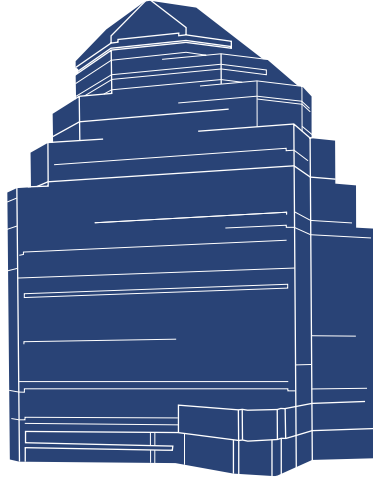


Networking Your Life with Future

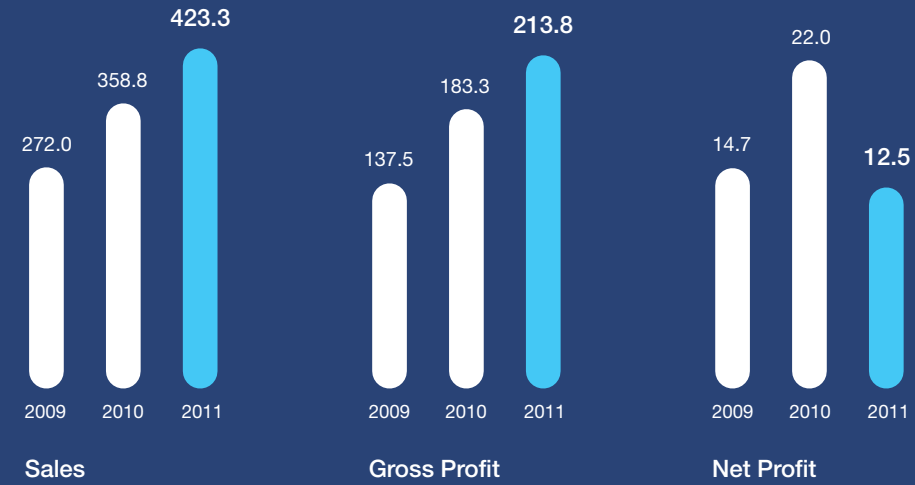


# 2011 LS NETWORKS ANNUAL REPORT

# 2011 Financial Highlights

## 1. Profit and Loss

(Unit: KRW in billions)



## 2. Financial Position

(Unit: KRW in billions)



LS Networks is one of Korea's leading specialized consumer brand and retail companies and the primary consumer goods division of the LS Group. It is engaged in the consumer brand, consumer retail, and global trading businesses.

In 2011, LS Networks recorded 18% sales growth over the year. In 2012, we will focus on securing a firm foothold for growth in our drive to post KRW 1 trillion in sales. We will do this by adding to our portfolio of new consumer brands, making our existing ones more attractive, and streamlining the operations of our global trading business.

### Contents

08 CEO's Message	16 Business Overview	36 Corporate History	46 Financial Section
12 2011 Highlights	32 About LS Group	38 Management's Discussion & Analysis	
14 Board of Directors	34 About LS Networks		

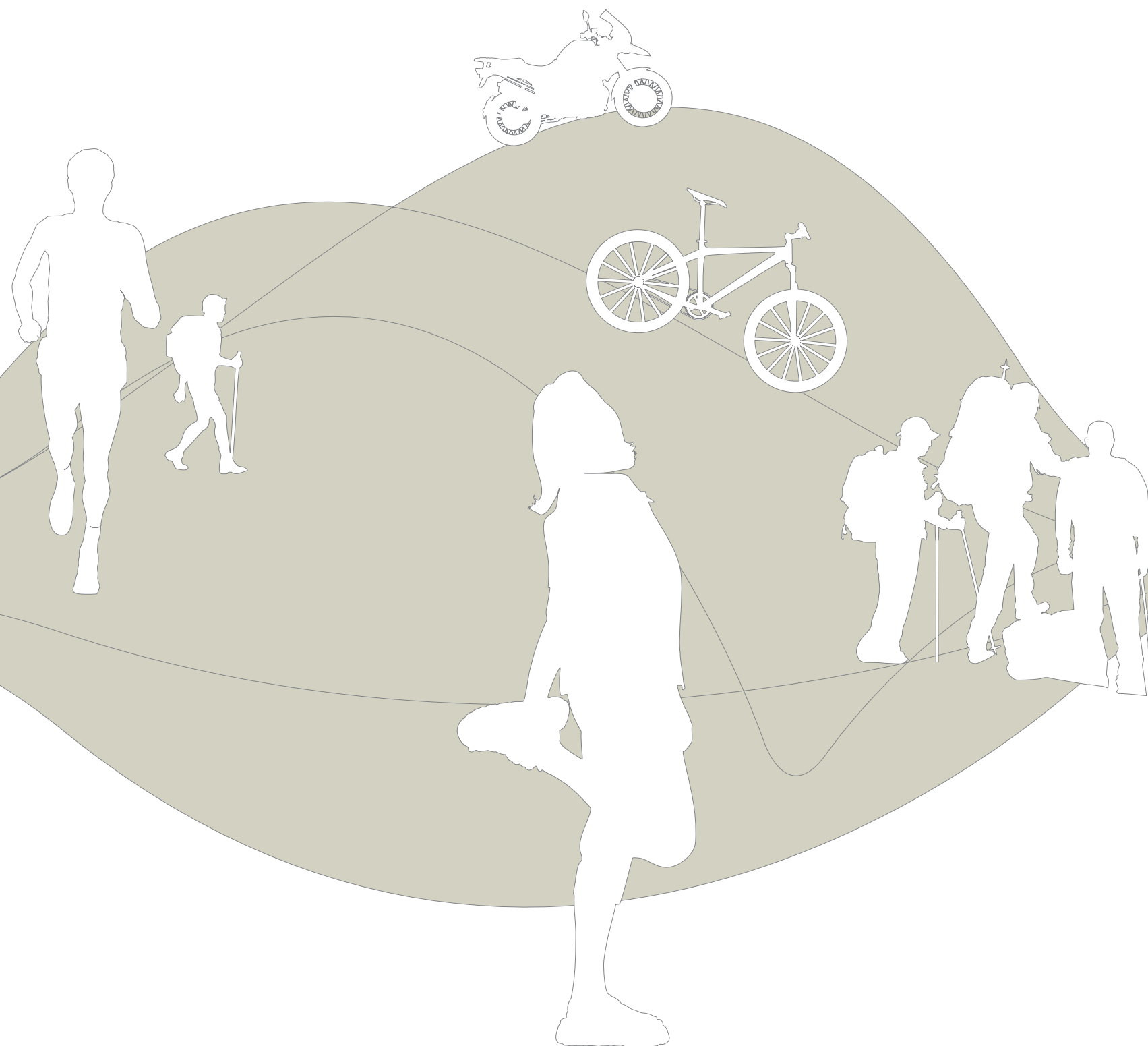


**Consumer  
Brand & Retail  
Business**

## Networking with the Life

We see many brands every day, but not many of them make an impression on consumers, presenting new standards and helping to raise the quality of life.

LS Networks is introducing a wide variety of new brands, based on the expertise and competitiveness it has accumulated over the past thirty-plus years by operating its PROSPECS brand. We offer products and services that will make our customers' lives healthier and more relaxed. Our goal is to lead them toward a brighter and happier future.

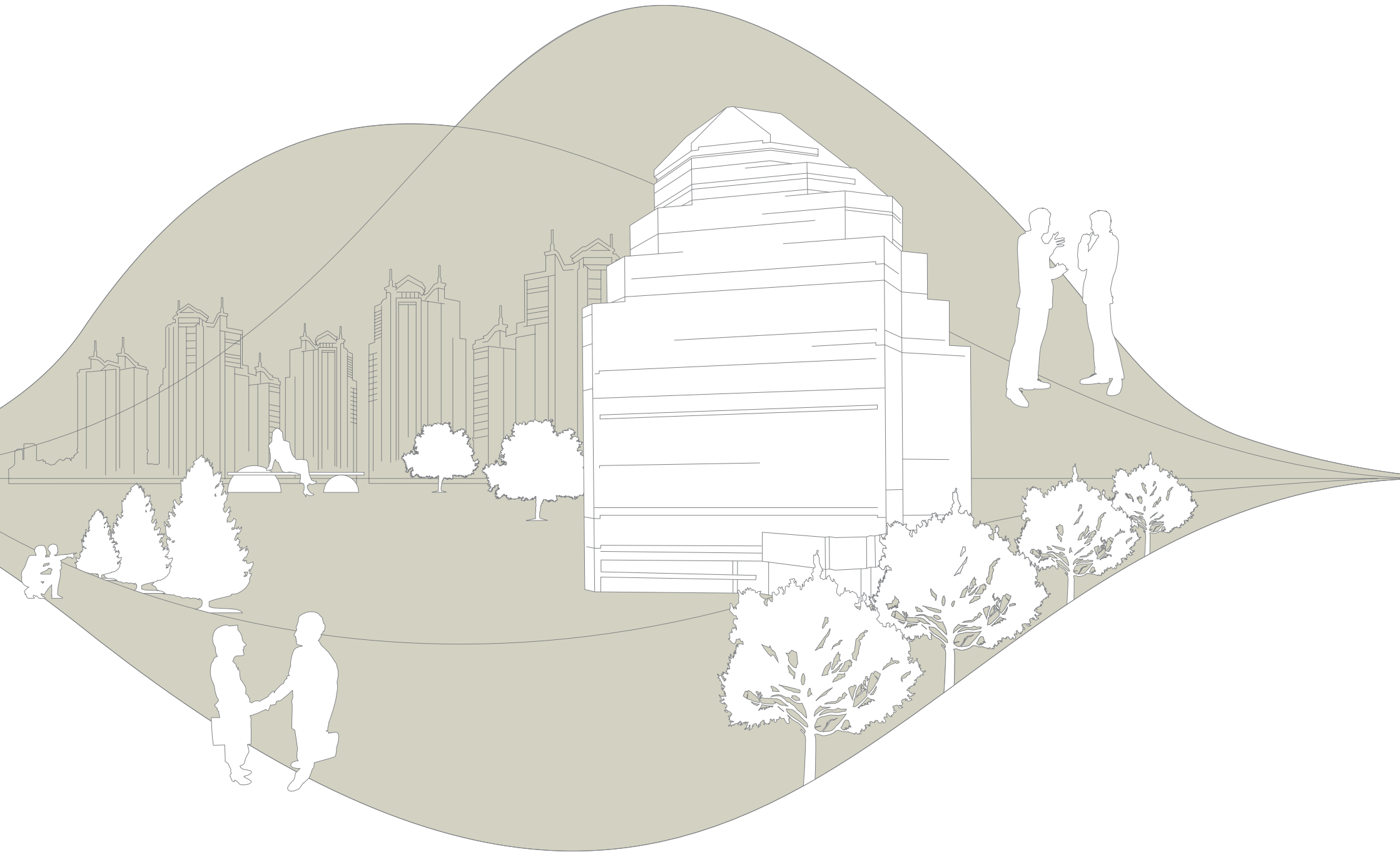




**Asset Management  
Business**

## Networking with the Growth

Securing stable assets is a prerequisite for any company if it wants to grow sustainably. However, investments in future growth engines can only be made if a company's fundamentals are strong. LS Networks believes in stability and growth at the same time, using innovative thinking to meet and overcome the challenge of constant change. This includes undertaking asset management projects that create new values and revenue models.





