

# **LG Electronics Inc.**

**Separate Financial Statements  
December 31, 2016 and 2015**

**LG Electronics Inc.**

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**December 31, 2016 and 2015**

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## Independent Auditor's Report

(English Translation of a Report Originally Issued in Korean)

To the Board of Directors and Shareholders of  
LG Electronics Inc.

We have audited the accompanying separate financial statements of LG Electronics Inc. ("the Company"), which comprise the separate statements of financial position as at December 31, 2016 and 2015, and the separate statements of profit or loss, separate statements of comprehensive income, separate statements of changes in equity and separate statements of cash flows for the years then ended, and notes to the separate financial statements, including a summary of significant accounting policies and other explanatory information.

### ***Management's Responsibilities for the Financial Statements***

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

### ***Auditor's Responsibilities***

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

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

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



**Opinion**

In our opinion, the accompanying separate financial statements present fairly, in all material respects, the separate financial position of LG Electronics Inc. as at December 31, 2016 and 2015, and its separate financial performance and its separate cash flows for the years then ended in accordance with Korean IFRS.

**Other matter**

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

Seoul, Korea

March 9, 2017

This report is effective as of March 9, 2017, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying separate financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

# LG Electronics Inc.

## Separate Statements of Financial Position

December 31, 2016 and 2015

| <i>(in millions of Korean won)</i>                         | Note    | 2016              | 2015              |
|--|---------|-------------------|-------------------|
| <b>Assets</b>  |         |                   |                   |
| <b>Current assets</b>                                      |         |                   |                   |
| Cash and cash equivalents                                  | 4,5,36  | 1,181,725         | 678,221           |
| Deposits held by financial institutions                    | 4,5,36  | 80,500            | 80,500            |
| Trade receivables  | 4,6,36  | 4,985,573         | 5,607,126         |
| Loans and other receivables                                | 4,6,36  | 492,178           | 534,079           |
| Other financial assets                                     | 4,7,36  | 30,093            | -                 |
| Inventories  | 8       | 1,186,521         | 1,057,967         |
| Current income tax assets                                  |         | 1,518             | 1,717             |
| Other current assets                                       | 9       | 344,551           | 307,084           |
| Assets held for sale                                       | 38      | 8,906             | 2,116             |
|  |         | <u>8,311,565</u>  | <u>8,268,810</u>  |
| <b>Non-current assets</b>                                  |         |                   |                   |
| Deposits held by financial institutions                    | 4,5,36  | 1,159             | 1,271             |
| Loans and other receivables                                | 4,6,36  | 306,113           | 339,859           |
| Other financial assets                                     | 4,7,36  | 48,672            | 64,134            |
| Property, plant and equipment                              | 10      | 7,164,642         | 6,450,406         |
| Intangible assets  | 11      | 1,234,531         | 1,154,910         |
| Deferred income tax assets                                 | 16      | 884,654           | 948,457           |
| Investments in subsidiaries, associates and joint ventures | 12      | 7,995,665         | 7,963,467         |
| Investment properties                                      | 13      | 96,615            | 120,846           |
| Other non-current assets                                   | 9       | 555,459           | 554,215           |
|  |         | <u>18,287,510</u> | <u>17,597,565</u> |
| <b>Total assets</b>  |         | <u>26,599,075</u> | <u>25,866,375</u> |
| <b>Liabilities</b>   |         |                   |                   |
| <b>Current liabilities</b>                                 |         |                   |                   |
| Trade payables   | 4,36    | 5,516,849         | 5,015,038         |
| Borrowings   | 4,14,36 | 661,148           | 1,041,603         |
| Other payables   | 4,15,36 | 2,080,451         | 1,791,021         |
| Other financial liabilities                                | 4,7,36  | 8,665             | 14,553            |
| Provisions   | 18      | 392,948           | 176,067           |
| Other current liabilities                                  | 19      | 1,883,065         | 1,705,180         |
|  |         | <u>10,543,126</u> | <u>9,743,462</u>  |
| <b>Non-current liabilities</b>                             |         |                   |                   |
| Borrowings   | 4,14,36 | 5,970,172         | 5,577,300         |
| Other payables   | 4,15,36 | 5,552             | 6,928             |
| Other financial liabilities                                | 4,7,36  | 75,736            | 71,317            |
| Net defined benefit liability                              | 17      | 345,368           | 575,016           |
| Provisions   | 18      | 811,036           | 847,647           |
| Other non-current liabilities                              | 19      | 82,633            | 83,696            |
|  |         | <u>7,290,497</u>  | <u>7,161,904</u>  |
| <b>Total liabilities</b>                                   |         | <u>17,833,623</u> | <u>16,905,366</u> |
| <b>Equity</b>  |         |                   |                   |
| Paid-in capital:   | 20      |                   |                   |
| Share capital  |         | 904,169           | 904,169           |
| Share premium  |         | 3,088,179         | 3,088,179         |
| Retained earnings  | 21      | 4,851,573         | 5,046,104         |
| Accumulated other comprehensive income                     | 22      | (45,650)          | (44,624)          |
| Other components of equity                                 | 23      | (32,819)          | (32,819)          |
|  |         | <u>8,765,452</u>  | <u>8,961,009</u>  |
| <b>Total equity</b>  |         | <u>8,765,452</u>  | <u>8,961,009</u>  |
| <b>Total liabilities and equity</b>                        |         | <u>26,599,075</u> | <u>25,866,375</u> |

**LG Electronics Inc.**  
**Separate Statements of Profit or Loss**  
**Years ended December 31, 2016 and 2015**

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*(in millions of Korean won, except per share amounts)*

|   | Note  | 2016              | 2015              |
|---|-------|-------------------|-------------------|
| <b>Continuing operations</b>                        |       |                   |                   |
| <b>Deposits held by financial institutions</b>      | 24    | 28,743,246        | 28,368,428        |
| <b>Cost of sales</b>                                | 25    | <u>22,759,725</u> | <u>22,729,158</u> |
| <b>Gross profit</b>                                 |       | 5,983,521         | 5,639,270         |
| Selling and marketing expenses                      | 25,26 | 2,612,068         | 2,591,650         |
| Administrative expenses                             | 25,26 | 589,121           | 619,268           |
| Research and development expenses                   | 25,26 | 2,106,181         | 1,988,854         |
| Service costs                                       | 25,26 | <u>966,606</u>    | <u>457,035</u>    |
| <b>Operating loss</b>                               |       | (290,455)         | (17,537)          |
| Financial income                                    | 27    | 257,822           | 266,506           |
| Financial expenses                                  | 28    | 431,272           | 459,446           |
| Other non-operating income                          | 29    | 1,620,050         | 1,299,819         |
| Other non-operating expenses                        | 30    | <u>1,330,365</u>  | <u>1,355,165</u>  |
| Loss before income tax                              |       | (174,220)         | (265,823)         |
| Income tax expense                                  | 16    | <u>102,267</u>    | <u>85,894</u>     |
| <b>Loss for the year from continuing operations</b> |       | <u>(276,487)</u>  | <u>(351,717)</u>  |
| <b>Discontinued operations</b>                      |       |                   |                   |
| Loss for the year from discontinued operations      | 39    | -                 | (4,122)           |
| <b>Loss for the year</b>                            |       | <u>(276,487)</u>  | <u>(355,839)</u>  |
| <b>Loss per share during the year (in won)</b>      |       |                   |                   |
|   | 31    |                   |                   |
| Loss per ordinary share                             |       | (1,540)           | (1,981)           |
| From continuing operations                          |       | (1,540)           | (1,958)           |
| From discontinued operations                        |       | -                 | (23)              |
| Loss per preferred share                            |       | (1,490)           | (1,931)           |
| From continuing operations                          |       | (1,490)           | (1,908)           |
| From discontinued operations                        |       | -                 | (23)              |

**LG Electronics Inc.**  
**Separate Statements of Comprehensive Income**  
**Years ended December 31, 2016 and 2015**

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| <i>(in millions of Korean won)</i>   | <b>Note</b> | <b>2016</b>      | <b>2015</b>      |
|--|-------------|------------------|------------------|
| <b>Loss for the year</b>   |             | <u>(276,487)</u> | <u>(355,839)</u> |
| <b>Other comprehensive income, net of tax</b>                              |             |                  |                  |
| <i>Items that will not be reclassified subsequently to profit or loss:</i> |             |                  |                  |
| Remeasurements of the net defined benefit liability                        | 17          | 154,841          | (76,114)         |
| <i>Items that will be reclassified subsequently to profit or loss:</i>     |             |                  |                  |
| Cash flow hedges   | 36          | (656)            | (25,292)         |
| Available-for-sale financial assets  | 7           | <u>(370)</u>     | <u>2,439</u>     |
| <b>Other comprehensive income for the year, net of tax</b>                 |             | <u>153,815</u>   | <u>(98,967)</u>  |
| <b>Total comprehensive loss for the year, net of tax</b>                   |             | <u>(122,672)</u> | <u>(454,806)</u> |

**LG Electronics Inc.**  
**Separate Statements of Changes in Equity**  
**December 31, 2016 and 2015**

| <i>(in millions of Korean won)</i>                  | <b>Note</b> | <b>Paid-in<br/>Capital</b> | <b>Retained<br/>Earnings</b> | <b>Accumulated<br/>Other<br/>Comprehensive<br/>Income</b> | <b>Other<br/>Components<br/>of Equity</b> | <b>Total<br/>Equity</b> |
|---|-------------|----------------------------|------------------------------|---|---|-------------------------|
| <b>Balance at January 1, 2015</b>                   |             | 3,992,348                  | 5,550,942                    | (21,771)  | (32,819)                                  | 9,488,700               |
| <b>Total comprehensive income:</b>                  |             |                            |                              |   |   |                         |
| Loss for the year                                   |             | -                          | (355,839)                    | -   | -   | (355,839)               |
| Remeasurements of the net defined benefit liability | 17          | -                          | (76,114)                     | -   | -   | (76,114)                |
| Cash flow hedges                                    | 36          | -                          | -                            | (25,292)  | -   | (25,292)                |
| Available-for-sale financial assets                 | 7           | -                          | -                            | 2,439   | -   | 2,439                   |
| <b>Total comprehensive loss</b>                     |             | -                          | (431,953)                    | (22,853)  | -   | (454,806)               |
| <b>Transactions with owners:</b>                    |             |                            |                              |   |   |                         |
| Dividends   | 21          | -                          | (72,885)                     | -   | -   | (72,885)                |
| <b>Total transactions with owners</b>               |             | -                          | (72,885)                     | -   | -   | (72,885)                |
| <b>Balance at December 31, 2015</b>                 |             | 3,992,348                  | 5,046,104                    | (44,624)  | (32,819)                                  | 8,961,009               |
| <b>Balance at January 1, 2016</b>                   |             | 3,992,348                  | 5,046,104                    | (44,624)  | (32,819)                                  | 8,961,009               |
| <b>Total comprehensive income:</b>                  |             |                            |                              |   |   |                         |
| Loss for the year                                   |             | -                          | (276,487)                    | -   | -   | (276,487)               |
| Remeasurements of the net defined benefit liability | 17          | -                          | 154,841                      | -   | -   | 154,841                 |
| Cash flow hedges                                    | 36          | -                          | -                            | (656)   | -   | (656)                   |
| Available-for-sale financial assets                 | 7           | -                          | -                            | (370)   | -   | (370)                   |
| <b>Total comprehensive loss</b>                     |             | -                          | (121,646)                    | (1,026)   | -   | (122,672)               |
| <b>Transactions with owners:</b>                    |             |                            |                              |   |   |                         |
| Dividends   | 21          | -                          | (72,885)                     | -   | -   | (72,885)                |
| <b>Total transactions with owners</b>               |             | -                          | (72,885)                     | -   | -   | (72,885)                |
| <b>Balance at December 31, 2016</b>                 |             | 3,992,348                  | 4,851,573                    | (45,650)  | (32,819)                                  | 8,765,452               |



**LG Electronics Inc.**  
**Separate Statements of Cash Flows**  
**December 31, 2016 and 2015**

| <i>(in millions of Korean won)</i>   | Note | 2016               | 2015               |
|--|------|--------------------|--------------------|
| <b>Cash flows from operating activities</b>  |      |                    |                    |
| Cash generated from operations   | 32   | 2,004,506          | 752,744            |
| Deposits held by financial institutions  |      | 11,038             | 13,505             |
| Interest paid  |      | (234,316)          | (254,767)          |
| Dividends received   |      | 468,395            | 156,858            |
| Income tax refund(paid)  |      | (85,117)           | 8,101              |
| <b>Net cash inflow from operating activities</b>                                     |      | <u>2,164,506</u>   | <u>676,441</u>     |
| <b>Cash flows from investing activities</b>  |      |                    |                    |
| Decrease in deposits held by financial institutions                                  |      | 112                | -                  |
| Decrease in loans and other receivables  |      | 90,090             | 99,922             |
| Proceeds from redemption and disposal of other financial assets                      |      | 1,145              | 7,554              |
| Deposits held by financial institutions  |      | 56,598             | 40,997             |
| Proceeds from disposal of intangible assets  |      | 2,432              | 134                |
| Proceeds from disposal of investments in subsidiaries, associates and joint ventures |      | 75,404             | 159,929            |
| Proceeds from disposal of investment properties                                      |      | 21,853             | 545                |
| Proceeds from disposal of assets held for sale                                       |      | 3,095              | -                  |
| Transfer of business   | 32   | 985                | 22,010             |
| Increase in deposits held by financial institutions                                  |      | -                  | (15,082)           |
| Increase in loans and other receivables  |      | (48,555)           | (72,048)           |
| Acquisition of other financial assets  |      | (5,600)            | (1,740)            |
| Acquisition of property, plant and equipment   |      | (1,303,594)        | (973,315)          |
| Acquisition of intangible assets   |      | (378,067)          | (408,130)          |
| Acquisition of investments in subsidiaries, associates and joint ventures            |      | (91,773)           | (11,057)           |
| Business combination   | 37   | -                  | (7,691)            |
| <b>Net cash outflow from investing activities</b>                                    |      | <u>(1,575,987)</u> | <u>(1,157,972)</u> |
| <b>Cash flows from financing activities</b>  |      |                    |                    |
| Proceeds from borrowings   |      | 1,226,258          | 1,716,934          |
| Repayments of borrowings   |      | (1,238,500)        | (1,397,505)        |
| Dividends paid   | 21   | (72,885)           | (72,885)           |
| <b>Net cash inflow (outflow) from financing activities</b>                           |      | <u>(85,127)</u>    | <u>246,544</u>     |
| <b>Net increase (decrease) in cash and cash equivalents</b>                          |      | 503,504            | (234,987)          |
| Cash and cash equivalents at the beginning of the year                               | 5    | 678,221            | 913,208            |
| <b>Cash and cash equivalents at the end of the year</b>                              | 5    | <u>1,181,725</u>   | <u>678,221</u>     |

# **LG Electronics Inc.**

## **Notes to the Separate Financial Statements**

### **December 31, 2016 and 2015**

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#### **1. General Information**

LG Electronics Inc. (the "Company") was spun off from LG Electronics Investment Ltd. on April 1, 2002. The Company's shares were listed on the Korea Exchange on April 22, 2002, and some of its preferred shares, in the form of global depositary receipts ("GDRs"), are listed on the London Stock Exchange at the end of the reporting period. The Company is domiciled in Korea at Yeoui-daero, Yeongdeungpo-gu, Seoul.

As of December 31, 2016, LG Corp. owns 33.7% of the Company's total shares, excluding preferred shares, while financial institutions, foreign investors and others own the rest.

The Company operates following major business segments: Home Appliance & Air Solution segment manufactures and sells refrigerators, washing machines, vacuum cleaners, and residential and commercial air conditioners; Mobile Communications segment manufactures and sells mobile communications equipment; Home Entertainment segment manufactures and sells TVs, monitors, and digital media products; and Vehicle Components segment designs and manufactures automobile parts. As of December 31, 2016, the Company operates manufacturing facilities mainly in Pyeongtaek, Changwon and Gumi in the Republic of Korea.

#### **2. Significant Accounting Policies**

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

##### **Basis of Preparation**

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

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

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

The preparation of the separate financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the separate financial statements are

**LG Electronics Inc.**  
**Notes to the Separate Financial Statements**  
**December 31, 2016 and 2015**

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disclosed in Note 3.

**Changes in Accounting Policies and Disclosures**

(a) New and amended standards and interpretations effective for the financial year beginning January 1, 2016.

i) The new and amended standards and interpretations adopted by the Company from the financial year 2016:

- Amendment to Korean IFRS 1016: '*Property, Plant and Equipment*', and Korean IFRS 1038: '*Intangible Assets*' (Date of amendment: September 2014)

Amendments to Korean IFRS 1016 and Korean IFRS 1038 clarify that the use of a revenue-based depreciation and amortization method is not permitted since the method are affected by factors, such as number of units sold and selling price, that are not directly related to the economic consumption of an asset. However, the revenue-based method is acceptable in limited circumstances in which intangible assets are measured based on revenue. The application of this amendment does not have a significant impact on the accompanying separate financial statements.

- Amendment to Korean IFRS 1111: '*Joint Arrangements*' (Date of amendment: September 2014)

Amendment to Korean IFRS 1111 requires the acquirer of an interest in a joint operation, in which the activity constitutes a business, as defined in Korean IFRS 1103, '*Business Combinations*', to apply all of the principles on business combinations accounting in Korean IFRS 1103 and other Korean IFRSs, and to disclose the information related to the business combination. The application of this amendment does not have a significant impact on the accompanying separate financial statements.

- Amendment to Korean IFRS 1027: '*Separate Financial Statements*' (Date of amendment: November 2014)

Korean IFRS 1027, '*Separate Financial Statements*', added the option to use the equity method, as described in Korean IFRS 1028, '*Investments in Associates and Joint Ventures*' in addition to accounting for investment in subsidiaries, joint ventures and associates at cost or in accordance with IFRS 9 '*Financial instruments*'. The application of this amendment does not have a significant impact on the accompanying separate financial statements.

- Amendment to Korean IFRS 1001: '*Presentation of Financial Statements*' (Date of amendment: May 2015)

Amendment to Korean IFRS 1001, '*Presentation of Financial Statements*', clarifies that the disclosed line items can be omitted, added, or aggregated in the list according to their materiality. In addition, the amendment clarifies that the share in the other comprehensive income of associates and joint ventures accounted for under the equity method should be presented separately in the financial statements based on whether they will or will not subsequently be reclassified to profit or loss. Also, additional requirements for disclosures in the notes and others

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**Notes to the Separate Financial Statements**  
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are provided. The application of this amendment does not have a significant impact on the accompanying separate financial statements.

- Annual improvements of Korean IFRS (Date of amendment: February, May 2015)

Korean IFRS 1105, '*Non-current assets held for sale and Discontinued operations*',  
Korean IFRS 1107, '*Financial Instruments: Disclosure*',  
Korean IFRS 1019, '*Employee benefits*',  
Korean IFRS 1034, '*Interim Financial Reporting*'

The annual improvements of Korean IFRS do not have a significant impact on the accompanying separate financial statements.

(b) New and amended standards and interpretations issued, but not effective for December 31, 2016, and not early adopted by the Company

- Korean IFRS 1109 '*Financial Instruments*' (Date of enactment: September 2015)

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

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

Korean IFRS 1109 requires all financial assets to be classified and measured on the basis of the entity's business model for managing financial assets and the contractual cash flow characteristics of the financial assets. A new impairment model, an expected credit loss model, is introduced and any subsequent changes in expected credit losses will be recognized in profit or loss. Also, hedge accounting rules are amended to extend the hedging relationship, which consists only of eligible hedging instruments and hedged items, qualifies for hedge accounting.

An effective implementation of Korean IFRS 1109 requires preparation processes including financial impact assessment, accounting policy establishment, accounting system development and the system stabilization. The impact on the Company's separate financial statements due to the application of the standard is dependent on judgements made in applying the standard, financial instruments held by the Company and macroeconomic variables.

The Company performed an impact assessment to identify potential financial effects of applying Korean IFRS 1109. The assessment was performed based on retainable information as of December 31, 2016. The Company plans to perform more detailed analysis on financial effects based on additional information in the future; therefore, the results of the assessment may change due to additional information that the Company may obtain after the assessment.

**LG Electronics Inc.**  
**Notes to the Separate Financial Statements**  
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*Classification and Measurement of Financial Assets*

When implementing Korean IFRS 1109, the classification of financial assets will be driven by the Company's business model for managing the financial assets and contractual terms of cash flow. The following table shows the classification of financial assets measured subsequently at amortized cost, at fair value through other comprehensive income and at fair value through profit or loss. If a hybrid contract contains a host that is a financial asset, an embedded derivative is not separated from the host and the Company classifies the financial assets based on the entire hybrid contract.

| <b><i>Business model for the contractual cash flows characteristics</i></b>                  | <b>Solely represent payments of principal and interest</b>             | <b>All other</b>   |
|--|--|--|
| <i>Hold the financial asset for the collection of the contractual cash flows</i>             | Measured at amortized cost <sup>1</sup>                                |  |
| <i>Hold the financial asset for the collection of the contractual cash flows and trading</i> | Measured at fair value through other comprehensive income <sup>1</sup> | Measured at fair value through profit or loss <sup>2</sup> |
| <i>Hold for trading</i>  | Measured at fair value through profit or loss                          |  |

<sup>1</sup> A designation at fair value through profit or loss is allowed only if such designation mitigates an accounting mismatch (irrevocable).

<sup>2</sup> An equity investment that is not held for trading can be recorded in other comprehensive income (irrevocable).

According to Korean IFRS 1109, a debt instrument is measured at amortized cost if: a) the objective of the business model is to hold the financial asset for the collection of the contractual cash flows, and b) the contractual cash flows under the instrument solely represent payments of principal and interest. As of December 31, 2016, the Company measured loans and receivables of \ 7,047,248 million at amortized costs. Based on results from the impact assessment of Korean IFRS 1109, the application of the new standard does not have a material impact on the Company's separate financial statements. This is because the Company holds the majority of financial assets measured at amortized cost that meets the both criteria: a) the contractual terms of the financial assets that the Company holds give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding on a specified date, and b) the Company holds the financial assets in order to collect contractual cash flow.

According to Korean IFRS 1109, a debt instrument is measured at fair value through other comprehensive income if the objective of the business model is achieved both by collecting contractual cash flows and selling financial assets; and the contractual cash flows represents solely payments of principal and interest on a specific date under contract terms. As of December 31, 2016, the Company does not hold debt instruments classified as financial assets available-for-sale. Therefore, based on the results from the impact assessment of Korean IFRS 1109, the Company expects application of Korean IFRS 1109 will not have a material impact on the

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accompanying separate financial statements.

According to Korean IFRS 1109, the Company can make an irrevocable election at initial recognition to classify the equity instruments that are not held for trading instruments as assets measured at fair value through other comprehensive income. All subsequent changes in fair value of the instruments are recognized in other comprehensive income and not recycled to profit or loss. As of December 31, 2016, the Company holds equity instruments of ₩ 32,581 million classified as financial assets available-for-sale, however, there is no unrealized gain or loss recycled to profit or loss. Based on results from the impact assessment of Korean IFRS 1109, the Company plans to designate equity instruments, which are classified in financial assets available-for-sale for long-term investment purpose, as instruments measured at fair value through other comprehensive income. Therefore, the Company expects these financial assets will not have a material impact on the accompanying separate financial statements.

*Classification and Measurement of Financial Liabilities*

Korean IFRS 1109 requires the amount of the change in the liability's fair value attributable to changes in the credit risk to be recognized in other comprehensive income, unless this treatment of the credit risk component creates or enlarges a measurement mismatch. Amounts presented in other comprehensive income are not subsequently recycled to profit or loss. Based on the results from the impact assessment of Korean IFRS 1109, the Company does not hold financial liabilities designated at fair value through profit or loss as of December 31, 2016. The Company expects the application of Korean IFRS 1109 will not have a material impact on the accompanying separate financial statements.

*Impairment: Debt investment and Contract Assets*

Korean IFRS 1109 sets out a new forward looking 'expected credit loss' impairment model which replaces the incurred loss model under Korean IFRS 1039 that impaired assets if there is an objective evidence and applies to:

- Debt investments measured at amortized cost
- Debt investments measured at fair value through other comprehensive income,
- Lease receivables
- Contract assets
- Loan commitments, and
- Financial guarantee contracts.

Under Korean IFRS 1109 'expected credit loss' model, the Company can recognize expected credit loss earlier than the incurred loss model under Korean IFRS 1039 because the Company shall measure a loss allowance for a financial instrument at the amount equal to the 12-month or lifetime expected credit loss. Korean IFRS 1109 clarifies an exception that a loss allowance for lifetime expected credit losses is required for a financial instrument if contract assets or trade receivables are not considered to contain a significant financing component.

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As of December 31, 2016, the Company owns financial instrument carried at amortized cost of ₩7,047,248 million (loan and receivables). And, the Company recognized loss allowance of ₩38,356 million for these financial assets.

The Company performed an impact assessment using the practical expedient with an assumption that for trade receivables and contract assets that do not contain a significant financing component, the Company measures the loss allowance at an amount equal to lifetime expected credit losses at initial recognition. As the results of the impact assessment, the Company expects the application of Korean IFRS 1109 will not have a material impact on the accompanying separate financial statements.

*Hedge Accounting*

Hedge accounting mechanics required by Korean IFRS 1039 remains unchanged in Korean IFRS 1109, however, it changes from the complex and rule-based requirement in Korean IFRS 1039 for hedge accounting to principles-based approach that focuses on the Company's risk management practices. Korean IFRS 1109 allows more hedging instruments and hedged items to qualify for hedge accounting, and relaxes the hedge accounting requirement by removing hedge effectiveness tests that are a quantitative (within range of 80-125 %) prospective test and retrospective test to ensure that the hedging relationship has been highly effective throughout the reporting period and is expected to be highly effective.

When the Company first applies Korean IFRS 1109, the Company plans to choose as its accounting policy choice to continue to apply all of the hedge accounting requirements of Korean IFRS 1039. The Company expects the application of Korean IFRS 1109 will not have a material impact on the accompanying separate financial statements.

- Korean IFRS 1115 *Revenue from Contracts with Customers* (Date of enactment: November 2015)

Korean IFRS 1115 *Revenue from Contracts with Customers* issued in November, 2015 is effective for annual reporting periods beginning on or after January 1, 2018, and earlier application is permitted. This standard replaces Korean IFRS 1018 *Revenue*, Korean IFRS 1011 *Construction Contracts*, Interpretation 2031 *Revenue-Barter Transactions Involving Advertising Services*, Interpretation 2113 *Customer Loyalty Programs*, Interpretation 2115 *Agreements for the Construction of Real Estate* and Interpretation 2118 *Transfers of assets from customers*. The Company must apply Korean IFRS 1115 *Revenue from Contracts with Customers* within annual reporting periods beginning on or after January 1, 2018, and will apply cumulative effect of the standard implementation by recognizing adjustments on the beginning balance of retained earnings (or other appropriate equity components) in the annual reporting period of implementation. In accordance with the standard, the Company will apply the standard retrospectively to prior reporting period for uncompleted contracts upon implementation date and apply the practical expedient with no restatement for completed contracts and other.

According to the current Korean IFRS 1018, revenue is recognized in the form of the sales of

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goods, the rendering of services, interest, royalties, dividends, construction contracts and others. However, according to Korean IFRS 1115, five-step model must be applied for revenue recognition:

- Identify the contracts with customers
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations, and
- Recognize revenue when the entity satisfies a performance obligation

As of December 31, 2016, for the preparation of implementing Korean IFRS 1115, the Company formed a task force team consisting of members from accounting FD, information strategy FD and other practical departments, if necessary. The Company performed an impact assessment to identify potential financial effects of applying Korean IFRS 1115. The assessment was performed based on retainable information as of December 31, 2016. The results of the assessment as of December 31, 2016 may change due to additional information that the Company may obtain after the assessment.

#### *Identification of performance obligation*

The Company sells home appliances, mobile communications equipment, TVs, monitors, automobile parts and others.

The Company expects that identifying performance obligation will not have a material impact on the accompanying separate financial statements because the Company recognizes revenue from service, of which contracts are generally separated, apart from sales of goods or products as of December 31, 2016.

#### *Variable consideration*

The Company may provide promotional incentive to enhance customer's revenue or allow sales returns, which may cause variable consideration.

With implementation of Korean IFRS 1115, the Company estimates an amount of variable consideration by using the expected value which the Company expects to better predict the amount of consideration. The Company recognizes revenue with transaction price including variable consideration only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur. The refund liability is measured at the amount of consideration received for which the Company does not expect to be entitled.

According to current Korean IFRS, the Company estimates an amount of promotional incentive and reverses sales and trade receivables. Instead, with implementation of Korean IFRS 1115, the Company will reverse sales but recognize a refund liability. The Company recognizes an amount of gross profit for products the Company expects to be returned as a return liability according to current Korean IFRS. While, with the implementation of Korean IFRS 1115, the Company will recognize expected amount of return as the refund liability and cost of sales as assets. Based on the result from the impact assessment as of



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December 31, 2016, the Company expects the application of Korean IFRS 1115 will not have a material impact on revenue while both assets and liabilities are expected to be increased at the same time.

*Costs to fulfil a contract*

The Company's Vehicle Components segment is contracted with car makers for a supply of auto parts and supplies the auto parts to the customers through research and development. If the costs incurred in fulfilling a contract are directly related to the contracts, generate or enhance resources of the entity that will be used in satisfying performance obligations in the future, are expected to be recovered, and are not within the scope of other standards, it is recognized as an asset. Recognized assets are amortized on a systematic basis consistent with the way in which the related goods or services are provided.

Based on the result from the impact assessment as of December 31, 2016, the Company expects the application of Korean IFRS 1115 will result increases in assets and equity because the costs to fulfil a contract such as past research and development expenses will be recognized as assets.

*Warranties*

The Company has set standard warranty coverage periods per product and country considering warranty periods and others required by law when entering into contracts with customers for the sales of products. If the Company provides an extended warranty beyond the standard warranty coverage period or a customer has the option to purchase a warranty separately, the warranty is a distinct service according to Korean IFRS 1115.

Based on the results from the impact assessment as of December 31, 2016, the Company will have no material impact because extended warranties beyond standard terms have been recognized as separate revenue from service which is distinct from standard term of warranties.

- Amendments to Korean IFRS 1007 *Statement of Cash Flows* (Date of enactment: December, 2016)

Amendments to Korean IFRS 1007 Statement of Cash flows requires to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash flows. The Company will apply this amendment for annual reporting periods beginning on or after January 1, 2017 with early application permitted. The Company does not expect the amendments to have a significant impact on the accompanying separate financial statements.

- Amendments to Korean IFRS 1012 *Income Tax* (Date of enactment: December, 2016)

When assessing whether there is sufficient future taxable profit to assess the probability of realizing a deferred tax asset, amendments clarify that the future taxable profit should exclude tax deductions resulting from the reversal of those deductible temporary differences. In addition, the Company is required to assess a deductible temporary difference separated by and in combination with other deductible temporary differences of the appropriate type depending on whether tax law restricts the source of taxable profit. The Company will apply the amendments for annual reporting periods beginning on or after January 1, 2017 with early application permitted. The Company does not expect the amendments to have a significant impact on the accompanying

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- Amendments to Korean IFRS 1102 *Share-based Payment* (Date of enactment: December, 2016)

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

**Investments in Subsidiaries, Associates and Joint ventures**

In accordance with Korean IFRS 1027, '*Separate Financial Statements*', the investments in subsidiaries, associates and joint ventures are recorded at acquisition cost on the basis of the direct equity interest. The Company recognizes a dividend from subsidiaries, associates and joint ventures in profit when its right to receive the dividend is established.

