



# **LG CORP. AND ITS SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS  
AS OF AND FOR THE YEARS ENDED  
DECEMBER 31, 2017 AND 2016**

**ATTACHMENT: INDEPENDENT AUDITORS' REPORT**

**LG CORP.**

## Independent Auditors' Report

English Translation of Independent Auditors' Report Originally Issued in Korean on March 15, 2018.

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

### Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of LG Corp. and its subsidiaries (the "Group"), which comprise the consolidated statements of financial position as of December 31, 2017 and 2016, respectively, and the related consolidated statements of comprehensive income, consolidated statements of changes in shareholders' equity and consolidated statements of cash flows, all expressed in Korean won, for the years ended December 31, 2017 and 2016, respectively, and a summary of significant accounting policies and other explanatory information.

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

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

### Auditors' Responsibility

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

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

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

### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of December 31, 2017 and 2016, respectively, and its financial performance and its cash flows for the years then ended in accordance with K-IFRS.

### Emphasis Matters

Users of this audit report need to pay attention to the following matters that have no effect on audit opinions:

(1) Emphasis matters, etc., by the auditor for the core audit items of the order-taking industry

The core audit items for the order-taking industry are to select significant matters in the consolidated financial statement audit through the expert judgment of the auditor and communication with the controlling organization based on the "Accounting Audit Practice Guideline 2016-1." These matters are dealt with when forming the

opinion of the entire financial statements from the viewpoint of audit for the entire financial statements and we will not provide another opinion on these matters.

We reflected the results of audit procedures conducted on core audit items as follows in forming audit opinions on the consolidated financial statements of the Group:

## A. General matters

The contents commonly applied in relation with the core audit items of the order-taking industry described in this audit report are as follows.

As stated in Comment 2 (Significant Accounting Policies) of the consolidated financial statements, if the outcome of a construction contract can be estimated reliably, revenues and costs are recognized by reference to the stage of completion of the contract activity at the end of the reporting period, measured based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs, except where this would not be representative of the stage of completion. Where contract costs incurred to date, plus recognized profits, less recognized losses exceed progress billings, the surplus is shown as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date, plus recognized profits, less recognized losses, the surplus is shown as the amount due to customers for contract work.

## B. Revenue recognition and appropriateness of the completion progress by input method

As described in Comments 3 and 18 of the consolidated financial statements, since we can be influenced by various uncertainties related to the outcome of future events, such as changes, etc., in the estimation of total contract revenues and total contract costs of contracts that recognize progress-based revenue are made by applying the cost-based input method that was in progress at the end of the former period, and the estimation of total contract revenues and total contract costs of contracts may have a negative impact on the current profit or loss or future profit and loss, we identified revenue recognition and appropriateness of the completion progress by input method as a significant risk.

As of the end of the current period, the major audit procedures we conducted concerning the revenue recognition and appropriateness of the completion progress of the Group by input method are as follows:

- Review of the appropriateness of accounting policies for revenue recognition
- Questions and analytical review on the current progress status and significant change matters of major projects as of the ending date of the reporting period
- Analytical review on major financial indicators, such as contract amount, estimated cost, cost rate, ratio of amounts due from customers for contract work, etc.
- Review on the internal control of the Group related to determination of accounting policy for revenue recognition by project type
- Review on the internal control in which legitimate approval holders review and approve the relevant contract for newly accepted contracts

## C. Uncertainty in estimating total contract costs (or estimated construction costs)

According to Comment 3 of the consolidated financial statements, the measurement of contract revenue is affected by various uncertainties related to the outcomes of future events, and the total contract cost is estimated on the basis of future expectations, such as labor cost, material cost, project duration, etc.

As the changes in the total contractual amount and total estimated costs during the current period and the effect on the current and future profit and loss due to these changes are described in Comment 18 of the consolidated financial statements, and the contract revenue and the estimated total contract cost may be changed, we identified the uncertainty in estimating the total contract cost and the appropriateness of accounting management due to construction changes as significant risks.

As of the end of the current period, the major audit procedures we conducted concerning the impacts of uncertainty in estimating total contract cost and appropriateness of accounting due to the construction change of the Group on the consolidated financial statements are as follows.

- Analytical review on the fluctuation of major constituent items of total contract cost by reporting period
- Comparison/analysis of actual cost with estimated cost to identify the cause of the difference for projects with significant difference, and confirmation of the relevant evidences as necessary

#### D. Determination of stage of completion

Due to industry condition, construction costs increased largely compared to estimated costs and as the uncertainty in estimating total contract cost increases, we identified the determination of stage of completion as significant risks.

The major audit procedures we conducted for total contract costs, contract costs incurred for work performed to date and elements affecting the determination of stage of completion are as follows:

- Analytical review on the fluctuation of amounts on contract costs incurred for work performed to date and total contract costs
- Understand the Group's overhead allocation policy and internal control test related to overhead allocation
- Recalculation of stage of completion independently on the contracts in which the stage of completion has significantly fluctuated
- Testing the appropriateness of incurrence of imputed costs, imputed time and allocation of costs to each construction contract occurred during current period independently

#### E. Collectibility of amounts due from customers for contract work and appropriateness of setting the contract loss provision liabilities

According to Comment 18 in the consolidated financial statements, the amounts due from customers for contract work are KRW 198,757 million, decreased by KRW 67,758 million compared with KRW 266,515 million at the end of the former term, which is 0.92% of the total assets. As the amounts due from customers for contract work are increasing and the importance of amount is large, we identified the collectibility of amounts due from customers for contract work as significant risk.

On the other hand, the contract loss provision liabilities for the construction in progress is KRW 2,078 million and the importance of amount is not large, but there is a risk that the loss contract will not be reflected in due time that we identified as significant risk.

In order to confirm the collectibility of amounts due from customers for contract work and appropriateness of setting the contract loss provision liabilities during the current term, the major audit procedures we conducted are as follows:

- By grasping the site where the difference is significant between the claim rate of the construction amount based on the right to claim on the contract and the actual claim rate of the construction amount, asking the cause of the delay of the claim and confirmation of the related external evidences
- Testing the effectiveness of the internal control operation for grasping and managing the signs of damages to the Group's amounts due from customers for contract work
- Review of the management's estimation grounds on the collectibility of amounts due from customers for contract work
- Questions and analytical review on the method of setting provision liabilities at the time of occurrence of loss contract and the appropriateness of the provision for loss contract as of the end of the current period
- Verification of recalculation on setting the contract loss provision liabilities

#### F. Accounting for variations in-contract work

As variations in contract work are occurring on construction contracts in the current period, we identified accounting for variations in contract work as a significant risk.

The major audit procedures we conducted on accounting for variations in contract work and disclosures are as follows:

- Questions on the Group's policy for accounting for variations in contract work and penalties

- Testing of the internal control for appropriate management approval and review on contract with change of terms
- Verification on disclosures that construction contract contents are disclosed accordingly with amended contracts
- Verification on additional costs estimated due to variations in contract work is reflected accordingly on total estimated contract costs and stage of completion

*Deloitte Anjin NL*

March 15, 2018

## **Notice to Readers**

This report is effective as of March 15, 2018, 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 accompanying consolidated financial statements and may result in modifications to the auditors' report.

**LG CORP.  
AND ITS SUBSIDIARIES (the “Group”)**

**CONSOLIDATED FINANCIAL STATEMENTS  
AS OF AND FOR THE YEARS ENDED  
DECEMBER 31, 2017 AND 2016**

The accompanying consolidated financial statements, including all footnote disclosures, were prepared by, and are the responsibility of, the management of the Group.

**Hyun-Hwoi Ha**  
**President and Chief Operating Officer**  
**LG Corp.**

**LG CORP. AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**AS OF DECEMBER 31, 2017 AND 2016**

	Korean won	
	December 31, 2017	December 31, 2016
	(In millions)	
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash and cash equivalents (Notes 5, 6, 31 and 34)	₩ 1,309,949	₩ 1,129,035
Financial institution deposits (Notes 5, 31 and 34)	438,214	206,845
Current derivative assets (Notes 5 and 34)	1,798	1,376
Trade receivables, net (Notes 5, 7, 30 and 34)	3,023,304	2,551,435
Other receivables, net (Notes 5, 7, 30 and 34)	83,816	74,481
Current tax assets	6,703	7,854
Current other assets (Notes 9 and 18)	284,668	369,232
Inventories, net (Note 8)	109,989	322,857
Assets held for sale(Note 38)	109,368	-
Total current assets	5,367,809	4,663,115
NON-CURRENT ASSETS:		
Available-for-sale (“AFS”) financial assets (Notes 5 and 34)	121,817	91,043
Non-current trade receivables, net (Notes 5, 7, 30 and 34)	25,734	17,032
Non-current other receivables, net (Notes 5, 7, 30, 31 and 34)	17	14,808
Investments in associates and joint ventures (Note 13)	12,753,226	10,979,154
Deferred tax assets, net (Note 28)	123,075	208,887
Non-current other assets (Note 9)	8,541	56,279
Property, plant and equipment, net (Note 10)	1,911,540	2,481,390
Investment property, net (Note 11)	1,241,544	863,726
Intangible assets (Note 12)	94,394	114,008
Total non-current assets	16,279,888	14,826,327
TOTAL ASSETS	₩ 21,647,697	₩ 19,489,442

(Continued)

**LG CORP. AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**AS OF DECEMBER 31, 2017 AND 2016 (CONTINUED)**

	Korean won	
	December 31, 2017	December 31, 2016
	(In millions)	
<u>LIABILITIES AND EQUITY</u>		
CURRENT LIABILITIES:		
Current derivative liabilities (Notes 5 and 34)	₩ 1,982	₩ 4,406
Trade payables (Notes 5, 30 and 34)	2,261,617	1,635,402
Other payables (Notes 5, 30 and 34)	678,813	783,695
Short-term borrowings (Notes 5, 14 and 34)	59,086	190,795
Current portion of debentures and long-term borrowings (Notes 5, 14 and 34)	320,726	506,975
Current tax liabilities	196,819	82,386
Provisions (Note 15)	62,766	51,466
Other current liabilities (Notes 17 and 18)	310,840	312,031
Liabilities related to assets held for sale (Note 38)	50,959	146
Total current liabilities	3,943,608	3,567,302
NON-CURRENT LIABILITIES:		
Non-current derivative liabilities (Notes 5 and 34)	-	53
Other payables (Notes 5, 30 and 34)	59,854	83,463
Long-term borrowings (Notes 5, 14 and 34)	1,012,845	1,179,800
Net defined benefit liability (Note 16)	12,697	56,855
Deferred tax liability (Note 28)	401,631	346,255
Provisions (Note 15)	4,388	9,761
Other non-current liabilities (Note 17)	33,163	25,869
Total non-current liabilities	1,524,578	1,702,056
TOTAL LIABILITIES	5,468,186	5,269,358
EQUITY:		
Equity attributable to the owners of the parent company	16,002,559	13,874,365
Issued capital (Note 19)	879,359	879,359
Capital surplus (Note 20)	2,365,549	2,364,937
Other capital items (Note 19)	(2,385)	(2,385)
Accumulated other comprehensive income (loss) (Note 21)	(250,370)	(159,606)
Retained earnings (Note 22)	13,010,406	10,792,060
Non-controlling interests	176,952	345,719
TOTAL EQUITY	16,179,511	14,220,084
TOTAL LIABILITIES AND EQUITY	₩ 21,647,697	₩ 19,489,442

(Concluded)

**See notes to consolidated financial statements.**

**LG CORP. AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

	Korean won	
	Year ended December 31, 2017	Year ended December 31, 2016
	(In millions)	
Revenue and gain (loss) on valuation by equity method (Notes 4 and 23):		
Sales of finished goods and merchandise	₩ 4,771,625	₩ 4,378,680
Service revenue	1,940,193	1,919,963
Construction revenue	3,096,587	2,165,172
Gain (loss) on valuation by equity method	1,577,093	807,323
Other revenue	455,560	402,749
	11,841,058	9,673,887
Cost of sales (Notes 23 and 24)	9,293,904	7,960,838
Gross profit	2,547,154	1,713,049
Selling and administrative expenses (Notes 23 and 24)	361,334	390,314
Operating income	2,185,820	1,322,735
Financial income (Note 25)	25,200	33,030
Financial expenses (Note 25)	50,850	58,340
Other non-operating income (Note 26)	644,156	58,778
Other non-operating expenses (Note 26)	63,020	65,709
Profit before income tax from continuing operations	2,741,306	1,290,494
Income tax expense		
from continuing operations (Note 28)	328,641	187,079
Profit from continuing operations	2,412,665	1,103,415
Profit from discontinued operations (Note 37)	22,894	(12,157)
Profit for the year	₩ 2,435,559	₩ 1,091,258
Profit for the year attributable to:		
Owners of the parent company	₩ 2,395,905	₩ 1,074,795
Non-controlling interests	39,654	16,463
Earnings per share (in Korean won):		
Continuing and discontinued operations:		
Common Stock Basic/Diluted (Note 29)	₩ 13,630	₩ 6,114
Pre-1996 Commercial Law Amendment Preferred Stock Basic/Diluted (Note 29)	13,680	6,164
Continuing operations:		
Common Stock Basic/Diluted (Note 29)	₩ 13,603	₩ 6,186
Pre-1996 Commercial Law Amendment Preferred Stock Basic/Diluted (Note 29)	13,653	6,236

See notes to consolidated financial statements.

**LG CORP. AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

	Korean won	
	Year ended December 31, 2017	Year ended December 31, 2016
	(In millions)	
Profit for the year	₩ 2,435,559	₩ 1,091,258
Other comprehensive income (loss):		
Items that may be reclassified subsequently to profit or loss		
Net gain (loss) on AFS financial assets	20,666	(2,210)
Net gain (loss) on changes in valuation of investments using equity method	(78,541)	(33,215)
Net gain (loss) on derivative instruments entered into for cash flow hedges	427	1,116
Overseas operations translation	(34,307)	10,218
Items that will not be reclassified subsequently to profit or loss		
Remeasurement of the net defined benefit liability	16,658	17,004
Increase (decrease) in retained earnings of equity method investments	34,771	63,033
Total comprehensive income for the year	₩ 2,395,233	₩ 1,147,204
Total comprehensive income attributable to:		
Owners of the parent company	₩ 2,356,369	₩ 1,126,759
Non-controlling interests	38,864	20,445

**See notes to consolidated financial statements.**

**LG CORP. AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

	Korean won						
	Issued capital	Capital surplus	Other capital items	Accumulated other comprehensive income (loss)	Retained earnings	Non-controlling interests	Total
	(In millions)						
Balance as of January 1, 2016	₩ 879,359	₩ 2,361,658	₩ (2,390)	₩ (134,862)	₩ 9,871,746	₩ 332,733	₩ 13,308,244
Profit (loss) for the year	-	-	-	-	1,074,795	16,463	1,091,258
Net gain (loss) on AFS financial assets	-	-	-	(2,354)	-	144	(2,210)
Valuation through equity method	-	-	-	(33,178)	62,274	722	29,818
Valuation on derivative instruments entered into for cash flow hedges	-	-	-	723	-	393	1,116
Remeasurements of the net defined benefit liability	-	-	-	-	14,434	2,570	17,004
Overseas operations translation	-	-	-	10,065	-	153	10,218
Annual dividends	-	-	-	-	(228,668)	(1,559)	(230,227)
Changes in the shares of subsidiaries	-	2,919	5	-	(2,521)	(5,982)	(5,579)
Acquisition (disposal) of subsidiaries	-	360	-	-	-	82	442
Balance as of December 31, 2016	₩ 879,359	₩ 2,364,937	₩ (2,385)	₩ (159,606)	₩10,792,060	₩ 345,719	₩ 14,220,084
Balance as of January 1, 2017	₩ 879,359	₩ 2,364,937	₩ (2,385)	₩ (159,606)	₩10,792,060	₩ 345,719	₩ 14,220,084
Profit (loss) for the year	-	-	-	-	2,395,905	39,654	2,435,559
Net gain (loss) on AFS financial assets	-	-	-	20,680	-	(14)	20,666
Valuation through equity method	-	-	-	(78,745)	35,312	(337)	(43,770)
Valuation on derivative instruments entered into for cash flow hedges	-	-	-	314	-	113	427
Remeasurements of the net defined benefit liability	-	-	-	-	16,511	147	16,658
Overseas operations translation	-	-	-	(33,608)	-	(699)	(34,307)
Annual dividends	-	-	-	-	(228,668)	(14,361)	(243,029)
Changes in the shares of subsidiaries	-	(102)	-	-	-	238	136
Acquisition (disposal) of subsidiaries	-	714	-	595	(714)	(193,508)	(192,913)
Balance as of December 31, 2017	₩ 879,359	₩ 2,365,549	₩ (2,385)	₩ (250,370)	₩13,010,406	₩ 176,952	₩ 16,179,511

See notes to consolidated financial statements.

**LG CORP. AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

	Korean won	
	Year ended December 31, 2017	Year ended December 31, 2016
	(In millions)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Profit for the year	₩ 2,435,559	₩ 1,091,258
Additions of expenses not involving cash outflows:		
Salaries and bonuses	1,081	1,052
Retirement benefits	41,824	46,194
Depreciation	229,368	269,606
Amortization of intangible assets	28,052	27,243
Loss on valuation of inventories	3,318	13,776
Bad debt expenses	10,900	11,626
Accrual of provision	43,576	31,749
Impairment loss on property, plant and equipment	17,208	698
Impairment loss on intangible assets	1,785	1,403
Loss on foreign currency translation	19,249	16,435
Loss on disposals of property, plant and equipment	2,753	6,550
Loss on disposals of investment property	348	-
Loss on disposals of intangible assets	808	2,079
Loss on disposals of other assets	522	-
Loss on transactions of derivatives	10,791	14,591
Loss on valuation of derivatives	1,836	3,810
Interest expenses	53,056	74,856
Loss on disposals of AFS financial assets	-	1
Impairment loss on AFS financial assets	316	266
Loss on disposals of investments in subsidiaries	83	26
Loss on disposals of investments in associates	32	-
Impairment loss on investments in associates	1,169	-
Income tax expense	343,271	182,172
Others	7,875	12,073
	819,221	716,206
Deduction of items not involving cash inflows:		
Reversal of impairment loss on inventories	988	4,130
Reversal of allowance for doubtful accounts	933	364
Reversal of provisions	3,892	5,867
Gain on foreign currency translation	9,433	17,825
Gain on disposals of property, plant and equipment	1,128	2,943
Gain on disposals of investment property	938	-
Gain on disposals of intangible assets	22	44
Gain on transactions of derivatives	14,486	17,276
Gain on valuation of derivatives	1,763	1,376
Interest income	20,302	20,629
Dividend income	2,077	2,703

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**LG CORP. AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016 (CONTINUED)**

	Korean won	
	Year ended December 31, 2017	Year ended December 31, 2016
	(In millions)	
Gain on disposals of AFS financial assets	₩ -	₩ 22
Gain on disposals of investments in subsidiaries	411,025	1,941
Gain on disposals of investments in associates	186,509	536
Gain on valuation by equity method	1,577,093	807,323
Others	275	386
	<u>(2,230,864)</u>	<u>(883,365)</u>
<b>Movements in working capital:</b>		
Derivatives	-	362
Trade receivables	(690,570)	(342,184)
Other receivables	(13,925)	(8,621)
Inventories	(47,756)	12,588
Non-current trade receivables	(26,350)	(30,327)
Non-current other receivables	(622)	3,060
Trade payables	708,918	271,240
Other payables	(29,065)	75,898
Non-current other payables	(21)	(13)
Provisions	(26,818)	(17,413)
Net defined benefit liability	(38,806)	(51,531)
Others	110,123	(158)
	<u>(54,892)</u>	<u>(87,099)</u>
Interest income received	18,590	18,809
Dividend income received	262,870	225,997
Income tax received	-	1,271
Interest expenses paid	(37,098)	(56,695)
Income taxes paid	(154,945)	(148,184)
Net cash provided by operating activities	<u>1,058,441</u>	<u>878,198</u>

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**LG CORP. AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016 (CONTINUED)**

	Korean won	
	Year ended December 31, 2017	Year ended December 31, 2016
	(In millions)	
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash inflows from investing activities:		
Decrease in financial institution deposits	₩ 735,916	₩ 461,026
Settlement of derivative instruments	14,436	16,908
Decrease in other receivables	35,632	21,505
Disposals of AFS financial assets	346	379
Decrease in non-current other receivables	1,374	325
Disposals of investments in subsidiaries	505,046	1,670
Disposals of investments in associates	-	195
Disposals of property, plant and equipment	32,894	10,152
Disposals of investment property	9,850	-
Disposals of intangible assets	2,806	2,176
Disposals of assets (liabilities) held for sale	26,279	-
	<u>1,364,579</u>	<u>514,336</u>
Cash outflows for investing activities:		
Increase in financial institution deposits	994,159	292,391
Settlements of derivative instruments	12,899	13,992
Increase in other receivables	13,455	18,544
Acquisitions of non-current AFS financial assets	406	1,207
Increase in non-current other receivables	3,337	1,200
Acquisitions of investments in associates	319,167	17,143
Acquisitions of property, plant and equipment	292,094	274,496
Acquisitions of investment property	389,187	212,534
Acquisitions of intangible assets	29,160	25,050
Acquisitions of investments in subsidiaries	-	1,597
	<u>(2,053,864)</u>	<u>(858,154)</u>
Net cash used in investing activities	<u>(689,285)</u>	<u>(343,818)</u>

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**LG CORP. AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016 (CONTINUED)**

	Korean won			
	Year ended		Year ended	
	December 31, 2017		December 31, 2016	
	(In millions)			
CASH FLOWS FROM FINANCING ACTIVITIES:				
Cash inflows from financing activities:				
Proceeds from short-term borrowings	₩	549,909	₩	478,294
Proceeds from long-term borrowings		139,021		80,000
Increase in other long-term liabilities		35		540
Issuance of debentures		458,108		199,185
Increase in government subsidy		237		853
Issuance of common stock of subsidiaries		-		679
Disposals of treasury stocks		-		433
Cash inflows from consolidated capital transactions		200		-
		<u>1,147,510</u>		<u>759,984</u>
Cash outflows for financing activities:				
Redemptions of short-term borrowings		539,615		460,020
Redemptions of long-term borrowings		22,500		-
Redemptions of debentures		320,000		100,000
Redemptions of current portion of long-term borrowings		161,952		237,927
Disposals of derivative instruments		249		686
Payments of dividends		242,787		230,224
Acquisitions of treasury stocks		75		3,708
Cash outflows from consolidated capital transactions		-		2,684
Others		147		185
		<u>(1,287,325)</u>		<u>(1,035,434)</u>
Net cash used in financing activities		<u>(139,815)</u>		<u>(275,450)</u>
Net change in cash and cash equivalents		229,341		258,930
Cash and cash equivalents at beginning of year		1,129,035		870,393
Effects of exchange rate changes on cash and cash equivalents		(15,505)		(288)
Cash and cash equivalents at end of year	₩	<u>1,342,871</u>	₩	<u>1,129,035</u>

(Concluded)

See notes to consolidated financial statements.

**LG CORP. AND ITS SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

**1. GENERAL:**

In accordance with Korean International Financial Reporting Standards (“K-IFRSs”) 1110 (Consolidated Financial Statements), LG Corp. (the “Company”) is the parent company and an investment holding company. In order to become a global competitor through effective management and to confront changes in domestic and international business environments, the Company acquired LGEI (LG Electronics Inc.), an investment company, and the real estate lease and investment business of Serveone Co., Ltd. on March 1, 2003.

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 outstanding capital stock amounted to ₩879,359 million, including preferred stocks of ₩16,573 million as of December 31, 2017.

As of December 31, 2017, the Company’s related parties and major shareholders are as follows:

Names of shareholders	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	17,728,638	10.08
LG Yonam Education Foundation	3,675,742	2.09
LG Yonam Foundation	572,525	0.33
Others	95,377,870	54.23
<b>Total</b>	<b>175,871,808</b>	<b>100.00</b>

(\*) Includes preferred stocks

**2. STANDARDS AFFECTING PRESENTATION AND DISCLOSURE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

The consolidated financial statements have been confirmed by the board of directors’ meeting held on February 8, 2018 and will be finalized at the shareholders' meeting on March 23, 2018.

The Company and its subsidiaries (the “Group”) have prepared the consolidated financial statements in accordance with K-IFRSs.

The significant accounting policies under K-IFRSs followed by the Group in the preparation of its consolidated financial statements are summarized below. Unless stated otherwise, these accounting policies have been applied consistently to the Group’s consolidated financial statements for the current period and the comparative prior period.

(1) Established or revised accounting standards

1) Newly adopted and revised standards, their interpretations and thereby changes in accounting policies being effective for the financial year beginning on January 1, 2017, are as follows:

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

The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. Additional disclosure required related to the first time application of these amendments in the current year are in note 39. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior period. Apart from the additional disclosure in note 55, the application of these amendments has no material impact on the disclosures or the amounts recognized in the Group's consolidated financial statements.

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

The amendments clarify that in evaluating the deferred tax assets arising from deductible temporary difference of debt instruments measured at fair value, the carrying amount of an asset does not limit the estimation of probable future taxable profits. The application of these amendments has no material impact on the disclosures or the amounts recognized in the Group's consolidated financial statements.

#### Annual Improvements to K-IFRS 2014-2016 Cycle

The Group has applied the amendments to K-IFRS 1112—Share-based Payment included in the Annual Improvements to K-IFRS 2014-2016 Cycle for the first time in the current year. The other amendments included in this package are not yet mandatorily effective and they have not been early adopted by the Group (see note 2. (1)2). The amendments state that an entity need not provide summarized financial information for interests in subsidiaries, associates or joint ventures that are classified (or included in a disposal group that is classified) as held for sale. The amendments clarify that this is the only concession from the disclosure requirements for K-IFRS 1112

2) Details of K-IFRSs 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 1040—Transfers of Investment Property

The amendments clarify that a transfer to, or from, investment property necessitates an assessment of whether a property meets, or has ceased to meet, the definition of investment property, supported by observable evidence that a change in use has occurred. The amendments further clarify that situations other than the ones listed in K-IFRS 1040 may evidence a change in use, and that a change in use is possible for properties under construction (i.e. a change in use is not limited to completed properties).

The amendments are effective for annual periods beginning on or after January 1, 2018 with earlier application permitted. Entities can apply the amendments either retrospectively (if this is possible without the use of hindsight) or prospectively.

#### 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 Group 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 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, broadened types of instruments that qualify as hedging instruments, the types of risk components of non-financial items that are eligible for hedge accounting and the change in 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.

