEO, LG Cable (currently LS Cable & System) (2003)
- b. Ja-Yong Koo** | Chairman

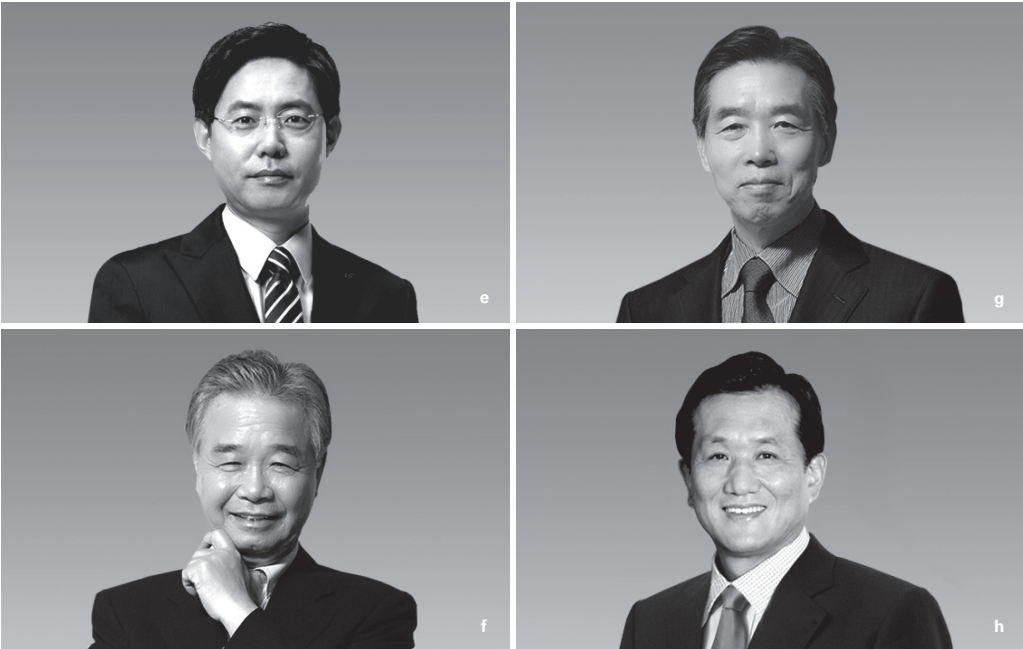
  - Chairman and CEO, LS Networks (2016-Present)
  - Chairman and CEO, E1 (2011-Present)
  - Vice Chairman and CEO, E1 (2009)
  - President and CEO, E1 (2005)
- c. Kyung-Bum Lee** | Chief Executive Officer

  - Senior Executive Vice President and CEO, LS Networks (2016-Present)
  - Senior Executive Vice President and Head of Brands Business Division, LS Networks (2014)
  - Senior Executive Vice President and Head of Men's Casual Unit, LF (2008)
  - Senior Vice President and Head of Regional Business Division, LG Card (2004)
- d. Seon-no Yoon** | Chief Executive Officer

  - Senior Executive Vice President and CEO, LS Networks (2016-Present)
  - Senior Executive Vice President and Head of Fiscal Division, E1 (2016-Present)
  - Executive Vice President and Head of Fiscal Division, E1 (2013)
  - Senior Vice President and Head of Fiscal Division, E1 (2011)

As an independent and the highest decision-making body, the BOD endeavors to establish the company's mid-to long-term management strategies and its risk management policies and programs to ensure of transparent management. The CEO oversees the performance of our management team, guided by the delegated rights responsible for management policies.

In 2015, the BOD hosted 14 meetings at which they deliberated and resolved 24 agenda items. The attendance rate was 100%.



- e. Yong-sun Kim** | Executive Director

  - Executive Director and Head of Planning/Finance and Economy Division, LS Networks (2016-Present)
  - Senior Manager and Head of Finance and Economy Team, LS Networks (2011)
  - General Manager and Head of Management Planning Team, LS Networks (2009)
- f. Ho-Soo Oh** | Non-Executive Director

  - Non-Executive Director, LS Networks (2010-Present)
  - Chairman, Korea Securities Dealers' Association (2001)
  - President and CEO, LG Investment & Securities (1998)
  - Senior Executive Vice President, Daewoo Securities (1996)
- g. Byong-Joo Kuem** | Non-Executive Director

  - Non-Executive Director, LS Networks (2007-Present)
  - President and CEO, Woosung I&C (2007)
  - President and CEO, LG International (2004)
  - Senior Executive Vice President and Head of Fashion Business Unit, LG International (2000)
- h. Jong-wung Park** | Non-Executive Director

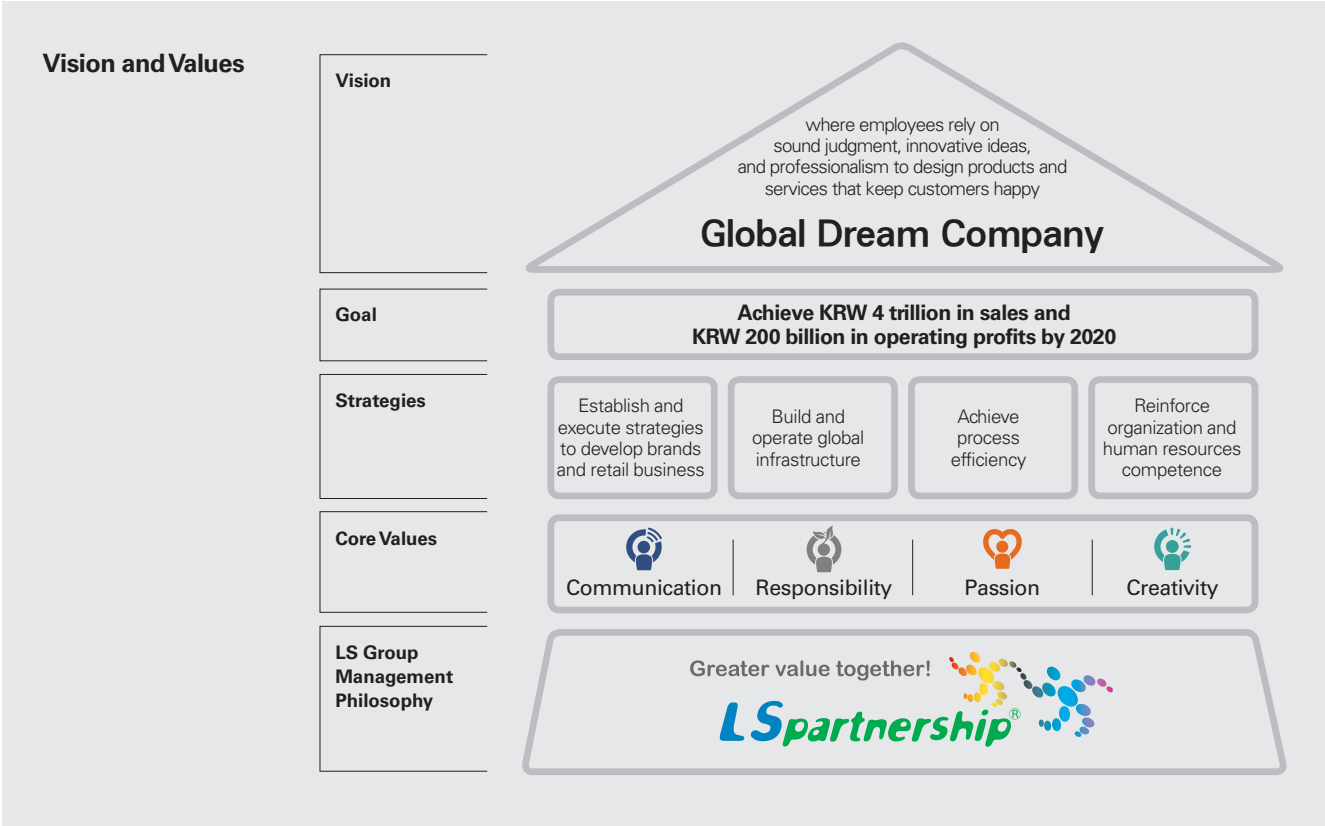
  - Non-Executive Director, LS Networks (2016-Present)
  - CEO, Samil Precision (1992-Present)
  - President and CEO, Samil Enterprise (1990-Present)
  - Non-Executive Director, Monami (2004)

A specialized consumer brand, retail, and trading company

LS Networks is a mainstay in LS Group’s consumer goods sector, having secured competitiveness in the sports and outdoor brand market with products that satisfy customer needs in both function and design. We are pursuing additional stability by entering strategic regions including Russia, Central Asia, and the CIS.