**Segment Reporting**

Operating segments are established on the basis of business divisions whose internal reporting is provided to the chief operating decision-maker who is the chief executive officer. Segmental disclosures are disclosed in Note 4 of the consolidated financial statements in accordance with Korean IFRS 1108, '*Operating Segment*'.

**Foreign Currency Translation**

(a) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Company operates (the "functional currency"). The Company's functional and presentation currency is 'Korean won'. The separate financial statements are presented in Korean won.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at each end of the reporting period. of monetary assets and liabilities denominated in foreign currencies are recognized in the separate statements of profit or loss, except qualifying cash flow hedges which are recognized in other comprehensive income.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analyzed between translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of the security.

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Translation differences related to changes in amortized cost are recognized in profit or loss, and other changes in carrying amount are recognized in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities, such as equities held at fair value through profit or loss, are recognized in the separate statements of profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available-for-sale, are recognized in other comprehensive income.

**Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand, deposits at banks, and other short-term highly liquid investments with original maturities of three months or less.

**Financial Instruments**

*Classification*

The Company classifies its financial instruments in the following categories: financial assets and liabilities at fair value through profit or loss, loans and receivables, available-for-sale financial assets, held-to-maturity investments, other financial liabilities at amortized cost, derivatives for hedging purpose, and financial guarantee liabilities. The classification depends on the purpose for which the financial instruments were acquired and the nature of the instruments. The company determines the classification of financial instruments at initial recognition.

(a) Financial assets and liabilities at fair value through profit or loss

Financial assets and liabilities at fair value through profit or loss are financial instruments held for trading. Financial assets and liabilities are classified in this category if acquired or incurred principally for the purpose of selling or repurchasing it in the near term. Derivatives that are not designated as hedges and financial instruments having embedded derivatives are also included in this category. Financial assets and liabilities at fair value through profit or loss of the Company are categorized in 'other financial assets' and 'other financial liabilities' on the separate statements of financial position, respectively.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Company's loans and receivables comprise 'cash and cash equivalents', 'deposits held by financial institutions', 'trade receivables', and 'loans and other receivables'.

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in 'other financial assets' as non-current assets unless their maturities are less than 12 months or management intends to dispose of them within 12 months of the end of the reporting period.

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(d) Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity and are classified as 'other financial assets' in the statements of financial position. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months after the end of the reporting period, which are classified as current assets.

(e) Financial liabilities measured at amortized cost

Non-derivative financial liabilities are included in financial liabilities at amortized cost, except for financial liabilities at fair value through profit or loss. When a transfer of financial assets does not qualify for derecognition, associated financial liabilities are classified as the same category of the financial assets, and the transferred assets are continuously recognized and a financial liability is measured as the consideration received. Financial liabilities measured at amortized cost are included in non-current liabilities, except for maturities less than 12 months after the end of the reporting period, which are classified as current liabilities.

(f) Other

Derivatives for hedging purpose and financial guarantee liabilities are grouped in 'other financial assets' or 'other financial liabilities', and are accounted in accordance with 'Derivative Financial Instruments' and 'Financial Guarantee Contracts' in Note 2.

*Recognition and Measurement*

Regular purchases and sales of financial assets are recognized on the trade date. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss is initially recognized at fair value, and transaction costs are expensed in the separate statements of profit or loss. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity financial assets are subsequently carried at amortized cost using the effective interest rate method.

Gains or losses arising from changes in the fair value of the financial assets carried at fair value through profit or loss are presented in the separate statements of profit or loss within 'other non-operating income and expenses' in the period in which they arise. However, gains or losses on settlement of derivatives relative to borrowings are presented in 'financial income and expenses'. The Company recognizes a dividend from financial assets at fair value through profit or loss in the separate statements of profit or loss within 'non-operating income' when its right to receive the dividend is established.

Changes in the fair value of monetary and non-monetary securities classified as available-for-sale

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financial assets are recognized in other comprehensive income. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognized in equity are reported in the separate statements of profit or loss as 'other non-operating income and expenses'.

Interest on available-for-sale securities and held-to-maturity financial assets calculated using the effective interest method is recognized in the separate statements of profit or loss as part of 'financial income'. Dividends on available-for-sale equity instruments are recognized in the separate statements of profit or loss as part of 'other non-operating income' when the Company's right to receive payments is established.

*Offsetting*

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

*Derecognition*

Financial assets are derecognized when the contractual rights to receive cash from the investments have expired or have been transferred and the Company has substantially transferred all risks and rewards of ownership or when the risk and rewards of ownership of transferred assets have not been substantially retained or transferred and the Company has not retained control over these assets.

Trade receivable discounted and collaterals on factoring transaction such as trade receivable and others that do not qualify for the requirement above are not derecognized because the Company retains substantially all the risks and rewards due to recourse conditions in case of debtors' default on obligations and others. Financial liabilities associated with such transactions are categorized in 'borrowings' in the statements of financial position.

**Impairment of Financial Assets**

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or a group of financial assets that can be reliably estimated.

The criteria that the Company uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- For economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;

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- It becomes probable that the borrower will enter bankruptcy or other financial reorganization;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, even though the decrease cannot be identified with the individual financial assets in the portfolio, including:
  - (i) adverse changes in the payment status of borrowers in the portfolio;
  - (ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

(a) Loans and receivables and held-to-maturity financial assets (measured at amortized cost)

Impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognized in the separate statements of profit or loss. Impairment of assets measured at amortized cost is presented as a deduction in an allowance account. Impairment of other financial assets is directly deducted from their carrying amount. The Company writes off financial assets when the assets are determined to be no longer recoverable. In case of financial assets with variable interest rates, impairment losses are recognized with current effective interest rates in accordance with the contract.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in the separate statements of profit or loss.

(b) Available-for-sale financial assets

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities classified as available-for-sale, the Company uses the criteria referred to in (a) above. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the asset is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from equity and recognized in the separate statements of profit or loss. Impairment losses recognized in the separate statements of profit or loss on equity instruments are not reversed through the separate statements of profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the separate statements of profit or loss.

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**Derivative Financial Instruments**

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The resulting gain or loss that does not meet the conditions for hedge accounting is recognized in 'other non-operating income and expenses' or 'financial income and expenses' according to the nature of transactions.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in the separate statements of profit or loss within 'other non-operating income and expenses' or 'financial income and expenses'.

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the separate statements of profit or loss within 'other non-operating income and expenses' or 'financial income and expenses'.

**Trade Receivables**

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets. Trade receivables are recognized initially at fair value, less allowance for doubtful debts.

**Inventories**

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the monthly weighted-average method, except for inventories in-transit which is determined using the specific identification method. The cost of finished goods and work-in-process comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). The Company periodically reviews a possibility of the significant changes in net realizable value of inventories from not in use, decrease in market value and obsolescence, and recognizes as 'Allowances for Valuation of Inventories'. Net realizable value is the estimated selling price in the ordinary course of business, less applicable selling expenses.

**Assets Held for Sale and Discontinued Operations**

Non-current assets (or disposal groups) are classified as 'assets held for sale' when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount or fair value less costs to sell.

When a component of discontinued operations or a component of the Company representing a separate major line of business or geographical area of operation has been disposed of, the Company discloses in the separate statements of profit or loss the post-tax profit or loss of discontinued operations and the post-tax gain or loss recognized on the measurement to fair value less costs to sell or on the disposal of the assets or disposal groups constituting the discontinued

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operation. The net cash flows attributable to the operating, investing and financing activities of discontinued operations are presented in the notes to the separate financial statements.

**Property, Plant and Equipment**

All property, plant and equipment are stated at historical cost less depreciation and impairment. Historical cost includes expenditures directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the separate statements of profit or loss during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate the difference between their acquisition cost and their residual values over their major estimated useful lives, as follows:

|                          |              |
|--------------------------|--------------|
| Buildings and structures | 20, 40 years |
| Machinery                | 5, 10 years  |
| Tools                    | 5 years      |
| Equipment                | 5 years      |
| Other                    | 5 years      |

The assets' depreciation method, residual values, and useful lives are reviewed, and adjusted if appropriate, at each financial year-end. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within 'other non-operating income and expenses' in the separate statements of profit or loss.

**Borrowing Costs**

Borrowing costs incurred in the acquisition or construction of a qualifying asset are capitalized in the period when it is prepared for its intended use, and investment income earned on the temporary investment of borrowings made specifically for the purpose of obtaining a qualifying asset is deducted from the borrowing costs eligible for capitalization during the period. Other borrowing costs are recognized as expenses for the period in which they are incurred.

**Government Grants**

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Company will comply with all attached conditions.

Government grants relating to income are deferred and recognized in the separate statements of profit or loss over the period necessary to match them with the costs that they are intended to compensate.



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Government grants relating to property, plant and equipment are presented as a deduction of related assets and are credited to depreciation over the expected lives of the related assets.

**Intangible Assets**

(a) Goodwill

Goodwill represents the excess of the aggregate of the consideration transferred, and the acquisition-date fair value of the Company's previously held equity interest in the acquiree over the net identifiable assets at the date of acquisition. Goodwill is tested at least annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed.

(b) Industrial property rights

Industrial property rights are shown at historical cost. Industrial property rights have a finite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of industrial property rights over their estimated useful lives of five to ten years.

(c) Development costs

Costs that are identifiable, controllable and directly attributable to development projects, in relation to new technology or new products, are recognized as development costs when all the following criteria are met and amortization of development costs based on the straight-line method over their estimated useful lives of one to three years begins at the commencement of the commercial production of the related products or use of the related technology.

- It is technically feasible to complete the intangible asset so that it will be available for use;
- Management intends to complete the intangible asset and use or sell it;
- There is the ability to use or sell the intangible asset;
- It can be demonstrated how the intangible asset will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development for using and selling the intangible asset are available; and
- The expenditure attributable to the intangible asset during its development can be reliably measured.

(d) Membership

Membership rights are regarded as intangible assets with an indefinite useful life and are not amortized because there is no foreseeable limit to the period over which the assets are expected to be utilized. All membership rights are tested annually for impairment and stated at acquisition cost less accumulated impairment.

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(e) Other intangible assets

Other intangible assets such as customer relationships, values of technics and software which meet the definition of an intangible asset are amortized using the straight-line method over their estimated useful lives of five to ten years.

**Investment Property**

Investment property is held to earn rentals or for capital appreciation or both. Investment property is measured initially at its cost including transaction costs incurred in acquiring the asset. After recognition as an asset, investment property is carried at its cost less any accumulated depreciation and impairment losses.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the separate statements of profit or loss during the financial period in which they are incurred.

Land held for investment is not depreciated. Investment property, except for land, is depreciated using the straight-line method over their estimated useful lives of 20 to 40 years.

The depreciation method, the residual value and the useful life of an asset are reviewed at each financial year end and, if management judges that previous estimates should be adjusted, the change is accounted for as a change in an accounting estimate.

**Impairment of Non-Financial Assets**

Goodwill and intangible assets that have an indefinite useful life are not subject to amortization and are tested at least annually for impairment. At the end of each reporting period, assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized as 'profit or loss for the year' for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and its value in use. The value in use is measured by determining the estimated pre-tax cash flows based on past performance and its expectations of market development, and applying the pre-tax discount rates that reflect specific risks relating to the relevant operating segments. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

**Trade Payables**

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade

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payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method. Current trade payables measured initially at fair value are not significantly different from amortized cost using the effective interest method.

**Borrowings**

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the separate statements of profit or loss over the period of the borrowings using the effective interest method. The Company classifies the liability as current as long as it does not have an unconditional right to defer its settlement for over 12 months after the end of the reporting period.

**Financial Guarantee Contracts**

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the original or modified terms of a debt instrument. Financial guarantees contracts provided by the Company are initially measured at fair value on the date the guarantee was given. Subsequent to initial recognition, the Company's liabilities under such guarantees are measured at the higher of the amounts below and recognized as 'other financial liabilities':

- The amount determined in accordance with Korean IFRS 1037, '*Provisions, Contingent Liabilities and Contingent Assets*'; or
- The initial amount, less accumulated amortization recognized in accordance with Korean IFRS 1018, '*Revenue*'.

**Provisions**

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events and an outflow of resources required to settle the obligation is probable and can be reliably estimated. The Company recognizes a warranty provision, a sales return provision, a provision for restoration, and a provision for litigation.

A warranty provision is accrued for the estimated costs of future warranty claims based on historical experience. Sales return provision is for the estimated sales returns based on historical results. Where the Company, as a tenant, is required to restore its leased assets to their original state at the end of the lease-term, the Company recognizes the present value of the estimated cost of restoration as a provision for restoration. When there is a probability that an outflow of economic benefits will occur from litigation or disputes, and whose amount is reasonably estimable, a corresponding amount of provision is recognized as a provision for litigation in the separate financial statements.

A contingent liability is disclosed (Note 33) when;

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- a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or
- a present obligation that arises from past events but is not recognized because: it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or the amount of the obligation cannot be measured with sufficient reliability.

**Current and Deferred Income Tax**

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

The tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the separate financial statements. It represents future tax consequences that will arise when recovering or settling the carrying amount of its assets and liabilities. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor tax profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilized.

Deferred income tax liabilities are provided on taxable temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax assets are recognized only to the extent that it is probable that the taxable temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention either to settle the balances on a net basis.

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**Employee Benefits**

(a) Post-employment benefits

The Company operates various pension schemes. The schemes are generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations. The Company operates both defined contribution and defined benefit plans.

A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate fund. The Company has no legal or constructive obligations to pay further contributions even if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. For the defined contribution plan, the Company pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Company has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expenses when an employee has rendered service. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

A defined benefit plan is a pension plan that is not a defined contribution plan. Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary levels. The liability recognized in the separate statements of financial position in respect of the net defined benefit pension plan is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognized past-service costs. The defined benefit liability is calculated annually by independent qualified actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability. The remeasurements of the net defined benefit liability are recognized in other comprehensive income.

If any plan amendments, curtailments, or settlements occur, past service costs or any gains or losses on settlement are recognized as profit or loss for the year.

(b) Other long-term employee benefits

The Company provides other long-term employee benefits to their employees. The entitlement to these benefits is usually conditional on the employee working more than ten years. The expected costs of these benefits are accrued over the period of employment using the same accounting methodology as used for defined benefit pension plans. The Company recognizes past service cost, net interest on other long-term employee benefits and remeasurements as profit or loss for the year. These benefits are calculated annually by independent qualified actuaries.

(c) Termination benefits

Termination benefits are payable when employment is terminated by the Company before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for

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these benefits. The Company recognizes termination benefits at the earlier of the following dates: when the entity can no longer withdraw the offer of those benefits or when the entity recognizes costs for a restructuring.

**Share Capital**

Ordinary shares and preferred shares without mandatory dividends or the obligation to be repaid are classified as equity.

Where the Company purchases its own ordinary shares, the consideration paid, including any directly attributable incremental costs, is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such treasury shares are subsequently reissued, any consideration received is included in equity attributable to the Company's equity holders.

**Revenue Recognition**

Revenue comprises the fair value of the consideration received or receivable for the sales of goods and services in the ordinary course of the Company's activities. Revenue is shown net of value-added tax, returns, rebates and discounts.

The Company recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Company and when specific criteria have been met for each of the Company's activities as described below. The revenue can be reliably measured only when any contingency related to sales is resolved. The Company bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) Sales of goods

The Company manufactures and sells home appliances, mobile communication, TV, monitors, vehicle components and others. Sales of goods are recognized when the Company has delivered products to the customer. Delivery does not occur until the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Company has objective evidence that all criteria for acceptance have been satisfied.

The products are often sold with volume discounts and customers have a right to return faulty products. Accumulated experience is used to estimate and provide for the discounts and returns. The volume discounts are assessed based on anticipated annual purchases. The Company recognizes provisions for product warranties and sales returns based on reasonable expectation reflecting warranty obligation and sales return rates incurred historically.

(b) Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably,

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revenue associated with such transaction is recognized by reference to the percentage of completion of the services. Any changes in expected revenue, cost or the amount of services rendered are accounted for as changes in estimates. These changes in estimates may bring adjustments to the expected revenue or cost which is recognized in the statement of profit or loss in the period in which the management recognizes the changes in circumstances.

(c) Royalty income

Royalty income is recognized on an accrual basis in accordance with the substance of the relevant agreements.

(d) Other income

Income from rental, lease and others is recognized in income on a straight-line basis over the period of the contract.

(e) Interest income

Interest income is recognized using the effective interest method. When receivables are impaired, the Company reduces the carrying amount to its recoverable amount and continues unwinding the discount as interest income. Interest income on impaired receivables is recognized using the original effective interest rate.

(f) Dividend income

Dividend income is recognized when the right to receive payment is established.

**Leases**

A lease is an agreement, whereby the lessor conveys to the lessee, in return for a payment or series of payments, the right to use an asset for an agreed period of time.

(a) Lessees

The Company classifies leases that do not transfer substantially all the risks and rewards of ownership incidental to ownership of assets as operating leases. Payments made under operating leases are charged to the separate statements of profit or loss on a straight-line basis over the period of the lease.

The Company classifies leases that transfer substantially all the risks and rewards of ownership incidental to ownership of assets as finance leases. Finance leases are recognized as financial lease assets and liabilities at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

(b) Lessors

The Company classifies a lease that transfers substantially all the risks and rewards incidental to ownership of an asset at inception of the lease as a finance lease. A lease other than a finance

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lease is classified as an operating lease.

Lease income from operating lease is recognized on a straight-line basis over the lease term. Initial direct costs incurred by lessors in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as the lease income.

**Dividend Distribution**

A dividend liability is recognized in the separate financial statements when the dividends are approved by the shareholders at their general meeting.

**Earnings (loss) per Share**

Basic earnings per share is calculated by dividing the profit attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares in issue excluding shares held as treasury shares. Preferred shares have a right to participate in the profits of the Company. These participation rights have been considered in presenting the EPS for ordinary shares and preferred shares.

**Greenhouse Gas Emissions Rights (Allowances) and Obligations**

Emission rights are defined as allowed amount of emissions that can be released, allocated by the Korean government as 'Act on the Allocation and Trading of Greenhouse-Gas Emission Permits' takes effect. Emission rights that are received free of charge from the government are measured at zero, while the rights purchased additionally from trading market such as the Korea Exchange are measured at acquisition cost. Emission rights are subsequently stated as acquisition cost less accumulated impairment loss. Emission liabilities are measured as the sum of the carrying amount of emission rights to be delivered to the government to settle the obligation for emissions occurred and expected expenditure required at the end of reporting period for any excess emissions. The emission rights and liabilities are classified as 'intangible assets' and 'provisions', respectively, in the separate statement of financial position.

**Business Combination**

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Company. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the Company's share of the identifiable net assets acquired is recorded as goodwill.



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**3. Critical Accounting Estimates and Judgements**

The estimates and judgements are continuously evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable.

The Company makes estimates and assumptions concerning the future. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing adjustments to the carrying amounts of assets and liabilities after the end of the reporting period are addressed below.

(a) Revenue Recognition

The Company recognizes revenue using the percentage of completion method for the rendering of service such as installation. When using the percentage of completion method, revenue shall be recognized in accordance with the progress of the transaction. It is calculated based on potential economic benefits and the estimated cost for the completion of the transaction. The factors for the estimation of revenue may vary.

(b) Impairment of Goodwill

The Company tests goodwill regularly for impairment. The recoverable amounts of cash-generating units have been determined based on fair value less costs of disposal or value-in-use calculations. These calculations require the use of estimates.

(c) Income Taxes

The Company recognizes assets and liabilities for anticipated tax audit issues based on the best estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

(d) Fair Value of Financial Instruments

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Company uses its judgement to select a variety of methods and makes assumptions that are mainly based on market conditions existing at the end of each reporting period.

(e) Provisions

The Company recognizes provisions for product warranties and sales returns based on their historical data.

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(f) Net Defined Benefit Liabilities

The present value of the defined benefit liability depends on various factors that are determined on an actuarial basis. The assumptions used in determining the net cost (income) for pensions include the discount rate, which is the interest rate that is used to determine the present value of estimated future cash outflows expected to be required to settle the defined benefit liability. In determining the appropriate discount rate, the Company considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability. Other key assumptions for defined benefit liability are based on current market conditions.

**4. Financial Instruments by Category and Offsetting Financial Assets and Financial Liabilities**

(a) Categorizations of financial instruments as of December 31, 2016 and 2015, are as follows:

| <i>(in millions of Korean won)</i>      | December 31, 2016                                     |                       |                                     |                                   |               |                  |
|---|---|-----------------------|-------------------------------------|-----------------------------------|---------------|------------------|
|   | Financial assets at fair value through profit or loss | Loans and receivables | Available-for-sale financial assets | Held-to-maturity financial assets | Other         | Total            |
| Cash and cash equivalents               | -   | 1,181,725             | -                                   | -                                 | -             | 1,181,725        |
| Deposits held by financial institutions | -   | 81,659                | -                                   | -                                 | -             | 81,659           |
| Trade receivables                       | -   | 4,985,573             | -                                   | -                                 | -             | 4,985,573        |
| Loans and other receivables             | -   | 798,291               | -                                   | -                                 | -             | 798,291          |
| Other financial assets                  | -   | -                     | 32,581                              | -                                 | 46,184        | 78,765           |
| <b>Total</b>                            | -   | <b>7,047,248</b>      | <b>32,581</b>                       | -                                 | <b>46,184</b> | <b>7,126,013</b> |

| <i>(in millions of Korean won)</i> | December 31, 2016  |   |               |                   |
|------------------------------------|--|---|---------------|-------------------|
|                                    | Financial liabilities at fair value through profit or loss | Financial liabilities carried at amortized cost | Other         | Total             |
| Trade payables                     | -  | 5,516,849                                       | -             | 5,516,849         |
| Borrowings                         | -  | 6,631,320                                       | -             | 6,631,320         |
| Other payables                     | -  | 2,086,003                                       | -             | 2,086,003         |
| Other financial liabilities        | -  | -   | 84,401        | 84,401            |
| <b>Total</b>                       | -  | <b>14,234,172</b>                               | <b>84,401</b> | <b>14,318,573</b> |

| <i>(in millions of Korean won)</i>      | December 31, 2015                                     |                       |                                     |                                   |               |                  |
|---|---|-----------------------|-------------------------------------|-----------------------------------|---------------|------------------|
|   | Financial assets at fair value through profit or loss | Loans and receivables | Available-for-sale financial assets | Held-to-maturity financial assets | Other         | Total            |
| Cash and cash equivalents               | -   | 678,221               | -                                   | -                                 | -             | 678,221          |
| Deposits held by financial institutions | -   | 81,771                | -                                   | -                                 | -             | 81,771           |
| Trade receivables                       | -   | 5,607,126             | -                                   | -                                 | -             | 5,607,126        |
| Loans and other receivables             | -   | 873,938               | -                                   | -                                 | -             | 873,938          |
| Other financial assets                  | -   | -                     | 33,846                              | -                                 | 30,288        | 64,134           |
| <b>Total</b>                            | -   | <b>7,241,056</b>      | <b>33,846</b>                       | -                                 | <b>30,288</b> | <b>7,305,190</b> |

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| <b>December 31, 2015</b>           |   |  |              |              |
|------------------------------------|---|--|--------------|--------------|
| <i>(in millions of Korean won)</i> | <b>Financial liabilities at fair value through profit or loss</b> | <b>Financial liabilities carried at amortized cost</b> | <b>Other</b> | <b>Total</b> |
| Trade payables                     | -   | 5,015,038  | -            | 5,015,038    |
| Borrowings                         | -   | 6,618,903  | -            | 6,618,903    |
| Other payables                     | -   | 1,797,949  | -            | 1,797,949    |
| Other financial liabilities        | -   | -  | 85,870       | 85,870       |
| <b>Total</b>                       | -   | 13,431,890   | 85,870       | 13,517,760   |

(b) Net gains or losses on each category of financial instruments for the years ended December 31, 2016 and 2015, are as follows:

| <b>2016</b>   |  |                              |  |  |              |              |
|---|--|------------------------------|--|--|--------------|--------------|
| <i>(in millions of Korean won)</i>  | <b>Financial assets at fair value through profit or loss</b> | <b>Loans and receivables</b> | <b>Available-for-sale financial assets</b> | <b>Held-to-maturity financial assets</b> | <b>Other</b> | <b>Total</b> |
| Interest income   | -  | 19,485                       | -  | -  | -            | 19,485       |
| Exchange differences  | -  | 145,255                      | -  | -  | -            | 145,255      |
| Bad debt expense  | -  | 70,802                       | -  | -  | -            | 70,802       |
| Loss on disposal of trade receivables   | -  | (3,219)                      | -  | -  | -            | (3,219)      |
| Gain on disposal of available-for-sale financial assets   | -  | -                            | 50   | -  | -            | 50           |
| Impairment loss on available-for-sale financial assets  | -  | -                            | (6,116)                                    | -  | -            | (6,116)      |
| Dividend income   | -  | -                            | 254  | -  | -            | 254          |
| Loss on valuation of available-for-sale financial assets, net of tax (through other comprehensive loss) | -  | -                            | (370)                                      | -  | -            | (370)        |
| Gain on derivatives, net of tax (through other comprehensive income)                                    | -  | -                            | -  | -  | 773          | 773          |
| Others  | -  | 13,922                       | -  | -  | -            | 13,922       |

| <b>2016</b>  |   |  |              |              |
|--|---|--|--------------|--------------|
| <i>(in millions of Korean won)</i>                                 | <b>Financial liabilities at fair value through profit or loss</b> | <b>Financial liabilities carried at amortized cost</b> | <b>Other</b> | <b>Total</b> |
| Interest expenses  | -   | (203,901)  | (22,518)     | (226,419)    |
| Exchange differences   | -   | (183,407)  | 20,616       | (162,791)    |
| Loss on derivatives, net of tax (through other comprehensive loss) | -   | -  | (1,429)      | (1,429)      |
| Others   | -   | -  | 3,295        | 3,295        |

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| <i>(in millions of Korean won)</i>  | 2015  |                       |                                     |                                   |       | Total    |
|---|---|-----------------------|-------------------------------------|-----------------------------------|-------|----------|
|   | Financial assets at fair value through profit or loss | Loans and receivables | Available-for-sale financial assets | Held-to-maturity financial assets | Other |          |
| Interest income   | -   | 23,010                | -                                   | -                                 | -     | 23,010   |
| Exchange differences  | -   | 144,682               | -                                   | -                                 | -     | 144,682  |
| Bad debt expense  | -   | (17,752)              | -                                   | -                                 | -     | (17,752) |
| Loss on disposal of trade receivables   | -   | (5,279)               | -                                   | -                                 | -     | (5,279)  |
| Gain on disposal of available-for-sale financial assets   | -   | -                     | 6,990                               | -                                 | -     | 6,990    |
| Dividend income   | -   | -                     | 278                                 | -                                 | -     | 278      |
| Profit for the period from discontinued operations  | -   | 1,127                 | -                                   | -                                 | -     | 1,127    |
| Gain on valuation of available-for-sale financial assets, net of tax (through other comprehensive income) | -   | -                     | 2,439                               | -                                 | -     | 2,439    |
| Gain on derivatives, net of tax (through other comprehensive income)                                      | -   | -                     | -                                   | -                                 | 144   | 144      |
| Others  | -   | 22,758                | -                                   | -                                 | -     | 22,758   |

| <i>(in millions of Korean won)</i>                                 | 2015   |   |          |           |
|--|--|---|----------|-----------|
|  | Financial liabilities at fair value through profit or loss | Financial liabilities carried at amortized cost | Other    | Total     |
| Interest expenses  | -  | (221,166)                                       | (20,647) | (241,813) |
| Exchange differences   | -  | (334,813)                                       | 44,836   | (289,977) |
| Profit for the period from discontinued operations                 | -  | 132   | -        | 132       |
| Loss on derivatives, net of tax (through other comprehensive loss) | -  | -   | (25,436) | (25,436)  |
| Others   | -  | -   | 4,315    | 4,315     |

(c) Recognized financial instruments that are subject to an enforceable master netting arrangements or similar arrangements as of December 31, 2016 and 2015, are as follows:

| <i>(in millions of Korean won)</i> | 2016                            |  |  |                       |                 |            |
|------------------------------------|---------------------------------|--|--|-----------------------|-----------------|------------|
|                                    | Recognized financial instrument | Recognized financial instrument offset | Net amounts presented in the statement of financial position | Amounts not offset    |                 |            |
|                                    |                                 |  |  | Financial instruments | Cash collateral | Net amount |
| <b>Financial assets</b>            |                                 |  |  |                       |                 |            |
| Trade receivables                  | 49,904                          | (47,507)                               | 2,397  | -                     | -               | 2,397      |
| <b>Financial liabilities</b>       |                                 |  |  |                       |                 |            |
| Trade payables                     | 63,109                          | (47,507)                               | 15,602   | -                     | -               | 15,602     |

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| <i>(in millions of Korean won)</i> | 2015                            |  |  |                    |   |            |
|------------------------------------|---------------------------------|--|--|--------------------|---|------------|
|                                    | Recognized financial instrument | Recognized financial instrument offset | Net amounts presented in the statement of financial position | Amounts not offset |   | Net amount |
|                                    |                                 |  | Financial instruments  | Cash collateral    |   |            |
| <b>Financial assets</b>            |                                 |  |  |                    |   |            |
| Trade receivables                  | 56,860                          | (55,309)                               | 1,551  | -                  | - | 1,551      |
| <b>Financial liabilities</b>       |                                 |  |  |                    |   |            |
| Trade payables                     | 85,687                          | (55,309)                               | 30,378   | -                  | - | 30,378     |

**5. Cash and Cash Equivalents, and Deposits held by Financial Institutions**

(a) Cash and cash equivalents

Cash and cash equivalents in the separate statements of financial position are equal to the cash and cash equivalents in the separate statements of cash flows. Details are as follows:

| <i>(in millions of Korean won)</i> | December 31, 2016 | December 31, 2015 |
|------------------------------------|-------------------|-------------------|
| Cash on hand                       | 10                | 10                |
| Bank deposits                      | 1,181,715         | 678,211           |
| <b>Total</b>                       | <b>1,181,725</b>  | <b>678,221</b>    |

(b) Deposits held by financial institutions

The deposits held by financial institutions restricted in use as of December 31, 2016 and 2015, are as follows:

| <i>(in millions of Korean won)</i> | December 31, 2016 | December 31, 2015 |
|------------------------------------|-------------------|-------------------|
| <b>Current</b>                     |                   |                   |
| Fund for business cooperation      | 80,500            | 80,500            |
| <b>Non-current</b>                 |                   |                   |
| Deposit for checking account       | 37                | 39                |
| National project                   | 1,122             | 1,232             |
| <b>Subtotal</b>                    | <b>1,159</b>      | <b>1,271</b>      |
| <b>Total</b>                       | <b>81,659</b>     | <b>81,771</b>     |

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**6. Trade Receivables and Other Receivables**

(a) Trade receivables and other receivables, net of allowance for doubtful accounts, as of December 31, 2016 and 2015, are as follows:

(in millions of Korean won)

|                   | December 31, 2016 |                                 |                 | December 31, 2015 |                                 |                 |
|-------------------|-------------------|---------------------------------|-----------------|-------------------|---------------------------------|-----------------|
|                   | Original amount   | Allowance for doubtful accounts | Carrying amount | Original amount   | Allowance for doubtful accounts | Carrying amount |
| Trade receivables | 5,014,606         | (29,033)                        | 4,985,573       | 5,708,568         | (101,442)                       | 5,607,126       |
| Other receivables |                   |                                 |                 |                   |                                 |                 |
| Current           | 501,493           | (9,315)                         | 492,178         | 541,772           | (7,693)                         | 534,079         |
| Non-current       | 306,121           | (8)                             | 306,113         | 339,872           | (13)                            | 339,859         |