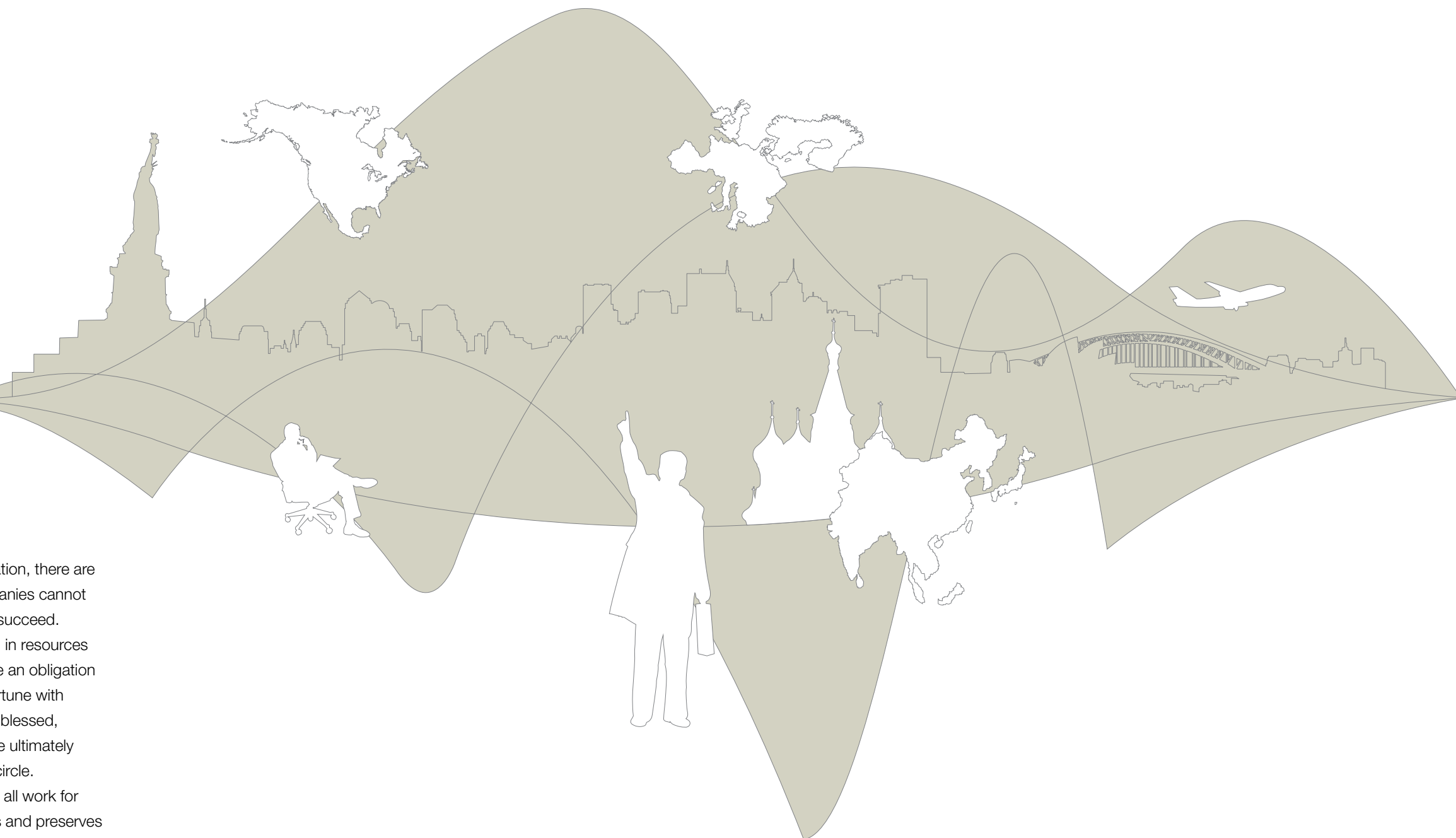
Global Trading  
Business

## Networking with the Future

In this age of globalization, there are no borders that companies cannot cross to prosper and succeed.

Countries that are rich in resources and technologies have an obligation to share their good fortune with others that are not so blessed, ensuring that everyone ultimately benefits in a virtuous circle.

In addition, we should all work for a society that protects and preserves the environment. LS Networks is committed to helping the rest of the world follow the path toward a brighter future.



In 2012, LS Networks will strengthen its foundations to ensure its mid- to long-term growth through its best-selling PROSPECS brand, profitable growth among its new brands, and the full-scale operation of its global trading business.



Dear valued shareholders and customers:

First of all, I want to thank you for your unwavering support and encouragement. Our achievements would not have been possible without your continuing interest and support. As always, it was much appreciated.

In 2011, the world faced yet another round of economic uncertainty. The so-called "Arab Spring" that began in Tunisia in 2010 soon spread to a number of other Arab countries. In the second half of the year, the financial crisis in the euro zone, which was mostly triggered by the sovereign debt crisis in Greece, slowed economic recovery and growth in the world's most advanced countries, casting a dark shadow on the global economy as a whole.

The Korean economy was no exception. Real estate prices plummeted, while soaring prices led to a decline in consumption. This in turn weakened consumer confidence. The change in leadership in North Korea after the death of Kim Jong-il made the country's situation even more uncertain.

**Sales rose by 18% over the year**

In response to these adverse conditions, LS Networks took a series of steps in 2011 to meet the challenge of an ever-changing business environment, harnessing the enthusiasm and talents of its employees to carry out its management strategies and achieve meaningful results. Sales rose by 18% over the year to KRW 423.3 billion, while total assets surged by 11% to KRW 1,119.2 billion.

We revamped our consumer retail business by launching our WALK & TALK outdoor life multi-shop.

We also strengthened our consumer brand business,

and continued with our preparations for advancing into world markets. In addition, we established a Chinese subsidiary in Beijing in July, and opened a directly-managed store of MONT-BELL in September. Our global trading division opened branches in Moscow and Vladivostok and built an overseas stronghold in Central Asia.

**2012, the year of our take-off toward our goal to post KRW 1 trillion in sales**

2012 will be a very important year for LS Networks, not least because we hope to post sales of KRW 1 trillion. Our success or failure in this will go far toward determining whether we will be able to achieve our mid- to long-term goals. Accordingly, all the members of LS Networks are preparing plans for our next steps, based on objective evaluations and analyses of our results from the previous year, when we failed to reach the earnings figures we had targeted despite a healthy growth in sales. From a long-term perspective, however, we still had many positive outcomes.

First of all, PROSPECS maintained its position as Korea's leading sports brand.

In addition, the performance of our new brands, such as MONT-BELL, gave us hope that they will start to generate a profit this year. We also anticipate that our global trading and consumer retail businesses will start to repay our investments in them by 2014 or 2015.

**An age of constant crisis**

The failure of the global economy to come to life even after massive stimulus spending in advanced Western economies shows the foolhardiness of being unduly optimistic before you have any reason to be.





The world's economy seems to be stuck in the grip of a long-term slowdown, and an export-based economy like Korea's is bound to feel the repercussions. Increasingly intensifying competition from players from all over the world is also having a negative impact.

In fact, many experts are warning that the global economy has entered an age of constant crisis, due to lingering low growth trends and increasing economic uncertainties.

The world economy has overcome numerous crises in the past. However, if we are indeed in an age of constant crisis, old solutions will no longer work. In the past, businesses relied on corporate restructuring to pull them out of the economic doldrums. But in an age of constant crisis, such belt-tightening will not be enough. The only way to achieve sustainable growth in this situation will be to make investments for future growth by opening up new markets and seeking out new sources of revenue to stay one step ahead of our competitors.

**Developing an emergency management system**  
Accordingly, LS Networks' management policy for

2012 is to overcome any crisis situations that might occur with an emergency management system, and to build a strong yet flexible foundation for mid- to long-term growth. We have chosen five key strategies to bring this vision to fruition.

First, we will carry out emergency management activities to prepare for possible crisis situations on a company-wide level.

Our first priority will be to go back to the basics and eliminate any waste factors that we find. We will also practice preemptive and proactive risk management by determining which risks are the most likely to occur and controlling for them through enhanced monitoring and feedback. In addition, we will develop scenarios that reflect possible crisis situations so we can cope with changes in our management environment in a fast and flexible manner.

Secondly, we will add to our competitiveness by continuously creating customer value. PROSPECS, which is the leader of our consumer brand business, is continually raising its profile as Korea's leading sports brand. Unfortunately, it failed to respond to a rapidly changing market environment in 2011. In 2012, as we celebrate our thirty-second anniversary, we will strengthen its foundations by enhancing its key lineups, adding new retail channels, and introducing product lines for younger customers.

