



**LG CORP.**

**SEPARATE FINANCIAL STATEMENTS  
AS OF AND FOR THE YEARS ENDED  
DECEMBER 31, 2016 AND 2015**

**ATTACHMENT: INDEPENDENT AUDITOR'S REPORT**

**LG CORP.**

## Independent Auditor's Report

English Translation of Independent Auditor's Report Originally Issued in Korean on March 16, 2017.

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

### Report on the Separate Financial Statements

We have audited the accompanying separate financial statements of LG Corp. (the "Company"), which comprise the separate statements of financial position as of December 31, 2016 and 2015, and the related separate statements of income, separate statements of comprehensive income, separate statements of changes in shareholders' equity and separate statements of cash flows, all expressed in Korean won, for the years ended December 31, 2016 and 2015, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Separate Financial Statements

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

### Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the separate 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 financial statements.

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

### Opinion

In our opinion, the separate financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2016 and 2015, and its financial performance and its cash flows for the years ended December 31, 2016 and 2015, in accordance with K-IFRS.

**Deloitte.**

*Deloitte Anjin LLC*

March 16, 2017

**Notice to Readers**

This report is effective as of March 16, 2017, the auditors' report date. Certain subsequent events or circumstances may have occurred between the auditors' report date and the time the auditors' report is read. Such events or circumstances could significantly affect the separate financial statements and may result in modifications to the auditors' report.

**LG CORP. (the “Company”)**

**SEPARATE FINANCIAL STATEMENTS  
AS OF AND FOR THE YEARS ENDED  
DECEMBER 31, 2016 AND 2015**

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

**Hyun-Hwoi Ha**

**President and Chief Operating Officer**

**LG Corp.**

**LG CORP.**  
**SEPARATE STATEMENTS OF FINANCIAL POSITION**  
**AS OF DECEMBER 31, 2016 AND 2015**

	Korean won	
	December 31, 2016	December 31, 2015
	(In millions)	
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash and cash equivalents (Notes 5, 6 and 26)	₩ 128,683	₩ 63,609
Financial institution deposits (Notes 5, 23 and 26)	100,630	230,500
Other receivables, net (Notes 5, 7, 22 and 26)	34,541	35,128
Other current assets (Note 8)	3,986	4,112
Assets held for sale (Note 28)	83,295	-
Total current assets	351,135	333,349
NON-CURRENT ASSETS:		
Available-for-sale (“AFS”) financial assets (Notes 5 and 26)	76,485	80,482
Other non-current receivables, net (Notes 5, 7, 22, 23 and 26)	489	474
Investments in subsidiaries (Note 11)	1,163,917	1,163,917
Investments in associates and joint ventures (Note 11)	5,916,101	5,987,734
Other non-current assets (Note 8)	2,463	2,856
Property, plant and equipment, net (Notes 9)	39,987	27,559
Investment property, net (Notes 9 and 24)	794,001	598,508
Intangible assets (Note 10)	15,844	13,886
Total non-current assets	8,009,287	7,875,416
TOTAL ASSETS	₩ 8,360,422	₩ 8,208,765

(Continued)

**LG CORP.**  
**SEPARATE STATEMENTS OF FINANCIAL POSITION**  
**AS OF DECEMBER 31, 2016 AND 2015 (CONTINUED)**

	Korean won	
	December 31, 2016	December 31, 2015
	(In millions)	
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>		
CURRENT LIABILITIES:		
Other current payables (Notes 5, 22 and 26)	₩ 100,670	₩ 99,026
Current tax liabilities	27,028	29,271
Other current liabilities (Notes 13 and 22)	6,637	6,522
Liabilities related to assets held for sale (Note 28)	710	-
Total current liabilities	135,045	134,819
NON-CURRENT LIABILITIES:		
Other non-current payables (Notes 5, 22 and 26)	10,440	4,142
Net defined benefit liability (Notes 12 and 22)	14,398	8,442
Deferred tax liability (Note 20)	159,064	124,775
Other non-current liabilities (Note 13)	5,862	6,152
Total non-current liabilities	189,764	143,511
TOTAL LIABILITIES	324,809	278,330
<u>SHAREHOLDERS' EQUITY</u>		
Issued capital (Note 14)	879,359	879,359
Capital surplus (Note 15)	2,409,002	2,409,002
Other capital items (Note 14)	(2,385)	(2,385)
Accumulated other comprehensive income (Note 16)	20,356	23,538
Retained earnings (Note 17)	4,729,281	4,620,921
TOTAL EQUITY	8,035,613	7,930,435
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	₩ 8,360,422	₩ 8,208,765

(Concluded)

See notes

**LG CORP.**  
**SEPARATE STATEMENTS OF INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

	Korean won	
	Year ended December 31, 2016	Year ended December 31, 2015
	(In millions)	
Operating income:		
Dividend income (Notes 4, 18 and 22)	₩ 261,298	₩ 214,434
Royalty revenue (Notes 4, 18 and 22)	247,829	256,839
Rental revenue (Notes 4, 18 and 22)	104,876	102,844
	<u>614,003</u>	<u>574,117</u>
Operating expenses:		
Employee benefit (Notes 18 and 22)	35,977	32,059
Depreciation (Notes 9 and 18)	17,953	16,580
Other operating expenses (Notes 18 and 22)	135,948	130,656
	<u>189,878</u>	<u>179,295</u>
Net operating income	424,125	394,822
Non-operating income and expenses:		
Financial income (Note 19)	7,333	7,816
Financial expenses (Note 19)	440	793
Other non-operating income	446	102
Other non-operating expenses	490	1,385
Profit before income tax expense	<u>430,974</u>	<u>400,562</u>
Income tax expense (Note 20)	<u>90,816</u>	<u>54,647</u>
Profit for the year	<u>₩ 340,158</u>	<u>₩ 345,915</u>
Earnings per share (in Korean won):		
Common stock basic/diluted (Note 21)	₩ 1,934	₩ 1,967
Pre-1996 Commercial Law Amendment preferred stock basic/diluted (Note 21)	1,984	2,017

**See notes**

**LG CORP.**  
**SEPARATE STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

	Korean won			
	Year ended		Year ended	
	December 31, 2016		December 31, 2015	
	(In millions)			
Profit for the year	₩	340,158	₩	345,915
Other comprehensive income (loss):				
Items that may be reclassified subsequently to profit or loss				
Net gain (loss) on AFS financial assets		(3,182)		(7,189)
Items that will not be reclassified subsequently to profit or loss				
Remeasurement on the net defined benefit liability		(3,130)		(1,281)
Total comprehensive income for the year	₩	333,846	₩	337,445

**See notes**



**LG CORP.**  
**SEPARATE STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

	Korean won											
	Issued capital		Capital surplus		Other capital items		Accumulated other comprehensive income (loss)		Retained earnings		Total	
	(In millions)											
Balance at January 1, 2015	₩	879,359	₩	2,409,002	₩	(2,385)	₩	30,727	₩	4,452,224	₩	7,768,927
Annual dividends		-		-		-		-		(175,937)		(175,937)
Profit for the year		-		-		-		-		345,915		345,915
Remeasurement on the net defined benefit liability		-		-		-		-		(1,281)		(1,281)
Net gain (loss) on AFS financial assets		-		-		-		(7,189)				(7,189)
Balance at December 31, 2015	₩	879,359	₩	2,409,002	₩	(2,385)	₩	23,538	₩	4,620,921	₩	7,930,435
Balance at January 1, 2016	₩	879,359	₩	2,409,002	₩	(2,385)	₩	23,538	₩	4,620,921	₩	7,930,435
Annual dividends		-		-		-		-		(228,668)		(228,668)
Profit for the year		-		-		-		-		340,158		340,158
Remeasurement on the net defined benefit liability		-		-		-		-		(3,130)		(3,130)
Net gain (loss) on AFS financial assets		-		-		-		(3,182)				(3,182)
Balance at December 31, 2016	₩	879,359	₩	2,409,002	₩	(2,385)	₩	20,356	₩	4,729,281	₩	8,035,613

**See notes**

**LG CORP.**  
**SEPARATE STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

	Korean won	
	Year ended December 31, 2016	Year ended December 31, 2015
	(In millions)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Profit for the year	₩ 340,158	₩ 345,915
Additions of expenses not involving cash outflows:		
Depreciation	17,953	16,580
Amortization of intangible assets	1,553	1,193
Retirement benefits	3,572	2,941
Interest expenses	290	402
Income tax expense	90,816	54,647
Loss on foreign currency translation	-	73
Loss on disposals of property, plant and equipment	27	1
Other selling and administration expenses	192	238
	<u>114,403</u>	<u>76,075</u>
Deduction of incomes not involving cash inflows:		
Interest income	6,454	5,842
Dividend income	261,298	214,434
Other operating income	290	402
Gain on disposals of property, plant and equipment	56	6
Gain on foreign currency translation	877	1,497
	<u>(268,975)</u>	<u>(222,181)</u>
Movements in working capital:		
Other receivables	1,436	4,545
Other current assets	126	(351)
Other non-current receivables	-	20
Other non-current assets	(2,049)	(1,542)
Other payables	7,608	(796)
Other current liabilities	115	87
Net defined benefit liability	(1,817)	(5,360)
	<u>5,419</u>	<u>(3,397)</u>

(Continued)

**LG CORP.**  
**SEPARATE STATEMENTS OF CASH FLOWS (CONTINUED)**  
**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

	Korean won	
	Year ended	Year ended
	December 31, 2016	December 31, 2015
	(In millions)	
Interest income received	₩ 6,314	₩ 5,356
Dividend income received	261,299	214,434
Income taxes paid	(56,045)	(57,281)
Net cash provided by operating activities	402,573	358,921
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Cash inflows from investing activities:		
Decrease in financial institution deposits	280,000	220,000
Decrease in deposits	153	100
Disposals of property, plant and equipment	62	12
	280,215	220,112
Cash outflows for investing activities:		
Increase in financial institution deposits	150,130	370,500
Increase in short-term loans	-	18,868
Increase in deposits	-	153
Acquisitions of AFS financial assets	200	400
Acquisitions of investments in subsidiaries	-	68,923
Acquisitions of investments in associates	11,662	29,398
Acquisitions of property, plant and equipment	13,870	1,183
Acquisitions of investment properties	211,995	903
Acquisitions of intangible assets	1,192	1,151
	(389,049)	(491,479)
Net cash used in investing activities	(108,834)	(271,367)

(Continued)

**LG CORP.**  
**SEPARATE STATEMENTS OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2016 AND 2015 (CONTINUED)**

	Korean won	
	Year ended December 31, 2016	Year ended December 31, 2015
	(In millions)	
CASH FLOWS FROM FINANCING ACTIVITIES:		
Cash inflows from financing activities:		
Proceeds from short-term borrowings	₩ 24,953	₩ -
	24,953	-
Cash outflows for financing activities:		
Payments of dividends	228,665	175,943
Redemptions of short-term borrowings	24,953	-
	(253,618)	(175,943)
Net cash used in financing activities	(228,665)	(175,943)
NET INCREASE IN CASH AND CASH EQUIVALENTS	65,074	(88,389)
CASH AND CASH EQUIVALENTS, AT THE BEGINNING OF YEAR	63,609	151,998
CASH AND CASH EQUIVALENTS, AT THE END OF YEAR	₩ 128,683	₩ 63,609

(Concluded)

**See notes**

**LG CORP.**  
**NOTES TO SEPARATE FINANCIAL STATEMENTS**  
**AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

**1 GENERAL:**

LG Corp. (the “Company”) is an investment holding company, which was formed to meet the changes in domestic and international business environments and become a global competitor through an effective management specializing its business sector. On March 1, 2003, it acquired LGEI (“LG Electronics Inc.”), an investment company, and the real estate lease and investment business company, Serveone Co., Ltd.

The Company has been listed on the Korea Exchange stock market since February 1970. After numerous paid-up capital increases, spin-offs and mergers, the Company has outstanding capital stock of ₩879,359 million, including preferred stocks of ₩16,573 million as of December 31, 2016.

As of December 31, 2016, the Company’s related parties and major shareholders are as follows:

Name of shareholder	Number of shares	Percentage of shares (%) (*)
Ku, Bon Mu	19,458,169	11.06
Ku, Bon Jun	13,317,448	7.57
Ku, Gwang Mo	10,759,715	6.12
Ku, Bon Shik	7,728,601	4.39
Kim, Young Shik	7,253,100	4.12
Ku, Bon Neung and others	20,272,466	11.53
LG Yonam Education Foundation	3,675,742	2.09
LG Yonam Foundation	572,525	0.33
Others	92,834,042	52.79
Total	175,871,808	100.00

(\*) Includes preferred stocks

**2 STANDARDS AFFECTING PRESENTATION AND DISCLOSURE AND SIGNIFICANT ACCOUNTING POLICIES:**

The separate financial statements have been confirmed by the Board of Directors in a meeting held on February 9, 2017.

The Company has adopted the Korean International Financial Reporting Standards (“K-IFRSs”) from January 1, 2010, which is determined as the transition date of the Company to K-IFRS. Also, these are the separate financial statements of the Company in accordance with K-IFRS 1027 (Separate Financial Statements), those presented by a parent, an investor with joint control of, or significant influence over, an investee, in which the investments are accounted for at cost or in accordance with K-IFRS 1109 (Financial Instruments) or K-IFRS 1028 Investment in Associates.