(b) Details of other receivables as of December 31, 2016 and 2015, are as follows:

(in millions of Korean won)

|                       | December 31, 2016 | December 31, 2015 |
|-----------------------|-------------------|-------------------|
| <b>Current</b>        |                   |                   |
| Loans                 | 24,708            | 29,032            |
| Non-trade receivables | 312,721           | 336,489           |
| Accrued income        | 145,962           | 161,268           |
| Deposits              | 8,787             | 7,290             |
| <b>Subtotal</b>       | <b>492,178</b>    | <b>534,079</b>    |
| <b>Non-current</b>    |                   |                   |
| Loans                 | 81,950            | 106,694           |
| Non-trade receivables | -                 | 2,887             |
| Deposits              | 224,163           | 230,278           |
| <b>Subtotal</b>       | <b>306,113</b>    | <b>339,859</b>    |
| <b>Total</b>          | <b>798,291</b>    | <b>873,938</b>    |

(c) The aging analysis of trade receivables and other receivables as of December 31, 2016 and 2015, is as follows:

(in millions of Korean won)

|                                  | December 31, 2016 |                   |                |                  | December 31, 2015 |                   |                |                  |
|----------------------------------|-------------------|-------------------|----------------|------------------|-------------------|-------------------|----------------|------------------|
|                                  | Trade receivables | Other receivables |                | Total            | Trade receivables | Other receivables |                | Total            |
|                                  | Current           | Non-current       | Current        |                  | Non-current       |                   |                |                  |
| <b>Receivables not past due</b>  | 4,651,879         | 358,689           | 296,845        | 5,307,413        | 4,873,999         | 411,186           | 337,050        | 5,622,235        |
| <b>Past due but not impaired</b> |                   |                   |                |                  |                   |                   |                |                  |
| Up to 6 months                   | 186,612           | 21,471            | 9,274          | 217,357          | 554,227           | 37,091            | 2,777          | 594,095          |
| 7 to 12 months                   | 17,541            | 35,291            | 2              | 52,834           | 143,506           | 42,831            | 1              | 186,338          |
| Over 1 year                      | 147,937           | 75,796            | -              | 223,733          | 124,026           | 38,837            | 44             | 162,907          |
| <b>Subtotal</b>                  | <b>352,090</b>    | <b>132,558</b>    | <b>9,276</b>   | <b>493,924</b>   | <b>821,759</b>    | <b>118,759</b>    | <b>2,822</b>   | <b>943,340</b>   |
| <b>Impaired</b>                  | 10,637            | 10,246            | -              | 20,883           | 12,810            | 11,827            | -              | 24,637           |
| <b>Total</b>                     | <b>5,014,606</b>  | <b>501,493</b>    | <b>306,121</b> | <b>5,822,220</b> | <b>5,708,568</b>  | <b>541,772</b>    | <b>339,872</b> | <b>6,590,212</b> |

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- (d) The allowance for doubtful accounts is recognized based on aging analysis and historical experience.
- (e) The Company classifies individually impaired receivables as defaulted receivables if the receivables are impaired due to reasons including bankruptcy and insolvency of the debtors. Defaulted receivables are classified into two categories of rehabilitation related receivables and other defaulted receivables. The Company performs impairment test on rehabilitation related receivables based on expected repayment amount and recognizes impairment loss on other defaulted receivables based on types and values of collaterals.
- (f) Movements in allowance for doubtful accounts for the years ended December 31, 2016 and 2015, are as follows:

| <i>(in millions of Korean won)</i> | <b>2016</b>      |                                |                                |                   |
|------------------------------------|------------------|--------------------------------|--------------------------------|-------------------|
|                                    | <b>At Jan. 1</b> | <b>Addition<br/>(Reversal)</b> | <b>Write-off and<br/>other</b> | <b>At Dec. 31</b> |
| Trade receivables                  | 101,442          | (72,419)                       | 10                             | 29,033            |
| Other receivables                  |                  |                                |                                |                   |
| Current                            | 7,693            | 1,622                          | -                              | 9,315             |
| Non-current                        | 13               | (5)                            | -                              | 8                 |

| <i>(in millions of Korean won)</i> | <b>2015</b>      |                                |                                |                   |
|------------------------------------|------------------|--------------------------------|--------------------------------|-------------------|
|                                    | <b>At Jan. 1</b> | <b>Addition<br/>(Reversal)</b> | <b>Write-off and<br/>other</b> | <b>At Dec. 31</b> |
| Trade receivables                  | 85,226           | 16,330                         | (114)                          | 101,442           |
| Other receivables                  |                  |                                |                                |                   |
| Current                            | 9,394            | (200)                          | (1,501)                        | 7,693             |
| Non-current                        | 32               | (19)                           | -                              | 13                |

The bad debt expenses of trade receivables have been included in 'selling and marketing expenses' in the separate statement of profit or loss and the bad debt expenses of other receivables have been included in 'other non-operating expenses'. Amounts charged to the allowance account are generally reversed when reasons for allowance are resolved, or written off when there is no expectation of recovering additional cash.

- (g) There are no financial assets transferred but not derecognized in their entirety, and no associated liabilities recognized as of December 31, 2016.

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**7. Other Financial Assets and Liabilities**

(a) Details of other financial assets and liabilities as of December 31, 2016 and 2015, are as follows:

| <i>(in millions of Korean won)</i> | <b>December 31, 2016</b> | <b>December 31, 2015</b> |
|------------------------------------|--------------------------|--------------------------|
| <b>Other financial assets</b>      |                          |                          |
| Derivatives                        | 46,184                   | 30,288                   |
| Available-for-sale                 | 32,581                   | 33,846                   |
| <b>Total</b>                       | <b>78,765</b>            | <b>64,134</b>            |
| Current                            | 30,093                   | -                        |
| Non-current                        | 48,672                   | 64,134                   |
| <b>Other financial liabilities</b> |                          |                          |
| Derivatives                        | 73,226                   | 76,079                   |
| Financial guarantee liability      | 11,175                   | 9,791                    |
| <b>Total</b>                       | <b>84,401</b>            | <b>85,870</b>            |
| Current                            | 8,665                    | 14,553                   |
| Non-current                        | 75,736                   | 71,317                   |

(b) Details of derivatives as of December 31, 2016 and 2015, are as follows:

| <i>(in millions of Korean won)</i> | <b>December 31, 2016</b> |                    | <b>December 31, 2015</b> |                    |
|------------------------------------|--------------------------|--------------------|--------------------------|--------------------|
|                                    | <b>Assets</b>            | <b>Liabilities</b> | <b>Assets</b>            | <b>Liabilities</b> |
| <b>Current</b>                     |                          |                    |                          |                    |
| Currency swap                      | 30,093                   | -                  | -                        | 6,461              |
| <b>Non-current</b>                 |                          |                    |                          |                    |
| Currency swap                      | 16,091                   | -                  | 30,288                   | -                  |
| Interest rate swap                 | -                        | 73,226             | -                        | 69,618             |
| <b>Subtotal</b>                    | <b>16,091</b>            | <b>73,226</b>      | <b>30,288</b>            | <b>69,618</b>      |
| <b>Total</b>                       | <b>46,184</b>            | <b>73,226</b>      | <b>30,288</b>            | <b>76,079</b>      |

The details of major derivative contracts at the end of the reporting period are presented in Note 36.

(c) Available-for-sale financial assets

i) Changes in carrying amount of available-for-sale financial assets for the years ended December 31, 2016 and 2015, are as follows:

| <i>(in millions of Korean won)</i> | <b>2016</b>      |                    |                  |                        |                   |                   |
|------------------------------------|------------------|--------------------|------------------|------------------------|-------------------|-------------------|
|                                    | <b>At Jan. 1</b> | <b>Acquisition</b> | <b>Disposals</b> | <b>Valuation (OCI)</b> | <b>Impairment</b> | <b>At Dec. 31</b> |
| Listed equity securities           | 15,323           | -                  | -                | (488)                  | -                 | 14,835            |
| Unlisted equity securities         | 18,523           | 6,433              | (1,094)          | -                      | (6,116)           | 17,746            |
| <b>Total</b>                       | <b>33,846</b>    | <b>6,433</b>       | <b>(1,094)</b>   | <b>(488)</b>           | <b>(6,116)</b>    | <b>32,581</b>     |



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| <i>(in millions of Korean won)</i> | 2015          |              |                |                 |            |               |
|------------------------------------|---------------|--------------|----------------|-----------------|------------|---------------|
|                                    | At Jan. 1     | Acquisition  | Disposals      | Valuation (OCI) | Impairment | At Dec. 31    |
| Listed equity securities           | 12,105        | -            | (1,369)        | 4,587           | -          | 15,323        |
| Unlisted equity securities         | 16,513        | 2,573        | (563)          | -               | -          | 18,523        |
| <b>Total</b>                       | <b>28,618</b> | <b>2,573</b> | <b>(1,932)</b> | <b>4,587</b>    | <b>-</b>   | <b>33,846</b> |

- ii) The listed equity securities among the above equity securities are measured using quoted prices in active markets. However, the unlisted securities are measured at cost as they are mostly in the beginning of their business stages and their fair values cannot be reliably measured.
- iii) During the year ended December 31, 2016, the unlisted equity securities amounting to \ 1,094 million (2015: \ 563 million), whose fair value could not be measured reliably and therefore measured at cost, have been derecognized as a result of disposal or return of capital investments. Accordingly, there is no gain on disposal recognized as profit and loss for the year ended December 31, 2016 (2015: \ 5,618 million).
- iv) For the years ended December 31, 2016 and 2015, there is no accumulated other comprehensive income recognized for listed equity securities that was reclassified to impairment loss.
- v) For the year ended December 31, 2016, the Company disposed unlisted debt securities that the carrying amount is not significant, and gain on disposal amounting to \ 50 million (2015: nil) was recognized as other non-operating income.
- vi) There is no available-for-sale financial assets held for sale as of December 31, 2016.

**8. Inventories**

(a) Inventories as of December 31, 2016 and 2015, consist of:

| <i>(in millions of Korean won)</i> | December 31, 2016 |                     |                  | December 31, 2015 |                     |                  |
|------------------------------------|-------------------|---------------------|------------------|-------------------|---------------------|------------------|
|                                    | Cost              | Valuation allowance | Carrying amount  | Cost              | Valuation allowance | Carrying amount  |
| Finished products and merchandise  | 529,151           | (36,966)            | 492,185          | 493,082           | (33,632)            | 459,450          |
| Work-in-process                    | 69,039            | (2,097)             | 66,942           | 85,531            | (8,004)             | 77,527           |
| Raw materials and supplies         | 562,348           | (81,985)            | 480,363          | 413,293           | (38,783)            | 374,510          |
| Other                              | 179,067           | (32,036)            | 147,031          | 167,565           | (21,085)            | 146,480          |
| <b>Total</b>                       | <b>1,339,605</b>  | <b>(153,084)</b>    | <b>1,186,521</b> | <b>1,159,471</b>  | <b>(101,504)</b>    | <b>1,057,967</b> |

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(b) The cost of inventories recognized as expense and included in 'Cost of sales' in 2016 amounts to ₩21,293,057 million (2015: ₩21,221,998 million) and 'Loss on valuation of inventories' amounts to ₩147,041 million (2015: ₩62,252 million) from continuing operations. The cost of inventories recognized as expense and included in 'Cost of sales' in 2015 amounts to ₩11,099 million and 'Loss on valuation of inventories' amounts to ₩3,775 million from discontinued operations.

(c) There is no inventory provided as collateral for borrowings as of December 31, 2016.

**9. Other Assets**

Details of other assets as of December 31, 2016 and 2015, are as follows:

| <i>(in millions of Korean won)</i> | <b>December 31, 2016</b> | <b>December 31, 2015</b> |
|------------------------------------|--------------------------|--------------------------|
| <b>Current:</b>                    |                          |                          |
| Advances                           | 41,507                   | 24,400                   |
| Prepaid expenses                   | 218,168                  | 204,116                  |
| Prepaid value added tax            | 84,876                   | 78,568                   |
| <b>Subtotal</b>                    | <b>344,551</b>           | <b>307,084</b>           |
| <b>Non-current:</b>                |                          |                          |
| Long-term prepaid expenses         | 250,517                  | 261,083                  |
| Long-term advances                 | 304,942                  | 293,132                  |
| <b>Subtotal</b>                    | <b>555,459</b>           | <b>554,215</b>           |
| <b>Total</b>                       | <b>900,010</b>           | <b>861,299</b>           |

**10. Property, Plant and Equipment, and Intangible Assets**

(a) Details of property, plant and equipment as of December 31, 2016 and 2015, are as follows::

| <i>(in millions of Korean won)</i> | <b>Land</b>      | <b>Buildings</b> | <b>Structures</b> | <b>Machinery</b> | <b>Tools</b>   | <b>Equipment</b> | <b>Other</b>   | <b>Construction<br/>-in-progress</b> | <b>Total</b>     |
|------------------------------------|------------------|------------------|-------------------|------------------|----------------|------------------|----------------|--------------------------------------|------------------|
| <b>At December 31, 2016</b>        |                  |                  |                   |                  |                |                  |                |                                      |                  |
| Acquisition cost                   | 2,424,067        | 3,408,668        | 204,265           | 2,063,185        | 2,074,781      | 375,862          | 257,637        | 880,832                              | 11,689,297       |
| Accumulated depreciation           | -                | (812,886)        | (102,284)         | (1,329,737)      | (1,743,144)    | (303,377)        | (75,919)       | -                                    | (4,367,347)      |
| Accumulated impairment             | -                | (129,503)        | (47)              | (22,892)         | (3,779)        | (171)            | (916)          | -                                    | (157,308)        |
| <b>Net book amount</b>             | <b>2,424,067</b> | <b>2,466,279</b> | <b>101,934</b>    | <b>710,556</b>   | <b>327,858</b> | <b>72,314</b>    | <b>180,802</b> | <b>880,832</b>                       | <b>7,164,642</b> |
| <b>At December 31, 2015</b>        |                  |                  |                   |                  |                |                  |                |                                      |                  |
| Acquisition cost                   | 2,428,466        | 3,212,782        | 199,469           | 2,013,145        | 2,054,879      | 440,392          | 159,812        | 325,489                              | 10,834,434       |
| Accumulated depreciation           | -                | (729,634)        | (97,143)          | (1,293,389)      | (1,699,542)    | (355,532)        | (66,794)       | -                                    | (4,242,034)      |
| Accumulated impairment             | -                | (129,543)        | (558)             | (7,251)          | (3,164)        | (525)            | (953)          | -                                    | (141,994)        |
| <b>Net book amount</b>             | <b>2,428,466</b> | <b>2,353,605</b> | <b>101,768</b>    | <b>712,505</b>   | <b>352,173</b> | <b>84,335</b>    | <b>92,065</b>  | <b>325,489</b>                       | <b>6,450,406</b> |

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(b) Changes in property, plant and equipment for the years ended December 31, 2016 and 2015, are as follows:

| <b>2016</b>                          |                  |                  |                   |                  |                |                  |                |                                      |                  |
|--------------------------------------|------------------|------------------|-------------------|------------------|----------------|------------------|----------------|--------------------------------------|------------------|
| <i>(in millions of Korean won)</i>   | <b>Land</b>      | <b>Buildings</b> | <b>Structures</b> | <b>Machinery</b> | <b>Tools</b>   | <b>Equipment</b> | <b>Other</b>   | <b>Construction<br/>-in-progress</b> | <b>Total</b>     |
| <b>At January 1, 2016</b>            | 2,428,466        | 2,353,605        | 101,768           | 712,505          | 352,173        | 84,335           | 92,065         | 325,489                              | 6,450,406        |
| Acquisitions <sup>1</sup>            | (6,892)          | 50,469           | 400               | 48,466           | 145,687        | 22,822           | 88,116         | 1,033,321                            | 1,382,389        |
| Transfer-in(out)                     | 2,876            | 150,265          | 7,851             | 184,498          | 54,076         | 1,035            | 77,332         | (477,933)                            | -                |
| Disposals and others                 | (383)            | (652)            | (348)             | (17,518)         | (5,115)        | (439)            | (45,160)       | (45)                                 | (69,660)         |
| Decrease due to transfer of business | -                | -                | (68)              | -                | (27)           | (1)              | -              | -                                    | (96)             |
| Depreciation                         | -                | (87,398)         | (7,634)           | (200,471)        | (217,601)      | (35,338)         | (31,453)       | -                                    | (579,895)        |
| Impairment <sup>2</sup>              | -                | (10)             | (35)              | (16,924)         | (1,335)        | (100)            | (98)           | -                                    | (18,502)         |
| <b>At December 31, 2016</b>          | <b>2,424,067</b> | <b>2,466,279</b> | <b>101,934</b>    | <b>710,556</b>   | <b>327,858</b> | <b>72,314</b>    | <b>180,802</b> | <b>880,832</b>                       | <b>7,164,642</b> |

| <b>2015</b>                            |                  |                  |                   |                  |                |                  |               |                                      |                  |
|--|------------------|------------------|-------------------|------------------|----------------|------------------|---------------|--------------------------------------|------------------|
| <i>(in millions of Korean won)</i>     | <b>Land</b>      | <b>Buildings</b> | <b>Structures</b> | <b>Machinery</b> | <b>Tools</b>   | <b>Equipment</b> | <b>Other</b>  | <b>Construction<br/>-in-progress</b> | <b>Total</b>     |
| <b>At January 1, 2015</b>              | 2,084,818        | 2,397,673        | 99,529            | 588,234          | 392,063        | 97,250           | 81,740        | 502,890                              | 6,244,197        |
| Acquisitions                           | 68,660           | 68,632           | 2,513             | 59,003           | 159,603        | 25,606           | 37,015        | 571,533                              | 992,565          |
| Acquisitions from business combination | -                | -                | -                 | -                | 2,192          | 298              | 23            | -                                    | 2,513            |
| Transfer-in(out)                       | 306,119          | (17,652)         | 8,315             | 267,975          | 61,164         | 1,673            | -             | (748,928)                            | (121,334)        |
| Disposals and others                   | (28,262)         | (3,326)          | (9)               | (14,494)         | (6,829)        | (191)            | (3,577)       | (6)                                  | (56,694)         |
| Decrease due to transfer of business   | -                | -                | -                 | (229)            | (407)          | (11)             | -             | -                                    | (647)            |
| Depreciation                           | -                | (83,566)         | (8,301)           | (186,836)        | (252,972)      | (40,146)         | (22,965)      | -                                    | (594,786)        |
| Impairment                             | (2,869)          | (8,156)          | (279)             | (1,148)          | (2,641)        | (144)            | (171)         | -                                    | (15,408)         |
| <b>At December 31, 2015</b>            | <b>2,428,466</b> | <b>2,353,605</b> | <b>101,768</b>    | <b>712,505</b>   | <b>352,173</b> | <b>84,335</b>    | <b>92,065</b> | <b>325,489</b>                       | <b>6,450,406</b> |

<sup>1</sup> It includes settlement of land purchase price.

<sup>2</sup> Divisions in other segments, managed as a separate cash-generating unit (hereafter 'CGU'), have been tested for impairment as accumulation of operating losses has been experienced and a future downturn in sales is expected. And impairment loss of \ 2,937 million was recognized as 'other non-operating expense'. This impairment loss was allocated to property, plant and equipment, mainly to tools, machinery, and others, since there was no goodwill allocated to the CGU. The recoverable amount was measured at fair value less costs of disposal, and the fair value amount is categorized within 'Level 3' of fair value hierarchy.

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(c) Line items including depreciation in the separate statements of profit or loss for the years ended December 31, 2016 and 2015, are as follows:

| <i>(in millions of Korean won)</i> | <b>2016</b>    | <b>2015</b>    |
|------------------------------------|----------------|----------------|
| <b>Continuing operations:</b>      |                |                |
| Cost of sales                      | 442,758        | 441,721        |
| Selling and marketing expenses     | 10,364         | 9,009          |
| Administrative expenses            | 37,853         | 46,756         |
| Research and development expenses  | 77,542         | 83,599         |
| Service costs                      | 5,358          | 5,369          |
| Other non-operating expenses       | 6,020          | 8,332          |
| <b>Subtotal</b>                    | <b>579,895</b> | <b>594,786</b> |
| <b>Discontinued operations</b>     | <b>-</b>       | <b>-</b>       |
| <b>Total</b>                       | <b>579,895</b> | <b>594,786</b> |

(d) Capitalized borrowing costs and capitalization rates for the years ended December 31, 2016 and 2015, are as follows:

| <i>(in millions of Korean won)</i> | <b>2016</b> | <b>2015</b> |
|------------------------------------|-------------|-------------|
| Capitalized borrowing costs        | 12,578      | 17,835      |
| Capitalization rate (%)            | 3.51        | 3.79        |

(e) There are no property, plant and equipment pledged as collateral for borrowings from banks.

**11. Intangible assets**

(a) Details of intangible assets are as of December 31, 2016 and 2015, as follows:

| <i>(in millions of Korean won)</i>      | <b>Goodwill</b> | <b>Industrial property rights</b> | <b>Development costs</b> | <b>Membership rights</b> | <b>Other intangible assets</b> | <b>Construction -in-progress</b> | <b>Total</b>     |
|---|-----------------|-----------------------------------|--------------------------|--------------------------|--------------------------------|----------------------------------|------------------|
| <b>At December 31, 2016</b>             |                 |                                   |                          |                          |                                |                                  |                  |
| Acquisition cost                        | 88,449          | 802,719                           | 2,159,801                | 65,903                   | 595,358                        | 220,705                          | 3,932,935        |
| Accumulated amortization and impairment | (1,214)         | (383,964)                         | (1,837,864)              | (2,311)                  | (473,051)                      | -                                | (2,698,404)      |
| <b>Net book amount</b>                  | <b>87,235</b>   | <b>418,755</b>                    | <b>321,937</b>           | <b>63,592</b>            | <b>122,307</b>                 | <b>220,705</b>                   | <b>1,234,531</b> |

| <i>(in millions of Korean won)</i>      | <b>Goodwill</b> | <b>Industrial property rights</b> | <b>Development costs</b> | <b>Membership rights</b> | <b>Other intangible assets</b> | <b>Construction -in-progress</b> | <b>Total</b>     |
|---|-----------------|-----------------------------------|--------------------------|--------------------------|--------------------------------|----------------------------------|------------------|
| <b>At December 31, 2015</b>             |                 |                                   |                          |                          |                                |                                  |                  |
| Acquisition cost                        | 88,449          | 777,301                           | 1,964,084                | 65,914                   | 577,285                        | 109,573                          | 3,582,606        |
| Accumulated amortization and impairment | (1,214)         | (387,313)                         | (1,607,980)              | (1,348)                  | (429,841)                      | -                                | (2,427,696)      |
| <b>Net book amount</b>                  | <b>87,235</b>   | <b>389,988</b>                    | <b>356,104</b>           | <b>64,566</b>            | <b>147,444</b>                 | <b>109,573</b>                   | <b>1,154,910</b> |

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(b) Changes in intangible assets for the years ending December 31, 2016 and 2015, are as follows:

| <i>(in millions of Korean won)</i>   | <b>Goodwill</b> | <b>Industrial property rights</b> | <b>Development costs</b> | <b>Membership rights</b> | <b>Other intangible assets</b> | <b>Construction -in-progress</b> | <b>Total</b>     |
|--------------------------------------|-----------------|-----------------------------------|--------------------------|--------------------------|--------------------------------|----------------------------------|------------------|
| <b>At January 1, 2016</b>            | 87,235          | 389,988                           | 356,104                  | 64,566                   | 147,444                        | 109,573                          | 1,154,910        |
| Acquisitions                         | -               | 111,750                           | 7,237                    | -                        | 26,444                         | 42,743                           | 188,174          |
| Acquisitions by internal development | -               | -                                 | 11,489                   | -                        | -                              | 261,110                          | 272,599          |
| Transfer-in(out)                     | -               | -                                 | 185,141                  | -                        | 3,565                          | (188,706)                        | -                |
| Disposals and others                 | -               | (7,596)                           | (110)                    | (11)                     | (2,037)                        | (4,015)                          | (13,769)         |
| Decrease due to transfer of business | -               | (304)                             | (754)                    | -                        | -                              | -                                | (1,058)          |
| Amortization                         | -               | (74,884)                          | (236,783)                | -                        | (52,948)                       | -                                | (364,615)        |
| Impairment <sup>1</sup>              | -               | (199)                             | (387)                    | (963)                    | (161)                          | -                                | (1,710)          |
| <b>At December 31, 2016</b>          | <b>87,235</b>   | <b>418,755</b>                    | <b>321,937</b>           | <b>63,592</b>            | <b>122,307</b>                 | <b>220,705</b>                   | <b>1,234,531</b> |

| <i>(in millions of Korean won)</i>     | <b>Goodwill</b> | <b>Industrial property rights</b> | <b>Development costs</b> | <b>Membership rights</b> | <b>Other intangible assets</b> | <b>Construction -in-progress</b> | <b>Total</b>     |
|--|-----------------|-----------------------------------|--------------------------|--------------------------|--------------------------------|----------------------------------|------------------|
| <b>At January 1, 2015</b>              | 87,235          | 376,152                           | 318,820                  | 65,466                   | 116,785                        | 130,021                          | 1,094,479        |
| Acquisitions                           | -               | 89,076                            | 16,589                   | -                        | 76,883                         | 61,986                           | 244,534          |
| Acquisitions by internal development   | -               | -                                 | 20,013                   | -                        | -                              | 183,690                          | 203,703          |
| Acquisitions from business combination | 1,214           | 975                               | 57                       | -                        | 2,875                          | -                                | 5,121            |
| Transfer-in(out)                       | -               | -                                 | 253,866                  | -                        | 8,907                          | (262,773)                        | -                |
| Disposals and others                   | -               | (5,863)                           | (16,730)                 | (227)                    | (29)                           | (3,351)                          | (26,200)         |
| Decrease due to transfer of business   | -               | (13)                              | -                        | -                        | (10)                           | -                                | (23)             |
| Amortization                           | -               | (70,072)                          | (236,461)                | -                        | (57,640)                       | -                                | (364,173)        |
| Impairment                             | (1,214)         | (267)                             | (50)                     | (673)                    | (327)                          | -                                | (2,531)          |
| <b>At December 31, 2015</b>            | <b>87,235</b>   | <b>389,988</b>                    | <b>356,104</b>           | <b>64,566</b>            | <b>147,444</b>                 | <b>109,573</b>                   | <b>1,154,910</b> |

<sup>1</sup> Divisions in other segments, managed as a separate cash-generating unit (hereafter 'CGU'), have been tested for impairment as accumulation of operating losses has been experienced and a future downturn in sales is expected, and impairment loss of \ 418 million was recognized as 'other non-operating expenses'. This impairment loss was allocated to intangible assets, mainly to patent, software, and others, since there was no goodwill allocated to the CGU. The recoverable amount was measured at the higher of fair value less costs of disposal and value in use, and the fair value amount is categorized within 'Level 3' of fair value hierarchy.

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(c) Line items including amortization of intangible assets for the years ended December 31, 2016 and 2015, are as follows:

| <i>(in millions of Korean won)</i> | <b>2016</b>    | <b>2015</b>    |
|------------------------------------|----------------|----------------|
| <b>Continuing operations:</b>      |                |                |
| Cost of sales                      | 203,224        | 201,962        |
| Selling and marketing expenses     | 12,322         | 23,114         |
| Administrative expenses            | 75,634         | 86,236         |
| Research and development expenses  | 71,836         | 51,483         |
| Service costs                      | 1,599          | 1,378          |
| <b>Subtotal</b>                    | <b>364,615</b> | <b>364,173</b> |
| <b>Discontinued operations</b>     | <b>-</b>       | <b>-</b>       |
| <b>Total</b>                       | <b>364,615</b> | <b>364,173</b> |

(d) Capitalized borrowing costs and capitalization rates of intangible assets used for the years ended December 31, 2016 and 2015, are as follows:

| <i>(in millions of Korean won)</i> | <b>2016</b> | <b>2015</b> |
|------------------------------------|-------------|-------------|
| Capitalized borrowing costs        | 85          | 36          |
| Capitalization rate (%)            | 3.51        | 3.79        |

(e) There are no intangible assets pledged as collateral for borrowings as of December 31, 2016.

(f) Impairment tests for goodwill

i) Goodwill is allocated among the Company's cash-generating units (CGUs) based on operating segments. As of December 31, 2016, an operating segment-level summary of goodwill allocation is presented below:

| <i>(in millions of Korean won)</i> | <b>H&amp;A<sup>1</sup></b> | <b>MC<sup>1</sup></b> | <b>Other</b> | <b>Total</b> |
|------------------------------------|----------------------------|-----------------------|--------------|--------------|
| Goodwill                           | 55,230                     | 29,894                | 2,111        | 87,235       |

<sup>1</sup> H&A: Home Appliance & Air Solution, MC: Mobile Communications

ii) The recoverable amount of CGUs has been determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by the management covering a four-year period. Cash flows beyond the four-year period are extrapolated using the estimated growth rate which does not exceed the long-term average growth rate for the electronic industry in which the Company operated.

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

**LG Electronics Inc.**  
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|                                | <u>H&amp;A</u> | <u>MC</u> | <u>Other</u> |
|--------------------------------|----------------|-----------|--------------|
| Discount rates                 | 11.3%          | 14.6%     | 8.2%         |
| Nominal long-term growth rates | 2.1%           | 3.0%      | 2.9%         |

- iv) During the year ended December 31, 2016, there is no impairment loss on goodwill recognized on the basis of recoverable amounts of a CGU determined based on fair value less costs of disposal.