We have worked hard to establish our vision of becoming a Global Dream Company, with a goal of achieving KRW 4 trillion in sales and KRW 200 billion in operating profits by 2020. To reach our goal, we must focus our capabilities on four key initiatives:

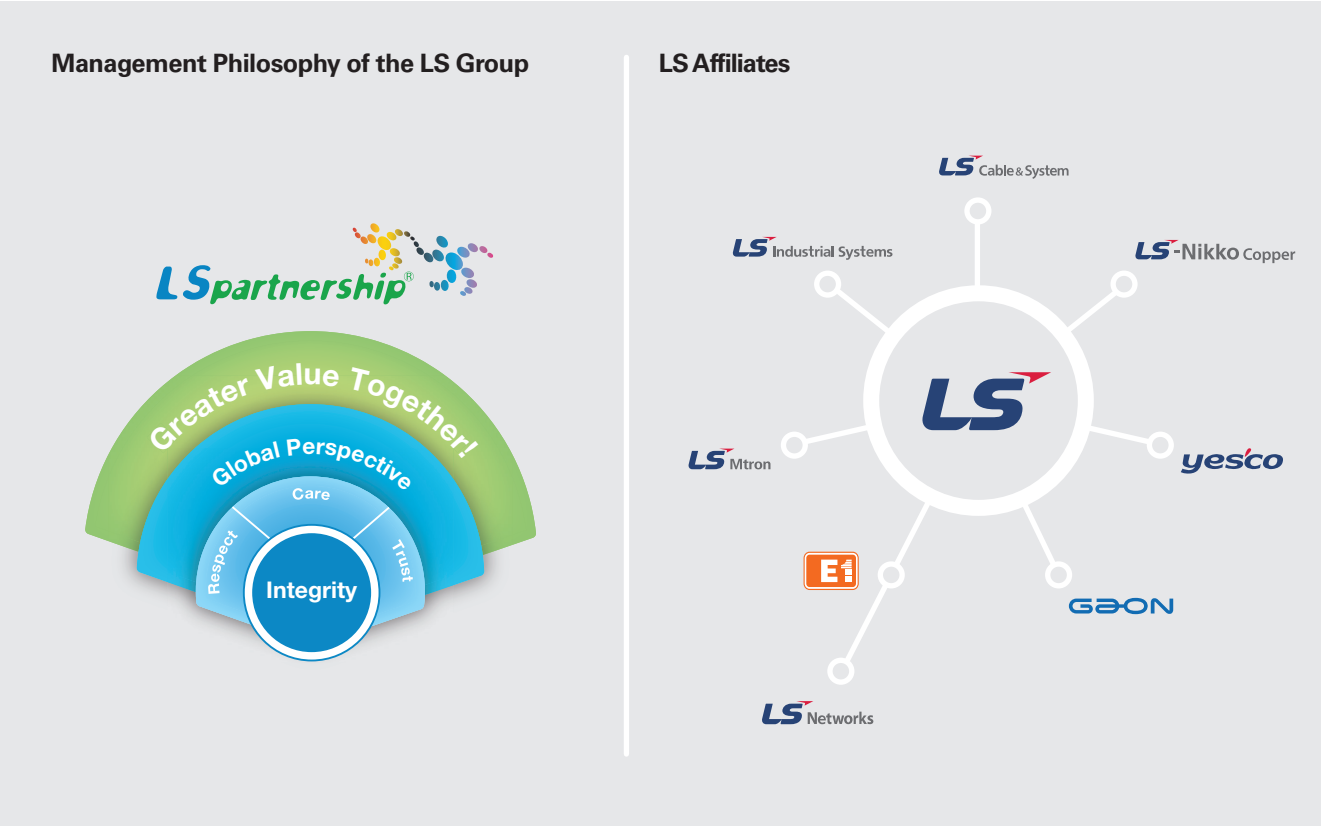
1) establish and execute strategies to further develop brands and the retail business; 2) build and operate a global infrastructure; 3) attain operational efficiency; and 4) reinforce and support organizational capabilities and human capital.



We are growing as a leading, global company in electricity, electronics, and materials.

LS Group, headed by LS Cable & System, LS Industrial Systems, LS-Nikko Copper, LS Mtron, and E1, leads the global electricity, electronics, and materials industries. Since acquiring LS Networks’ predecessor Kukje Chemicals in 2007, LS Group has expanded its business by focusing on the business to consumer (B2C) industry rather than the business to business (B2B) sector.

Guided by LS Corporation, the holding company of the Group, we deploy responsible management to seek out future growth engines and new businesses through active investments in R&D. In particular, we are concentrating on developing eco-friendly industries such as new and renewable energy, smart grid, futuristic automobile parts and solutions. By implementing our business philosophy of LSpartnership®, which is based on respect, care and trust, we will continue to grow as a global corporate citizen committed to social responsibility.



1949~1980: Our Beginnings

- 1949 - Founded Kukje Chemicals
- 1962 - Exported basketball shoes for the first time in Korea
- 1969 - Began operations of the Sasang plant
- 1973 - Listed on KOSPI

1981~1997: Period of Growth

- 1981 - Developed original PROSPECS brand; exported 50 million pairs of footwear to Sears in the US
- 1982 - Sponsored athletes with footwear who were participated in the New Delhi Asian Games
- 1983 - Established the Sports Products R&D Center
- 1984 - Changed the company name to Kukje Trading
  - Developed 31 types of specialized sports footwear
  - Sponsored athletes with footwear who participated in the Los Angeles Olympic Games
- 1985 - Built and occupied the corporate offices in Yongsan
- 1986 - Became an official sponsor of the Asian Games
  - Signed a brand exports contract with Satec of France
  - Won the grand prize at the Korea Trademark Exhibition; completed applications for trademarks in more than 40 countries
- 1987 - Signed brand exports contract with MALSO of Italy
  - Established an exclusive dealership in Finland, Sweden, Norway and Iceland
  - Became an official sponsor of the Pakistani Hockey Federation
- 1988 - Became an official sponsor of the Seoul Olympics
- 1992 - Exceeded production of two million pairs of Grand Slam tennis footwear
- 1994 - Developed a special rubber (AI-5100) specifically for footwear soles; obtained ISO-9001 certification
- 1995 - Obtained the Good Design (GD) award for sports and hiking footwear
  - Acknowledged by the Ministry of Trade and Industry Named as a company that delivers world-class products
- 1997 - Established the PROSPECS Cup Professional Soccer Tournament