In order to assess the financial impact of the first application of K-IFRS 1109, the Group conducted a preliminary assessment of the potential impact on the consolidated financial statements for 2017 based on current situation and available information as of December 31, 2017. The Group will analyze more specific financial impacts based on additional information in the future.

The general impact of the new standard on the consolidated financial statements is as follows:

### 1.1.1 Classification and measurement of financial assets

As of December 31, 2017, the Group retains loans and receivables amounting to ₩3,571,085 million, available-for-sale (“AFS”) financial assets amounting to ₩121,817 million and financial assets recognized as profit and loss in the current period amounting to ₩1,716 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, 2017, the Group measures loans and receivables amounting to ₩3,571,085 million as amortized costs.

When applying K-IFRS 1109 to the above financial assets as of December 31, 2017, 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 are classified as measured at amortized cost assets and it is judged that it does not have a significant impact on the consolidated 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, 2017, equity instruments classified as AFS financial assets of the Group are ₩121,817 million, and unrealized valuation profit and loss related to AFS equity instruments amounting ₩316 million are recycled to the current profit and loss during fiscal year 2017.

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

According to K-IFRS 1109, debt instruments, where cash flows on the basis of the terms of the contract do not consist of only interest on principal and principal balance and equity instruments, which are not designated as other comprehensive income - fair value measurement items, shall be measured as the current profit and loss - fair value. As of December 31, 2017, the Group retains ₩1,716 million of derivatives classified as financial assets recognized as profit and loss for current period and recognized changes in fair value amounting to ₩16,133 million as current profit during fiscal year 2017.

When applying K-IFRS 1109 to financial assets recognized as current profit and loss as of December 31, 2017, most are classified as current profit and loss - fair value measurement items; it is judged that the relevant financial assets have little impact on the consolidated financial statements.

### 1.1.2 Classification and measurement of financial liabilities

The Group recognized ₩12,626 million as current loss in accordance with the change in fair value related to the current profit and loss - fair value measurement financial liabilities, and designated ₩1,864 million as profit and loss - fair value measurement financial liabilities among ₩4,394,923 of financial liabilities as of December 31, 2017.

The financial liabilities recognized for the current profit and loss as of December 31, 2017, have mostly short terms of expiration, and fluctuation in the credit risk of financial liabilities is small; it is judged that the financial liabilities do not have a great impact on the consolidated 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 Group set loss allowances of ₩40,157 million for loans and receivables amounting to ₩3,571,085 million, whereas no allowances were set for equity securities amounting to ₩121,817 million, which is classified as AFS financial assets and measured at fair value through other comprehensive income.

As retaining loans and receivables have no significant financial elements, it is judged to have no significant difference with the loss allowances of the Group as of December 31, 2017.

### 1.1.4 Hedge accounting

When applying hedge accounting of K-IFRS 1109, hedge accounting can be applied to some transactions that do not qualify requirements for hedge accounting on current K-IFRS 1039, *Financial Instruments: Recognition and Measurement*, which may result in reduction on fluctuation of the current profit and loss.

As of December 31, 2017, the liability to which the Group applies hedge accounting is ₩268,737 million. By applying hedge accounting, during the fiscal year 2017, none was recognized as current profit and loss from the amount of change in fair value of fair value hedged item; ₩(184) million was recognized as current profit and loss and ₩427 million was recognized as other comprehensive income (loss) as amount of change in fair value of cash flow hedging instrument. As of December 31, 2017, the accumulated fair value change amount recognized as other comprehensive income (loss) of the cash flow hedging instrument is ₩(1,906) million.

### 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, with earlier application 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 Group intends to elect this standard for annual periods beginning on January 1, 2018 (date of initial application); however, the Group 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 a five-step revenue recognition model: (① Identify the contract with a customer, ② Identify the performance obligations in the contract, ③ Determine the transaction price, ④ Allocate the transaction price to the performance obligations in the contract and ⑤ Recognize revenue when (or as) the entity satisfies a performance obligation).

To prepare for the adoption of K-IFRS 1115, the Group has formed a task force (“TF”) team composed of employees of the finance department and an accounting firm. The TF team is in the process of preliminary assessment of the potential impact on the Group's application of K-IFRS 1115 through analyzing the current status and identifying issues related to revenue recognition based on the project contract status and information available to the Group,

the Group's plan to make accounting policy decision and process and system maintenance in the future. The results of the preliminary impact assessment currently underway will be further disclosed when the preliminary evaluation is completed in the future.

The general impact of the new standard on the consolidated financial statements is as follows:

#### 1.1 Identify the performance obligations in the contract

The Group has identified the performance obligations that are included in the various contracts being executed and, as a result of the distinction of performance obligations, some changes in revenue recognition expected and items are as follows:

##### 1.1.1 Performance obligation satisfied over time: Construction/Construction management, etc.

The Group has not been able to specifically analyze the financial impact of revenue recognition for construction/construction management, etc. However, as a result of an internal analysis on the contract, the Group considers that there is no problem with the enforceable right to payment that can be executed against the portion that has been completed so far. However, the timing of revenue recognition may be changed based on additional information available to the Group in the future, such as a whole investigation of contracts in the business sector.

##### 1.1.2 Input methods for measuring progress

The plant segment of the construction business of the Group includes plant construction contracts, including purchase and installation of special equipment, which generally proceed over a long period of time. The Group entrusts the production of special equipment to an outside company and installs equipment that is delivered; the supply of special equipment and rendering of construction service are indistinguishable performance obligations.

According to K-IFRS 1115, a faithful depiction of the Group's performance might be to recognize revenue at an amount equal to the cost of a good used to satisfy a performance obligation if the entity expects at contract inception that all of the following conditions would be met:

- (i) the good is not distinct;
- (ii) the customer is expected to obtain control of the good significantly before receiving services related to the good;
- (iii) the cost of the transferred good is significant relative to the total expected costs to completely satisfy the performance obligation; and
- (iv) the entity procures the good from a third party and is not significantly involved in designing and manufacturing the good.

The Group has not been able to specifically analyze the financial impact associated with the recognition of revenue from plant construction contracts. However, when applying K-IFRS 1115, if the cost of special equipments is not included in the calculation of progress and the amount equal to the cost is recognized as revenue, there may be a change in the recognition timing and transaction amount of the Group.

##### 1.1.3 Variable consideration

The Group's Business to Business purchasing unit allows returns from customers, which may change the payment received from the customer.

In applying K-IFRS 1115, the Group estimates variable consideration using the expected-value method that it expects to better anticipate the costs to which it is entitled, and recognizes revenue, which are included in the transaction price only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. The refund liability is measured at the amount of consideration received (or receivable) for which the Group does not expect to be entitled. However, the Group analyzed the frequency and amount of customer returns and as a result, there is no significant change in recognition of revenue.

#### 1.1.4 Warranties

The Group reviews the nature of the warranties included in the various contracts. As a result of determining the nature of free maintenance and repair fees included in the contract, such service-type warranties (for example, free maintenance that is given customary with the hardware), as additional services, are distinguished from the supply of goods, and we believe that it is necessary to separate them as a separate performance obligation. As such, regardless of the name of the contractual warranties, it is necessary to distinguish the warranties as a separate performance obligation that protects the customer from the defects that occur after the products and solutions are transferred to the customer.

#### 1.1.5 Licensing: Right to access and right to use

The Group determined that the licensing acquired functionality when combined with other goods or services rather than being distinguished independently as performance obligations. However, some licenses are likely to be distinguished as separate performance obligations, so there may be some impact on revenue recognition depending on the nature of right to access and right to use.

#### 1.2 Allocating the transaction price

K-IFRS 1115 requires to allocate the transaction price to each performance obligation on the basis of the relative stand-alone selling prices of each distinct good or service promised in the contract for various performance obligations identified in a single contract. The Group initially applies transaction price (directly observable stand-alone transaction price) for distinguished performance obligations on the basis of individual contracts; if the transaction price for different performance obligations cannot be distinguished, it is considered necessary to apply the projected cost-of-profit method (estimated by adding the profit ratio to estimated cost by contract).

#### 1.3 Costs to fulfil a contract

K-IFRS 1115 clarifies the concept of costs to fulfil a contract and the accounting method. According to this concept, the Group shall recognize an asset from the costs incurred to fulfil a contract only if those costs meet the requirements and shall be amortized on a systematic basis.

#### K-IFRS 1116—Leases

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accountings treatments for both lessors and lessees. IFRS 16 will supersede the current lease guidance including K-IFRS 1017 Leases and the related interpretations when it becomes effective.

K-IFRS 1116 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by model where a right-of-use asset and corresponding liability have to be recognized for all leases by lessees except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows will also be affected as operating lease payments under K-IFRS 1017 are presented as operating cash flows; whereas under the K-IFRS 1116 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

In contrast to lessee accounting, K-IFRS 1116 substantially carries forward the lessor accounting requirements in K-IFRS 1017, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by K-IFRS 1116.

As at 31 December 2017, the Group has non-cancellable operating lease commitments of 114,153 million won. K-IFRS 1017 does not require the recognition of any right-of-use asset or liability for future payments for these leases; instead, certain information is disclosed as operating lease commitments in note 32. A preliminary assessment indicates that these arrangements will meet the definition of a lease under K-IFRS 1116, and hence the Group will recognize a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of K-IFRS 1116. The new requirement to recognize a right-of use asset and a related lease liability is expected to have a significant impact on the amounts recognized in the Group's consolidated financial statements and the Group is currently assessing its potential impact.

In contrast, 1) for finance leases where the Group is a lessee and 2) in cases where the Group is a lessor, the Group do not anticipate that the application of K-IFRS 1116 will have a significant impact on the amounts recognized in the Group's consolidated financial statements.

#### K-IFRS 2122—Foreign Currency Transactions and Advance Consideration

The interpretation addresses how to determine the 'date of transaction' for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income, when consideration for that item has been paid or received in advance in a foreign currency which resulted in the recognition of a non-monetary asset or non-monetary liability (e.g. a non-refundable deposit or deferred revenue).

The interpretation specifies that the date of transaction is the date on which the entity initially recognizes the non-monetary asset on non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the interpretation requires an entity to determine the date of transaction for each payment or receipt of advance consideration.

The interpretation is effective for annual periods beginning on or after January 1, 2018 with earlier application permitted. Entities can apply the interpretation either retrospectively or prospectively. Specific transition provisions apply to prospective application.

The Group does not anticipate that the application of the amendments in the future will have an impact on the Group's consolidated financial statements because the Group already accounts for transactions involving the payment or receipt of advance consideration in a foreign currency in a way that is consistent with the amendments.

#### Annual Improvements to K-IFRS 2014-2016 Cycle

The Annual Improvements include amendments to K-IFRS 1101 First-time Adoption and K-IFRS 1028 Investment in Associates and Joint Ventures. The amendments to K-IFRS 1028 clarify that the option for a venture capital organization and other similar entities to measure investments in associates and joint ventures at FVTPL is available separately for each associate or joint venture, and that election should be made at initial recognition of the associate or joint venture. In respect of the option for an entity that is not an investment entity(IE) to retain the fair value measurement applied by its associates and joint ventures that are IEs when applying the equity method, the amendments make a similar clarification that this choice is available for each IE associate or IE joint venture. The amendments apply retrospectively with earlier application permitted.

Both the amendments to K-IFRS 1101 and 1028 are effective for annual periods beginning on or after January 1, 2018. The Group does not anticipate that the application of the amendments in the future will have any impact on the Group's consolidated financial statements as the Group is neither a first-time adopter of IFRS nor a venture capital organization. Furthermore, the Group does not have any associate or joint venture that is an investment entity.

The Group is currently reviewing the effect of these new and revised K-IFRSs on its consolidated financial statements.

## (2) Basis of preparing financial statements

### 1) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, except for certain non-current assets and financial instruments that are measured at revalued amounts or fair values, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

### 2) Functional and reporting currencies

The consolidated financial statements of the Group are presented in the currency of the primary economic environment in which the Group's entities operate (its functional currency). The Group's functional currency and the reporting currency for the consolidated financial statements is Korean won.

### 3) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Group. Control is achieved where the Group 1) has the power over the investee; 2) is exposed, or has rights, to variable returns from its involvement with the investee; and 3) has the ability to use its power to affect its returns. The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

When necessary, adjustments are made to the consolidated financial statements of subsidiaries to bring their accounting policies in line with those used by the Company.

All intragroup transactions, balances, income and expenses are eliminated in full on consolidation.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the owners of the Group.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill) and liabilities of the subsidiary and any non-controlling interests. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognized in other comprehensive income and accumulated in equity, the amounts previously recognized in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the relevant assets (i.e., reclassified to profit or loss or transferred directly to retained earnings). The fair value of any investment retained in the former subsidiary at the date when control is lost is recognized as the fair value on initial recognition for subsequent accounting under K-IFRS 1039, *Financial Instruments: Recognition and Measurement*, or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

4) The Group's investments in subsidiaries as of December 31, 2017, are as follows (Unit: Korean won in millions):

Subsidiary	Location	Closing date	Percentage of ownership and voting right held by the Group		As of and for the year ended December 31, 2017			
			Dec. 31, 2017	Dec. 31, 2016	Assets	Liabilities	Sales	Net income
Serveone Co., Ltd.	South Korea	12/31	100.00%	100.00%	₩ 3,852,058	₩ 2,935,974	₩ 5,710,036	₩ 102,341
Serveone (Nanjing) Co., Ltd.	China	12/31	100.00%	100.00%	322,079	240,480	637,260	13,543
Serveone Construction Co., Ltd.	China	12/31	100.00%	100.00%	143,632	123,305	246,240	16,165
Konjiam Yewon Co., Ltd.	South Korea	12/31	90.00%	90.00%	9,509	1,502	1,282	41
SERVEONE (Guangzhou) Co., Ltd.	China	12/31	100.00%	100.00%	89,921	65,707	207,668	8,309
SERVEONE VIETNAM Co., Ltd.	Vietnam	12/31	100.00%	100.00%	53,045	40,289	170,156	7,880
SERVEONE POLAND Sp.z.o.o.	Poland	12/31	100.00%	100.00%	25,347	22,717	56,298	2,627
Mirae M (*1)	South Korea	12/31	100.00%	-	9,788	52	-	(264)
Dream nuri (*1)	South Korea	12/31	100.00%	-	492	-	-	(8)
LG Siltron Inc. (*2)	South Korea	12/31	-	51.00%	-	-	-	-
LG Siltron America Inc. (*2)	USA	12/31	-	100.00%	-	-	-	-
LG Siltron Japan Inc. (*2)	Japan	12/31	-	100.00%	-	-	-	-
LG CNS Co., Ltd.	South Korea	12/31	84.95%	84.95%	2,015,095	1,105,252	2,388,652	89,166
LG N-Sys Inc.	South Korea	12/31	100.00%	100.00%	351,281	209,606	487,077	3,242
BizTechPartners Co., Ltd. (formerly BNE Partners, Co., Ltd.) (*3)	South Korea	12/31	95.35%	91.53%	27,090	13,657	98,314	3,434
LG CNS Philippines, Inc.	Philippines	12/31	100.00%	100.00%	-	3,188	-	-
LG CNS Europe B.V.	Netherlands	12/31	100.00%	100.00%	20,308	15,916	29,971	538
LG CNS America Inc.	USA	12/31	100.00%	100.00%	40,708	24,109	67,506	4,741
PT LG CNS Indonesia	Indonesia	12/31	100.00%	100.00%	3,549	5,740	13,416	(428)
Entrue Brasil Services de T.I. Ltda.	Brazil	12/31	100.00%	100.00%	1,163	407	4,101	40

Subsidiary	Location	Closing date	Percentage of ownership and voting right held by the Group		As of and for the year ended December 31, 2017			
			Dec. 31, 2017	Dec. 31, 2016	Assets	Liabilities	Sales	Net income
LG CNS UCESS Philippines, Inc.	Philippines	12/31	100.00%	100.00%	83	-	-	-
LG CNS China, Inc.	China	12/31	100.00%	100.00%	82,735	54,229	129,577	8,825
LG CNS Shenyang Inc. (*4)	China	12/31	-	100.00%	-	-	-	-
LG CNS India Pvt., Ltd.	India	12/31	100.00%	100.00%	8,002	7,333	10,238	380
LG CNS Colombia SAS	Colombia	12/31	100.00%	100.00%	21,196	16,727	13,067	(1,262)
SBI-LG Systems Co., Ltd.	Japan	12/31	51.00%	51.00%	4,709	61	20,393	(237)
Korea Elecom Co., Ltd.	South Korea	12/31	93.93%	93.93%	9,833	12,269	24,081	(327)
LG CNS Malaysia Sdn Bhd	Malaysia	12/31	100.00%	100.00%	6,776	7,551	11,198	(936)
LG CNS Saudi Arabia LLC	Saudi Arabia	12/31	51.00%	51.00%	53	14	-	(125)
LG CNS JAPAN, Co., Ltd.	Japan	12/31	100.00%	100.00%	31,483	22,538	103,345	5,940
Collain Healthcare, LLC	USA	12/31	70.00%	70.00%	1,334	9,968	4,206	(3,560)
LG CNS Chile Ltda. (*4)	Chile	12/31	-	-	-	-	-	-
LG CNS Uzbekistan, LLC	Uzbekistan	12/31	51.00%	51.00%	2,131	2,372	5,580	(623)
Haengbokmaru Co., Ltd.	South Korea	12/31	100.00%	100.00%	891	157	1,500	159
BizTechPartners Co., Ltd. (*5)	South Korea	12/31	-	100.00%	-	-	-	-
LG CNS VIETNAM CO., LTD. (*1)	Vietnam	12/31	100.00%	-	18,064	16,529	28,180	1,393
LG Sports Ltd.	South Korea	12/31	100.00%	100.00%	129,200	44,556	62,002	(3,474)
LG Management Development Institute	South Korea	12/31	100.00%	100.00%	92,056	56,474	80,631	1,762
Lusem Co., Ltd.	South Korea	12/31	67.96%	67.96%	109,790	41,291	128,991	5,594
LG Holdings Japan Co., Ltd.	Japan	12/31	100.00%	100.00%	237,493	47,956	8,309	2,960
LG Corp. U.S.A. (*1)	USA	12/31	100.00%	-	119,418	12,596	-	(335)

(\*1) Established during current period.

(\*2) Disposed during current period. (see Note 36)

(\*3) Merged with BizTechPartners Co., Ltd. and changed its name to BizTechPartners Co., Ltd. during current period.

(\*4) Disposed during current period.

(\*5) Merged with the BNE Partners, Co., Ltd. during the current period.

5) As of December 31, 2017, the consolidated financial position and the share of non-controlling interests of major subsidiaries that have non-controlling interests are as follows (Unit: Korean won in millions):

	LG CNS Co., Ltd.	
Current assets	₩	1,466,670
Non-current assets		893,040
Total assets		2,359,710
Current liabilities		999,421
Non-current liabilities		339,907
Total liabilities		1,339,328
Equity attributable to owners of the Company		1,020,290
Equity attributable to non-controlling interests		92
Total equity	₩	1,020,382

6) For the year ended December 31, 2017, the consolidated financial performances of major subsidiaries that have non-controlling interests are as follows (Unit: Korean won in millions):

	LG CNS Co., Ltd.		LG Siltron Inc.(*)	
Revenue	₩	3,003,212	₩	604,217
Operating income (loss)		215,650		71,890
Profit or loss of discontinued operations		(18,769)		-
Profit (loss) for the year		100,105		43,963
Other comprehensive income (loss)		(3,324)		(774)
Total comprehensive income for the year	₩	96,781	₩	43,189

(\*) LG Siltron Co., Ltd. was sold and excluded from the consolidated financial statements (see Note 36).

The profit or loss is recognized in profit or loss before disposal and classified as discontinued operations.

7) For the year ended December 31, 2017, the consolidated cash flows of major subsidiaries that have non-controlling interests are as follows (Unit: Korean won in millions):

	LG CNS Co., Ltd.		LG Siltron Inc.(*)	
Cash flows from operating activities	₩	190,136	₩	181,117
Cash flows from investing activities		(188,378)		(56,414)
Cash flows from financing activities		(25,768)		(135,431)
Net change in cash and cash equivalents		(24,010)		(10,728)
Cash and cash equivalents at the beginning of year		381,558		116,397
Effects of exchange rate changes on the balance of cash held in foreign currencies		(4,991)		(269)
Cash and cash equivalents at the end of year	₩	352,557	₩	105,400

(\*) LG Siltron Co., Ltd. was sold and excluded from the consolidated financial statements (see Note 36).

The profit or loss is recognized in profit or loss before disposal and classified as discontinued operations

8) The ownership interest held by non-controlling interests and details of financial position, results of operation and dividends vested in non-controlling interests by each of the major subsidiaries are as follows (in millions of Korean won):

	LG CNS Co., Ltd.	
Ownership interest held by non-controlling interests		15.05%
Cumulative non-controlling interests	₩	153,621
Net income (loss) vested in non-controlling interests		13,852
Comprehensive income vested in non-controlling interests		13,438
Dividends paid to non-controlling interests	₩	2,165

### (3) Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognized in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognized and measured in accordance with K-IFRS 1012 and K-IFRS 1019, respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered in to replace share-based payment arrangements of the acquiree are measured in accordance with K-IFRS 1102, *Share-Based Payment*, at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with K-IFRS 1105, *Non-Current Assets Held for Sale and Discontinued Operations*, are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of a) the consideration transferred, b) the amount of any non-controlling interests in the acquiree and c) the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of a) the consideration transferred, b) the amount of any non-controlling interests in the acquiree and c) the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another K-IFRS.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement-period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement-period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement-period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with K-IFRS 1039 or K-IFRS 1037, *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e., the date when the Group obtains control) and the resulting gain or loss, if any, is recognized in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date, that have previously been recognized in other comprehensive income, are reclassified to profit or loss where such treatment would be appropriate if that interest was disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

#### (4) Foreign currency translation

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results of operations and financial position of each group entity are expressed in Korean won, which is the functional currency of the entity and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency ("foreign currencies") are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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

For the purpose of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in Korean won using exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate). On the disposal of a foreign operation (i.e., a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the accumulated exchange differences in respect of that operation attributable to the owners of the Group are reclassified to profit or loss. Any exchange differences that have previously been attributed to non-controlling interests are derecognized, but they are not reclassified to profit or loss.

In the case of a partial disposal (i.e., no loss of control) of a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are reattributed to non-controlling interests in equity and are not recognized in profit or loss. For all other partial disposals (i.e., partial disposals of associates or joint arrangements that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate. Exchange differences arising are recognized in other comprehensive income.

#### (5) 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 the date of acquisition). Bank overdraft is accounted for as short-term borrowings.

#### (6) 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 the delivery of the financial asset within the time frame established by the market concerned and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss ("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 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 at FVTPL.

##### 2) Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is a 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 in the near term;
- on initial recognition, it is part of a portfolio of identified financial instruments that the Group 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 Group'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 permits 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 Group has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are measured at amortized cost using the effective interest method, less any impairment, with revenue recognized on an effective yield basis.

### 4) Financial assets AFS

Non-derivative financial assets that are not classified as held to maturity or held for trading, designated as at FVTPL or loans and receivables are classified as financial assets AFS. Financial assets can be designated as AFS 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 Group's right to receive the dividends is established.

The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate 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 and 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 an objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

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 assets, 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 Group's past experience of collecting payments and 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 assets 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 that 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.

#### 7) Derecognition of financial assets

The Group 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 Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognize a collateralized borrowing for the proceeds received.

#### (7) Inventories

Inventories are stated at the lower of cost or net realizable value. Cost of inventories, except for those in transit, is measured under the weighted-average method and consists of the purchase price, cost of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realizable value represents the estimated selling price for inventories, less all estimated costs of completion and costs necessary to make the sale.

The carrying amount of inventories sold in the period and the amount of any write-down of inventories to net realizable value and all losses of inventories in the period, less the amount of any reversal in the period of any write-down of the inventories, arising from an increase in net realizable value, is recognized as expense during that period.

#### (8) Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but does not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results of operations and assets and liabilities of associates or joint ventures are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with K-IFRS 1105 *Non-current Assets Held for Sale and Discontinued Operations*. Under the equity method, an investment in an associate or a joint venture is initially recognized in the consolidated statements of financial position at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. When the Group's share of losses in an associate or a joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate or a joint venture recognized at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

Upon disposal of an associate or a joint venture that results in the Group losing significant influence over that associate or joint venture, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with K-IFRS 1039. The difference between the previous carrying amount of the associate or joint venture attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognized in other comprehensive income in relation to that associate or joint venture on the same basis we would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognized in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as reclassification adjustment) when it loses significant influence over that associate or joint venture.

When the Group reduces its ownership interest in an associate or a joint venture, but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognized in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities. In addition, the Group applies K-IFRS 1105 to a portion of investment in an associate or a joint venture that meets the criteria to be classified as held for sale.

The requirements of K-IFRS 1039 *Financial Instruments: Recognition and Measurement* are applied to determine whether it is necessary to recognize any impairment loss with respect to the Group's investment in an associate or a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with K-IFRS 1036, *Impairment of Assets*, by comparing its recoverable amount (higher of value in use or fair value, less costs to sell) with its carrying amount; any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with K-IFRS 1036 to the extent that the recoverable amount of the investment subsequently increases.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

When a group entity transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognized in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

#### (9) Interests in joint operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement that exists only when decisions about the relevant activities require unanimous consent of the parties' sharing control.

When a group entity undertakes its activities under joint operations, the Group as a joint operator recognizes in relation to its interest in a joint operation:

- its assets, including its share of any assets held jointly;
- its liabilities, including its share of any liabilities incurred jointly;
- its revenue from the sale of its share of the output arising from the joint operation;
- its share of the revenue from the sale of the output by the joint operation; and
- its expenses, including its share of any expenses incurred jointly.

The Group accounts for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the K-IFRSs applicable to the particular assets, liabilities, revenues and expenses.

When a group entity transacts with a joint operation in which a group entity is a joint operator (such as a sale or contribution of assets), the Group is considered to be conducting the transaction with the other parties to the joint operation, and gains and losses resulting from the transactions are recognized in the Group's consolidated financial statements only to the extent of other parties' interests in the joint operation.

When a group entity transacts with a joint operation in which a group entity is a joint operator (such as a purchase of assets), the Group does not recognize its share of the gains and losses until it resells those assets to a third party.

#### (10) Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business, less accumulated impairment losses, if any (see Note 2.(3)).