The significant accounting policies under K-IFRS followed by the Company in the preparation of separate financial statements are summarized below. Unless stated otherwise, these accounting policies have been applied consistently to the separate financial statements for the current period and the comparative period.

(1) Amendments to K-IFRSs and new interpretations that are mandatorily effective for the current year

1) Newly adopted and revised standards, their interpretations and thereby changes in accounting policies being effective for the financial year beginning on January 1, 2016, are as follows:

#### Amendments to K-IFRS 1001 – *Presentation of Financial Statements (Revised)*

The amendments to K-IFRS 1001 clarify the concept of applying materiality in practice and restrict an entity reducing the understandability of its financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or functions. The application of these amendments has no significant impact on the disclosure in the Company's separate financial statements.

#### Amendments to K-IFRS 1016 – *Property, Plant and Equipment (Revised)*

The amendments to K-IFRS 1016 prohibit the Company from using a revenue-based depreciation method for items of property, plant and equipment. The application of these amendments has no significant impact on the disclosure in the Company's separate financial statements.

#### Amendments to K-IFRS 1027 – *Separate Financial Statements (Revised)*

The following amendments discuss accounting for investment in subsidiaries, related parties and joint ventures at cost basis and allow the selection of the application of K-IFRS 1039 *Financial Instruments: Recognition and Measurement* or the application of equity method accounting under K-IFRS 1028 *Investment in Associates and Joint Ventures*. The application of these amendments has no significant impact on the disclosure in the Company's separate financial statements.

#### Amendments to K-IFRS 1038 – *Intangible Assets (Revised)*.

The amendments to K-IFRS 1038 do not allow presumption that revenue is an appropriate basis for the amortization of intangible assets, which the presumption can only be limited when the intangible asset expressed as a measure of revenue or when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated. The application of these amendments has no significant impact on the disclosure in the Company's separate financial statements.

#### Amendments to K-IFRS 1111 – *Accounting for Acquisitions of Interests in Joint Operations (Revised)*

The amendments to K-IFRS 1111 provide guidance on how to account for the acquisition of a joint operation that constitutes a business as defined in K-IFRS 1103 *Business Combinations*. A joint operator is also required to disclose the relevant information required by K-IFRS 1103 and other standards for business combinations. The application of these amendments has no significant impact on the disclosure in the Company's separate financial statements.

#### Annual Improvements to K-IFRS 2012-2014 Cycle

The Annual Improvements include amendments to a number of K-IFRSs. The amendments introduce specific guidance in K-IFRS 1105 *Non-Current Assets Held for Sale and Discontinued Operations* for when an entity reclassifies an asset (or disposal group) from held for sale to held for distribution to owners (or vice versa), such a change is considered as a continuation of the original plan of disposal, not as a change to a plan of sale. Other amendments in the Annual Improvements include K-IFRS 1107 *Financial Instruments: Disclosures*, K-IFRS 1019 *Employee Benefits*, and K-IFRS 1034 *Interim Financial Reporting*.

2) Details of K-IFRS that have been issued at the end of the reporting period, but are not yet effective, and have not been applied yet are as follows:

#### Amendments to K-IFRS 1109 – *Financial Instruments*

The amendments to K-IFRS 1109 contain the requirements for the classification and measurement of financial assets and financial liabilities based on a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets and based on the contractual terms that give rise on specified dates to cash flows, impairment methodology based on the expected credit losses, and broadened types of instruments that qualify as hedging instruments and the types of risk components of non-financial items that are eligible for hedge

accounting and the change of the hedge effectiveness test. The amendments are effective for annual periods beginning on or after January 1, 2018.

The new accounting policy is to be applied retrospectively; however, some exceptions are allowed, such as restatement of comparative information for classification, measurement and impairment of financial assets and financial liabilities. Hedge accounting is applied prospectively except for accounting for the time value options, etc.

In order to assess the financial impact of the first application of K-IFRS 1109, the Company conducted a preliminary assessment of the potential impact on the financial statements for 2016 based on current situation and available information as of December 31, 2016. The Company will analyze more specific financial impacts based on additional information in the future.

#### 1.1.1 Classification and measurement of financial assets

As of December 31, 2016, the Company retains loans and receivables amounting to ₩135,660 million, AFS financial assets amounting to ₩76,485 million. According to K-IFRS 1109, only financial assets with specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding and financial assets objective to hold in order to collect contractual cash flows can be measured at amortized cost. As of December 31, 2016, the Company measures loans and receivables amounting to ₩135,660 million as amortized costs.

When applying K-IFRS 1109 to the above financial assets as of December 31, 2016, items with specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding and financial assets objective to hold in order to collect contractual cash flows is classified as measured at amortized cost assets and it is judged that it does not have a significant impact on the financial statements.

According to K-IFRS 1109, equity instruments that are not held for short-term trading purposes can be selected irrevocably by designating as other comprehensive income - fair value measurement items at initial recognition point, and this comprehensive income will not be recycled to the current profit and loss subsequently. As of December 31, 2016, equity instruments classified as AFS financial assets of the Company are ₩76,485 million.

The Company designates equity instruments for long-term investment, which comprises most of the available-for-sale equity instruments; it is judged that the relevant financial assets do not have a significant impact on the financial statements even though K-IFRS 1109 is applied.

#### 1.1.2 Classification and measurement of financial liabilities

As of December 31, 2016, the Company measured financial liabilities of ₩111,110 million as amortized cost. It is judged that the financial liabilities do not have a great impact on the financial statements even though K-IFRS 1109 is applied.

#### 1.1.3 Impairment methodology: financial assets and contractual assets

In K-IFRS 1109, originated credit-impaired financial assets shall be counted up as loss allowances for cumulative changes in expected credit losses over the entire period after the initial recognition.

The Company retains loans and receivables measured at amortized costs amounting ₩135,660 million, equity securities classified as AFS financial assets and measured at fair value through other comprehensive income amounting ₩76,485 million. As retaining loans and receivables have no significant financial elements, it is judged to have no significant difference with the loss allowances of the Company as of December 31, 2016.

#### Amendments to K-IFRS 1115 – Revenue from Contracts with Customers

Amended in September 2015, K-IFRS 1115 – Revenue from Contracts with Customers is effective for annual periods beginning on or after January 1, 2018, earlier application is permitted. This Standard will supersede K-IFRS 1018- Revenue, K-IFRS 1011 - Construction Contracts, K-IFRS 2031-Revenue-Barter Transactions Involving Advertising Services, K-IFRS 2113 - Customer Loyalty Programmes, K-IFRS 2115-Agreements for the Construction of Real Estate, and K-IFRS 2118 - Transfers of Assets from Customers. The Company intends to elect

this Standard for annual periods beginning on January 1, 2018 (date of initial application); however, the Company will recognize the cumulative effect of initially applying this Standard as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) of the annual reporting period that includes the date of initial application.

Current K-IFRS 1018 identifies transaction forms, such as sales of goods, rendering of services, interest, royalties, dividends and construction contracts; however, according to K-IFRS 1115 every contract is identified by five-step revenue recognition model(①Identify the contract with a customer, ②Identify the performance obligations in the contract, ③Determine the transaction price, ④Allocate the transaction price to the performance obligations in the contract and, ⑤Recognize revenue when (or as) the entity satisfies a performance obligation).

To prepare for the adoption of K-IFRS 1115, the Company has formed a TF team composed of employees of the finance department and performed analysis on revenue structure, current status and identified issues based on currently available information. By this preliminary assessment of the potential impact on the Company's application of K-IFRS 1115, the Company judged the impact will not be significant.

#### Amendments to K-IFRS 1102—Share-based Payment

The amendments include: 1) when measuring the fair value of share-based payment, the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payment should be consistent with the measurement of equity-settled share-based payment; 2) Share-based payment transaction in which the Company settles the share-based payment arrangement net by withholding a specified portion of the equity instruments per statutory tax withholding requirements would be classified as equity-settled in its entirety, if otherwise would be classified as equity-settled without the net settlement feature; and 3) when a cash-settled share-based payment changes to an equity-settled share-based payment because of modifications of the terms and conditions, the original liability recognized is derecognized and the equity-settled share-based payment is recognized at the modification date fair value. Any difference between the carrying amount of the liability at the modification date and the amount recognized in equity at the same date would be recognized in profit and loss immediately. The amendments are effective for annual periods beginning on or after January 1, 2018.

#### Amendments to K-IFRS 1007 – Statement of Cash Flows

The amendments require that changes in liabilities arising from financial activities be disclosed. The amendments are effective for annual periods beginning on or after January 1, 2017.

#### Amendments to K-IFRS 1012 – Income Taxes

The amendments clarify that unrealized losses on fixed-rate debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the holder expects to recover the carrying amount of the debt instrument by sale or by use and that the estimate of probable future taxable profit may include the recovery of some of assets for more than their carrying amount. When the Company assesses whether there will be sufficient taxable profit, the Company should compare the deductible temporary differences with future taxable profit that excludes tax deductions resulting from the reversal of those deductible temporary differences. The amendments are effective for annual periods beginning on or after January 1, 2017.

The Company does not anticipate that the application of these new and revised K-IFRSs that have been issued, but not effective, will have any impact on the Company's separate financial statements.

#### (2) Basis of preparing separate financial statements

##### 1) Basis of measurement

The separate financial statements have been prepared on the historical cost basis, except otherwise stated below, such as financial instruments.

##### 2) Functional and reporting currency

The separate financial statements of the Company are presented in the currency of the primary economic



environment in which the entity operates (its functional currency). The Company's functional currency and the reporting currency for the separate financial statements is Korean won.

### (3) Foreign currency translation

Transactions that occur in currencies other than the Company's functional currency will be recorded at a translated amount using the exchange rate on the day of the transaction. At the end of reporting period, all monetary assets and liabilities will be translated using the exchange rate at the end of reporting date. Meanwhile, non-monetary assets and liabilities measured at fair value will be retranslated using the exchange rate on the day of fair value evaluation, whereas non-monetary assets and liabilities measured at historical cost will not be translated.

Exchange differences are recognized in profit or loss in the period in which they arise, except for:

- Exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings; and
- Exchange differences on transactions entered into in order to hedge certain foreign currency risks.

### (4) Cash and cash equivalents

Cash and cash equivalents include cash, savings and checking accounts and highly liquid short-term investments (maturities of three months or less from acquisition). Bank overdraft is accounted for as short-term borrowings.

### (5) Financial assets

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

Financial assets are classified into the following specified categories: 'financial assets at FVTPL,' 'held-to-maturity investments,' 'AFS financial assets' and 'loans and receivables.' The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

#### 1) Effective interest method

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. Income is recognized on an effective interest basis for debt instruments other than those financial assets classified as FVTPL.

#### 2) Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is contingent consideration that may be paid by an acquirer as part of business combination to which K-IFRS 1103 applies.

A financial asset is classified as held for trading, if:

- It has been acquired principally for the purpose of selling it in the near term;
- On initial recognition, it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading or contingent consideration that may be paid by an acquirer as part of a business combination may be designated as at FVTPL upon initial recognition, if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise;
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed, and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and K-IFRS 1039 *Financial Instruments: Recognition and Measurement* permit the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss.

### 3) Held-to-maturity investments

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

### 4) Financial assets AFS

Non-derivative financial assets that are not classified as at held to maturity, held for trading, designated as at FVTPL, or loans and receivables are classified as at financial assets AFS. Financial assets can be designated as sale on initial recognition. Financial assets AFS are initially recognized at fair value, plus directly related transaction costs. They are subsequently measured at fair value. Unquoted equity investments whose fair value cannot be measured reliably are carried at cost. Gains and losses arising from changes in fair value are recognized in other comprehensive income and accumulated in the investments revaluation reserve, with the exception of impairment losses, interest calculated using the effective interest method, and foreign exchange gains and losses on monetary assets, which are recognized in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss. Dividends on AFS equity instruments are recognized in profit or loss when the Company's right to receive the dividends is established.

The fair value of AFS monetary financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate prevailing at the end of the reporting period. The foreign exchange gains and losses that are recognized in profit or loss are determined based on the amortized cost of the monetary asset. Other foreign exchange gains and losses are recognized in other comprehensive income.

### 5) Loans and receivables

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

### 6) Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period.

Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that have occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For listed and unlisted equity investments classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, including redeemable notes classified as AFS and finance lease receivables, objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty,
- Default or delinquency in interest or principal payments,
- It becoming probable that the borrower will enter bankruptcy or financial reorganization, or
- The disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

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

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

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

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

In respect of AFS equity securities, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income. In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

#### 7) Derecognition of financial assets

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

#### (6) Property, plant and equipment

Property, plant and equipment are stated at cost, less subsequent accumulated depreciation and accumulated impairment losses. The cost of an item of property, plant and equipment is directly attributable to its purchase or construction, which includes any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. It also includes the initial

estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

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

The Company does not depreciate land and some tangible assets, and depreciation is computed using the straight-line method based on the estimated useful lives of the assets as follows:

	<u>Estimated useful lives (years)</u>
Buildings	25–50
Structures	25
Furniture, fixtures and vehicles	5–12

The Company reviews the depreciation method; the estimated useful lives; and residual values of property, plant and equipment at the end of each annual reporting period. If expectations differ from previous estimates, the changes are accounted for as a change in accounting estimate.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized.