(g) Research and development expenses

Research and development expenses are for the years ended December 31, 2016 and 2015, are as follows:

| <i>(in millions of Korean won)</i>                         | <u>2016</u>      | <u>2015</u>      |
|--|------------------|------------------|
| <b>Continuing operations:</b>                              |                  |                  |
| Uncapitalized research and development expenditures        | 3,041,854        | 3,015,026        |
| Amortization from internally capitalized development costs | 158,647          | 147,326          |
| <b>Subtotal</b>  | <b>3,200,501</b> | <b>3,162,352</b> |
| <b>Discontinued operations</b>                             | <b>-</b>         | <b>-</b>         |
| <b>Total</b>   | <b>3,200,501</b> | <b>3,162,352</b> |

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**12. Investments in Subsidiaries, Associates and Joint Ventures**

(a) Investments in subsidiaries, associates and joint ventures as of December 31, 2016 and 2015, are as follows:

| <i>(in millions of Korean won)</i>                        | Location                 | Closing month | Percentage of ownership | Carrying amount   |                   |
|---|--------------------------|---------------|-------------------------|-------------------|-------------------|
|   |                          |               |                         | December 31, 2016 | December 31, 2015 |
| <b>Subsidiaries</b>                                       |                          |               |                         |                   |                   |
| LG Electronics U.S.A., Inc.(LGEUS)                        | USA                      | December      | 100.0%                  | 955,542           | 955,542           |
| LG Innotek Co., Ltd.                                      | Korea                    | December      | 40.8%                   | 541,538           | 541,538           |
| LG Electronics India Pvt. Ltd.(LGEIL)                     | India                    | March         | 100.0%                  | 311,746           | 311,746           |
| LG Electronics do Brasil Ltda.(LGEBR)                     | Brazil                   | December      | 100.0%                  | 270,631           | 270,631           |
| LG Electronics Mlawa Sp. z o.o(LGEMA)                     | Poland                   | December      | 100.0%                  | 214,091           | 214,091           |
| LG Electronics Tianjin Appliances Co., Ltd.(LGETA)        | China                    | December      | 70.0%                   | 161,331           | 161,331           |
| LG Electronics European Holdings B.V.(LGEEH)              | Netherlands              | December      | 100.0%                  | 148,551           | 148,551           |
| Hiplaza Co., Ltd.   | Korea                    | December      | 100.0%                  | 136,459           | 136,459           |
| Taizhou LG Electronics Refrigeration Co., Ltd.(LGETR)     | China                    | December      | 88.4%                   | 97,608            | 97,608            |
| P.T. LG Electronics Indonesia(LGEIN)                      | Indonesia                | December      | 100.0%                  | 94,118            | 94,118            |
| LG Electronics Vietnam Haiphong Co., Ltd (LGEVH)          | Vietnam                  | December      | 100.0%                  | 84,784            | 84,784            |
| LG Electronics Panama, S.A.(LGEPS)                        | Panama                   | December      | 100.0%                  | 79,222            | 79,222            |
| LG Electronics Wroclaw Sp.z o.o (LGEWR)                   | Poland                   | December      | 100.0%                  | 70,014            | 70,014            |
| LG Electronics Mexico S.A. DE C.V.(LGEMS)                 | Mexico                   | December      | 100.0%                  | 68,721            | 68,721            |
| LG Electronics Shenyang Inc.(LGESY)                       | China                    | December      | 56.3%                   | 66,415            | 66,668            |
| Hi Entech Co., Ltd.                                       | Korea                    | December      | 100.0%                  | 63,118            | 63,118            |
| LG Electronics Thailand Co., Ltd.(LGETH)                  | Thailand                 | December      | 100.0%                  | 55,578            | 55,578            |
| LG Electronics Australia Pty, Ltd.(LGEAP)                 | Australia                | December      | 100.0%                  | 50,664            | 50,664            |
| Inspur LG Digital Mobile Communications Co., Ltd.(LGEYT)  | China                    | December      | 60.5%                   | 48,624            | 48,624            |
| LG Electronics RUS, LLC(LGERA)                            | Russia                   | December      | 100.0%                  | 43,645            | 43,645            |
| LG Electronics Huizhou Ltd.(LGEHZ)                        | China                    | December      | 45.0%                   | 41,984            | 41,984            |
| LG Electronics Nanjing New Technology co.,LTD(LGENT)      | China                    | December      | 45.0%                   | 38,744            | 38,744            |
| LG Electronics S.A. (Pty) Ltd.(LGESA)                     | Republic of South Africa | December      | 100.0%                  | 32,112            | 32,112            |
| NanJing LG-Panda Appliances Co., Ltd.(LGEPN)              | China                    | December      | 50.0%                   | 26,614            | 26,614            |
| LG Electronics Colombia Ltda.(LGECEB)                     | Colombia                 | December      | 60.7%                   | 25,215            | 25,215            |
| LG Electronics Peru S.A.(LGEPR)                           | Peru                     | December      | 100.0%                  | 25,043            | 25,043            |
| LG Electronics Overseas Trading FZE(LGEOT)                | United Arab Emirates     | December      | 100.0%                  | 22,538            | 22,538            |
| Qingdao LG Inspur Digital Communication Co., Ltd.(LGEQD)  | China                    | December      | 60.0%                   | 22,142            | 22,142            |
| LG Electronics Air-Conditioning(Shandong Co., Ltd.(LGEQA) | China                    | December      | 100.0%                  | 20,615            | 20,615            |
| LG Electronics Egypt S.A.E(LGEEG)                         | Egypt                    | December      | 100.0%                  | 20,323            | 20,323            |
| LG Soft India Private Limited.(LGSII)                     | India                    | March         | 100.0%                  | 20,105            | 20,105            |



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| <i>(in millions of Korean won)</i>                        | Location  | Closing month | Percentage of ownership | Carrying amount   |                   |
|---|-----------|---------------|-------------------------|-------------------|-------------------|
|   |           |               |                         | December 31, 2016 | December 31, 2015 |
| Shanghai LG Electronics Co., Ltd. (LGESH) <sup>1</sup>    | China     | December      | -                       | -                 | 6,512             |
| LG Electronics Vietnam Co., Ltd.(LGEVN) <sup>1</sup>      | Vietnam   | December      | -                       | -                 | 6,180             |
| LG Electronics Nanjing Battery Pack Co.,Ltd.(LGENB)       | China     | December      | 50.0%                   | 6,636             | -                 |
| LG Electronics Nanjing Vehicle Components Co.,Ltd.(LGENV) | China     | December      | 100.0%                  | 4,804             | -                 |
| Innovation Investment Fund <sup>1</sup>                   | Korea     | December      | -                       | -                 | 1,054             |
| LG Electronics Latvia, LLC(LGELA) <sup>2</sup>            | Latvia    | December      | -                       | -                 | 1,655             |
| LG Electronics Austria GmbH(LGEAG) <sup>2</sup>           | Austria   | December      | -                       | -                 | 167               |
| Others  |           |               |                         | 224,137           | 223,427           |
| <b>Associates</b>   |           |               |                         |                   |                   |
| LG Display Co., Ltd.                                      | Korea     | December      | 37.9%                   | 3,480,623         | 3,480,623         |
| Ericsson-LG Co., Ltd.                                     | Korea     | December      | 25.0%                   | 51,098            | 81,755            |
| Hitachi-LG Data Storage Inc.(HLDS)                        | Japan     | December      | 49.0%                   | 120,668           | 80,602            |
| LG Fuel Cell Systems Inc.                                 | USA       | December      | 32.2%                   | 69,375            | 44,051            |
| Korea Information Certificate Authority Inc. <sup>3</sup> | Korea     | December      | 7.3%                    | 2,378             | 1,242             |
| <b>Joint ventures</b>                                     |           |               |                         |                   |                   |
| LG Holdings (HK) Ltd.                                     | China     | December      | 49.0%                   | 129,386           | 129,386           |
| Arcelik-LG Klima Sanayi ve Ticaret A.S.(LGEAT)            | Turkey    | December      | 50.0%                   | 40,844            | 40,844            |
| EIC PROPERTIES PTE LTD.                                   | Singapore | December      | 38.2%                   | 7,881             | 7,881             |
| <b>Total</b>  |           |               |                         | <b>7,995,665</b>  | <b>7,963,467</b>  |

<sup>1</sup> It was liquidated in 2016.

<sup>2</sup> All investments were disposed to a subsidiary in 2016.

<sup>3</sup> Classified as an associate although the percentage of ownership is less than 20% because the Company can exercise a significant influence in the Board of Directors of the investee.

(b) Changes in investments in subsidiaries, associates and joint ventures for the years ended December 31, 2016 and 2015, are as follows:

| <i>(in millions of Korean won)</i>   | 2016             | 2015             |
|--------------------------------------|------------------|------------------|
| <b>Opening carrying amount</b>       | 7,963,467        | 8,055,416        |
| Acquisitions <sup>1</sup>            | 136,560          | 11,057           |
| Reclassified as assets held for sale | -                | (2,116)          |
| Disposal <sup>2</sup>                | (49,377)         | (92,047)         |
| Impairment                           | (54,985)         | (8,843)          |
| <b>Closing carrying amount</b>       | <b>7,995,665</b> | <b>7,963,467</b> |

<sup>1</sup> It includes the amount of debt for equity swaps of trade receivables from subsidiaries.

<sup>2</sup> It includes the decrease in associates' equity due to capital reduction.

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(c) Impairment test for investments in subsidiaries, associates and joint ventures

- i) The Company records the investments in subsidiaries, associates and joint ventures at acquisition cost on the basis of the direct equity interest and assesses at the end of each reporting period whether there is any indication that asset may be impaired. If any such indication exists, the Company estimates the recoverable amount of the asset by future cash flow projection technique. And if the recoverable amount of an asset is less than its carrying amount, the Company recognizes an impairment loss immediately by reducing its carrying amount to its recoverable amount.
- ii) The difference of ₩54,985 million between recoverable amount and carrying amount relating to LG Electronics Ukraine Inc., a subsidiary, is recognized in the statement of profit or loss within 'other non-operating expenses' for the year ended December 31, 2016.
- iii) The difference of ₩8,843 million between recoverable amount and carrying amount relating to Shanghai LG Electronics Co., Ltd., a subsidiary, is recognized in the statement of profit or loss within 'other non-operating expenses' for the year ended December 31, 2015.

(d) Details of marketable investments in subsidiaries and associates as of December 31, 2016 and 2015, are as follows:

| <b>December 31, 2016</b>                        |             |                                       |  |   |                   |
|---|-------------|---------------------------------------|--|---|-------------------|
|   | <b>Type</b> | <b>Shares held<br/>(Unit: shares)</b> | <b>Price per share<br/>(Unit: won)</b> | <b>Fair value<br/>(in millions of Korean won)</b> | <b>Book value</b> |
| LG Display Co., Ltd.                            | Associate   | 135,625,000                           | 31,450                                 | 4,265,406   | 3,480,623         |
| LG Innotek Co., Ltd.                            | Subsidiary  | 9,653,181                             | 88,400                                 | 853,341   | 541,538           |
| Korea Information<br>Certificate Authority Inc. | Associate   | 2,289,708                             | 5,660                                  | 12,960  | 2,378             |
| <b>December 31, 2015</b>                        |             |                                       |  |   |                   |
|   | <b>Type</b> | <b>Shares held<br/>(Unit: shares)</b> | <b>Price per share<br/>(Unit: won)</b> | <b>Fair value<br/>(in millions of Korean won)</b> | <b>Book value</b> |
| LG Display Co., Ltd.                            | Associate   | 135,625,000                           | 24,550                                 | 3,329,594   | 3,480,623         |
| LG Innotek Co., Ltd.                            | Subsidiary  | 9,653,181                             | 98,500                                 | 950,838   | 541,538           |
| Korea Information<br>Certificate Authority Inc. | Associate   | 2,000,000                             | 10,850                                 | 21,700  | 1,242             |

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**13. Investment Properties**

(a) Details of investment properties as of December 31, 2016 and 2015, are as follows:

| <i>(in millions of Korean won)</i> | <b>Land</b>   | <b>Buildings</b> | <b>Total</b>   |
|------------------------------------|---------------|------------------|----------------|
| <b>At December 31, 2016</b>        |               |                  |                |
| Acquisition cost                   | 63,670        | 52,695           | 116,365        |
| Accumulated depreciation           | -             | (19,750)         | (19,750)       |
| <b>Net book amount</b>             | <b>63,670</b> | <b>32,945</b>    | <b>96,615</b>  |
| <b>At December 31, 2015</b>        |               |                  |                |
| Acquisition cost                   | 77,796        | 68,362           | 146,158        |
| Accumulated depreciation           | -             | (25,312)         | (25,312)       |
| <b>Net book amount</b>             | <b>77,796</b> | <b>43,050</b>    | <b>120,846</b> |

(b) Changes in investment properties for the years ended December 31, 2016 and 2015, are as follows:

|                                    | <b>2016</b>   |                  |                |
|------------------------------------|---------------|------------------|----------------|
| <i>(in millions of Korean won)</i> | <b>Land</b>   | <b>Buildings</b> | <b>Total</b>   |
| <b>At January 1</b>                | 77,796        | 43,050           | 120,846        |
| Transfer-in(out) <sup>1</sup>      | (8,906)       | -                | (8,906)        |
| Disposals                          | (5,220)       | (8,730)          | (13,950)       |
| Depreciation                       | -             | (1,375)          | (1,375)        |
| <b>At December 31</b>              | <b>63,670</b> | <b>32,945</b>    | <b>96,615</b>  |
|                                    |               |                  |                |
|                                    | <b>2015</b>   |                  |                |
| <i>(in millions of Korean won)</i> | <b>Land</b>   | <b>Buildings</b> | <b>Total</b>   |
| <b>At January 1</b>                | -             | 633              | 633            |
| Transfer-in(out) <sup>1</sup>      | 77,796        | 43,538           | 121,334        |
| Disposals                          | -             | (633)            | (633)          |
| Depreciation                       | -             | (488)            | (488)          |
| <b>At December 31</b>              | <b>77,796</b> | <b>43,050</b>    | <b>120,846</b> |

<sup>1</sup> Reclassified as assets held for sale from investment properties or transferred to investment properties from property, plant and equipment.

(c) The fair value of investment property is valued by an independent professional appraiser with certified qualification or determined based on the evaluation reflecting official land value or recently available transaction price of similar properties, and it is classified as 'level 3' of the fair value hierarchy. The fair value of investment properties as of December 31, 2016, is ₩99,478 million (2015: ₩122,692 million).

(d) Rental income amounting to ₩3,570 million (2015: ₩1,465 million) and rental expenses amounting to ₩1,804 million (2015: ₩1,181 million) are recognized in the separate statement of profit or loss relating to investment properties for the year ended December 31, 2016.

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(e) As of December 31, 2016, the Company assumes obligation for repairs and maintenance of the investment properties owned by the Company.

**14. Borrowings**

(a) The carrying amounts of borrowings as of December 31, 2016 and 2015, are as follows:

| <i>(in millions of Korean won)</i>      | <b>December 31, 2016</b> | <b>December 31, 2015</b> |
|---|--------------------------|--------------------------|
| <b>Current</b>                          |                          |                          |
| Current portion of long-term borrowings | 190,000                  | 77,500                   |
| Current portion of debentures           | 471,148                  | 964,103                  |
| <b>Subtotal</b>                         | <b>661,148</b>           | <b>1,041,603</b>         |
| <b>Non-current</b>                      |                          |                          |
| Long-term borrowings                    | 1,690,000                | 1,750,000                |
| Debentures                              | 4,280,172                | 3,827,300                |
| <b>Subtotal</b>                         | <b>5,970,172</b>         | <b>5,577,300</b>         |
| <b>Total</b>                            | <b>6,631,320</b>         | <b>6,618,903</b>         |

(b) Details of borrowings as at December 31, 2016 and 2015 are as follows:

i) Long-term borrowings consist of:

| <i>(in millions of Korean won)</i> | <b>Maturity date</b> | <b>Annual interest rate at December 31, 2016(%)</b> | <b>December 31, 2016</b> |                |                    |
|------------------------------------|----------------------|---|--------------------------|----------------|--------------------|
|                                    |                      |   | <b>Total</b>             | <b>Current</b> | <b>Non-current</b> |
| <b>Local currency loans</b>        |                      |   |                          |                |                    |
| Kookmin Bank <sup>1</sup>          | 2027.01.28           | 3M CD+0.91  | 190,000                  | -              | 190,000            |
| Kookmin Bank <sup>1</sup>          | 2029.04.30           | 3M CD+1.14  | 200,000                  | -              | 200,000            |
| Nonghyup Bank <sup>1</sup>         | 2030.07.07           | 3M CD+1.05  | 190,000                  | -              | 190,000            |
| Shinhan Bank                       | 2017.02.16           | 4.60  | 190,000                  | 190,000        | -                  |
| Woori Bank <sup>1</sup>            | 2030.04.15           | 3M CD+0.82  | 390,000                  | -              | 390,000            |
| KEB Hana Bank <sup>1</sup>         | 2024.01.03           | 3M CD+0.98  | 200,000                  | -              | 200,000            |
| Korea Development Bank             | 2023.12.19           | 2.65  | 120,000                  | -              | 120,000            |
| Korea Development Bank             | 2025.09.09           | 3.00  | 200,000                  | -              | 200,000            |
| The Export-Import Bank of Korea    | 2026.07.29           | 2.21  | 200,000                  | -              | 200,000            |
| <b>Total</b>                       |                      |   | <b>1,880,000</b>         | <b>190,000</b> | <b>1,690,000</b>   |

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| <i>(in millions of Korean won)</i> | Maturity date | Annual interest rate at December 31, 2015(%) | December 31, 2015 |               |                  |
|------------------------------------|---------------|--|-------------------|---------------|------------------|
|                                    |               |  | Total             | Current       | Non-current      |
| <b>Local currency loans</b>        |               |  |                   |               |                  |
| Kookmin Bank <sup>1</sup>          | 2027.01.28    | 3M CD+0.91                                   | 190,000           | -             | 190,000          |
| Kookmin Bank <sup>1</sup>          | 2029.04.30    | 3M CD+1.14                                   | 200,000           | -             | 200,000          |
| Nonghyup Bank <sup>1</sup>         | 2030.07.07    | 3M CD+1.05                                   | 190,000           | -             | 190,000          |
| Shinhan Bank                       | 2016.10.19    | 4.37   | 47,500            | 47,500        | -                |
| Shinhan Bank                       | 2017.02.16    | 4.60   | 190,000           | -             | 190,000          |
| Woori Bank <sup>1</sup>            | 2030.04.15    | 3M CD+0.82                                   | 390,000           | -             | 390,000          |
| KEB Hana Bank <sup>1</sup>         | 2024.01.03    | 3M CD+0.98                                   | 200,000           | -             | 200,000          |
| Korea Development Bank             | 2016.04.20    | 4.63   | 30,000            | 30,000        | -                |
| Korea Development Bank             | 2017.03.29    | 4.62   | 190,000           | -             | 190,000          |
| Korea Development Bank             | 2025.09.09    | 3.00   | 200,000           | -             | 200,000          |
| <b>Total</b>                       |               |  | <b>1,827,500</b>  | <b>77,500</b> | <b>1,750,000</b> |

<sup>1</sup> The Company entered into an interest rate swap contract to hedge cash flow risk related to floating interest rates fluctuation (Note 36).

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ii) Debentures consist of:

| <i>(in millions of Korean won)</i>                   |   | Maturity date | Annual Interest rate at December 31, 2016(%) | December 31, 2016 |                |                  |
|--|---|---------------|--|-------------------|----------------|------------------|
|  |   |               |  | Total             | Current        | Non-current      |
| Fixed rate notes in local currency                   | Public, non-guaranteed bonds (66-2 <sup>nd</sup> )  | 2017.09.10    | 3.28   | 130,000           | 130,000        | -                |
| Fixed rate notes in local currency                   | Public, non-guaranteed bonds (67 <sup>th</sup> )    | 2018.03.21    | 3.11   | 300,000           | -              | 300,000          |
| Fixed rate notes in local currency                   | Public, non-guaranteed bonds (68-1 <sup>st</sup> )  | 2020.05.23    | 3.29   | 100,000           | -              | 100,000          |
| Fixed rate notes in local currency                   | Public, non-guaranteed bonds (68-2 <sup>nd</sup> )  | 2020.05.24    | 3.29   | 20,000            | -              | 20,000           |
| Fixed rate notes in local currency                   | Public, non-guaranteed bonds (68-3 <sup>th</sup> )  | 2023.05.22    | 3.68   | 50,000            | -              | 50,000           |
| Fixed rate notes in local currency                   | Private, non-guaranteed bonds (68-4 <sup>th</sup> ) | 2023.05.23    | 3.68   | 30,000            | -              | 30,000           |
| Fixed rate notes in local currency                   | Public, non-guaranteed bonds (69-2 <sup>nd</sup> )  | 2018.07.31    | 3.54   | 140,000           | -              | 140,000          |
| Fixed rate notes in local currency                   | Public, non-guaranteed bonds (69-3 <sup>rd</sup> )  | 2020.07.31    | 3.85   | 150,000           | -              | 150,000          |
| Floating rate notes in foreign currency <sup>1</sup> | Private, guaranteed bonds (70 <sup>th</sup> )       | 2019.01.31    | 3ML+1.60                                     | 241,700           | -              | 241,700          |
| Fixed rate notes in local currency                   | Public, non-guaranteed bonds (71-1 <sup>st</sup> )  | 2018.10.18    | 3.55   | 200,000           | -              | 200,000          |
| Fixed rate notes in local currency                   | Public, non-guaranteed bonds (71-2 <sup>nd</sup> )  | 2020.10.19    | 3.82   | 110,000           | -              | 110,000          |
| Fixed rate notes in local currency                   | Public, non-guaranteed bonds (71-3 <sup>rd</sup> )  | 2023.10.18    | 4.25   | 90,000            | -              | 90,000           |
| Floating rate notes in foreign currency <sup>1</sup> | Private, non-guaranteed bonds (72 <sup>nd</sup> )   | 2017.06.19    | 3ML+1.30                                     | 241,700           | 241,700        | -                |
| Fixed rate notes in local currency                   | Public, non-guaranteed bonds (73-1 <sup>st</sup> )  | 2017.01.24    | 3.16   | 100,000           | 100,000        | -                |
| Fixed rate notes in local currency                   | Public, non-guaranteed bonds (73-2 <sup>nd</sup> )  | 2019.01.24    | 3.6  | 120,000           | -              | 120,000          |
| Fixed rate notes in local currency                   | Public, non-guaranteed bonds (73-3 <sup>rd</sup> )  | 2021.01.24    | 3.95   | 160,000           | -              | 160,000          |
| Fixed rate notes in local currency                   | Public, non-guaranteed bonds (73-4 <sup>th</sup> )  | 2024.01.24    | 4.44   | 120,000           | -              | 120,000          |
| Fixed rate notes in local currency                   | Public, non-guaranteed bonds (74-1 <sup>st</sup> )  | 2019.05.29    | 3.30   | 200,000           | -              | 200,000          |
| Fixed rate notes in local currency                   | Public, non-guaranteed bonds (74-2 <sup>nd</sup> )  | 2021.05.29    | 3.52   | 130,000           | -              | 130,000          |
| Fixed rate notes in local currency                   | Public, non-guaranteed bonds (74-3 <sup>rd</sup> )  | 2024.05.29    | 4.04   | 210,000           | -              | 210,000          |
| Fixed rate notes in local currency                   | Public, non-guaranteed bonds (74-4 <sup>th</sup> )  | 2029.05.29    | 4.44   | 60,000            | -              | 60,000           |
| Fixed rate notes in local currency                   | Private, non-guaranteed bonds (75 <sup>th</sup> )   | 2026.07.16    | 3.96   | 100,000           | -              | 100,000          |
| Fixed rate notes in local currency                   | Private, non-guaranteed bonds (76-1 <sup>st</sup> ) | 2028.11.17    | 3.79   | 40,000            | -              | 40,000           |
| Fixed rate notes in local currency                   | Private, non-guaranteed bonds (76-2 <sup>nd</sup> ) | 2028.11.18    | 3.79   | 60,000            | -              | 60,000           |
| Fixed rate notes in local currency                   | Public, non-guaranteed bonds (77-1 <sup>st</sup> )  | 2020.02.02    | 2.28   | 210,000           | -              | 210,000          |
| Fixed rate notes in local currency                   | Public, non-guaranteed bonds (77-2 <sup>nd</sup> )  | 2022.02.02    | 2.51   | 230,000           | -              | 230,000          |
| Fixed rate notes in local currency                   | Public, non-guaranteed bonds (77-3 <sup>rd</sup> )  | 2025.02.02    | 2.97   | 210,000           | -              | 210,000          |
| Fixed rate notes in local currency                   | Public, non-guaranteed bonds (77-4 <sup>th</sup> )  | 2030.02.02    | 3.45   | 100,000           | -              | 100,000          |
| Fixed rate notes in local currency                   | Public, non-guaranteed bonds (78-1 <sup>st</sup> )  | 2019.02.24    | 1.88   | 110,000           | -              | 110,000          |
| Fixed rate notes in local currency                   | Public, non-guaranteed bonds (78-2 <sup>nd</sup> )  | 2021.02.24    | 2.14   | 200,000           | -              | 200,000          |
| Fixed rate notes in local currency                   | Public, non-guaranteed bonds (78-3 <sup>rd</sup> )  | 2023.02.24    | 2.45   | 140,000           | -              | 140,000          |
| Fixed rate notes in local currency                   | Public, non-guaranteed bonds (79-1 <sup>st</sup> )  | 2019.09.06    | 1.48   | 90,000            | -              | 90,000           |
| Fixed rate notes in local currency                   | Public, non-guaranteed bonds (79-2 <sup>nd</sup> )  | 2021.09.06    | 1.75   | 90,000            | -              | 90,000           |
| Fixed rate notes in local currency                   | Public, non-guaranteed bonds (79-3 <sup>rd</sup> )  | 2023.09.06    | 2.08   | 130,000           | -              | 130,000          |
| Fixed rate notes in local currency                   | Public, non-guaranteed bonds (79-4 <sup>th</sup> )  | 2026.09.06    | 2.67   | 150,000           | -              | 150,000          |
| Less: discount on debentures                         |   |               |  | (12,080)          | (552)          | (11,528)         |
| <b>Total</b>   |   |               |  | <b>4,751,320</b>  | <b>471,148</b> | <b>4,280,172</b> |

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| <i>(in millions of Korean won)</i>                   |   | Maturity date | Annual Interest rate at December 31, 2015(%) | December 31, 2015 |                |                  |
|--|---|---------------|--|-------------------|----------------|------------------|
|  |   |               |  | Total             | Current        | Non-current      |
| Fixed rate notes in local currency                   | Public, non-guaranteed bonds (58-2 <sup>nd</sup> )  | 2016.02.16    | 4.91   | 60,000            | 60,000         | -                |
| Fixed rate notes in local currency                   | Public, non-guaranteed bonds (60 <sup>th</sup> )    | 2016.05.20    | 4.41   | 190,000           | 190,000        | -                |
| Fixed rate notes in local currency                   | Public, non-guaranteed bonds (61 <sup>st</sup> )    | 2016.06.29    | 4.38   | 190,000           | 190,000        | -                |
| Fixed rate notes in local currency                   | Public, non-guaranteed bonds (62-2 <sup>nd</sup> )  | 2016.08.05    | 4.34   | 80,000            | 80,000         | -                |
| Fixed rate notes in local currency                   | Public, non-guaranteed bonds (64 <sup>th</sup> )    | 2016.09.30    | 4.32   | 190,000           | 190,000        | -                |
| Fixed rate notes in foreign currency <sup>1</sup>    | Public, non-guaranteed bonds (65 <sup>th</sup> )    | 2016.12.02    | 2.00   | 254,859           | 254,859        | -                |
| Fixed rate notes in local currency                   | Public, non-guaranteed bonds (66-2 <sup>nd</sup> )  | 2017.09.10    | 3.28   | 130,000           | -              | 130,000          |
| Fixed rate notes in local currency                   | Private, non-guaranteed bonds (67 <sup>th</sup> )   | 2018.03.21    | 3.11   | 300,000           | -              | 300,000          |
| Fixed rate notes in local currency                   | Private, non-guaranteed bonds (68-1 <sup>st</sup> ) | 2020.05.23    | 3.29   | 100,000           | -              | 100,000          |
| Fixed rate notes in local currency                   | Private, non-guaranteed bonds (68-2 <sup>nd</sup> ) | 2020.05.24    | 3.29   | 20,000            | -              | 20,000           |
| Fixed rate notes in local currency                   | Private, non-guaranteed bonds (68-3 <sup>rd</sup> ) | 2023.05.22    | 3.68   | 50,000            | -              | 50,000           |
| Fixed rate notes in local currency                   | Private, non-guaranteed bonds (68-4 <sup>th</sup> ) | 2023.05.23    | 3.68   | 30,000            | -              | 30,000           |
| Fixed rate notes in local currency                   | Public, non-guaranteed bonds (69-2 <sup>nd</sup> )  | 2018.07.31    | 3.54   | 140,000           | -              | 140,000          |
| Fixed rate notes in local currency                   | Public, non-guaranteed bonds (69-3 <sup>rd</sup> )  | 2020.07.31    | 3.85   | 150,000           | -              | 150,000          |
| Floating rate notes in foreign currency <sup>1</sup> | Private, guaranteed bonds (70 <sup>th</sup> )       | 2019.01.31    | 3ML+1.60                                     | 234,400           | -              | 234,400          |
| Fixed rate notes in local currency                   | Public, non-guaranteed bonds (71-1 <sup>st</sup> )  | 2018.10.18    | 3.55   | 200,000           | -              | 200,000          |
| Fixed rate notes in local currency                   | Public, non-guaranteed bonds (71-2 <sup>nd</sup> )  | 2020.10.19    | 3.82   | 110,000           | -              | 110,000          |
| Fixed rate notes in local currency                   | Public, non-guaranteed bonds (71-3 <sup>rd</sup> )  | 2023.10.18    | 4.25   | 90,000            | -              | 90,000           |
| Floating rate notes in foreign currency <sup>1</sup> | Private, non-guaranteed bonds (72 <sup>nd</sup> )   | 2017.06.19    | 3ML+1.30                                     | 234,400           | -              | 234,400          |
| Fixed rate notes in local currency                   | Public, non-guaranteed bonds (73-1 <sup>st</sup> )  | 2017.01.24    | 3.16   | 100,000           | -              | 100,000          |
| Fixed rate notes in local currency                   | Public, non-guaranteed bonds (73-2 <sup>nd</sup> )  | 2019.01.24    | 3.60   | 120,000           | -              | 120,000          |
| Fixed rate notes in local currency                   | Public, non-guaranteed bonds (73-3 <sup>rd</sup> )  | 2021.01.24    | 3.95   | 160,000           | -              | 160,000          |
| Fixed rate notes in local currency                   | Public, non-guaranteed bonds (73-4 <sup>th</sup> )  | 2024.01.24    | 4.44   | 120,000           | -              | 120,000          |
| Fixed rate notes in local currency                   | Public, non-guaranteed bonds (74-1 <sup>st</sup> )  | 2019.05.29    | 3.30   | 200,000           | -              | 200,000          |
| Fixed rate notes in local currency                   | Public, non-guaranteed bonds (74-2 <sup>nd</sup> )  | 2021.05.29    | 3.52   | 130,000           | -              | 130,000          |
| Fixed rate notes in local currency                   | Public, non-guaranteed bonds (74-3 <sup>rd</sup> )  | 2024.05.29    | 4.04   | 210,000           | -              | 210,000          |
| Fixed rate notes in local currency                   | Public, non-guaranteed bonds (74-4 <sup>th</sup> )  | 2029.05.29    | 4.44   | 60,000            | -              | 60,000           |
| Fixed rate notes in local currency                   | Private, non-guaranteed bonds (75 <sup>th</sup> )   | 2026.07.16    |  | 100,000           | -              | 100,000          |
| Fixed rate notes in local currency                   | Private, non-guaranteed bonds (76-1 <sup>st</sup> ) | 2028.11.17    | 3.79   | 40,000            | -              | 40,000           |
| Fixed rate notes in local currency                   | Private, non-guaranteed bonds (76-2 <sup>nd</sup> ) | 2028.11.18    | 3.79   | 60,000            | -              | 60,000           |
| Fixed rate notes in local currency                   | Public, non-guaranteed bonds (77-1 <sup>st</sup> )  | 2020.02.02    | 2.28   | 210,000           | -              | 210,000          |
| Fixed rate notes in local currency                   | Public, non-guaranteed bonds (77-2 <sup>nd</sup> )  | 2022.02.02    | 2.51   | 230,000           | -              | 230,000          |
| Fixed rate notes in local currency                   | Public, non-guaranteed bonds (77-3 <sup>rd</sup> )  | 2025.02.02    | 2.97   | 210,000           | -              | 210,000          |
| Fixed rate notes in local currency                   | Public, non-guaranteed bonds (77-4 <sup>th</sup> )  | 2030.02.02    | 3.45   | 100,000           | -              | 100,000          |
| Less: discount on debentures                         |   |               |  | (12,256)          | (756)          | (11,500)         |
| <b>Total</b>   |   |               |  | <b>4,791,403</b>  | <b>964,103</b> | <b>3,827,300</b> |

<sup>1</sup> The Company entered into cross-currency swap contracts to hedge cash flow risk related to floating interest rate and foreign exchange rate of the debenture (Note 36).

The principal and interests of private bonds(70th) are guaranteed by Shinhan Bank (Note 33).