A cash-generating unit to which goodwill has been allocated is tested for impairment annually or, more frequently, when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in profit or loss in the consolidated statements of comprehensive income. An impairment loss recognized for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

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

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

Subsequent costs are recognized in 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 Group and the cost of an asset can be measured reliably. Routine maintenance and repairs are expensed as incurred.

The Group does not depreciate land. Depreciation expense 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	10–50
Structures	5–40
Machinery	4–15
Other property	2–25

If each part of an item of property, plant and equipment has a cost that is significant in relation to the total cost of the item, it is depreciated separately.

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

#### (12) Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes). Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. Gains and losses arising from changes in the fair value of investment properties are included in profit or loss in the period in which they arise.

An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. 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.

While land is not depreciated, all other investment properties are depreciated based on the respective assets' estimated useful lives ranging from 5 to 50 years using the straight-line method.

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

#### (13) Intangible assets

##### 1) Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost, less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost, less accumulated impairment losses.

##### 2) Internally generated intangible assets - research and development expenditure

Expenditure on research activities is recognized as an expense in the period in which it is incurred.

An internally generated intangible asset arising from development (or from the development phase of an internal project) is recognized if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and

- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognized for internally generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally generated intangible asset can be recognized, development expenditure is recognized in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally generated intangible assets are reported at cost, less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

### 3) Intangible assets acquired in a business combination

Intangible assets that are acquired in a business combination are recognized separately from goodwill and are initially recognized at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost, less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

### 4) 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.

## (14) Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group 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 or value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pretax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or 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. An impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

## (15) 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 its liabilities. Equity instruments issued by the Group are recognized at the proceeds received, net of direct issue costs.

## 3) Financial liabilities

Financial liabilities are recognized when the Group becomes a party to the contractual provisions of the instruments. Financial liabilities are initially measured at fair value. Transaction cost that is directly attributable to the issue of financial liabilities is deducted from the fair value of the financial liabilities on initial recognition. Transaction cost directly attributable to acquisition of financial liabilities at FVTPL is 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 a 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 in the near term;
- on initial recognition, it is part of a portfolio of identified financial instruments that the Group 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 Group'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 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 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 instrument.

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; and
- the amount initially recognized, less cumulative amortization recognized in accordance with the K-IFRS 1018., Revenue

#### 7) Derecognition of financial liabilities

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, canceled or expired.

#### (16) Leases

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

##### 1) The Group as lessor

Amounts due from lessees under finance leases are recognized as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods, so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

##### 2) The Group as lessee

Assets held under finance leases are initially recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statements of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Group's general policy on borrowing costs (see 2.(17)). Contingent rentals are recognized as expenses in the periods in which they are incurred.

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

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability.

The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

#### (17) Borrowing costs

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

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

#### (18) Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including foreign exchange forward contracts, interest rate swaps and cross-currency swaps.

Derivatives are initially recognized at fair value at the date the derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately, unless the derivative is designated and effective as a hedging instrument, in which case the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Group designates certain derivatives as either hedges of recognized assets or liabilities or firm commitments (fair value hedges), hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges) or hedges of net investments in foreign operations (net investment hedges).

A derivative with a positive fair value is recognized as a financial asset; a derivative with a negative fair value is recognized as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realized or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

##### 1) Embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

An embedded derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the hybrid instrument to which the embedded derivative relates is more than 12 months, and it is not expected to be realized or settled within 12 months. Other embedded derivatives are presented as current assets or current liabilities.

##### 2) Hedge accounting

The Group designates certain hedging instruments, which include derivatives, embedded derivatives and non-derivatives with respect to foreign currency risk, as either fair value hedges, cash flow hedges or hedges of net investments in foreign operations. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

At the inception of the hedge relationship, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions.

Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item.

##### 3) Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognized in the line item of the consolidated statements of comprehensive income related to the hedged item.

Hedge accounting is discontinued when the Group revokes the hedging relationship; when the hedging instrument expires or is sold, terminated or exercised; or when it no longer qualifies for hedge accounting. The fair value

adjustment to the carrying amount of the hedged item arising from the hedged risk is amortized to profit or loss from that date.

#### 4) Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss.

Amounts previously recognized in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognized in profit or loss in the same line item of the consolidated statements of comprehensive income as the recognized hedged item. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the Group revokes the hedging relationship; when the hedging instrument expires or is sold, terminated or exercised; or it no longer qualifies for hedge accounting. Any gain or loss accumulated in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit or loss.

#### (19) Employee benefits

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

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 consolidated 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 and past service cost, as well as gains and losses on curtailments and settlements), net interest expense (income) and remeasurement.

The Group 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 consolidated statements of financial position represents the actual deficit or surplus in the Group'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.

#### (20) Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive); as a result of a past event, it is probable that the Group 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).

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.

#### 1) Onerous contracts

Present obligations arising under onerous contracts are recognized and measured as provisions. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract.

#### 2) Warranties

Provisions for the expected cost of warranty obligations under local sale of goods legislation are recognized at the date of sale of the relevant products, at the directors' best estimate of the expenditure required to settle the Group's obligation.

#### (21) Government grants

Government grants are not recognized until there is a reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognized in profit or loss on a systematic basis over the periods in which the Group recognizes as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognized as deferred revenue in the consolidated statements of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognized in profit or loss in the period in which they become receivable.

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

#### (22) 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 Group recognizes revenue when it is reliably measurable and the inflows of future economic benefits are likely. For each type of revenue, the Group recognizes it as follows:

##### 1) Sale of goods

The Group recognizes revenue from sale of goods when significant risks and rewards from ownership of goods have been transferred, and retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods. Therefore, the Group recognizes revenue for the manufactured goods at acceptance and merchandises at delivery. Revenue is recognized, net of discounts, and returns derived from previous experience and provision are set for estimated return amounts, and if the past experience reveals that the return amounts or the return policy is immaterial, the gross sales amount will be recognized as revenue.

## 2) Rendering of service

The Group recognizes revenue from rendering service by the progress standards. The Group estimates the percentage of completion using surveys of work performed, services performed to date as a percentage of total services to be performed and the proportion of costs incurred to date in order to reliably measure the rendered services.

## 3) Construction contracts

Where the outcome of a construction contract can be estimated reliably, revenues and costs are recognized by reference to the stage of completion of the contract activity at the end of the reporting period, measured based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and their receipt is considered probable.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized to the extent it is probable that contract costs incurred will be recoverable. Contract costs are recognized as expenses in the period in which they are incurred.

When the outcome of a construction contract can be estimated reliably, contract revenue and contract costs associated with the construction contract shall be recognized as revenue and expenses by reference to the stage of completion of the contract activity at the reporting date. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.

Where contract costs incurred to date, plus recognized profits, less recognized losses exceed progress billings, the surplus is shown as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date, plus recognized profits, less recognized losses, the surplus is shown as the amount due to customers for contract work. Amounts received before the related work is performed are included in the consolidated statements of financial position, as a liability, as advances received. Amounts billed for work performed, but not yet paid by the customer, are included in the consolidated statements of financial position under trade and other receivables.

## 4) Dividend income and interest income

Dividend income from investments is recognized when the shareholders' right to receive payment has been established. Interest income is accrued on a timely basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that of the asset's net carrying amount on initial recognition.

## 5) Royalty revenue

Royalty revenue is recognized on an accrual basis in accordance with the substance of the relevant agreement.

## 6) Rental income

The Group's policy for recognition of revenue from operating leases is summarized in Note 2. (16).

## (23) Current and deferred taxes

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

### 1) Current tax

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

## 2) Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent 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.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent it is probable that there will be sufficient taxable profits against which benefits of the temporary differences can be utilized and they are expected to reverse in the foreseeable future.

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

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

Deferred tax assets and liabilities are offset if, and only if, the Group 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.

## 3) Current and deferred taxes for the year

Current and deferred taxes are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case the current and deferred taxes are also recognized in other comprehensive income or directly in equity, respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

### (24) Treasury stock

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

### (25) Assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continued use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition. Management must commit to a plan to sell the assets and is expected to meet the requirements within one year's time.

If the Group commits to a plan to sell assets to lose control of a subsidiary, then all the assets and liabilities of that subsidiary are classified as held for sale when the above-mentioned conditions are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

When the Group is committed to a sale plan involving disposal of an investment, or a portion of an investment, in an associate or joint venture, the investment or the portion of the investment that will be disposed of is classified as held for sale when the criteria described above are met, and the Group discontinues the use of the equity method in relation to the portion that is classified as held for sale. Any retained portion of an investment in an associate or a joint venture that has not been classified as held for sale continues to be accounted for using the equity method. The Group discontinues the use of the equity method at the time of disposal when the disposal results in the Group losing significant influence over the associate or joint venture.

After the disposal takes place, the Group accounts for any retained interest in the associate or joint venture in accordance with K-IFRS 1039 *Financial Instruments: Recognition and Measurement*, unless the retained interest continues to be an associate or a joint venture, in which case the Group uses the equity method.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value, less costs to sell.

#### (26) 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 Group 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 consolidated 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 Group's 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.

(1) Uncertainties of contract revenue estimates

Total contract revenue is measured based on the contract amount initially agreed upon; however, the measurement of contract revenue is subject to various uncertainties related to the outcome of future events, as the amount may be increased or decreased as the terms of the contract change in the course of performing the contract. The Group includes in the contract revenue when the customer is more likely to approve the change in the amount of revenue due to changes in the terms of the contract or if it is more likely than not that the performance criteria will be met and the amount can be reliably measured.

(2) Estimated total contract costs

The amount of construction revenues is affected by the stage of completion measured based on the contract costs incurred to date, and total contract costs are estimated based on future expectations, such as material costs, labor costs and project duration. The Group periodically reviews whether there is a significant change in the estimated total contract cost and reflects the changes in the stage of progress at the end of the reporting period.

#### 4. SEGMENT INFORMATION:

(1) The Group divides its business into four business segments based on the types of goods sold and/or services rendered and information reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance focus on the type of goods or services delivered or provided. The four business segments are LG Corp., Serveone Co., Ltd., LG CNS Co., Ltd. and others. The Group's primary segment information is reported based on the business segments and each segment's accounting policies are the same as the ones described in Note 2. Meanwhile, LG Siltron Co., Ltd. (currently SK Siltron Co., Ltd.), which was sold off during the current period, was classified as discontinued operations and excluded from the operating segment disclosure.

(2) Revenue and equity method profits and profit before income tax for each business segment for the years ended December 31, 2017 and 2016, are as follows (Unit: Korean won in millions):

Reporting sector	Business sector	Revenue and gain (loss) on valuation by equity method (*1)		Profit before income tax (*2)	
		Year ended December 31,	Year ended December 31,	Year ended December 31,	Year ended December 31,
		2017	2016	2017	2016
LG Corp.	LG Corp.	₩ 714,844	₩ 614,003	₩ 1,119,058	₩ 430,974
Serveone Co., Ltd.	MRO	3,198,998	2,876,900	122,830	101,171
	MRO and others	2,511,038	1,901,103	53,254	31,521
	Serveone (Nanjing) Co., Ltd.	637,260	623,222	18,355	18,642
	Serveone Construction Co., Ltd.	246,240	98,176	21,124	8,199
	KONJAM YEWON Co., Ltd.	1,282	2,358	45	70
	Serveone Guangzhou Co., Ltd.	207,668	190,310	11,162	7,925
	SERVEONE VIETNAM Co., Ltd.	170,156	47,816	7,887	1,183
	SERVEONE POLAND Sp.z o. o. (*3)	56,298	9,508	2,627	(275)
	Dream nuri (*4)	-	-	(8)	-
	Mirae M (*4)	-	-	(264)	-
LG CNS Co., Ltd.	LG CNS Co., Ltd.	2,388,652	2,150,462	166,793	151,583
	LG CNS China, Inc.	129,577	145,964	11,781	10,784
	LG CNS Europe B.V.	29,971	29,342	893	(76)
	LG CNS America, Inc.	67,506	74,440	5,007	2,856
	LG CNS India Pvt., Ltd.	10,238	9,973	382	(952)
	PT LG CNS Indonesia	13,416	16,684	(368)	(183)
	Entrue Brasil Servicos de T.I Ltda.	4,101	3,441	313	473
	BizTechPartners Co., Ltd. (previous BNE	98,314	65,698	4,408	1,664

Partners, Co., Ltd.) (*5)				
Ucess Partners Co., Ltd. (*6)	-	32,881	-	425
LG CNS Shenyang Inc. (*7)	-	481	-	(435)
LG N-Sys Co., Ltd.	487,077	686,908	4,970	5,075
SBI-LG Systems Co., Ltd.	20,393	39,974	(213)	1,296
Korea Elecom Co., Ltd.	24,081	20,500	(327)	(4,381)
LG CNS Colombia SAS	13,067	13,244	(528)	740
Oneseen Skytech (*8)	-	27	-	(396)
LG CNS Malaysia Sdn Bhd	11,198	9,431	(868)	(164)
LG CNS Saudi Arabia LLC	-	-	(129)	(1,018)
LG CNS JAPAN Co., Ltd.	103,345	25,686	9,323	(3,870)
Collain Healthcare, LLC	4,206	1,842	(3,560)	(4,022)
LG CNS UZBEKISTAN, LLC	5,580	5,896	(623)	(1,027)
Haengbokmaru Co., Ltd. (*3)	1,500	141	159	(125)
BizTechPartners Co., Ltd. (*5)	-	3,061	-	449
LG CNS VIETNAM Co., Ltd (*4)	28,180	-	1,393	-
LG Sports Ltd.	62,002	50,193	(3,474)	(4,315)
LG Holdings Japan Co., Ltd.	8,309	8,818	4,458	4,959
LG Management Development Institute	80,631	81,350	2,379	3,068
LG Corp. U.S.A. (*4)	-	-	(463)	-
Subtotal	11,335,128	9,839,833	1,557,776	761,818
Consolidation adjustments (*9)	505,930	(165,946)	1,183,530	528,676
Total	₩ 11,841,058	₩ 9,673,887	₩ 2,741,306	₩ 1,290,494

(\*1) Sales for each segment are before elimination of any intercompany transactions.

(\*2) Profit before income tax for each segment is net profit before distribution of revenue and expenses.

(\*3) Established during previous period.

(\*4) Established during current period.

(\*5) Merged with BizTechPartners Co., Ltd. and changed its name to BizTechPartners Co., Ltd. during the current period.

(\*6) Carved out and sold during previous period.

(\*7) Disposed during current period.

(\*8) Merged into LG CNS Co., Ltd., a parent company, during the previous period; the profit or loss of the segment was the amount incurred before the merger.

(\*9) Consolidation adjustments consist of elimination of intercompany transactions with regard to assets of each segment and valuation of associates and joint ventures using the equity method.

(3) Assets for each business segment of the Group as of December 31, 2017 and 2016, are as follows  
(Unit: Korean won in millions):

Business sector	December 31, 2017	December 31, 2016
LG Corp.	₩ 9,238,892	₩ 8,360,423
Serveone Co., Ltd.	4,505,872	3,436,700
LG Siltron Inc. (*1)	-	1,253,680
LG CNS Co., Ltd.	2,646,484	2,619,851
Others	687,958	557,638
Subtotal	17,079,206	16,228,292
Consolidation adjustments (*2)	4,459,123	3,261,150
Assets shown in the assets held for sale (*3)	109,368	-
Total	₩ 21,647,697	₩ 19,489,442

(\*1) Excluded from the scope of consolidation due to selling the disposal to SK Corporation during the current period (see Note 36).

(\*2) Consolidation adjustments consist of elimination of intercompany transactions with regard to assets of each segment and valuation of associates and joint ventures using the equity method.

(\*3) Assets of the Lusem Co., Ltd. (see Note 38)

- (4) Inventories sold and services rendered for each business segment of the Group for the years ended December 31, 2017 and 2016, are as follows (Unit: Korean won in millions):

Business sector	Inventories sold and services rendered	Year ended December 31, 2017	Year ended December 31, 2016
LG Corp.	Others	₩ 714,844	₩ 614,003
Serveone Co., Ltd.	Merchandise	4,156,244	3,723,218
	Service	853,163	744,512
	Construction	1,996,327	1,259,526
	Others	23,206	22,137
LG CNS Co., Ltd.	Service	1,319,376	1,376,950
	Construction	1,309,386	1,028,669
	Merchandise	787,588	909,930
	Manufactured goods	24,052	20,527
Others	Service	80,631	81,317
	Others	70,311	59,044
Subtotal		11,335,128	9,839,833
Consolidation adjustments (*)		505,930	(165,946)
Total		₩ 11,841,058	₩ 9,673,887

- (\*) Consolidation adjustments consist of elimination of intercompany transactions with regard to assets of each segment and valuation of associates and joint ventures using the equity method.

- (5) Regional revenue of the Group before elimination of intersegment transactions and valuation by equity method for the years ended December 31, 2017 and 2016, are as follows (Unit: Korean won in millions):

Business sector	December 31, 2017	December 31, 2016
Korea	₩ 9,568,060	₩ 8,485,259
China	1,221,003	1,058,478
Other Asia	370,917	164,279
America	88,879	92,966
Europe	86,269	38,851
Total	₩ 11,335,128	₩ 9,839,833

- (6) Regional non-current assets of the Group before elimination of intersegment transactions and valuation by equity method for the years ended December 31, 2017 and 2016, are as follows (Unit: Korean won in millions):

Business sector	December 31, 2017	December 31, 2016
Korea	₩ 10,696,424	₩ 10,600,347
China	28,839	29,192
Other Asia	233,637	205,772
America	107,369	8,772
Europe	1,541	2,018
Subtotal	11,067,810	10,846,101
Assets held for sale(*)	38,958	-
Total	₩ 11,106,768	₩ 10,846,101

- (\*) Non-current assets of the Lusem Co., Ltd. (see Note 38)

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

(1) The carrying amount and fair value of financial assets and liabilities as of December 31, 2017 and 2016, are as follows (Unit: Korean won in millions):

### 1) Financial assets

Financial assets	Account	December 31, 2017		December 31, 2016	
		Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents:	Cash and cash equivalents	₩ 1,309,949	₩ 1,309,949	₩ 1,129,035	₩ 1,129,035
Financial assets at FVTPL:	Derivative assets for trading purposes	1,716	1,716	1,376	1,376
Derivative assets designated as hedging instrument:	Derivative assets designated as hedging instruments	82	82	-	-
AFS financial assets:	Marketable equity securities	46,875	46,875	29,595	29,595
	Unmarketable equity securities (*)	74,942	74,942	61,448	61,448
	Debt securities	-	-	-	-
	Subtotal	121,817	121,817	91,043	91,043
Loans and receivables:	Financial institution deposits	438,214	438,214	206,845	206,845
	Trade receivables	3,049,038	3,049,038	2,568,467	2,568,467
	Loans	10,367	10,367	36,666	36,666
	Other accounts receivable	50,106	50,106	28,672	28,672
	Accrued income	3,270	3,270	3,116	3,116
	Deposits	20,090	20,090	20,835	20,835
	Subtotal	3,571,085	3,571,085	2,864,601	2,864,601
	Total	₩ 5,004,649	₩ 5,004,649	₩ 4,086,055	₩ 4,086,055

(\*) The unlisted stocks that are AFS equity investments and 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, 2017		December 31, 2016	
		Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities at FVTPL:	Derivative liabilities for trading purposes	₩ 1,864	₩ 1,864	₩ 3,820	₩ 3,820
Derivative liabilities designated as hedging instrument:	Derivative liabilities designated as hedging instruments	118	118	639	639
Financial liabilities measured at amortized cost:	Trade payables	2,261,617	2,261,617	1,635,402	1,635,402
	Borrowings	285,328	285,328	729,948	729,948
	Other accounts payable	140,293	140,293	190,829	190,829
	Accrued expenses	188,312	188,312	159,838	159,838
	Accrued dividends	328	328	316	316
	Deposits received	409,734	408,223	516,175	524,132
	Debentures	1,107,329	1,101,269	1,147,622	1,150,827
	Subtotal	4,392,941	4,385,370	4,380,130	4,391,292
	Total	₩ 4,394,923	₩ 4,387,352	₩ 4,384,589	₩ 4,395,751

## 6. CASH AND CASH EQUIVALENTS:

The cash and cash equivalents in the consolidated statements of cash flows are the same as the cash and cash equivalents in the consolidated statements of financial position. Details of cash and cash equivalents as of December 31, 2017 and 2016, are as follows (Unit: Korean won in millions):

Description	December 31, 2017	December 31, 2016
Cash on hand	₩ 506	₩ 3,428
Bank deposits	954,876	801,935
Other cash equivalents	354,567	323,672
Subtotal	1,309,949	1,129,035
Assets held for sale	32,922	-
Total	₩ 1,342,871	₩ 1,129,035

## 7. TRADE AND OTHER RECEIVABLES:

- (1) Details of trade and other receivables before deducting accumulated impairment losses as of December 31, 2017 and 2016, are as follows (Unit: Korean won in millions):

December 31, 2017						
Description	Receivables neither impaired nor overdue	Receivables overdue but not impaired	Impaired receivables	Total	Consolidated adjustment	Consolidated
Trade receivables	₩ 3,220,991	₩ 160,493	₩ 27,722	₩ 3,409,206	₩ (333,680)	₩ 3,075,526
Other receivables	135,402	10,194	16,044	161,640	(64,139)	97,501
Total	₩ 3,356,393	₩ 170,687	₩ 43,766	₩ 3,570,846	₩ (397,819)	₩ 3,173,027

  

December 31, 2016						
Description	Receivables neither impaired nor overdue	Receivables overdue but not impaired	Impaired receivables	Total	Consolidated adjustment	Consolidated
Trade receivables	₩ 2,704,999	₩ 124,150	₩ 27,907	₩ 2,857,056	₩ (260,654)	₩ 2,596,402
Other receivables	141,339	10,683	17,427	169,449	(65,759)	103,690
Total	₩ 2,846,338	₩ 134,833	₩ 45,334	₩ 3,026,505	₩ (326,413)	₩ 2,700,092

- (2) Aging of trade and other receivables that are overdue but not impaired as of December 31, 2017 and 2016, are as follows (Unit: Korean won in millions):

Description	December 31, 2017	December 31, 2016
1-29 days	₩ 53,906	₩ 41,795
30-60 days	14,949	13,234
61-90 days	10,760	7,171
91-120 days	15,991	5,198
More than 121 days	75,081	67,435
Total	₩ 170,687	₩ 134,833

- (3) Changes in accumulated impairment losses for the years ended December 31, 2017 and 2016, are as follows  
(Unit: Korean won in millions):

Description	December 31, 2017		December 31, 2016	
	Trade receivables	Other receivables	Trade receivables	Other receivables
Beginning balance	₩ 27,935	₩ 14,401	₩ 18,639	₩ 14,068
Impairment loss	10,000	900	10,917	704
Disposals of accounts receivable	(4,986)	(1,228)	(1,569)	(14)
Collection of accounts receivable	-	-	(22)	(11)
Reversal of allowance for doubtful accounts	(473)	(460)	(18)	(346)
Effect of foreign currency translation	(200)	-	(12)	-
Others	(2,117)	72	-	-
Assets held for sale	(3,671)	(17)	-	-
Ending balance	₩ 26,488	₩ 13,668	₩ 27,935	₩ 14,401

- (4) Aging of impaired trade and other receivables as of December 31, 2017 and 2016, are as follows  
(Unit: Korean won in millions):

Description	December 31, 2017	December 31, 2016
Less than 7 months	₩ 1,068	₩ 1,424
7-12 months	333	1,215
More than 1 year	42,365	42,695
Total	₩ 43,766	₩ 45,334

## 8. INVENTORIES:

Details of inventories as of December 31, 2017 and 2016, are as follows (Unit: Korean won in millions):

Description	December 31, 2017		
	Acquisition cost	Carrying amount	Valuation allowance
Merchandise	₩ 103,126	₩ 100,518	₩ (2,608)
Finished goods	-	-	-
Semifinished goods	-	-	-
Work in progress	59	59	-
Raw materials	6,210	5,240	(970)
Stored goods	222	222	-
Inventories in transit	3,826	3,826	-
Other inventories	648	124	(524)
Total	₩ 114,091	₩ 109,989	₩ (4,102)

  

Description	December 31, 2016		
	Acquisition cost	Carrying amount	Valuation allowance
Merchandise	₩ 81,901	₩ 78,434	₩ (3,467)
Finished goods	53,040	39,794	(13,246)
Semifinished goods	15,794	13,934	(1,860)
Work in progress	18,621	17,284	(1,337)
Raw materials	91,676	87,981	(3,695)
Stored goods	38,523	35,114	(3,409)
Inventories in transit	46,131	46,131	-
Other inventories	4,443	4,185	(258)
Total	₩ 350,129	₩ 322,857	₩ (27,272)

## 9. OTHER ASSETS:

Details of other assets as of December 31, 2017 and 2016, are as follows (Unit: Korean won in millions):

Description	December 31, 2017		December 31, 2016	
	Current	Non-current	Current	Non-current
Advance payments	₩ 50,932	₩ 2,728	₩ 65,985	₩ 49,723
Prepaid expenses	28,035	5,813	32,493	6,556
Prepaid VAT	5,944	-	4,235	-
Due from customers for contract work	198,757	-	266,515	-
Others	1000	-	4	-
Total	₩ 284,668	₩ 8,541	₩ 369,232	₩ 56,279

## 10. PROPERTY, PLANT AND EQUIPMENT:

- (1) Composition of the Group's property, plant and equipment as of December 31, 2017 and 2016, is as follows (Unit: Korean won in millions):

Description	December 31, 2017									
	Land	Buildings	Structures	Machinery	Vehicles	Tools and equipment	Furniture and fixtures	Construction in progress	Other property	Total
Acquisition cost	₩482,683	₩ 957,863	₩260,017	₩ 104,239	₩23,082	₩ 4,583	₩ 212,376	₩ 260,127	₩ 490,344	₩2,795,314
Accumulated depreciation	-	(281,991)	(92,913)	(62,878)	(10,061)	(2,916)	(141,952)	-	(289,196)	(881,907)
Accumulated impairment	-	-	-	-	-	-	-	-	(482)	(482)
Government subsidies	-	(1,073)	-	-	-	-	(152)	-	(160)	(1,385)
Carrying amounts	₩482,683	₩ 674,799	₩167,104	₩ 41,361	₩13,021	₩ 1,667	₩ 70,272	₩ 260,127	₩ 200,506	₩1,911,540

  

Description	December 31, 2016									
	Land	Buildings	Structures	Machinery	Vehicles	Tools and equipment	Furniture and fixtures	Construction in progress	Other property	Total
Acquisition cost	₩517,227	₩1,374,252	₩299,209	₩ 2,222,499	₩29,299	₩ 34,499	₩ 234,636	₩ 182,787	₩ 493,810	₩5,388,218
Accumulated depreciation	-	(349,904)	(92,169)	(1,982,220)	(11,762)	(23,995)	(165,726)	-	(274,114)	(2,899,890)
Accumulated impairment	-	-	-	(3,583)	-	(1,375)	(42)	(246)	(118)	(5,364)
Government subsidies	-	(1,137)	-	-	-	-	(120)	-	(317)	(1,574)
Carrying amounts	₩517,227	₩1,023,211	₩ 207,040	₩ 236,696	₩17,537	₩ 9,129	₩ 68,748	₩ 182,541	₩ 219,261	₩2,481,390

(2) Changes in property, plant and equipment for the years ended December 31, 2017 and 2016, are as follows  
(Unit: Korean won in millions):

Description	Year ended December 31, 2017									
	Land	Buildings	Structures	Machinery	Vehicles	Tools and equipment	Furniture and fixtures	Construction in progress	Other property	Total
Beginning balance	₩ 517,227	₩1,023,211	₩207,040	₩236,696	₩17,537	₩ 9,129	₩ 68,748	₩ 182,541	₩ 219,261	₩2,481,390
Acquisitions	2,082	919	168	5,110	656	2,738	12,525	291,049	35,481	350,728
Disposals	(11,320)	(2,420)	(17)	(1,258)	(2,835)	(1,354)	(218)	(17,971)	(404)	(37,797)
Depreciation (*1)	-	(42,397)	(13,474)	(79,717)	(2,297)	(3,409)	(20,198)	-	(46,956)	(208,448)
Transfers in	39,062	47,363	487	44,426	48	-	15,754	2,453	2,447	152,040
Transfers out	(21,096)	(26,768)	(449)	-	-	-	-	(125,895)	(8,488)	(182,696)
Government subsidies	-	-	-	-	-	-	(86)	-	(14)	(100)
Changes due to disposals of subsidiaries (*2)	(38,582)	(305,141)	(26,213)	(147,238)	(89)	(2)	(5,488)	(72,097)	(23)	(594,873)
Transfers to assets held for sale (*3)	(1,102)	(10,673)	(337)	(17,058)	-	(116)	(390)	(2,637)	-	(32,313)
Impairment loss	(3,588)	(7,343)	(58)	-	-	(5,280)	(153)	-	(786)	(17,208)
Others	-	(977)	-	407	2	1	(124)	2,686	507	2,502
Effect of foreign currency translation	-	(975)	(43)	(7)	(1)	(40)	(98)	(2)	(519)	(1,685)
Ending balance	₩ 482,683	₩ 674,799	₩167,104	₩41,361	₩13,021	₩ 1,667	₩ 70,272	₩ 260,127	₩ 200,506	₩1,911,540

(\*1) ₩86,142 million classified as profit or loss of discontinued operations is included.