1998~2007: Restructuring

- 1998 - Voted #1 in the sports footwear category by a National Consumer Satisfaction Index (NCSI) survey
- 2000 - Filed for bankruptcy protection through 2007
- 2007 - Incorporated as an affiliate of the LS Group

2008~Present: A New Chapter

- 2008 - Changed the company name to LS Networks; launched the new BI for PROSPECS
  - Incorporated OD CAMP, a MONTBELL brand operator, as a subsidiary
- 2009 - Launched the PROSPECS W sports shoe brand
  - Acquired FAST, a SKECHERS brand operator
  - Launched JACK WOLFSKIN, a leading European outdoor brand
  - Started its TOYOTA dealer business
- 2010 - Established a trading business
  - Started BICLO bicycle retail business
  - Completed the remodeling of the LS Yongsan Tower (November 2007~March 2010)
- 2011 - Launched WALK & TALK outdoor life multi-shops
  - Acquired Sports Motorcycle Korea
  - Established a subsidiary in China
  - Merged with OD CAMP, a subsidiary
  - Opened the first company-run MONT-BELL store in Beijing
  - Established branches in Moscow and Vladivostok
  - Acquired Heungup Corporation
  - Awarded with the Prime Minister Award at Korea’s Sports Industry Award
- 2012 - Established new vision and value system
  - Improved evaluation and remuneration programs
  - Constructed an optical communications equipment plant in Kazakhstan (Alpha Networks, a joint venture with Kazakhtelecom)
  - Opened BICLO Academy
  - Awarded with the Knowledge Economy Minister’s Award at the Korea Brand Award
- 2013 - Devised its TOYOTA dealer business
- 2014 - Awarded the Minister Award from the Ministry of Government Administration and Home Affairs for BICLO Academy
  - Sales reached KRW 800.0 billion
- 2015 - Obtained the Korea Accreditation System (KAS) certification for PROSPECS “W POWER Walking Shoes”
  - Received the 2015 Good Design award for three models of PROSPECS Walking Shoes
  - Received first prize at the 4th Korea-Russia Business Awards

# Business Overview



# Brands Business



## PROSPECS

PROSPECS became South Korea's leading walking shoe brand with the launch of its W Walking Shoes line in 2009. In 2012, PROSPECS improved its appeal to youth with ads featuring Yuna Kim, a world-famous figure skater. It also continued to inspire a new urban trend of wearing walking shoes with suits.

In 2013, PROSPECS continued to encourage a new walking culture in customers' daily lives by using Yuna Kim and the CNBLUE pop rock band in its advertising. In 2015, PROSPECS again raised its brand likability by selecting the actresses Kang So-ra and Kang Ha-neul, who were popular as the characters of the Misaeng TV drama series, as its main advertising models.

Competition in the sports market is intensifying due to increased overlap between sportswear and outdoor wear, and the added popularity of lifestyle products. PROSPECS has managed to retain its position in the walking shoes market by encouraging the walking trend, based on the W Science technology-based professionalism of its W POWER line. Its W POWER Z-SPRING, launched in 2015, obtained the Korea Accreditation System (KAS) certification, proving its excellence while securing international market credibility. In addition, PROSPECS' three walking shoe models, IMPULSE, Z-SPRING, and

BLADE, which will launch in 2016, won the Good Design (GD) mark at the 2015 Good Design Awards.

In 2016, PROSPECS will carry out a wide range of marketing activities to spread the healthy sports walking culture, featuring actress Kim Hee-ae as its new advertising model. Going forward, PROSPECS will be committed to enhancing its brand competitiveness while solidifying its leadership in the walking shoes market, based on its W POWER line. It will also strive to grow into a global sports brand that is recognized overseas, by focusing on raising its brand and product competitiveness.





SKECHERS

SKECHERS is the only multi-category single brand in the world to boast a lineup of more than sixteen categories, including lifestyle, fashion street, casual, kids, and functional sports shoes. It introduces over 7,000 styles annually. Based on outstanding quality and designs, it has advanced into more than 100 countries around the world, while ranking second only to Nike in sales in the U.S. market.

LS Networks launched its SKECHERS total sports brand in May 2009. In 2011, we recorded overwhelming sales growth by releasing the Shape-ups Liv, featuring various colors and enhanced comfort level. The D’Lites EXTREME, our mega hit item in 2013, became an immediate sensation among youth, posting cumulative sales of 1 million units as of 2015. In 2014, we rolled out the D’Lites EXTREME Golden Panda, using cute pandas as a motif and taking the fashion shoes market by storm. This was followed by Golden Panda, Wild Panda, and Dark Panda in 2015, and D’Lites Oriental in 2016.

SKECHERS plans to continue enhancing its product competitiveness in various categories, led by differentiated technologies and product power, and

based on its domestic network with over 160 locations across the country. In addition, it will maximize customer satisfaction by strengthening its marketing activities for the popular D’Lites series and continuously introducing follow-up models.

At the same time, SKECHERS will continue to expand its shares for walking and running shoes in the domestic sports market through the Liv and GOWalk series, which have become steady sellers, and the Go Series, which boasts innovative technologies. It will position itself as a global total sports brand in the professional sports apparel market as well, centering around yoga, fitness, and running clothes by introducing innovative products with diverse styles and designs.







MONT-BELL

Founded by renowned Japanese mountain climber Isamu Tastsuno in 1975, MONT-BELL is Japan’s number one outdoor brand. Launched in South Korea by LS Networks in 2008, it has become a leader in the country’s outdoor sports market.

MONT-BELL has consolidated its brand position by introducing high-tech, innovative ultra-light products, while firming up its independent brand identity in the competitive outdoor environment based on its unrivalled technologies and accumulated expertise. Its ultra-light weatherproof, Gore-Tex, and down jackets in particular boast the world’s highest-level technologies.

In 2013, MONT-BELL sponsored Kim Chang-ho, who climbed the fourteen tallest mountains in the Himalayas without using oxygen in record-breaking time; this was done using MONT-BELL products, once again proving the quality of its ultra-light weight technologies. In 2014, it built on its image of trendiness and confidence by using actor Lee Jung-jae as its advertising model. It also applied its “Light & Fast” brand concept to all of its products, establishing itself as a producer of the finest functional outdoor products which help wearers to protect their bodies while staying safe and comfortable.



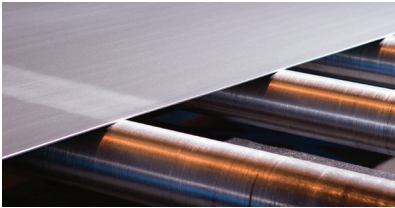
In 2016, to keep up with the "Athleisure" craze, MONT-BELL plans to launch new lines including O/D ATHLETIC, BIKE, and DOGGY, with a focus on its existing Trekking line. It will also strengthen its brand concept even further, based on its excellent product power and amassed technologies. In addition, it will retain its reputation as an outdoor brand with the best technologies through active online and offline marketing efforts in addition to developing other outdoor brands and differentiated products.



# Global Business



LS Networks has retained its stable and sustainable growth through the Global Business since 2010. While concentrating on resource projects in Southeast Asia, we are also expanding into Russia and the CIS region as a locally specialized professional trading firm.



**Natural Resources and Raw Materials**

LS Networks has traded natural resources since it started its trading business. We are also accelerating the export and development of resources, while importing and acting as an intermediary in the trade of coal and other mineral resources.