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**15. Other Payables**

Other payables as of December 31, 2016 and 2015, are as follows:

| <i>(in millions of Korean won)</i> | <b>December 31, 2016</b> | <b>December 31, 2015</b> |
|------------------------------------|--------------------------|--------------------------|
| <b>Current</b>                     |                          |                          |
| Non-trade payables                 | 1,526,248                | 1,170,765                |
| Accrued expenses                   | 540,087                  | 601,491                  |
| Leasehold deposits received        | 14,116                   | 18,765                   |
| <b>Subtotal</b>                    | <b>2,080,451</b>         | <b>1,791,021</b>         |
| <b>Non-current</b>                 |                          |                          |
| Leasehold deposits received        | 5,552                    | 6,928                    |
| <b>Total</b>                       | <b>2,086,003</b>         | <b>1,797,949</b>         |

**16. Current Income Tax and Deferred Income Tax**

**Income tax expense**

(a) Details of income tax expense(benefit) for the years ended December 31, 2016 and 2015, are as follows:

| <i>(in millions of Korean won)</i>    | <b>2016</b>    | <b>2015</b>   |
|---------------------------------------|----------------|---------------|
| <b>Current income taxes</b>           |                |               |
| Current tax on profits for the year   | 94,082         | 52,010        |
| Adjustments in respect of prior years | (6,511)        | (1,469)       |
| <b>Deferred tax</b>                   |                |               |
| Changes in temporary differences      | (58,796)       | (21,726)      |
| Changes in tax credits                | 20,301         | 95,135        |
| Changes in tax losses                 | 53,191         | (39,372)      |
| <b>Income tax expense(benefit)</b>    | <b>102,267</b> | <b>84,578</b> |
| From continuing operations            | 102,267        | 85,894        |
| From discontinued operations          | -              | (1,316)       |



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(b) The reconciliation between loss before income tax and income tax expense for the years ended December 31, 2016 and 2015, is as follows:

| <i>(in millions of Korean won)</i>                     | <b>2016</b>    | <b>2015</b>   |
|--|----------------|---------------|
| <b>Loss before income tax:</b>                         |                |               |
| From continuing operations                             | (174,220)      | (265,823)     |
| From discontinued operations                           | -              | (5,438)       |
|  | (174,220)      | (271,261)     |
| Tax expense based on statutory tax rate                | (42,161)       | (65,645)      |
| Income not subject to tax                              | (21,410)       | (7,793)       |
| Expenses not deductible for tax purposes               | 55,011         | 13,479        |
| Recognition of deferred tax asset on tax credits       | (211,274)      | (50,184)      |
| Adjustments in respect of prior years                  | (6,511)        | (1,469)       |
| Changes in unrecognized deferred tax assets and others | 328,612        | 196,190       |
| <b>Income tax expense(benefit)</b>                     | <b>102,267</b> | <b>84,578</b> |
| From continuing operations                             | 102,267        | 85,894        |
| From discontinued operations                           | -              | (1,316)       |
| Effective tax rate                                     | (-)58.7%       | (-)31.2%      |

**Deferred income tax**

(a) Deferred tax assets and deferred tax liabilities after offsetting as of December 31, 2016 and 2015, are as follows:

| <i>(in millions of Korean won)</i>                             | <b>December 31, 2016</b> | <b>December 31, 2015</b> |
|--|--------------------------|--------------------------|
| Deferred tax assets:   |                          |                          |
| Deferred tax asset to be recovered within 12 months            | 598,946                  | 534,030                  |
| Deferred tax asset to be recovered after more than 12 months   | 1,310,945                | 1,377,263                |
| <b>Deferred tax assets before offsetting</b>                   | <b>1,909,891</b>         | <b>1,911,293</b>         |
| Deferred tax liabilities:                                      |                          |                          |
| Deferred tax liability to be settled within 12 months          | 3,214                    | 3,207                    |
| Deferred tax liability to be settled after more than 12 months | 1,022,023                | 959,629                  |
| <b>Deferred tax liabilities before offsetting</b>              | <b>1,025,237</b>         | <b>962,836</b>           |
| <b>Deferred tax assets after offsetting</b>                    | <b>884,654</b>           | <b>948,457</b>           |

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(b) Changes in deferred income tax assets and liabilities for the years ended December 31, 2016 and 2015, are as follows:

| <i>(in millions of Korean won)</i>                            | <b>2016</b>         |  |  |                       |
|---|---------------------|--|--|-----------------------|
|   | <b>At January 1</b> | <b>Charged<br/>(credited) to<br/>statement of<br/>profit or loss</b> | <b>Charged(credited) to<br/>other comprehensive<br/>income</b> | <b>At December 31</b> |
| Changes in temporary differences                              |                     |  |  |                       |
| Investments in subsidiaries,<br>associates and joint ventures | (254,612)           | 1,915  | -  | (252,697)             |
| Property, plant and equipment                                 | (148,990)           | 10,043   | -  | (138,947)             |
| Accrued expenses  | 360,337             | 4,432  | -  | 364,769               |
| Provisions  | 93,984              | 42,919   | -  | 136,903               |
| Other   | 166,180             | (513)  | (49,107)   | 116,560               |
| <b>Subtotal</b>   | <b>216,899</b>      | <b>58,796</b>  | <b>(49,107)</b>  | <b>226,588</b>        |
| Tax credits carryforwards                                     | 533,817             | (20,301)   | -  | 513,516               |
| Tax loss carryforwards  | 197,741             | (53,191)   | -  | 144,550               |
| <b>Deferred tax assets(liabilities)</b>                       | <b>948,457</b>      | <b>(14,696)</b>  | <b>(49,107)</b>  | <b>884,654</b>        |

| <i>(in millions of Korean won)</i>                            | <b>2015</b>         |  |  |                       |
|---|---------------------|--|--|-----------------------|
|   | <b>At January 1</b> | <b>Charged<br/>(credited) to<br/>statement of<br/>profit or loss</b> | <b>Charged(credited) to<br/>other comprehensive<br/>income</b> | <b>At December 31</b> |
| Changes in temporary differences                              |                     |  |  |                       |
| Investments in subsidiaries,<br>associates and joint ventures | (254,360)           | (252)  | -  | (254,612)             |
| Property, plant and equipment                                 | (141,814)           | (7,176)  | -  | (148,990)             |
| Accrued expenses  | 306,959             | 53,378   | -  | 360,337               |
| Provisions  | 92,939              | 1,045  | -  | 93,984                |
| Other   | 159,853             | (25,269)   | 31,596   | 166,180               |
| <b>Subtotal</b>   | <b>163,577</b>      | <b>21,726</b>  | <b>31,596</b>  | <b>216,899</b>        |
| Tax credits carryforwards                                     | 628,952             | (95,135)   | -  | 533,817               |
| Tax loss carryforwards  | 158,369             | 39,372   | -  | 197,741               |
| <b>Deferred tax assets(liabilities)</b>                       | <b>950,898</b>      | <b>(34,037)</b>  | <b>31,596</b>  | <b>948,457</b>        |

(c) Tax effects recognized in other comprehensive income directly for the years ended December 31, 2016 and 2015, are as follows:

| <i>(in millions of Korean won)</i>                | <b>2016</b>           |                        |                      | <b>2015</b>           |                        |                      |
|---|-----------------------|------------------------|----------------------|-----------------------|------------------------|----------------------|
|   | <b>Before<br/>tax</b> | <b>Tax<br/>effects</b> | <b>After<br/>tax</b> | <b>Before<br/>tax</b> | <b>Tax<br/>effects</b> | <b>After<br/>tax</b> |
| Remeasurements of net defined benefit liabilities | 204,276               | (49,435)               | 154,841              | (100,414)             | 24,300                 | (76,114)             |
| Cash flow hedges                                  | (866)                 | 210                    | (656)                | (33,367)              | 8,075                  | (25,292)             |
| Available-for-sale financial assets               | (488)                 | 118                    | (370)                | 3,218                 | (779)                  | 2,439                |
| <b>Total</b>                                      | <b>202,922</b>        | <b>(49,107)</b>        | <b>153,815</b>       | <b>(130,563)</b>      | <b>31,596</b>          | <b>(98,967)</b>      |

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(d) Details of deductible (taxable) temporary differences, tax credits and tax losses carryforward unrecognized as deferred tax assets (liabilities) as of December 31, 2016, are as follows:

| <i>(in millions of Korean won)</i>                            | <b>2016</b> | <b>Remark</b>  |
|---|-------------|--|
| Taxable temporary difference<br>(investment in subsidiary)    | (1,246,127) | Planned permanent reinvestment of undistributed profit     |
| Deductible temporary difference<br>(investment in subsidiary) | 1,129,712   | Unlikely to reverse(disposed of) in the foreseeable future |
| Tax credits carryforwards                                     | 601,306     | Uncertainty of future taxable profit                       |

(e) Expirations of unrecognized tax credits carryforwards as of December 31, 2016, are as follows:

| <i>(in millions of Korean won)</i> | <b>1 year</b> | <b>Less than<br/>2 years</b> | <b>Less than<br/>3 years</b> | <b>Over 3 years</b> |
|------------------------------------|---------------|------------------------------|------------------------------|---------------------|
| Tax credits carryforwards          | 211,797       | 166,723                      | 32,112                       | 190,674             |

**17. Post-employment Benefits**

**Defined Benefit Plan**

(a) The amounts of net defined benefit liabilities as of December 31, 2016 and 2015, are as follows:

| <i>(in millions of Korean won)</i>   | <b>December 31, 2016</b> | <b>December 31, 2015</b> |
|--------------------------------------|--------------------------|--------------------------|
| Present value of funded obligations  | 2,265,932                | 2,236,821                |
| Fair value of plan assets            | (1,920,564)              | (1,661,805)              |
| <b>Net defined benefit liability</b> | <b>345,368</b>           | <b>575,016</b>           |

(b) The amounts recognized in the separate statements of profit or loss for the years ended December 31, 2016 and 2015, are as follows:

| <i>(in millions of Korean won)</i> | <b>2016</b>    | <b>2015</b>    |
|------------------------------------|----------------|----------------|
| Current service cost               | 290,866        | 267,256        |
| Net interest cost                  | 15,410         | 19,365         |
| Operating management cost          | 1,748          | 1,342          |
| <b>Total</b>                       | <b>308,024</b> | <b>287,963</b> |

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(c) Line items in which expenses are included for the years ended December 31, 2016 and 2015, are as follows:

| <i>(in millions of Korean won)</i> | <b>2016</b>    | <b>2015</b>    |
|------------------------------------|----------------|----------------|
| <b>Continuing operations:</b>      |                |                |
| Manufacturing costs                | 148,570        | 138,217        |
| Selling and marketing expenses     | 38,512         | 42,785         |
| Administrative expenses            | 22,052         | 26,863         |
| Research and development expenses  | 94,912         | 74,872         |
| Service costs                      | 3,978          | 5,226          |
| <b>Subtotal</b>                    | <b>308,024</b> | <b>287,963</b> |
| <b>Discontinued operations</b>     | <b>-</b>       | <b>-</b>       |
| <b>Total</b>                       | <b>308,024</b> | <b>287,963</b> |

(d) Changes in the present value of defined benefit obligations for the years ended December 31, 2016 and 2015, are as follows:

| <i>(in millions of Korean won)</i>                                    | <b>2016</b>      | <b>2015</b>      |
|---|------------------|------------------|
| <b>At January 1</b>   | 2,236,821        | 1,916,342        |
| Current service cost  | 290,866          | 267,256          |
| Interest expense  | 58,531           | 58,631           |
| Remeasurements for:   |                  |                  |
| - Actuarial loss arising from changes in demographic assumptions      | 9,449            | 19,023           |
| - Actuarial loss (gain) arising from changes in financial assumptions | (222,581)        | 96,036           |
| - Actuarial loss arising from experience adjustments                  | (755)            | (22,187)         |
| Increase due to business combination                                  | -                | 142              |
| Decrease due to transfer of business                                  | (1,042)          | (1,925)          |
| Benefits paid   | (105,357)        | (96,497)         |
| <b>At December 31</b>   | <b>2,265,932</b> | <b>2,236,821</b> |

(e) Changes in the fair value of plan assets for the years ended December 31, 2016 and 2015, are as follows:

| <i>(in millions of Korean won)</i>   | <b>2016</b>      | <b>2015</b>      |
|--------------------------------------|------------------|------------------|
| <b>At January 1</b>                  | 1,661,805        | 1,299,650        |
| Interest income                      | 43,121           | 39,266           |
| Remeasurements of plan assets        | (9,611)          | (7,542)          |
| Employer contributions               | 300,000          | 400,000          |
| Increase due to business combination | -                | 133              |
| Decrease due to transfer of business | -                | (1,488)          |
| Benefits paid                        | (73,003)         | (66,872)         |
| Operating management cost            | (1,748)          | (1,342)          |
| <b>At December 31</b>                | <b>1,920,564</b> | <b>1,661,805</b> |

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(f) The principal actuarial assumptions used as of December 31, 2016 and 2015, are as follows:

|                             | <u>December 31, 2016</u> | <u>December 31, 2015</u> |
|-----------------------------|--------------------------|--------------------------|
| Discount rate               | 2.7%                     | 2.7%                     |
| Expected salary growth rate | 5.0%                     | 6.0%                     |

(g) The sensitivity analysis of the defined benefit obligation to changes in principal assumptions as of December 31, 2016, is as follows:

| <i>(in millions of Korean won)</i> | <u>1%p increase</u> | <u>1%p decrease</u> |
|------------------------------------|---------------------|---------------------|
| Discount rate                      | (194,535)           | 225,240             |
| Expected salary growth rate        | 217,703             | (192,288)           |

The above sensitivity analysis are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. The sensitivity of the defined benefit obligation to changes in principal actuarial assumptions is calculated using the projected unit credit method, the same method applied when calculating the defined benefit obligations.

(h) Plan assets consist of:

| <i>(in millions of Korean won)</i>                | <u>December 31, 2016</u> |                       | <u>December 31, 2015</u> |                       |
|---|--------------------------|-----------------------|--------------------------|-----------------------|
|   | <u>Amount</u>            | <u>Composition(%)</u> | <u>Amount</u>            | <u>Composition(%)</u> |
| Securities combined with derivatives (guaranteed) | 1,363,611                | 71.0                  | 1,146,943                | 69.0                  |
| Time deposits and others                          | 556,953                  | 29.0                  | 514,862                  | 31.0                  |
| <b>Total</b>                                      | <b>1,920,564</b>         | <b>100.0</b>          | <b>1,661,805</b>         | <b>100.0</b>          |

(i) The weighted average duration of the defined benefit obligations is 9.7 years. Expected maturity analysis of undiscounted pension benefits as of December 31, 2016, is as follows:

| <i>(in millions of Korean won)</i> | <u>Less than 1 year</u> | <u>Between 1 and 2 years</u> | <u>Between 2 and 5 years</u> | <u>Between 5 and 10 years</u> | <u>Over 10 years</u> | <u>Total</u> |
|------------------------------------|-------------------------|------------------------------|------------------------------|-------------------------------|----------------------|--------------|
| Pension benefits                   | 110,412                 | 146,726                      | 484,982                      | 688,955                       | 1,487,130            | 2,918,205    |

The Company evaluates the fund contribution level annually and if there is a shortfall in the funds, the Company has a policy to finance the funds. Expected contributions to post-employment benefit plans for the year ending December 31, 2017, are \ 300,000 million.

**Defined Contribution Plan**

Recognized expense related to the defined contribution plan for the year ended December 31, 2016, is was \ 5,283 million (2015: \ 4,796 million).

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**18. Provisions**

(a) Changes in provisions for the years ended December 31, 2016 and 2015, are as follows:

|                                    | <b>2016</b>     |                      |                    |                              |                  |
|------------------------------------|-----------------|----------------------|--------------------|------------------------------|------------------|
| <i>(in millions of Korean won)</i> | <b>Warranty</b> | <b>Sales returns</b> | <b>Restoration</b> | <b>Litigation and others</b> | <b>Total</b>     |
| <b>At January 1</b>                | 183,481         | 838                  | 5,760              | 833,635                      | 1,023,714        |
| Additions                          | 710,376         | 31,654               | 9,071              | 114,243                      | 865,344          |
| Utilizations                       | (495,907)       | (32,220)             | (646)              | (156,301)                    | (685,074)        |
| <b>At December 31</b>              | <b>397,950</b>  | <b>272</b>           | <b>14,185</b>      | <b>791,577</b>               | <b>1,203,984</b> |
| Current                            | 390,038         | 272                  | 2,638              | -                            | 392,948          |
| Non-current                        | 7,912           | -                    | 11,547             | 791,577                      | 811,036          |

  

|                                    | <b>2015</b>     |                      |                    |                              |                  |
|------------------------------------|-----------------|----------------------|--------------------|------------------------------|------------------|
| <i>(in millions of Korean won)</i> | <b>Warranty</b> | <b>Sales returns</b> | <b>Restoration</b> | <b>Litigation and others</b> | <b>Total</b>     |
| <b>At January 1</b>                | 222,522         | 528                  | 4,812              | 818,104                      | 1,045,966        |
| Additions                          | 253,626         | 31,153               | 1,749              | 92,685                       | 379,213          |
| Utilizations                       | (292,667)       | (30,843)             | (801)              | (77,154)                     | (401,465)        |
| <b>At December 31</b>              | <b>183,481</b>  | <b>838</b>           | <b>5,760</b>       | <b>833,635</b>               | <b>1,023,714</b> |
| Current                            | 175,022         | 838                  | 207                | -                            | 176,067          |
| Non-current                        | 8,459           | -                    | 5,553              | 833,635                      | 847,647          |

(b) Greenhouse Gas Emission Liabilities

As of December 31, 2016, emission rights received free of charge for each reporting period and greenhouse gas emission estimated by management, are as follows:

| <i>(in tons)</i>                        | <b>2016</b> | <b>2017</b> |
|---|-------------|-------------|
| Emission rights received free of charge | 521,247     | 509,156     |

In 2016, there is no emission right that the Company additionally purchased from the market and there is no recognized emission liability as greenhouse gas emission estimated by management is 520,132 tons.

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**19. Other Liabilities**

Other liabilities as of December 31, 2016 and 2015, are as follows:

| <i>(in millions of Korean won)</i> | <b>December 31, 2016</b> | <b>December 31, 2015</b> |
|------------------------------------|--------------------------|--------------------------|
| <b>Current</b>                     |                          |                          |
| Advances from customers            | 277,669                  | 207,212                  |
| Unearned income                    | 32,002                   | 31,132                   |
| Withholding                        | 102,396                  | 116,047                  |
| Accrued expenses                   | 1,470,998                | 1,350,789                |
| <b>Subtotal</b>                    | <b>1,883,065</b>         | <b>1,705,180</b>         |
| <b>Non-current</b>                 |                          |                          |
| Accrued expenses                   | 82,633                   | 83,696                   |
| <b>Subtotal</b>                    | <b>82,633</b>            | <b>83,696</b>            |
| <b>Total</b>                       | <b>1,965,698</b>         | <b>1,788,876</b>         |

**20. Paid-in Capital**

(a) As of December 31, 2016 and 2015, the number of shares authorized is 600 million.

|                  | <b>Par value<br/>per share</b> | <b>December 31, 2016</b>           |   | <b>December 31, 2015</b>           |   |
|------------------|--------------------------------|------------------------------------|---|------------------------------------|---|
|                  |                                | <b>Number of<br/>shares issued</b> | <b>Amount<br/>(in millions of<br/>Korean won)</b> | <b>Number of<br/>shares issued</b> | <b>Amount<br/>(in millions of<br/>Korean won)</b> |
| Ordinary shares  | 5,000                          | 163,647,814                        | 818,239   | 163,647,814                        | 818,239   |
| Preferred shares | 5,000                          | 17,185,992                         | 85,930  | 17,185,992                         | 85,930  |
| <b>Total</b>     |                                | <b>180,833,806</b>                 | <b>904,169</b>                                    | <b>180,833,806</b>                 | <b>904,169</b>                                    |

The preferred shareholders have no voting rights and are entitled to preferred dividends at a rate of one percentage point over that of ordinary shares. This preferred dividend rate is not applicable to stock dividends. In addition, the preferred shareholders have same rights on the remaining assets as ordinary shareholders. Repayment and conversion are not applicable to preferred shares.

(b) Share premium balance as of December 31, 2016, is ₩3,088,179 million. The share premium of ₩1,876,153 million was recognized, which is ₩2,815,707 million of the carrying amount of net assets acquired from the entity split-off back on April 1, 2002, less the Company's capital of ₩783,961 million and less the Company's capital adjustment of ₩155,593 million. In addition, the amount of ₩331,766 million paid in excess of par value due to issuance of ordinary shares (merged with LG IBMPC Co., Ltd.) and the exercise of conversion right and warrants in 2005 and 2006 are included. The excess in paid-in capital amounting to ₩880,260 million over the par value was recognized as the share premium due to the issuance of ordinary shares in 2011.

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**21. Retained Earnings and Dividends**

(a) Retained earnings as of December 31, 2016 and 2015, consist of:

| <i>(in millions of Korean won)</i> | <b>December 31, 2016</b> | <b>December 31, 2015</b> |
|------------------------------------|--------------------------|--------------------------|
| Legal reserve <sup>1</sup>         | 167,766                  | 160,478                  |
| Discretionary reserve              | 4,805,354                | 5,317,480                |
| Undisposed accumulated deficit     | (121,547)                | (431,854)                |
| <b>Total</b>                       | <b>4,851,573</b>         | <b>5,046,104</b>         |

<sup>1</sup> The Commercial Code of the Republic of Korea requires the Company to appropriate, as a legal reserve, an amount equal to a minimum of 10% of cash dividends paid until such reserve equals 50% of its issued capital stock. The reserve is not available for the payment of cash dividends, but may be transferred to capital stock or used to reduce accumulated deficit.

(b) Appropriation of retained earnings for the years ended December 31, 2016 and 2015, is as follows:

| <i>(in millions of Korean won)</i>   | <b>2016</b>      | <b>2015</b>      |
|--|------------------|------------------|
| <b>Deficit for disposition</b>   |                  |                  |
| Unappropriated retained earnings carried over from prior year                    | 99               | 99               |
| Remeasurement of net defined benefit liability                                   | 154,841          | (76,114)         |
| Loss for the year  | (276,487)        | (355,839)        |
|  | <u>(121,547)</u> | <u>(431,854)</u> |
| <b>Transfer from discretionary reserve</b>                                       |                  |                  |
| Reserve for research and manpower development                                    | 4,805,354        | 5,317,480        |
| <b>Total</b>   | <u>4,683,807</u> | <u>4,885,626</u> |
| <b>Appropriation of retained earnings</b>  |                  |                  |
| Earned profit reserves   | 7,288            | 7,288            |
| Reserve for research and manpower development                                    | 4,603,535        | 4,805,354        |
| Dividends  | 72,885           | 72,885           |
| Ordinary Share :   |                  |                  |
| ₩ 400 (8%) in 2016   |                  |                  |
| ₩ 400 (8%) in 2015   |                  |                  |
| Preferred share :  |                  |                  |
| ₩ 450 (9%) in 2016   |                  |                  |
| ₩ 450 (9%) in 2015   |                  |                  |
|  | <u>4,683,708</u> | <u>4,885,527</u> |
| <b>Unappropriated retained earnings to be carried forward to subsequent year</b> | <u>99</u>        | <u>99</u>        |



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(c) Dividends

Details of dividends per share and a total dividend in respect of the year ended December 31, 2016, which is to be proposed at the annual general meeting on March 17, 2017, are as follows. These separate financial statements do not reflect this dividend payable.

| <i>(Unit: shares)</i>  | 2016            |                  | 2015            |                  |
|--|-----------------|------------------|-----------------|------------------|
|  | Ordinary shares | Preferred shares | Ordinary shares | Preferred shares |
| Outstanding shares   | 163,647,814     | 17,185,992       | 163,647,814     | 17,185,992       |
| Treasury shares  | (763,171)       | (4,690)          | (763,171)       | (4,690)          |
| Numbers of shares for dividend                               | 162,884,643     | 17,181,302       | 162,884,643     | 17,181,302       |
| Par value (in Korean won)                                    | 5,000           | 5,000            | 5,000           | 5,000            |
| Dividend rate  | 8.00%           | 9.00%            | 8.00%           | 9.00%            |
| Dividends per share (in Korean won)                          | 400             | 450              | 400             | 450              |
| Total dividend amount (in millions of Korean won)            | 65,154          | 7,731            | 65,154          | 7,731            |
| Dividend payout ratio <sup>1</sup><br>(Dividends/Net income) | -               | -                | -               | -                |
| Stock price <sup>2</sup> (in Korean won)                     | 49,810          | 24,390           | 52,675          | 28,950           |
| Dividend yield ratio (Dividend per share/ Market price)      | 0.80%           | 1.85%            | 0.76%           | 1.55%            |

<sup>1</sup> Dividend payout ratio is not calculated due to loss for the year of the Company.

<sup>2</sup> Average of prices in the stock market for one week preceding the two business days before the record date of the shareholders' list for the general meeting of shareholders related to above dividends.

**22. Accumulated Other Comprehensive Income**

Accumulated other comprehensive income as of December 31, 2016 and 2015, consist of:

| <i>(in millions of Korean won)</i>  | December 31, 2016 | December 31, 2015 |
|-------------------------------------|-------------------|-------------------|
| Cash flow hedge                     | (56,223)          | (55,567)          |
| Available-for-sale financial assets | 10,573            | 10,943            |
| <b>Total</b>                        | <b>(45,650)</b>   | <b>(44,624)</b>   |

**23. Other Components of Equity**

Other components of equity as of December 31, 2016 and 2015, consist of:

| <i>(in millions of Korean won)</i>  | December 31, 2016 | December 31, 2015 |
|-------------------------------------|-------------------|-------------------|
| Treasury shares <sup>1</sup>        | (44,893)          | (44,893)          |
| Consideration for conversion rights | 9,891             | 9,891             |
| Gain on disposal of treasury shares | 2,183             | 2,183             |
| <b>At December 31,</b>              | <b>(32,819)</b>   | <b>(32,819)</b>   |

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<sup>1</sup> As of December 31, 2016, the Company has treasury shares consisting of 763,171 ordinary shares (December 31, 2015: 763,171 shares) and 4,690 preferred shares (December 31, 2015: 4,690 shares) at the end of the reporting period. The Company intends to either grant these treasury shares to employees and directors as compensation, or to sell them in the future.

**24. Net Sales**

Details of net sales for the years ended December 31, 2016 and 2015, are as follows:

| <i>(in millions of Korean won)</i> | <b>2016</b>       | <b>2015</b>       |
|------------------------------------|-------------------|-------------------|
| <b>Continuing operations:</b>      |                   |                   |
| Sales of goods                     | 28,070,245        | 27,615,162        |
| Rendering of services              | 336,585           | 267,905           |
| Royalty income                     | 336,416           | 485,361           |
| <b>Subtotal</b>                    | <b>28,743,246</b> | <b>28,368,428</b> |
| <b>Discontinued operations</b>     | <b>-</b>          | <b>9,582</b>      |
| <b>Total</b>                       | <b>28,743,246</b> | <b>28,378,010</b> |

**25. Expenses by Nature**

Expenses that are recorded by nature for the years ended December 31, 2016 and 2015, consist of:

| <i>(in millions of Korean won)</i>            | <b>2016</b>       | <b>2015</b>       |
|---|-------------------|-------------------|
| <b>Continuing operations:</b>                 |                   |                   |
| Changes in finished goods and work-in-process | (52,008)          | (53,744)          |
| Raw materials and merchandise used            | 17,779,288        | 17,898,926        |
| Employee benefit expense                      | 3,670,939         | 3,374,207         |
| Depreciation and amortization                 | 939,865           | 951,115           |
| Advertising expense                           | 683,653           | 584,643           |
| Promotion expense                             | 297,265           | 206,646           |
| Transportation expense                        | 528,467           | 557,455           |
| Commission expense                            | 1,553,937         | 1,479,585         |
| Other expenses                                | 3,632,295         | 3,387,132         |
| <b>Subtotal<sup>1</sup></b>                   | <b>29,033,701</b> | <b>28,385,965</b> |
| <b>Discontinued operations</b>                | <b>-</b>          | <b>14,859</b>     |
| <b>Total</b>                                  | <b>29,033,701</b> | <b>28,400,824</b> |

<sup>1</sup> Cost of sales, selling and marketing expenses, administrative expenses, research and development expenses and service costs are included.

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**26. General Operating Expenses (Selling and Marketing expenses, Administrative Expenses, Research and Development Expenses, and Service Costs)**

Details of general operating expenses for the years ended December 31, 2016 and 2015, are as follows:

| <i>(in millions of Korean won)</i> | <b>2016</b>      | <b>2015</b>      |
|------------------------------------|------------------|------------------|
| <b>Continuing operations:</b>      |                  |                  |
| Salaries                           | 1,386,084        | 1,283,394        |
| Post-employment benefits           | 166,373          | 158,612          |
| Employee benefits                  | 233,409          | 229,404          |
| Freight expense                    | 520,691          | 551,655          |
| Rental expense                     | 171,725          | 166,617          |
| Commission expense                 | 1,061,049        | 1,037,518        |
| Depreciation                       | 132,492          | 145,221          |
| Amortization                       | 161,391          | 162,211          |
| Taxes and dues                     | 18,270           | 17,465           |
| Advertising expense                | 683,653          | 584,643          |
| Promotional expense                | 297,265          | 206,646          |
| R&D costs                          | 439,684          | 477,572          |
| Service costs                      | 783,982          | 280,043          |
| Bad debts expense                  | (72,419)         | 18,112           |
| Other                              | 290,327          | 337,694          |
| <b>Subtotal</b>                    | <b>6,273,976</b> | <b>5,656,807</b> |
| <b>Discontinued operations</b>     | <b>-</b>         | <b>(1,139)</b>   |
| <b>Total</b>                       | <b>6,273,976</b> | <b>5,655,668</b> |

**27. Financial Income**

Financial income for the years ended December 31, 2016 and 2015, consists of:

| <i>(in millions of Korean won)</i> | <b>2016</b>    | <b>2015</b>    |
|------------------------------------|----------------|----------------|
| <b>Continuing operations:</b>      |                |                |
| Interest income                    | 19,485         | 23,010         |
| Exchange differences               | 215,240        | 215,395        |
| Other                              | 23,097         | 28,101         |
| <b>Subtotal</b>                    | <b>257,822</b> | <b>266,506</b> |
| <b>Discontinued operations</b>     | <b>-</b>       | <b>-</b>       |
| <b>Total</b>                       | <b>257,822</b> | <b>266,506</b> |

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**28. Financial Expenses**

Financial expenses for the years ended December 31, 2016 and 2015, consist of:

| <i>(in millions of Korean won)</i>    | <b>2016</b>    | <b>2015</b>    |
|---------------------------------------|----------------|----------------|
| <b>Continuing operations:</b>         |                |                |
| Interest expense                      | 226,419        | 241,813        |
| Exchange differences                  | 195,754        | 211,326        |
| Loss on disposal of trade receivables | 3,219          | 5,279          |
| Other                                 | 5,880          | 1,028          |
| <b>Subtotal</b>                       | <b>431,272</b> | <b>459,446</b> |
| <b>Discontinued operations</b>        | <b>-</b>       | <b>-</b>       |
| <b>Total</b>                          | <b>431,272</b> | <b>459,446</b> |

**29. Other Non-operating Income**

Other non-operating income for the years ended December 31, 2016 and 2015, consists of:

| <i>(in millions of Korean won)</i>   | <b>2016</b>      | <b>2015</b>      |
|--|------------------|------------------|
| <b>Continuing operations:</b>  |                  |                  |
| Dividend income  | 489,476          | 169,166          |
| Exchange differences   | 1,060,198        | 958,505          |
| Gain on disposal of property, plant and equipment                              | 4,606            | 4,757            |
| Gain on disposal of investment property  | 7,903            | -                |
| Gain on disposal of available-for-sale financial assets                        | 50               | 6,990            |
| Gain on disposal of investments in subsidiaries, associates and joint ventures | 28,774           | 73,506           |
| Gain on transfer of business   | -                | 13,045           |
| Other  | 29,043           | 73,850           |
| <b>Subtotal</b>  | <b>1,620,050</b> | <b>1,299,819</b> |
| <b>Discontinued operations</b>   | <b>-</b>         | <b>828</b>       |
| <b>Total</b>   | <b>1,620,050</b> | <b>1,300,647</b> |

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**30. Other Non-operating Expenses**

Other non-operating expenses for the years ended December 31, 2016 and 2015, consist of:

| <i>(in millions of Korean won)</i>  | <b>2016</b>      | <b>2015</b>      |
|---|------------------|------------------|
| <b>Continuing operations:</b>   |                  |                  |
| Exchange differences  | 1,097,220        | 1,107,869        |
| Loss on disposal of property, plant and equipment                                 | 17,987           | 18,292           |
| Impairment loss on property, plant and equipment                                  | 18,502           | 15,408           |
| Loss on disposal of intangible assets   | 11,336           | 26,026           |
| Impairment loss on available-for-sale financial assets                            | 6,116            | -                |
| Loss on disposal of investments in subsidiaries,<br>associates and joint ventures | 5,659            | 2,325            |
| Impairment loss on investments in subsidiaries,<br>associates and joint ventures  | 54,985           | 8,843            |
| Other   | 118,560          | 176,402          |
| <b>Subtotal</b>   | <b>1,330,365</b> | <b>1,355,165</b> |
| <b>Discontinued operations</b>  | <b>-</b>         | <b>989</b>       |
| <b>Total</b>  | <b>1,330,365</b> | <b>1,356,154</b> |

**31. Loss per Share**

The Company has no potential dilutive ordinary shares. Accordingly, basic earnings(loss) per share is identical to diluted earnings(loss) per share.