(\*2) Disposed LG Siltron Inc., subsidiaries, during the current period. (see Note 36).

(\*3) Property, plant and equipment of Lusem Co., Ltd., which is classified as assets held for sale (see Note 38).

Description	Year ended December 31, 2016									
	Land	Buildings	Structures	Machinery	Vehicles	Tools and equipment	Furniture and fixtures	Construction in progress	Other property	Total
Beginning balance	₩ 514,898	₩1,004,764	₩198,289	₩214,832	₩10,584	₩11,066	₩67,982	₩202,827	₩ 246,073	₩2,471,315
Acquisitions	106	3,365	185	4,143	11,984	2,151	14,917	215,830	29,931	282,612
Disposals	(2,150)	(1,699)	(14)	(995)	(136)	(16)	(114)	(8,427)	(285)	(13,836)
Depreciation (*1)	-	(43,983)	(13,491)	(115,513)	(2,322)	(3,858)	(23,153)	-	(48,369)	(250,689)
Transfers in	4,398	61,976	21,778	132,595	255	-	9,505	8,962	614	240,083
Transfers out	-	-	-	-	-	-	-	(235,925)	(8,961)	(244,886)
Government subsidies	-	-	-	(48)	-	-	(70)	-	-	(118)
Changes due to disposals of subsidiaries (*2)	-	-	-	(5)	(2,827)	-	(98)	-	(345)	(3,275)
Impairment loss	-	-	-	(42)	-	(282)	(6)	(246)	(122)	(698)
Others	(25)	(647)	315	1,721	-	49	(172)	(480)	623	1,384
Effect of foreign currency translation	-	(565)	(22)	8	(1)	19	(43)	-	102	(502)
Ending balance	₩ 517,227	₩1,023,211	₩207,040	₩236,696	₩17,537	₩9,129	₩68,748	₩182,541	₩ 219,261	₩2,481,390

(\*1) ₩128,548 million classified as profit or loss of discontinued operations is included.

(\*2) Disposed Ucess Partners Co., Ltd. and Ever On Co., Ltd., both subsidiaries, during the previous period (see Note 36).

- (3) Changes in government grants for the years ended December 31, 2017 and 2016, are as follows  
(Unit: Korean won in millions):

Description	Year ended December 31, 2017					
	Buildings	Machinery	Vehicles	Furniture and fixtures	Other property	Total
Beginning balance	₩ 1,137	-	-	₩ 120	₩ 317	₩ 1,574
Receipt	-	-	-	86	14	100
Offsetting depreciation	(56)	-	-	(54)	(171)	(281)
Others	(8)	-	-	-	-	(8)
Ending balance	₩ 1,073	-	-	₩ 152	₩ 160	₩ 1,385

  

Description	Year ended December 31, 2016					
	Buildings	Machinery	Vehicles	Furniture and fixtures	Other property	Total
Beginning balance	₩ 1,193	₩ 1,353	₩ 2,400	₩ 128	₩ 520	₩ 5,594
Receipt	-	48	-	70	-	118
Offsetting depreciation	(56)	(372)	(910)	(70)	(203)	(1,611)
Others	-	-	(7)	(8)	-	(15)
Disposals of subsidiaries (*)	-	(1,029)	(1,483)	-	-	(2,512)
Ending balance	₩ 1,137	₩ -	₩ -	₩ 120	₩ 317	₩ 1,574

(\*) Disposed Ucess Partners Co., Ltd. and Ever On Co., Ltd., both subsidiaries, during the current period  
(see Note 36).

## 11. INVESTMENT PROPERTY:

- (1) Composition of investment property as of December 31, 2017 and 2016, is as follows  
(Unit: Korean won in millions):

Description	December 31, 2017				
	Land	Buildings	Structures	Construction in progress	Total
Acquisition cost	₩ 708,472	₩ 560,070	₩ 9,246	₩ 84,013	₩ 1,361,801
Accumulated depreciation	-	(116,384)	(3,873)	-	(120,257)
Carrying amounts	₩ 708,472	₩ 443,686	₩ 5,373	₩ 84,013	₩ 1,241,544

  

Description	December 31, 2016				
	Land	Buildings	Structures	Construction in progress	Total
Acquisition cost	₩ 483,190	₩ 478,345	₩ 9,173	₩ 821	₩ 971,529
Accumulated depreciation	-	(104,286)	(3,517)	-	(107,803)
Carrying amounts	₩ 483,190	₩ 374,059	₩ 5,656	₩ 821	₩ 863,726

- (2) Changes in investment property for the years ended December 31, 2017 and 2016, are as follows  
(Unit: Korean won in millions):

	Year ended December 31, 2017					
Description	Land	Buildings	Structures	Construction in progress	Total	
Beginning balance	₩ 483,190	₩ 374,059	₩ 5,656	₩ 821	₩ 863,726	
Acquisitions	234,777	67,901	-	100,239	402,917	
Depreciation	-	(19,767)	(1,153)	-	(20,920)	
Transfers	15,018	26,722	960	(12,044)	30,656	
Disposals	(6,348)	(2,912)	-	-	(9,260)	
Others	(18,165)	(2,317)	(90)	(5,003)	(25,575)	
Ending balance	₩ 708,472	₩ 443,686	₩ 5,373	₩ 84,013	₩ 1,241,544	

	Year ended December 31, 2016							
Description	Land		Buildings		Structures		Construction in progress	Total
Beginning balance	₩	335,452	₩	311,142	₩	5,976	₩ -	₩ 652,570
Acquisitions		137,332		74,406		-	821	212,559
Depreciation		-		(17,794)		(1,123)	-	(18,917)
Transfers		(428)		4,512		719	-	4,803
Others		10,834		1,793		84	-	12,711
Ending balance	₩	483,190	₩	374,059	₩	5,656	₩ 821	₩ 863,726

(3) Details of the fair value of investment property as of December 31, 2017, are as follows

(Unit: Korean won in millions):

Description	Date of revaluation	December 31, 2017		
		Land	Buildings and structures	Total
Book value of investment property:				
Book value (*1)		₩ 839,027	₩ 736,065	₩ 1,575,092
Results of valuation:				
Pyeongtaek HUB Center (*1), (*2)	2017-03-31	27,191	25,412	52,603
Twin Tower (*1), (*3)	2012-03-16	456,800	343,200	800,000
Gasandong building (*1)	2009-04-21	50,966	110,104	161,070
Gwanghwamun building (*1)	2010-09-30	145,452	84,548	230,000
Buho building (*1)	2013-06-04	16,513	1,238	17,751
Seoul Station building (*2)	2016-09-30	136,793	73,941	210,734
Incheon IT Center (*1), (*4)	2009-01-01	15,391	9,169	24,560
Sangam DDMC (*1), (*4)	2014-10-01			260,635
Kyobashi Trust Tower (*1), (*2)	2014-04-01	173,332	79,951	253,283
North America building (*2), (*5)	2017-06-29	62,897	86,904	149,801
Sangdodong Hi Plaza (*2), (*5)	2017-06-30	5,445	1,760	7,205
Dogokdong Gangnam building (*2), (*5)	2017-12-31	167,077	66,499	233,576
Others (*2)	2016-02-26	2,055	-	2,055
Total				₩2,403,273

(\*1) Includes the value of investment property (carrying value that is subject to valuation: ₩333,548 million) occupied by the owner.

(\*2) Acquisition cost is considered as fair value.

(\*3) It is the whole valuation amount of Twin Tower.

(\*4) It is the whole valuation amount of Incheon IT Center and Sangam DDMC. Sangam DDMC is an appraisal value of the entire real estate, including land, buildings and structures. The amount of appraisal value allocated to the holding area ratio of the consolidated entity is ₩78,191 million.

(\*5) Newly acquired during current period.

Fair value assessment was performed by an independent third party, Nara Appraisal Co., Ltd., Samchang Appraisal Co., Ltd. and 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.

Rental income recognized from investment property by the Group during the year is ₩109,916 million.

## 12. INTANGIBLE ASSETS:

- (1) Composition of the Group's intangible assets as of December 31, 2017 and 2016, is as follows  
(Unit: Korean won in millions):

December 31, 2017								
Description	Development costs	Intellectual property rights	Memberships	Goodwill	Construction in progress	Computer software and other assets	Total	
Acquisition cost	₩ 36,457	₩ 17,372	₩ 26,294	₩ 14,462	₩ 8,412	₩ 183,885	₩	286,882
Accumulated depreciation	(27,847)	(9,963)	-	-	-	(129,907)		(167,717)
Accumulated impairment	(6,850)	(2)	(4,755)	(12,797)	(47)	(195)		(24,646)
Government grants	-	-	-	-	-	(125)		(125)
Total	₩ 1,760	₩ 7,407	₩ 21,539	₩ 1,665	₩ 8,365	₩ 53,658	₩	94,394

  

December 31, 2016								
Description	Development costs	Intellectual property rights	Memberships	Goodwill	Construction in progress	Computer software and other assets	Total	
Acquisition cost	₩ 42,863	₩ 20,210	₩ 29,583	₩ 14,982	₩ 22,922	₩ 229,517	₩	360,077
Accumulated depreciation	(28,285)	(11,582)	-	-	-	(165,451)		(205,318)
Accumulated impairment	(6,851)	-	(6,497)	(12,797)	(12,493)	(1,830)		(40,468)
Government grants	-	(9)	-	-	-	(274)		(283)
Total	₩ 7,727	₩ 8,619	₩ 23,086	₩ 2,185	₩ 10,429	₩ 61,962	₩	114,008

- (2) Changes in intangible assets for the years ended December 31, 2017 and 2016, are as follows  
(Unit: Korean won in millions):

Year ended December 31, 2017								
Description	Development costs	Intellectual property rights	Memberships	Goodwill	Construction in progress	Computer software and other assets	Total	
Beginning balance	₩ 7,727	₩ 8,619	₩ 23,086	₩ 2,185	₩ 10,429	₩ 61,962	₩	114,008
Acquisitions	-	8	4,112	-	18,562	7,467		30,149
Disposals	(181)	(316)	(2,898)	(520)	-	(39)		(3,954)
Transfers in	233	-	14	-	637	18,082		18,966
Transfers out	-	-	-	-	(18,966)	-		(18,966)
Government subsidies	-	-	-	-	-	(19)		(19)
Impairment loss	(198)	(1,510)	-	-	-	(78)		(1,786)
Amortization (*1)	(5,568)	(1,360)	-	-	-	(21,124)		(28,052)
Transfers to assets held for sale	-	(28)	(618)	-	(3)	(1,547)		(2,196)
Disposals of subsidiaries (*2)	(245)	-	(2,151)	-	(2,001)	(10,800)		(15,197)
Others	1	1,994	-	-	(166)	37		1,866
Effect of foreign currency translation	(9)	-	(6)	-	(127)	(283)		(425)
Ending balance	₩ 1,760	₩ 7,407	₩ 21,539	₩ 1,665	₩ 8,365	₩ 53,658	₩	94,394

(\*1) ₩2,997 million classified as profit or loss of discontinued operations is included.

(\*2) Intangible assets of the Lusem Co., Ltd. (see Note 38).

(\*3) Disposed LG Siltron Inc., a subsidiary, during the current period (see Note 36).

Year ended December 31, 2016

Description	Development costs	Intellectual property rights	Memberships	Goodwill	Construction in progress	Computer software and other assets	Total
Beginning balance	₩ 13,617	₩ 6,606	₩ 22,730	₩ 2,185	₩ 5,425	₩ 66,023	₩ 116,586
Acquisitions	-	12	3,836	-	14,803	6,483	25,134
Disposals	-	(28)	(2,455)	-	(150)	(1,578)	(4,211)
Transfers in	10	-	-	-	-	13,164	13,174
Transfers out	-	-	-	-	(13,174)	-	(13,174)
Government subsidies	-	(1)	-	-	-	(30)	(31)
Impairment loss	(142)	-	(1,022)	-	(206)	(33)	(1,403)
Amortization (*1)	(5,409)	(1,138)	-	-	-	(20,696)	(27,243)
Disposals of subsidiaries (*2)	(372)	-	-	-	-	(135)	(507)
Others	29	3,168	-	-	3,756	(1,221)	5,732
Effect of foreign currency translation	(6)	-	(3)	-	(25)	(15)	(49)
Ending balance	₩ 7,727	₩ 8,619	₩ 23,086	₩ 2,185	₩ 10,429	₩ 61,962	₩ 114,008

(\*1) ₩3,528 million classified as profit or loss of discontinued operations is included.

(\*2) Disposed Ucess Partners Co., Ltd. and Ever On Co., Ltd., both subsidiaries, during the previous period (see Note 36).

(3) Details of book value of goodwill that is allocated to cash-generating unit are as follows  
(Unit: Korean won in millions):

Year ended December 31, 2017

Description	Acquisition cost	Accumulated depreciation	Book value
LG CNS Co., Ltd.	₩ -	₩ -	₩ -
BizTechPartners Co., Ltd.	1,665	-	1,665
Korea Elecom Co., Ltd. (*)	7,964	(7,964)	-
Total	₩ 9,629	₩ (7,964)	₩ 1,665

Year ended December 31, 2016

Description	Acquisition cost	Accumulated depreciation	Book value
LG CNS Co., Ltd.	₩ 520	₩ -	₩ 520
BizTechPartners Co., Ltd.	1,665	-	1,665
Korea Elecom Co., Ltd. (*)	7,964	(7,964)	-
Total	₩ 10,149	₩ (7,964)	₩ 2,185

(\*) Management recognized impairment loss for the whole goodwill as the total book value of cash-generating unit exceeded the estimated recoverable amount and the exceeding amount is larger than the carrying value of goodwill. There are no assets other than goodwill that the impairment loss will be allocated.

- (4) Changes in government grants for the years ended December 31, 2017 and 2016, are as follows  
(Unit: Korean won in millions):

Description	Year ended December 31, 2017		
	Intellectual property rights	Computer software and other assets	Total
Beginning balance	₩ 9	₩ 274	₩ 283
Receipt	-	19	19
Offsetting amortization	(9)	(168)	(177)
Ending balance	₩ -	₩ 125	₩ 125

  

Description	Year ended December 31, 2016		
	Intellectual property rights	Computer software and other assets	Total
Beginning balance	₩ 8	₩ 535	₩ 543
Receipt	1	30	31
Offsetting amortization	-	(291)	(291)
Ending balance	₩ 9	₩ 274	₩ 283

- (5) The costs related to research and development, accounted for as expenses, for the years ended December 31, 2017 and 2016, are as follows (Unit: Korean won in millions):

Description	Year ended December 31, 2017	Year ended December 31, 2016
Manufacturing statement	₩ 29,233	₩ 25,041
Selling and administrative expenses	24,133	26,035
Total	₩ 53,366	₩ 51,076

### 13. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES:

- (1) Composition of the Group's investments in associates and joint ventures as of December 31, 2017, is as follows:

Companies	Location of incorporation	Major business activities	Closing date	Number of shares held and investments in capital		Number of shares issued		Percentage of ownership (%)	Percentage of ownership (common stock) (%)
				Common stock	Preferred stock	Common stock	Preferred stock		
LG Chem Ltd. (*1)	South Korea	Manufacturing of basic petrochemicals	12-31	23,534,211	-	70,592,343	7,688,800	30.06%	33.34%
LG Household & Health Care Ltd.	South Korea	Manufacturing of toothpastes, soap and detergents	12-31	5,315,500	-	15,618,197	2,099,697	30.00%	34.03%
LG Electronics Inc.	South Korea	Manufacturing of electronic components, computers, image, acoustic and communication equipment	12-31	55,094,582	-	163,647,814	17,185,992	30.47%	33.67%
LG Uplus Corp.	South Korea	Telecommunications	12-31	157,376,777	-	436,611,361	-	36.05%	36.05%
LG International Corp. (*2)	South Korea	Trade and resource development	12-31	9,571,336	-	38,760,000	-	24.69%	24.69%
LG Hitachi Co., Ltd.	South Korea	Consult computer system integration and establishment	12-31	245,000	-	500,000	-	49.00%	49.00%
GIIR Corporation	South Korea	Holdings company	12-31	5,798,593	-	16,567,409	-	35.00%	35.00%
LG Hausys, Ltd.	South Korea	Manufacturing of construction plastic	12-31	3,006,673	-	8,967,670	1,032,330	30.07%	33.53%

		materials							
LG MMA Corp. (*3)	South Korea	Manufacturing of other basic organic chemicals	12-31	1,200,000	-	2,400,000	-	50.00%	50.00%
Silicon Works Co., Ltd.	South Korea	Design and manufacturing of semiconductor	12-31	5,380,524	-	16,264,300	-	33.08%	33.08%
LG Fuel Cell Systems Inc. (*4)	America	Development of fuel cells for research and experimental development	12-31	530	-	2,581	-	20.53%	20.53%
Combustion Synthesis Co., Ltd. (*4),(*5)	Japan	Manufacturing of the combustion synthesis power and manufactured goods	12-31	975,000	-	1,431,000	-	68.13%	68.13%
Korea Smart Card Co., Ltd.	South Korea	System software development and supply	12-31	3,927,167	-	11,934,085	-	32.91%	32.91%
Songdo U-Life LLC (*6)	South Korea	Health care, integrated wireless environment, integrated smart cards and building management	12-31	5,880	-	35,880	-	16.39%	16.39%
Recaudo Bogota S.A.S.	Colombia	Public system development and service	12-31	2,126	-	10,630	-	20.00%	20.00%
Sejong Green Power Co., Ltd. (*6)	South Korea	New and renewable energy	12-31	260,600	-	1,309,200	-	19.91%	19.91%
Hellas SmartTicket Societe Anonyme	Greece	Public system development and service	12-31	22,500	-	75,000	-	30.00%	30.00%
Ulleungdo Natural Energy Independent Island Co., Ltd.	South Korea	New and renewable energy	12-31	1,600,000	-	5,360,000	-	29.85%	29.85%
Dongnam Solar Energy Co., Ltd.	South Korea	The sun optical-the development business	12-31	174,608	-	672,000	-	25.98%	25.98%
Daegu Clean Energy Co., Ltd.	South Korea	Energy supply	12-31	25,000	-	100,000	-	25.00%	25.00%
KEPCO-LG CNS Mangilao Holdings LLC(*7)	America	New and renewable energy	12-31	-	-	-	-	-	-

(\*1) LG Life Science Co., Ltd. was merged into LG Chem Ltd. as of January 1, 2017.

(\*2) The Group acquired its shares in LG International Co., Ltd. at the end of November 2017 and is in the process of allocating acquisition prices for the transfer price.

(\*3) A joint venture.

(\*4) Acquired through participation of establishment during the current period. The equity ratio increased due to unequal capital increase during the current period.

(\*5) The percentage of ownership is more than 50%; however, in material respects, the Company is not classified as subsidiaries.

(\*6) The Group has significant influence since contractual right exists to appoint one member of the board of directors even though the percentage of shares owned is less than 20%.

(\*7) Established during the current period and before the payment of investment capital, but the investment of 30% is committed in the future. The Group has significant influence since contractual right exists to appoint one member of the board of directors.

Fair values of marketable equity securities for investments in associates as of December 31, 2017, are as follows  
(Unit: Korean won in millions):

		LG Household & Health Care	LG Electronics	LG Uplus	LG	GIIR	LG Hausys,	Silicon Works
Description	LG Chem Ltd.	Ltd.	Inc.	Corp.	Corp.	Corporation	Ltd.	Co., Ltd.
Fair values of equity securities	₩ 9,531,355	₩ 6,320,130	₩ 5,840,026	₩ 2,203,275	₩ 259,862	₩ 59,726	₩ 291,948	₩ 284,630

(2) Changes in investments in associates and joint ventures for the years ended December 31, 2017 and 2016, are as follows (Korean won in millions):

Companies	Year ended December 31, 2017						
	Beginning balance	Acquisitions	Dividends received	Gain (loss) from valuation	Gain from valuation recognized in accumulated other comprehensive income	Disposal and others	Ending balance
LG Chem Ltd. (*1)	₩ 4,142,196	₩ 343,185	₩ (111,097)	₩ 592,949	₩ (45,267)	₩ (76,402)	₩4,845,564
LG Household & Health Care Ltd.	754,566	-	(39,866)	190,772	38,483	-	943,955
LG Electronics Inc.	3,587,295	-	(22,038)	503,196	(126,658)	-	3,941,795
LG Uplus Corp.	1,705,684	-	(55,082)	198,888	4,450	-	1,853,940
LG International Corp. (*2)	-	296,741	-	-	-	-	296,741
LG Life Science Co., Ltd. (*1)	-	-	-	-	84,696	(84,696)	-
LG Hitachi Co., Ltd.	8,564	-	(7)	4	143	-	8,704
GIIR Corporation	48,004	-	(1,450)	5,493	269	-	52,316
LG Hausys, Ltd.	275,070	-	(5,412)	21,763	(488)	-	290,933
LG MMA Corp.	216,441	-	(21,000)	58,400	169	-	254,010
Silicon Works Co., Ltd.	167,035	-	(4,842)	11,676	(291)	-	173,578
LG Fuel Cell Systems Inc.	7,542	21,920	-	(9,679)	(110)	4,423	24,096
Combustion Synthesis Co., Ltd.	1,210	537	-	(171)	(14)	-	1,562
Korea Smart Card Co., Ltd.	42,110	-	-	4,055	(530)	-	45,635
Songdo U-Life LLC	7,915	-	-	(1)	-	-	7,914
Recaudo Bogota S.A.S.	4,000	-	-	1,227	(1,726)	(926)	2,575
Sejong Green Power Co., Ltd.	1,165	-	-	(922)	-	(243)	-
Hellas SmarTicket Societe Anonyme	2,749	-	-	146	25	-	2,920
Ulleungdo Natural Energy Independent Island Co., Ltd.	6,895	-	-	(525)	1	-	6,371
Dongnam Solar Energy Co., Ltd.	588	-	-	20	(1)	-	607
Daegu Clean Energy Co., Ltd.	125	-	-	(115)	-	-	10
Serveone Cenyar Services Co. (*3)	-	-	-	-	32	(32)	-
KEPCO-LG CNS Mangilao Holdings LLC (*4)	-	-	-	-	-	-	-
Total	₩10,979,154	₩ 662,383	₩ (260,794)	₩1,577,176	₩ (46,817)	₩ (157,876)	₩12,753,226

(\*1) Merged with LG Life Science Co., Ltd. during the current period. The Group recognized ₩182,086 million gains on disposals of investments in associates.

(\*2) The Group acquired its shares in LG International Co., Ltd. at the end of November 2017 and is in the process of allocating acquisition prices for the transfer price.

(\*3) Liquidated during the current period. The Group recognized ₩32 million loss on disposals of investments in associates.

(\*4) Equity-method losses of ₩83 million and other comprehensive income of ₩4 million were recognized as allowance for short-term loans.