**Machinery, Heavy Equipment, and Ships**

Since 2013, LS Networks has supplied highly reliable construction machinery and equipment, including excavators, wheel loaders, concrete pump cars, and tractors. To meet the various needs of our customers, we are expanding our business into cranes and hydraulic drills.

**Projects**

LS Networks has several infrastructure projects in Russia. In 2014, we

completed the feasibility analysis and master plan service for the modernization project of the Yuzhno-Sakhalinsk Airport on the island of Sakhalin. Based on this, we won the business feasibility analysis project for Kazakhstan’s Almaty International Airport.



**Power, New and Renewable Energy, and New Projects**

LS Networks promotes power infrastructure projects around the world. We are carrying out plant and plant machinery and equipment supply projects in Africa and the Middle East, while developing new projects to secure mid- to long-term revenue bases including new and renewable energy projects.

Our global trading business has achieved sustained quantitative growth by focusing on electricity, new and renewable energy, and new projects in addition to natural resources and raw materials. While our profitability has slowed recently, following downturns in global economy, we will ensure quality-oriented stable growth on the basis of our differentiated competitiveness and locally optimized business portfolios.



# Corporate Culture



**Personnel Management System**

LS Networks has improved its key personnel systems, including recruitment, evaluation, reward, and education. By educating team leaders before they interview and evaluate candidates, we can discover and train talented people, while strengthening our organizational capabilities through leadership training.

We also introduced a peak salary workshare program in line with government policies to cope with an era of aging. We adjusted the length of service required for promotion by position, and also improved the reasonableness of our promotion system. In order to make our job system consistent across the company, we divided the system and prepared job descriptions. This will pave the way toward operating a well-organized, more efficient personnel system.

**Compliance Management**

Observing laws and ethics is an essential management element to secure a company’s perpetuity and enhance its competitiveness. All employees at LS Networks comply with domestic and international laws and regulations when conducting business, while fulfilling their social responsibilities. Our goal is to put compliance management into place as our corporate culture.

We have strengthened our institutional mechanism to put compliance management into practice. This includes forming teams to monitor and prevent risks, providing mandatory compliance education, and reflecting this education in the evaluation of personnel. We strive to generate synergies in doing business, while continuing reasonable and productive relationships with our business partners.

**BOBODAM Magazine**

Leveraging the characteristics of our outdoor brand business, in the summer of 2011 we founded BOBODAM, a quarterly magazine promoting an outdoor lifestyle. Meaning “stories shared while walking together”, BOBODAM archives South Korea’s humanistic landscape. This is done by selecting an area or two neighboring areas in the country, introducing its or their history and culture, and focusing on local stories from residents’ perspectives.

The magazine also introduces the history and culture of overseas areas that are linked with domestic areas, helping readers to better understand cultures at home and abroad. BOBODAM is distributed for free to approximately 1,000 public and university libraries and individual subscribers across the country.

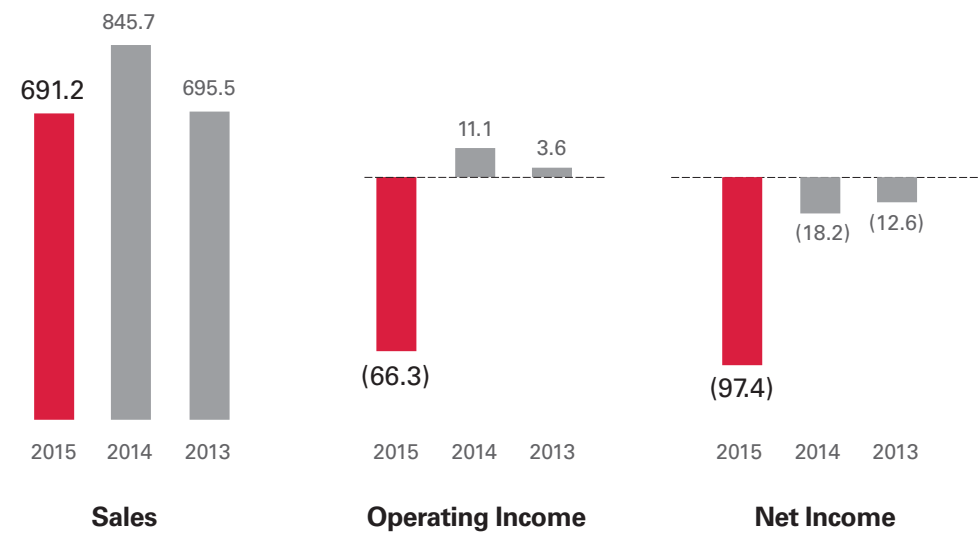


## 2015 Financial Highlights

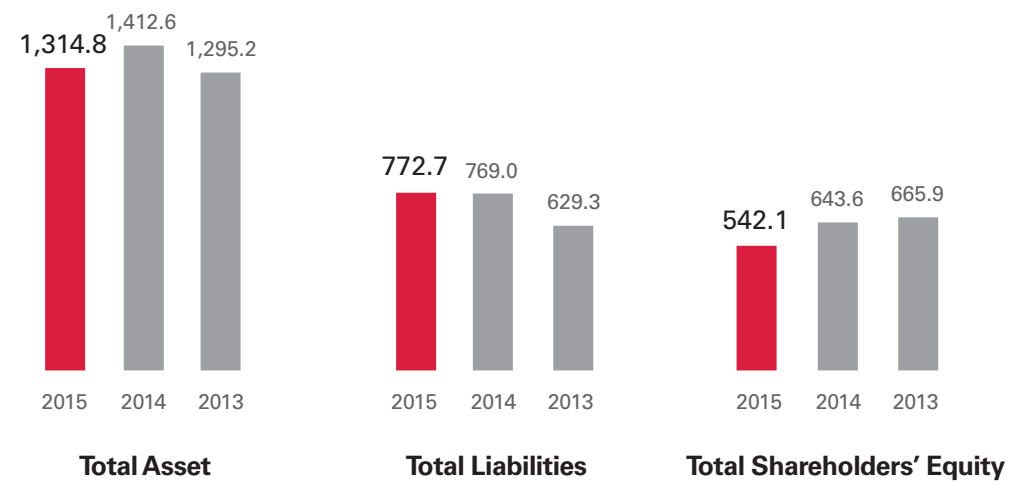
Management's Discussion  
& Analysis

Financial  
Statement

### 1. Profit and Loss (Unit: KRW in billions)



### 2. Financial Position (Unit: KRW in billions)



# Financial Review

Management’s Discussion & Analysis

This management discussion and analysis has been prepared in accordance with the Korean International Financial Reporting Standard (K-IFRS). It contains forward-looking statements with respect to LS Networks’ operations, financial situation, operating results, and future events. It also contains management plans and strategies. Statements that are not based on objectively provable facts, such as both known and unknown risks, uncertainties, and other factors, may affect the actual results or performance of the company.

LS Networks does not make any guarantees, either expressed or implied, as to the accuracy or completeness of the information contained in this section, and undue reliance should not be placed on it. Forward-looking statements refer only to the conditions on the date they were made, and the company is under no obligation to update them in light of new information or future events. The term “the company”, when used without any other qualifying description, refers to LS Networks.

I. Introduction

In 2015, the risks in resource-exporting countries continued, leading to a significant decrease in world trade. This was caused by sluggish demand from advanced nations, a slowing economy in China, and downfalls in international oil and raw materials prices. Because of this, export-dependent South Korean economy experienced a continued slowdown in its growth, as did LS Networks.