(a) Basic loss per ordinary share for the years December 31, 2016 and 2015, is as follows::

|   | <b>2016</b> | <b>2015</b> |
|---|-------------|-------------|
| Loss attributable to ordinary shares <sup>1</sup><br>(in millions of won)             | (250,882)   | (322,663)   |
| Continuing operations   | (250,882)   | (318,934)   |
| Discontinued operations   | -           | (3,729)     |
| Weighted average number of ordinary shares<br>outstanding (unit: shares) <sup>2</sup> | 162,884,643 | 162,884,643 |
| Basic loss per ordinary share<br>(in Korean won)                                      | (1,540)     | (1,981)     |
| Continuing operations   | (1,540)     | (1,958)     |
| Discontinued operations   | -           | (23)        |

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(b) Basic loss per preferred share for the years December 31, 2016 and 2015, is as follows:

|   | <u>2016</u> | <u>2015</u> |
|---|-------------|-------------|
| Loss attributable to preferred shares <sup>1</sup> (in millions of won)             | (25,605)    | (33,176)    |
| Continuing operations   | (25,605)    | (32,783)    |
| Discontinued operations   | -           | (393)       |
| Weighted average number of preferred shares outstanding (unit: shares) <sup>2</sup> | 17,181,302  | 17,181,302  |
| Basic loss per preferred share (in Korean won)                                      | (1,490)     | (1,931)     |
| Continuing operations   | (1,490)     | (1,908)     |
| Discontinued operations   | -           | (23)        |

<sup>1</sup> Loss attributable to ordinary and preferred shares are as follows:

| <i>(in millions of Korean won)</i>                    | <u>2016</u> | <u>2015</u> |
|---|-------------|-------------|
| <b>Continuing operations:</b>                         |             |             |
| <b>Loss for the year (A)</b>                          | (276,487)   | (351,717)   |
| Ordinary share dividends (B)                          | 65,154      | 65,154      |
| Preferred share dividends (C)                         | 7,731       | 7,731       |
| <b>Undistributed loss (D=A-B-C)</b>                   | (349,372)   | (424,602)   |
| Undistributed loss available for ordinary shares (E)  | (316,036)   | (384,088)   |
| Undistributed loss available for preferred shares (F) | (33,336)    | (40,514)    |
| <b>Loss attributable to ordinary shares (G=B+E)</b>   | (250,882)   | (318,934)   |
| <b>Loss attributable to preferred shares (H=C+F)</b>  | (25,605)    | (32,783)    |
| <b>Discontinued operations:</b>                       |             |             |
| <b>Loss for the year (I)</b>                          | -           | (4,122)     |
| Ordinary share dividends (J)                          | -           | -           |
| Preferred share dividends (K)                         | -           | -           |
| <b>Undistributed loss (L=I-J-K)</b>                   | -           | (4,122)     |
| Undistributed loss available for ordinary shares (M)  | -           | (3,729)     |
| Undistributed loss available for preferred shares (N) | -           | (393)       |
| <b>Loss attributable to ordinary shares (O=J+M)</b>   | -           | (3,729)     |
| <b>Loss attributable to preferred shares (P=K+N)</b>  | -           | (393)       |

<sup>2</sup> Weighted average numbers of shares outstanding are calculated as follows:

| <i>(unit: shares)</i>  | <u>2016</u> | <u>2015</u> |
|--|-------------|-------------|
| Ordinary shares issued   | 163,647,814 | 163,647,814 |
| Ordinary treasury shares                                       | (763,171)   | (763,171)   |
| Ordinary shares outstanding                                    | 162,884,643 | 162,884,643 |
| <b>Weighted average number of ordinary shares outstanding</b>  | 162,884,643 | 162,884,643 |
| Preferred shares issued  | 17,185,992  | 17,185,992  |
| Preferred treasury shares                                      | (4,690)     | (4,690)     |
| Preferred shares outstanding                                   | 17,181,302  | 17,181,302  |
| <b>Weighted average number of preferred shares outstanding</b> | 17,181,302  | 17,181,302  |

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**32. Cash Flow Information**

Cash flows from operating activities are presented using the indirect method. Details of cash generated from operations for the years ended December 31, 2016 and 2015, are as follows:

(a) Cash generated from operations

| <i>(in millions of Korean won)</i>   | <b>2016</b>      | <b>2015</b>      |
|--|------------------|------------------|
| Loss for the year  | (276,487)        | (355,839)        |
| Adjustments:   |                  |                  |
| Interest expense, net  | 206,934          | 218,803          |
| Exchange differences, net  | 6,419            | 3,504            |
| Depreciation   | 579,895          | 594,786          |
| Amortization   | 364,615          | 364,173          |
| Loss on disposal of property, plant and equipment and intangible assets, net | 24,717           | 39,561           |
| Provisions for severance benefits  | 308,024          | 287,963          |
| Provisions   | 865,344          | 379,213          |
| Dividend income  | (489,476)        | (169,166)        |
| Income tax expense   | 102,267          | 85,894           |
| Other  | 180,399          | 78,210           |
| Profit from discontinued operations  | -                | 773              |
|  | <u>2,149,138</u> | <u>1,883,714</u> |
| Changes in operating assets and liabilities:                                 |                  |                  |
| Decrease in trade receivables  | 770,893          | 353,790          |
| Decrease(increase) in loans and other receivables                            | 58,340           | (52,296)         |
| Increase in inventories  | (280,681)        | (20,148)         |
| Decrease(increase) in other assets   | (151,794)        | 23,085           |
| Increase(decrease) in trade payables   | 374,305          | (455,015)        |
| Increase(decrease) in other payables   | 236,097          | (65,633)         |
| Decrease in provisions   | (685,074)        | (401,465)        |
| Increase in other liabilities  | 173,885          | 302,558          |
| Payment of defined benefit liability   | (32,354)         | (29,625)         |
| Deposit in plan assets, net  | (331,762)        | (430,382)        |
|  | <u>131,855</u>   | <u>(775,131)</u> |
| <b>Cash generated from operations</b>  | <u>2,004,506</u> | <u>752,744</u>   |

(b) Significant non-cash transactions

| <i>(in millions of Korean won)</i>  | <b>2016</b> | <b>2015</b> |
|---|-------------|-------------|
| Reclassification of construction-in-progress to property, plant and equipment | 477,933     | 748,928     |
| Reclassification of construction-in-progress to intangible assets             | 188,706     | 262,773     |
| Reclassification of other assets to intangible assets                         | 111,706     | 89,076      |
| Reclassification of current portion of borrowings and debentures              | 843,479     | 1,041,603   |
| Other payables to acquire property, plant and equipment                       | 131,441     | 65,297      |
| Other payables to acquire intangible assets                                   | 15,527      | 44,528      |

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(c) Assets and liabilities arising from the transfer of business

- Transfer of CCTV and home security product business

1) On December 9, 2016, assets and workforce of CCTV and home security product business were transferred to LG INNOTEK CO.,LTD.

2) Total consideration received, and assets and liabilities of the transferred business are as follows:

| <i>(in millions of Korean won)</i>                   | <b>Amount</b> |
|--|---------------|
| Total consideration                                  |               |
| Cash and cash equivalents                            | 985           |
| Other receivables                                    | 313           |
| Assets of the transferred business:                  |               |
| Inventories  | 1,136         |
| Property, plant and equipment, and intangible assets | 1,154         |
| Other assets   | 50            |
| Liabilities of the transferred business:             |               |
| Net defined benefit liabilities                      | 1,042         |

- Transfer of Display Driver-IC design business

1) On July 1, 2015, the assets and workforce of Display Driver-IC design business were transferred to Silicon Works Co., Ltd.

2) Total consideration received, and the assets and liabilities of the transferred business are as follows:

| <i>(in millions of Korean won)</i>                   | <b>Amount</b> |
|--|---------------|
| Total consideration                                  |               |
| Cash and cash equivalents                            | 22,010        |
| Assets of the transferred business:                  |               |
| Trade receivables and other receivables              | 8,199         |
| Inventories  | 12,276        |
| Property, plant and equipment, and intangible assets | 670           |
| Other assets   | 24            |
| Liabilities of the transferred business:             |               |
| Trade payables and other payables                    | 11,760        |
| Other liabilities                                    | 7             |
| Net defined benefit liabilities                      | 437           |



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**33. Contingencies**

(a) At the end of the reporting period, the Company is provided with performance guarantees of ₩124,076 million (December 31, 2015: ₩115,347 million) from Seoul Guarantee Insurance and one other financial institution relating to the performance guarantees. The Company is also provided with guarantee of principal US\$ 200 million (December 31, 2015: US\$ 200 million) and interests from Shinhan Bank for the guaranteed private placement bond.

(b) At the end of the reporting period, the financial guarantees provided by the Company to related parties amount to ₩5,027,123 million (December 31, 2015: ₩4,757,997 million) on the indebtedness of its subsidiaries. Details are as follows:

| <i>(in millions of Korean won)</i>                        | <b>Beneficiary</b>          | <b>December 31,<br/>2016</b> | <b>December 31,<br/>2015</b> |
|---|-----------------------------|------------------------------|------------------------------|
| LG Electronics European Shared Service Center B.V.(LGESC) | Citibank and others         | 890,245                      | 884,866                      |
| LG Electronics U.S.A., Inc.(LGEUS)                        | JP Morgan and others        | 611,612                      | 592,469                      |
| LG Electronics do Brasil Ltda.(LGEBR)                     | Citibank and others         | 544,517                      | 484,651                      |
| LG Electronics Ticaret A.S.(LGETK)                        | HSBC and others             | 505,191                      | 524,990                      |
| LG Electronics Vietnam Haiphong Co., Ltd.(LGEVH)          | VIETIN and others           | 426,178                      | 293,539                      |
| LG Electronics (China) Co., Ltd.(LGECH)                   | Citibank and others         | 283,498                      | 282,888                      |
| LG Electronics Peru S.A.(LGEPR)                           | Nova scotia and others      | 211,703                      | 153,893                      |
| LG Electronics Inc Chile Ltda.(LGECL)                     | Nova scotia and others      | 172,587                      | 147,486                      |
| LG Electronics India Pvt. Ltd.(LGEIL)                     | HSBC and others             | 137,456                      | 143,989                      |
| LG Electronics RUS, LLC(LGERA)                            | Citibank and others         | 136,660                      | 125,680                      |
| LG Electronics Argentina S.A.(LGEAR)                      | Citibank and others         | 130,472                      | 55,119                       |
| LG Electronics Colombia Ltda.(LGECEB)                     | Citibank and others         | 128,623                      | 131,288                      |
| LG Electronics Algeria SARL(LGEAS)                        | Societe Generale and others | 116,027                      | 100,250                      |
| LG-Shaker Co., Ltd.(LGESR)                                | BSF and others              | 103,983                      | 100,756                      |
| LG Electronics Morocco S.A.R.L(LGEMC)                     | Citibank and others         | 92,900                       | 80,607                       |
| LG Electronics Almaty Kazakhstan(LGEAK)                   | Citibank and others         | 90,651                       | 108,492                      |
| LG Electronics Thailand Co., Ltd.(LGETH)                  | MIZUHO and others           | 69,831                       | 91,148                       |
| LG Electronics Egypt S.A.E(LGEEG)                         | HSBC and others             | 66,468                       | 64,460                       |
| LG Electronics Philippines Inc.(LGEPH)                    | Citibank and others         | 54,624                       | 56,832                       |
| LG Electronics Monterrey Mexico S.A.de C.V. (LGEMM)       | Citibank                    | 36,255                       | -                            |
| Others  | Citibank and others         | 217,642                      | 334,594                      |
| <b>Total</b>  |                             | <b>5,027,123</b>             | <b>4,757,997</b>             |

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(c) At the end of the reporting period, there is no financial guarantee for performance of guaranteed obligation provided by the Company to external parties other than related parties (December 31, 2015: US\$ 24 million). The Company is providing KEB Hana Bank with a payment guarantee for buyers up to ₩46,000 million (December 31, 2015: ₩66,000 million)

(d) In December 2012, the European Commission imposed a penalty on the Company for anti-competitive activities among CRT (Cathode Ray Tube) manufacturers as a result of an investigation. The Company recognized such penalty amounting to EUR 491,567 thousand as expected loss. However, the Company appealed against the decision of the European Commission. The ultimate amount of loss resulting from the investigation may differ from the amount of penalty imposed and could be material. The Company is provided with a performance guarantee of EUR 535,808 thousand from HSBC and others for the above.

In addition, the Company is under investigation and has been named as a defendant in class actions in the United States, Europe and others in connection with the alleged anti-competitive activities among CRT manufacturers. There are also a number of other legal actions, disputes, and investigations arising from the normal course of business that remain pending at the end of the reporting period. The ultimate effect of those lawsuits on the financial position of the Company as of the statement of financial position date cannot be presently determined.

There are pending lawsuits other than above. However, management does not expect the outcome of the litigations will have a material effect on the Company's financial position.

**34. Commitments**

(a) At the end of the reporting period, the Company has overdraft facility agreements with various banks, including Shinhan Bank, with a limit of ₩165,500 million (December 31, 2015: ₩175,500 million).

(b) At the end of the reporting period, the Company has sales agreements for export trade receivables with KEB Hana Bank and 19 other banks amounting to ₩2,535,433 million (December 31, 2015: ₩2,872,042 million) and has sales agreements for domestic trade receivables with BTMU amounting to ₩500,000 million (December 31, 2015: ₩300,000 million).

(c) At the end of the reporting period, the Company has corporate electronic settlement services contracts and vendor prepayment services contracts with Shinhan Bank and seven other banks for up to ₩1,150,000 million (December 31, 2015: ₩1,320,000 million) which guarantee the payment of trade accounts payable in case the suppliers sell their trade receivables.

(d) At the end of the reporting period, the Company has other trade financing agreements and loan commitments with financial institutions, including Shinhan Bank, of up to ₩820,850 million (December 31, 2015: ₩739,468 million).

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(e) Contractual commitments for the acquisition of assets

The property, plant and equipment, and intangible assets contracted for, but not yet acquired at the end of the reporting period, are as follows:

| <i>(in millions of Korean won)</i> | <b>December 31, 2016</b> | <b>December 31, 2015</b> |
|------------------------------------|--------------------------|--------------------------|
| Property, plant and equipment      | 335,455                  | 474,649                  |
| Intangible assets                  | 13,278                   | 3,881                    |
| <b>Total</b>                       | <b>348,733</b>           | <b>478,530</b>           |

(f) Operating lease commitments – the Company as lessee

- i) The future aggregate minimum lease payments under non-cancellable operating leases at the end of the reporting period, are as follows:

| <i>(in millions of Korean won)</i> | <b>December 31, 2016</b> |                     |                     | <b>Total lease payments</b> |
|------------------------------------|--------------------------|---------------------|---------------------|-----------------------------|
|                                    | <b>Within 1 year</b>     | <b>1 to 5 years</b> | <b>Over 5 years</b> |                             |
| Buildings and offices              | 54,400                   | 53,049              | 4,922               | 112,371                     |
| Vehicles                           | 5,641                    | 4,973               | -                   | 10,614                      |
| Equipment                          | 13,910                   | 11,049              | -                   | 24,959                      |
| <b>Total</b>                       | <b>73,951</b>            | <b>69,071</b>       | <b>4,922</b>        | <b>147,944</b>              |

- ii) Lease payment under operating lease recognized in the separate statement of profit or loss for the year ended December 31, 2016, is ₩116,600 million (2015: ₩115,486 million).
- iii) As of December 31, 2016, total future minimum sublease receipts under non-cancellable sublease agreements for some buildings amount to ₩27,594 million and lease income recognized related to the subleases for the year ended December 31, 2016, amounts to ₩14,547 million (2015: ₩14,518 million).

(g) Operating lease commitments – the Company as lessor

- i) The Company has non-cancellable operating lease agreements regarding healthcare rental business that lends water purifiers to customers and real estate rental business. The future aggregate lease receipts under operating leases at the end of the reporting period, are as follows:

| <i>(in millions of Korean won)</i> | <b>December 31, 2016</b> |                     |                     | <b>Total lease payments</b> |
|------------------------------------|--------------------------|---------------------|---------------------|-----------------------------|
|                                    | <b>Within 1 year</b>     | <b>1 to 5 years</b> | <b>Over 5 years</b> |                             |
| Healthcare rental                  | 123,078                  | 195,144             | -                   | 318,222                     |
| Real estate rental                 | 2,647                    | 1                   | -                   | 2,648                       |
| <b>Total</b>                       | <b>125,725</b>           | <b>195,145</b>      | <b>-</b>            | <b>320,870</b>              |

- ii) The Company recognized ₩113,432 million (2015: ₩100,301 million) in lease income for the year ended December 31, 2016.

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iii) Details of assets subject to operating lease are as follows:

| <i>(in millions of Korean won)</i> | <b>December 31, 2016</b> | <b>December 31, 2015</b> |
|------------------------------------|--------------------------|--------------------------|
| Acquisition cost                   | 259,950                  | 240,244                  |
| Accumulated depreciation           | (57,314)                 | (60,854)                 |
| Accumulated impairment             | (793)                    | (827)                    |
| <b>Net book amount</b>             | <b>201,843</b>           | <b>178,563</b>           |

iv) Changes in net book amount of assets subject to operating lease for the years ended December 31, 2016 and 2015, are as follows:

| <i>(in millions of Korean won)</i> | <b>2016</b>    | <b>2015</b>    |
|------------------------------------|----------------|----------------|
| <b>At January 1</b>                | 178,563        | 43,789         |
| Acquisition                        | 76,660         | 34,945         |
| Transfer                           | (8,906)        | 121,334        |
| Disposal                           | (20,361)       | (3,878)        |
| Depreciation                       | (24,113)       | (17,560)       |
| Impairment loss                    | -              | (67)           |
| <b>At December 31</b>              | <b>201,843</b> | <b>178,563</b> |

(h) Trademark license commitments

At the end of the reporting period, the Company has various agreements as follows:

| <b>Purpose</b>        | <b>Related products</b> | <b>Provided by</b>               | <b>Used by</b>                   |
|-----------------------|-------------------------|----------------------------------|----------------------------------|
| Use of license        | Mobile                  | Qualcomm Incorporated and others | LG Electronics Inc.              |
| Provision for license | Home appliance          | LG Electronics Inc.              | Panasonic Corporation and others |

**35. Related Party**

(a) Major transactions for the years ended December 31, 2016 and 2015, and balances of receivables and payables from transaction with related parties as of December 31, 2016 and 2015, are as follows:

i) Major income and expense transactions with related parties

| <i>(in millions of Korean won)</i>    |                      | <b>2016</b>                |               |              |                             |               |              |
|---------------------------------------|----------------------|----------------------------|---------------|--------------|-----------------------------|---------------|--------------|
|                                       |                      | <b>Income transactions</b> |               |              | <b>Expense transactions</b> |               |              |
| <b>Classification</b>                 | <b>Name</b>          | <b>Sales</b>               | <b>Others</b> | <b>Total</b> | <b>Purchases</b>            | <b>Others</b> | <b>Total</b> |
| Significantly influencing the Company | LG Corp.             | 2,122                      | 10,053        | 12,175       | -                           | 131,986       | 131,986      |
| Subsidiaries                          | LG Innotek Co., Ltd. | 229,589                    | 2,071         | 231,660      | 802,206                     | 9,624         | 811,830      |
|                                       | Hiplaza Co., Ltd.    | 1,175,735                  | -             | 1,175,735    | 81                          | 11,933        | 12,014       |

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|                |   | 2016                |               |                   |                      |                |                  |
|----------------|---|---------------------|---------------|-------------------|----------------------|----------------|------------------|
|                |   | Income transactions |               |                   | Expense transactions |                |                  |
| Classification | Name  | Sales               | Others        | Total             | Purchases            | Others         | Total            |
|                | LG Electronics Mobilecomm U.S.A., Inc.                  | 2,710,835           | -             | 2,710,835         | 2,249                | 25,037         | 27,286           |
|                | LG Electronics Egypt S.A.E                              | 202,490             | 71            | 202,561           | -                    | 561            | 561              |
|                | LG Electronics U.S.A., Inc.                             | 3,335,217           | -             | 3,335,217         | 5,059                | 113,776        | 118,835          |
|                | LG Electronics do Brasil Ltda.                          | 658,193             | -             | 658,193           | 7,627                | 2,168          | 9,795            |
|                | LG Electronics Vietnam Haiphong Co., Ltd.               | 1,053,179           | 22,213        | 1,075,392         | 29,623               | 4,387          | 34,010           |
|                | Inspur LG Digital Mobile Communications Co., Ltd.       | 1,515,852           | -             | 1,515,852         | 60,279               | 30,057         | 90,336           |
|                | LG Electronics Gulf FZE                                 | 667,027             | -             | 667,027           | 39                   | 1,662          | 1,701            |
|                | LG Electronics United Kingdom Ltd.                      | 135,061             | -             | 135,061           | 1,751                | 6,383          | 8,134            |
|                | LG Electronics RUS, LLC                                 | 362,311             | 19            | 362,330           | 1,164                | 1,281          | 2,445            |
|                | LG Electronics (Kunshan) Co.,Ltd.                       | 537,487             | -             | 537,487           | 19,528               | 821            | 20,349           |
|                | LG Electronics Peru S.A.                                | 126,558             | -             | 126,558           | -                    | 243            | 243              |
|                | LG Electronics Mexico S.A. DE C.V.                      | 373,682             | -             | 373,682           | 388                  | 909            | 1,297            |
|                | LG Electronics Espana S.A.                              | 148,301             | -             | 148,301           | 369                  | 2,899          | 3,268            |
|                | LG Electronics (Levant) Jordan                          | 388,835             | -             | 388,835           | 978                  | 23,563         | 24,541           |
|                | LG Electronics Deutschland GmbH                         | 186,940             | -             | 186,940           | 1,721                | 25,799         | 27,520           |
|                | LG Electronics Canada, Inc.                             | 468,987             | -             | 468,987           | 4                    | 3,409          | 3,413            |
|                | LG Electronics Japan, Inc.                              | 391,743             | -             | 391,743           | 7,185                | 28,230         | 35,415           |
|                | LG Electronics Nanjing New Technology co.,LTD           | 318,099             | 2             | 318,101           | 543,934              | 717            | 544,651          |
|                | LG Electronics Reynosa S.A. DE C.V.                     | 283,643             | 16            | 283,659           | 2,981                | 78             | 3,059            |
|                | LG Electronics Wroclaw Sp.z o.o                         | 119,635             | 6             | 119,641           | 5,072                | 2,979          | 8,051            |
|                | Qingdao LG Inspur Digital Communication Co., Ltd.       | 485,714             | 96            | 485,810           | 92,894               | 5,133          | 98,027           |
|                | LG Electronics Mlawa Sp. z o.o                          | 277,018             | -             | 277,018           | 2,199                | 1,370          | 3,569            |
|                | P.T. LG Electronics Indonesia                           | 177,799             | -             | 177,799           | 134,202              | 130            | 134,332          |
|                | Others  | 4,049,001           | 25,273        | 4,074,274         | 324,905              | 407,519        | 732,424          |
|                | <b>Subtotal</b>   | <b>20,378,931</b>   | <b>49,767</b> | <b>20,428,698</b> | <b>2,046,438</b>     | <b>710,668</b> | <b>2,757,106</b> |
| Associates     | LG Display Co., Ltd. and its subsidiaries               | 990,106             | 10,053        | 1,000,159         | 1,560,675            | 19,604         | 1,580,279        |
|                | Ericsson-LG Co., Ltd. and its subsidiaries              | 8,060               | -             | 8,060             | 4,537                | -              | 4,537            |
|                | Hitachi-LG Data Storage Inc.(HLDS) and its subsidiaries | 873                 | -             | 873               | 379                  | -              | 379              |
|                | LG Fuel Cell Systems Inc. and its subsidiaries          | 496                 | -             | 496               | 154                  | -              | 154              |
|                | Korea Information Certificate Authority Inc.            | -                   | -             | -                 | -                    | 1              | 1                |

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|                       |   | 2016                |        |            |                      |           |           |
|-----------------------|---|---------------------|--------|------------|----------------------|-----------|-----------|
|                       |   | Income transactions |        |            | Expense transactions |           |           |
| Classification        | Name  | Sales               | Others | Total      | Purchases            | Others    | Total     |
|                       | <b>Subtotal</b>                                     | 999,535             | 10,053 | 1,009,588  | 1,565,745            | 19,605    | 1,585,350 |
| Joint venture         | LG-MRI LLC  | 289                 | -      | 289        | 350                  | -         | 350       |
| Other related parties | LG CNS Co., Ltd. and its subsidiaries               | 46,528              | -      | 46,528     | 193,443              | 259,871   | 453,314   |
|                       | SERVEONE Co., Ltd. and its subsidiaries             | 27,984              | -      | 27,984     | 924,021              | 99,357    | 1,023,378 |
|                       | LG Siltron Incorporated and its subsidiaries        | 422                 | -      | 422        | 42                   | -         | 42        |
|                       | LUSEM CO., LTD.                                     | 4                   | -      | 4          | 2,195                | 42        | 2,237     |
|                       | LG Management Development Institute                 | 54                  | -      | 54         | 19                   | 26,227    | 26,246    |
|                       | LG SPORTS Ltd.                                      | 18                  | -      | 18         | -                    | 10,285    | 10,285    |
|                       | LG MMA Ltd.   | 520                 | -      | 520        | -                    | -         | -         |
|                       | <b>Subtotal</b>                                     | 75,530              | -      | 75,530     | 1,119,720            | 395,782   | 1,515,502 |
| Others <sup>1</sup>   | LG Chem Ltd. and its subsidiaries                   | 251,764             | 6,960  | 258,724    | 393,650              | 7,193     | 400,843   |
|                       | LG INTERNATIONAL CORP and its subsidiaries          | 124,840             | 13,921 | 138,761    | 1,773,664            | 618,578   | 2,392,242 |
|                       | LG Uplus Corp and its subsidiaries                  | 675,437             | -      | 675,437    | 971                  | 5,897     | 6,868     |
|                       | LG HAUSYS,LTD. and its associates/subsidiaries      | 25,784              | -      | 25,784     | 19,659               | 16        | 19,675    |
|                       | Silicon Works Co., Ltd                              | 4,491               | -      | 4,491      | 2,114                | -         | 2,114     |
|                       | LG HOUSEHOLD & HEALTH CARE LTD and its subsidiaries | 2,909               | -      | 2,909      | 249                  | 175       | 424       |
|                       | LG LIFE SCIENCES, LTD.                              | 3,649               | -      | 3,649      | 1                    | -         | 1         |
|                       | G R Inc. and its subsidiaries                       | 365                 | -      | 365        | 70                   | 176,974   | 177,044   |
|                       | LG Hitachi Ltd.                                     | 13                  | -      | 13         | -                    | -         | -         |
|                       | <b>Subtotal</b>                                     | 1,089,252           | 20,881 | 1,110,133  | 2,190,378            | 808,833   | 2,999,211 |
|                       | <b>Total</b>  | 22,545,659          | 90,754 | 22,636,413 | 6,922,631            | 2,066,874 | 8,989,505 |

**LG Electronics Inc.**  
**Notes to the Separate Financial Statements**  
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(in millions of Korean won)

|                                       |   | 2015                |              |                   |                      |                |                  |
|---------------------------------------|---|---------------------|--------------|-------------------|----------------------|----------------|------------------|
|                                       |   | Income transactions |              |                   | Expense transactions |                |                  |
| Classification                        | Name  | Sales               | Others       | Total             | Purchases            | Others         | Total            |
| Significantly influencing the Company | LG Corp.  | 974                 | -            | 974               | -                    | 136,140        | 136,140          |
| Subsidiaries                          | LG Innotek Co., Ltd.                              | 49,531              | -            | 49,531            | 1,002,923            | 12,175         | 1,015,098        |
|                                       | Hiplaza Co., Ltd.                                 | 1,011,756           | -            | 1,011,756         | 69                   | 11,730         | 11,799           |
|                                       | LG Electronics Mobilecomm U.S.A., Inc.            | 3,125,202           | -            | 3,125,202         | 566                  | 5,910          | 6,476            |
|                                       | LG Electronics Egypt S.A.E                        | 270,714             | 6            | 270,720           | -                    | 362            | 362              |
|                                       | LG Electronics U.S.A., Inc.                       | 2,595,340           | -            | 2,595,340         | 5,256                | 124,694        | 129,950          |
|                                       | LG Electronics do Brasil Ltda.                    | 821,576             | 5            | 821,581           | 19,889               | 2,188          | 22,077           |
|                                       | LG Electronics Vietnam Haiphong Co., Ltd.         | 378,253             | 344          | 378,597           | 18,643               | 1,147          | 19,790           |
|                                       | Inspur LG Digital Mobile Communications Co., Ltd. | 1,922,465           | 1,632        | 1,924,097         | 52,127               | 30,906         | 83,033           |
|                                       | LG Electronics Gulf FZE                           | 727,201             | -            | 727,201           | 56                   | 321            | 377              |
|                                       | LG Electronics United Kingdom Ltd.                | 225,692             | -            | 225,692           | 1,743                | 2,805          | 4,548            |
|                                       | LG Electronics RUS, LLC                           | 339,483             | 18           | 339,501           | 3,586                | 1,245          | 4,831            |
|                                       | LG Electronics (Kunshan) Co.,Ltd.                 | 506,189             | -            | 506,189           | 7,799                | -              | 7,799            |
|                                       | LG Electronics Peru S.A.                          | 118,873             | -            | 118,873           | -                    | 556            | 556              |
|                                       | LG Electronics Mexico S.A. DE C.V.                | 406,461             | -            | 406,461           | -                    | 1,005          | 1,005            |
|                                       | LG Electronics Espana S.A.                        | 116,845             | -            | 116,845           | 69                   | 873            | 942              |
|                                       | LG Electronics (Levant) Jordan                    | 412,491             | -            | 412,491           | 982                  | 2,408          | 3,390            |
|                                       | LG Electronics Deutschland GmbH                   | 133,642             | -            | 133,642           | 3,077                | 16,456         | 19,533           |
|                                       | LG Electronics Canada, Inc.                       | 450,528             | -            | 450,528           | -                    | 1,911          | 1,911            |
|                                       | LG Electronics Japan, Inc.                        | 545,068             | -            | 545,068           | 6,525                | 20,001         | 26,526           |
|                                       | LG Electronics Nanjing New Technology co.,LTD     | 299,552             | 374          | 299,926           | 504,253              | 631            | 504,884          |
|                                       | LG Electronics Reynosa S.A. DE C.V.               | 328,982             | -            | 328,982           | 5,516                | 119            | 5,635            |
|                                       | LG Electronics Wroclaw Sp.z o.o                   | 184,564             | 6            | 184,570           | 3,872                | 1,786          | 5,658            |
|                                       | Qingdao LG Inspur Digital Communication Co., Ltd. | 618,627             | -            | 618,627           | 70,312               | 11,089         | 81,401           |
|                                       | LG Electronics Mlawa Sp. z o.o                    | 199,197             | 80           | 199,277           | 3,837                | 1,690          | 5,527            |
|                                       | P.T. LG Electronics Indonesia                     | 162,006             | 6            | 162,012           | 143,453              | 171            | 143,624          |
|                                       | Others  | 4,171,691           | 3,611        | 4,175,302         | 259,409              | 511,240        | 770,649          |
|                                       | <b>Subtotal</b>                                   | <b>20,121,929</b>   | <b>6,082</b> | <b>20,128,011</b> | <b>2,113,962</b>     | <b>763,419</b> | <b>2,877,381</b> |
| Associates                            | LG Display Co., Ltd. and its subsidiaries         | 477,697             | 54,050       | 531,747           | 1,682,930            | 11,109         | 1,694,039        |
|                                       | Ericsson-LG Co., Ltd. and its subsidiaries        | 8,191               | -            | 8,191             | 5,161                | -              | 5,161            |