Year ended December 31, 2016

Companies	Beginning balance	Acquisitions	Dividends received	Gain (loss) from valuation	Gain from valuation recognized in accumulated other		Disposal and others	Ending balance
					comprehensive income			
LG Chem Ltd.	₩ 3,867,167	₩ -	₩ (99,987)	₩ 376,203	₩ (1,187)		₩ -	₩ 4,142,196
LG Household & Health Care Ltd.	607,915	-	(29,235)	170,156	5,730		-	754,566
LG Electronics Inc.	3,482,395	-	(22,038)	18,315	108,623		-	3,587,295
LG Uplus Corp.	1,572,882	-	(39,344)	174,115	(1,969)		-	1,705,684
LG Life Science Co., Ltd. (*1)	75,313	-	-	8,086	(83,399)		-	-
LG Hitachi Co., Ltd.	8,298	-	(5)	334	(63)		-	8,564
GIIR Corporation	44,417	-	(1,160)	4,938	(191)		-	48,004
LG Hausys, Ltd.	257,848	-	(5,412)	20,913	1,721		-	275,070
LG MMA Corp.	211,114	-	(21,000)	26,470	(143)		-	216,441
Silicon Works Co., Ltd.	159,584	-	(5,381)	13,268	(436)		-	167,035
LG Fuel Cell Systems Inc.	2,030	15,549	-	(10,202)	19		146	7,542
Combustion Synthesis Co., Ltd.	1,667	-	-	(490)	33		-	1,210
Korea Smart Card Co., Ltd.	36,064	-	-	6,670	(624)		-	42,110
Songdo U-Life LLC	8,165	-	-	(250)	-		-	7,915
Recaudo Bogota S.A.S.	-	-	-	(422)	4,422		-	4,000
Petro Conergy Co., Ltd. (*2)	-	-	-	-	-		-	-
Sejong Green Power Co., Ltd.	1,200	-	-	(35)	-		-	1,165
Hellas SmarTicket Societe Anonyme	1,480	1,469	-	(144)	(56)		-	2,749
Ulleungdo Natural Energy Independent Island Co., Ltd.	7,422	-	-	(520)	(7)		-	6,895
Dongnam Solar Energy Co., Ltd.	670	-	-	(82)	-		-	588
Daegu Clean Energy Co., Ltd. (*3)	-	125	-	-	-		-	125
Serveone Cenyar Services Co. (*4)	-	-	-	-	-		-	-
Total	₩10,345,631	₩ 17,143	₩ (223,562)	₩ 807,323	₩ 32,473		₩ 146	₩10,979,154

(\*1) Net assets have become negative (-) amount due to exercise of appraisal right related to merger with LG Chem Ltd. Through this, equity method was discontinued and classified as assets held for sale. Also, ₩17,299 million of other comprehensive loss was not recognized.

(\*2) Reclassified from investments in associates to AFS financial assets due to disposal of investment securities.

(\*3) Newly acquired during previous period.

(\*4) Although the percentage of ownership for contribution is 49%, the allocation rate of profit is committed as 70% and the application of equity method is discontinued due to accumulated loss during the previous period. Allowance for doubtful accounts is set from long-term loans for ₩916 million of profit (loss) from equity method that exceeds the book value of investments in associates and ₩64 million of other comprehensive loss during the previous period.

- (3) Adjustments to the book value of investments in associates and joint ventures from the net asset value of associates and joint ventures as of December 31, 2017 and 2016, are as follows (Unit: Korean won in millions):

Companies	As of and for the year ended December 31, 2017					
	Net assets (A)	Ownership rate of the Group (B)	Controlling interest of net assets (A x B)	(+)Goodwill	(-)Elimination of intercompany transactions	Ending balance
LG Chem Ltd.	₩ 16,168,526	30.72%	₩ 4,966,729	₩ 6,154	₩ (127,319)	₩ 4,845,564
LG Household & Health Care Ltd.	2,997,069	31.72%	950,754	-	(6,799)	943,955
LG Electronics Inc.	13,224,261	30.47%	4,029,023	-	(87,228)	3,941,795
LG Uplus Corp.	5,232,870	36.05%	1,886,188	-	(32,248)	1,853,940
LG International Corp.	1,194,391	24.69%	294,941	1,800	-	296,741
LG Hitachi Co., Ltd.	17,786	49.00%	8,715	-	(11)	8,704
GIIR Corporation	156,880	35.00%	54,908	2,352	(4,944)	52,316
LG Hausys, Ltd.	985,581	30.07%	296,332	-	(5,399)	290,933
LG MMA Corp.	516,205	50.00%	258,102	-	(4,092)	254,010
Silicon Works Co., Ltd.	412,225	33.08%	136,372	37,989	(783)	173,578
LG Fuel Cell Systems Inc.	42,818	20.53%	8,791	15,305	-	24,096
Combustion Synthesis Co., Ltd.	(26)	68.13%	(18)	1,580	-	1,562
Korea Smart Card Co., Ltd.	112,017	32.91%	36,862	8,777	(4)	45,635
Songdo U-Life LLC	26,975	16.39%	4,421	3,493	-	7,914
Recaudo Bogota S.A.S.	17,503	20.00%	3,501	-	(926)	2,575
Sejong Green Power Co., Ltd.	1,191	19.91%	237	6	(243)	-
Hellas SmarTicket Societe Anonyme	9,733	30.00%	2,920	-	-	2,920
Ulleungdo Natural Energy Independent Island Co., Ltd.	21,342	29.85%	6,371	-	-	6,371
Dongnam Solar Energy Co., Ltd.	2,332	25.98%	606	1	-	607
Daegu Clean Energy Co., Ltd.	40	25.00%	10	-	-	10

(\*)The equity ratio reflects the effect of treasury stock and may be a different from ownership percentage.

As of and for the year ended December 31, 2016

Companies	Net assets (A)	Ownership rate of the Group (B)	Controlling interest of net assets (A x B)	(+)Goodwill	(-)Elimination of intercompany transactions	Ending balance
LG Chem Ltd.	₩ 13,997,352	30.07%	₩ 4,190,503	₩ -	₩ (48,307)	₩ 4,142,196
LG Household & Health Care Ltd.	2,532,358	30.00%	759,727	-	(5,161)	754,566
LG Electronics Inc.	11,987,094	30.47%	3,652,095	-	(64,800)	3,587,295
LG Uplus Corp.	4,826,105	36.05%	1,739,569	-	(33,885)	1,705,684
LG Life Science Co., Ltd.	(43,145)	30.00%	(12,944)	-	12,944	-
LG Hitachi Co., Ltd.	17,502	49.00%	8,576	-	(12)	8,564
GIIR Corporation	146,079	35.00%	51,128	2,352	(5,476)	48,004
LG Hausys, Ltd.	937,363	30.07%	281,834	-	(6,764)	275,070
LG MMA Corp.	434,770	50.00%	217,386	-	(945)	216,441
Silicon Works Co., Ltd.	380,678	33.08%	125,935	41,523	(423)	167,035
LG Fuel Cell Systems Inc.	(14,897)	20.06%	(2,988)	10,530	-	7,542
Combustion Synthesis Co., Ltd.	(275)	61.39%	(169)	1,379	-	1,210
Korea Smart Card Co., Ltd.	101,303	32.91%	33,336	8,777	(3)	42,110
Songdo U-Life LLC	26,982	16.39%	4,422	3,493	-	7,915
Recaudo Bogota S.A.S.	19,998	20.00%	4,000	-	-	4,000
Petro Conergy Co., Ltd.	-	0.92%	-	-	-	-
Sejong Green Power Co., Ltd.	5,820	19.91%	1,159	6	-	1,165
Hellas SmarTicket Societe Anonyme	9,163	30.00%	2,749	-	-	2,749
Ulleungdo Natural Energy Independent Island Co., Ltd.	23,099	29.85%	6,895	-	-	6,895
Dongnam Solar Energy Co., Ltd.	2,256	25.98%	587	1	-	588
Daegu Clean Energy Co., Ltd. (*1)	500	25.00%	125	-	-	125
Serveone Cenyar Services Co. (*2)	(1,382)	49.00%	-	-	-	-

(\*1) Newly acquired during previous period.

(\*2) Although the percentage of ownership for contribution is 49%, the allocation rate of profit is committed as 70% and the application of equity method is discontinued due to accumulated loss during the previous period.

(4) Summary of financial position for associates as of December 31, 2017 and 2016, is as follows

(Unit: Korean won in millions):

December 31, 2017									
							Equity attributable to the owners of the parent company	Non- controlling interests	Total equity
Companies	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities			
LG Chem Ltd. (*)	₩11,205,581	₩ 13,835,640	₩ 25,041,221	₩ 6,638,689	₩ 2,063,955	₩8,702,644	₩16,168,526	₩170,051	₩16,338,577
LG Household & Health Care Ltd.	1,513,346	3,264,624	4,777,970	1,244,057	451,296	1,695,353	2,997,069	85,548	3,082,617
LG Electronics Inc. (*)	19,194,969	22,025,989	41,220,958	17,536,470	9,010,805	26,547,275	13,224,261	1,449,422	14,673,683
LG Uplus Corp.	3,072,986	8,862,466	11,935,452	3,664,552	3,037,915	6,702,467	5,232,870	115	5,232,985

(\*) LG Chem Ltd. and LG Electronics Inc. each recorded ₩6,595 million (₩31 million) and ₩21,436 million, respectively, of assets (liabilities) held for sale as of December 31, 2017.

	December 31, 2016									
	Assets			Liabilities			Equity			
	to the owners			of the parent			Non-			
	controlling			interests			Total equity			
Companies	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities	Equity attributable to the owners of the parent company	Non-controlling interests	Total equity	
LG Chem Ltd. (*)	₩ 9,226,934	₩ 11,260,126	₩ 20,487,060	₩ 5,446,852	₩ 989,241	₩6,436,093	₩13,937,352	₩113,615	₩14,050,967	
LG Household & Health Care Ltd.	1,424,610	3,077,553	4,502,163	1,146,890	734,433	1,881,323	2,532,358	88,482	2,620,840	
LG Electronics Inc. (*)	16,990,563	20,864,706	37,855,269	15,744,364	8,754,163	24,498,527	11,987,094	1,369,648	13,356,742	
LG Uplus Corp.	2,619,551	9,369,566	11,989,117	3,574,396	3,588,393	7,162,789	4,826,105	223	4,826,328	

(\*) LG Chem Ltd. and LG Electronics Inc. each recorded ₩8,104 million (₩42 million) and ₩8,906 million, respectively, of assets (liabilities) held for sale as of December 31, 2016.

- (5) Summary of profit and loss for associates for the years ended December 31, 2017 and 2016, are as follows  
(Unit: Korean won in millions):

Year ended December 31, 2017							
Companies	Revenue	Operating income (loss)	Income tax expense	Profit (loss) from discontinued operations after tax	Accumulated other comprehensive income (loss)	Total comprehensive income (loss)	
LG Chem Ltd.	₩ 25,698,014	₩ 2,928,457	₩ 541,922	₩ -	₩ (146,077)	₩ 1,875,896	
LG Household & Health Care Ltd.	6,270,464	930,351	242,855	-	(16,054)	602,495	
LG Electronics Inc.	61,396,284	2,468,549	688,594	-	(435,822)	1,433,696	
LG Uplus Corp.	12,279,382	826,295	119,702	-	12,349	559,467	
Year ended December 31, 2016							
Companies	Revenue	Operating income (loss)	Income tax expense	Profit (loss) from discontinued operations after tax	Accumulated other comprehensive income (loss)	Total comprehensive income (loss)	
LG Chem Ltd.	₩ 20,659,296	₩ 1,991,920	₩ 378,834	₩ -	₩ (5,810)	₩ 1,275,184	
LG Household & Health Care Ltd.	6,094,059	880,937	173,496	-	22,768	602,008	
LG Electronics Inc.	55,367,033	1,337,763	595,402	-	358,184	484,499	
LG Uplus Corp.	11,451,046	746,483	149,839	-	1,137	493,876	

#### 14. DEBENTURES AND BORROWINGS:

- (1) The Group's short-term borrowings as of December 31, 2017 and 2016, consist of the following  
(Unit: Korean won in millions):

Description	Creditor	Annual interest rate (%)	December 31, 2017	December 31, 2016
Korean currency short-term borrowings	Kookmin Bank and others	2.94-3.50	₩ 20,900	₩ 70,000
Overdraft	Kookmin Bank	3.34-3.59	7,191	7,026
Trade receivables transferred (*)	Shinhan Bank and others	1.50-4.66	-	34,298
Foreign currency short-term borrowings	The Export-Import Bank of Korea and others	0.39-8.83	30,995	79,471
Total			₩ 59,086	₩ 190,795

(\*) The trade receivables transferred have recourse condition and do not meet the derecognition conditions; hence, the whole transferred receivables are recognized as assets receivable.

- (2) The Group's long-term borrowings as of December 31, 2017 and 2016, consist of the following  
(Unit: Korean won in millions):

Description	Creditor	Annual interest rate (%)	December 31, 2017		December 31, 2016	
			Current	Non-current	Current	Non-current(*2)
Korean currency long-term borrowings (*1)	Shinhan Bank and others	2.06-3.10	₩ 80,852	₩ 108,672	₩ 187,427	₩ 349,348
Foreign currency long-term borrowings	SMBC	0.67	-	37,964	-	3,059
Debentures in Korean won		1.88-2.96	240,000	870,000	320,000	830,000
Discount on debentures			(126)	(2,545)	(60)	(2,318)
Present value discount account			-	(1,246)	(392)	(289)
Total			₩ 320,726	₩ 1,012,845	₩ 506,975	₩ 1,179,800

(\*1) Korea currency long-term borrowings include asset securitization liabilities (₩88,000 million).

(\*2) Information on non-current long-term borrowings as of December 31, 2017, is as follows

(Unit: Korean won in millions):

Remaining maturity	1 year-2 years	2 years-3 years	More than 3 years
Balance	₩ 50,000	₩ -	₩ 96,636

(3) The Group's debentures as of December 31, 2017 and 2016, consist of the following  
(Unit: Korean won in millions):

Company	Description	Issuance date	Maturity date	Annual interest rate	December 31, 2017	December 31, 2016
LG CNS Co., Ltd.	5 <sup>th</sup> public offering	2012-03-05	2017-03-05	4.15%	₩ -	₩ 100,000
	7 <sup>th</sup> public offering	2013-05-07	2018-05-07	2.96%	100,000	100,000
	9-1 <sup>st</sup> public offering	2015-04-16	2018-04-16	1.88%	50,000	50,000
	9-2 <sup>nd</sup> public offering	2015-04-16	2020-04-16	2.07%	100,000	100,000
	9-3 <sup>rd</sup> public offering	2015-04-16	2022-04-16	2.44%	50,000	50,000
	10-1 <sup>st</sup> public offering	2017-04-11	2020-04-11	2.10%	110,000	-
	10-2 <sup>nd</sup> public offering	2017-04-11	2022-04-11	2.45%	40,000	-
Serveone Co., Ltd.	3 <sup>rd</sup> public offering	2014-02-14	2017-02-14	3.21%	-	100,000
	4-1 <sup>st</sup> public offering	2015-10-01	2018-10-01	1.96%	50,000	50,000
	4-2 <sup>nd</sup> public offering	2015-10-01	2020-10-01	2.24%	150,000	150,000
	5-1 <sup>st</sup> public offering	2016-10-27	2019-10-27	1.92%	110,000	110,000
	5-2 <sup>nd</sup> public offering	2016-10-27	2021-10-27	2.10%	90,000	90,000
	6-1 <sup>st</sup> public offering	2017-11-01	2020-11-01	2.64%	70,000	-
	6-2 <sup>nd</sup> public offering	2017-11-01	2022-11-01	2.99%	130,000	-
LG Siltron Inc.(*1)	38-2 <sup>nd</sup> public offering	2012-06-04	2017-06-04	3.94%	-	50,000
	39 <sup>th</sup> public offering	2014-02-07	2017-02-07	4.21%	-	30,000
	40 <sup>th</sup> public offering	2014-03-14	2017-03-14	4.37%	-	40,000
	41 <sup>st</sup> public offering	2015-06-16	2018-06-16	4.07%	-	70,000
LG N-Sys Co., Ltd.	2-1 <sup>st</sup> public offering	2015-05-29	2020-05-29	2.32%	40,000	40,000
	2-2 <sup>nd</sup> public offering	2015-05-29	2020-05-29	2.89%	20,000	20,000
Subtotal					1,110,000	1,150,000
Discount on debentures					(2,671)	(2,378)
Current debentures (*2)					(239,874)	(319,940)
Total					₩ 867,455	₩ 827,682

(\*1) Excluded from the scope of consolidation during current period. (see Note 36)

(\*2) Discounts on debentures have been deducted.

## 15. PROVISIONS:

Changes in provisions for the years ended December 31, 2017 and 2016, are as follows

(Unit: Korean won in millions):

Description	Year ended December 31, 2017							
	Beginning balance	Increase	Using	Reversal	Effect of foreign currency translation	Assets held for sale	Effect of disposal of subsidiaries	Ending balance
Provision for construction (product) warranties	₩ 17,641	₩ 19,194	₩ (10,931)	₩ (977)	₩ (75)	₩ (1,309)	₩ (3,653)	₩ 19,890
Restoration liabilities (*)	6,826	1,121	(591)	(560)	(12)	-	-	6,784
Others	36,760	19,674	(14,385)	(1,498)	(71)	-	-	40,480
Total	₩ 61,227	₩ 39,989	₩ (25,907)	₩ (3,035)	₩ (158)	₩ (1,309)	₩ (3,653)	₩ 67,154

Description	Year ended December 31, 2016													
	Beginning balance		Increase		Using		Reversal		Effect of foreign currency translation	Effect of disposal of subsidiaries	Ending balance			
Provision for construction (product) warranties	₩	18,567	₩	14,610	₩	(13,178)	₩	(2,369)	₩	20	₩	(9)	₩	17,641
Restoration liabilities (*)		7,104		417		(232)		(145)		(59)		(259)		6,826
Others		20,968		22,839		(4,024)		(2,956)		(67)		-		36,760
Total	₩	46,639	₩	37,866	₩	(17,434)	₩	(5,470)	₩	(106)	₩	(268)	₩	61,227

(\*) Include increase due to the evaluation of the present value.

## 16. RETIREMENT BENEFIT PLAN:

### (1) Defined contribution plan

The Group operates a defined contribution plan for its employees. Obligation of the Group is to make payments to third-party funds, and the benefits for employees are determined by the payments made to the funds and the investment earnings from the funds. Plan asset is managed by the third party and is segregated from the Group's assets. Contributions to defined contribution plan during the current period and the previous period are ₩29,734 million and ₩32,242 million, respectively, and payable amounts related to defined contribution plans as of December 31, 2017 and 2016, are ₩3,434 million and ₩4,021 million, respectively.

### (2) Defined benefit plan

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

- 1) As of December 31, 2017 and 2016, amounts recognized in the consolidated statements of financial position related to retirement benefit obligation are as follows (Unit: Korean won in millions):

Description	December 31, 2017	December 31, 2016
Present value of defined benefit obligation	₩ 209,355	₩ 319,853
Fair value of plan assets	(196,658)	(262,998)
Net defined benefit liabilities	₩ 12,697	₩ 56,855

- 2) Changes in defined benefit obligation for the years ended December 31, 2017 and 2016, are as follows (Unit: Korean won in millions):

Description	Year ended December 31, 2017	Year ended December 31, 2016
Beginning balance	₩ 319,853	₩ 312,507
Current service cost	38,815	45,194
Interest cost	7,138	7,912
Actuarial gain (loss)	(23,422)	(22,988)
Past service cost	919	(274)
Effect of foreign currency translation	(15)	4
Benefits paid	(31,215)	(27,313)
Others	(1,477)	4,811
Classified as liabilities held for sale	(1,878)	-
Changes in the Group	(99,363)	-
Ending balance	₩ 209,355	₩ 319,853

- 3) Income and loss related to defined benefit plan for the years ended December 31, 2017 and 2016, are as follows (Unit: Korean won in millions):

Description	Year ended December 31, 2017	Year ended December 31, 2016
Service cost	₩ 39,734	₩ 44,920
Current service cost	38,815	45,194
Past service cost	919	(274)
Effect of settlement/curtailments	-	-
Net interest on the net defined benefit liability (asset)	1,308	2,200
Interest cost on defined benefit obligation	7,138	7,912
Comprising interest on plan assets	(5,830)	(5,712)
Others	430	400
Total	₩ 41,472	₩ 47,520

Total costs for the years ended December 31, 2017 and 2016, are included in cost of sales for ₩11,274 million and ₩13,674 million, respectively, in selling and administrative expenses for ₩20,693 million and ₩22,382 million, respectively, in profit from discontinued operations for ₩9,505 million and ₩11,464 million, respectively.

- 4) Changes in plan assets for the years ended December 31, 2017 and 2016, are as follows (Unit: Korean won in millions):

Description	Year ended December 31, 2017	Year ended December 31, 2016
Beginning balance	₩ 262,998	₩ 229,475
Comprising interest on plan assets	5,830	5,712
Remeasurements - Return on plan assets	(1,777)	(777)
Contributions from the employer	29,117	45,430
Contributions from the employee	1,500	8,666
Effect of foreign currency translation	(1)	(1)
Benefits paid	(29,139)	(23,649)
Others	4,340	(1,858)
Classified as liabilities held for sale	(625)	-
Changes in the Group	(75,585)	-
Ending balance	₩ 196,658	₩ 262,998

- 5) All of the plan assets are invested in financial instruments that guarantee principal and interest rate as of December 31, 2017 and 2016.

- 6) Actuarial assumptions used as of December 31, 2017 and 2016, are as follows:

Description	December 31, 2017	December 31, 2016
Discount rate (%)	2.60–6.71	2.21–6.44
Expected rate of salary increase (%)	3.51–9.79	3.08–9.79

- 7) The sensitivity analysis of the defined benefit obligation as of December 31, 2017 and 2016, is as follows (Unit: Korean won in millions):

Description	December 31, 2017		
	Center scenario	+ 1%	- 1%
Change in discount rate	₩ 209,355	₩ 199,109	₩ 224,691
Change in rate of salary increase	209,355	224,372	199,154

- (\*) The above sensitivity is estimated based on the assumption that all the other respective assumptions remain unchanged.

Description	December 31, 2016		
	Center scenario	+ 1%	- 1%
Change in discount rate	₩ 319,853	₩ 295,765	₩ 347,644
Change in rate of salary increase	319,853	346,538	296,191

- (\*) The above sensitivity is estimated based on the assumption that all the other respective assumptions remain unchanged.

- 8) Remeasurement related to net defined benefit liabilities for the years ended December 31, 2017 and 2016, is as follows (Unit: Korean won in millions):

Description	Year ended December 31, 2017	Year ended December 31, 2016
Actuarial gains (losses) arising from changes in demographic assumptions	₩ (447)	₩ (5,837)
Actuarial gains (losses) arising from changes in financial assumptions	(26,829)	(19,791)
Actuarial gains (losses) arising from experience	3,038	1,922
Return on plan assets excluding amounts included in interest income	1,777	777
Actuarial gains (losses) arising from transfer in/out adjustments	(78)	719
Total	₩ (21,645)	₩ (22,210)

Meanwhile, the Group deducted ₩(4,820) million and ₩(5,207) million arising from income tax effect for actuarial gain (loss) during the current and previous period, respectively.

## 17. OTHER LIABILITIES:

Other liabilities as of December 31, 2017 and 2016, are as follows (Unit: Korean won in millions):

Description	December 31, 2017		December 31, 2016	
	Current	Non-current	Current	Non-current
Advance receipts	₩ 78,491	₩ -	₩ 91,245	₩ -
Advances from lease revenue	-	5,551	-	5,862
VAT withheld	63,887	-	45,641	-
Withholdings	54,121	-	62,790	-
Unearned income	6,596	17,453	14,014	3,538
Due to customers for contract work	107,745	-	98,323	-
Government subsidy	-	-	18	-
Other long-term employee benefits	-	10,159	-	16,469
Total	₩ 310,840	₩ 33,163	₩ 312,031	₩ 25,869

## 18. CONSTRUCTION CONTRACTS:

- (1) Cost, income and loss and claimed construction costs from construction in progress as of December 31, 2017 and 2016, are as follows (Unit: Korean won in millions):

Description	December 31, 2017	December 31, 2016
Accumulated accrual cost	₩ 4,676,883	₩ 3,019,885
Accumulated income	377,581	322,812
Accumulated loss	(79,933)	(81,854)
Accumulated construction in process	4,974,531	3,260,843
Progress billing (*)	4,883,519	3,092,651
Gross amounts due from customers for contract work	198,757	266,515
Gross amounts due to customers for contract work	₩ 107,745	₩ 98,323

(\*) Consolidated adjustments are included.

Advances received from construction contracts are ₩23,311 million and ₩35,862 million as of December 31, 2017 and 2016, respectively.

- (2) As contracts that recognize progress-based revenue made by applying the cost-based input method at the end of the previous period, effects on changes of estimation of total contract revenues and total contract costs and impact on the current period's income, future period's income and amounts due from customers for contract work, are as follows (Unit: Korean won in millions):

Companies	December 31, 2017					
	Changes of estimated total construction costs	Effects on current period's income	Effects on future period's income	Changes of amounts due from customers for contract work	Contract loss provision liabilities	Contract loss provision liabilities
Serveone Co., Ltd.	₩ 219,065	₩ 183,929	₩ 32,014	₩ 3,122	₩ 32,014	₩ -
LG CNS Co., Ltd.	41,085	32,669	9,692	(1,276)	9,683	2,078
Subtotal	260,150	216,598	41,706	1,846	41,697	2,078
Consolidation adjustments	(97)	583	(683)	3	(683)	-
Total	₩ 260,053	₩ 217,181	₩ 41,023	₩ 1,849	₩ 41,014	₩ 2,078

Companies	December 31, 2016					
	Changes of estimated total construction costs	Effects on current period's income	Effects on future period's income	Changes of amounts due from customers for contract work	Contract loss provision liabilities	Contract loss provision liabilities
Serveone Co., Ltd.	₩ 146,084	₩ 129,199	₩ 15,800	₩ 1,085	₩ 15,800	₩ -
LG CNS Co., Ltd.	38,079	37,348	(1,472)	2,203	(1,472)	4,288
Subtotal	184,163	166,547	14,328	3,288	14,328	4,288
Consolidation adjustments	(555)	(1,752)	1,131	66	1,131	-
Total	₩ 183,608	₩ 164,795	₩ 15,459	₩ 3,354	₩ 15,459	₩ 4,288

Changes in these estimates are excluded from contracts began in the current period and include contracts that are in process in the previous period and ended in the current period.

- (3) None of the contracts that recognize progress-based revenue made by applying the cost-based input method during current period exceeded 5% of previous sales.

## 19. ISSUED CAPITAL:

Details of issued capital as of December 31, 2017, 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	80,493,938	₩ 5,000	₩ 862,786
Preferred stock (*)	-	3,314,677	-	₩ 5,000	₩ 16,573

- (\*) Preferred stocks are stocks without voting rights that are eligible for an additional 1%, based on the face value of the stock compared to common stocks, when receiving cash dividends. In case of no dividend payout, they are granted voting rights from the shareholders' meeting when it is resolved not to pay to the shareholders' meeting when it is resolved to pay dividends.

The Group has 93,789 shares of common stock and 6,810 shares of preferred stock as of December 31, 2017 and 2016, respectively; the carrying amounts of common stocks are ₩2,334 million (preferred stock: ₩51 million).