MONT-BELL and SKECHERS demonstrated some possibility of success after overcoming difficulties in their market introduction stages last year. This year, we will add to their sales and earnings by reinforcing their revenue structures.

In addition, our JACK WOLFSKIN line will gain a stronger foundation for growth by obtaining more of the licenses that it needs to be a true market player. In the consumer retail business, our BICLO brand bicycle multi-shop will increase its imports and introduce ten or so new brands. We will also launch the MOUVE electric bike brand and include related clothes and equipment. In addition, we will strengthen the retail network of our WALK & TALK outdoor life multi-shops, while our TOYOTA Yongsan Dealership will start selling the new Camry model.

The global trading business, which we hope will get back on track this year, will continue to expand its operations in the territories in which it already operates. Its goal is to become the number one player among Korean companies which have advanced into relevant areas. We will also be developing promising mid- to long-term growth projects.

Thirdly, we will create additional synergies by integrating our processes. We will strengthen our linkages between divisions in such areas as purchasing, logistics, marketing, and sales, and redesign our processes so that we do not waste any resources or generate any bottlenecks.

Next, we will develop a strong yet flexible organizational culture to support our mid- to long-term growth. To begin with, we will reaffirm our unique value system and vision. This will allow us to realize our corporate vision by ensuring that everyone in the organization is singing from the same page. What we especially need now is a strong and energetic

organizational culture that will make LS Networks operate as it was intended to be. This will only happen if we can establish a fair and equitable relationship among all our workers and when they are confident that they and the company are working together for mutual goals. To accomplish this, we need to communicate much better and treat each other with respect and consideration.

A truly flexible organization is one that encourages listening to the opinions of other people and being open-minded. We will only become a strong organization when we are able to harness the passion and creativity of everyone in our organization to achieving a single, overarching goal. It is my job to see that this is done.

Another extremely important goal is to enhance our labor-management relations by working closely and respectfully with our labor union.

**2012, the first year of a greater take-off**  
The Chinese word for "crisis(危機)" has two characters, one for danger(危險) and one for opportunity(機會). Although most observers believe that the world economy will be faced with more uncertainties and difficulties in 2012, LS Networks will view the year as an opportunity to grow stronger and more disciplined. We can make this happen if we all work together.

I look forward to your continuing interest and encouragement.  
Thank you.

Seung-Dong Kim  
CEO & President

# 2011 Highlights

## January

### **Established overseas branches to strengthen global trading operations**

LS Networks launched its global trading operations as a core business and new growth engine that will enable it to grow into a world-wide consumer brand retailer. This included establishing branches in Moscow and Vladivostok. It also opened liaison offices in Almaty, Kazakhstan and Tashkent, Uzbekistan.

### **Labor union authorized management to oversee wage bargaining for second consecutive year**

LS Networks and its labor union agreed that compromise and cooperation are needed to ensure the company's success in an age of constant crisis. As a result, the labor union authorized management to oversee wage bargaining for the second consecutive year.

## March

### **Launched WALK & TALK outdoor life multi-shop**

LS Networks launched its first WALK & TALK outdoor life multi-shop in Daechi-dong, Seoul. Targeting hikers and other outdoor enthusiasts, it provides total solutions for outdoor life, including hiking shoes, clothing, bags, and other equipment made by more than ninety manufacturers around the world. This includes exclusive Korean selling rights for PEAK PERFORMANCE, a premium-level outdoor sports brand from Sweden, and ODLO, a Swiss outdoor clothing company.

## April

### **Paid first dividend after joining LS Group**

LS Networks paid its first dividend since joining the LS Group in 2007. This means that the company has been able to generate stable earnings. Minority shareholders enjoy a larger dividend ratio than major ones.

## July

### **Established subsidiary in China**

LS Networks established a subsidiary in China called LS Networks Trading (Beijing) to tap that country's fashion and outdoor markets. It also opened a directly-managed store of MONT-BELL in Beijing in September.

## September

### **PROSPECS participated in Korean Brands Exhibition at Harrods**

PROSPECS participated in the Korean Brands Exhibition held at Harrods from August 28 to September 24. The event, which was held to assist Korea's leading brands in entering the European market, was sponsored by the Korean Embassy and the Korea Trade-Investment Promotion Agency in London. Participants included the Ministry of Foreign Affairs and Trade and the Ministry of Knowledge Economy. PROSPECS, which was selected as Korea's leading brand in the sports category, showed a number of its products, including its W POWER 405 walking shoes. It was the only participant to run an ad on the store's outdoor sign, which is usually reserved for such luxury brands as Chanel and TAG Heuer. It impressed people with its designs, functionality, and marketability.

### **Absorbed OD CAMP subsidiary**

LS Networks absorbed its subsidiary, OD CAMP, the Korean operator of the Japanese outdoor brand MONT-BELL, in September. This was done to raise the company's management efficiency through the integration of all its management resources. MONT-BELL adds to LS Networks' business capabilities by generating synergies with its other brands, such as PROSPECS.

## November

### **PROSPECS received Prime Minister Award at 7th Korea Sports Industry Awards**

PROSPECS won a Presidential Commendation and the Prime Minister's Award at the seventh annual Korea Sports Industry Awards in 2011. It received the highest scores in the sports retail business category in recognition of its contributions to the development of the domestic industry through its win-win management agreements with smaller companies. For example, it gets all its shoes, including its W walking shoes and R running shoes, through companies in the Busan area, and its domestic production accounts for more than 60% of its total.





- 1 Christopher Koo Chairman
- 2 Ja-Yong Koo Chairman
- 3 Seung-Dong Kim CEO & President
- 4 Jae-Beom Park CMO & Senior Executive Vice President
- 5 Kyung-Han Ahn CFO & Senior Vice President
- 6 Ho-Soo Oh Non-Executive Director
- 7 Byong-Joo Kuem Non-Executive Director

Providing responsible and transparent management through BOD-centered corporate governance

Change and innovation are integral to ensuring the development of forward-looking companies. Echoing the management philosophy of the LS Group ever since its founding, LS Networks practices Board of Directors (BOD)-centered corporate management to ensure the ultimate in openness and transparency.

LS Networks puts transparent management into practice by making its BOD the ultimate arbiter of its mid- to long-term management strategies and its risk management policies and programs. As a result, the BOD is the company's highest in-house decision-making body—although the CEO is charged with actually running the business. In 2011, the BOD held eighteen meetings to discuss forty-eight agenda items.

Sound and transparent governance is a prerequisite for a company's long-term success. Going forward, LS Networks will consolidate its foundations for sustainable growth by rationalizing its management and enhancing its efficiency.



# Business Overview

LS Networks is committed to enriching the lives of its customers through its consumer brand, consumer retail, global trading, and asset management businesses.

We are developing a management structure that is oriented toward growth and the future. We are also expanding our business domains from brands to retail and from Korea to the world.

Our consumer brand business began with PROSPECS and now includes MONT-BELL, SKECHERS, and JACK WOLFSKIN. The consumer retail business started with the TOYOTA Yongsan dealership, and is now expanding into the BICLO bike multi-shop and the WALK & TALK outdoor life multi-shop. Our global trading business is building a portfolio that will enable it to compete and thrive in the world economy and enhance its future competitiveness.

# Consumer Brand Business



“LS Networks’ consumer brand business is committed to seeing things from the viewpoint of its customers. We are strengthening our foundations for sustainable growth by expanding into products and services that improve their quality of life. This includes PROSPECS, Korea’s leading sports brand, MONT-BELL, Japan’s leading outdoor brand, SKECHERS, a global sports brand, and JACK WOLFSKIN, Germany’s leading outdoor brand.”

**Yeon-Soo Cha**  
Director  
Brand Strategy Department



## PROSPECS

PROSPECS positioned itself as Korea’s leading walking shoe brand with the launch of PROSPECS W in September 2009.

In 2011, it expanded its business operations by adding its PROSPECS R running shoes. It has also played a formative role in making walking and running activities that anyone can enjoy easily. In recognition of this, PROSPECS received a Prime Minister’s Award at the seventh annual Korea Sports Industry Awards organized by the Ministry of Culture, Sports and Tourism the same year.

In 2012, PROSPECS is taking on new challenges under the “New PROSPECS” slogan. It has reestablished its brand and design directions with an aim to grow from Korea’s leading sports brand into a global one. It changed its brand identity and launched its new outdoor brand ‘A,’ in addition to its market-leading brand ‘W’ and ‘R.’ Its marketing approach is now focused on the slogan “Everyday Lifestyle,” moving away from being function-centered.

As a result, it is accentuating its stylish looks to be enjoyed in comfort with a new brand concept called “The Joy of Movement.”





PROSPECS W POWER 5 series for 2012 is an upgrade of the W POWER line of best-selling products that gained huge popularity in 2011. In addition, it is appealing to more age groups through its W COOL lightweight and trendy walking shoe series. The company is especially working to increase its market share among young adults. Part of this strategy includes advertisements featuring featuring Yuna Kim, a world-famous figure skating star, and Soo Hyun Kim, a rising next-generation actor.

The W Yuna Line is inspired by Ms. Kim's dignified and attractive looks, while the W Soo Hyun Line reflects his healthy and active lifestyle. The company is also encouraging people to lead more active lives through walking as part of its "W TIME when you want to be light" advertising campaign. This includes the "W TIME Showcase" by Yuna Kim, autograph sessions for fans of Soo Hyun Kim, and "W TIME Concerts" with Yuna and Soo Hyun.

PROSPECS meets the increasingly diversified needs of today's consumers by combining its years of experience with cutting-edge technologies to develop a wide range of products that enhance its brand and product competitiveness. This will help it in its goal of evolving into a sports brand that is recognized around the world.



**mont-bell**



Founded by the renowned Japanese mountain climber Isamu Tatsuno in 1975, MONT-BELL is Japan's number one outdoor brand. Meaning "beautiful mountain" in French, it carries its philosophy of "Light & Fast" and "Function Is Beauty" in all its products. The line features state-of-the-art, high-functionality clothing and equipment that keep its wearers comfortable and protected in any and all weather conditions.