**LG Electronics Inc.**  
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(in millions of Korean won)

|                       |   | 2015                |                |                   |                      |                  |                  |
|-----------------------|---|---------------------|----------------|-------------------|----------------------|------------------|------------------|
|                       |   | Income transactions |                |                   | Expense transactions |                  |                  |
| Classification        | Name  | Sales               | Others         | Total             | Purchases            | Others           | Total            |
|                       | Hitachi-LG Data Storage Inc.(HLDS) and its subsidiaries                       | 2,418               | -              | 2,418             | 168                  | -                | 168              |
|                       | LG Fuel Cell Systems Inc. and its subsidiaries                                | 135                 | -              | 135               | -                    | -                | -                |
|                       | Korea Information Certificate Authority Inc.                                  | -                   | -              | -                 | -                    | 1                | 1                |
|                       | <b>Subtotal</b>   | <b>488,441</b>      | <b>54,050</b>  | <b>542,491</b>    | <b>1,688,259</b>     | <b>11,110</b>    | <b>1,699,369</b> |
| Other related parties | LG CNS Co., Ltd. and its subsidiaries   | 56,672              | -              | 56,672            | 128,320              | 295,935          | 424,255          |
|                       | SERVEONE Co., Ltd. and its subsidiaries                                       | 21,604              | -              | 21,604            | 716,228              | 97,068           | 813,296          |
|                       | LG Siltron Incorporated and its subsidiaries                                  | 2,330               | -              | 2,330             | 6                    | -                | 6                |
|                       | LUSEM CO., LTD.   | 126                 | -              | 126               | 6,947                | 327              | 7,274            |
|                       | LG Management Development Institute   | 175                 | -              | 175               | 167                  | 25,626           | 25,793           |
|                       | LG SPORTS Ltd.  | 19                  | -              | 19                | -                    | 11,106           | 11,106           |
|                       | LG MMA Ltd.   | 273                 | -              | 273               | 4                    | -                | 4                |
|                       | LG Holdings Japan Co., Ltd  | -                   | -              | -                 | -                    | 134              | 134              |
|                       | <b>Subtotal</b>   | <b>81,199</b>       | <b>-</b>       | <b>81,199</b>     | <b>851,672</b>       | <b>430,196</b>   | <b>1,281,868</b> |
| Others <sup>1</sup>   | LG Chem Ltd. and its subsidiaries   | 220,908             | 345            | 221,253           | 317,487              | 11,448           | 328,935          |
|                       | LG INTERNATIONAL CORP and its subsidiaries                                    | 103,056             | 105,400        | 208,456           | 2,114,254            | 212,514          | 2,326,768        |
|                       | LG Uplus Corp and its subsidiaries  | 766,732             | -              | 766,732           | 2,981                | 10,970           | 13,951           |
|                       | LG HAUSYS,LTD. and its associates/subsidiaries                                | 15,276              | -              | 15,276            | 14,025               | 124              | 14,149           |
|                       | Silicon Works Co., Ltd<br>LG HOUSEHOLD & HEALTH CARE LTD and its subsidiaries | 9,435               | 22,010         | 31,445            | 517                  | 1,228            | 1,745            |
|                       | LG LIFE SCIENCES, LTD.<br>G R Inc. and its subsidiaries                       | 480                 | -              | 480               | 3                    | 1                | 4                |
|                       |   | 18                  | -              | 18                | 344                  | 147,592          | 147,936          |
|                       | LG Hitachi Ltd.   | 164                 | -              | 164               | -                    | -                | -                |
|                       | <b>Subtotal</b>   | <b>1,117,242</b>    | <b>127,755</b> | <b>1,244,997</b>  | <b>2,449,944</b>     | <b>384,067</b>   | <b>2,834,011</b> |
|                       | <b>Total</b>  | <b>21,809,785</b>   | <b>187,887</b> | <b>21,997,672</b> | <b>7,103,837</b>     | <b>1,724,932</b> | <b>8,828,769</b> |

<sup>1</sup> Although the entities are not the related parties of the Company in accordance with Korean IFRS 1024, the entities belong to a large enterprise group in accordance with the Monopoly Regulation and Fair Trade Act.



**LG Electronics Inc.**  
**Notes to the Separate Financial Statements**  
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ii) The balances of receivables from and payables to related parties

(in millions of Korean won)

|                                       |   | December 31, 2016 |       |                   |         |                |            |                |         |
|---------------------------------------|---|-------------------|-------|-------------------|---------|----------------|------------|----------------|---------|
| Classification                        | Name  | Receivables       |       |                   |         | Payables       |            |                |         |
|                                       |   | Trade receivables | Loans | Other receivables | Total   | Trade payables | Borrowings | Other payables | Total   |
| Significantly influencing the Company | LG Corp.  | 745               | -     | 27,706            | 28,451  | -              | -          | -              | -       |
| Subsidiaries                          | LG Innotek Co., Ltd.                              | 139,457           | -     | 6,541             | 145,998 | 202,099        | -          | 7,020          | 209,119 |
|                                       | Hiplaza Co., Ltd.                                 | 110,446           | -     | 19,281            | 129,727 | -              | -          | 7,240          | 7,240   |
|                                       | LG Electronics Mobilecomm U.S.A., Inc.            | 324,799           | -     | -                 | 324,799 | -              | -          | 39,152         | 39,152  |
|                                       | LG Electronics Egypt S.A.E                        | 243,230           | -     | 79,399            | 322,629 | 15,692         | -          | 37             | 15,729  |
|                                       | LG Electronics U.S.A., Inc.                       | 296,145           | -     | -                 | 296,145 | -              | -          | 23,006         | 23,006  |
|                                       | LG Electronics do Brasil Ltda.                    | 241,705           | -     | 24,536            | 266,241 | 839            | -          | 942            | 1,781   |
|                                       | LG Electronics Vietnam Haiphong Co., Ltd.         | 352,021           | -     | 2,197             | 354,218 | 130,138        | -          | 961            | 131,099 |
|                                       | Inspur LG Digital Mobile Communications Co., Ltd. | 128,037           | -     | 4                 | 128,041 | 408,187        | -          | 1,093          | 409,280 |
|                                       | LG Electronics Gulf FZE                           | 137,992           | -     | -                 | 137,992 | -              | -          | 79             | 79      |
|                                       | LG Electronics United Kingdom Ltd.                | 34,359            | -     | 36                | 34,395  | -              | -          | 589            | 589     |
|                                       | LG Electronics RUS, LLC                           | 100,719           | -     | 13,773            | 114,492 | 969            | -          | 145            | 1,114   |
|                                       | LG Electronics (Kunshan) Co.,Ltd.                 | 120,088           | -     | -                 | 120,088 | 40,645         | -          | 304            | 40,949  |
|                                       | LG Electronics Peru S.A.                          | 49,915            | -     | 67                | 49,982  | -              | -          | -              | -       |
|                                       | LG Electronics Mexico S.A. DE C.V.                | 74,896            | -     | -                 | 74,896  | 300            | -          | 98             | 398     |
|                                       | LG Electronics Espana S.A.                        | 41,739            | -     | 2                 | 41,741  | 43             | -          | 291            | 334     |
|                                       | LG Electronics (Levant) Jordan                    | 70,831            | -     | 1                 | 70,832  | -              | -          | 3,346          | 3,346   |
|                                       | LG Electronics Deutschland GmbH                   | 55,816            | -     | 6,350             | 62,166  | -              | -          | 3,375          | 3,375   |
|                                       | LG Electronics Canada, Inc.                       | 22,729            | -     | -                 | 22,729  | -              | -          | 7,080          | 7,080   |
|                                       | LG Electronics Japan, Inc.                        | 121,762           | -     | -                 | 121,762 | -              | -          | 3,493          | 3,493   |
|                                       | LG Electronics Nanjing New Technology co.,LTD     | 46,629            | -     | 215               | 46,844  | 192,212        | -          | 23             | 192,235 |
|                                       | LG Electronics Reynosa S.A. DE C.V.               | 18,518            | -     | 4,783             | 23,301  | 50,773         | -          | -              | 50,773  |
|                                       | LG Electronics Wroclaw Sp.z o.o                   | 15,201            | -     | -                 | 15,201  | 90,677         | -          | -              | 90,677  |
|                                       | Qingdao LG Inspur Digital Communication Co.,Ltd.  | 72,278            | -     | 47                | 72,325  | 171,963        | -          | 4              | 171,967 |
|                                       | LG Electronics Mlawa Sp. z o.o                    | 42,164            | -     | -                 | 42,164  | 735,091        | -          | 310            | 735,401 |
|                                       | P.T. LG Electronics Indonesia                     | 16,745            | -     | 584               | 17,329  | 110,753        | -          | 57             | 110,810 |

**LG Electronics Inc.**  
**Notes to the Separate Financial Statements**  
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(in millions of Korean won)

|                       |   | December 31, 2016 |          |                   |                  |                  |            |                |                  |
|-----------------------|---|-------------------|----------|-------------------|------------------|------------------|------------|----------------|------------------|
| Classification        | Name  | Receivables       |          |                   |                  | Payables         |            |                |                  |
|                       |   | Trade receivables | Loans    | Other receivables | Total            | Trade payables   | Borrowings | Other payables | Total            |
|                       | Others  | 945,101           | -        | 69,140            | 1,014,241        | 439,482          | -          | 80,714         | 520,196          |
|                       | <b>Subtotal</b>   | <b>3,823,322</b>  | <b>-</b> | <b>226,956</b>    | <b>4,050,278</b> | <b>2,589,863</b> | <b>-</b>   | <b>179,359</b> | <b>2,769,222</b> |
| Associates            | LG Display Co., Ltd. and its subsidiaries               | 242,382           | -        | 19,939            | 262,321          | 356,905          | -          | 73,292         | 430,197          |
|                       | Ericsson-LG Co., Ltd. and its subsidiaries              | 235               | -        | 529               | 764              | 706              | -          | -              | 706              |
|                       | Hitachi-LG Data Storage Inc.(HLDS) and its subsidiaries | -                 | -        | -                 | -                | -                | -          | 340            | 340              |
|                       | LG Fuel Cell Systems Inc. and its subsidiaries          | 245               | -        | -                 | 245              | -                | -          | -              | -                |
|                       | <b>Subtotal</b>   | <b>242,862</b>    | <b>-</b> | <b>20,468</b>     | <b>263,330</b>   | <b>357,611</b>   | <b>-</b>   | <b>73,632</b>  | <b>431,243</b>   |
| Joint venture         | LG-MRI LLC  | 341               | -        | -                 | 341              | 179              | -          | -              | 179              |
| Other related parties | LG CNS Co., Ltd. and its subsidiaries                   | 10,259            | -        | 180               | 10,439           | 32,969           | -          | 79,016         | 111,985          |
|                       | SERVEONE Co., Ltd. and its subsidiaries                 | 22,028            | -        | 54,227            | 76,255           | 213,112          | -          | 91,986         | 305,098          |
|                       | LG Siltron Incorporated and its subsidiaries            | 138               | -        | -                 | 138              | -                | -          | 30             | 30               |
|                       | LUSEM CO., LTD.   | -                 | -        | -                 | -                | 312              | -          | 8              | 320              |
|                       | LG Management Development Institute                     | -                 | -        | 15,671            | 15,671           | -                | -          | 1,391          | 1,391            |
|                       | LG MMA Ltd.   | 286               | -        | -                 | 286              | -                | -          | -              | -                |
|                       | <b>Subtotal</b>   | <b>32,711</b>     | <b>-</b> | <b>70,078</b>     | <b>102,789</b>   | <b>246,393</b>   | <b>-</b>   | <b>172,431</b> | <b>418,824</b>   |
| Others <sup>1</sup>   | LG Chem Ltd. and its subsidiaries                       | 70,959            | -        | 32,433            | 103,392          | 187,441          | -          | 4,089          | 191,530          |
|                       | LG INTERNATIONAL CORP and its subsidiaries              | 44,559            | -        | 15,098            | 59,657           | 95,389           | -          | 53,485         | 148,874          |
|                       | LG Uplus Corp and its subsidiaries                      | 55,266            | -        | 1,389             | 56,655           | 143              | -          | 75             | 218              |
|                       | LG HAUSYS,LTD. and its associates/subsidiaries          | 5,181             | -        | 494               | 5,675            | 3,419            | -          | 2,016          | 5,435            |
|                       | Silicon Works Co., Ltd                                  | 1,302             | -        | 9                 | 1,311            | 470              | -          | 328            | 798              |
|                       | LG HOUSEHOLD & HEALTH CARE LTD and its subsidiaries     | 1,309             | -        | -                 | 1,309            | 47               | -          | 820            | 867              |
|                       | LG LIFE SCIENCES, LTD                                   | 1,107             | -        | -                 | 1,107            | -                | -          | -              | -                |
|                       | G R Inc. and its subsidiaries                           | 139               | -        | -                 | 139              | 103,615          | -          | 49,793         | 153,408          |
|                       | <b>Subtotal</b>   | <b>179,822</b>    | <b>-</b> | <b>49,423</b>     | <b>229,245</b>   | <b>390,524</b>   | <b>-</b>   | <b>110,606</b> | <b>501,130</b>   |
|                       | <b>Total</b>  | <b>4,279,803</b>  | <b>-</b> | <b>394,631</b>    | <b>4,674,434</b> | <b>3,584,570</b> | <b>-</b>   | <b>536,028</b> | <b>4,120,598</b> |

**LG Electronics Inc.**  
**Notes to the Separate Financial Statements**  
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(in millions of Korean won)

|  |   | December 31, 2015 |          |                   |                  |                  |            |                |                  |
|--|---|-------------------|----------|-------------------|------------------|------------------|------------|----------------|------------------|
| Classification                                 | Name  | Receivables       |          |                   |                  | Payables         |            |                |                  |
|  |   | Trade receivables | Loans    | Other receivables | Total            | Trade payables   | Borrowings | Other payables | Total            |
| Significantly influencing the LG Corp. Company |   | -                 | -        | 29,683            | 29,683           | -                | -          | 580            | 580              |
| Subsidiaries                                   | LG Innotek Co., Ltd.                              | 21,454            | -        | 6,877             | 28,331           | 272,073          | -          | 2,451          | 274,524          |
|  | Hiplaza Co., Ltd.                                 | 80,935            | -        | 18,930            | 99,865           | -                | -          | 9,869          | 9,869            |
|  | LG Electronics Mobilecomm U.S.A., Inc.            | 440,497           | -        | -                 | 440,497          | 126              | -          | 20,514         | 20,640           |
|  | LG Electronics Egypt S.A.E                        | 309,455           | -        | 53,414            | 362,869          | 16,325           | -          | 32             | 16,357           |
|  | LG Electronics U.S.A., Inc.                       | 350,051           | -        | 4                 | 350,055          | -                | -          | 23,195         | 23,195           |
|  | LG Electronics do Brasil Ltda.                    | 213,816           | -        | 14,416            | 228,232          | 3,497            | -          | 444            | 3,941            |
|  | LG Electronics Vietnam Haiphong Co., Ltd.         | 203,674           | -        | 5,394             | 209,068          | 9,933            | -          | 48             | 9,981            |
|  | Inspur LG Digital Mobile Communications Co., Ltd. | 203,599           | -        | 29                | 203,628          | 418,213          | -          | 1,089          | 419,302          |
|  | LG Electronics Gulf FZE                           | 184,739           | -        | -                 | 184,739          | -                | -          | 83             | 83               |
|  | LG Electronics United Kingdom Ltd.                | 184,502           | -        | -                 | 184,502          | -                | -          | 433            | 433              |
|  | LG Electronics RUS, LLC                           | 125,164           | -        | 12,001            | 137,165          | 1,676            | -          | 56             | 1,732            |
|  | LG Electronics (Kunshan) Co.,Ltd.                 | 110,414           | -        | -                 | 110,414          | 54,169           | -          | 75             | 54,244           |
|  | LG Electronics Peru S.A.                          | 110,342           | -        | 50                | 110,392          | -                | -          | 58             | 58               |
|  | LG Electronics Mexico S.A. DE C.V.                | 105,052           | -        | -                 | 105,052          | -                | -          | 72             | 72               |
|  | LG Electronics Espana S.A.                        | 104,358           | -        | -                 | 104,358          | 61               | -          | 65             | 126              |
|  | LG Electronics (Levant) Jordan                    | 87,519            | -        | -                 | 87,519           | -                | -          | 570            | 570              |
|  | LG Electronics Deutschland GmbH                   | 75,433            | -        | 2,356             | 77,789           | -                | -          | 22,801         | 22,801           |
|  | LG Electronics Canada, Inc.                       | 75,741            | -        | -                 | 75,741           | -                | -          | 90             | 90               |
|  | LG Electronics Japan, Inc.                        | 67,988            | -        | -                 | 67,988           | -                | -          | 3,410          | 3,410            |
|  | LG Electronics Nanjing New Technology co.,LTD     | 59,549            | -        | 509               | 60,058           | 97,239           | -          | 190            | 97,429           |
|  | LG Electronics Reynosa S.A. DE C.V.               | 12,748            | -        | 44,979            | 57,727           | 46,624           | -          | -              | 46,624           |
|  | LG Electronics Wroclaw Sp.z o.o                   | 55,044            | -        | 272               | 55,316           | 290,678          | -          | 146            | 290,824          |
|  | Qingdao LG Inspur Digital Communication Co.,Ltd.  | 50,495            | -        | -                 | 50,495           | 163,850          | -          | 63             | 163,913          |
|  | LG Electronics Mlawa Sp. z o.o                    | 24,525            | -        | -                 | 24,525           | 397,917          | -          | 84             | 398,001          |
|  | P.T. LG Electronics Indonesia                     | 19,253            | -        | 778               | 20,031           | 131,843          | -          | 96             | 131,939          |
|  | Others  | 1,257,377         | -        | 75,045            | 1,332,422        | 445,365          | -          | 39,900         | 485,265          |
|  | <b>Subtotal</b>                                   | <b>4,533,724</b>  | <b>-</b> | <b>235,054</b>    | <b>4,768,778</b> | <b>2,349,589</b> | <b>-</b>   | <b>125,834</b> | <b>2,475,423</b> |

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|                       |   | December 31, 2015 |         |                   |           |                |            |                |         |
|-----------------------|---|-------------------|---------|-------------------|-----------|----------------|------------|----------------|---------|
| Classification        | Name  | Receivables       |         |                   |           | Payables       |            |                |         |
|                       |   | Trade receivables | Loans   | Other receivables | Total     | Trade payables | Borrowings | Other payables | Total   |
| Associates            | LG Display Co., Ltd. and its subsidiaries               | 99,698            | -       | 39,988            | 139,686   | 407,370        | -          | 35,342         | 442,712 |
|                       | Ericsson-LG Co., Ltd. and its subsidiaries              | 5                 | -       | 330               | 335       | 897            | -          | 150            | 1,047   |
|                       | Hitachi-LG Data Storage Inc.(HLDS) and its subsidiaries | -                 | -       | 54                | 54        | 7              | -          | 3              | 10      |
|                       | <b>Subtotal</b>   | 99,703            | -       | 40,372            | 140,075   | 408,274        | -          | 35,495         | 443,769 |
| Other related parties | LG CNS Co., Ltd. and its subsidiaries                   | 7,094             | -       | 262               | 7,356     | 12,773         | -          | 136,341        | 149,114 |
|                       | SERVEONE Co., Ltd. and its subsidiaries                 | 1,207             | -       | 54,239            | 55,446    | 161,734        | -          | 51,093         | 212,827 |
|                       | LG Siltron Incorporated and its subsidiaries            | 44                | -       | -                 | 44        | -              | -          | 2,502          | 2,502   |
|                       | LUSEM CO., LTD.   | -                 | -       | -                 | -         | 364            | -          | -              | 364     |
|                       | LG Management Development Institute                     | -                 | -       | 15,660            | 15,660    | -              | -          | 939            | 939     |
|                       | LG SPORTS Ltd.  | -                 | -       | -                 | -         | -              | -          | 121            | 121     |
|                       | LG MMA Ltd.   | 30                | -       | -                 | 30        | -              | -          | -              | -       |
| <b>Subtotal</b>       | 8,375   | -                 | 70,161  | 78,536            | 174,871   | -              | 190,996    | 365,867        |         |
| Others <sup>1</sup>   | LG Chem Ltd. and its subsidiaries                       | 35,520            | -       | 600               | 36,120    | 79,801         | -          | 1,934          | 81,735  |
|                       | LG INTERNATIONAL CORP and its subsidiaries              | 33,721            | -       | 3,986             | 37,707    | 227,617        | -          | 58,816         | 286,433 |
|                       | LG Uplus Corp and its subsidiaries                      | 96,979            | -       | 1,706             | 98,685    | -              | -          | 387            | 387     |
|                       | LG HAUSYS,LTD. and its associates/subsidiaries          | 6,438             | -       | 330               | 6,768     | 1,537          | -          | 151            | 1,688   |
|                       | Silicon Works Co., Ltd                                  | -                 | -       | 1,895             | 1,895     | 170            | -          | 165            | 335     |
|                       | LG HOUSEHOLD & HEALTH CARE LTD and its subsidiaries     | 188               | -       | 3                 | 191       | 231            | -          | 141            | 372     |
|                       | LG LIFE SCIENCES, LTD                                   | 199               | -       | 2                 | 201       | -              | -          | -              | -       |
|                       | G R Inc. and its subsidiaries                           | -                 | -       | 85                | 85        | 58,405         | -          | 35,913         | 94,318  |
| <b>Subtotal</b>       | 173,045   | -                 | 8,607   | 181,652           | 367,761   | -              | 97,507     | 465,268        |         |
| <b>Total</b>          | 4,814,847   | -                 | 383,877 | 5,198,724         | 3,300,495 | -              | 450,412    | 3,750,907      |         |

<sup>1</sup> Although the entities are not the related parties of the Company in accordance with Korean IFRS 1024, the entities belong to a large enterprise group in accordance with the Monopoly Regulation and Fair Trade Act.

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iii) Significant capital transactions with related parties and others for the years ended December 31, 2016 and 2015, are as follows:

(in millions of Korean won)

| Classification                        | Name  | Dividend income | Dividend paid | Cash distribution (reduction) | 2016     |             | Financing borrowing transactions |            |
|---------------------------------------|---|-----------------|---------------|-------------------------------|----------|-------------|----------------------------------|------------|
|                                       |   |                 |               |                               | Loans    | Collections | Borrowings                       | Repayments |
| Significantly influencing the Company | LG Corp.  | -               | 22,038        | -                             | -        | -           | -                                | -          |
| Subsidiaries                          | LG Electronics Ukraine Inc. <sup>1</sup>          | -               | -             | 56,694                        | -        | -           | -                                | -          |
|                                       | LG Innotek Co., Ltd.                              | 3,379           | -             | -                             | -        | -           | -                                | -          |
|                                       | LG Electronics Australia Pty, Ltd.                | 42,658          | -             | -                             | -        | -           | -                                | -          |
|                                       | NanJing LG-Panda Appliances Co., Ltd.             | 9,622           | -             | -                             | -        | -           | -                                | -          |
|                                       | LG Electronics India Pvt. Ltd.                    | 289,059         | -             | -                             | -        | -           | -                                | -          |
|                                       | LG Electronics Nanjing New Technology co.,LTD     | 3,823           | -             | -                             | -        | -           | -                                | -          |
|                                       | LG Electronics Huizhou Ltd.                       | 3,805           | -             | -                             | -        | -           | -                                | -          |
|                                       | LG Electronics (Hangzhou) Co., Ltd.               | 246             | -             | -                             | -        | -           | -                                | -          |
|                                       | Inspur LG Digital Mobile Communications Co., Ltd. | 29,894          | -             | -                             | -        | -           | -                                | -          |
|                                       | Qingdao LG Inspur Digital Communication Co., Ltd. | 14,022          | -             | -                             | -        | -           | -                                | -          |
|                                       | LG Electronics Finland Lab, Oy                    | -               | -             | 1,900                         | -        | -           | -                                | -          |
|                                       | LG Electronics do Brasil Ltda.                    | 12,016          | -             | -                             | -        | -           | -                                | -          |
|                                       | LG Electronics Tianjin Appliances Co., Ltd.       | 9,065           | -             | -                             | -        | -           | -                                | -          |
|                                       | <b>Subtotal</b>                                   | <b>417,589</b>  | <b>-</b>      | <b>58,594</b>                 | <b>-</b> | <b>-</b>    | <b>-</b>                         | <b>-</b>   |
| Associates                            | LG Display Co., Ltd.                              | 67,813          | -             | -                             | -        | -           | -                                | -          |
|                                       | Ericsson-LG Co., Ltd.                             | 3,750           | -             | (25,000)                      | -        | -           | -                                | -          |
|                                       | Korea Information Certificate Authority Inc.      | 70              | -             | 1,136                         | -        | -           | -                                | -          |
|                                       | Hitachi-LG Data Storage Inc.(HLDS)                | -               | -             | 40,066                        | -        | -           | -                                | -          |
|                                       | LG FUEL CELL SYSTEM Inc.                          | -               | -             | 25,324                        | -        | -           | -                                | -          |
|                                       | <b>Subtotal</b>                                   | <b>71,633</b>   | <b>-</b>      | <b>41,526</b>                 | <b>-</b> | <b>-</b>    | <b>-</b>                         | <b>-</b>   |
|                                       | <b>Total</b>                                      | <b>489,222</b>  | <b>22,038</b> | <b>100,120</b>                | <b>-</b> | <b>-</b>    | <b>-</b>                         | <b>-</b>   |

<sup>1</sup> Includes the amount of debt for equity swaps of trade receivables.

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| Classification                        | Name  | Dividend income | Dividend paid | Cash distribution (reduction) | 2015                        |             |                                  |            |
|---------------------------------------|---|-----------------|---------------|-------------------------------|-----------------------------|-------------|----------------------------------|------------|
|                                       |   |                 |               |                               | Financing loan transactions |             | Financing borrowing transactions |            |
|                                       |   |                 |               |                               | Loans                       | Collections | Borrowings                       | Repayments |
| Significantly influencing the Company | LG Corp.  | -               | 22,038        | -                             | -                           | -           | -                                | -          |
| Subsidiaries                          | LG Electronics (Hangzhou) Co., Ltd.               | 989             | -             | -                             | -                           | -           | -                                | -          |
|                                       | LG Electronics Huizhou Ltd.                       | 9,583           | -             | -                             | -                           | -           | -                                | -          |
|                                       | LG Electronics Nanjing New Technology co.,LTD     | 1,956           | -             | -                             | -                           | -           | -                                | -          |
|                                       | LG Electronics Tianjin Appliances Co., Ltd.       | 12,048          | -             | -                             | -                           | -           | -                                | -          |
|                                       | LG Electronics (Kunshan) Co., Ltd.                | 8,642           | -             | -                             | -                           | -           | -                                | -          |
|                                       | LG Electronics do Brasil Ltda.                    | 16,246          | -             | -                             | -                           | -           | -                                | -          |
|                                       | Inspur LG Digital Mobile Communications Co., Ltd. | 32,478          | -             | -                             | -                           | -           | -                                | -          |
|                                       | Qingdao LG Inspur Digital Communication Co., Ltd. | 5,456           | -             | -                             | -                           | -           | -                                | -          |
|                                       | NanJing LG-Panda Appliances Co., Ltd.             | 7,121           | -             | -                             | -                           | -           | -                                | -          |
|                                       | LG Electronics Finland Lab,                       | -               | -             | 8,054                         | -                           | -           | -                                | -          |
|                                       | LG Innotek Co., Ltd.                              | 2,413           | -             | -                             | -                           | -           | -                                | -          |
|                                       | Innovation Investment Fund                        | 833             | -             | -                             | -                           | -           | -                                | -          |
|                                       | LGE Alliance Fund                                 | -               | -             | 3,000                         | -                           | -           | -                                | -          |
|                                       | <b>Subtotal</b>                                   | <b>97,765</b>   | <b>-</b>      | <b>11,054</b>                 | <b>-</b>                    | <b>-</b>    | <b>-</b>                         | <b>-</b>   |
| Associates                            | LG Display Co., Ltd.                              | 67,813          | -             | -                             | -                           | -           | -                                | -          |
|                                       | Ericsson-LG Co., Ltd.                             | 3,250           | -             | -                             | -                           | -           | -                                | -          |
|                                       | Korea Information Certificate Authority Inc.      | 60              | -             | -                             | -                           | -           | -                                | -          |
|                                       | <b>Subtotal</b>                                   | <b>71,123</b>   | <b>-</b>      | <b>-</b>                      | <b>-</b>                    | <b>-</b>    | <b>-</b>                         | <b>-</b>   |
|                                       | <b>Total</b>                                      | <b>168,888</b>  | <b>22,038</b> | <b>11,054</b>                 | <b>-</b>                    | <b>-</b>    | <b>-</b>                         | <b>-</b>   |

- iv) The details of the transfer of business between the Company and related parties are provided in Note 32.

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- (b) The compensation paid or payable to key management personnel for the years ended December 31, 2016 and 2015, consist of:

| <i>(in millions of Korean won)</i> | <b>2016</b>   | <b>2015</b>   |
|------------------------------------|---------------|---------------|
| Wages and salaries                 | 15,176        | 17,035        |
| Post-employment benefits           | 4,274         | 5,885         |
| Other long-term benefits           | 157           | 96            |
| <b>Total</b>                       | <b>19,607</b> | <b>23,016</b> |

Key management refers to the directors who have significant control and responsibilities on the Company's business plans, operations and control.