#### (7) Investment property

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

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

Among the investment properties, land is not depreciated. However, investment properties other than land are depreciated over their useful lives of 25–50 years using the straight-line method.

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

#### (8) Intangible assets

##### 1) Intangible assets acquired separately

Intangible assets acquired separately are carried at cost, less accumulated amortization and accumulated impairment losses. Intangible assets compose of intellectual property, other intangible assets and construction in progress. They are amortized using the straight-line method over 5 to 10 years, with no residual value. For facility rights that the Company has, there is no foreseeable limit to its use, and thus, it is deemed to have indefinite useful life and is not amortized. Intangible assets with indefinite useful lives are tested for impairment at least annually and whenever there is an indication that the asset may be impaired.

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

##### 2) Derecognition of intangible assets

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from its use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss when the asset is derecognized.

(9) Impairment of tangible and intangible assets other than goodwill

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

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever, there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value, less costs to sell and value in use. If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount and the reduced amount is recognized in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or the cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

(10) Investment in subsidiaries, associates and joint ventures

In accordance with K-IFRS 1027, the Company's separate financial statements are financial statements that were prepared by the parent, or the investor with joint control of, or significant influence over, an investee, and where this parent, or investor, accounts for the investments at cost. The Company chose the cost method based on K-IFRS 1027 to report investments in subsidiaries, associates and joint ventures. Dividends obtained from subsidiaries, associates and joint ventures are recognized in profit or loss when the right to receive dividends is confirmed.

(11) Financial liabilities and equity instruments

1) Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

2) Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognized when the proceeds are received, net of direct issue costs.

3) Financial liabilities

Financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial liabilities are added to, or deducted from, the fair value of the financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial liabilities at FVTPL are recognized immediately in profit or loss.

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

#### 4) Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is contingent consideration that may be paid by an acquirer as part of a business combination to which K-IFRS 1103 applies, or held for trading, or it is designated as at FVTPL.

A financial liability is classified as held for trading, if:

- It has been acquired principally for the purpose of repurchasing it in the near term,
- On initial recognition, it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking, or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration that may be paid by an acquirer as part of a business combination may be designated as at FVTPL upon initial recognition, if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise;
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed, and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and K-IFRS 1039 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss.

#### 5) Other financial liabilities

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

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

#### 6) Financial guarantee contract liabilities

A financial guarantee contract is a contract that requires 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 terms of a debt instruments.

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

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

## 7) Derecognition of financial liabilities

The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, canceled or they expire.

## (12) Lease

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

### 1) The Company as lessor

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

### 2) The Company as lessee

Assets held under finance leases are initially recognized as assets and liabilities of the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. The financial charge, except in case that it is capitalized as part of the cost of that asset according to the Company's accounting for borrowing costs (see Note 2.(13)), is immediately expensed in the period in which it is incurred. Contingent rents are charged as expenses in the periods in which they are incurred.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rents for operating lease are charged as expenses in the periods in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expenses on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

## (13) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings, pending their expenditure on qualifying assets, is deducted from the borrowing costs eligible for capitalization. When floating interest rate borrowing is used for acquisition of qualifying asset and effective cash flow hedging of interest risks have been made, effective portion of gain and loss from valuation of derivatives is deferred to equity and reflected in profit and loss when qualifying assets have an effect in the profit and loss of a specific period. When fixed interest rate borrowing is used for acquisition of qualifying asset and effective fair value hedging of interest risks has been made, the capitalized borrowing costs bear the hedging interest rate. All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

## (14) Employee benefits

### Defined benefit plan

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the Projected Unit

Credit Method, with actuarial valuations being carried out at the end of each reporting period. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the separate statements of financial position, with a charge or credit recognized in other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss. Past service cost is recognized in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are composed of service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements), net interest expense (income), and remeasurement.

The Company presents the service cost and net interest expense (income) components in profit or loss, and the remeasurement component in other comprehensive income. Curtailment gains and losses are accounted for as past service costs.

The retirement benefit obligation recognized in the separate statements of financial position represents the actual deficit or surplus in the Company's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

#### (15) Provisions

A provision is recognized when the Company has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material). The discount rate used is a pretax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage is recognized in profit or loss as borrowing cost.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

At the end of each reporting period, the remaining provision balance is reviewed and assessed to determine if the current best estimate is being recognized. If the existence of an obligation to transfer economic benefit is no longer probable, the related provision is reversed during the period.

#### (16) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, net of value-added tax ("VAT"), returns, rebates and discounts. The Company recognizes revenue when it is reliably measurable and the inflows of future economic benefits are likely. For each type of sales, the Company recognizes revenue as follows:

##### 1) Dividend income

Dividends are recognized as revenue when the right to dividends is determined.

##### 2) Royalty revenue

Income from use of trademark rights is recognized on an accrual basis to reflect related contracts' economic substance.



### 3) Rental revenue

The Company recognizes revenue for real estate rent income according to passage of time.

### 4) Interest income

Interest income is recognized through passage of time by the effective interest rate method. When receivables are impaired, the book value of the receivable is reduced to collectible amount (future cash inflows discounted by initial effective interest rate of the financial asset) and increasing amount due to passage of time is recognized as interest income. Initial effective interest rate is used when recognizing interest income from such receivables.

### (17) Income tax

Income tax expense consists of current tax and deferred tax.

#### 1) Current tax payable

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

#### 2) Deferred tax

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

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset if, and only if, the Company has a legally enforceable right to set off current tax assets against current tax liabilities, and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities, which intend either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

For the purpose of measuring deferred tax liabilities and deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model, whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale.

### 3) Recognition of current tax payable and deferred tax

Current and deferred taxes are recognized in profit or loss, except for those related to items other than profit or loss, such as other comprehensive income (loss) or items recognized directly in equity (current taxes and deferred taxes are both recognized in items other than profit or loss) of same or different accounting periods or items arising from initial accounting treatments of a business combination. For business combinations, income tax effects are considered when measuring goodwill or determining Company's shares in fair value of acquiree's identifiable assets, liabilities and contingent liabilities that exceed cost of business combination.

### (18) Treasury stock

When the Company repurchases its equity instruments (treasury stock), the incremental costs that increase in relation to capital transactions, net of tax effect, are deducted from the shareholders' equity and recognized as other capital items deducted from the total equity in the separate statements of financial position. In addition, profits or losses from purchase, sale or retirement of treasury stocks are directly recognized in shareholders' equity and not in current profit or loss.

### (19) Fair Value

Fair value is 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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these separate financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of K-IFRS 1102, *Share-Based Payment*, leasing transactions that are within the scope of K-IFRS 1017 *Leases*, and measurements that have some similarities to fair value, but are not fair value, such as net realizable value in K-IFRS 1002, *Inventories*, or value in use in K-IFRS 1036, *Impairment of Assets*.

In addition, for financial reporting purposes, fair value measurements are categorized into Levels 1, 2 or 3, based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

## **3 SIGNIFICANT CONSIDERATION AND MAJOR SOURCES OF ESTIMATION UNCERTAINTIES:**

In the application of the Company accounting policies, which are described in Note 2, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

#### 4 SEGMENT INFORMATION:

The Company has only one operating segment in accordance with K-IFRS 1108, *Operating Segments*, from entire Company's perspective. Operating segment information for years ended December 31, 2016 and 2015, are as follows:

##### 1) Operating income information (Unit: Korean won in millions)

Sectors	Year ended December 31, 2016	Year ended December 31, 2015
Dividend income	₩ 261,298	₩ 214,434
Royalty revenue	247,829	256,839
Rent revenue	104,876	102,844
<b>Total</b>	<b>₩ 614,003</b>	<b>₩ 574,117</b>

##### 2) Regional information

The Company's operating income is all derived from domestic business, and all of its non-current assets are located in South Korea.

##### 3) Major client information

Operating income from major clients that covers more than 10% of operation income for years ended December 31, 2016 and 2015, is ₩384,072 million and ₩309,659 million, respectively.

#### 5 CLASSIFICATION OF FINANCIAL INSTRUMENTS AND FAIR VALUE:

Carrying amount and fair value of financial assets and liabilities as of December 31, 2016 and 2015, are as follows (Unit: Korean won in millions):

##### 1) Financial assets

Financial assets	Account	December 31, 2016		December 31, 2015	
		Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents	Cash and cash equivalents	₩ 128,683	₩128,683	₩ 63,609	₩ 63,609
AFS financial assets	Marketable equity securities	27,434	27,434	31,748	31,748
	Unmarketable equity securities (*)	49,051	49,051	48,734	48,734
	Subtotal	76,485	76,485	80,482	80,482
Loans and receivables	Financial institution deposits	100,630	100,630	230,500	230,500
	Loans	28,545	28,545	27,683	27,683
	Other account receivables	4,582	4,582	6,018	6,018
	Accrued income	1,414	1,414	1,274	1,274
	Deposits	489	489	627	627
	Subtotal			266,102	266,102
	<b>Total</b>	<b>₩ 340,828</b>	<b>₩ 340,828</b>	<b>₩ 410,193</b>	<b>₩ 410,193</b>

(\*) The unlisted stocks that are AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost.

2) Financial liabilities

Financial liabilities	Account	December 31, 2016		December 31, 2015	
		Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities measured at amortized cost	Other accounts payables	₩ 40,211	₩ 40,211	₩ 41,094	₩ 41,094
	Accrued expenses	1,709	1,709	507	507
	Accrued dividends	314	314	312	312
	Deposits received	68,876	68,876	61,255	61,255
Total		₩ 111,110	₩ 111,110	₩ 103,168	₩ 103,168

**6 CASH AND CASH EQUIVALENTS:**

Cash and cash equivalents in the separate statements of cash flows are equivalent to cash and cash equivalents in the separate statements of financial position. Details of cash and cash equivalents as of December 31, 2016 and 2015, are as follows (Unit: Korean won in millions):

Description	December 31, 2016	December 31, 2015
Cash on hand	₩ 7	₩ 8
Bank deposits	60,006	30,001
Other cash equivalents	68,670	33,600
Total	₩ 128,683	₩ 63,609

**7 ACCOUNT AND OTHER RECEIVABLES:**

As of December 31, 2016 and 2015, account receivables and other receivables are not impaired or overdue. Details are as follows (Unit: Korean won in millions):

Description	December 31, 2016		December 31, 2015	
	Current	Non-current	Current	Non-current
Loans	₩ 28,545	₩ -	₩ 27,683	₩ -
Account receivables	4,582	-	6,018	-
Accrued income	1,414	-	1,274	-
Deposits	-	489	153	474
Total	₩ 34,541	₩ 489	₩ 35,128	₩ 474

**8 OTHER ASSETS:**

Details of other assets as of December 31, 2016 and 2015, are as follows (Unit: Korean won in millions):

Description	December 31, 2016		December 31, 2015	
	Current	Non-current	Current	Non-current
Advanced payments	₩ -	₩ 2,463	₩ -	₩ 2,856
Prepaid expenses	3,986	-	4,112	-
Total	₩ 3,986	₩ 2,463	₩ 4,112	₩ 2,856

## 9 PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY:

(1) Changes in acquisition cost of property, plant and equipment and investment property for the years ended December 31, 2016 and 2015, are as follows (Unit: Korean won in millions):

Description	Year ended December 31, 2016										
	Property, plant and equipment						Investment property				
	Land	Buildings	Structures	Vehicles	Furniture and fixtures	Construction in progress	Land	Buildings	Structures	Construction in progress	Total
Beginning balance	₩ 6,209	₩17,207	₩ 377	₩ 8,684	₩ 6,893	₩ 200	₩244,815	₩ 451,568	₩ 8,784	₩ -	₩ 744,737
Acquisition	-	10	-	11,501	2,376	-	136,793	74,406	-	821	225,907
Disposals	-	-	-	(789)	(1,403)	-	-	-	-	-	(2,192)
Transfers in	256	1,354	32	200	-	-	-	-	-	-	1,842
Transfers out	-	-	-	-	-	(200)	(256)	(1,354)	(32)	-	(1,842)
Ending balance	₩ 6,465	₩18,571	₩ 409	₩19,596	₩ 7,866	₩ -	₩381,352	₩ 524,620	₩ 8,752	₩ 821	₩ 968,452

	Year ended December 31, 2015									
	Property, plant and equipment						Investment property			
Description	Land	Buildings	Structures	Vehicles	Furniture and fixtures	Construction in progress	Land	Buildings	Structures	Total
Beginning balance	₩ 5,054	₩ 11,065	₩ 233	₩ 8,589	₩ 6,179	₩ -	₩ 245,970	₩ 456,760	₩ 8,928	₩ 742,778
Acquisition	-	47	-	225	714	200	-	903	-	2,089
Disposals	-	-	-	(130)	-	-	-	-	-	(130)
Transfers in	1,155	6,095	144	-	-	-	-	-	-	7,394
Transfers out	-	-	-	-	-	-	(1,155)	(6,095)	(144)	(7,394)
Ending balance	₩ 6,209	₩ 17,207	₩ 377	₩ 8,684	₩ 6,893	₩ 200	₩ 244,815	₩ 451,568	₩ 8,784	₩ 744,737