In its key Brands Business, the company was unable to avoid a decrease in its sales as the Middle East Respiratory Syndrome (MERS) situation, which began in the first half of last year, continued. In relation to its Global Business, the collection of trade receivables was protracted due to a drop in oil prices and economic sanctions by the U.S. and Europe on Russia and the CIS nations, which are the company's strategic regions, creating large-scale bad debts. A large amount of losses that were generated during the encashment of its non-income properties due to the difference between book value and sale value also had a negative impact on its 2015 results.

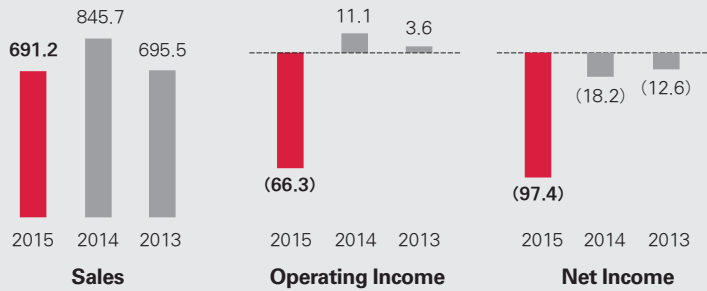
II. Business Results

The Brands Business had a difficult year in 2015 due to sluggish household consumption. MONT-BELL and JACK WOLFSKIN underwent a correction period during the year amidst overall slowdowns in the outdoor market and due to the effects of heated market situations. The Global Business had enjoyed continued sales growth since its inception in 2011. In 2015, however, it suffered temporary losses as the government authorities reflected strict accounting standards in overseas insolvent operations and prolonged receivables of the overall domestic construction and trading sectors.

As a result, sales reduced by 18% over the year to KRW 691.2 billion in 2015, from KRW 845.7 billion in the previous year. Operating income also switched to a loss of KRW 66.3

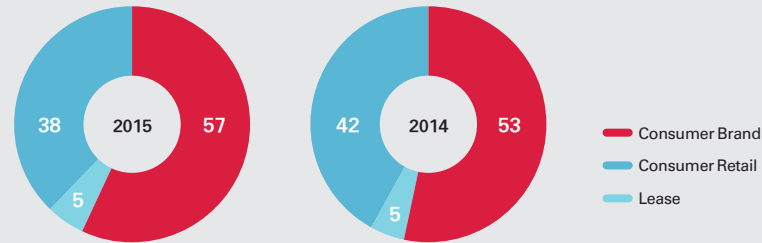
billion from KRW 11.1 billion. Net income stood at a loss of KRW 97.4 billion compared to a loss of KRW 18.2 billion in 2014, as the company had protracted receivables as bad debts and suffered losses from the disposal of assets.

Income Statements for the Past Three Years (Unit: KRW in billions)



The Brands Business (PROSPECS, SKETCHERS, MONT-BELL, and JACK WOLFSKIN) accounted for 57.1% of the company's total sales, while the businesses of consumer retail (global trading and BICLO) and lease made up 37.6% and 5.4% respectively. The portion of sales by the retail business shrank by 4.4% points over the year, whereas those of brands and lease increased by 3.6% points and 0.8% points each.

2015 Sales Breakdown (Unit: %)



1. Results by Business

In the Brands Business, the company made ongoing efforts to achieve anticipated results even while the domestic market suffered low customer confidence. It strengthened its brand image through its existing celebrity marketing, while seeking changes through the alignment and diversification of its product lines. It also reorganized its sales network by shifting its focus to department stores and outlets.

In addition, the company launched home shopping products through positive cooperation with domestic large-scale home shopping channels. Regardless of these efforts, sales decreased by 12.7% over the year to KRW 394.3 billion, due mainly to weak consumer spending in the sports market and slowing outdoor market growth since the MERS situation.

Management’s Discussion & Analysis

The growth in the consumer retail sector slowed during the year, due to a temporary stagnation in the Global Business division. Accordingly, the company broadened its bases by expanding its regional bases and by diversifying its business items.

However, the company experienced large-scale bad debts following the conservative advice of government authorities on insolvent operations and receivables of the domestic construction and trading sectors. It reorganized its business portfolio with low-risk business groups through the revalidation of its ongoing projects. As a result, sales in the consumer retail business sector contracted by 26.8% over the year to KRW 259.6 billion, and its operating loss expanded to minus KRW 49.0 billion.

In the lease business, despite various pump-priming government policies, the overall domestic real estate market remained depressed, and demand also showed a downturn. The excessive supply of office buildings in Seoul also led to overheated competition causing unstable market situations. Even in such a challenging environment, the company generated stable earnings centering around the LS Yongsan Tower, while providing leading-edge services to its tenant companies based on the finest locations and price competitiveness. The values of its lease business and property holdings have been on the rise as the locational advantages of the Yongsan area are emphasized. For example, the development of surroundings of the LS Yongsan Tower has been smoothly underway and a duty-free shop is coming in, leading to the expansion of its floating population.

Sales in the lease business sector decreased by 4.7% year-on-year to KRW 37.3 billion, led by the disposal of the Incheon Container Freight Station (CFS) at Incheon Port, and properties in Daechi-dong, Seoul. Operating income, however, rose by 15.4% to KRW 14.3 billion, due to strengthened profitability. This was done by renewing its lease contract conditions and executing cost-saving strategies.

Gross Profit (Unit: KRW in billions)				
	2015	2014	YoY Change	Change(%)
Sales	691.2	845.7	(154.6)	-18.3%
Cost of goods and services sold	490.0	578.7	(88.8)	-15.3%
Gross profit	201.2	267.0	(65.8)	-24.6%
Gross margin	29.1%	31.6%	-	-
Selling and administrative expenses	267.5	255.9	11.6	4.6%
Operating income	(66.3)	11.1	(77.4)	-695.7%
Operating margin	-9.6%	1.3%	-	-

2. Net Income

Net loss rose over the year to reach KRW 96.7 billion at the end of 2015. The ratio of net income to net sales also decreased to minus 14.1%, caused by a temporary rise in financial expenses following an increase in borrowings cost, and non-current expenses including loan loss provisions on trade receivables.

Net Income (Unit: KRW in billions)				
	2015	2014	YoY Change	Change(%)
Financial revenue	14.0	0.9	13.1	1401.0%
Financial Expenses	18.3	20.9	(2.7)	-12.8%
Income before income taxes	(124.9)	(21.0)	(103.9)	-494.8%
Net income	(97.4)	(18.2)	(79.2)	-434.5%
Net margin	-14.1%	-2.2%	-	-

III. Balance Sheets

1. Total Assets

The company’s total assets amounted to KRW 1,314.8 billion at the end of 2015, down by 6.9% from the previous year. This was led by decreases in tangible assets and investment properties following the disposal of real estate holdings.

TotalAssets (Unit: KRW in billions)				
	2015	2014	YoY Change	Change(%)
Current assets	361.7	410.0	(48.3)	-11.8%
Cash and cash equivalents	3.0	19.0	(16.0)	-84.2%
Trade receivables	96.0	160.5	(64.5)	-40.2%
Other receivables	14.4	14.3	0.1	0.7%
Inventories	203.1	193.3	9.8	5.1%
Assets to be sold	41.1	–	41.1	–
Other current assets	4.1	22.9	(18.8)	-81.9%
Non-current assets	953.1	1002.6	(49.5)	-4.9%
Tangible assets	150.5	180.5	(30.0)	-16.6%
Investment assets	460.3	581.2	(120.9)	-20.8%
Other intangible assets	342.3	240.9	101.4	42.1%
TotalAssets	1,314.8	1412.6	(97.8)	-6.9%

2. Total Liabilities and Shareholders’ Equity

Total liabilities edged up by 0.5% over the year to reach KRW 772.7 billion at the end of 2015. Although the company’s debt-to-equity ratio rose to 142.5% from 119.5% in the previous year, its financial structure is considered stable in the context of the agreed-upon credit limits established by the financial institutions from which it borrows. Financing through borrowing is also believed to benefit the company’s existing shareholders, due to its leverage effects.