- (c) The payment guarantees for the financial support of related parties at the end of the reporting period are presented in Note 33.
- (d) There is no collateral provided by the Company for the financial support of related parties at the end of the reporting period.
- (e) The Company has not recognized any bad debt expense or allowance for trade receivables from related parties at the end of the reporting period.

### **36. Risk Management**

#### **Financial Risk Management**

The Company's financial risk management ("FRM") policy supports each business division to achieve excellent performance solidly and continuously against market risk, credit risk and liquidity risk. In addition, FRM helps the Company to enhance cost competitiveness through cost-efficient financing cost by improving financial structure and effective cash management.

While cooperating with other divisions, the finance FD in the Company mainly implements FRM. This involves setting-up risk management policies and recognizing, evaluating and hedging risks from a global point of view.

The Company mitigates the adverse effects from financial risk by monitoring the risk periodically and updating FRM policy each year.

The carrying amount, and profit or loss of each category of financial instruments and the details of borrowings related to the financial risk management are presented in Note 4 and Note 14, respectively.

- (a) Market risk
- i) Foreign exchange risk

Due to its multinational business operations, the Company is mainly exposed to foreign exchange risk on the US Dollar and Euro.

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The purpose of foreign exchange risk management is to provide the foundation of a stable business operation by minimizing the uncertainty and volatility of foreign exchange gains and losses from foreign exchange rate fluctuations.

The Company's foreign exchange risk management is implemented under its own foreign exchange policy through which the Company can minimize the exposure to foreign exchange risk by preferentially making equal amount of foreign exchange assets and liabilities from general operating activities. And the Company continuously considers efficient foreign exchange risk hedges against its remaining exposure with derivative financial instruments and scrutinizes changes in foreign exchange exposure and the results of hedging activities on a monthly basis. Speculative foreign exchange trading is prohibited in principle.

As of December 31, 2016 and 2015, if the foreign exchange rate of the Korean won fluctuated for monetary assets and liabilities denominated in major foreign currency other than functional currency by 10% while other variables were fixed, the effects on income(loss) before tax would be as follows:

| <i>(in millions of Korean won)</i> | <b>December 31, 2016</b> |                     | <b>December 31, 2015</b> |                     |
|------------------------------------|--------------------------|---------------------|--------------------------|---------------------|
|                                    | <b>10% increase</b>      | <b>10% decrease</b> | <b>10% increase</b>      | <b>10% decrease</b> |
| USD/KRW                            | 7,908                    | (7,908)             | 37,374                   | (37,374)            |
| EUR/KRW                            | 27,491                   | (27,491)            | 47,219                   | (47,219)            |

ii) Interest rate risk

The Company is exposed to interest rate risk through changes in interest-bearing liabilities or assets. The risk mainly arises from borrowings and deposits held by financial institutions with variable interest rates linked to market interest rate changes in the future. The objective of interest rate risk management lies in improving corporate value by minimizing uncertainty caused by fluctuations in interest rates and minimizing net interest expense.

The Company minimizes its borrowings from others and optimizes its deposits by expanding internal finance sharing. The Company periodically establishes the plan for reaction by the monitoring trends of internal and external interest rates.

If interest rates fluctuate by 1%p without other variables changing, the effects on income and expenses related to borrowings and deposits held by financial institutions with variable interest rates for the years ended December 31, 2016 and 2015, are as follows:

| <i>(in millions of Korean won)</i> | <b>2016</b>         |                     | <b>2015</b>         |                     |
|------------------------------------|---------------------|---------------------|---------------------|---------------------|
|                                    | <b>1%p increase</b> | <b>1%p decrease</b> | <b>1%p increase</b> | <b>1%p decrease</b> |
| Interest income                    | 11,817              | (11,817)            | 6,782               | (6,782)             |
| Interest expense                   | -                   | -                   | -                   | -                   |

There are no borrowings with variable interest rates and related interest expenses exposed to interest rate risk as of December 31, 2016 and 2015.



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iii) Details of derivatives contracts are as follows:

The Company entered into the cross-currency swap and interest rate swap contracts to hedge cash flow risks related to the floating interest rates and foreign exchange rates of debentures.

| December 31, 2016      | Contractor              | Contracted amount<br>(in millions) | Contracted currency rate | Interest rate (received) | Interest rate (paid) | Start date             | Expiration date        |
|------------------------|-------------------------|------------------------------------|--------------------------|--------------------------|----------------------|------------------------|------------------------|
| USD/KRW CRS            | Shinhan Bank and others | USD 400                            | 1,052.1 ~ 1,113.6        | 3ML+1.30 ~ 3ML+1.60      | 3.22 ~ 3.42          | 2013.07.31~ 2013.12.19 | 2017.06.19~ 2019.01.31 |
| KRW Interest rate swap | Woori bank and others   | KRW 1,170,000                      | -                        | 3M CD+0.82 ~ 3M CD+1.14  | 3.07 ~ 4.53          | 2014.01.03~ 2015.07.07 | 2024.01.03~ 2030.07.07 |

At the end of the reporting period, the swap contracts are evaluated at fair value and the loss on valuation of the effective portion amounting to ₩2,098 million in 2016 (2015: loss on valuation amounting to ₩6,956 million) after applying the tax effect, is recognized in other comprehensive income(loss). The Company reclassified ₩1,442 million to loss from equity in 2016 (2015: ₩18,336 million to gain from equity). Therefore, other comprehensive loss from cash flow hedges amounts to ₩656 million in 2016 (2015: ₩25,292 million) after applying the tax effect.

iv) Price risk

The Company is exposed to price risk through equity securities owned by the Company classified as available-for-sale financial assets in the separate financial statements.

The listed securities owned by the Company are traded in the open market, and related to KOSDAQ Index.

The effect of price index's fluctuation related to the listed securities on the equity (before applying the tax effect) is set out in the below table. The analysis is performed in respect of 30% increase/decrease in the price index under the assumption that other variations are consistent and the listed securities owned by the Company have correlation with the relevant past index.

| (in millions of Korean won) | December 31, 2016 |              | December 31, 2015 |              |
|-----------------------------|-------------------|--------------|-------------------|--------------|
|                             | 30% increase      | 30% decrease | 30% increase      | 30% decrease |
| KOSDAQ                      | 3,575             | (3,575)      | 3,673             | (3,673)      |

The valuation and the reclassified amounts of the available-for-sale financial assets related to the market risk above are presented in Note 7.

(b) Credit risk

The Company operates a consistent Global Credit / TR (trade receivables) policy to manage credit risk exposure.

In regard to receivables, the Company operates an integrated receivable insurance program with the Korea Trade Insurance Corporation (K-SURE) and Seoul Guarantee Insurance (Coface). In an effort to minimize receivable credit risk, the Company applies the credit rating of the

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counterparty when determining the insurance coverage. In addition, the Company performs stringent credit risk managements based on credit valuation criteria for receivables without insurance coverage or collateral.

Details of credit quality for trade receivables that are neither past due nor impaired are as follows:

| <i>(in millions of Korean won)</i>                       | <b>December 31,<br/>2016</b> | <b>December 31,<br/>2015</b> |
|--|------------------------------|------------------------------|
| <b>Trade receivables with insurance or collateral</b>    |                              |                              |
| Excellent  | 251,261                      | 136,360                      |
| Good   | 157,368                      | 106,645                      |
| Fair   | 153,126                      | 232,627                      |
| Poor <sup>1</sup>  | 83,267                       | 46,177                       |
| <b>Subtotal</b>  | <b>645,022</b>               | <b>521,809</b>               |
| <b>Trade receivables without insurance or collateral</b> |                              |                              |
| Tier 1   | 3,792,394                    | 4,091,014                    |
| Tier 2   | 213,770                      | 251,264                      |
| Tier 3   | 693                          | 9,912                        |
| <b>Subtotal</b>  | <b>4,006,857</b>             | <b>4,352,190</b>             |
| <b>Total</b>   | <b>4,651,879</b>             | <b>4,873,999</b>             |

<sup>1</sup>Debtors with insurance or collateral, but without credit rating are included herein.

Criteria of categorizing trade receivables with insurance or collateral are as follows:

| <b>Category</b> | <b>Coface</b> | <b>K-SURE</b> |
|-----------------|---------------|---------------|
| Excellent       | 8~10          | A~B           |
| Good            | 7             | C             |
| Fair            | 3~6           | D~E           |
| Poor            | 0~2           | F~R           |

Debtors for which credit ratings are not provided by insurance company are categorized using the criteria from domestic credit rating agency.

Criteria of categorizing trade receivables without insurance or collateral are as follows:

Tier 1 – National or local government, domestic credit rating agency AA- ~ AAA+, related parties including subsidiaries, associates, and others

Tier 2 – Debtors with domestic credit rating other than Tier 1

Tier 3 – Small debtors without credit history

The credit rating of cash equivalents and deposits held by financial institutions estimated by the Company using external credit rating criteria as of December 31, 2016 and 2015, is as follows:

| <b>Category</b> | <b>December 31, 2016</b> | <b>December 31, 2015</b> |
|-----------------|--------------------------|--------------------------|
| Excellent       | 1,263,374                | 759,982                  |
| Good            | -                        | -                        |
| <b>Total</b>    | <b>1,263,374</b>         | <b>759,982</b>           |

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Excellent: Equal to or more than A-(Global credit rating agency such as S&P), AAA(Domestic credit rating agency such as Korea investors service)

Good: Equal to or more than BBB-(Global credit rating agency such as S&P), AA(Domestic credit rating agency)

(c) Liquidity risk

The Company forecasts its cash flow and liquidity status and sets action plans on a regular base to manage liquidity risk proactively. The Company systematically works with experts in four RTCs to carry out fund and liquidity management that can react proactively to the changing global financial environment.

The Company maintains adequate amount of cash and committed credit facilities in Kookmin Bank and Shinhan Bank to cope with potential financial distress.

In addition, the Company is able to source funds any time in domestic and international financial markets because it has good investment credit grades of AA Stable from Korea Investors Service, Korea Ratings and NICE Information Service, BBB from Standard & Poors, and Baa3 from Moody's as of December 31, 2016, respectively.

i) Cash flow information on maturity of financial liabilities as of December 31, 2016, are as follows:

| <i>(in millions of Korean won)</i> | <b>Total</b>      | <b>Within 1 year</b> | <b>1 to 2 years</b> | <b>3 to 5 years</b> | <b>Over 5 years</b> |
|------------------------------------|-------------------|----------------------|---------------------|---------------------|---------------------|
| Trade payables                     | 5,516,849         | 5,516,849            | -                   | -                   | -                   |
| Borrowings                         | 7,719,864         | 831,221              | 822,793             | 2,668,463           | 3,397,387           |
| Other payables                     | 2,086,003         | 2,080,451            | 552                 | -                   | 5,000               |
| <b>Total</b>                       | <b>15,322,716</b> | <b>8,428,521</b>     | <b>823,345</b>      | <b>2,668,463</b>    | <b>3,402,387</b>    |

The above cash flows are calculated at nominal value based on the earliest maturity dates, and include cash flows of principal and interests. Derivatives for cash flow hedges from changes in interest rate and exchange rate are reflected in the cash flows of related borrowings.

ii) The maturity analysis of financial guarantee contracts provided by the Company to subsidiaries and third party companies as of December 31, 2016, are as follows:

| <i>(in millions of Korean won)</i> | <b>Total</b> | <b>Within 1 year</b> | <b>1 to 2 years</b> | <b>3 to 5 years</b> | <b>Over 5 years</b> |
|------------------------------------|--------------|----------------------|---------------------|---------------------|---------------------|
| Financial guarantee contracts      | 5,073,123    | 4,566,349            | 218,903             | 287,871             | -                   |

The financial guarantee contracts provided to the subsidiaries are analysed by their maturities according to the residual periods. And, the financial guarantee contracts provided to the third party companies are analysed at the maximum amount of guarantees allocated to earliest period in which the Company can be required to make the payments.

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**Capital Risk Management**

The Company's capital risk management purpose is to maximize shareholders' value through maintaining a sound capital structure. The Company monitors financial ratios, such as liability to equity ratio and net borrowing ratio each month and implements required action plan to improve the capital structure.

Debt-to-equity ratio and net borrowing ratio as of December 31, 2016 and 2015, are as follows:

| <i>(in millions of Korean won, except for ratios)</i> | <b>December 31, 2016</b> | <b>December 31, 2015</b> |
|---|--------------------------|--------------------------|
| Liability (A)   | 17,833,623               | 16,905,366               |
| Equity (B)  | 8,765,452                | 8,961,009                |
| Cash and cash equivalents (C)                         | 1,181,725                | 678,221                  |
| Borrowings (D)  | 6,631,320                | 6,618,903                |
| Debt-to-equity ratio (A/B)                            | 203.5%                   | 188.7%                   |
| Net borrowings ratio ((D-C)/B)                        | 62.2%                    | 66.3%                    |

**Fair Value Estimation**

(a) The book amounts and fair values of the Company's financial assets and liabilities as of December 31, 2016 and 2015, are as follows:

| <i>(in millions of Korean won)</i>      | <b>December 31, 2016</b> |                   |                    |                   |
|---|--------------------------|-------------------|--------------------|-------------------|
|   | <b>Current</b>           |                   | <b>Non-current</b> |                   |
|   | <b>Book amount</b>       | <b>Fair value</b> | <b>Book amount</b> | <b>Fair value</b> |
| <b>Assets at fair value</b>             |                          |                   |                    |                   |
| Derivatives for hedging purposes        |                          |                   |                    |                   |
| Other financial assets                  | 30,093                   | 30,093            | 16,091             | 16,091            |
| Available-for-sale financial assets     |                          |                   |                    |                   |
| Other financial assets                  | -                        | -                 | 14,835             | 14,835            |
| <b>Assets at amortized cost</b>         |                          |                   |                    |                   |
| Loans and other receivables             |                          |                   |                    |                   |
| Cash and cash equivalents               | 1,181,725                | 1                 | -                  | -                 |
| Deposits held by financial institutions | 80,500                   | 1                 | 1,159              | 1,159             |
| Trade receivables                       | 4,985,573                | 1                 | -                  | -                 |
| Other receivables                       | 492,178                  | 1                 | 306,113            | 296,919           |
| <b>Assets at cost</b>                   |                          |                   |                    |                   |
| Available-for-sale financial assets     |                          |                   |                    |                   |
| Other financial assets                  | -                        | -                 | 17,746             | 2                 |
| <b>Total</b>                            | <b>6,770,069</b>         |                   | <b>355,944</b>     |                   |

**LG Electronics Inc.**  
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| <i>(in millions of Korean won)</i>   | December 31, 2016 |            |                  |            |
|--------------------------------------|-------------------|------------|------------------|------------|
|                                      | Current           |            | Non-current      |            |
|                                      | Book amount       | Fair value | Book amount      | Fair value |
| <b>Liabilities at fair value</b>     |                   |            |                  |            |
| Derivatives for hedging purposes     |                   |            |                  |            |
| Other financial liabilities          | -                 | -          | 73,226           | 73,226     |
| <b>Liabilities at amortized cost</b> |                   |            |                  |            |
| Trade payables                       | 5,516,849         | 1          | -                | -          |
| Borrowings                           | 661,148           | 1          | 5,970,172        | 6,062,632  |
| Other payables                       | 2,080,451         | 1          | 5,552            | 4,705      |
| <b>Other liabilities</b>             |                   |            |                  |            |
| Other financial liabilities          | 8,665             | 3          | 2,510            | 3          |
| <b>Total</b>                         | <b>8,267,113</b>  |            | <b>6,051,460</b> |            |

| <i>(in millions of Korean won)</i>      | December 31, 2015 |            |                |            |
|---|-------------------|------------|----------------|------------|
|   | Current           |            | Non-current    |            |
|   | Book amount       | Fair value | Book amount    | Fair value |
| <b>Assets at fair value</b>             |                   |            |                |            |
| Derivatives for hedging purposes        |                   |            |                |            |
| Other financial assets                  | -                 | -          | 30,288         | 30,288     |
| Available-for-sale financial assets     |                   |            |                |            |
| Other financial assets                  | -                 | -          | 15,323         | 15,323     |
| <b>Assets at amortized cost</b>         |                   |            |                |            |
| Loans and other receivables             |                   |            |                |            |
| Cash and cash equivalents               | 678,221           | 1          | -              | -          |
| Deposits held by financial institutions | 80,500            | 1          | 1,271          | 1,271      |
| Trade receivables                       | 5,607,126         | 1          | -              | -          |
| Other receivables                       | 534,079           | 1          | 339,859        | 330,143    |
| <b>Assets at cost</b>                   |                   |            |                |            |
| Available-for-sale financial assets     |                   |            |                |            |
| Other financial assets                  | -                 | -          | 18,523         | 2          |
| <b>Total</b>                            | <b>6,899,926</b>  |            | <b>405,264</b> |            |

| <i>(in millions of Korean won)</i>   | December 31, 2015 |            |             |            |
|--------------------------------------|-------------------|------------|-------------|------------|
|                                      | Current           |            | Non-current |            |
|                                      | Book amount       | Fair value | Book amount | Fair value |
| <b>Liabilities at fair value</b>     |                   |            |             |            |
| Derivatives for hedging purposes     |                   |            |             |            |
| Other financial liabilities          | 6,461             | 6,461      | 69,618      | 69,618     |
| <b>Liabilities at amortized cost</b> |                   |            |             |            |
| Trade payables                       | 5,015,038         | 1          | -           | -          |
| Borrowings                           | 1,041,603         | 1          | 5,577,300   | 5,719,193  |
| Other payables                       | 1,791,021         | 1          | 6,928       | 5,899      |
| <b>Other liabilities</b>             |                   |            |             |            |
| Other financial liabilities          | 8,092             | 3          | 1,699       | 3          |

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| <i>(in millions of Korean won)</i> | December 31, 2015 |            |             |            |
|------------------------------------|-------------------|------------|-------------|------------|
|                                    | Current           |            | Non-current |            |
|                                    | Book amount       | Fair value | Book amount | Fair value |
| <b>Total</b>                       | 7,862,215         |            | 5,655,545   |            |

<sup>1</sup> Excluded from disclosure as the carrying amount is the reasonable approximate of fair value.

<sup>2</sup> Unlisted equity securities are calculated at cost because the variability in the range of the estimated future cash flows is significant and the probabilities of the various estimates within the range cannot be reasonably assessed. As of December 31, 2016, there is no asset to be disposed of in near future.

<sup>3</sup> Measured at the higher of the amount determined in accordance with Korean IFRS 1037, 'Provisions, Contingent Liabilities and Contingent Assets', and the amount initially recognized less cumulative amortization recognized in accordance with Korean IFRS 1018, 'Revenue'.

(b) Fair value measurements of assets and liabilities

i) Fair value hierarchy and measurement method

The fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The fair value measurement is to estimate the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions. When measuring fair value using valuation techniques, the Company maximizes the use of market information and minimizes the use of unobservable inputs.

Financial instruments measured at fair value are categorized within the fair value hierarchy, and the defined levels are as follows:

- Level 1: Financial instruments measured at the quoted price in an active market for identical assets or liabilities are included in 'level 1'. Assets or liabilities categorized within 'level 1' include financial instruments such as marketable equity securities traded.

- Level 2: When financial instruments are measured by using a discounted cash flow, if all significant inputs required to measure the fair value of an instrument are observable, the instrument is included in 'level 2'. Assets or liabilities categorized within 'level 2' include financial instruments such as derivative financial instruments.

- Level 3: When financial instruments are measured by using a discounted cash flow, if one or more of the significant inputs are unobservable market data, the instrument is included in 'level 3'. There are no assets or liabilities categorized within 'level 3'.

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, an entity within the same industry, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price for financial assets held by the Company is the closing price at the end of the reporting period. These instruments are included in 'level 1'. Instruments included in 'level 1' comprise primarily equity investments classified as available for sale.

**LG Electronics Inc.**  
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The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Company uses various valuation techniques and makes judgements based on current market conditions. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to measure the fair value of an instrument are observable, the instrument is included in 'level 2'.

If one or more of the significant inputs are not based on observable market data, the instrument is included in 'level 3'. Financial instrument included 'level 3' uses other method including discounting cash flow method.

ii) Financial instruments measured at fair value

Fair value hierarchy classifications of the financial assets and financial liabilities that are measured at fair value as of December 31, 2016 and 2015, are as follows:

| <i>(in millions of Korean won)</i>  | December 31, 2016 |         |         |        |
|-------------------------------------|-------------------|---------|---------|--------|
|                                     | Level 1           | Level 2 | Level 3 | Total  |
| <b>Assets</b>                       |                   |         |         |        |
| Other financial assets              |                   |         |         |        |
| Available-for-sale financial assets |                   |         |         |        |
| - Marketable equity securities      | 14,835            | -       | -       | 14,835 |
| Derivatives for hedging purposes    | -                 | 46,184  | -       | 46,184 |
| <b>Liabilities</b>                  |                   |         |         |        |
| Other financial liabilities         |                   |         |         |        |
| Derivatives for hedging purposes    | -                 | 73,226  | -       | 73,226 |

| <i>(in millions of Korean won)</i>  | December 31, 2015 |         |         |        |
|-------------------------------------|-------------------|---------|---------|--------|
|                                     | Level 1           | Level 2 | Level 3 | Total  |
| <b>Assets</b>                       |                   |         |         |        |
| Other financial assets              |                   |         |         |        |
| Available-for-sale financial assets |                   |         |         |        |
| - Marketable equity securities      | 15,323            | -       | -       | 15,323 |
| Derivatives for hedging purposes    | -                 | 30,288  | -       | 30,288 |
| <b>Liabilities</b>                  |                   |         |         |        |
| Other financial liabilities         |                   |         |         |        |
| Derivatives for hedging purposes    | -                 | 76,079  | -       | 76,079 |

The above fair value amounts are recurring fair value measurements.

In case of investments in equity instruments that do not have a quoted market price in an active market and their fair value cannot be measured reliably, they are measured at cost and not included in the above fair value measurement hierarchy.

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- Valuation technique and inputs for fair value measurements categorized within 'level 2'

Valuation technique and inputs for fair value measurements categorized within 'level 2' as of December 31, 2016 and 2015, are as follows:

| <i>(in millions of Korean won)</i> | Fair value        |                   | Valuation techniques | Inputs                          |
|------------------------------------|-------------------|-------------------|----------------------|---------------------------------|
|                                    | December 31, 2015 | December 31, 2015 |                      |                                 |
| <b>Assets</b>                      |                   |                   |                      |                                 |
| Other financial assets             |                   |                   |                      |                                 |
| Derivatives for hedging purposes   | 46,184            | 30,288            | Discounted cash flow | Discount rate and exchange rate |
| <b>Liabilities</b>                 |                   |                   |                      |                                 |
| Other financial liabilities        |                   |                   |                      |                                 |
| Derivatives for hedging purposes   | 73,226            | 76,079            | Discounted cash flow | Discount rate and exchange rate |

- Fair value measurements categorized within 'level 3'

As of December 31, 2016, no financial instruments measured at fair value are categorized within 'level 3'.

iii) Financial instruments not measured at fair value but for which the fair value is disclosed

Financial instruments not measured at fair value but for which the fair value is disclosed as of December 31, 2016 and 2015, are as follows:

| <i>(in millions of Korean won)</i>                  | December 31, 2016 |         |           |           |
|---|-------------------|---------|-----------|-----------|
|   | Level 1           | Level 2 | Level 3   | Total     |
| <b>Assets</b>                                       |                   |         |           |           |
| Non-current deposits held by financial institutions | -                 | -       | 1,159     | 1,159     |
| Non-current other receivables                       | -                 | -       | 296,919   | 296,919   |
| <b>Liabilities</b>                                  |                   |         |           |           |
| Non-current borrowings                              | -                 | -       | 6,062,632 | 6,062,632 |
| Non-current other payables                          | -                 | -       | 4,705     | 4,705     |

| <i>(in millions of Korean won)</i>                  | December 31, 2015 |         |           |           |
|---|-------------------|---------|-----------|-----------|
|   | Level 1           | Level 2 | Level 3   | Total     |
| <b>Assets</b>                                       |                   |         |           |           |
| Non-current deposits held by financial institutions | -                 | -       | 1,271     | 1,271     |
| Non-current other receivables                       | -                 | -       | 330,143   | 330,143   |
| <b>Liabilities</b>                                  |                   |         |           |           |
| Non-current borrowings                              | -                 | -       | 5,719,193 | 5,719,193 |
| Non-current other payables                          | -                 | -       | 5,899     | 5,899     |



**LG Electronics Inc.**  
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- Valuation technique and inputs for fair value measurements categorized within 'level 2'

As of December 31, 2016, there are no financial instruments that are not measured at fair value but for which the fair value is disclosed and categorized within 'level 2'.

- Disclosure in relation to fair value measurements categorized within 'level 3'

Valuation technique, inputs and unobservable inputs of financial instruments that are not measured at fair value but for which the fair value is disclosed and categorized within 'level 3' as of December 31, 2016 and 2015, are as of follows:

| <i>(in millions of Korean won)</i>                  | December 31, 2016 |            | December 31, 2015 |            | Valuation techniques | Inputs                          | Significant but unobservable inputs | Range of significant but unobservable inputs |
|---|-------------------|------------|-------------------|------------|----------------------|---------------------------------|-------------------------------------|--|
|   | Carrying amount   | Fair value | Carrying amount   | Fair value |                      |                                 |                                     |  |
| <b>Assets</b>                                       |                   |            |                   |            |                      |                                 |                                     |  |
| Non-current deposits held by financial institutions | 1,159             | 1,159      | 1,271             | 1,271      | Discounted cash flow | Discount rate                   | Discount rate                       | 0.1%   |
| Non-current other receivables                       | 306,113           | 296,919    | 339,859           | 330,143    | Discounted cash flow | Discount rate and exchange rate | Discount rate                       | 3.1% ~ 3.6%                                  |
| <b>Liabilities</b>                                  |                   |            |                   |            |                      |                                 |                                     |  |
| Non-current borrowings                              | 5,970,172         | 6,062,632  | 5,577,300         | 5,719,193  | Discounted cash flow | Discount rate and exchange rate | Discount rate                       | 1.8% ~ 3.3%                                  |
| Non-current other payables                          | 5,552             | 4,705      | 6,928             | 5,899      | Discounted cash flow | Discount rate                   | Discount rate                       | 1.8% ~ 2.7%                                  |

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**37. Business Combination**

- (a) The Company acquired the Power Conditioning System business from LG U plus Co., Ltd. on February 2, 2015, in order to maximize its market responsiveness by enhancing business capabilities in the Energy Storage System business, the Company's future strategic business.
- (b) The following table summarizes the consideration paid and the fair value of assets acquired and liabilities assumed:

| <i>(in millions of Korean won)</i>   | <b>Amount</b> |
|--|---------------|
| Consideration  |               |
| Cash and cash equivalents  | 7,700         |
| Recognized amounts of identifiable assets acquired and liabilities assumed |               |
| Current assets   |               |
| Cash and cash equivalents  | 9             |
| Trade receivables  | 66            |
| Non-current assets   |               |
| Property, plant and equipment  | 2,513         |
| Intangible assets  | 3,907         |
| Non-current liabilities  |               |
| Net defined benefit liability  | 9             |
| <b>Total identifiable net assets</b>                                       | <b>6,486</b>  |
| <b>Goodwill</b>  | <b>1,214</b>  |

- (c) The acquisition-related direct cost in relation to business combination amounting to ₩147 million was recognized as an expense as the costs incurred.
- (d) The above fair value of trade receivables and other receivables are the same as the contractual amounts in gross.

**38. Assets Classified as Held for Sale**

- (a) Details of assets classified as held for sale as of December 31, 2016 and 2015, are as follows:

| <i>(in millions of Korean won)</i>                                     | <b>December 31, 2016</b> | <b>December 31, 2015</b> |
|--|--------------------------|--------------------------|
| Assets classified as held for sale                                     |                          |                          |
| Investment property <sup>1</sup>                                       | 8,906                    | -                        |
| Investment in subsidiaries, associates and joint ventures <sup>2</sup> | -                        | 2,116                    |

<sup>1</sup>The Company entered into a sales contract on December 2, 2016, and the investment property will be sold within the first quarter of 2017.

<sup>2</sup> In accordance with the resolution of the Board of Directors dated October 28, 2015, the Company decided to dispose of its entire shareholdings in Hi Logistics (China) Co., Ltd., in which the Company owns 25%, for the purpose of logistics cost reduction and rapid response to customers. The sale was completed in December, 2016.

- (b) Assets held for sale are measured at fair value less costs to sell before the reclassification, and there is no impairment loss recognized.

**LG Electronics Inc.**  
**Notes to the Separate Financial Statements**  
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**39. Discontinued Operations**

As a result of the decreased demand for PDP TV products, the Company discontinued its operations of the PDP modules and PDP TV on November 30, 2014, in order to focus on its OLED TV and LCD TV division going forward.

- (a) Loss for the period from discontinued operations for the year ended December 31, 2015, consists of:

| <i>(in millions of Korean won)</i>            | <b>2015</b>    |
|---|----------------|
| Net Sales                                     | 9,582          |
| Operating loss                                | (5,277)        |
| Loss for the period before income tax benefit | (5,438)        |
| Income tax benefit                            | (1,316)        |
| <b>Loss for the period, net of tax</b>        | <b>(4,122)</b> |

For the year ended December 31, 2015, a gain on disposal of property, plant and equipment of ₩64 million was recognized based on the recoverable amount of assets due to the discontinued operations of PDP modules and PDP TV.

- (b) Cash generated from discontinued operations for the years ended December 31, 2015, are as follows:

| <i>(in millions of Korean won)</i>         | <b>2015</b> |
|--|-------------|
| Net cash flows from operating activities   | 9,742       |
| Net cash flows from investing activities   | 68          |
| Net cash flow from discontinued operations | 9,810       |

**40. Approval of the Separate Financial Statements**

The issuance of the December 31, 2016 separate financial statements of the Company was approved by the Board of Directors on January 24, 2017.

**Report of Independent Accountants'  
Review of the Internal Accounting Control System**

To the President of  
LG Electronics Inc.

We have reviewed the accompanying management's report on the operations of the Internal Accounting Control System ("IACS") of LG Electronics Inc. (the "Company") as of December 31, 2016. The Company's management is responsible for designing and operating IACS and for its assessment of the effectiveness of IACS. Our responsibility is to review the management's report on the operations of the IACS and issue a report based on our review. The management's report on the operations of the IACS of the Company states that "based on the assessment on the operations of the IACS as of December 31, 2016, the Company's IACS has been effectively designed and is operating as of December 31, 2016, in all material respects, in accordance with the IACS standards."

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

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

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

Our review is based on the Company's IACS as of December 31, 2016, and we did not review management's assessment of its IACS subsequent to December 31, 2016. This report has been prepared pursuant to the Acts on External Audit for Stock Companies in Korea and may not be appropriate for other purposes or for other users.

Samil PricewaterhouseCoopers  
March 9, 2017

## **Report on the Operations of the Internal Accounting Control System**

To the Board of Directors and Audit Committee of  
LG Electronics Inc.

I, as the Internal Accounting Control Officer (“IACO”) of LG Electronics Inc. (“the Company”), assessed the status of the design and operations of the Company’s internal accounting control system (“IACS”) for the year ended December 31, 2016.

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

Based on the assessment on the operations of the IACS, the Company’s IACS has been effectively designed and is operating as of December 31, 2016, in all material respects, in accordance with the IACS standards.

January 24, 2017

Do Hyun Jung  
Chief Executive Officer

Min Kyo Kim  
Internal Accounting Control Officer