## 20. CAPITAL SURPLUS:

- (1) Composition of capital surplus as of December 31, 2017 and 2016, is as follows (Unit: Korean won in millions):

Description	December 31, 2017	December 31, 2016
Asset revaluation reserve	₩ 338,100	₩ 337,386
Paid-up capital in excess of par value	898,266	898,266
Other capital surplus	1,129,183	1,129,285
Total	₩ 2,365,549	₩ 2,364,937

- (2) Changes in capital surplus as of December 31, 2017 and 2016, are as follows (Unit: Korean won in millions):

Description	2017	2016
Beginning balance	₩ 2,364,937	₩ 2,361,658
Changes in the share of subsidiaries	(102)	2,919
Acquisition (disposal) in the share of subsidiaries	714	360
Ending balance	₩ 2,365,549	₩ 2,364,937

## 21. ACCUMULATED OTHER COMPREHENSIVE INCOME:

- (1) Details of accumulated other comprehensive income (loss) as of December 31, 2017 and 2016, are as follows (Unit: Korean won in millions):

Description	December 31, 2017	December 31, 2016
Changes in investment valuation using equity method	₩ (259,160)	₩ (180,415)
Gain on AFS financial assets	41,925	21,106
Loss on AFS financial assets	(565)	(426)
Overseas operations translation	(30,663)	2,365
Loss on valuation of derivatives instruments entered into for cash flow hedge	(1,907)	(2,236)
<b>Total</b>	<b>₩ (250,370)</b>	<b>₩ (159,606)</b>

- (2) Changes in investment valuation using equity method for the years ended December 31, 2017 and 2016, are as follows (Unit: Korean won in millions):

Description	Year ended December 31, 2017	Year ended December 31, 2016
Beginning balance	₩ (180,415)	₩ (147,237)
Changes in capital of associates and joint ventures	(81,787)	(30,521)
Effect on income taxes	3,042	(2,657)
<b>Ending balance</b>	<b>₩ (259,160)</b>	<b>₩ (180,415)</b>

- (3) Changes in gain on AFS financial assets for the years ended December 31, 2017 and 2016, are as follows (Unit: Korean won in millions):

Description	Year ended December 31, 2017	Year ended December 31, 2016
Beginning balance	₩ 21,106	₩ 23,749
Changes in gain on AFS financial assets	27,465	(3,487)
Effect on income taxes	(6,646)	844
<b>Ending balance</b>	<b>₩ 41,925</b>	<b>₩ 21,106</b>

- (4) Changes in loss on AFS financial assets for the years ended December 31, 2017 and 2016, are as follows (Unit: Korean won in millions):

Description	Year ended December 31, 2017	Year ended December 31, 2016
Beginning balance	₩ (426)	₩ (715)
Changes in loss on AFS financial assets	(183)	381
Effect on income taxes	44	(92)
<b>Ending balance</b>	<b>₩ (565)</b>	<b>₩ (426)</b>

- (5) Changes in overseas operations translation for the years ended December 31, 2017 and 2016, are as follows (Unit: Korean won in millions):

Description	Year ended December 31, 2017	Year ended December 31, 2016
Beginning balance	₩ 2,365	₩ (7,700)
Changes in overseas operations translation	(33,608)	10,065
Changes in scope of consolidation	580	-
<b>Ending balance</b>	<b>₩ (30,663)</b>	<b>₩ 2,365</b>

- (6) Changes in loss on valuation of derivatives instruments entered into for cash flow hedge for the years ended December 31, 2017 and 2016, are as follows (Unit: Korean won in millions):

Description	Year ended December 31, 2017	Year ended December 31, 2016
Beginning balance	₩ (2,236)	₩ (2,959)
Net gain (loss) on derivatives instruments entered into for cash flow hedge	243	379
Interest rate swap	321	500
Income taxes by loss on valuation of derivatives instruments entered into for cash flow hedge	(78)	(121)
Transfers to profit and loss (*)	184	737
Interest rate swap (transferred to non-operating expenses)	243	972
Income tax expenses	(59)	(235)
Ending balance	(1,809)	(1,843)
Changes in scope of consolidation	15	-
Consolidation adjustment	(113)	(393)
Balance after consolidation adjustment	₩ (1,907)	₩ (2,236)

- (\*) Loss on valuation of cash flow derivatives that are transferred to profit and loss from equity for the years ended December 31, 2017 and 2016, is as follows (Unit: Korean won in millions):

Description	Year ended December 31, 2017	Year ended December 31, 2016
Non-operating expenses	₩ 243	₩ 972
Income tax expenses	(59)	(235)
Total	₩ 184	₩ 737

## 22. RETAINED EARNINGS AND DIVIDENDS:

Changes in retained earnings for the years ended December 31, 2017 and 2016, are as follows  
(Unit: Korean won in millions):

Description	Year ended December 31, 2017	Year ended December 31, 2016
Beginning balance	₩ 10,792,060	₩ 9,871,746
Profit for the year attributable to the owners of the Company	2,395,905	1,074,795
Dividends (*)	(228,668)	(228,668)
Remeasurement of net defined benefit liability	16,511	14,434
Changes in retained earnings by equity method	35,312	62,274
Retirements of treasury stocks	-	(2,521)
Changes in the Group	(714)	-
Ending balance	₩ 13,010,406	₩ 10,792,060

- (\*) Details of dividends for the years ended December 31, 2017 and 2016, are as follows  
(Unit: Korean won in millions):

Type of stock	Year ended December 31, 2017				
	Number of issued shares	Number of treasury stocks	Number of dividend shares	Dividend per share (Korean won)	Total dividends (Korean won in millions)
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

Type of stock	Year ended December 31, 2016				
	Number of issued shares	Number of treasury stocks	Number of dividend shares	Dividend per share (Korean won)	Total dividends (Korean won in millions)
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

## 23. PROFIT (LOSS) FROM OPERATIONS:

Details of profit (loss) from operations for the years ended December 31, 2017 and 2016, are as follows  
(Unit: Korean won in millions):

	Year ended December 31, 2017	Year ended December 31, 2016
<b>Revenue and gain (loss) valuation by equity method</b>		
Sales of goods	₩ 4,771,625	₩ 4,378,680
Sales of finished goods	121,963	19,030
Sales of merchandise	4,649,662	4,359,650
Service revenue	1,940,193	1,919,963
Construction revenue	3,096,587	2,165,172
Gain (loss) on valuation by equity method	1,577,093	807,323
Other revenue	455,560	402,749
	<u>11,841,058</u>	<u>9,673,887</u>
<b>Cost of sales</b>		
Cost of sales of goods	4,404,204	4,085,137
Cost of sales of service	1,672,201	1,666,641
Cost of sales of construction	2,932,611	1,952,315
Cost of sales of others	284,888	256,745
	<u>9,293,904</u>	<u>7,960,838</u>
	<u>2,547,154</u>	<u>1,713,049</u>
<b>Gross profit</b>		
<b>Selling and administrative expenses</b>		
Salaries and wages	162,677	189,909
Retirement benefits	15,233	18,088
Welfare	35,406	37,474
Amusement expenses	4,928	5,955
Depreciation	12,073	10,860
Amortization of intangible assets	11,174	10,775
Taxes and dues	12,838	13,129
Advertising expenses	5,004	6,875
Usual development expenses/survey and research	16,763	13,282
Commission	20,185	15,467
Insurance premium	2,562	1,146
Transportation expenses	5,693	5,106
Travel expenses	7,766	8,328
Service contract expenses	6,133	7,626
Rental expenses	13,388	14,265
Allowance (reversal) of bad debt	9,666	10,876
Allowance (reversal) of accrual of provision	(652)	5,067
Others	20,497	16,086
	<u>361,334</u>	<u>390,314</u>
<b>Operating income</b>	<u>₩ 2,185,820</u>	<u>₩ 1,322,735</u>

## 24. CLASSIFICATION OF EXPENSES BY NATURE:

Details of expenses by nature for the years ended December 31, 2017 and 2016, are as follows

(Unit: Korean won in millions):

Year ended December 31, 2017					
Account	Changes in inventories	Selling and administrative expenses	Manufacturing statement	Nature of expenses	
Changes in inventories	₩ 87,822	₩ -	₩ 4,468,480	₩	4,556,302
Finished goods	39,794	-	-		39,794
Work in process	17,225	-	-		17,225
Semifinished goods	13,934	-	-		13,934
Merchandise	(22,084)	-	4,309,413		4,287,329
Other inventories	38,953	-	159,067		198,020
Used raw material	-	-	324,226		324,226
Employee benefits	-	213,316	677,368		890,684
Depreciation and amortization	-	23,247	145,070		168,317
Commission expenses	-	20,185	631,104		651,289
Lease expenses	-	13,388	100,765		114,153
Professional fees	-	6,133	2,489,805		2,495,938
Other expenses and consolidation adjustments	-	85,065	369,264		454,329
Total	₩ 87,822	₩ 361,334	₩ 9,206,082	₩	9,655,238

  

Year ended December 31, 2016					
Account	Changes in inventories	Selling and administrative expenses	Manufacturing statement	Nature of expenses	
Changes in inventories	₩ 47,748	₩ -	₩ 4,239,283	₩	4,287,031
Finished goods	22,099	-	-		22,099
Work in process	2,742	-	-		2,742
Semifinished goods	(1,643)	-	-		(1,643)
Merchandise	29,487	-	4,072,721		4,102,208
Other inventories	(4,937)	-	166,562		161,625
Used raw material	-	-	438,387		438,387
Employee benefits	-	245,471	619,283		864,754
Depreciation and amortization	-	21,635	143,135		164,770
Commission expenses	-	15,467	518,087		533,554
Lease expenses	-	14,264	92,029		106,293
Professional fees	-	7,626	1,734,493		1,742,119
Other expenses and consolidation adjustments	-	85,851	128,393		214,244
Total	₩ 47,748	₩ 390,314	₩ 7,913,090	₩	8,351,152

## 25. FINANCIAL INCOME AND FINANCIAL EXPENSES:

- (1) Financial income for the years ended December 31, 2017 and 2016, is as follows (Unit: Korean won in millions):

Account	Year ended December 31, 2017	Year ended December 31, 2016
Interest income	₩ 18,847	₩ 17,320
Dividend income	2,077	2,703
Gain on foreign currency transaction	3,629	11,445
Gain on foreign currency translation	647	1,540
Gain on disposals of AFS financial assets	-	22
<b>Total</b>	<b>₩ 25,200</b>	<b>₩ 33,030</b>

- (2) Interest income included in financial income for the years ended December 31, 2017 and 2016, is as follows (Unit: Korean won in millions):

Account	Year ended December 31, 2017	Year ended December 31, 2016
Financial institution deposits and others	₩ 16,661	₩ 13,899
Other loans and receivables	2,790	4,464
<b>Subtotal</b>	<b>19,451</b>	<b>18,363</b>
Consolidation adjustment	(604)	(1,043)
<b>Consolidated total</b>	<b>₩ 18,847</b>	<b>₩ 17,320</b>

- (3) Financial expenses for the years ended December 31, 2017 and 2016, are as follows (Unit: Korean won in millions):

Account	Year ended December 31, 2017	Year ended December 31, 2016
Interest expenses	₩ 37,779	₩ 45,420
Loss on foreign currency transaction (non-operating)	10,449	11,672
Loss on foreign currency translation (non-operating)	1,995	293
Loss on transactions of derivatives	249	687
Loss on disposals of AFS financial assets	-	1
Impairment loss on AFS financial assets	316	266
Loss on disposals of trade receivables	19	1
Loss on redemption of bonds	43	-
<b>Total</b>	<b>₩ 50,850</b>	<b>₩ 58,340</b>

- (4) Interest expenses included in financial expenses for the years ended December 31, 2017 and 2016, are as follows (Unit: Korean won in millions):

Account	Year ended December 31, 2017	Year ended December 31, 2016
Bank overdrafts and loan interest	₩ 5,300	₩ 5,637
Interest expenses (discount on bonds payable)	22,466	25,210
Other interest expenses	14,017	17,030
Less: Capitalized interest expenses included in qualified assets (*)	(3,223)	(1,613)
<b>Subtotal</b>	<b>38,560</b>	<b>46,264</b>
Consolidation adjustment	(781)	(844)
<b>Consolidated total</b>	<b>₩ 37,779</b>	<b>₩ 45,420</b>

- (\*) Capitalization interest rates used for the years ended December 31, 2017 and 2016, are 1.92%–3.21% and 2.29%–2.81%, respectively.

## 26. OTHER NON-OPERATING INCOME AND EXPENSES:

Other non-operating income and expenses for the years ended December 31, 2017 and 2016, are as follows  
(Unit: Korean won in millions):

Description	Year ended December 31, 2017	Year ended December 31, 2016
<b>Other non-operating income</b>		
Rental income	₩ 370	₩ 223
Commission income	216	162
Gain on foreign currency transaction	17,908	21,343
Gain on foreign currency translation	7,359	11,361
Gain on disposals of tangible assets	972	2,119
Gain on disposals of investment properties	938	-
Gain on disposals of intangible assets	22	43
Gain on transactions of derivatives	14,414	17,269
Gain on valuation of derivatives	1,719	1,376
Gain on disposals of investments in associates	186,509	536
Gain on disposals of investments in subsidiaries	411,025	1,838
Miscellaneous income	2,123	2,163
Reversal of impairment loss of intangible assets	459	345
Other reversal of allowance for doubtful accounts	122	-
<b>Total</b>	<b>₩ 644,156</b>	<b>₩ 58,778</b>
<b>Other non-operating expenses</b>		
Loss on foreign currency transaction	₩ 21,975	₩ 23,212
Loss on foreign currency translation	15,951	9,882
Loss on disposals of tangible assets	1,314	6,107
Loss on disposals of investment properties	348	-
Loss on disposals of intangible assets	783	2,038
Loss on transactions of derivatives	10,542	13,839
Loss on valuation of derivatives	1,836	3,797
Loss on disposals of investments in subsidiaries	83	26
Loss on disposals of investments in associates	32	-
Impairment losses of investments in associates	1169	-
Donations and contributions	3,329	3,424
Other bad debt expenses	898	702
Impairment losses of tangible assets	485	417
Impairment losses of intangible assets	201	1,403
Miscellaneous loss	1450	653
Others	2,624	209
<b>Total</b>	<b>₩ 63,020</b>	<b>₩ 65,709</b>

## 27. NET GAINS (LOSSES) FROM FINANCIAL INSTRUMENTS:

Net gains (losses) from financial instruments for the years ended December 31, 2017 and 2016, are as follows  
(Unit: Korean won in millions):

Description	Year ended December 31, 2017	Year ended December 31, 2016
Financial assets:		
Financial assets at FVTPL	₩ 16,086	₩ 19,360
AFS financial assets	32,766	104
Loans and other receivables (*)	(15,202)	9,553
Subtotal	33,650	29,017
Financial liabilities:		
Financial liabilities at FVTPL	(12,579)	(17,969)
Derivative liabilities designated as a hedging instrument	122	(165)
Financial liabilities measured at amortized cost	(32,696)	(47,789)
Subtotal	(45,153)	(65,923)
Total	₩ (11,503)	₩ (36,906)

(\*) This line item includes net gains or losses arising from cash and cash equivalents.

## 28. INCOME TAX:

(1) Composition of income tax expense for the years ended December 31, 2017 and 2016, is as follows  
(Unit: Korean won in millions):

Description	Year ended December 31, 2017	Year ended December 31, 2016
Current income tax	₩ 273,225	₩ 145,543
Adjustment related to prior income tax expense	1,067	10,717
Changes in deferred tax assets:	63,337	26,052
Foreign currency translation effects	(145)	40
Beginning deferred tax assets due to temporary differences	(137,368)	(103,863)
Ending deferred tax assets due to temporary differences	(278,556)	(137,368)
Deferred tax directly reflected in equity	(8,750)	(7,493)
Changes in scope of consolidation	(68,785)	-
Classified as assets held for sale	(171)	-
Others and consolidation adjustments	(8,988)	4,767
Income tax expense for continuing operations	₩ 328,641	₩ 187,079

- (2) Changes in deferred tax assets (liabilities) for the years ended December 31, 2017 and 2016, are as follows  
(Unit: Korean won in millions):

Description	December 31, 2017				
	Beginning balance	Reflected in income (loss) or in equity	Changes in scope of consolidation.	Classified as assets held for sale	Ending balance
Temporary differences:					
Cash flow hedging	₩ 600	₩ (571)	₩ -	₩ -	₩ 29
Investments in subsidiaries, associates and joint ventures	(168,155)	26,017	-	-	(142,138)
Property, plant and equipment	23,183	5,736	(2,608)	(1,204)	25,107
Intangible assets	5,480	(3,687)	-	-	1,793
AFS financial assets	(87)	(5,053)	(220)	-	(5,360)
Provisions	42,530	(6,576)	(4,015)	(564)	31,375
Doubtful receivables	1,092	1,409	(380)	(551)	1,570
Other financial liabilities	3,060	2,962	-	(816)	5,206
Others	12,930	(6,553)	(8,822)	-	(2,445)
Tax deficit and tax credits:					
Tax deficit	63,927	(15,004)	(48,923)	-	-
Others	20,986	(12,963)	(3,548)	(1,257)	3,218
Deferred tax assets (liabilities)	5,546	(14,283)	(68,516)	(4,392)	(81,645)
Consolidation adjustment	(142,914)	(57,949)	(269)	4,221	(196,911)
Consolidated balance	₩ (137,368)	₩ (72,232)	₩ (68,785)	₩ (171)	₩ (278,556)

Description	December 31, 2016		
	Beginning balance	Reflected in income (loss) or in equity	Ending balance
Temporary differences:			
Cash flow hedging	₩ 717	₩ (117)	₩ 600
Investments in subsidiaries, associates and joint ventures	(130,854)	(37,301)	(168,155)
Property, plant and equipment	21,771	1,412	23,183
Intangible assets	5,591	(111)	5,480
AFS financial assets	(982)	895	(87)
Provisions	44,419	(1,889)	42,530
Doubtful receivables	792	300	1,092
Other financial liabilities	1,871	1,189	3,060
Others	1,984	10,946	12,930
Tax deficit and tax credits:			
Tax deficit	72,014	(8,087)	63,927
Others	13,475	7,511	20,986
Deferred tax assets (liabilities)	30,798	(25,252)	5,546
Consolidation adjustment	(134,661)	(8,253)	(142,914)
Consolidated balance	₩ (103,863)	₩ (33,505)	₩ (137,368)

- (3) Details of income tax that are directly reflected to the capital for the years ended December 31, 2017 and 2016, are as follows (Unit: Korean won in millions):

Description	December 31, 2017	December 31, 2016
Valuation gain (loss) of derivatives for cash flow hedge	₩ (137)	₩ (356)
Valuation gain (loss) of AFS financial assets	(6,598)	706
Remeasurement of defined benefit plans	(5,057)	(5,186)
Change of capital from equity method	3,042	(2,657)
<b>Total</b>	<b>₩ (8,750)</b>	<b>₩ (7,493)</b>

- (4) As of December 31, 2017, deferred tax assets and liabilities recognized for assets (liabilities) held for sale are ₩4,392 million and ₩9,668 million, respectively.

- (5) As of December 31, 2017 and 2016, unrecognized deferred tax assets, excluding investment assets, are as follows (Unit: Korean won in millions):

Description	December 31, 2017	December 31, 2016
Temporary differences	₩ 13,303	₩ 16,497
Tax deficit	51,834	44,158
Tax credits unused	185	9,516

- (6) As of December 31, 2017 and 2016, the temporary differences related to investment assets and equity interest not recognized as deferred tax assets (liabilities) are as follows (Unit: Korean won in millions):

Description	December 31, 2017	December 31, 2016
Investments in subsidiaries	₩ (1,535,126)	₩ (1,509,059)
Investments in associates and joint ventures	1,331,788	1,320,508
<b>Total</b>	<b>₩ (203,338)</b>	<b>₩ (188,551)</b>

## 29. EARNINGS PER SHARE:

- (1) Net income per share for the years ended December 31, 2017 and 2016, is as follows (Unit: Korean won):

Description	December 31, 2017	December 31, 2016
<b>Basic earnings per share of common share</b>		
Continuing operation	₩ 13,603	₩ 6,186
Discontinued operation	27	(72)
<b>Total basic earnings per share of common share</b>	<b>₩ 13,630</b>	<b>₩ 6,114</b>
<b>Basic earnings per share of Pre-1996 Commercial Law Amendment preferred share (*)</b>		
Continuing operation	₩ 13,653	₩ 6,236
Discontinued operation	27	(72)
<b>Total basic earnings per share of Pre-1996 Commercial Law Amendment preferred share</b>	<b>₩ 13,680</b>	<b>₩ 6,164</b>

- (\*) Basic earnings per share are calculated for preferred share, which K-IFRS 1033, *Earnings per share*, clarifies 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, 2017 and 2016, are as follows  
(Unit: Korean won in millions):

Description	Year ended December 31, 2017	Year ended December 31, 2016
Profit for the year attributable to owners of the Company	₩ 2,395,905	₩ 1,074,795
Less dividends for Pre-1996 Commercial Law Amendment preferred share	(4,466)	(4,465)
Less Pre-1996 Commercial Law Amendment preferred stock portion of residual profit	(40,785)	(15,924)
Net income used to calculate basic earnings per share of common share	2,350,654	1,054,406
Less discontinued operations' profit used for discontinued operations' basic earnings per share of common share	4,690	(12,424)
Profit from continuing operations used for continuing operations' basic earnings per share of common share	2,345,964	1,066,830
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, 2017 and 2016, are as follows  
(Unit: Korean won in millions):

Description	Year ended December 31, 2017	Year ended December 31, 2016
Dividends for Pre-1996 Commercial Law Amendment preferred share and Pre-1996 Commercial Law Amendment preferred stock portion of residual profit	₩ 45,251	₩ 20,389
Net income used to calculate basic earnings per share of Pre-1996 Commercial Law Amendment preferred share	45,251	20,389
Less discontinued operations' profit used for discontinued operations' Pre-1996 Commercial Law Amendment preferred earnings per share of preferred share	90	(238)
Profit from continuing operations used for continuing operations' Pre-1996 Commercial Law Amendment preferred earnings per share of preferred share	45,161	20,627
Weighted-average number of Pre-1996 Commercial Law Amendment preferred shares	3,307,867 shares	3,307,867 shares

- (4) As there are no potential common shares of the Group, diluted earnings per share of common shares and Pre-1996 Commercial Law Amendment preferred shares are equal to basic earnings per share.

### 30. RELATED-PARTY TRANSACTIONS:

(1) Details of related parties as of December 31, 2017 and 2016, are as follows:

December 31, 2017		
Entities with direct ownership	Subsidiaries of entities with direct ownership (domestic) (*1)	Subsidiaries of entities with direct ownership (overseas) (*1)
<b>Associates:</b>		
Korea Smart Card Co., Ltd.	Korea Smart Card CS Partners Co., Ltd. High End Co., Ltd	T-Money America, Inc. and others
Songdo U-Life LLC	U-Life Solutions Songdo International Sports Club LLC	
Recaudo Bogota S.A.S.		
Dongnam Solar Energy Co., Ltd.		
Combustion Synthesis Co., Ltd.		
Hellas SmarTicket Societe Anonyme		
Sejong Green Power Co., Ltd.		
Ulleungdo Natural Energy Independent Island Co., Ltd.		
Daegu Clean Energy Co., Ltd.		
KEPCO-LGCNS Mangilao Holdings LLC		KEPCO-LGCNS Mangilao Investment LLC and others
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&A 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 FarmHannong Co., Ltd. FarmHwaong Co., Ltd. Sarangnuri Co., Ltd.	LG Chem America, Inc. and others
LG Hausys, Ltd.	LG Hausys ENG., Ltd.	LG Hausys America, Inc. and others
LG Uplus Corp.	CS Leader Ain Teleservice CS One Partner Medialog corp. With U Co., Ltd.	DACOM America Inc.
LG Household & Health Care Ltd.	Coca-Cola Beverage Co.  Hankook Beverage Co., Ltd. The FaceShop Co., Ltd. HAITAI HTB CO., LTD. CNP Cosmetics Co., Ltd. K&I Co., Ltd. Balkeunnuri Co., Ltd. Zenisce Co., Ltd. Oriental Biomed Lab Ltd.	Beijing LG Household Chemical Co., Ltd. and others

December 31, 2017		
Entities with direct ownership	Subsidiaries of entities with direct ownership (domestic) (*1)	Subsidiaries of entities with direct ownership (overseas) (*1)
	LG Farouk Co. Ulleung Mountain Chu Spring Water Development Company	
LG International Corp. (*2)	Dangjin Tank Terminal Co., Ltd. Pantos Logistics Co., Ltd.	LG International (America) Inc. and others PANTOS LOGISTICS (CHINA) CO., LTD. and others
	Pantos Busan Newport Logistics Center Co., Ltd. Helistar Air Co., Ltd.	
GIIR Corporation	HS Ad Co., Ltd. L. Best	GIIR America Inc. and others
LG Hitachi Co., Ltd. Silicon Works Co., Ltd. LG Fuel Cell Systems Inc.	LG Fuel Cell Systems (Korea) Inc.	Silicon Works Inc.
<b>Joint ventures:</b>		
LG MMA Corp.		
<b>Other related parties' affiliates</b>		
<b>by the Act: (*2)</b>		
LG Display Co., Ltd. LG Tostem BM Co., Ltd. SEETEC Co., Ltd. MiGenstory Co., Ltd. Clean Soul Ltd. DACOM Crossing Corporation JIHEUNG Co., Ltd.	Nanumnuri Co., Ltd.	LG Display Nanjing Co., Ltd. and others
(*1) Joint ventures of associates are excluded.		
(*2) Acquired and classified as investments in associates during current period.		
(*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.		