Management’s Discussion & Analysis

Total shareholders’ equity contracted by 15.8% over the year to KRW 542.1 billion at the end of 2015. This was caused by: a decline in other contributed capital following the stock buyback; the generation of a net loss of KRW 97.4 billion; and a drop in retained earnings reflecting legal reserve and the payment of dividend. The company is committed to raising its shareholder value by paying dividends every year to preserve its stock value despite the generation of a net loss.

Total Liabilities (Unit: KRW in billions)				
	2015	2014	YoY Change	Change(%)
Current liabilities	369.6	532.0	(162.4)	-30.5%
Trade payables	29.1	42.5	(13.4)	-31.5%
Borrowings	240.4	378.0	(137.6)	-36.4%
Other current liabilities	100.1	111.5	(11.4)	-10.2%
Non-current liabilities	403.1	237.0	166.1	70.1%
Other notes and accounts payable	49.8	53.1	(3.3)	-6.2%
Borrowings	332.9	124.1	208.8	168.3%
Other non-current liabilities	20.4	59.8	(39.4)	-65.9%
Total Liabilities	772.7	769.0	3.7	0.5%

Total Shareholders’ Equity (Unit: KRW in billions)				
	2015	2014	YoY Change	Change(%)
Shareholders’ equity				
Capital stock	394.1	394.1	-	0.0%
Other contributed capital	(25.5)	(21.1)	(4.4)	-20.9%
Components of other capital	(0.3)	(0.7)	0.4	57.1%
Retained earnings	173.9	271.4	(97.5)	-35.9%
Total Shareholders’ Equity	542.1	643.7	(101.6)	-15.8%

IV. Cash Flow

Cash flow from the company’s operating activities resulted in a net inflow of KRW 5.1 billion. This was due to a decrease in its trade receivables and a rise in inventories. It rose by KRW 59.3 billion over the year, and is expected to improve even more in 2016 if the turnover of receivables continues to shorten.

Cash outflow for investing activities was KRW 69.1 billion. This was caused by the company’s expanded financial investments in its affiliates. It contracted by KRW 59.3 billion from the previous year’s figure.

Cash flow from financing activities resulted in an inflow of KRW 48.0 billion. This is attributed to rises in borrowings, the issuance of corporate bonds, and the concomitant generation of interest expenses. The company’s overall cash balance in 2015 had a net outflow of KRW 16.0 billion.

Cash Flow (Unit: KRW in billions)				
	2015	2014	YoY Change	Change(%)
Cash flow				
Net cash flow from operating activities	5.1	(54.2)	59.3	109.4%
Net cash flow from investing activities	(69.1)	(9.8)	(59.3)	-605.1%
Net cash flow from financing activities	48.0	72.6	(24.6)	-33.8%
Increase (Decrease) in cash balance	(16.0)	8.6	(24.6)	-285.6%

V. Outlook for 2016

In 2015, LS Networks experienced negative growth for the first time since it joined the LS Group. Sales decreased and operating income turned a loss. Deficits in net income also expanded due to non-operational constraints.

In 2016, the global economy is projected to remain unstable. The South Korean economy is also estimated to experience downturns, given that its economic situation is greatly influenced by the global economy. The economic conditions of business areas in which LS Networks engages will also be difficult. The domestic economy that affects its Brands Business will be restricted by reduced consumer confidence and the accumulation of household debts. External conditions such as the prolonged economic depression in Russia, a strategic base of the Global Business, will also work against the company.

In order to cope with the difficult environment in 2016, the company plans to raise the efficiency of all its impacted business sectors through exhaustive profitability analysis of all business areas. In terms of operations, it will attempt a successful conversion into quality-oriented business models rather than focusing on quantity.

The withdrawal of JACK WOLFSKIN from the Brands Business is smoothly underway, and the Global Business is also implementing a strategy of selection and concentration for key prime-quality businesses through the reexamination of profitability and risks.

In non-operational terms, the company will carry out cost savings and put into action its mid-to long-term plans to secure its financial soundness by repaying borrowings gradually. In order to make up for its poor performances in 2015, all employees and management will work to achieve its target goals by practicing strategic policies that will maximize synergies among businesses and cope with changes in the market.



Independent Auditors’ Report

March 17, 2016

To the Shareholders and  
the Board of Directors of  
LS Networks Co., Ltd.:

We have audited the accompanying consolidated financial statement of LS Networks Co., Ltd. (the “Company”) and its subsidiaries, which comprise the consolidated statement of financial position as of December 31, 2015 and 2014, and the related consolidated statement of comprehensive income, consolidated statement of changes in shareholders’ equity and consolidated statement of cash flows, all expressed in Korean won, for the year ended December 31, 2015 and 2014, and a summary of significant accounting policies and other explanatory information.

Management’s Responsibility for the Consolidated Financial Statements

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

Auditors’ Responsibility

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

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

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

Opinion

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

*Deloitte Anjin LLC*

Deloitte Anjin LLC  
9Fl., One IFC, 10, Gukjegeumyung-ro, Youngdeungpo-gu, Seoul 07326, Korea  
Tel: +82 (2) 6676 1000 Fax: +82 (2) 6674 2114  
www.deloitteanjin.co.kr

This report is effective as of March 17, 2016, the auditors’ report date. Certain subsequent events or circumstances may have occurred between the auditors’ report date and the time the auditors’ report is read. Such events or circumstances could significantly affect the consolidated financial statements and may result in modifications to the auditors’ report.

Consolidated Statements of  
Financial Position

LS Networks Co., Ltd. and its subsidiaries

(Unit: KRW)

	December 31, 2015	December 31, 2014
<b>Assets</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	12,980,267,317	27,521,491,525
Trade accounts receivable	99,063,043,463	163,090,292,591
Other receivables	7,272,890,628	16,231,757,473
Other current financial assets	616,135,400	2,634,625,400
Derivative assets	1,100,164,447	882,943,871
Inventories	210,505,443,551	202,138,237,180
Other current assets	4,445,352,479	21,207,175,191
Income tax assets	3,159,030	5,328,800
Non-current assets held for sale	53,342,836,000	-
	389,329,292,315	433,711,852,031
<b>Non-Current Assets:</b>		
Other receivables	21,257,213,767	23,696,086,147
Other non-current financial assets	22,318,819	21,781,793
Investment in associates	462,397,764,390	319,009,281,163
Investment in joint ventures	761,938,395	386,991,102
Property, plant and equipment	217,047,443,117	263,276,569,544
Investment properties	419,978,157,481	540,503,612,859
Intangible assets	8,028,374,603	8,557,962,639
Other non-current assets	765,912,421	778,651,228
Deferred tax assets	1,494,925,038	465,441,289
	1,131,754,048,031	1,156,696,377,764
<b>Total Assets</b>	<b>1,521,083,340,346</b>	<b>1,590,408,229,795</b>

As of December 31, 2015 and 2014

As of December 31, 2015 and 2014

(Unit: KRW)