MONT-BELL Korea contributes to the growth of Korea's outdoor culture by introducing innovative products based on independently-developed, world-leading technologies. They include an ultra-light 53g/7D denier windproof jacket, a super-light 12D GORE-TEX jacket, and the world's first 1,000 fill power down jacket. The quality of its craftsmanship has been verified through the "Prove Team" experience group activities, and it has also won awards at the New York Festival's World's Best Advertising and the Busan

International Advertising Festival, and Customer's Choice Advertising Award from the Korea Advertisers Association. MONT-BELL boasts more than 120 retail stores in Korea, and their outstanding management capabilities have won plaudits from its headquarters in Japan. It established a Chinese subsidiary in July 2011 after acquiring the management rights for that market. This was especially significant because the expansion was carried out by MONT-BELL Korea rather than the parent company. The company's Chinese subsidiary is making major inroads into the outdoor market there by opening a number of retail stores. This includes a directly-managed store in The PLACE mall, located in Beijing's central business district, and another in the Yansha Department Store, one of the city's top three department stores. It plans to be operating three hundred stores in China by 2015.



**mont-bell**

[www.montbell.co.kr](http://www.montbell.co.kr)



## SKECHERS



SKECHERS is a global footwear lifestyle manufacturer, and LS Networks owns the exclusive licensing rights for its sales and distribution in Korea. It is the only brand in the world whose lineup includes more than sixteen categories, including lifestyle, fashion street, casual, kids, and functional sports shoes.

Boasting high quality and market-leading designs, SKECHERS ranks second in sales in the U.S. market after Nike. Now available in more than one hundred countries around the world, SKECHERS is a high-ranking brand that can satisfy the fastidious fashion tastes of a wide range of customers.

LS Networks launched its SKECHERS performance-based total sports brand in 2009. Since then, it has won huge popularity with its Shape-ups line of walking and running shoes. In 2011, we launched Shape-ups LIV, boasting sophisticated designs, variegated colors, and an enhanced comfort level. Due to the success of

Shape-ups LIV, sales more than doubled over the year. In 2012, we added SKETCHERS GOrun, a new running shoe designed to help runners land in the center of their feet. All of them are sold in a network of over one hundred stores.



[www.skecherskorea.co.kr](http://www.skecherskorea.co.kr)



## Jack Wolfskin



Founded in Germany in 1981, JACK WOLFSKIN is a leading outdoor wear and equipment brand that boasts a dominant market position in Europe. Featuring original designs and sophisticated colors with a distinctively European flair, its products cover all forms of outdoor activity, as shown by its product slogan, "At Home Outdoors." Its philosophy is to develop and market outdoor products that are both functional and reasonably priced. They include such weather protection materials as TEXAPORE, NANUK, and STORMLOCK. The company boasts a network of more than three hundred franchises and 2,700 retailers in twenty countries around the world. It is now growing into a global brand by accelerating its advance into other markets, including North America and Asia. LS Networks launched JACK WOLFSKIN in the Korean market in 2008. It has a broad range of products that are used for everyday living and outdoor activities, such as climbing, trekking, hiking, camping,

and winter sports. They feature unique colors and designs. Its product portfolio includes the family line for children.

In 2011, we signed a quasi-licensing agreement with its headquarters in Germany, enabling us to enhance our brand competitiveness in the Korean market. In 2012, we plan to increase its presence in the domestic outdoor wear and equipment market, with an image as a young outdoor brand that combines everyday use with sports-accented functionality. This will be done by building a domestic brand website and a full-scale marketing campaign.



[www.jack-wolfskin.co.kr](http://www.jack-wolfskin.co.kr)



# Consumer Retail Business



“LS Network’s consumer retail business began with a Toyota dealership in Seoul in 2009. In 2010, we introduced BICLO, a bicycle multi-shop, setting new standards for Korea’s bicycle retail sector. This was followed by providing a wide range of services, ranging from sales to maintenance, repairs, and riders’ programs. In 2011, we launched our WALK & TALK outdoor life multi-shop as part of our effort to meet the needs and wants of our customers.”

**Woo-Jin Lee**  
Deputy General Manager  
Retail & Distribution Business  
Division



## TOYOTA Yongsan Dealership

LS Networks operates the only TOYOTA dealership in the Gangbuk district of Seoul. We opened the TOYOTA Yongsan Exhibition Center inside the LS Yongsan Tower in October 2009, marking the launch of the TOYOTA automobile brand in Korea. In 2010, we sold around 1,400 cars, signifying a transition of power in the nation’s import car market that had been focused on Gangnam district in Seoul.

The dealership built a 1,903m<sup>2</sup> service center on the first basement level of its showroom to provide the ultimate in customer services under the slogan of “customers deserve the highest quality service.” In April 2010, it opened another one on a 5,216m<sup>2</sup> site with three stories above the ground and one below in Ilsan, north of Seoul. With this, TOYOTA Yongsan now boasts the largest-scale service facilities among all the imported car operations in Korea. This also means that TOYOTA Yongsan is equipped to provide a full range of convenient and advanced services, ranging all

the way from sales to repairs. LS Networks’ TOYOTA Yongsan has improved the quality of its customer services through state-of-the-art technologies and by training its workers in a wide range of customer service techniques. It also expanded its sales network, opening a dealership in Janghanpyeong in 2010 and another in Ilsan in 2011. In 2012, its goal is to have its largest-ever sales total, including the seventh generation Camry and three versions of the Prius.



**TOYOTA**

[www.toyotayongsan.co.kr](http://www.toyotayongsan.co.kr)





## biclo



BICLO, a bicycle multi-shop, was launched in 2010 to improve the quality of Korea's bicycle culture. It offers a wide range of one-stop services, ranging from sales and assembly to supplies and repairs and maintenance. It also provides a variety of riding programs and other events for its customers.

In 2012, BICLO plans to introduce at least ten different brands.

They will include Dahon, a leading folding bike, Eddy Merckx, a European road bicycle, BMC from Switzerland, and Gore Bike Wear high-performance bicycle garments. It will also launch its own independent brand, called MOUVE. This will be welcome news for its domestic customers, since its products have been especially designed to accommodate the body types of Koreans.

The company is also preparing to enter overseas markets. It will do this by developing new products in the "personal mobility" area in collaboration with a domestic electric bike R&D company that

boasts leading IT, electric battery, and control technologies. BICLO's goal is to lead the domestic and overseas bicycle market with products that set new standards in the business. It will also maintain its position as Korea's leading specialized bicycle brand.



biclo

www.biclo.co.kr



## WALK & TALK

Launched in 2011, WALK & TALK is an outdoor life multi-shop that sells shoes, clothing, hats, rucksacks, tents, and other items made by more than ninety different outdoor wear and equipment makers in Korea and around the world. They include PEAK PERFORMANCE, Sweden's premium sports outdoor clothing and gear supplier, and ODLO, the world's best sports innerwear brand. It opened six stores in 2011, and plans to open four more in 2012.

WALK & TALK is the first, largest, and only outdoor life multi-shop, mainly targeting hikers in Korea. Almost half of its products on display are outdoor shoe brands, including the top six in the world. It also specializes in offering total solutions for walking tours. These include suggesting products

to suit the type of hiking a customer is going to be doing, providing optimally customized insoles, and offering advice and travel information for novice hikers. It is becoming a very popular destination for sports walkers.



www.walkntalk.co.kr



### PeakPerformance

This premium outdoor sports brand introduces "mountain resort look" clothing in the Scandinavian style. Featuring exquisite craftsmanship and a wide range of colors, its golf, casual, training, and outdoor lines are extremely popular throughout Europe.



Headquartered in Switzerland, ODLO is a leading sports underwear brand. Its ergonomic materials and structures provide users with the finest products in all sports areas, offering them optimal fits and body temperatures even in extreme climate conditions and during intensive sports activities.



HI-TEC manufactures the world's most technically advanced outdoor shoes. Boasting such features as ultra-light weight, vapor permeability, waterproofing, and antibiotic protection, it is renowned for its innovative designs and comfortable fits.

# Global Trading Business



“The global trading business began from our efforts to become part of the global village. We secured a bridgehead in Russia by establishing branches in Moscow and Vladivostok in 2011, and will begin full-fledged operations there in 2012. Our goal is to grow into a global success partner that offers optimal solutions to its customers by developing future-oriented resources and energy items and creating synergies with our existing businesses.”

**Gon-Ho Ham**  
Deputy General Manager  
Global Business Development  
Division



## Global Trading Business



LS Networks engages in the trading business to cope with future changes in its operating environment and meet the challenge of increasingly intensifying competition in global markets. By diversifying our business areas into imports/exports, cross trade, and imports/retail, we will export products that can generate synergies with our existing businesses and others made by competitive and promising smaller enterprises. We will also import machinery, equipment, and raw materials.

LS Networks is particularly interested in Russia, Central Asia, Eastern Europe, and Northern Africa. We established a foundation for increasing our overseas operations by opening branches in Moscow and Vladivostok in 2011. In addition, we are diversifying our activities to include water treatment, heavy machinery, resources trading, and electricity and power plants. We are also focusing on developing a dependable supply chain.

There has been a marked rise in new business opportunities in emerging

markets since the global economic crisis erupted. Eco-friendly businesses are growing rapidly due to increasing competition to secure resources and deal with the problem of energy depletion. LS Networks is devising strategies that will distinguish it from other trading companies. This includes strengthening our core competencies, such as organizing, risk management, and global networking. In addition, we are broadening our interests to include the future-oriented resources and energy sectors, such as new and renewable energy.



# Asset Management Business



“Asset management is the core business of LS Networks. The LS Yongsan Tower is raising its asset value by offering its tenants a wide range of smart building technologies. Our logistics sites in Incheon, Gimhae, and Seongnam act as supply bases that help the parent company expand its interests from the consumer brand business to consumer retail and global trading. Going forward, we will continue to strengthen our foundations for sustainable growth by securing new assets and managing our current holdings effectively and efficiently.”

