# LG CORP.

## SEPARATE FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

## ATTACHMENT: INDEPENDENT AUDITORS' REPORT

LG CORP.

Deloitte.

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# Independent Auditor's Report

English Translation of Independent Auditors' Report Originally Issued in Korean on March 11, 2015.

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

**Report on the Separate Financial Statements**

We have audited the accompanying separate financial statements of LG Corp. (the "Company"), which comprise the separate statements of financial position as of December 31, 2014 and December 31, 2013, respectively, and the separate statements of comprehensive income, separate statements of changes in shareholders' equity and separate statements of cash flows, for the years then ended, and a summary of significant accounting policies and other explanatory information.

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

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

**Auditors' Responsibility**

Our responsibility is to express an audit opinion on these 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Deloitte.

**Opinion**

In our opinion, the separate financial statements present fairly, in all material respects, the financial position of LG Corp. as of December 31, 2014, and December 31, 2013, respectively, and its financial performance and its cash flows for the years then ended in accordance with K-IFRS.

**Others**

We conducted our audit of separate financial statements of LG Corp. as of December 31, 2013 in accordance with the former KSAs, known as auditing standards generally accepted in Korea.

Deloitte Anjin LLC

March 11, 2015

**Notice to Readers**

This report is effective as of March 11, 2015, the auditor's report date. Certain subsequent events or circumstances may have occurred between the auditor's report date and the time the auditor's report is read. Such events or circumstances could significantly affect the separate financial statements and may result in modifications to the auditor's report.

# LG CORP. (the “Company”)

## SEPARATE FINANCIAL STATEMENTS
## AS OF AND FOR THE YEARS ENDED
## DECEMBER 31, 2014 AND 2013

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

**Junho Cho**

**President and Chief Operating Officer**

**LG Corp.**

**LG CORP.**
**SEPARATE STATEMENTS OF FINANCIAL POSITION**
**AS OF DECEMBER 31, 2014 AND 2013**

| | Korean won | |
|---|---|---|
| | December 31, 2014 | December 31, 2013 |
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents (Notes 5, 6 and 26) | ₩ 151,998,133,193 | ₩ 185,978,801,182 |
| Financial institution deposits (Notes 5 and 26) | 80,000,000,000 | 140,000,000,000 |
| Other receivables, net (Notes 5,7, 22 and 26) | 19,041,092,016 | 14,016,867,947 |
| Other current assets (Note 8) | 3,760,805,903 | 106,422,178 |
| Total current assets | 254,800,031,112 | 340,102,091,307 |
| NON-CURRENT ASSETS: | | |
| Available-for-sale (“AFS”) financial assets (Notes 5 and 26) | 89,566,637,845 | 95,115,547,734 |
| Other non-current receivables, net (Notes 5,7 and 23) | 464,833,535 | 25,769,000 |
| Investments in subsidiaries (Note 11) | 1,094,994,489,802 | 932,836,546,101 |
| Investments in associates and joint ventures (Note 11) | 5,958,336,115,212 | 5,837,049,872,259 |
| Other non-current assets (Note 8) | 2,417,480,728 | 3,269,998,882 |
| Property, plant and equipment, net (Notes 9 and 24) | 22,299,611,460 | 21,303,402,418 |
| Investment property, net (Note 9) | 618,265,637,550 | 630,948,735,895 |
| Intangible assets (Note 10) | 12,656,928,895 | 11,364,670,202 |
| Total non-current assets | 7,799,001,735,027 | 7,531,914,542,491 |
| TOTAL ASSETS | ₩ 8,053,801,766,139 | ₩ 7,872,016,633,798 |

(Continued)