December 31, 2016		
Entities with direct ownership	Subsidiaries of entities with direct ownership (domestic) (*1)	Subsidiaries of entities with direct ownership (overseas) (*1)
<b>Associates:</b>		
Korea Smart Card Co., Ltd.	Korea Smart Card CS Partners Co., Ltd. High End Co., Ltd	T-Money America, Inc. and others
Songdo U-Life LLC	U-Life Solutions Songdo International Sports Club LLC	
Recaudo Bogota S.A.S. Dongnam Solar Energy Co., Ltd. Combustion Synthesis Co., Ltd. Hellas SmarTicket Societe Anonyme Sejong Green Power Co., Ltd. Ulleungdo Natural Energy Independent Island Co., Ltd. Daegu Clean Energy Co., Ltd. LG Electronics Inc.	Hi Plaza Inc.  Hi-M Solutech Co., Ltd. HiTeleservice Co., Ltd.	LG Electronics Mexico S.A. DE C.V. and others

December 31, 2016		
Entities with direct ownership	Subsidiaries of entities with direct ownership (domestic) (*1)	Subsidiaries of entities with direct ownership (overseas) (*1)
	New Growth Venture Fund	
	New Growth Venture Fund II	
	Ace R&A Co., Ltd.	
	Hientech Co., Ltd.	
	LG-Hitachi Water Solutions Co., Ltd.	
	LG Innotek Co., Ltd.	
	Innowith	
	Hanuri	
	LG Innotek Alliance Fund	
LG Chem Ltd.	Haengboknuri	LG Chem America, Inc. and others
	FarmHannong Co., Ltd.	
	Agrotech Co., Ltd.	
	FarmBiotech Co., Ltd.	
	FarmHwaong Co., Ltd.	
	Sesil Corp.	
LG Hausys, Ltd.	LG Hausys ENG., Ltd.	LG Hausys America, Inc. and others
LG Uplus Corp.	CS Leader	DACOM America Inc.
	Ain Teleservice	
	CS One Partner	
	Medialog corp.	
	With U Co., Ltd.	
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.	
	CNP Cosmetics Co., Ltd.	
	K&I Co., Ltd.	
	Balkeunnuri Co., Ltd.	
	Zenisce Co., Ltd.	
	Oriental Biomed Lab Ltd.	
	LG Farouk Co.	
LG Life Science Co., Ltd.	Sarangnuri	LG Life Sciences India Pvt., Ltd. and others
GIIR Corporation	HS Ad Co., Ltd.	GIIR America Inc. and others
	L. Best	
LG Hitachi Co., Ltd.		
Silicon Works Co., Ltd.		Silicon Works Inc.
LG Fuel Cell Systems Inc.	LG Fuel Cell Systems (Korea) Inc.	
<b>Joint ventures:</b>		
LG MMA Corp.		
Serveone Cenyar Services Co.		
<b>Other related parties' affiliates</b>		
<b>by the Act: (*2)</b>		
LG Display Co., Ltd.	Nanumnuri Co., Ltd.	LG Display Nanjing Co., Ltd. and others
LG International Corp.	Dangjin Tank Terminal Co., Ltd.	LG International (America) Inc. and others
	Pantos Logistics Co., Ltd.	PANTOS LOGISTICS (CHINA) CO., LTD. and others
	Global Dynasty Natural Resource Private Equity Fund	
	Sal de Vida Korea Corp.	
	Pantos Busan Newport Logistics Center Co., Ltd.	
	Helistar Air Co., Ltd.	
LG Tostem BM Co., Ltd.		

December 31, 2016

Entities with direct ownership	Subsidiaries of entities with direct ownership (domestic) (*1)	Subsidiaries of entities with direct ownership (overseas) (*1)
SEETEC Co., Ltd.		
Genstory Co., Ltd.		
Clean Soul Ltd.		
DACOM Crossing Corporation		
JIHEUNG Co., Ltd.		

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

(\*2) 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) Transactions within the Group and subsidiaries are eliminated before consolidation, and the details of other transactions with related parties as of December 31, 2017 and 2016, are as follows:

1) Transactions with related parties for the years ended December 31, 2017 and 2016, are as follows  
(Unit: Korean won in millions):

Description	Year ended December 31, 2017			
	Revenue and others (*1)	Purchase of raw material	Acquisitions of property, plant and equipment	Other purchase
<b>Associates and their subsidiaries:</b>				
Korea Smart Card Co., Ltd. (*2)	₩ 22,197	₩ -	₩ -	₩ 1,097
LG Chem Ltd. (*2)	1,568,664	29,666	-	16,157
LG Household & Health Care Ltd. (*2)	380,013	2,177	509	10,916
LG Electronics Inc. (*2)	2,530,131	145,551	310,363	188,277
LG Uplus Corp. (*2)	438,993	7	584	78,538
LG Life Science Co., Ltd. (*2)(*3)	-	-	-	-
LG Hitachi Co., Ltd.	1,023	-	-	757
GIIR Corporation (*2)	12,448	42	339	27,895
LG Hausys, Ltd. (*2)	160,704	17,729	-	79,753
Silicon Works Co., Ltd. (*2)	109,426	20	-	421
Recaudo Bogota S.A.S.	-	-	-	-
Petro Conergy Co., Ltd. (*4)	-	-	-	-
Songdo U-Life LLC (*2)	-	-	-	-
Dongnam Solar Energy Co., Ltd.	346	-	-	-
Sejong Green Power Co., Ltd.	5,722	-	-	-
LG Fuel Cell Systems Inc. (*2)	1,144	-	-	-
Ulleungdo Natural Energy Independent Island Co., Ltd. (*2)	357	-	-	-
LG International Corp. (*2)(*5)	68,193	3,797	2,130	12,075
<b>Joint ventures:</b>				
LG MMA Corp.	43,835	26	-	-
<b>Other related parties' affiliates by the Act: (*2)(*7)</b>				
LG Display Co., Ltd. and others	2,226,151	21	-	1,048
<b>Total</b>	<b>₩ 7,569,347</b>	<b>₩ 199,036</b>	<b>₩ 313,925</b>	<b>₩ 416,934</b>

Description	Year ended December 31, 2016			
	Revenue and others (*1)	Purchase of raw material	Acquisitions of property, plant and equipment	Other purchase
<b>Associates and their subsidiaries:</b>				
Korea Smart Card Co., Ltd. (*2)	₩ 22,900	₩ -	₩ -	₩ 892
LG Chem Ltd. (*2)	978,481	31,044	9,326	797
LG Household & Health Care Ltd. (*2)	328,059	2,621	-	10,082
LG Electronics Inc. (*2)	2,408,464	72,654	12,812	118,511
LG Uplus Corp. (*2)	360,960	30	2,071	43,928
LG Life Science Co., Ltd. (*2)(*3)	59,335	155	-	1,879
LG Hitachi Co., Ltd.	1,074	151	-	2,138
GIIR Corporation (*2)	9,457	1	242	28,050
LG Hausys, Ltd. (*2)	109,216	6,420	-	48,824
Silicon Works Co., Ltd. (*2)	95,188	-	-	113
Recaudo Bogota S.A.S.	-	-	-	-
Petro Conergy Co., Ltd. (*4)	30,853	-	-	-
Songdo U-Life LLC (*2)	3,113	-	-	-
Dongnam Solar Energy Co., Ltd.	356	-	-	-
Sejong Green Power Co., Ltd.	10,700	-	-	-
LG Fuel Cell Systems Inc. (*2)	2,204	-	-	-
Ulleungdo Natural Energy Independent Island Co., Ltd. (*2)	408	-	-	-
LG International Corp. (*2)(*5)	-	-	-	-
<b>Joint ventures:</b>				
LG MMA Corp.	21,490	6	-	-
<b>Other related parties' affiliates by the Act: (*2)(*7)</b>				
LG Display Co., Ltd. and others	1,703,459	3,533	25,218	44,270
<b>Total</b>	<b>₩ 6,145,717</b>	<b>₩ 116,615</b>	<b>₩ 49,669</b>	<b>₩ 299,484</b>

(\*1) Dividends received from associates are disclosed in Note 13.

(\*2) Includes transactions with an associate's subsidiary.

(\*3) Merged into LG Chem Ltd. during the current period. As a result of the share exchange, the Group acquired ₩343,185 million of LG Chem Ltd. shares and recognized ₩182,086 million of gain on disposals of investments in associates of LG Life Science Co., Ltd.

(\*4) During the year, the Company was classified as AFS financial assets as a result of the disposal of interest and was excluded from related party. The above transactions are transactions that occurred before classification to AFS financial assets.

(\*5) Acquired and classified as investments in associates during current period.

(\*6) The Group recorded amounts due from customers for contract work of ₩131,286 (₩141,139) million and amounts due to customers for contract work of ₩107,163 (₩55,243) million for LG Electronics INC., etc., for the years ended December 31, 2017 and 2016, respectively.

(\*7) 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) Outstanding receivables and payables from transactions with related parties as of December 31, 2017 and 2016, are as follows (Unit: Korean won in millions):

Description	December 31, 2017			
	Account receivables and others (*1)	Loans	Account payables and others (*2)	Borrowings

December 31, 2017						
Description	Account receivables and others (*1)	Loans	Account payables and others (*2)	Borrowings		
<b>Associates and their subsidiaries:</b>						
Korea Smart Card Co., Ltd. (*3)	₩ 2,047	₩ -	₩ 165	₩ -		
LG Chem Ltd. (*3)	578,620	-	65,106	-		
LG Household & Health Care Ltd. (*3)	85,087	-	19,776	-		
LG Electronics Inc. (*3)	703,139	-	259,127	-		
LG Uplus Corp. (*3)	137,850	-	54,005	-		
LG Life Science Co., Ltd. (*3)(*8)	-	-	-	-		
LG Hitachi Co., Ltd.	213	-	693	-		
GIIR Corporation (*3)	8,056	-	18,572	-		
LG Hausys, Ltd. (*3)	49,793	-	42,284	-		
Recaudo Bogota S.A.S.	17,110	-	-	-		
Dongnam Solar Energy Co., Ltd.	107	175	-	-		
Sejong Green Power Co., Ltd.	5,437	-	-	-		
Petro Conergy Co., Ltd. (*4)	-	-	-	-		
Ulleungdo Natural Energy Independent Island Co., Ltd	84	-	-	-		
KEPCO-LGCNS Mangilao Holdings LLC(*5)	-	7,277	-	-		
Silicon Works Co., Ltd. (*3)	20,465	-	406	-		
LG Fuel Cell Systems Inc. (*3)	133	-	-	-		
LG International Corp. (*3)(*6)	30,223	-	14,322	-		
Joint ventures:						
LG MMA Corp.	15,857	-	1,066	-		
Serveone Cenyar Services Co. (*7)	-	-	-	-		
<b>Other related parties' affiliates by the Act: (*3)(*9)</b>						
LG Display Co., Ltd. and others	764,088	-	31,661	-		
<b>Total</b>	<b>₩ 2,418,309</b>	<b>₩ 7,452</b>	<b>₩ 507,183</b>	<b>₩ -</b>		

December 31, 2016						
Description	Account receivables and others (*1)	Loans	Account payables and others (*2)	Borrowings		
<b>Associates and their subsidiaries:</b>						
Korea Smart Card Co., Ltd. (*3)	₩ 3,105	₩ -	₩ 164	₩ -		
LG Chem Ltd. (*3)	274,905	-	57,394	-		
LG Household & Health Care Ltd. (*3)	55,186	-	19,851	-		
LG Electronics Inc. (*3)	634,458	-	164,151	-		
LG Uplus Corp. (*3)	123,294	-	34,837	-		
LG Life Science Co., Ltd. (*3)(*8)	16,155	-	5,308	-		
LG Hitachi Co., Ltd.	302	-	1,354	-		
GIIR Corporation (*3)	6,529	-	19,170	-		
LG Hausys, Ltd. (*3)	24,550	-	40,442	-		
Recaudo Bogota S.A.S.	19,844	-	-	-		
Dongnam Solar Energy Co., Ltd.	99	-	-	-		
Sejong Green Power Co., Ltd.	300	-	-	-		
Petro Conergy Co., Ltd. (*4)	8,964	-	-	-		
Ulleungdo Natural Energy Independent	-	-	-	-		

Description	December 31, 2016			
	Account receivables and others (*1)	Loans	Account payables and others (*2)	Borrowings
Island Co., Ltd				
KEPCO-LGCNS Mangilao Holdings LLC(*5)	-	-	-	-
Silicon Works Co., Ltd. (*3)	18,109	-	32	-
LG Fuel Cell Systems Inc. (*3)	1,083	30,877	-	-
LG International Corp. (*3)(*6)	-	-	-	-
<b>Joint ventures:</b>				
LG MMA Corp.	3,721	-	485	-
Serveone Cenyar Services Co. (*7)	-	1,228	-	-
<b>Other related parties' affiliates by the Act: (*3)(*9)</b>				
LG Display Co., Ltd. and others	593,002	-	64,011	-
<b>Total</b>	<b>₩ 1,783,606</b>	<b>₩ 32,105</b>	<b>₩ 407,199</b>	<b>₩ -</b>

(\*1) Receivables from related parties are composed of trade receivables, other receivables and prepaid expenses arising from transactions. Also includes dividends receivables with related parties.

(\*2) Payables to related parties are composed of trade payables and other payables arising from transactions with related parties.

(\*3) Includes transactions with an associate's subsidiary.

(\*4) During the year, the Company was classified as AFS financial assets as a result of the disposal of interest and was excluded from related party.

(\*5) ₩79 million allowance for doubtful accounts is set for loans to associates.

(\*6) Acquired and classified as investments in associates during the current period.

(\*7) Liquidated during the current period.

(\*8) Merged into LG Chem Ltd. during the current period.

(\*9) 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) Fund transactions with the related parties for the years ended December 31, 2017 and 2016, are as follows (Unit: Korean won in millions):

Description	Year ended December 31, 2017					
	Payment in cash	Sale of interests	Loans		Borrowings	
	(reduction of capital)		Loans	Payback	Borrowings	Repayments
<b>Associates:</b>						
Combustion Synthesis Co., LTD.	537	-	-	-	-	-
LG Fuel Cell Systems Inc.	21,921	-	-	29,189	-	-
Dongnam Solar Energy Co., Ltd.	-	-	436	261	-	-
KEPCO-LGCNS Mangilao Holdings LLC	-	-	7,610	-	-	-
<b>Others:</b>						
Related party, etc.	-	296,711	-	-	-	-

Total	₩ 22,458	₩ 296,711	₩ 8,046	₩ 29,450	₩ -	₩ -
Year ended December 31, 2016						
Description	Payment in cash (reduction of capital)	Sale of interests	Loans		Borrowings	
			Loans	Payback	Borrowings	Repayments
<b>Associates:</b>						
Hellas SmarTicket Societe Anonyme	₩ 1,469	₩ -	₩ -	₩ -	₩ -	₩ -
LG Fuel Cell Systems Inc.	15,549	-	-	-	-	-
<b>Joint venture:</b>						
Serveone Cenyar Services Co.	-	-	-	54	-	-
Total	₩ 17,018	₩ -	₩ -	₩ 54	₩ -	₩ -

- (3) The compensation and benefits for the Group'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 Group for the years ended December 31, 2017 and 2016, are as follows  
(Unit: Korean won in millions):

Description	Year ended December 31, 2017		Year ended December 31, 2016	
	₩		₩	
Short-term employee benefits	₩	71,015	₩	61,768
Severance benefits		11,608		11,163
Other long-term employee benefits		5		6
Total	₩	82,628	₩	72,937

(4) Other commitments

The subsidiary, LG CNS Co., Ltd., has entered into an indemnity agreement with Sejong Green Power Co., Ltd. for the loss of operating loss of Sejong Green Power Co. In addition, in case of the consecutive management service contract, if the the management operator, LG CNS Co., Ltd, has not operated for more than 30 days in a row for two consecutive years, there is an obligation to purchase shares of Sejong Green Power Co.

Serveone Co., Ltd., a subsidiary, jointly with Kwangmyung Electric Co., Ltd. and Daekyung Enertech Co., Ltd., has entered into a contract to deliver the shortfall to the sales guarantee account in the event that annual solar PV sales do not reach a certain amount. It is because of the borrowings of Dongnam Solar Energy Co., Ltd., an associate (Nonghyup Bank, ₩14,800 million).

### 31. FUNDING ARRANGEMENTS AND PLEDGING:

(1) As of December 31, 2017, commitments related to the Group's funding are as follows

(Unit: Korean won in millions):

Category	Limit	Used
Comprehensive import and export	₩ 13,214	₩ 262
Import	53,713	3,230
Overdraft	44,000	7,191
Credit line	141,000	24,501
Corporate facility fund borrowings	59,658	59,523
Working capital borrowings	155,881	13,693
Forwards	67,177	9,156
Receivable-backed borrowings	265,000	259,076
Other borrowing agreements	96,000	43,361
Others	150,000	52,587

(2) Restricted financial assets as of December 31, 2017, are as follows (Unit: Korean won in millions):

Account	December 31, 2017	Remark
Cash and cash equivalents	₩ 8,991	Deposits for issuing notes and pledges against borrowings
Financial institution deposits	19,950	Win-Win Cooperation Fund and L/C agreements
Long-term deposits	283	Deposits for overdraft accounts

(3) Details of pledging as of December 31, 2017, are as follows:

Provider	Recipient	Details
LG Corp. Serveone Co., Ltd.	Woori Bank and one other	Collateral for rent deposit (blank bill, two notes).
	LG Electronics Inc. and two others	6 mortgage notes (face value: ₩27,024 million) pledged to guarantee performance and warranty.
	The Korea Development Bank and 21 others	Stock collateral security pledged, ₩4,524 million with respect to BTL (Build Transfer Lease) projects
	Woori Bank	Provide land and buildings as collateral (book value: ₩1,800 million and amount limit: ₩1,080 million).
	NH Bank	₩873 million of associate stock provided as pledged to PF (Project Financing)
	Construction Guarantee	₩758 million of capital stock investment provided a combination as mortgage.
	Electric Contractors Financial Cooperative	₩65 million of capital stock investment provided a combination as mortgage.
	Engineering Guarantee Insurance	₩61 million of capital stock investment provided a combination as mortgage.
	Korea Specialty Contractor Financial Cooperative	₩77 million of capital stock investment provided a combination as mortgage.
	Information & Communication Financial Cooperative	₩22 million of capital stock investment provided a combination as mortgage.
	Korea Facilities Construction Financial Cooperative	₩51 million of capital stock investment provided a combination as mortgage.
	SMBC	Provide Tokyo KTT Tower land and buildings as collateral (book value: ₩19,343 million).
LG Holdings Japan		
LG CNS Co., Ltd.	Korea Software Financial Cooperative	₩1,300 million of capital stock investment provided a combination as mortgage.
	Engineering Guarantee Insurance	₩779 million of capital stock investment provided a combination as mortgage.
	Smilegate Investment, Inc.	₩195 million of capital stock investment provided a combination as mortgage.
LG N-Sys Inc.	Korea Software Financial Cooperative	₩40 million of capital stock investment provided as collateral.
Korea Elecom Co., Ltd.	Shinhan Bank	Provide land and buildings as collateral (book value: ₩2,887 million and amount limit: ₩4,500 million).
	SSangyong Information & Communications Corp.	Receivables of patent rights are provided as collateral (amount: ₩6,500 million).
LG Sports Co., Ltd.	Kookmin Bank	Provide land as collateral (book value: ₩101,019 million and amount limit: ₩48,000 million).

(4) Performance guarantee

The Group provides the following performance guarantees and warranties to customers through third-party guarantee insurance agreements as of December 31, 2017 (Unit: Korean won in millions):

Description	Provider	Amounts of guarantees	Insurance company
		₩ 105,653	Seoul Guarantee Insurance
Guarantee of contract and warranties, etc.	LG CNS Co., Ltd., Serveone Co., Ltd. and others	582,826	Korea Software Financial Cooperative
		5,148	Engineering Financial Cooperative
		10,956	The Export-Import Bank of Korea
		162,909	KEB Hana Bank and others
Total		₩ 867,492	

**32. OPERATING LEASE CONTRACTS:**

(1) The Group as lessee

- 1) The Group entered into operating lease contracts for buildings, vehicles and office equipment. Payment schedule related to the major operating lease contracts as of December 31, 2017 and 2016, is as follows  
(Unit: Korean won in millions):

December 31, 2017				
Company	Less than 1 year	1 year-5 years	More than 5 years	Total
LG Corp. and 29 others	₩ 27,490	₩ 9,620	₩ 31	₩ 37,141

  

December 31, 2016				
Company	Less than 1 year	1 year-5 years	More than 5 years	Total
LG Corp. and 32 others	₩ 31,361	₩ 24,862	₩ 1,399	₩ 57,622

- 2) The Group recognized rental expense related to operating lease contracts for the years ended December 31, 2017 and 2016, for the amounts of ₩114,153 million and ₩106,293 million, respectively. For the years ended December 31, 2017 and 2016, ₩2,821 million and ₩3,072 million, respectively, were included as account of profit or loss from discontinued operations.
- 3) LG CNS Co., Ltd. and LG Siltron Inc., subsidiaries of the Group, entered into relending lease contracts for office. The collection plan for relending lease contracts as of December 31, 2017 and 2016, is as follows  
(Unit: Korean won in millions):

December 31, 2017				
Company	Lessor	Description	Less than 1 year	Total
LG CNS Co., Ltd.	Tara Graphics Co., Ltd.	Real estate rental	₩ -	₩ -
LG CNS Co., Ltd.	Pantos Logistics Co., Ltd.	Real estate rental	-	-
LG Siltron Inc.	Hana Financial Investment Co., Ltd.	Real estate rental	-	-
Total			₩ -	₩ -

  

December 31, 2016				
Company	Lessor	Description	Less than 1 year	Total
LG CNS Co., Ltd.	Tara Graphics Co., Ltd.	Real estate rental	₩ 51	₩ 51
LG CNS Co., Ltd.	Pantos Logistics Co., Ltd.	Real estate rental	234	234
LG Siltron Inc.	Hana Financial Investment Co., Ltd.	Real estate rental	41	41
Total			₩ 326	₩ 326

(2) The Group as lessor

1) LG N-Sys Inc. has a telecommunications equipment lease contract with LG Uplus Corp. Other entities within the Group also have certain real estate operating lease contracts.

2) The operating lease contracts as of December 31, 2017 and 2016, are as follows (Unit: Korean won in millions):

Company	December 31, 2017			
	Less than 1 year	1 year-5 years	More than 5 years	Total
LG Corp. and 6 others	₩ 62,965	₩ 57,852	₩ 61,741	₩ 182,558

Company	December 31, 2017			
	Less than 1 year	1 year-5 years	More than 5 years	Total
LG Corp. and 6 others	₩ 36,681	₩ 43,638	₩ 54,630	₩ 134,949

3) The Group recognized rental profit related to operating lease contracts for the years ended December 31, 2017 and 2016, in the amounts of ₩119,145 million and ₩101,896 million, respectively. For the years ended December 31, 2017 and 2016, ₩842 million and ₩2,099 million, respectively, were included as account of profit or loss from discontinued operations.

### 33. PENDING LITIGATIONS:

- 1) Pending litigations as of December 31, 2017, are claims for return of other receivables (Defendant: Korea Defense Industry Association, the amount of lawsuit: ₩14,722 million) and 21 others, and the total amount of lawsuits is ₩46,708 million. The cases that the Group is sued are the claims for software copyright infringement (Plaintiff: EPP-Media, the amount of lawsuit: ₩2,544 million) and 19 others, and the total amount of lawsuits is ₩175,299 million. Meanwhile, the results of lawsuits and the effects on the consolidated financial statements cannot be reasonably predicted at the end of the reporting date.
- 2) During the year ended December 31, 2017, a fire occurred in a building entrusted by Serveone Co., Ltd., a subsidiary, and the Group believes that it is liable to indemnify some of the damages caused by the fire accident. The Group sets the related provision as the best estimate as of December 31, 2017.

### 34. RISK MANAGEMENT:

(1) Capital risk management

The Group performs capital risk 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 Group may adjust dividend payments, redeem paid-up capital to shareholders, issue stocks to reduce liability or sell assets.

The Group'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 Group is unchanged from the prior period. In addition, items managed as capital by the Group as of December 31, 2017 and 2016, are as follows

(Unit: Korean won in millions):

	December 31, 2017		December 31, 2016	
Total borrowings	₩	1,392,657	₩	1,877,570
Less: Cash and cash equivalents		(1,309,949)		(1,129,035)
Borrowings, net		82,708		748,535
Total equity	₩	16,179,511	₩	14,220,084
Debt-to-equity ratio		0.51%		5.26%

## (2) Financial risk management

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

### 1) Foreign currency risk

The Group is exposed to foreign currency risk since it makes transactions in foreign currencies. The book value of Group's monetary assets and liabilities denominated in foreign currency that is not the functional currency as of December 31, 2017, is as follows (Unit: Korean won in millions):

Currency	Assets		Liabilities	
USD	₩	234,542	₩	99,956
EUR		52,914		17,934
JPY		6,204		5,224
CNY		11,106		3,191
Others		90,555		11,717
Total	₩	395,321	₩	138,022

The Group internally assesses the foreign currency risk from changes in exchanges rates on a regular basis. The Group's sensitivity analysis to a 10% increase and decrease in the Korean won (functional currency of the Group) against major foreign currencies as of December 31, 2017, is as follows (Unit: Korean won in millions):

Currency	10% increase against foreign currency		10% decrease against foreign currency	
USD	₩	10,202	₩	(10,202)
EUR		2,672		(2,672)
JPY		70		(70)
CNY		600		(600)
Others		5,976		(5,976)
Total	₩	19,520	₩	(19,520)

Sensitivity analysis above is conducted for monetary assets and liabilities denominated in foreign currencies other than the functional currency as of December 31, 2017.

As of December 31, 2017, the Group entered into cross-currency forward contracts and currency swap contracts to manage its foreign currency exchange rate risk related to its expected sale and purchase. The evaluation of unsettled currency forward contracts and currency swap contracts as of and for the year ended December 31, 2017, is as follows (Unit: Korean won in millions):

Description	Notional amount	Valuation gain and loss		Accumulated other comprehensive income	Fair value	
		Gain	Loss		Assets	Liabilities
Currency forward	₩ 384,121	₩ 1,763	₩ 1,836	₩ (22)	₩ 1,798	₩ 1,975

## 2) Interest rate risk

The Group borrows on a floating rate and is exposed to cash flow risk arising from interest rate changes. Also, because of AFS debt securities that are measured at fair value, the Group is exposed to fair value interest rate risk.

The book value of assets and liabilities exposed to interest rate risk as of December 31, 2016, is as follows  
(Unit: Korean won in millions):

Description	December 31, 2017
Borrowings	₩ 105,802
Derivatives related to interest rate	7
Total	₩ 105,819

The Group internally assesses the cash flow risk from changes in interest rates on a regular basis.