**Yong-Sun Kim**  
Director  
Management Support  
Headquarters



## LS Yongsan Tower



The LS Yongsan Tower is one of the best-known landmarks in Seoul, serving as the company's symbol and one of its most substantial earnings generators. Built in 1985, it has evolved into a smart building through three years of large-scale renovations. It is winning recognition for its added value thanks to the ongoing development of the Yongsan International Business

District and improvements to its surroundings. Going forward, the LS Yongsan Tower will continue to generate stable earnings and enhance the value of its assets. It will do this by raising the customer satisfaction levels of its facilities and services and offering its tenants a pleasant and efficient operating environment.



## Gimhae/ Incheon/ Seongnam/ Sangju



LS Networks generates revenue and carries out profitable investments and developments for the future by securing new assets and managing its holdings in an effective and efficient manner. The Gimhae site functions as a rental and logistics center. Since its use may well change following development projects nearby, it is seeking ways to create new asset values. Our Incheon site is used as a container cargo area due to its

location inside the Incheon Harbor. Going forward, it will act as a base camp for LS Networks' trading business. The Seongnam site is now being used as a cold storage warehouse and logistics center. In the future, it will be integrated with a logistics center at the Sangju site, which is currently at the planning stage. It will contribute significantly to our future asset values due to its prime location in the capital region.



# About LS Group

## Creating greater values by collaborating with LSpartnership®

LSpartnership® is the management philosophy of the LS Group. On a company-wide basis, it means achieving exceptional performances by ensuring that our employees share a sense of ownership in the company and are treated with consideration, trust, and respect. Externally, it is about growing with our partners and stakeholders through collaboration and open-mindedness. In the end, LSpartnership® is about creating enhanced values for future generations around the world.

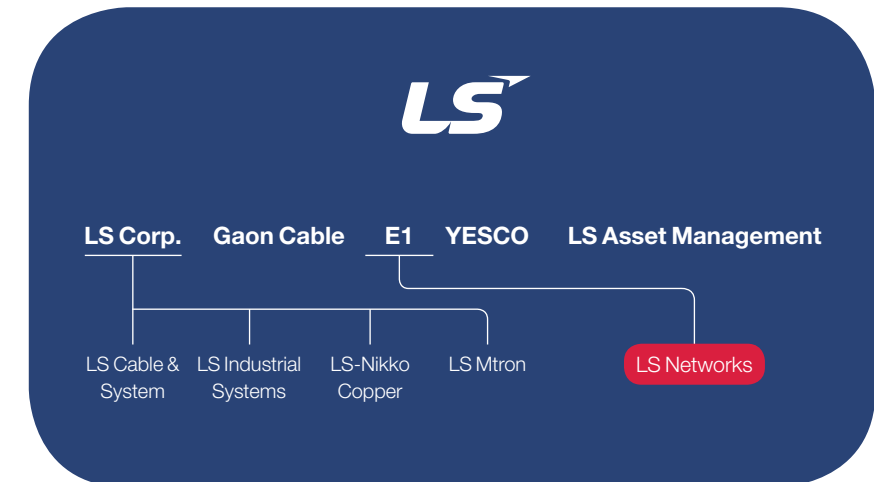
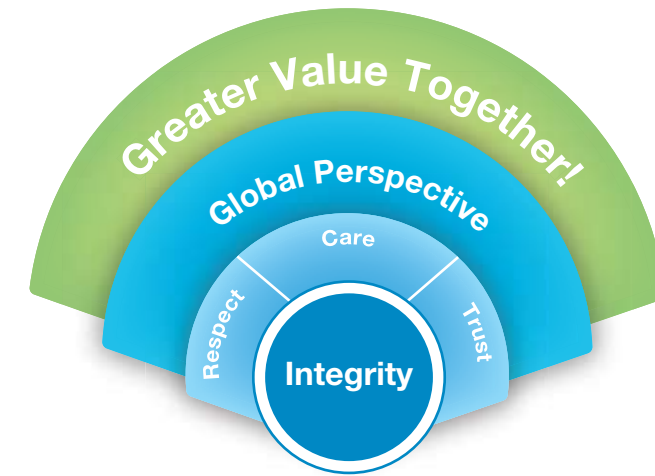
## Growing from a leading Korean company into a world-class enterprise

Led by LS Cable & System, LS Industrial Systems, LS-Nikko Copper, LS Mtron, GaonCable, E1, and YESCO, LS Group has become a leading Korean company in such areas as electricity, electronics, and materials. In 2007, the Group shifted its focus from the business to business (B2B) sector and entered the business to consumer (B2C) industry. Led by LS Corporation, it realizes responsible management by collaborating with its affiliates and seeking out future growth engines and new businesses through investments in R&D. In addition, it is committed to fulfilling its social responsibilities.

## Creating value for future generations through “eco-businesses”

LS Group is advancing into eco business areas that can generate synergies with its current operations. It is concentrating its efforts on developing eco-technologies and products in the new and renewable energy, grid, futuristic auto parts and solutions, and environmentally friendly equipment and components industries.

Its underlying goal is to develop new growth engines for the Korean economy while creating value for future generations around the world.



# About LS Networks

**A specialized brand retail company a brighter future for everyone**

“Networking Your Life with Future.” LS Networks is a specialized retail brand company that helps to connect people to the future. Offering total solutions for eco-friendly leisure and sports activities, including walking, trekking, running, and riding, we add vitality to people’s lives and create enhanced values as a concerned and caring lifestyle companion.

**Generating synergies by developing new growth engines**

LS Networks is preparing to evolve into a global enterprise based on its consumer brand and consumer retail businesses. Cultivating new markets by designing leading solutions for these businesses, and finding future growth engines through its global trading business, it is constantly in pursuit of steady, solid, and sustainable growth.

**LS Networks Business Domains**

Consumer Brand Business	Consumer Retail Business	Global Trading Business	Asset Management Business
PROSPECS	TOYOTA Yongsan Dealership	Global Trading	LS Yongsan Tower
MONT-BELL	BICLO		Gimhae/Incheon/Seongnam/Sangju
SKECHERS	WALK & TALK		
JACK WOLFSKIN			

## Networking Your Life with Future



A specialized consumer brand and retail company leading customers into a brighter future



Maximize the value of our assets

Generate synergies by seeking out promising new businesses

Offer total solutions for the consumer brand business

# History of LS Networks



LS Networks began in Busan in 1949. Its predecessor, Kukje Chemicals, had been playing a pioneering role in the nation's economic development since 1962, mainly by exporting basketball shoes. In 1981, it created the nation's leading sports brand, PROSPECS. It made a fresh start as LS Networks in 2007, becoming a member of the LS Group and changing its company name after being in receivership for about eight years in the wake of the foreign exchange crisis of 1997. Today, LS Networks is a fully-specialized consumer brand and retail company. Its activities include launching new brands and advancing into the consumer retail business, including bicycle and outdoor multi-shops. It is also expanding into asset management and the global trading business, with a focus on Russia and China.

## 1949~1980

### Beginnings

LS Networks began life as Kukje Chemicals in Busan in 1949

- 1949
  - Founded as Kukje Chemicals
- 1962
  - Became first Korean company to export basketball shoes
- 1969
  - Began operation of Sasang plant
- 1973
  - Conducted initial public offering

## 1981~1997

### Growth

Launched in 1981, PROSPECS has grown into a global sports brand, assisting in Korea's successful hosting of the 1986 Asian Games and the 1988 Seoul Olympics.

- 1981
  - Developed PROSPECS brand and exported 50 million pairs of footwear to Sears in the US
- 1982
  - Provided footwear to athletes participating in New Delhi Asian Games
- 1983
  - Established Sports Products R&D Center
- 1984
  - Company name changed to Kukje Trading
  - Developed 31 types of specialized sports footwear
  - Provided footwear for athletes participating in Los Angeles Olympic Games
- 1985
  - Relocated to Yongsan company building
- 1986
  - Became official sponsor of Asian Games
  - Signed contract with Satec of France for brand exports
  - Won grand prize for trademark at Korea Trademark Exhibition and completed applications for trademarks in over 40 countries

## 1998~2007

### Adjustment

LS Networks started afresh by becoming a member of the LS Group in 2007.

- 1987
  - Signed contract with MALSO of Italy for brand exports
  - Established exclusive distributorship in Finland, Sweden, Norway, and Iceland
  - Became official sponsor of Pakistani Hockey Federation
- 1988
  - Became official sponsor of Seoul Olympics
- 1992
  - Production of "Grand Slam" tennis footwear exceeded two million pairs
- 1994
  - Developed AI-5100 special rubber for footwear soles and obtained ISO 9001 certification
- 1995
  - Obtained Good Design (GD) mark for sports and hiking footwear
  - Named Company with World-Class Products by Ministry of Trade and Industry
- 1997
  - Started PROSPECS Cup professional soccer tournament
- 1998
  - Ranked first in sports footwear category in National Consumer Satisfaction Index (NCSI) survey
- 2000
  - Placed in receivership(~2007)
- 2007
  - Incorporated into LS Group as affiliate

## 2008~Present

### New Take-Off

LS Networks is strengthening its foundations for growth by entering the sports and outdoor brands fields and the consumer retail business.

- 2008
  - Changed company name to LS Networks and launched new BI for PROSPECS
  - Incorporated OD CAMP, MONT-BELL brand operator, as subsidiary
  - Carried out third restructuring, including spinoff of ARTIS business
- 2009
  - Launched PROSPECS W sports shoe brand
  - Acquired FAST, SKETCHERS' brand operator
  - Launched JACK WOLFSKIN, leading European outdoor brand
  - Launched TOYOTA dealership
- 2010
  - Launched trading business
  - Launched BICLO bicycle retail business
  - Completed remodeling of LS Yongsan Tower(2007.11~2010.3)
- 2011
  - Launched WALK & TALK outdoor life multi-shop
  - Acquired Sports Motorcycle Korea
  - Established Chinese subsidiary
  - Merged with OD CAMP subsidiary
  - Opened company-run MONT-BELL store in Beijing
  - Established branches in Moscow and Vladivostok
  - Acquired Heungup Corporation



# Management's Discussion & Analysis

This management discussion and analysis has been prepared in accordance with Korean Generally Accepted Accounting Principles (K-GAAP). It contains forward-looking statements with respect to LS Networks' operations, financial situation, operating results, and management plans and objectives. 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.