	December 31, 2015	December 31, 2014
<b>Liabilities and Shareholders' Equity</b>		
<b>Current Liabilities:</b>		
Trade accounts payables	34,231,435,663	47,545,753,412
Other payables	70,367,146,411	71,201,688,150
Short-term borrowings	173,696,555,335	120,065,257,604
Current portion of long-term borrowings and debenture	75,785,553,150	262,728,415,662
Other current liabilities	21,500,717,812	7,170,787,773
Derivative liabilities	1,227,564,203	34,788,308,523
Income tax liabilities	13,528,116,283	1,923,511,855
	390,337,088,857	545,423,722,979
<b>Non-Current Liabilities:</b>		
Other payables	26,525,967,367	30,354,056,343
Long-term borrowings	215,450,669,348	95,234,064,474
Debentures	129,638,682,041	49,820,711,230
Other non-current liabilities	2,592,521,172	1,496,323,838
Derivative liabilities	-	344,114,013
Net defined benefit liability	8,621,349,351	6,206,729,585
Other provisions	1,040,335,740	726,529,193
Deferred tax liabilities	56,991,152,772	91,448,672,417
	440,860,677,791	275,631,201,093
<b>Total Liabilities</b>	<b>831,197,766,648</b>	
<b>Shareholders' Equity:</b>		
Equity attributable to the owners of the Group:		
Issued capital	394,091,500,000	394,091,500,000
Other paid-in capital	(25,567,976,795)	(21,139,439,130)
Retained earnings	319,881,589,617	395,801,575,693
Other components of equity	1,480,460,876	599,669,160
	689,885,573,698	769,353,305,723
Non-controlling shares	-	-
<b>Total Shareholders' Equity</b>	<b>689,885,573,698</b>	<b>769,353,305,723</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>1,521,083,340,346</b>	<b>1,590,408,229,795</b>

Consolidated Statements of Comprehensive Income

For the Years Ended December 31, 2015 and 2014

LS Networks Co., Ltd. and its subsidiaries	(Unit: KRW)	
	2015	2014
<b>Sales</b>	810,130,160,875	948,088,369,750
<b>Cost of Sales</b>	(594,926,656,534)	671,565,454,692
<b>Gross profit</b>	215,203,504,341	276,522,915,058
Selling and administrative expenses	(283,593,667,547)	273,843,737,036
<b>Operating Profit (Loss)</b>	(68,390,163,206)	2,679,178,022
Other income	36,155,418,529	24,636,037,201
Other expenses	(87,959,185,273)	19,972,922,416
Financial income	14,124,260,704	1,109,391,762
Financial expenses	(18,583,730,415)	21,509,487,838
Gains on change in value of investments in associates	32,236,455,901	14,499,353,665
Loss on change in value of investments in associates	(220,947,530)	176,553,011
<b>Income (Loss) Before Income Tax Expense</b>	(92,637,891,290)	1,264,997,385
<b>Income Tax Expense</b>	(19,549,151,128)	504,940,751
<b>Continuing operation income (loss)</b>	(73,088,740,162)	760,056,634
<b>Discontinued operation loss</b>	(2,668,675,356)	(50,026,711)
<b>Net Income (Loss)</b>	(75,757,415,518)	710,029,923
<b>Other Comprehensive Income (Loss):</b>		
Item that is not subsequently reclassified to profit or loss:		
Remeasurement of the net defined benefit liability	274,324,060	(791,744,674)
	274,324,060	(791,744,674)
Items that are subsequently reclassified to profit or loss:		
Gain (loss) on valuation of cash flow hedge derivatives	392,372,218	(80,446,016)
Loss on valuation of investment securities accounted for using the equity method	489,698,808	(1,262,865,286)
Gain (loss) on translation of foreign operations	(1,279,310)	(51,793,915)
	880,791,716	(1,395,105,217)
<b>Total Comprehensive Income (Loss)</b>	(74,602,299,742)	(1,476,819,968)

For the Years Ended December 31, 2015 and 2014

	(Unit: KRW)	
	2015	2014
<b>Income (Loss) Attributable to:</b>		
Owners of the Group	(75,757,415,518)	710,029,923
Non-controlling interests	-	-
<b>Total Comprehensive Income (Loss) Attributable to:</b>		
Owners of the Group	(74,602,299,742)	(1,476,819,968)
Non-controlling interests	-	-
<b>Net Earnings (Loss) Per Share:</b>		
Basic and diluted earnings per share		
Continuing operations and discontinued operation	(1,037)	7
Continuing operations	(1,001)	8

Consolidated Statements of  
Changes In Shareholders' Equity

For the Years Ended December 31, 2015 and 2014

LS Networks Co., Ltd. and its subsidiaries (Unit: KRW)

	Issued Capital	Other Paid-in Capital
January 1, 2014	394,091,500,000	(18,124,289,503)
Dividends paid	-	-
Comprehensive income:		
Net income	-	-
Changes in valuation of equity-accounted investees	-	-
Loss on translation of foreign operations	-	-
Loss on valuation of derivatives	-	-
Remeasurement of defined benefit plans	-	-
Purchase of treasury stocks	-	(3,015,149,627)
December 31, 2014	394,091,500,000	(21,139,439,130)
January 1, 2015	394,091,500,000	(21,139,439,130)
Dividends Paid	-	-
Comprehensive income:		
Net loss	-	-
Changes in valuation of equity-accounted investees	-	-
Loss on translation of foreign operations	-	-
Gain on valuation of derivatives	-	-
Remeasurement of defined benefit plans	-	-
Purchase of treasury stocks	-	(4,428,537,665)
December 31, 2015	394,091,500,000	(25,567,976,795)

For the Years Ended December 31, 2015 and 2014

(Unit: KRW)

Retained Earnings	Other Components of Equity	Equity Attributable to the Owners of the Group	Non-Controlling Shares	Total
396,189,797,049	1,994,774,377	774,151,781,923	-	774,151,781,923
(306,506,605)	-	(306,506,605)	-	(306,506,605)
-				
710,029,923	-	710,029,923	-	710,029,923
-	(1,262,865,286)	(1,262,865,286)	-	(1,262,865,286)
-	(51,793,915)	(51,793,915)	-	(51,793,915)
-	(80,446,016)	(80,446,016)	-	(80,446,016)
(791,744,674)	-	(791,744,674)	-	(791,744,674)
-	-	(3,015,149,627)	-	(3,015,149,627)
395,801,575,693	599,669,160	769,353,305,723	-	769,353,305,723
395,801,575,693	599,669,160	769,353,305,723	-	769,353,305,723
(436,894,618)	-	(436,894,618)	-	(436,894,618)
(75,757,415,518)	-	(75,757,415,518)	-	(75,757,415,518)
-	489,698,808	489,698,808	-	489,698,808
-	(1,279,310)	(1,279,310)	-	(1,279,310)
-	392,372,218	392,372,218	-	392,372,218
274,324,060	-	274,324,060	-	274,324,060
-	-	(4,428,537,665)	-	(4,428,537,665)
319,881,589,617	1,480,460,876	689,885,573,698	-	689,885,573,698



Consolidated Statements of  
Cash Flows

LS Networks Co., Ltd. and its subsidiaries

(Unit: KRW)