(2) Changes in accumulated depreciation for the years ended December 31, 2016 and 2015, are as follows (Unit: Korean won in millions):

Description	Year ended December 31, 2016							
	Property, plant and equipment				Investment property			
	Buildings	Structures	Vehicles	Furniture and fixtures	Buildings	Structures	Total	
Beginning balance	₩ 4,669	₩ 164	₩ 3,445	₩ 3,733	₩ 103,500	₩ 3,159	₩ 118,670	
Disposals	-	-	(756)	(1,403)	-	-	(2,159)	
Transfers in	342	14	-	-	-	-	356	
Transfers out	-	-	-	-	(342)	(14)	(356)	
Depreciation	559	15	1,014	1,124	14,930	311	17,953	
Ending balance	₩ 5,570	₩ 193	₩ 3,703	₩ 3,454	₩ 118,088	₩ 3,456	₩ 134,464	

Description	Year ended December 31, 2015							
	Property, plant and equipment				Investment property			Total
	Buildings	Structures	Vehicles	Furniture and fixtures	Buildings	Structures		
Beginning balance	₩ 2,795	₩ 93	₩ 2,884	₩ 3,048	₩ 90,489	₩ 2,904	₩ 102,213	
Disposals	-	-	(123)	-	-	-	(123)	
Transfers in	1,359	57	-	-	-	-	1,416	
Transfers out	-	-	-	-	(1,359)	(57)	(1,416)	
Depreciation	515	14	684	685	14,370	312	16,580	
Ending balance	₩ 4,669	₩ 164	₩ 3,445	₩ 3,733	₩ 103,500	₩ 3,159	₩ 118,670	

(3) Details of valuation with fair value of investment property as of December 31, 2016, are as follows (Unit: Korean won in millions):

Description	Date of revaluation	Land	Buildings and structures	Total
Book value of investment property:				
Book value (*1)		₩ 384,784	₩ 425,326	₩ 810,110
Result of valuation:				
Twin tower (*2)	2012-03-16	456,800	343,200	800,000
Gasandong building	2009-04-21	50,966	110,104	161,070
Gwanghwamun building	2010-09-30	145,452	84,548	230,000
Buho building	2013-06-04	16,513	1,238	17,751
Seoul-station building(*3,4)	2016-09-30	136,793	73,941	210,734

Total	₩ 806,524	₩ 613,031	₩ 1,419,555
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(\*1) It includes the valuation amounts related to its own use (carrying value: ₩16,109 million).

(\*2) It is the whole valuation amount of Twin Tower.

(\*3) It was newly acquired during the current period.

(\*4) Acquisition cost was considered as market value.

Fair value assessment was performed by an independent third party, Nara Appraisal Co., Ltd., & Daeil Appraisal Board.

The fair value of investment property is classified as Level 3, based on the input variables that are used in the valuation method.

The valuation method for measurement of fair value is the method of discounted cash flow, so the fair value of investment property is measured by the discounted present value that the net cash flow from the investment property is discounted by the discount rate of risk adjustment by reflecting the cost in relation to rental promotion, such as estimated success rate of rental market, vacant period, rental rate, free rental period and other costs that the lessee does not pay. Main input variables that are significant for measuring the fair value, but not observable, are estimated success rate of rental market, vacant rate, free rental period and discount rate of risk adjustment.

In addition, rental income related to investment property during this period is ₩104,876 million.

## 10 INTANGIBLE ASSETS:

(1) Composition of the Company's intangible assets as of December 31, 2016 and 2015, is as follows (Unit: Korean won in millions):

Description	December 31, 2016			December 31, 2015		
	Intellectual property rights	Membership	Other	Intellectual property rights	Membership	Other
Acquisition cost	₩ 14,667	₩ 7,802	₩ 5,950	₩ 12,348	₩ 6,983	₩ 5,577
Accumulated depreciation	(8,503)	-	(3,406)	(7,721)	-	(2,635)
Accumulated impairment	-	(666)	-	-	(666)	-
Carrying amounts	₩ 6,164	₩ 7,136	₩ 2,544	₩ 4,627	₩ 6,317	₩ 2,942

(2) Changes in intangible assets for the years ended December 31, 2016 and 2015, are as follows (Unit: Korean won in millions)

Description	Year ended December 31, 2016			
	Intellectual property rights	Membership	Other	Total
Beginning balance	₩ 4,627	₩ 6,317	₩ 2,942	₩ 13,886
Acquisition	-	819	373	1,192
Transfers in (out)	2,319	-	-	2,319
Amortization	(782)	-	(771)	(1,553)
Ending balance	₩ 6,164	₩ 7,136	₩ 2,544	₩ 15,844

Description	Year ended December 31, 2015				
	Intellectual property rights	Membership	Other	Construction in progress	Total
Beginning balance	₩ 4,136	₩ 6,182	₩ 2,268	₩ 71	₩ 12,657
Acquisition	-	64	1,254	-	1,318
Transfers in (out)	1,104	71	-	(71)	1,104
Amortization	(613)	-	(580)	-	(1,193)
Ending balance	₩ 4,627	₩ 6,317	₩ 2,942	₩ -	₩ 13,886

# 11 INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES:

(1) Composition of the Company's investments in subsidiaries as of December 31, 2016 and 2015, is as follows  
(Unit: Korean won in millions):

December 31, 2016						
Companies	Location of incorporation	Major operation	Closing date	Percentage of ownership (%)	Percentage of ownership (common stock) (%)	Book value
LG Siltron Inc.	South Korea	Manufacturing	12-31	51.00	51.00	₩ 239,575
LG CNS Co., Ltd. (*1)	South Korea	Services	12-31	84.95	84.95	330,533
Serveone Co., Ltd.	South Korea	Renting	12-31	100.00	100.00	250,054
Lusem Co., Ltd. (*2)	South Korea	Manufacturing	12-31	67.96	67.96	29,375
LG Sports Ltd.	South Korea	Services	12-31	100.00	100.00	106,097
LG Management Development Institute	South Korea	Research and development	12-31	100.00	100.00	17,203
LG Holdings Japan Co., Ltd.	Japan	Renting	12-31	100.00	100.00	191,080
Total						₩ 1,163,917

December 31, 2015						
Companies	Location of incorporation	Major operation	Closing date	Percentage of ownership (%)	Percentage of ownership (common stock) (%)	Book value
LG Siltron Inc.	South Korea	Manufacturing	12-31	51.00	51.00	₩ 239,575
LG CNS Co., Ltd. (*1)	South Korea	Services	12-31	84.97	84.97	330,533
Serveone Co., Ltd.	South Korea	Renting	12-31	100.00	100.00	250,054
Lusem Co., Ltd. (*2)	South Korea	Manufacturing	12-31	64.81	64.81	29,375
LG Sports Ltd.	South Korea	Services	12-31	100.00	100.00	106,097
LG Management Development Institute	South Korea	Research and development	12-31	100.00	100.00	17,203
LG Holdings Japan Co., Ltd.	Japan	Renting	12-31	100.00	100.00	191,080
Total						₩ 1,163,917

(\*1) The percentage of ownership changed due to issuance of new shares through merger of subsidiaries.

(\*2) The percentage of ownership changed through retirement of treasury stocks.

(2) Composition of the Company's investments in associates and joint ventures as of December 31, 2016 and 2015, is as follows (Unit: Korean won in millions):

December 31, 2016						
Companies	Location of incorporation	Major operation	Closing date	Percentage of ownership (%)	Percentage of ownership (common stock) (%)	Book value
LG Electronics Inc.	South Korea	Manufacturing	12-31	30.47	33.67	₩ 2,804,603
LG Chem Ltd.	South Korea	Manufacturing	12-31	30.07	33.53	1,277,994
LG Hausys, Ltd.	South Korea	Manufacturing	12-31	30.07	33.53	183,828
LG Household & Health Care Ltd.	South Korea	Manufacturing	12-31	30.00	34.03	141,608
LG Life Science Co., Ltd (*3).	South Korea	Manufacturing	12-31	30.00	30.43	-
LG Uplus Corp.	South Korea	Telecommunications	12-31	36.05	36.05	1,162,048
GIIR Corporation	South Korea	Hoardings	12-31	35.00	35.00	39,496
LG Hitachi Co., Ltd.	South Korea	Services	12-31	49.00	49.00	14,023
LG MMA Corp. (*1)	South Korea	Manufacturing	12-31	50.00	50.00	115,350

LG Fuel Cell System Inc. (*2)	America	Research and experimental development	12-31	14.97	14.97	32,148
Silicon Works Co., Ltd.	South Korea	Manufacturing	12-31	33.08	33.08	145,003
Total						₩ 5,916,101

December 31, 2015

Companies	Location of incorporation	Major operation	Closing date	Percentage of ownership (%)	Percentage of ownership (common stock) (%)	Book value
LG Electronics Inc.	South Korea	Manufacturing	12-31	30.47	33.67	₩ 2,804,603
LG Chem Ltd.	South Korea	Manufacturing	12-31	30.07	33.53	1,277,994
LG Hausys, Ltd.	South Korea	Manufacturing	12-31	30.07	33.53	183,828
LG Household & Health Care Ltd.	South Korea	Manufacturing	12-31	30.00	34.03	141,608
LG Life Science Co., Ltd. (*3)	South Korea	Manufacturing	12-31	30.00	30.43	83,295
LG Uplus Corp.	South Korea	Telecommunications	12-31	36.05	36.05	1,162,048
GIIR Corporation	South Korea	Hoardings	12-31	35.00	35.00	39,496
LG Hitachi Co., Ltd.	South Korea	Services	12-31	49.00	49.00	14,023
LG MMA Corp. (*1)	South Korea	Manufacturing	12-31	50.00	50.00	115,350
LG Fuel Cell System Inc. (*2)	America	Research and Experimental Development	12-31	13.65	13.65	20,486
Silicon Works Co., Ltd.	South Korea	Manufacturing	12-31	33.08	33.08	145,003
Total						₩ 5,987,734

(\*1) It is a joint venture.

(\*2) Notwithstanding that the ownership is less than 20%, it has been classified as associates since the Company has authority to appoint director, etc.

(\*3) It was classified as held for sale in accordance with the merger with LG Chem Co., Ltd., an associate of the Company, and merged with LG Chem Co., Ltd. on January 1, 2017.

## 12. RETIREMENT BENEFIT PLAN:

The Company operates a defined benefit plan for employees, and according to the plan, the employees will be paid his or her average salary amount of the final three months multiplied by the number of years vested, adjusted for payment rate and other. The actuarial evaluation of plan assets and the defined benefit liability is performed by Aon Hewitt, which is a reputable actuary, using the projected unit credit method.

(1) As of December 31, 2016 and 2015, amounts recognized in the separate statements of financial position related to retirement benefit obligation are as follows (Unit: Korean won in millions):

Description	December 31, 2016	December 31, 2015
Present value of defined benefit obligation	₩ 52,416	₩ 41,833
Fair value of plan assets	(38,018)	(33,391)
Net defined benefit liability	₩ 14,398	₩ 8,442

(2) Changes in defined benefit obligation for the years ended December 31, 2016 and 2015, are as follows (Unit: Korean won in millions):

Description	Year ended December 31, 2016	Year ended December 31, 2015
Beginning balance	₩ 41,833	₩ 41,178
Current service cost	3,380	2,707



Interest cost	931	1,041
Remeasurement on the net defined benefit liability	4,038	1,698
Benefits paid	(3,949)	(1,871)
Other	6,183	(2,920)
Ending balance	₩ 52,416	₩ 41,833

- (3) Income and loss related to defined benefit plan for the years ended December 31, 2016 and 2015, are as follows (Unit: Korean won in millions):

Description	Year ended December 31, 2016	Year ended December 31, 2015
Service cost	₩ 3,380	₩ 2,707
Current service cost	3,380	2,707
Net interest on the net defined benefit Liability (asset)	192	234
Interest cost on defined benefit obligation	931	1,041
Comprising interest on plan assets	(739)	(807)
Operational management fee on plan assets	72	68
Total	₩ 3,644	₩ 3,009

- (4) Changes in plan asset for the years ended December 31, 2016 and 2015, are as follows (Unit: Korean won in millions):

Description	Year ended December 31, 2016	Year ended December 31, 2015
Beginning balance	₩ 33,391	₩ 32,076
Comprising interest on plan assets	739	807
Remeasurement-return on plan assets	(91)	8
Benefits paid	(3,949)	(1,832)
Contributions from the employer	8,000	2,400
Operational management fee on plan assets	(72)	(68)
Ending balance	₩ 38,018	₩ 33,391

- (5) All of the plan assets are mainly invested in financial instruments that guarantee principal and interest rate as of December 31, 2016 and 2015.

- (6) Actuarial assumptions used as of December 31, 2016 and 2015, are as follows:

Description	December 31, 2016	December 31, 2015
Discount rate (%)	2.23	2.27
Expected rate of salary increase (%)	7.46	7.52

- (7) The sensitivity analysis of the defined benefit obligation as of December 31, 2016 and 2015, are as follows (Unit: Korean won in millions):

Description	Year ended December 31, 2016		
	Center scenario	+ 1%	- 1%
Change in discount rate	₩ 52,416	₩ 50,231	₩ 54,830
Change in rate of salary increase	52,416	54,686	50,313

- (\*)The above sensitivity is estimated based on the assumption that not all the assumptions will change, except discount rate and rate of salary increase.