## Analysis of Business Results and Outlook

### I. Introduction

In 2011, the Korean economy enjoyed high export growth. On the domestic front, however, rising prices, increasing inflation, and spiraling household debt dampened consumer sentiment and weakened spending, leading to a slowdown in the recovery of the nation's economy. In response to these conditions, LS Networks took steps to further its evolution into a specialized consumer brand and retail company.

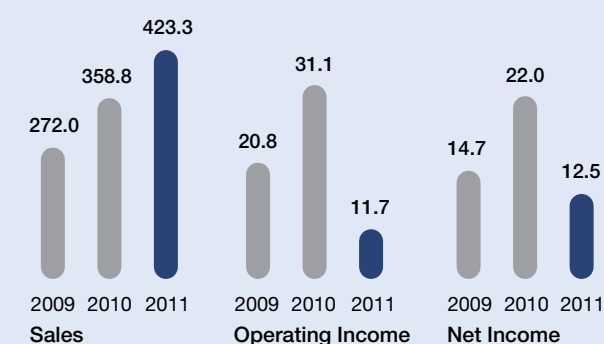
It also laid the groundwork for its continuing sustainable growth by developing promising new growth engines.

### II. Business Results

In terms of its consumer brand business, the company concentrated on tapping the domestic sports brand market through its PROSPECS W walking shoes and R running shoes. It also continued with its global trading and multi-brand retail businesses that it had begun to promote in 2011. As a result, total sales grew by 18.0% over the year to reach KRW 423.3 billion. Operating income and net income fell by 62.5% and 43.4%, respectively, to KRW 11.7 billion and KRW 12.5 billion. This was due to new investments and an increase in marketing expenses in the consumer retail business.

#### Sales, Operating Income and Net Income for the Past Three Years

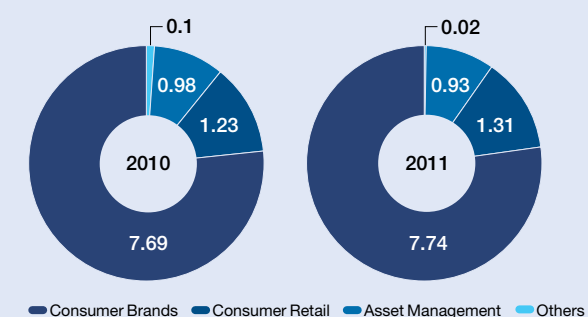
(Unit: Billions of KRW)



At the end of 2011, the company's consumer brand business (including PROSPECS, SKECHERS, MONT-BELL, and JACK WOLFSKIN) accounted for 77.4% of its total sales. The consumer retail business (the TOYOTA dealership, global trading, BICLO, and WALK & TALK) made up a further 13.1%, while the lease business and others accounted for 9.3% and 0.2%, respectively.

#### 2011 Sales Breakdown

(Unit: Billions of KRW)



### 1. Results by Business

Sales in the consumer brand business rose by 18.7% over the year to KRW 327.5 billion. This occurred despite a drop in consumer confidence following a slowdown in the domestic economy and unseasonal temperatures during peak-demand seasons. In response, the company concentrated on innovating its product planning and other processes. It also focused on tapping the consumer brand market

by adding SKETCHERS, MONT-BELL, and JACK WOLFSKIN to its existing brand portfolio. Operating income fell by 56.2% to KRW 8.0 billion. This resulted from increased marketing expenses due to celebrity sales activities in the first half of the year and the merger with OD CAMP in September. On the plus side, 2011 was a year in which the company gained a foothold for the globalization of its brands. This included establishing a Chinese subsidiary in July and opening a directly-managed store of MONT-BELL in Beijing in September.

The consumer retail sector saw the launch of our BICLO and WALK & TALK businesses. The global trading sector, which is rapidly positioning itself as the company's new core business, reorganized its operations by establishing branches in Moscow and Vladivostok and building strategic strongholds in Central Asia. The consumer retail business suffered an operating loss of KRW 14.9 billion, even though sales surged by 26.3% over the year to KRW 55.6 billion. This happened because the recalls of TOYOTA cars over the past two years and the aftermath of the tsunami and earthquakes in Japan acted as long-term restraining factors.

In the asset management sector, the policies of the central government helped to raise demand for some types of real estate, although the sector as a whole remained in the doldrums. This was especially true for real estate for use for investment purposes.

# Management's Discussion & Analysis

Given this landscape, the company focused its attention on the LS Yongsan Tower, one of its key holdings. It also enhanced its planning and negotiating abilities and continued to offer its existing tenants speedy and efficient services. Sales climbed by 11.7% year-on-year to KRW 39.4 billion, while operating income rose by 20.9% to KRW 19.2 billion.

**[Table 3]** (Unit: Billions of KRW)

	2010	2011	YoY Change	Change(%)
1. Sales	358.8	423.3	64.5	18.0
2. Cost of goods and services sold	175.5	209.5	34.0	19.3
3. Gross profit	183.3	213.8	30.5	16.7
4. Selling and administrative expenses	152.2	203.7	51.5	33.9
5. Other operating revenue	2.6	3.5	0.9	17.8
6. Other operating expenses	2.6	1.9	(0.7)	(29.7)
7. Operating income	31.1	11.7	(19.4)	(62.5)
[Operating Margin]	8.7%	2.8%	-	-

## 2. Net Income

Net income fell by 43.4% over the year to KRW 12.5 billion, while the ratio of net income to net sales edged down by 3.2% points to 2.9%. This was mainly caused by investments in items that will be growth engines in the future.

**[Table 4]** (Unit: Billions of KRW)

	2010	2011	YoY Change	Change(%)
Financial revenue	2.1	2.9	0.8	40.5
Financial costs	2.3	2.3	-	1.0
Income before income tax expense	30.9	12.3	(18.6)	(60.2)
Income taxes	8.9	(0.2)	(9.1)	(66.3)
Net income	22.0	12.5	(9.5)	(43.4)
Net margin	6.1%	2.9%	-	-

## III. Financial Position

### 1. Total Assets

The company's total assets amounted to KRW 1,119.2 billion at the end of 2011, up 10.8% from the previous year. This was mainly attributable to the merger with OD.CAMP in September and a year-on-year rise in inventory due to sluggish sales of fall and winter products in the consumer brand business.

**[Table 5]** (Unit: Billions of KRW)

	2010	2011	Change(%)
Current assets	154.1	201.4	30.7
Cash and cash equivalents	17.7	3.8	(78.6)
Trade receivables	22.9	38.6	68.9
Inventory	86.1	148.1	72.1
Other current assets	27.4	10.9	(60.5)
Non-current assets	856.4	917.8	7.2
Tangible assets	165.2	198.8	20.3
Investment assets	570.4	582.7	2.2
Other intangible assets	120.8	136.3	12.9
<b>Total assets</b>	<b>1010.5</b>	<b>1119.2</b>	<b>10.8</b>

### 2. Total Liabilities and Shareholders' Equity

Total liabilities grew by 69.4% over the year to reach KRW 311.9 billion. Current liabilities rose by 128.2%, led by an additional KRW 37.6 billion in short-term borrowings. Non-current liabilities increased by 54.8% due to an additional KRW 70.7 billion in long-term borrowings. The debt-to-equity ratio rose by 16.3% points to stand at 38.6%. This is evidence of a very stable financial structure.

The company's total borrowings went up by KRW 108.3 billion to KRW 111.9 billion. This was mainly caused by developing and/or investing in new items for the consumer retail business.

**[Table 6]** (Unit: Billions of KRW)

	2010	2011	Change(%)
Current liabilities	36.6	83.4	128.2
Short-term borrowings	2.0	39.6	1910.5
Trades Payable	12.5	17.9	43.2
Other current liabilities	22.1	26.0	17.4
Non-current liabilities	147.6	228.5	54.8
Long-term borrowings	1.6	72.3	4518.1
Deferred income tax liabilities	100.3	105.5	5.1
Other liabilities	45.7	50.7	11.0
<b>Total liabilities</b>	<b>184.2</b>	<b>311.9</b>	<b>69.4</b>

Total shareholders' equity fell by 2.3% to KRW 807.3 billion. This happened because capital stock rose following the payment of dividends based on results in 2010. Other shareholders' equity increased by KRW 7.5 billion due to a share repurchase in 2011. In addition, KRW 45.3 billion in gains on capital reductions was reflected as retained earnings in 2010.

# Management's Discussion & Analysis

**[Table 7]** (Unit: Billions of KRW)

	2010	2011	Change (%)
Capital stock	393.5	394.1	0.2
Capital adjustments	(46.4)	(8.2)	(82.3)
Accumulated other comprehensive income	6.2	4.2	(31.8)
Retained earnings	473.0	417.2	(11.8)
<b>Total shareholders' equity</b>	<b>826.3</b>	<b>807.3</b>	<b>(2.3)</b>

## IV. Cash Flow

Cash flow from the company's operating activities fell by KRW 28.9 billion. This was primarily due to a rise in inventory following changes in assets and liabilities and declines in other financial assets and net income. Cash flow from other operating activities was the same as the previous year.

Cash outflow for investing activities was KRW 65.4 billion. This included investments in Heungup Corporation, which the company acquired at the end of 2011, additional investments in its subsidiaries, the purchase of investment real estate related to the new consumer retail business, and cashing in bonds with warrants. Cash flow from financing activities resulted in an inflow of KRW 80.4 billion, led by increases in and repayments of long- and short-term borrowings. As a consequence, the cash balance in 2011 was reduced by KRW 13.9 billion.

**[Table 8]** (Unit: Billions of KRW)

	2010	2011
1. Net cash flow from operating activities	80.2	(28.9)
2. Net cash flow from investing activities	(37.2)	(65.4)
3. Net cash flow from financing activities	(47.1)	80.4
Increase (Decrease) in cash balance	(4.1)	(13.9)

## V. Mergers & Acquisitions

**Acquisition of Sports Motorcycle Korea (May 2011)**  
The company acquired Sports Motorcycle Korea, which sells motorcycles and motorcycle supplies, by purchasing all of its 270,000 shares in the form of a paid-in capital increase. This was done to strengthen our consumer retail business.