	2015	2014
<b>Cash Flows from Operating Activities:</b>		
Net income	(75,757,415,518)	710,029,923
Addition of expenses not involving cash outflows:		
Income tax expense	(20,301,854,434)	504,940,751
Financial expense	18,666,515,200	21,661,632,981
Retirement benefits	4,729,263,461	3,950,697,296
Depreciation	14,269,912,007	15,966,772,969
Amortization of intangible assets	970,679,704	1,445,067,197
Bad debt expenses	42,843,243,308	373,308,307
Loss on foreign currency translation	2,640,280,502	3,182,457,231
Loss on valuation of derivatives	797,740,404	285,109,711
Loss on valuation of firm commitment	30,273,803	611,764,234
Loss on disposal of property, plant and equipment	2,040,930,450	833,106,228
Loss on valuation of property, plant and equipment	18,469,216,685	-
Loss on disposal of investment property	11,992,652,764	-
Loss on valuation of investment property	13,790,910,448	-
Loss on disposal of intangible assets	1,783,332	84,000,000
Loss on valuation of intangible assets	376,724,910	247,191,850
Other bad debt expenses	10,328,110,292	4,422,445
Loss on valuation using equity method	220,947,530	176,553,011
	121,867,330,366	49,327,024,211
Deduction of revenues not involving cash inflows:		
Interest income	14,124,260,704	1,109,391,762
Gain on exemption of debts	-	1,917,543,224
Gain on foreign currency translation	5,353,282,089	3,674,874,087
Gain on valuation of derivatives	1,083,793,084	882,943,871
Gain on valuation of firm commitment	16,371,363	-
Gain on disposal of property, plant and equipment	119,951,081	122,440,150
Gain on disposal of intangible	19,316,600	140,000,000
Reversal of impairment loss on intangible assets	-	2,000,000
Gain on valuation using equity method	32,236,455,901	14,499,353,665
	(52,953,430,822)	(22,348,546,759)
Movements in working capital:		
Trade accounts receivables	24,784,999,125	(75,226,594,298)
Other accounts receivables	(9,243,927,056)	(8,261,438,755)
Inventories	(8,347,865,604)	(17,924,595,352)
Other current assets	15,206,102,026	(15,006,333,421)
Other non-current assets	977,349,562	568,590,002
Derivative assets (liabilities)	(13,930,074)	(217,751,874)
Trade accounts payables	(13,347,889,728)	23,754,935,614
Other accounts payables	9,951,199,282	25,842,225,993
Other current liabilities	4,274,530,695	(1,729,028,734)
Other non-current debts	(638,146,337)	581,271,283
Payment of severance indemnities	(1,285,746,304)	(341,903,828)
Plan assets	(660,000,000)	(3,190,586,720)

For the years ended December 31, 2015 and 2014

For the years ended December 31, 2015 and 2014

(Unit: KRW)

	2015	2014
Income tax paid	(3,936,696,333)	(4,439,838,993)
	17,719,979,254	(75,591,049,083)
<b>Net Cash Provided by (used in) Operating Activities</b>	<b>10,876,463,280</b>	<b>(47,902,541,708)</b>
<b>Cash Flows from Investing Activities:</b>		
Cash inflows from investing activities:		
Disposal of other financial assets	177,018,490,000	2,248,755,760
Disposal of other accounts receivable	1,942,488,279	142,185,200
Disposal of property, plant and equipment	10,712,178,961	970,725,644
Disposal of investment property	52,121,068,858	-
Disposal of intangible assets	50,000,000	300,000,000
Advance received for disposals of non-current assets held for sale	10,000,000,000	-
Interest received	926,556,885	413,565,482
Dividends received	186,650	186,650
	252,770,969,633	4,075,418,736
Cash outflows for investing activities:		
Acquisition of other financial assets	175,000,000,000	2,825,970,760
Increase in other accounts receivable	98,645,600	1,166,196,800
Acquisition of investments in associates	110,581,381,332	-
Acquisition of investments in joint ventures	538,363,000	-
Acquisition of property, plant and equipment	13,042,530,347	8,983,591,284
Acquisition of intangible assets	850,283,310	1,339,416,579
Settlement of equity options	20,691,618,668	-
	(320,802,822,257)	(14,315,175,423)
<b>Net Cash Used in Investing Activities</b>	<b>(68,031,852,624)</b>	<b>(10,239,756,687)</b>
<b>Cash Flows from Financing Activities:</b>		
Cash inflows from financing activities:		
Proceeds from borrowings	841,035,024,182	754,494,322,812
Issuance of debentures	79,715,300,000	49,808,200,000
	920,750,324,182	804,302,522,812
Cash outflows for financing activities:		
Redemption of borrowings	810,943,757,236	723,000,684,202
Redemption of debentures	50,000,000,000	-
Purchase of treasury stock	4,428,537,665	3,015,149,627
Payment of dividends	436,894,618	306,506,605
Payment of interest	12,337,208,797	7,278,557,807
	(878,146,398,316)	(733,600,898,241)
<b>Net Cash Provided by Financing Activities</b>	<b>42,603,925,866</b>	<b>70,701,624,571</b>
<b>Net Increase in Cash and Cash Equivalents</b>	<b>(14,551,463,478)</b>	<b>12,559,326,176</b>
<b>Cash and Cash Equivalents at the beginning of year</b>	<b>27,521,491,525</b>	<b>15,017,079,342</b>
<b>Effect of Exchange Rate Changes on The Balance of Cash Held in Foreign Currencies</b>	<b>10,239,270</b>	<b>(54,913,993)</b>
<b>Cash and Cash Equivalents at Year-End</b>	<b>12,980,267,317</b>	<b>27,521,491,525</b>

# GLOBAL DREAM COMPANY

In 2016, LS Networks will return greater value to its shareholders, customers, and other stakeholders by building sustainable management foundations through performance-centered reorganization, creative business ideas, and execution ability.

## Domestic Network

### Head Office

627-15 Bunseong-ro  
Gimhae, Gyeongsangnam-do, Korea  
Tel. 82-55-330-7014

### Seoul Office

12th Floor, LS Yongsan Tower  
92 Hangang-daero  
Yongsan-gu, Seoul, Korea  
Tel. 82-2-799-7114  
www.lsnetworks.co.kr

## Overseas Network

### Moscow Office

902A, 12 Krasnopresnenskaya nab.  
Moscow 123610, Russia  
Tel. 070-4369-7590

### Vladivostok Office

7A Postysheva St.  
Vladivostok 60048, Russia  
Tel. 070-4369-7591

## Subsidiaries

### LS Networks Trading (Beijing) Co., Ltd.

Unit 01 ~03, 11th Floor, East Tower, LG Twin Towers  
B-12 Jianguomenwai Avenue  
Chaoyang District, Beijing 100022  
Tel. 86-10-5120-8600

### KJ MOTORRAD

Gangnam Building, 253 Dogok-ro  
Gangnam-gu, Seoul, Korea  
Tel. 82-2-3453-9990  
www.bmw-motorcycle.co.kr

### Sports Motorcycle Korea

2nd Floor, Sehwa Building  
27 Hangang-daero Yongsan-gu  
Seoul, Korea  
Tel. 82-2-790-0999  
www.ktm.co.kr

### Heungup Corporation

19-2 Seongan-ro, Sangdang-gu  
Cheongju, Chungcheongbuk-do, Korea  
Tel. 82-43-258-2233

### BEST TOYOTA Co., Ltd.

3rd Floor, LS Yongsan Tower,  
92 Hangang-daero Yongsan-gu,  
Seoul, Korea  
Tel. 82-2-2122-7701  
www.toyotayongsan.co.kr

### IR Contact

12th Floor, LS Yongsan Tower  
92 Hangang-daero Yongsan-gu, Seoul, Korea 04386  
Tel. 82-2-799-7044   Fax. 82-2-6442-5423



12th Floor, LS Yongsan Tower,  
92 Hangang-daero, Yongsan-gu, Seoul, Korea 04386  
Tel. 82-2-799-7114  
Fax. 82-2-6442-5423  
[www.lsnetworks.co.kr](http://www.lsnetworks.co.kr)