Description	Year ended December 31, 2015		
	Center scenario	+ 1%	- 1%
Change in discount rate	₩ 41,833	₩ 40,268	₩ 43,580
Change in rate of salary increase	41,833	43,478	40,324

(\*) The above sensitivity is estimated based on the assumption that not all the assumptions will change, except discount rate and rate of salary increase.

(8) Remeasurement related to net defined benefit liability for the years ended December 31, 2016 and 2015, are as follows (Unit: Korean won in millions):

Description	Year ended December 31, 2016		Year ended December 31, 2015	
	₩		₩	
Actuarial gains arising from changes in demographic assumptions	₩	54	₩	562
Actuarial gains (losses) arising from changes in financial assumptions		(2)		(28)
Actuarial gains arising from experience		2,997		1,770
Return on plan assets, excluding amounts included in interest income		91		(8)
Actuarial gains (losses) arising from transfer in/out adjustment		989		(606)
Total	₩	4,129	₩	1,690

Meanwhile, the Company deducted ₩999 million arising from income tax effect for actuarial gain (loss) during the current period.

(9) Estimated contribution that will be paid in the next fiscal year is as follows (Unit: Korean won in millions):

	2017	
Estimated contributions to plan assets	₩	7,009

### 13. OTHER LIABILITIES:

Other liabilities as of December 31, 2016 and 2015, are as follows (Unit: Korean won in millions):

Description	December 31, 2016		December 31, 2015	
	Current	Non-current	Current	Non-current
Advances from lease	₩ -	₩ 5,862	₩ -	₩ 6,152
VAT withheld	6,063	-	6,048	-
Withholdings	574	-	474	-
Total	₩ 6,637	₩ 5,862	₩ 6,522	₩ 6,152

### 14. ISSUED CAPITAL:

Details of issued capital as of December 31, 2016, are as follows (Unit: Korean won in millions):

Type of stock	Number of authorized shares	Number of issued shares	Number of shares owned by related party	Par value (in Korean won)	Amount of issued capital
Common stock	700,000,000	172,557,131	83,593,496	₩ 5,000	₩ 862,786
Preferred stock (*)	-	3,314,677	-	5,000	16,573

(\*) Preferred stocks are stocks without voting rights that are eligible for additional 1% based on face value of the

stock compared to common stocks when receiving cash dividends. In case of no dividend payout, it is granted voting rights for the period from the shareholders' meeting that resolved not to pay to the shareholders' to the meeting that resolved to pay dividends.

The Company has 93,789 shares of common stock and 6,810 shares of preferred stock as of December 31, 2016 and 2015, respectively. The carrying amounts of common stock and preferred stock are ₩2,334 million and ₩51 million, respectively.

#### **15. CAPITAL SURPLUS:**

Composition of the Company's capital surplus as of December 31, 2016 and 2015, is as follows (Unit: Korean won in millions):

Description	December 31, 2016	December 31, 2015
Paid-up capital in excess of par value	₩ 898,266	₩ 898,266
Assets revaluations reserves	338,100	338,100
Other capital surplus	1,172,636	1,172,636
Total	₩ 2,409,002	₩ 2,409,002

#### **16. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS):**

Composition of accumulated other comprehensive income (loss) as of December 31, 2016 and 2015, is as follows (Unit: Korean won in millions):

Description	December 31, 2016	December 31, 2015
Gain on valuation of AFS financial assets	₩ 20,356	₩ 23,538

#### **17. RETAINED EARNINGS:**

(1) Composition of retained earnings as of December 31, 2016 and 2015, are as follows (Unit: Korean won in millions):

Description	December 31, 2016	December 31, 2015
Retained earnings restricted to appropriation (*)	₩ 256,413	₩ 233,547
Retained earnings subject to appropriation	4,472,868	4,387,374
Total	₩ 4,729,281	₩ 4,620,921

(\*) As it is classified as legal reserve according to commercial law, appropriation is restricted, except for transferring to capital stock or using to reduce accumulated deficit.

(2) Changes in retained earnings for the years ended December 31, 2016 and 2015, are as follows (Unit: Korean won in millions):

Description	Year ended December 31, 2016	Year ended December 31, 2015
Beginning balance	₩ 4,620,921	₩ 4,452,224
Profit for the year	340,158	345,915
Dividends	(228,668)	(175,937)
Remeasurement on the net defined benefit liability	(3,130)	(1,281)
Ending balance	₩ 4,729,281	₩ 4,620,921

- (3) Separate statements of appropriation of retained earnings for the years ended December 31, 2016 and 2015, are as follows (Unit: Korean won in millions):

	Korean won	
	Year ended December 31, 2016	Year ended December 31, 2015
<b>UNAPPROPRIATED RETAINED EARNINGS:</b>		
Unappropriated retained earnings carried over from prior year	₩ -	₩ -
Profit for the year	340,158	345,915
Actuarial gains and losses on defined benefit plans	(3,130)	(1,281)
	<u>337,028</u>	<u>344,634</u>
<b>APPROPRIATION:</b>		
Legal reserve	22,866	22,867
Dividends	228,668	228,668
Other reserve	85,494	93,099
	<u>337,028</u>	<u>344,634</u>
<b>UNAPPROPRIATED RETAINED EARNINGS CARRIED FORWARD TO SUBSEQUENT YEAR</b>	<u>₩ -</u>	<u>₩ -</u>

- (4) The amount of dividends and dividends per share for the years ended December 31, 2016 and 2015, is as follows (Unit: Korean won in millions):

	December 31, 2016				
Type of stock	Number of issued shares	Number of treasury stocks	Number of stocks eligible for dividend	Dividend per share (Korean won)	Total dividend
Common stock	172,557,131	93,789	172,463,342	₩ 1,300	₩ 224,202
Preferred stock	3,314,677	6,810	3,307,867	1,350	4,466
	December 31, 2015				
Type of stock	Number of issued shares	Number of treasury stocks	Number of stocks eligible for dividend	Dividend per share (Korean won)	Total dividend
Common stock	172,557,131	93,789	172,463,342	₩ 1,000	₩ 172,464
Preferred stock	3,314,677	6,810	3,307,867	1,050	3,473

# **18. OPERATING INCOME:**

Operating income for the years ended December 31, 2016 and 2015, is as follows (Unit: Korean won in millions):

	Year ended December 31, 2016	Year ended December 31, 2015
<b>Operating income:</b>		
Dividends income	₩ 261,298	₩ 214,434
Royalties revenue	247,829	256,839
Rental revenue	104,876	102,844
	<u>614,003</u>	<u>574,117</u>
<b>Operating expenses:</b>		
Employee benefit:		
Salaries and wages	29,483	26,319
Severance benefits	3,572	2,941
Welfare	2,922	2,799
	<u>35,977</u>	<u>32,059</u>
Depreciation:	<u>17,953</u>	<u>16,580</u>
Other operating expenses:		
Amortization of intangible assets	1,553	1,193
Taxes and dues	4,347	4,420
Advertising expenses	72,215	72,572
Training expenses	1,363	929
Commission	43,869	38,965
Insurance premium	349	348
Operating lease expense	652	941
Other selling and administrative expenses	11,600	11,288
	<u>135,948</u>	<u>130,656</u>
<b>Net operating income</b>	<u>₩ 424,125</u>	<u>₩ 394,822</u>

# **19. FINANCIAL INCOME AND FINANCIAL EXPENSES:**

(1) Financial income consists of interest income. The details for the years ended December 31, 2016 and 2015, are as follows (Unit: Korean won in millions):

Description	Year ended December 31, 2016	Year ended December 31, 2015
Interest income	₩ 6,454	₩ 5,842
Gain on financial warranty	-	181
Gain on foreign currency transaction and translation	879	1,793
<b>Total</b>	<u>₩ 7,333</u>	<u>₩ 7,816</u>

(2) Financial expenses for the years ended December 31, 2016 and 2015, are as follows (Unit: Korean won in millions):

Description	Year ended December 31, 2016	Year ended December 31, 2015
Interest expense	₩ 290	₩ 402
Loss on foreign currency transaction and translation	150	391
<b>Total</b>	<u>₩ 440</u>	<u>₩ 793</u>

(3) Net gain (loss) from financial instruments for the years ended December 31, 2016 and 2015, is as follows (Unit: Korean won in millions):

Description	Year ended December 31, 2016	Year ended December 31, 2015
Financial assets:		
AFS financial assets (*1)	₩ (812)	₩ (6,158)
Loans and receivables (*2)	7,169	7,073
Subtotal	6,357	915
Financial liabilities:		
Financial liabilities measured at amortized cost	(289)	(402)
Subtotal	(289)	(402)
Total	₩ 6,068	₩ 513

(\*1) It includes dividend income and valuation gain or loss recognized in other comprehensive income.

(\*2) It includes net income (loss) incurred from cash and cash equivalents and financial institution deposits.

## 20. INCOME TAX:

(1) Composition of income tax expense for the years ended December 31, 2016 and 2015, is as follows (Unit: Korean won in millions):

Description	Year ended December 31, 2016	Year ended December 31, 2015
Current income tax payable	₩ 53,801	₩ 57,652
Changes in deferred tax assets:	37,015	(3,005)
Beginning deferred tax assets due to temporary differences	(124,775)	(130,484)
Ending deferred tax assets due to temporary differences	(159,065)	(124,775)
Ending assets held for sale due to temporary differences	(710)	-
Deferred taxes directly reflected in equity	2,015	2,704
Income tax expense	₩ 90,816	₩ 54,647

(2) A reconciliation between accounting income before income tax and income tax expense of the Company for the years ended December 31, 2016 and 2015, is as follows (Unit: Korean won in millions):

Description	Year ended December 31, 2016	Year ended December 31, 2015
Income before income tax expense	₩ 430,974	₩ 400,562
Tax expense calculated on book income	141,979	96,474
Adjustments:	(51,163)	(41,827)
Non-taxable income	(70,759)	(42,608)
Non-deductible expenses	1,126	981
Others (differences due to the tax rates, etc.)	18,470	(200)
Income tax expense	₩ 90,816	₩ 54,647

- (3) Income tax directly reflected in equity for the years ended December 31, 2016 and 2015, is as follows (Unit: Korean won in millions):

Description	Year ended December 31, 2016	Year ended December 31, 2015
Revaluation of AFS financial assets	₩ 1,016	₩ 2,295
Remeasurement of defined benefit obligation	999	409
Total deferred tax directly reflected in equity	₩ 2,015	₩ 2,704

- (4) Changes in deferred tax assets (liabilities) for the years ended December 31, 2016 and 2015, are as follows (Unit: Korean won in millions):

Description	Year ended December 31, 2016				
	Beginning balance	Reflected in income (loss)	Reflected in equity	Replaced	Ending balance
Temporary differences:					
Investments in subsidiaries and associates	₩ (130,855)	₩ (38,145)	₩ -	₩ 710	₩ (168,290)
Property, plant and equipment	11,094	1,286	-	-	12,380
Intangible assets	201	(10)	-	-	191
AFS financial assets	(2,477)	-	1,016	-	(1,461)
Provisions	1,208	(735)	999	-	1,472
Other financial liabilities	1,846	489	-	-	2,335
Others	(5,792)	100	-	-	(5,692)
Deferred tax assets (liabilities)	₩ (124,775)	₩ (37,015)	₩ 2,015	₩ 710	₩ (159,065)

Description	Year ended December 31, 2015			
	Beginning balance	Reflected in income (loss)	Reflected in equity	Ending balance
Temporary differences:				
Investments in subsidiaries and associates	₩ (130,855)	₩ -	₩ -	₩ (130,855)
Property, plant and equipment	9,936	1,158	-	11,094
Intangible assets	211	(10)	-	201
AFS financial assets	(4,772)	-	2,295	(2,477)
Provisions	1,203	(404)	409	1,208
Other financial liabilities	1,430	416	-	1,846
Others	(7,637)	1,845	-	(5,792)
Deferred tax assets (liabilities)	₩ (130,484)	₩ 3,005	₩ 2,704	₩ (124,775)

- (5) As of December 31, 2016, temporary differences not recognized as deferred tax assets (liabilities) related to investment asset and equity interest are as follows (Unit: Korean won in millions):

Description	December 31, 2016
Investments in subsidiaries	₩ (429,115)
Investments in associates and joint ventures	1,255,342
Total	₩ 826,227

## 21. EARNINGS PER SHARE:

(1) Net income per share for the years ended December 31, 2016 and 2015, is as follows:

	2016	2015
Basic earnings per share of common share	₩ 1,934	₩ 1,967
Basic earnings per share of Pre-1996 Commercial Law Amendment preferred share (*)	1,984	2,017

(\*) Basic earnings per share is calculated for preferred share, which K-IFRS 1033 *Earnings per share* clarify as common share, such as having no priority rights for dividend of profit and distribution of residual property.