**Merged with OD.CAMP (September 2011)**  
The company's merger with its OD.CAMP subsidiary was undertaken to respond to its operating environment at home and abroad, to generate synergies by integrating the management resources of the two companies, and to increase management efficiencies through cost reductions.

**Acquired Heungup Corporation (December 2011)**  
The company acquired Heungup Corporation, whose main business is large-scale retail. This was part of its

strategy of developing new retail business items and reinforcing its competencies. Heungup Corporation was released from receivership in December 2011.

## VI. Outlook for 2012

Sales in 2011 broke the KRW 400.0 billion mark for the first time since LS Networks joined the LS Group. The company also laid the foundations for continuing success by seeking out new growth engines.

In 2012, the Korean economy will continue suffering from the ongoing ravages of the financial crisis of 2008. The country's growth rate is forecast to fall to 3.6% from 4.0% in 2011 due to the cooling of all its major growth engines. The volume of exports will remain stagnant due to the slowdown in the global economy and an appreciating won. Domestic sales will also be weak, mainly owing to reduced exports and a high debt level. The construction sector will be particularly hard hit, due to a long-delayed recovery in the real estate market and reductions in social overhead capital (SOC) budgets.

Given this climate, LS Networks' 2012 management policy for achieving mid- to long-term growth will be to overcome crisis situations with an emergency management system and to build a strong and flexible organizational culture. In specific terms, it will reinforce its emergency management activities to guard against crisis situations through its vision 2015 of evolving into a specialized consumer brand and retail company.

It will also enhance its competitiveness by continuously creating customer value by business division and generate synergies by integrating its processes.

It will boost its core competencies in each of its business sectors through exhaustive analyses of their market environment and competitors, while reinforcing its global competitiveness through continuous change and innovation. Its underlying goal is to evolve into a prime-quality global enterprise.

\* Changes in all the above tables have been calculated based on the amount in millions of KRW.

# Financial Section

LS Networks posted 18% in sales growth in 2011 despite a host of internal and external difficulties, giving it further impetus to grow into a leading global player. Korea's leading sports brand, PROSPECS, strengthened its market edge through walking and running shoes, while our new brands, including MONT-BELL and SKETCHERS, also provided momentum for profitable management. We also launched the BICLO bike brand and the WALK & TALK outdoor life multi-shop as part of our goal of becoming a specialized consumer brand and retail company.

We strengthened our operations further in 2011, despite a very difficult environment. 2012 will be the start of our drive to post KRW 1 trillion in sales. We will achieve this through both qualitative and quantitative growth.

## Independent Auditors' Report

The Board of Directors and Stockholders  
LS Networks Co., Ltd.

March 6, 2012

We have audited the accompanying separate financial statements of LS Networks Co., Ltd. (the "Company") which comprise the separate statements of financial position as at December 31, 2011 and 2010 and the separate statements of comprehensive income, separate statements of changes in equity and separate statements of cash flows for the years then ended, and the opening statement of financial position as at January 1, 2010. 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 audit in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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 our audits provide a reasonable basis for our opinion.

In our opinion, the separate financial statements referred to above present fairly, in all material respects, the financial position of LS Networks Co., Ltd. as of December 31, 2011 and 2010 and January 1, 2010, and the results of its financial performance, and its cash flows for the years ended December 31, 2011 and 2010 in accordance with Korea International Financial Reporting Standards (K-IFRS).

Without qualifying our opinion, we draw attention to Note 2 to the separate financial statements which state that LS Networks Co., Ltd. is the parent entity of LS Networks Co., Ltd. and its subsidiaries (collectively referred to as the "Group") and that the consolidated financial statements of the Group prepared in accordance with K-IFRS have been issued separately. We have audited the consolidated financial statements of LS Networks Co., Ltd. and its subsidiaries as at and for the year ended December 31, 2011 and expressed an unqualified opinion thereon in our auditors' report dated March 6, 2012.

As mentioned in the preceding paragraph, we have conducted our audit in accordance with auditing standards generally accepted in the Republic of Korea which may vary among countries. In addition, the procedures and practices utilized in the Republic of Korea to audit such financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report and the accompanying financial statements are for use by those who are knowledgeable about Korean auditing standards and their application in practice.



\* This audit report is effective as of March 6, 2012, the auditors' report date. Accordingly, certain material subsequent events or circumstances may have occurred during the period from the auditors' report date to the time this audit report is used. Such events and circumstances could significantly affect the accompanying financial statements and may result in modifications to this report.

## Internal Control over Financial Reporting Review Report

The Chief Executive Officer  
LS Networks Co., Ltd.

March 6, 2012

We have reviewed the accompanying management's report on the operations of the internal control over financial reporting ("ICFR") of LS Networks Co., Ltd. (the "Company") as of December 31, 2011. The Company's management is responsible for the design and operations of its ICFR, including the reporting of its operations. Our responsibility is to review management's ICFR report and issue a report based on our review. Management's report on the operations of the ICFR of the Company states that "based on the assessment of the operations of the ICFR, the Company's ICFR has been effectively designed and has operated as of December 31, 2011, in all material respects, in accordance with the ICFR standard," as established by the ICFR Operations Committee.

We conducted our review in accordance with the ICFR review standards established by the Korean Institute of Certified Public Accountants. These standards require that we plan and perform our review to obtain less assurance than an audit as to management's report on the operations of the ICFR. A review includes the procedures of obtaining an understanding of the ICFR, inquiring as to management's report on the operations of the ICFR and performing a review of related documentation within limited scope, if necessary.

A company's ICFR consists of an establishment of related policies and organization to ensure that it is designed to provide reasonable assurance on the reliability of financial reporting and the preparation of financial statements for external financial reporting purposes in accordance with accounting principles generally accepted in the Republic of Korea. However, because of its inherent limitations, the ICFR may not prevent or detect material misstatements of the financial statements. Also, projections of any assessment of the ICFR on future periods are subject to the risk that ICFR may become inadequate due to the changes in conditions, or that the degree of compliance with the policies or procedures may be significantly reduced.

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

We conducted our review of the ICFR in place as of December 31, 2011, and we did not review the ICFR subsequent to December 31, 2011. This report has been prepared for Korean regulatory purposes pursuant to the Act on External Audit of Stock Companies, and may not be appropriate for other purposes or for other users.



\* This report is annexed in relation to the audit of the financial statements as of December 31, 2011 and the review of internal control over financial reporting pursuant to Article 2-3 of the Act on External Audit of Stock Companies of the Republic of Korea.

# Separate Statements of Financial Position

As at December 31, 2011 and 2010

(Unit: KRW)

	Dec. 31, 2011	Dec. 31, 2010
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	₩ 3,775,561,798	₩ 17,657,187,096
Trade accounts and notes receivable, net	38,641,910,583	22,882,506,785
Other accounts receivable, net	6,272,085,310	4,623,101,257
Other current financial assets	1,456,601,780	10,485,036,000
Other current assets	3,135,639,228	12,336,505,368
Inventories, net	148,123,633,832	86,071,842,782
	201,405,432,531	154,056,179,288
<b>Non-current assets</b>		
Other accounts receivable	21,938,858,619	17,251,984,808
Investment in subsidiaries	21,710,111,816	18,322,821,307
Investment in associates	67,018,938,858	64,899,650,858
Investment in a jointly controlled entity	650,696,654	-
Other non-current financial assets	13,912,550,855	10,444,451,073
Other non-current assets	1,635,003,544	922,045,045
Property, plant and equipment, net	198,827,775,183	165,218,307,240
Investment properties, net	582,690,562,364	570,417,471,225
Intangible assets, net	9,446,507,766	8,926,265,439
	917,831,005,659	856,402,996,995
<b>Total assets</b>	<b>₩ 1,119,236,438,190</b>	<b>₩ 1,010,459,176,283</b>

As at December 31, 2011 and 2010

(Unit: KRW)

	Dec. 31, 2011	Dec. 31, 2010
<b>Equity and liabilities</b>		
<b>Current liabilities</b>		
Trade accounts and notes payables	₩ 17,870,863,499	₩ 12,482,596,623
Other accounts payables	18,462,956,077	11,240,791,961
Borrowings	39,587,222,308	1,969,774,184
Other current liabilities	5,059,469,937	4,835,782,770
Income tax payable	2,441,065,229	6,034,259,342
	83,421,577,050	36,563,204,880
<b>Non-current liabilities</b>		
Other accounts payables	48,888,787,533	43,624,555,425
Borrowings	72,320,283,144	1,565,541,447
Other non-current liabilities	1,849,672,857	2,050,589,131
Defined benefit liability	-	15,931,517
Deferred tax liabilities	105,457,481,463	100,337,316,942
	228,516,224,997	147,593,934,462
<b>Total liabilities</b>	<b>311,937,802,047</b>	<b>184,157,139,342</b>
<b>Equity</b>		
Issued capital	394,091,500,000	393,464,130,000
Capital adjustments	(8,199,953,098)	(46,418,640,044)
Other components of equity	4,247,453,938	6,231,212,862
Retained earnings	417,159,635,303	473,025,334,123
<b>Total equity</b>	<b>807,298,636,143</b>	<b>826,302,036,941</b>
<b>Total equity and liabilities</b>	<b>₩ 1,119,236,438,190</b>	<b>₩ 1,010,459,176,283</b>