Effect of changes in interest rates of 1% to net income as of December 31, 2017, is as follows  
(Unit: Korean won in millions):

Description	1% increase		1% decrease	
	Gain (loss)	Net assets	Gain (loss)	Net assets
Borrowings	₩ (726)	₩ -	₩ 726	₩ -
Derivatives related to interest rate	379	91	(379)	(91)
Total	₩ (347)	₩ 91	₩ 347	₩ (91)

In order to manage its interest rate risks, the Group enters into interest rate swaps and/or currency swap contracts. The value of unsettled interest swap contract as of and for the year ended December 31, 2017, is as follows  
(Unit: Korean won in millions):

Description	Notional amount	Valuation gain and loss		Accumulated other comprehensive income	Fair value	
		Gain	Loss		Assets	Liabilities
Interest rate swap	₩ 50,000	₩ -	₩ -	₩ (1,885)	₩ -	₩ 7

## 3) Price risk

The Group is exposed to price risks from AFS equity instruments. As of December 31, 2017, the fair value of AFS equity instruments is ₩46,875 million, and when all the other variables are constant and when the price of equity instrument changes by 10%, the effect of after tax to equity will be ₩3,553 million.

## 4) Credit risk

Credit risk refers to risk of financial losses to the Group when the counterparty defaults on the obligations of the contract.

Credit risk arises from AFS financial assets (bond), financial institutions and limit of payment guarantee, as well as credit risks of customers, including loans and receivables. As for banks and financial institutions, the Group makes transactions with reputable financial institutions and, therefore, the credit risk from it is limited. For ordinary transactions, customers' financial status, credit history and other factors are considered to evaluate their credit status. The Group does not have policies to manage credit limits of each customer. The maximum exposure to credit risk of loans and receivables and AFS financial assets is similar to that of the carrying amount of those accounts.

Meanwhile, maximum exposure amount of credit risk of the consolidated entity for the loss of non-consolidation structured entity that is explained in Note 35 is ₩88,075 million.

### 5) Liquidity risk

The Group establishes short-term and long-term fund management plans. The Group analyzes and reviews actual cash outflow and its budget to correspond to the maturity of financial liabilities to that of financial assets.

Management of the Group believes that financial liability may be redeemed by cash flow arising from operating activities and financial assets.

Maturity analysis of non-derivative financial liabilities according to its remaining maturity as of December 31, 2017, is as follows (Unit: Korean won in millions):

Description	Within 1 year	1 year-5 years	More than 5 years	Total
Non-interest financial instrument	₩ 2,941,746	₩ 11,240	₩ 74,392	₩ 3,027,378
Floating-rate financial instrument	69,454	7,635	32,144	109,233
Fixed-rate financial instrument	338,582	1,032,907	2,110	1,373,599
Total	₩ 3,349,782	₩ 1,051,782	₩ 108,646	₩ 4,510,210

Maturity analysis above is based on the book value and the earliest maturity date by which the payments should be made. Maturity analysis of derivative financial liabilities according to its remaining maturity as of December 31, 2017, is as follows (Unit: Korean won in millions):

Description	Flow	Within 1 year	1 year-5 years	Total
Derivatives for trading:				
Foreign currency derivatives	Outflow	₩ (161,247)	₩ -	₩ (161,247)
	Inflow	161,098	-	161,098
Subtotal		(149)	-	(149)
Derivatives designated and hedging instruments:				
Interest rate derivatives	Outflow	(7)	-	(7)
Foreign currency derivatives	Inflow	(29)	-	(29)
Subtotal		(36)	-	(36)
Total		₩ (185)	₩ -	₩ (185)

### (3) Estimation of fair value

The fair values of financial instruments (i.e., financial assets held for trading and AFS financial assets) traded on active markets are determined with reference to quoted market prices. The Group 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 Group 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 trade receivables and trade payables are approximated at their carrying value, less impairment loss. The Group 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 grouped into Levels 1 to 3, based on the degree to which the fair value is observable, as described below:

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

1) Financial instruments that are measured subsequent to initial recognition at fair value by fair value hierarchy levels as of December 31, 2017 and 2016, are as follows (Unit: Korean won in millions):

Description	December 31, 2017							
	Level 1		Level 2		Level 3		Total	
Financial assets:								
Derivative assets for trading	₩	-	₩	1,716	₩	-	₩	1,716
Derivative assets designated as a hedging instrument		-		82		-		82
AFS financial assets		46,875		-		63,296		110,171
Total	₩	46,875	₩	1,798	₩	63,296	₩	111,969
Financial liabilities:								
Derivative liabilities for trading	₩	-	₩	1,864	₩	-	₩	1,864
Derivative liabilities designated as a hedging instrument		-		118		-		118
Total	₩	-	₩	4,459	₩	-	₩	4,459

Description	December 31, 2016							
	Level 1		Level 2		Level 3		Total	
Financial assets:								
Derivative assets for trading	₩	-	₩	1,376	₩	-	₩	1,376
AFS financial assets		29,595		-		53,313		82,908
Total	₩	29,595	₩	1,376	₩	53,313	₩	84,284
Financial liabilities:								
Derivative liabilities for trading	₩	-	₩	3,820	₩	-	₩	3,820
Derivative liabilities designated as a hedging instrument		-		639		-		639
Total	₩	-	₩	4,459	₩	-	₩	4,459

There is no significant transfer between Level 1 and Level 2 during the current period and the prior period.

- 2) Valuation method and input variables that are classified as Level 2 from the financial instruments that are subsequently measured as fair values are as follows (Unit: Korean won in millions):

Description	Fair values as of December 31, 2017		Valuation technique	Input variables
Financial assets:				
Derivative instrument assets held for sale	₩	1,716	Decision model for future prices	Discount rate and exchange rate
Assets of derivative instruments designated as hedging instruments		82	Discounted cash flow method	Discount rate
Financial liabilities:				
Liabilities of derivative instruments for the purpose of sale		1,864	Decision model for future prices	Discount rate and exchange rate
Liabilities of derivative instruments designated as hedging instruments	₩	118	Discounted cash flow method	Discount rate

- 3) The fair value hierarchy of financial instruments with fair value that cannot be reliably measured at fair value in the consolidated statements of financial position as of December 31, 2017 and 2016, is as follows (Unit: Korean won in millions):

Description	December 31, 2017					
	Fair value				Book value	
	Level 1	Level 2	Level 3	Total		
Loans and receivables:						
Financial institution deposits	₩	-	₩	₩ 438,214	₩ 438,214	₩ 438,214
Trade receivables (*)		-	-	3,049,038	3,049,038	3,049,038
Loans (*)		-	-	10,367	10,367	10,367
Other account receivables (*)		-	-	50,106	50,106	50,106
Accrued income (*)		-	-	3,270	3,270	3,270
Deposits (*)		-	-	20,090	20,090	20,090
Total	₩	-	₩	₩ 3,571,085	₩ 3,571,085	₩ 3,571,085
Financial liabilities measured at amortized cost:						
Trade payables (*)	₩	-	₩	-	₩ 2,261,617	₩ 2,261,617
Borrowings		-	-	285,328	285,328	285,328
Other accounts payables (*)		-	-	140,293	140,293	140,293
Accrued expenses (*)		-	-	188,312	188,312	188,312
Accrued dividends (*)		-	-	328	328	328
Deposits received		-	408,223	-	408,223	409,734
Debentures		-	1,101,269	-	1,101,269	1,107,329
Total	₩	-	₩1,509,492	₩ 2,875,878	₩ 4,385,370	₩ 4,392,941

Description	December 31, 2016						Book value	
	Fair value							
	Level 1	Level 2	Level 3	Total				
Loans and receivables:								
Financial institution deposits	₩	-	₩	-	₩	206,845	₩	206,845
Trade receivables (*)		-		-		2,568,467		2,568,467
Loans (*)		-		-		36,667		36,667
Other account receivables (*)		-		-		28,672		28,672
Accrued income (*)		-		-		3,115		3,115
Deposits (*)		-		-		20,835		20,835
Total	₩	-	₩	-	₩	2,864,601	₩	2,864,601
Financial liabilities measured at amortized cost:								
Trade payables (*)	₩	-	₩	-	₩	1,635,402	₩	1,635,402
Borrowings		-		-		729,948		729,948
Other accounts payables (*)		-		-		190,829		190,829
Accrued expenses (*)		-		-		159,838		159,838
Accrued dividends (*)		-		-		316		316
Deposits received		-		524,132		-		524,132
Debentures		-		1,150,827		-		1,150,827
Total	₩	-	₩	1,674,959	₩	2,716,333	₩	4,391,292
							₩	4,380,130

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

4) Changes in Level 3 financial assets for the years ended December 31, 2017 and 2016, are as follows  
(Unit: Korean won in millions):

Description	Year ended December 31, 2017									Unrealized holding gain or loss
	Beginning balance	Net income (loss)	Comprehensive income (loss)	Purchases	Disposals	Disposals of subsidiaries	Ending balance			
Derivative assets for trading	₩ 53,313	₩ -	₩ 9,983	₩ -	₩ -	₩ -	₩ 63,296	₩		₩ 16,467
Total	₩ 53,313	₩ -	₩ 9,983	₩ -	₩ -	₩ -	₩ 63,296	₩		₩ 16,467

Description	Year ended December 31, 2016									Unrealized holding gain or loss
	Beginning balance	Net income (loss)	Comprehensive income (loss)	Purchases	Disposals	Disposals of subsidiaries	Ending balance			
Derivative assets for trading	₩ 52,561	₩ -	₩ 950	₩ 140	₩ (317)	₩ (21)	₩ 53,313	₩		₩ 11,847
Total	₩ 52,561	₩ -	₩ 950	₩ 140	₩ (317)	₩ (21)	₩ 53,313	₩		₩ 11,847

None was recognized as income (loss) from related assets and liabilities held as of December 31, 2017 and 2016.

Total income (loss) that is recognized as other comprehensive income (loss) is related to non-listed shares that are held as of December 31, 2016, and they are recognized as the change in valuation gain (loss) of AFS financial assets (see Note 21).

- 5) A description of the valuation techniques and the inputs used in the fair value measurement of financial instruments classified as Level 2 and Level 3 is as follows:

- Currency forward and interest rate swap

In principle, the fair value of currency forward was measured based on forward currency rates whose period is coincident with the residual period of the currency forward, and they are advertised on the market at the end of the reporting period. If forward currency rates whose periods are coincident with the residual period are not advertised on the market, the fair value of currency forward was measured by estimating the forward currency rates whose period is similar to the residual period of the currency forward. The estimation of the forward currency was performed using interpolation to advertised periodical forward currency rates. Discount rates used to measure the fair value of currency forward were determined based on yield curve from yields advertised on the market.

Discount rates and forward rates used to measure the fair value of interest rate swaps were determined based on the applicable yield curves derived from interest rates that are advertised on the market at the end of the reporting period. The fair value of interest rate swaps measured on the amount of money that discounted at an appropriate discount rate to future cash flows of interest rate swaps was estimated based on the forward rate that is obtained by the method described above.

Since the input variables that are used to measure the fair value of currency forward and interest rate swaps for the end of the reporting period are derived via the forward exchange rate and the yield curve in the market, the fair values of currency forward and interest rate swap were classified as Level 2 fair value measurement.

- Corporate bonds

The fair value of corporate bonds was measured by discount cash flow (DCF) method. The discount rates used in DCF were determined based on market swap rates and credit spreads of the bonds that are advertised and whose credit rating and period were similar to those of corporate bonds and cumulative redeemable preference stocks. The discount rates that influence on the fair value of corporate bonds and cumulative redeemable preference stocks significantly were classified as Level 2 fair value measurement because they resulted in observable information in the market.

- Unlisted securities and unlisted securities-linked convertible securities

The fair value of non-listed shares and unlisted securities-linked convertible securities, 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 Group has classified the fair value hierarchy system on Level 3 of the fair value measurement of non-listed shares.

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

- 7) The table below explains the quantitative information of fair value measurement (Level 3) that uses the input variables that are significant, but unobservable and the relationship between unobservable input variables and the fair value measurements (Unit: Korean won in millions):

Description	Fair values as of December 31, 2017		Valuation technique	Unobservable inputs	Range	Disposals
AFS financial assets	₩	58,176	Discounted cash flow method and comparable company analysis	Growth rate	0%	Increase (decrease) in fair values due to increase (decrease) in growth rate
				Discount rate	9.35%–10.26%	Decrease (increase) in fair values due to increase (decrease) in discount rate

- 8) A description of the valuation processes in the fair value measurement for Level 2 and Level 3 that the Group is carrying out is as follows:

The Group 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:

- Stock volatilities and stock correlation used in the measurement of the financial instruments linked with stocks (e.g., investments in convertible bonds, equity-linked securities and consideration for conversion rights) were measured based on change in stock price during certain period before the reporting period.
- 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 and outside capital cost; capital cost estimates of the share value data reflected for the purpose of the issuer of the shares; and capital structure based on the equity data of comparable public companies that has been derived based on the CAPM.

- 9) Impact on net income and other comprehensive income (loss) due to the change in reasonably available and unobservable input variables under the conditions that other input variables are constant is 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%	₩ -	₩ -	₩ 931	₩ (761)
	Discount rate	+/-1%	₩ -	₩ -	₩ 1,298	₩ (1,059)

- 10) The Company has judged that unobservable changes in inputs to reflect alternative assumptions would not change the fair value measurement significantly.

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

### 35. UNCONSOLIDATED STRUCTURED ENTITIES:

As of December 31, 2017, information about the nature and risks associated with interests in unconsolidated structured entities held by the Group is as follows (Unit: Korean won in millions):

Description	Names of structured entities	Accounting title of interests on structured entities and providing financial supports	Book value of assets related to structured entities' interest		Maximum exposure to the loss of structured entities	
Interests accounted in accordance with K-IFRS 1039 (except interests on subsidiaries)	Welcome Edu Service Co., Ltd. (Dormitory of Seoul National University)	AFS financial assets	₩	248	₩	-
		Loan commitments		-		7,266
	Mileseum I (Ulsan National Institute of Science and Technology)	AFS financial assets		687		-
		Loan commitments		-		21,819
	Mileseum II (Ulsan National Institute of Science and Technology)	AFS financial assets		94		-
		Loan commitments		-		640
	Mileseum III (Ulsan National Institute of Science and Technology)	AFS financial assets		69		-
		Loan commitments		-		1,631
	Mileseum IV (Ulsan National Institute of Science and Technology)	AFS financial assets		925		-
		Loan commitments		-		17,678
	Heemangseum (Daegu Gyeongbuk Institute of Science and Technology)	AFS financial assets		1,540		-
		Loan commitments		-		36,180
	Heemangseum II (Daegu Gyeongbuk Institute of Science and Technology) (*)	AFS financial assets		146		-
		Loan commitments		-		2,861
Total	AFS financial assets		3,709		-	
	Loan commitments	₩	-	₩	88,075	

(\*) The Group covers supplementary funding obligations only during the period of operation; structured entity still under construction was excluded from maximum exposure calculation.

### 36. DISPOSAL OF SUBSIDIARIES:

The Group disposed LG Siltron Inc. and its subsidiaries and liquidated LG CNS Shenyang Inc. and LG CNS Chile Ltda. ATECAP Co., Ltd., a company to sell the ATM sector, split off from LG CNS Co., Ltd. and was disposed of during the current period. Meanwhile, the Group disposed Ucess Partners Co., Ltd. and Ever On Co., Ltd., which were subsidiaries during the previous period.

- (1) Fair values for the compensation of disposal are as follows (Unit: Korean won in millions):

	December 31, 2017		December 31, 2016	
	LG Siltron Inc.	ATECAP Co., Ltd.	Ucess Partners Co., Ltd.	Ever On Co., Ltd.
Disposal proceeds received as cash and cash equivalents	₩ 620,000	₩ 37,535	₩ 3,184	₩ 12

- (2) The book value of assets and liabilities of the subsidiary at the date of losing the controlling power is as follows (Unit: Korean won in millions):

	December 31, 2017		December 31, 2016	
	LG Siltron Inc.	ATECAP Co., Ltd.	Ucess Partners Co., Ltd.	Ever On Co., Ltd.
Current assets:	₩ 493,803	₩ 39,621	₩ 5,884	₩ 2,015
Cash and cash equivalents	105,400	2,034	1,526	1,597
Trade receivables and other receivables	118,367	13,520	4,231	217
Inventories	223,187	22,823	-	-
Other current assets	46,849	1,244	127	201
Non-current assets:	724,950	4,989	1,145	3,151
Trade receivables and other receivables	2,587	1,298	461	28
Other non-current assets	109,000	96	4	21
Property, plant and equipment	597,348	3,595	336	2,939
Intangible assets	16,015	-	344	163
Current liabilities:	500,024	6,712	5,455	4,662
Trade payables and other payables	142,740	4,452	5,206	4,438
Other current liabilities	357,284	2,260	249	224
Non-current liabilities:	323,661	363	199	29
Total value of disposed net assets	₩ 395,068	₩ 37,535	₩ 1,375	₩ 475

- (3) Gain on disposal of subsidiaries is as follows (Unit: Korean won in millions):

	December 31, 2017		December 31, 2016	
	LG Siltron Inc.	ATECAP Co., Ltd.	Ucess Partners Co., Ltd.	Ever On Co., Ltd.
Fair value of disposal proceeds	₩ 620,000	₩ 37,535	₩ 3,184	₩ 12
Incidental expenses	9,553	-	-	-
Book value of disposed net assets	201,485	37,535	1,375	476
Cumulative translation differences in net assets and related hedging instruments of subsidiary reclassified from equity at the time of loss of control	2,063	-	29	-
Gain (loss) on disposal of investments in subsidiaries	₩ 411,025	₩ -	₩ 1,838	₩ (464)

(\*) In addition to the gain on disposal, the Group recognized ₩83 million loss on disposal of investments in subsidiaries as a result of the liquidation.

Net cash flow due to the disposal of subsidiaries is as follows (Unit: Korean won in millions):

	December 31, 2017		December 31, 2016	
	LG Siltron Inc.	ATECAP Co., Ltd.	Ucess Partners Co., Ltd.	Ever On Co., Ltd.
Disposal proceeds received as cash and cash equivalents	₩ 620,000	₩ 28,313	₩ 3,184	₩ 12
Less: Disposal of cash and cash equivalents	114,954	2,034	1,526	1,597
Net cash flows	₩ 505,046	₩ 26,279	₩ 1,658	₩ (1,585)

### 37. DISCONTINUED OPERATIONS:

- (1) Operation sector — Ever On Co., Ltd. was sold  
The Group held the board of directors' meeting on September 26, 2016, and announced a sale plan of Ever On Co., Ltd. (car sharing and related service), a subsidiary, to TPP Co., Ltd. The sale was completed on October 10, 2016.
- (2) Operation sector — LG Siltron Inc. was sold  
The Group held the 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. The sale was completed on August 17, 2017 (with a disposal price of KRW 620,000 million).
- (3) ATM sector — LG CNS Co., Ltd. was sold  
LG CNS Co., Ltd., a subsidiary, held the board of directors' meeting on September 5, 2017, and announced a sale plan. At the date the Group measured the assets and liabilities of the ATM sector classified as held for sale, impairment loss was recognized as a result of assessment of fair value. ATECAP Co., Ltd., a company to sell the ATM sector, split off from LG CNS Co., Ltd. and was disposed of during the current period (see Note 36).
- (4) Operation sector — Lusem Co., Ltd. was sold  
The Group held the board of directors' meeting on November 30, 2017, and decided to sell all of the common stocks of Lusem Co., Ltd., a subsidiary, to LB Semicon Co., Ltd. (with a disposal price of KRW 75,000 million)
- (5) Analysis on profit or loss from discontinued operations  
General outcomes of discontinued operations shown in the consolidated statements of comprehensive income are as follows. The profit or loss from discontinued operations and its cash flows of pervious year have been restated for comparative purpose.

- 1) Profit from discontinued operations for the years ended December 31, 2017 and 2016, is as follows  
(Unit: Korean won in millions):

December 31, 2017					
	LG Siltron Inc.	Lusem Co., Ltd.	ATM	Total	
Sales	₩ 604,217	₩ 128,991	₩ 74,931	₩	808,139
Cost of sales	508,899	113,606	61,439		683,944
Selling and administrative expenses	23,428	8,323	20,541		52,292
Operating loss	71,890	7,062	(7,049)		71,903
Other operating income	14,234	1,725	517		16,476
Other operating expenses	27,493	1,876	4,149		33,518
Profit or loss before tax	58,631	6,911	(10,681)		54,861
Income tax expenses	14,668	1,318	(10,218)		5,768
Subtotal	43,963	5,593	(463)		49,093
Consolidation adjustments	788	(8,681)	-		(7,893)
Fair value assessment gain or loss	-	-	(18,306)		(18,306)
Subtotal	788	(8,681)	(18,306)		(26,199)
Profit or loss from discontinued operations	₩ 44,751	₩ (3,088)	₩ (18,769)	₩	22,894
Owners of the parent company	23,209	(4,880)	(15,945)		2,384
Non-controlling interests	21,542	1,792	(2,824)		20,510

December 31, 2016					
	LG Siltron Inc.	Lusem Co., Ltd.	Ever On Co., Ltd.	ATM	Total
Sales	₩ 836,297	₩ 125,955	₩ 1,874	₩ 89,234	₩ 1,053,360
Cost of sales	770,445	112,851	2,023	80,076	965,395
Selling and administrative expenses	31,835	12,927	549	21,281	66,592
Operating loss	34,017	177	(698)	(12,123)	21,373
Other operating income	32,032	2,510	23	546	35,111
Other operating expenses	56,980	1,299	186	14,347	72,812
Impairment loss	-	-	-	281	281
Profit or loss before tax	9,069	1,388	(861)	(26,205)	(16,609)
Income tax expenses	2,134	404	-	(8,382)	(5,844)
Subtotal	6,935	984	(861)	(17,823)	(10,765)
Consolidation adjustments	(73)	(952)	97	-	(928)
Fair value assessment gain or loss	-	-	(464)	-	(464)
Subtotal	(73)	(952)	(367)	-	(1,392)
Profit or loss from discontinued operations	₩ 6,862	₩ 32	₩ (1,228)	₩ (17,823)	₩ (12,157)
Owners of the parent company	3,464	(284)	(762)	(15,140)	(12,722)
Non-controlling interests	3,398	316	(466)	(2,683)	565

- 2) Cash flows arising from discontinued operations for the years ended December 31, 2017 and 2016, are as follows  
(Unit: Korean won in millions):

	December 31, 2017			
	LG Siltron Inc.	Lusem Co., Ltd.	ATM	Total
Cash flows from operating activities	₩ 181,117	₩ 28,055	₩ (18,765)	₩ 190,407
Cash flows from investing activities	(56,414)	(1,751)	(2,387)	(60,552)
Cash flows from financing activities	(135,431)	(37,352)	-	(172,783)
Net cash flows	₩ (10,728)	₩ (11,048)	₩ (21,152)	₩ (42,928)

	December 31, 2016				
	LG Siltron Inc.	Lusem Co., Ltd.	Ever On Co., Ltd.	ATM	Total
Cash flows from operating activities	₩ 122,072	₩ 18,274	₩ (262)	₩ 12,566	₩ 152,650
Cash flows from investing activities	(40,185)	1,040	(49)	(1,811)	(41,005)
Cash flows from financing activities	(113,378)	(4,788)	1,000	-	(117,166)
Net cash flows	₩ (31,491)	₩ 14,526	₩ 689	₩ 10,755	₩ (5,521)

Assets and liabilities of Lusem Co., Ltd. were classified and journalized as held for sale (see Note 38).

### 38. ASSETS HELD FOR SALE:

- (1) Details of assets (liabilities) held for sale

As of December 31, 2017, details of assets (liabilities) held for sale related to the sale of Lusem Co., Ltd. are as follows.

(Unit: Korean won in millions):

Description	December 31, 2017
Cash and cash equivalents	₩ 32,922
Loans and receivables	27,712
Other current assets	9,272
Inventories	505
Other non-current receivables,	50
Other non-current assets	4,398
Property, plant and equipment	32,313
Intangible assets	2,196
Total assets classified as held for sale	109,368
Trade payables and other payables(current)	34,881
Other current liabilities	1,049
Trade payables and other payables(non-current)	2,800
Other non-current liabilities	12,229
Total liabilities classified as held for sale	50,959
Total	₩ 58,409

The Group held the board of directors' meeting on November 30, 2017, and decided to sell all of the common stocks of Lusem Co., Ltd., a subsidiary. Through this, the Group is 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 was finalized on February 27, 2018.

### **39. NON-CASH INVESTING AND FINANCING ACTIVITIES:**

- (1) Significant non-cash investing and financing activities for the years ended December 31, 2017 and 2016, are as follows (Unit: Korean won in millions):

	Year ended December 31, 2017	Year ended December 31, 2016
Transfer of construction in progress	₩ 144,861	₩ 249,099
Other payables related to acquisition of property, plant and equipment	73,353	8,224
Transfer of property, plant and equipment to investment property	30,656	4,802
Transfer of long-term borrowings and debentures to current portion	170,832	251,516
Transfer of deposits received to current position	92,302	183,864
Classification as assets held for sale	154,912	146

- (2) Changes in liabilities arising from financing activities during current period, are as follows (Unit: Korean won in millions):

	Beginning balance	Financing activities	Non-cash changes(*)	Others	Ending balance
Borrowings	₩ 1,877,570	102,971	(580,258)	(7,626)	₩ 1,392,657

(\*) Disposal of a subsidiary

### **40. EVENTS AFTER THE REPORTING PERIOD:**

- (1) Merger decision of LG CNS Co., Ltd. and LG N-Sys Inc.  
On January 23, 2017, the board of directors decided to merge LG CNS Co., Ltd., a subsidiary, and LG N-Sys Inc., a subsidiary, on April 1, 2018, to enhance the management efficiency.
- (2) Disposal of Lusem Co., Ltd.  
Disposal of Lusem Co., Ltd. was completed on February 27, 2018. The Group sold all of the common stocks of Lusem Co., Ltd. to LB Semicon Co., Ltd. Lusem Co., Ltd. was excluded from subsidiaries (with a disposal price of KRW 75,000 million)

## 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	2017/01/01	From	2017/12/31	To

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

(Unit: Number of Participants, Hours 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)		3	1	11	4	6	25
Hours Executed	Quarterly Review, 6-month Review	16	105	1,514	507	-	2,142
	Audit	44	120	1,128	377	91	1,760
	Total	60	225	2,642	884	91	3,902

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

Title	Detail						
Audit Planning Stage	Dates Performed			April–September 2017		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)			
	201712/04–201712/06	3	3	2	Interim audit (understanding the transaction type of each process, control testing)		
	2018/01/10–2018/01/26	12	3	2	External audit (substantive procedure for the material account balances and transactions and 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)		2018/01/02		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)	2017/05/11, 2017/08/10, 2017/11/09, 2018/02/08, 2018/02/22					