(2) Net income and weighted-average number of shares used to calculate earnings per share of common share for the years ended December 31, 2016 and 2015, are as follows (Unit: Korean won in millions):

Description	Year ended December 31, 2016	Year ended December 31, 2015
Profit for the year attributable to owners of the Company	₩ 340,158	₩ 345,915
Less dividends for Pre-1996 Commercial Law Amendment preferred share and preferred stock portion of residual profit	(6,564)	(6,672)
Net income used to calculate basic earnings per share of common share	₩ 333,595	₩ 339,243
Weighted-average number of common shares	172,463,342 shares	172,463,342 shares

(3) Net income and weighted-average number of shares used to calculate earnings per share of Pre-1996 Commercial Law Amendment preferred share for the years ended December 31, 2016 and 2015, are as follows (Unit: Korean won in millions):

Description	Year ended December 31, 2016	Year ended December 31, 2015
Dividends for preferred share and preferred stock portion of residual profit	₩ 6,564	₩ 6,672
Net income used to calculate basic earnings per share of preferred share	6,564	6,672
Weighted-average number of preferred shares	3,307,867 shares	3,307,867 shares

(4) As there are no potential common shares of the Company, diluted earnings per share of common shares and preferred shares are equal to basic earnings per share.



## 22. RELATED-PARTY TRANSACTIONS:

(1) Details of related parties as of December 31, 2016 and 2015, are as follows:

December 31, 2016			
Companies with direct ownership	Companies with direct ownership's subsidiaries (domestic) (*1)	Companies with direct ownership's subsidiaries (overseas) (*1)	Companies with direct ownership's associates
<b>Subsidiaries:</b>			
LG Siltron Inc.		LG Siltron America, Inc. and another	
LG CNS Co., Ltd.	LG N-Sys Inc. BNE Partners, Inc.  Korea Elecom Co., Ltd Haengbokmaru Co., Ltd. Biztechpartners Co., Ltd.	LG CNS China, Inc. and 16 others	Korea Smart Card Co., Ltd. Korea Smart Card CS Partners Co., Ltd. High End Co.,Ltd T-money America, INC. T MONEY MALAYSIA SDN BHD Songdo U-Life LLC. U Life Solutions Songdo International Sports Club LLC. Recaudo Bogota S.A.S. Hellas SmarTicket Societe Anonyme Sejong Green Power Co.,Ltd Ulaanbaatar Smart card Co,LLC Ulleungdo Natural Energy Independent Island Co.,Ltd Daegu clean energy Co., Ltd.
Serveone Co., Ltd.	Konjiam Yewon Co., Ltd.	Serveone (Nanjing) Co., Ltd. and 4 others	Dongnam Solar Energy Co., Ltd.
Lusem Co., Ltd.			Serveone Cenyar Services Co. (*2)
LG Management Development Institute			.
LG Sports Ltd.			
LG Holdings Japan Co., Ltd.			Combustion Synthesis Co.,LTD.
<b>Associates:</b>			
LG Electronics Inc.	Hi Plaza Inc.  Hi-M Solutech Co., Ltd. HITeleservice Co., Ltd. New Growth Venture Fund New Growth Venture Fund II Ace R&D Co.,Ltd Hientech Co., Ltd. LG-Hitachi Water Solutions Co., Ltd. LG innotek Co., Ltd. Innowith Co., Ltd Hanuri Co., Ltd LG innotek Alliance Fund	LG Electronics Mexico S.A. DE C.V. and others	
LG Chem Ltd.	Haengboknuri Co., Ltd. FarmHannong Co., Ltd. Agrotech Co. Ltd.	LG Chem America, Inc. and others	

December 31, 2016

Companies with direct ownership	Companies with direct ownership's subsidiaries (domestic) (*1)	Companies with direct ownership's subsidiaries (overseas) (*1)	Companies with direct ownership's associates
	FarmBiotec Co., Ltd. FarmHwaong Co., Ltd. Sesil Corp.		
LG Hausys, Ltd.	Hausys ENG Co. Ltd.	LG Hausys America, Inc. and others	
LG Uplus Corp.	CS Leader Ain Teleservice CS One Partner MEDIA LOG Co., Ltd. With U Co., Ltd.	DACOM America Inc.	
LG Household & Health Care Ltd.	Coca-Cola Beverage Co.	Beijing LG Household Chemical Co., Ltd. and others	
	Hankook Beverage Co., Ltd. The FaceShop Co., Ltd. HAITAI HTB Co., Ltd. K&I Co.,Ltd CNP COSMETICS Co., Ltd. Balkeunnuri Co., Ltd. Zenisce Co., Ltd. OBM rap Co., Ltd		
LG Life Science Co., Ltd (*3).	Sarangnuri Co., Ltd	LG Life Sciences India Pvt., Ltd. and others	
GIIR Corporation	HS Ad Co., Ltd. L. Best	GIIR America Inc. and others	
LG Hitachi Co., Ltd.			
LG Fuel Cell Systems Inc.	LG Fuel Cell Systems (Korea) Inc.		
Silicon Works Co., Ltd.		Silicon Works Inc	
<b>Joint ventures:</b>			
LG MMA Corp.			
<b>Other related parties' affiliates by the Act (*4)</b>			
LG Display Co., Ltd.	Nanummnuri Co., Ltd	LG Display Nanjing Co. Ltd and others.	
LG International Corp.	Dangjin Tank Terminal Co., Ltd.	LG International (America) Inc. and others	Global Dynasty Natural Resource Private Equity Fund
	Pantos Logistics Co., Ltd.	PANTOS LOGISTICS (CHINA) CO., LTD and others	Sal de Vida Korea Corp.
	Pantos Busan Newport Logistics Center Co., Ltd.		
	Helistar Air Co., Ltd.		
LG. Tostem BM Co., Ltd			
SEETEC Co.,Ltd.			
LG Farouk Co.			
Genstory Co., Ltd.			
Clean Soul Ltd.			
DACOM Crossing Corporation			
JIHEUNG. Co., Ltd			

(\*1) Joint ventures of associates are excluded.

(\*2) Joint venture of Serveone Co., Ltd.

(\*3) It was classified as held for sale during the year and merged with LG Chem Co., Ltd. on January 1, 2017.

(\*4) These companies are not related parties defined in paragraph 9 of K-IFRS 1024. However, the companies are

designated by the Fair Trade Commission as related parties in accordance with the resolution of the Securities and Futures Commission in accordance with the substantive relationship stipulated in paragraph 10 of K-IFRS 1024.

December 31, 2015			
Companies with direct ownership	Companies with direct ownership's subsidiaries (domestic) (*1)	Companies with direct ownership's subsidiaries (overseas) (*1)	Companies with direct ownership's associates
<b>Subsidiaries:</b>			
LG Siltron Inc.		LG Siltron America, Inc. and another	
LG CNS Co., Ltd.	LG N-Sys Inc. BNE Partners, Inc.  Ucess Partners Co., Ltd. Korea Elecom Co., Ltd EverOn Co., Ltd  Oneseen Skytech	LG CNS China, Inc. and 19 others	Korea Smart Card Co., Ltd. Korea Smart Card CS Partners Co., Ltd. High End Co.,Ltd T-money America, INC. T MONEY MALAYSIA SDN BHD Ulaanbaatar Smart card Co, LLC Songdo U-Life LLC. U Life Solutions Songdo International Sports Club LLC. Recaudo Bogota S.A.S. Petro Cornergy Co., Ltd. Hellas SmarTicket Societe Anonyme Sejong Green Power Co.,Ltd Ulleungdo Natural Energy Independent Island Co.,Ltd Dongnam Solar Energy Co., Ltd.
Serveone Co., Ltd.	Konjiam Yewon Co., Ltd.	Serveone (Nanjing) Co., Ltd. and three others Serveone Cenyar Services Co.(*2)	.
Lusem Co., Ltd. LG Management Development Institute LG Sports Ltd. LG Holdings Japan Co., Ltd.			Combustion Synthesis Co.,LTD.
<b>Associates:</b>			
LG Electronics Inc.	Hi Plaza Inc.  Innovation Investment Hi-M Solutech Co., Ltd. HITeleservice Co., Ltd. New Growth Venture Fund New Growth Venture Fund II Ace R&D Co.,Ltd Hientech Co., Ltd. LG-Hitachi Water Solutions Co.Ltd. LG innotek Co., Ltd. Innowith Hanuri LG innotek Alliance Fund	LG Electronics Mexico S.A. DE C.V. and others	
LG Chem Ltd.	Haengboknuri Co., Ltd.	LG Chem America, Inc. and others	
LG Hausys, Ltd.	LG Hausys ENG., Ltd.	LG Hausys America, Inc. and others	

December 31, 2015			
Companies with direct ownership	Companies with direct ownership's subsidiaries (domestic) (*1)	Companies with direct ownership's subsidiaries (overseas) (*1)	Companies with direct ownership's associates
LG Uplus Corp.	LG Hausys Interpane CS Leader Ain Teleservice CS One Partner MEDIA LOG Co., Ltd. With U Co., Ltd.	DACOM America Inc.	
LG Household & Health Care Ltd.	Coca-Cola Beverage Co.  Hankook Beverage Co., Ltd. The FaceShop Co., Ltd. HTB Co., Ltd. Future Co., Ltd CNP COSMETICS Co., Ltd. K&I Co.,Ltd Balkeunnuri Co., Ltd. Zenisce Co., Ltd.	Beijing LG Household Chemical Co., Ltd. and others	
LG Life Science Co., Ltd.	Sarangnuri	LG Life Sciences India Pvt., Ltd. and others	
GIIR Corporation	HS Ad Co., Ltd. L. Best	GIIR America Inc. and others	
LG Hitachi Co., Ltd.			
LG Fuel Cell Systems Inc.	LG Fuel Cell Systems (Korea) Inc.		
Silicon Works Co., Ltd.		Silicon Works Inc	
<b>Joint ventures:</b>			
LG MMA Corp.			
<b>Other related parties' affiliates by the Act (*3)</b>			
LG Display Co., Ltd.	Nanumnnuri Co., Ltd	LG Display Nanjing Co. Ltd and others.	
LG International Corp.	Dangjin Tank Terminal Co., Ltd.  Pantos Logistics Co., Ltd.  Pantos Busan Newport Logistics Center Co., Ltd. Helistar Air Co., Ltd. Hi Logistics Co., Ltd.	LG International (America) Inc. and others PANTOS LOGISTICS (CHINA) CO., LTD and others	Global Dynasty Natural Resource Private Equity Fund Sal de Vida Korea Corp.
LG. Tostem BM Co., Ltd			
SEETEC Co.,Ltd.			
Clean Soul Ltd.			
DACOM Crossing Corporation			
JIHEUNG. Co., Ltd			

(\*1) Joint ventures of associates are excluded.

(\*2) Joint venture of Serveone Co., Ltd.

(\*3) These companies are not related parties defined in paragraph 9 of K-IFRS 1024. However, the companies are designated by the Fair Trade Commission as related parties in accordance with the resolution of the Securities and Futures Commission in accordance with the substantive relationship stipulated in paragraph 10 of K-IFRS 1024.

(2) Major transactions with the related parties for the years ended December 31, 2016 and 2015, are as follows:  
(Unit: Korean won in millions):

December 31, 2016					
	Revenue and others		Acquisition of property, plant and equipment		Other purchase
<b>Subsidiaries:</b>					
LG CNS Co., Ltd.	₩	18,282	₩	374	₩ 2,789
LG N-Sys Inc.		1,373		-	64
BNE Partners, Inc.		-		-	47
LG Siltron Inc.		1,672		-	-
Serveone Co., Ltd.		36,841		4,273	32,313
LG-TOYO Engineering Co., Ltd. (*1)		-		-	-
Lusem Co., Ltd.		700		-	-
LG Sports Ltd.		91		-	4,930
LG Management Development Institute		2,076		-	7,181
LG Solar Energy Inc. (*1)		-		-	-
LG Holdings Japan Co., Ltd.		17		-	-
<b>Associates and subsidiaries:</b>					
LG Electronics Inc. (*2)		165,724		10,161	2,025
LG Chem Ltd.		149,433		-	12
LG Hausys, Ltd.		11,369		-	-
LG Household & Health Care Ltd. (*2)		45,546		-	-
LG Life Science Co., Ltd. (*3)		5,616		-	-
LG Uplus Corp.		68,915		-	157
GIIR Corporation (*2)		2,383		-	24,448
Slicon Works Co., Ltd.		5,381		-	-
LG Hitachi Co., Ltd.		93		-	-
LG Fuel Cell Systems Inc. (*2)		1,965		-	-
<b>Joint ventures:</b>					
LG MMA Corp		22,039		-	-
<b>Other related parties' Affiliates by the Act: (*4)</b>					
LG display Co., Ltd and others		62,025		-	14
<b>Total</b>	₩	<b>601,541</b>	₩	<b>14,808</b>	<b>₩ 73,980</b>

December 31, 2015					
	Revenue and others		Acquisition of property, plant and equipment		Other purchase
<b>Subsidiaries:</b>					
LG CNS Co., Ltd.	₩	24,215	₩	16	₩ 3,961
LG N-Sys Inc.		1,649		-	121
BNE Partners, Inc.		-		-	46
LG Siltron Inc.		1,554		-	-
Serveone Co., Ltd.		27,520		1,468	28,264
LG-TOYO Engineering Co., Ltd. (*1)		1,072		-	-
Lusem Co., Ltd.		700		-	-
LG Sports Ltd.		85		-	4,030
LG Management Development Institute		2,026		-	5,069
LG Solar Energy Inc. (*1)		3		-	-
LG Holdings Japan Co., Ltd.		197		-	-
<b>Associates and subsidiaries:</b>					

LG Electronics Inc. (*2)	170,541	4	1,000
LG Chem Ltd.	139,118	-	12
LG Hausys, Ltd.	11,005	-	-
LG Household & Health Care Ltd. (*2)	36,110	-	-
LG Life Science Co., Ltd. (*3)	5,428	-	-
LG Uplus Corp.	52,167	-	151
GIIR Corporation (*2)	2,360	-	26,676
Slicon Works Co., Ltd.	2,754	-	-
LG Hitachi Co., Ltd.	83	-	-
LG Fuel Cell Systems Inc. (*2)	1,351	-	-
<b>Joint ventures:</b>			
LG MMA Corp.	16,027	-	-
<b>Other related parties' Affiliates by the Act:</b>			
<b>(*4)</b>			
LG display Co., Ltd and others	68,607	-	166
<b>Total</b>	<b>₩ 564,572</b>	<b>₩ 1,488</b>	<b>₩ 69,496</b>

(\*1) It was merged with Serveone Co., Ltd. during the previous period.