## Separate Statements of Comprehensive Income

For the years ended December 31, 2011 and 2010

	(Unit: KRW)	
	2011	2010
<b>Sales</b>	₩ 423,313,531,527	₩ 358,817,767,340
<b>Cost of sales</b>	(209,465,133,630)	(175,512,025,457)
<b>Gross profit</b>	213,848,397,897	183,305,741,883
Selling and administrative expenses	(203,796,772,657)	(152,204,972,449)
Other operating income	3,457,461,663	2,622,068,552
Other operating expenses	(1,855,726,832)	(2,637,369,743)
<b>Operating profit</b>	11,653,360,071	31,085,468,243
Finance income	2,987,575,812	2,125,660,693
Finance costs	(2,345,484,423)	(2,322,304,317)
<b>Profit for the year before tax</b>	12,295,451,460	30,888,824,619
Income tax (benefit)/expense	(172,380,373)	8,859,077,713
<b>Profit for the year</b>	12,467,831,833	22,029,746,906
<b>Other comprehensive income</b>		
Gain/(loss) on valuation of available-for-sale financial assets	(1,983,758,924)	1,254,947,694
Actuarial losses on defined benefit plans	(469,230,825)	(744,081,506)
<b>Total comprehensive income for the year, net of tax</b>	₩ 10,014,842,084	₩ 22,540,613,094
<b>Earnings per share:</b>		
- Basic and diluted earnings per share	₩ 153	₩ 270

## Separate Statements of Appropriations of Retained Earnings

For the years ended December 31, 2011 and 2010

	(Unit: KRW)	
	2011	2010
<b>Retained earnings before appropriations:</b>		
Unappropriated retained earnings carried forward from the prior year	₩ 5,075,132,244	₩ 57,117,207,737
Effect of accounting change	-	(26,552,511,747)
Profit for the year	12,467,831,833	22,029,746,906
Actuarial loss	(469,230,825)	-
Acquisition of a subsidiary	(8,594,070,438)	-
	<b>8,479,662,814</b>	<b>52,594,442,896</b>
<b>Appropriations*:</b>		
Legal reserve	90,508,668	107,388,450
Cash dividends	905,086,675	1,073,884,500
Stock dividends	-	627,370,000
Loss on capital reduction	-	45,431,417,853
Discount on issue of share capital	279,249,849	279,249,849
	<b>1,274,845,192</b>	<b>47,519,310,652</b>
<b>Unappropriated retained earnings to be carried forward to the next year</b>	₩ <b>7,204,817,622</b>	₩ <b>5,075,132,244</b>

\* The proposed appropriations date for 2011 is March 23, 2012 and the approved appropriations date for 2010 was March 24, 2011.

## Separate Statements of Changes in Equity

For the years ended December 31, 2011 and 2010

	(Unit: KRW)				
	Issued capital	Capital adjustments	Other components of equity	Retained earnings	Total
<b>As at January 1, 2010</b>	<b>₩ 394,278,995,000</b>	<b>₩ (1,774,437,484)</b>	<b>₩ 4,976,265,168</b>	<b>₩ 453,395,029,377</b>	<b>₩ 850,875,852,061</b>
<b>Profit for the year</b>	-	-	-	22,029,746,906	22,029,746,906
Other comprehensive income:					
Gain on valuation of available-for-sale financial assets	-	-	1,254,947,694	-	1,254,947,694
Actuarial loss on defined benefit plan	-	-	-	(744,081,506)	(744,081,506)
Total comprehensive income	-	-	1,254,947,694	21,285,665,400	22,540,613,094
Loss on capital reduction	-	1,632,990,669	-	(1,632,990,669)	-
Loss on discount on stock issuance	-	22,369,985	-	(22,369,985)	-
Capital reduction	(36,564,865,000)	(45,431,417,853)	-	-	(81,996,282,853)
Acquisition of treasury stock	-	(41,650,637)	-	-	(41,650,637)
Disposal of treasury stock	-	11,254,823	-	-	11,254,823
Issue of share capital	35,750,000,000	(837,749,547)	-	-	34,912,250,453
<b>At December 31, 2010</b>	<b>₩ 393,464,130,000</b>	<b>₩ (46,418,640,044)</b>	<b>₩ 6,231,212,862</b>	<b>₩ 473,025,334,123</b>	<b>₩ 826,302,036,941</b>
<b>As at January 1, 2011</b>	<b>₩ 393,464,130,000</b>	<b>₩ (46,418,640,044)</b>	<b>₩ 6,231,212,862</b>	<b>₩ 473,025,334,123</b>	<b>₩ 826,302,036,941</b>
<b>Profit for the year</b>	-	-	-	12,467,831,833	12,467,831,833
Other comprehensive income:					
Loss on valuation of available-for-sale financial assets	-	-	(1,983,758,924)	-	(1,983,758,924)
Actuarial loss on defined benefit plan	-	-	-	(469,230,825)	(469,230,825)
Total comprehensive income	-	-	(1,983,758,924)	11,998,601,008	10,014,842,084
Cash dividends	-	-	-	(1,073,884,500)	(1,073,884,500)
Stock dividends	627,370,000	-	-	(627,370,000)	-
Loss on capital reduction	-	45,431,417,853	-	(45,431,417,853)	-
Loss on discount on stock issuance	-	279,249,849	-	(279,249,849)	-
Acquisition of treasury stock	-	(7,491,980,756)	-	-	(7,491,980,756)
Transaction costs	-	-	-	(8,594,070,438)	(8,594,070,438)
Adjustments in deferred income tax arising from revaluation of PP&E	-	-	-	(11,858,307,188)	(11,858,307,188)
<b>At December 31, 2011</b>	<b>₩ 394,091,500,000</b>	<b>₩ (8,199,953,098)</b>	<b>₩ 4,247,453,938</b>	<b>₩ 417,159,635,303</b>	<b>₩ 807,298,636,143</b>

## Separate Statements of Cash Flows

For the years ended December 31, 2011 and 2010

	(Unit: KRW)	
	2011	2010
<b>Operating activities:</b>		
Profit for the year	₩ 12,467,831,833	₩ 22,029,746,906
Non-cash adjustment to reconcile profit for the year to net cash flows		
Depreciation	11,739,033,251	9,522,423,383
Amortization of intangible assets	1,107,665,372	970,554,761
Bad debt expenses	2,280,000	-
Advertising and marketing expenses	692,317,333	-
Loss on scrap of inventory	164,375,661	1,862,197,833
Loss/(gain) on foreign currency translation, net	146,741,202	(44,369,388)
Provision for pension benefits	2,186,348,002	2,353,051,944
Loss/(gain) on disposal of tangible assets, net	94,944,124	(2,346,026)
Loss on disposal of investment properties	-	291,378,473
Income tax (benefit)/expense	(172,380,373)	8,859,077,713
Finance income	(2,987,575,812)	(2,125,660,693)
Finance costs	2,345,484,423	2,322,304,317
Working capital adjustments:		
Trade accounts and notes receivable	(13,323,263,889)	(7,307,675,526)
Other accounts receivable	(4,807,967,457)	(7,107,397,696)
Other financial assets	9,985,659,220	80,000,000,000
Inventories	(40,103,726,564)	(19,535,940,743)
Other current assets	(2,755,167,971)	(81,195,377)
Other non-current assets	(712,958,499)	(654,941,793)
Trade accounts and notes payables	1,627,997,055	4,726,047,905
Other accounts payables	5,643,500,247	(2,405,284,203)
Other current liabilities	(154,354,129)	2,888,056,564

# Separate Statements of Cash Flows, continued

For the years ended December 31, 2011 and 2010

(Unit: KRW)

	2011	2010
Other non-current liabilities	1,454,266,328	4,984,853,675
Payment of defined benefit obligation	(436,120,338)	(4,194,789,427)
Defined benefit liability transferred from related party	36,921,940	-
Pension assets	(3,500,000,000)	(8,000,000,000)
Income tax paid	(9,602,201,129)	(9,181,653,420)
<b>Net cash flows from operating activities</b>	<b>(28,860,350,170)</b>	<b>80,168,439,182</b>
<b>Investing activities:</b>		
Proceeds from / (disposal of) other current assets	12,000,000,000	(12,000,000,000)
Purchase of investment properties	(27,262,267,646)	(3,840,377,419)
Purchase of property, plant, and equipment	(28,709,561,391)	(15,085,646,226)
Proceeds from disposal of property, plant, and equipment	626,999,695	230,886,366
Purchase of intangible assets	(1,996,317,272)	(2,377,428,000)
Purchase of other financial assets	(4,722,870,330)	(1,265,820)
Proceeds from other financial assets	4,510,000	1,510,000
Interest received	552,240,019	1,502,183,206
Proceeds from disposal of available-for-sale financial assets	1,400,000,000	-
Dividends received	542,978,350	450,659,820
Increase in investment in subsidiaries	(15,038,880,000)	(6,100,000,000)
Increase in investment in associates	(2,119,288,000)	-
Increase in investment in a jointly controlled entity	(650,696,654)	-
Acquisition of a subsidiary, net of cash acquired	2,236,810	-
<b>Net cash flows from investing activities</b>	<b>₩ (65,370,916,419)</b>	<b>₩ (37,219,478,073)</b>

For the years ended December 31, 2011 and 2010

(Unit: KRW)

	2011	2010
<b>Financing activities:</b>		
Proceeds from borrowings	₩ 260,062,075,634	₩ 9,088,378,936
Repayment of borrowings	(169,417,323,206)	(8,922,420,172)
Acquisition of treasury stock	(7,491,980,756)	(30,395,814)
Interest paid	(1,725,963,917)	(112,527,580)
Dividends paid	(1,073,884,500)	-
Issue of share capital	-	34,912,250,453
Capital reduction	-	(81,996,282,853)
<b>Net cash flows from financing activities</b>	<b>80,352,923,255</b>	<b>(47,060,997,030)</b>
Net decrease in cash and cash equivalents	(13,878,343,334)	(4,112,035,921)
Cash and cash equivalents at January 1	17,657,187,096	21,769,314,613
Net foreign exchange difference	(3,281,964)	(91,596)
<b>Cash and cash equivalents at December 31</b>	<b>₩ 3,775,561,798</b>	<b>₩ 17,657,187,096</b>

## Networking Your Life with Future

LS Networks is committed to helping to build a brighter and happier future for everyone through its consumer brand, consumer retail, global trading, and asset management businesses.

We will continue our quest for stable and sustainable growth by completing solutions for our consumer brand business, generate synergies by developing new businesses, and raise the value of our asset holdings.

Many people are walking, running, and growing toward a healthier and happier future with LS Networks.

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