(\*2) It includes transactions with an associates' subsidiary.

(\*3) It was classified as held for sale during the year and merged with LG Chem Co., Ltd. on January 1, 2017.

(\*4) These companies are not related parties defined in paragraph 9 of K-IFRS 1024. However, the companies are designated by the Fair Trade Commission as related parties in accordance with the resolution of the Securities and Futures Commission in accordance with the substantive relationship stipulated in paragraph 10 of K-IFRS 1024.

(3) Outstanding receivables and payables from transactions with related parties as of December 31, 2016 and 2015, are as follows (Unit: Korean won in millions):

	December 31, 2016		
	Account receivables and others	Loans	Account payables and others
<b>Subsidiaries:</b>			
LG CNS Co., Ltd.	₩ -	₩ -	₩ 5,256
LG N-Sys Inc.	-	-	273
LG Siltron Inc.	118	-	-
Serveone Co., Ltd.	3,495	-	5,669
LG Sports Ltd.	5	-	-
LG Management Development Institute	9	-	3,371
LG Holdings Japan Co., Ltd.	4	-	-
<b>Associates and subsidiaries:</b>			
LG Electronics Inc. (*1)	62	-	29,229
LG Chem Ltd.	420	-	6,572
LG Hausys, Ltd.	379	-	39
LG Household & Health Care Ltd. (*1)	1,295	-	5,347
LG Life Science Co., Ltd. (*2)	163	-	2,737
LG Uplus Corp	1,251	-	5,395
GIIR Corporation (*1)	483	-	16,878
LG Hitachi Co., Ltd.	-	-	-
LG Fuel Cell Systems Inc.	1,006	28,545	-
<b>Joint ventures:</b>			
LG MMA Corp.	12	-	-

**Other related parties' Affiliates by the Act: (\*3)**

LG display Co., Ltd and others	35		10,349
<b>Total</b>	<b>₩ 8,737</b>	<b>₩ 28,545</b>	<b>₩ 91,115</b>

December 31, 2015

	Account receivables and others	Loans	Account payables and others
<b>Subsidiaries:</b>			
LG CNS Co., Ltd.	₩ -	₩ -	₩ 5,230
LG N-Sys Inc.	43	-	38
LG Siltron Inc.	-	-	6
Serveone Co., Ltd.	3,494	-	6,049
LG Sports Ltd.	2	-	-
LG Management Development Institute	5	-	2,414
LG Holdings Japan Co., Ltd.	4	-	-
<b>Associates and subsidiaries:</b>			
LG Electronics Inc. (*1)	593	-	30,360
LG Chem Ltd.	-	-	11,463
LG Hausys, Ltd.	-	-	60
LG Household & Health Care Ltd. (*1)	1,059	-	5,341
LG Life Science Co., Ltd (*2)	48	-	2,737
LG Uplus Corp)	-	-	5,902
GIIR Corporation (*1)	469	-	16,069
LG Hitachi Co., Ltd.	-	-	3
LG Fuel Cell Systems Inc.	234	27,683	-

**Joint ventures:**

LG MMA Corp.	44	-	-
<b>Other related parties' Affiliates by the Act: (*3)</b>			
LG display Co., Ltd and others	3,609	-	5,258
<b>Total</b>	<b>₩ 9,604</b>	<b>₩ 27,683</b>	<b>₩ 90,930</b>

(\*1) It includes transactions with an associates' subsidiary.

(\*2) It was classified as held for sale during the year and merged with LG Chem Co., Ltd. on January 1, 2017.

(\*3) These companies are not related parties defined in paragraph 9 of K-IFRS 1024. However, the companies are designated by the Fair Trade Commission as related parties in accordance with the resolution of the Securities and Futures Commission in accordance with the substantive relationship stipulated in paragraph 10 of K-IFRS 1024.

(4) Fund transactions with the related parties for the years ended December 31, 2016 and 2015, are as follows (Unit: Korean won in millions):

Year ended December 31, 2016

Description	Payment in cash (reduction of capital)	Sale of portion	Loan		Borrowings	
			Loan	Payback	Borrowings	Repayment
<b>Associates:</b>						
LG Fuel Cell Systems Inc.	₩ 11,662	₩ -	₩ -	₩ -	₩ -	₩ -
<b>Total</b>	<b>₩ 11,662</b>	<b>₩ -</b>	<b>₩ -</b>	<b>₩ -</b>	<b>₩ -</b>	<b>₩ -</b>

Description	Year ended December 31, 2015									
	Payment in cash (reduction of capital)		Sale of portion		Loan			Borrowings		
					Loan		Payback	Borrowings		Repayme nt
<b>Subsidiaries:</b>										
LG Holdings Japan Co., Ltd.	₩	68,923	₩	-	₩	-	₩	-	₩	-
<b>Associates:</b>										
LG Fuel Cell Systems Inc.		-		-		18,868	-		-	-
Silicon Works Co., Ltd.		15,344		-		-	-		-	-
<b>Total</b>	₩	84,267	₩	-	₩	18,868	₩	-	₩	-

- (5) The compensation and benefits for the Company's key managements (registered executives, including non-permanent and non-registered executives) who have significant control and responsibility on planning, operating and controlling the activities of the Company for the years ended December 31, 2016 and 2015, are as follows (Unit: Korean won in millions):

Description	Year ended December 31, 2016		Year ended December 31, 2015	
Short-term employee benefits	₩	17,673	₩	17,419
Severance benefits		2,748		2,327
<b>Total</b>	₩	20,421	₩	19,746

### 23. FUNDING ARRANGEMENTS AND PLEDGING:

- (1) The Company has bank overdraft agreement limited to ₩5,000 million with Woori Bank, and general loan agreement limited to ₩95,000 million with Kookmin Bank and two others.

- (2) Restricted financial assets as of December 31, 2016 and 2015, are as follows (Unit: Korean won in millions):

Account	December 31, 2016		December 31, 2015		Detail
Financial institution deposits	₩	500	₩	500	Chungcheongbuk-do Province creative financial fund
		130		-	Pledged related with leasehold deposits
Long-term deposits		6		6	Deposit for the checking accounts
<b>Total</b>	₩	636	₩	506	

- (3) Details of pledging as of December 31, 2016, are as follows:

Recipients	Details of pledging
Woori Bank and other	Two blank bills (secured for leasehold deposits)



## 24. OPERATING LEASE CONTRACTS:

### (1) The Company as lessee

- 1) The Company entered into operating lease contracts for vehicles and office equipment. Payment schedule related to the major operating lease contracts as of December 31, 2016 and 2015, is as follows (Unit: Korean won in millions):

Contents	December 31, 2016			
	Less than one year		Total	
Vehicles	₩	486	₩	486
Furniture and fixtures		63		63
Total	₩	549	₩	549

Contents	December 31, 2015			
	Less than one year		Total	
Vehicles	₩	513	₩	513
Furniture and fixtures		61		61
Property		44		44
Total	₩	618	₩	618

- 2) The Company recognized rental expenses related to operating lease contracts for the years ended December 31, 2016 and 2015, in the amount of ₩652 million and ₩941 million, respectively.

### (2) The Company as lessor

- 1) The Company has real estate lease contracts and the major operating lease contracts as of December 31, 2016 and 2015, as follows (Unit: Korean won in millions):

Contract	December 31, 2016				
	Less than one year		More than five years		Total
Building lease contract (Twin)	₩	14,870	₩	-	₩ 14,870
Building lease contract (Gasan)		15,660		103,602	177,487
Building lease contract (Gwanghwamun)		5,596		-	5,596
Building lease contract (Buho)		182		-	182
Building lease contract (Seoul station)		4,785		700	13,482
Total	₩	41,093	₩	104,302	₩ 211,617

Contract	December 31, 2015				
	Less than one year		More than five years		Total
Building lease contract (Twin)	₩	14,920	₩	-	₩ 14,920
Building lease contract (Gasan)		16,727		117,571	190,236
Building lease contract (Gwanghwamun)		5,590		-	5,590
Building lease contract (Buho)		177		-	177
Total	₩	37,414	₩	117,571	₩ 210,923

- 2) The Company recognized rental revenue related to operating lease contracts for the years ended December 31, 2016 and 2015, in the amount of ₩104,876 million and ₩102,844 million, respectively.

## **25. PENDING LITIGATIONS:**

Pending litigations as of December 31, 2016, are one case where the Company sued and one case where the Company is sued (including trademark infringement and damages-related litigation).

## **26. RISK MANAGEMENT:**

### **(1) Capital risk management**

The Company performs capital management to maintain the ability to continuously provide profits to shareholders and interested parties and to maintain optimum capital structure to reduce capital expenses. In order to maintain such optimum structure, the Company may adjust dividend payments, redeem paid-up capital to shareholders, issue stocks to reduce liability or sell assets.

The Company's capital structure consists of net liability, which is borrowings, less cash and cash equivalents and equity. The overall capital risk management policy of the Company is unchanged from prior period. In addition, items managed as capital by the Company as of December 31, 2016 and 2015, are as follows (Unit: Korean won in millions):

	December 31, 2016	December 31, 2015
Total borrowings	₩ -	₩ -
Less cash and cash equivalents	128,683	63,609
Borrowings, net	(128,683)	(63,609)
Total equity	8,035,613	7,930,435
Debt ratio (*)	-	-

(\*) The Company does not calculate equity to net borrowings ratio because borrowings, net is negative number.

### **(2) Financial risk management**

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

#### **1) Price risk**

The Company is exposed to price risks from AFS equity instruments. As of December 31, 2016, fair value of AFS equity instruments is ₩27,434 million, and when all the other variables are constant and when the price of equity instrument changes by 10%, the effect after tax to equity will be ₩2,080 million.

#### **2) Credit risk**

Credit risk refers to risk of financial losses to the Company when the counterpart defaults on the obligations of the contract. Credit risk arises from cash and cash equivalents, derivatives and bank and financial institution deposits, as well as credit risks of customers, including receivables and firm commitments. As for banks and financial institutions, the Company is making transactions with reputable financial institutions; therefore, the credit risk from them is limited. For ordinary transactions, customer's financial status, credit history and other factors are considered to evaluate their credit status. The Company does not have policies to manage credit limits of each customer.

As of December 31, 2016, the maximum exposure of credit risk from loans and receivables is similar to their carrying amount.

### 3) Liquidity risk

The Company establishes short-term and long-term fund management plans. The Company analyzes and reviews actual cash outflows and its budget to correspond the maturity of financial liabilities to that of financial assets. Management of the Company believes that financial liability may be redeemed by cash flow arising from operating activities and financial assets.

Maturity analysis of non-derivative financial liabilities according to its remaining maturity as of December 31, 2016, is as follows (Unit: Korean won in millions):

Description	Within a year	1 year–5 years	Over five years	Total
Non-interest financial instrument	₩ 100,670	₩ 2,141	₩ 14,161	₩ 116,972

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

### 4) Foreign currency risk

The Company undertakes transactions denominated in foreign currencies; consequently, exposures to exchange-rate fluctuations arise. The carrying amounts of the Company's foreign currency-denominated monetary assets and monetary liabilities at the end of the reporting period are as follows (Unit: Korean won in millions):

Currency	Assets	Liabilities
USD	₩ 29,551	₩ -
JPY	4	-
HKD	483	-
Total	₩ 30,038	₩ -

The Company regularly measures currency risk deprived from fluctuations of exchange rate.

Details of the Company's sensitivity to a 10% increase and decrease in Korean won against the relevant foreign currencies are as follows (Unit: Korean won in millions):

Currency	10% increase	10% decrease
USD	₩ 2,240	₩ (2,240)
JPY	-	-
HKD	37	(37)
Total	₩ 2,277	₩ (2,277)

### (3) Estimation of fair value

The fair values of financial instruments (i.e., financial assets held for trading and financial assets AFS) traded on active markets are determined with reference to quoted market prices. The Company uses the current bid price as the quoted market price for its financial assets.

The fair values of financial instruments not traded on an active market (i.e., over-the-counter derivatives) are determined using a valuation technique. The Company uses various valuation techniques using assumptions based on current market conditions. The fair values of long-term liabilities and financial liabilities available for settlement are determined using prices from observable current market transactions and dealer quotes for similar instruments. Where such prices are not available, a discounted cash flow analysis or other valuation technique is performed to measure their fair values.

The fair values of loans and receivables are approximated as their carrying value, less impairment loss. The Company estimates the fair values of financial liabilities as the present value of future contractual cash flows discounted based on current market rates applied to similar financial instruments.

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

- Level 1: Fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3: Fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

1) Financial instruments that are measured subsequent to initial recognition at fair value by fair value hierarchy levels as of December 31, 2016 and 2015, are as follows (Unit: Korean won in millions):

Description	December 31, 2016			
	Level 1	Level 2	Level 3	Total
AFS financial assets	₩ 27,434	₩ -	₩ 48,307	₩ 75,741

Description	December 31, 2015			
	Level 1	Level 2	Level 3	Total
AFS financial assets	₩ 31,748	₩ -	₩ 48,191	₩ 79,939

There were no significant transfers between Levels 1 and 2 as of December 31, 2016 and 2015.

2) The fair value hierarchy of financial instruments with fair value cannot be reliably measured at fair value in the statements of financial position as of December 31, 2016 and 2015, is as follows (Unit: Korean won in millions):

Description	December 31, 2016						Book value			
	Fair value				Total					
	Level 1	Level 2	Level 3							
Loans and receivables:										
Financial institution deposits	₩	-	₩	-	₩	100,630	₩	100,630	₩	100,630
Loans (*)		-		-		28,545		28,545		28,545
Other account receivables (*)		-		-		4,582		4,582		4,582
Accrued income (*)		-		-		1,414		1,414		1,414
Deposits (*)		-		-		489		489		489
Total		-		-		135,660		135,660		135,660
Financial liabilities measured at amortized cost:										
Other accounts payables (*)		-		-		40,211		40,211		40,211
Accrued expenses (*)		-		-		1,709		1,709		1,709
Accrued dividends (*)		-		-		314		314		314
Deposits received		-		68,876		-		68,876		68,876
Total	₩	-	₩	68,876	₩	42,234	₩	111,110	₩	111,110

Description	December 31, 2015									
	Fair value						Book value			
	Level 1		Level 2		Level 3			Total		
Loans and receivables:										
Financial institution deposits	₩	-	₩	-	₩	230,500	₩	230,500	₩	230,500
Loans (*)		-		-		27,683		27,683		27,683
Other account receivables (*)		-		-		6,018		6,018		6,018
Accrued income (*)		-		-		1,274		1,274		1,274
Deposits (*)		-		-		627		627		627
Total		-		-		266,102		266,102		266,102
Financial liabilities measured at amortized cost:										
Other accounts payables (*)		-		-		41,094		41,094		41,094
Accrued expenses (*)		-		-		507		507		507
Accrued dividends (*)		-		-		312		312		312
Deposits received		-		61,255		-		61,255		61,255
Total	₩	-	₩	61,255	₩	41,913	₩	103,168	₩	103,168

(\*) Short-term receivables and short-term payment obligations denominated in Level 3 are measured at original amount since the discount effect is not significant.

3) Changes in Level 3 financial assets for the years ended December 31, 2016 and 2015, are as follows (Unit: Korean won in millions):

Description	Year ended December 31, 2016						
	Beginning balance	Net income (loss)	Comprehensive income	Purchases	Disposals	Ending balance	Ending unrealized gain
AFS financial assets	₩ 48,191	₩ -	₩ 116	₩ -	₩ -	₩ 48,307	₩ 11,834

  

Description	Year ended December 31, 2015						
	Beginning balance	Net income (loss)	Comprehensive loss	Purchases	Disposals	Ending balance	Ending unrealized gain
AFS financial assets	₩ 48,151	₩ -	₩ 40	₩ -	₩ -	₩ 48,191	₩ 11,718

The amount recognized as comprehensive income (loss) is relevant to non-listed shares as of December 31, 2016, and recognized as changes of valuation gain (loss) (see Note 16) on AFS financial assets.

4) A description of the valuation techniques and the inputs used in the fair value measurement of financial instruments classified as Level 3 is as follows:

#### -Rental deposit

The fair value of rental deposit was measured by discount cash flow (DCF). The discount rates used in DCF was determined based on credit rating and period. The discount rates that influence on the fair value of rental deposit significantly were classified as Level 2 fair value measurement because they resulted in observable information in the market.

#### -Non-listed shares

The fair value of non-listed shares measured using a discounted cash flow model that is not based on observable market prices or rates will be used to estimate the future cash flows, such as sales growth, pretax operating profit margin and the weighted-average cost of capital. Capital Asset Pricing Model (CAPM) was used to calculate the weighted-average cost of capital. The key assumptions of estimation listed above are determined to have a significant impact on the fair value of non-listed shares, and the Company has classified the fair value hierarchy system on Level 3 of the fair value measurement of non-listed shares.

5) There is no change in the valuation technique used in the fair value measurement of financial instruments classified as Levels 2 and 3.

6) Relationship between unobservable inputs to fair value and information on fair value hierarchy Level 3 applying significant unobservable inputs are as follows (Unit: Korean won in millions):

Description	Fair value	Valuation technique	Unobservable input(s)	Range (%)	Relationship of unobservable inputs to fair value
Financial assets					
AFS financial assets	₩ 48,307	Discounted cash flow method	Growth rate	0	Increase (decrease) in the growth rate used would result in increase (decrease) of fair value
			Discount rate	11.53 – 11.70	Increase (decrease) in the discount rate used would result in decrease (increase) of fair value

7) A description of the valuation processes in the fair value measurement for Level 3 that the Company is carrying out is as follows:

The Company measures fair value of assets and liabilities for financial reporting purposes and reports the result of fair value measurements to chief finance officer directly.

Undesirable inputs that are used to estimate Level 3 fair value measurement are derived in a manner that is described below.

- Pretax profit margin and sales growth rate, which are used to measure the fair value of non-listed shares, are estimated based on the average value of pretax operating margin and sales growth rate of comparable-listed companies.

- Weighted-average cost of capital discount rate that is used to measure the fair value of non-listed shares is estimated by the weighted-average, after-tax, outside capital cost; capital cost estimates of the share value beta reflected for the purpose of the issuer of the shares; and capital structure based on the equity beta of comparable public companies has been derived based on the CAPM.

8) Impact on net income and other comprehensive income due to changes in fair value measured Level 3 financial instruments' associated significant unobservable inputs are as follows (Unit: Korean won in millions):

Description	Unobservable input(s)	Changes of reasonably possible unobservable input	Net income		Other comprehensive income	
			Favorable change	Unfavorable change	Favorable change	Unfavorable change
AFS financial assets	Growth rate	+/-1%	-	-	₩ 851	₩ (718)
	Discount rate	+/-1%	-	-	1,228	(1,031)

Meanwhile, the Company has judged that unobservable changes of inputs to reflect alternative assumptions would not change fair value measurement significantly.

9) There is no significant change of business and economic environment affecting the fair value of the financial assets and liabilities during the current year.

## 27. NON- CASH TRANSACTIONS

Significant transactions of Investment and financial operation not involving cash flows are as follows (Unit: Korean won in millions):

Description	Year ended December 31, 2016	Year ended December 31, 2015
Replaced Investments in Associates and Joint Ventures to asset held for sale	₩ 83,295	₩ -

## 28. ASSETS HELD FOR SALE

1) LG Life Science Co., Ltd, an Associate, was acquired by LG Chem Co., Ltd, an Associate, on January 1, 2017, and relevant investment securities classified as assets held for sale as of December 31, 2016. As of December 31, 2016, assets (liabilities) held for sale are as follows (Unit: Korean won in millions):

Description	December 31, 2016
Investment securities of LG Life Science Co., Ltd.	₩ 83,295
Total assets that are classified as held for sale	83,295
Deferred tax liabilities of LG Life Science Co., Ltd.	710
Total liabilities that are classified as held for sale	710
Net assets that are classified as held for sale	₩ 82,585

2) As of December 31, 2016, assets (liabilities) not classified as held for sale because of classification factor satisfied after the reporting period are as follows (Unit: Korean won in millions):

Description	December 31, 2016
Investment securities of. LG Siltron Inc	₩ 239,575
Total assets that are classified as held for sale after the reporting period	239,575
Deferred tax liabilities of LG Siltron Inc.	38,145
Total liabilities that are classified as held for sale after the reporting period	38,145
Net assets that are classified as held for sale	₩ 201,430

The Company held Board of Directors' meeting on January 23, 2017, and decided to sell all of the common stocks of LG Siltron Inc, a subsidiary, to SK Holdings Co., Ltd. Through this, the Company anticipated that it will be able to sort out the projects that are not related to the existing business, secure the financial resources necessary for investment in the main and growth businesses, and strengthen the competitiveness. The date of completion of the sale will be finalized after a due diligence and licensing process by related domestic and overseas authorities.

## 29. EVENTS AFTER THE REPORTING PERIOD

1) On January 23, 2017, the Company entered into a contract with SK Holdings Co., Ltd. to sell all of the ordinary shares of LG Siltron Co., Ltd., a subsidiary.

2) Both associates of the Group, LG Life Science Co., Ltd. was merged into LG Chem Ltd. as of January 1, 2017.

## Internal Accounting Control System (“IACS”) Review Report

English Translation of a Report Originally Issued in Korean on March 16, 2017

To the Representative Director of  
LG Corp.:

We have reviewed the accompanying Report on the Management’s Assessment of IACS (the “Management’s Report”) of LG Corp. (the “Company”) as of December 31, 2016. The Management’s Report and the design and operation of IACS are the responsibility of the Company’s management. Our responsibility is to review the Management’s Report and issue a review report based on our procedures. The Company’s management stated in the accompanying Management’s Report that “based on the assessment of the IACS as of December 31, 2016, the Company’s IACS has been appropriately designed and is operating effectively as of December 31, 2016, in all material respects, in accordance with the IACS Framework established by the Korea Listed Companies Association.”

We conducted our review in accordance with the IACS Review Standards established by the Korean Institute of Certified Public Accountants. Those standards require that we plan and perform a review, the objective of which is to obtain a lower level of assurance than an audit, of the Management’s Report, in all material respects. A review includes obtaining an understanding of a company’s IACS and making inquiries regarding the Management’s Report and, when deemed necessary, performing a limited inspection of underlying documents and other limited procedures.

The Company’s IACS represents internal accounting policies and a system to manage and operate such policies to provide reasonable assurance regarding the reliability of financial statements prepared, in accordance with accounting principles generally accepted in the Republic of Korea, for the purpose of preparing and disclosing reliable accounting information. 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 of IACS 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 the Management’s Report referred to above is not fairly stated, in all material respects, in accordance with the IACS Framework established by the Korea Listed Companies Association.

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



March 16, 2017



## **Report on the Operations of the Internal Accounting Control System ("IACS")**

To the Board of Directors and the Audit Committee of LG Corp.:

I, as the Internal Accounting Control Officer ("IACO") of LG Corp. (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.

February 9, 2017

## Disclosure on Execution of External Audit

We attach required disclosure on the execution of external audit performed in accordance with **Article 7-2 of the Act on External Audit of Stock Companies.**

### 1. Company and Reporting Period subject to External Audit

Company	LG Corp.			
Reporting Period	2016/01/01	From	2016/12/31	To

### 2. Number of Participants and Details on the Hours Executed in Audit

(Unit: Number of Participant, Hour Executed )

Participant(s) \ Number and Hour(s)		Engagement Quality Reviewer(s) (Including QRM, etc.)	Audit Professional(s)			IT Specialist(s), Tax Specialist(s), Valuation Specialist(s)	Total
			Engagement Partner(s)	KICPA (Registered)	KICPA (Non- Registered)		
Number of Participant(s)		2	1	10	6	3	22
Hours Executed	Quarterly Review, six- month Review	33	128	1,563	646	-	2,370
	Audit	17	67	813	336	74	1,307
	Total	50	195	2,376	982	74	3,677

### 3. Key Disclosure on Execution of External Audit

Title	Detail						
Audit Planning Stage	Dates Performed			April 2016 – September 2016		3	Days
	Main Planning Work Performed			Understanding the Company and business environments, composing the audit member, identifying and evaluating significant risk of material misstatements, deciding the nature/timing/extent of an audit, reviewing the application of professionals and determining the materiality in the application of an audit			
Fieldwork Performed	Dates Performed			Number of Participant(s)		Main Fieldwork Performed	
				On-Site	Off-Site		
		Days	Number of Participant(s)	Number of Participant(s)			
	2016/12/06–2016/12/08	3	3	2	Interim audit (understanding the transaction type of each process, control testing)		
	2017/01/10–2017/01/26	13	4	2	External audit (substantive procedure for the material account balances and transactions, consolidation audit)		
Physical Counts - Inventory (Observation)	Time (When Performed)		-		-	Day(s)	
	Place (Where Performed)		-				
	Inventory subjected to Counts		-				
Physical Counts - Financial Instruments (Observation)	Time (When Performed)		2017/01/02		1	Day(s)	
	Place (Where Performed)		LG Corp. headquarters				
	Financial Instruments Subjected to Counts		Cash, investment securities, memberships, and others				
External Confirmation	Bank Confirmation	O	Accounts Receivable/Payable Confirmation		O	Legal Confirmation	O
	Other Confirmation	N/A					
Communications with Those Charged with Governance	Number of Communications	5	Time(s) Performed				
	Time (When Performed)	2016/05/12, 2016/08/10, 2016/11/10, 2017/02/09, and 2017/02/23					