**LG CORP.**
**SEPARATE STATEMENTS OF FINANCIAL POSITION**
**AS OF DECEMBER 31, 2014 AND 2013 (CONTINUED)**

| | Korean won | |
|---|---|---|
| | December 31, 2014 | December 31, 2013 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| CURRENT LIABILITIES: | | |
| Other current payables (Notes 5, 22 and 26) | ₩ 99,526,479,539 | ₩ 90,753,306,549 |
| Current tax liabilities | 28,900,429,370 | 27,725,790,713 |
| Other current liabilities (Notes 13 and 22) | 6,567,448,680 | 6,893,871,876 |
| Total current liabilities | 134,994,357,589 | 125,372,969,138 |
| NON-CURRENT LIABILITIES: | | |
| Other non-current payables (Notes 5, 22 and 26) | 3,870,817,244 | 7,174,259,452 |
| Net defined benefit liability (Notes 12 and 22) | 9,101,847,299 | 8,233,810,223 |
| Deferred tax liability (Note 20) | 130,484,163,233 | 134,385,901,117 |
| Other non-current liabilities (Note 13) | 6,423,363,356 | 6,996,993,348 |
| Total non-current liabilities | 149,880,191,132 | 156,790,964,140 |
| TOTAL LIABILITIES | 284,874,548,721 | 282,163,933,278 |
| SHAREHOLDERS' EQUITY | | |
| Issued capital (Note 14) | 879,359,040,000 | 879,359,040,000 |
| Capital surplus (Note 15) | 2,409,002,192,481 | 2,409,002,192,481 |
| Other capital items (Note 14) | (2,385,112,284) | (2,385,112,284) |
| Accumulated other comprehensive income (Note 16) | 30,727,154,753 | 34,933,228,448 |
| Retained earnings (Note 17) | 4,452,223,942,468 | 4,268,943,351,875 |
| TOTAL EQUITY | 7,768,927,217,418 | 7,589,852,700,520 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | ₩ 8,053,801,766,139 | ₩ 7,872,016,633,798 |

(Concluded)

**See accompanying notes to the separate financial statements.**

**LG CORP.**
**SEPARATE STATEMENTS OF INCOME**
**FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

| | Korean won | |
|---|---|---|
| | Year ended December 31, 2014 | Year ended December 31, 2013 |
| Operating income: | | |
| Dividend income (Notes 4, 18 and 22) | ₩ 209,394,373,740 | ₩ 200,289,747,657 |
| Royalty revenue (Notes 4, 18 and 22) | 264,858,612,694 | 269,084,991,809 |
| Rental revenue (Notes 4, 18 and 22) | 101,490,739,454 | 98,671,634,327 |
| | 575,743,725,888 | 568,046,373,793 |
| Operating expenses: | | |
| Employee benefit (Notes 18 and 22) | 26,101,502,666 | 26,243,340,925 |
| Depreciation (Notes 9 and 18) | 16,322,974,749 | 16,347,435,072 |
| Other operating expenses (Notes 18 and 22) | 116,273,748,365 | 115,969,076,018 |
| | 158,698,225,780 | 158,559,852,015 |
| Net operating income | 417,045,500,108 | 409,486,521,778 |
| Non-operating income and expenses | | |
| Financial income (Note 19) | 6,830,721,389 | 7,176,124,982 |
| Financial expenses (Note 19) | 2,549,090,432 | 415,549,552 |
| Other non-operating income | 8,808,385 | 1,141,799,467 |
| Other non-operating expenses | 1,016,878,851 | 1,651,865,390 |
| Profit before income tax expense | 420,319,060,599 | 415,737,031,285 |
| Income tax expense (Note 20) | 59,707,794,824 | 59,758,481,043 |
| Profit for the year | ₩ 360,611,265,775 | ₩ 355,978,550,242 |
| Earnings per share: | | |
| Basic (Note 21) | ₩ 2,051 | ₩ 2,024 |
| Diluted (Note 21) | 2,051 | 2,024 |

**See accompanying notes to the separate financial statements.**

**LG CORP.**
**SEPARATE STATEMENTS OF COMPREHENSIVE INCOME**
**FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

| | Korean won | |
|---|---|---|
| | Year ended December 31, 2014 | Year ended December 31, 2013 |
| Profit for the year | ₩ 360,611,265,775 | ₩ 355,978,550,242 |
| Other comprehensive income (loss): | | |
| Items that may be reclassified subsequently to profit or loss | | |
| Net gain (loss) on AFS financial assets | (4,206,073,695) | 1,559,458,505 |
| Items that will not be reclassified subsequently to profit or loss | | |
| Remeasurements of the net defined benefit liability | (1,394,072,832) | (372,876,021) |
| Total comprehensive income for the year | ₩ 355,011,119,248 | ₩ 357,165,132,726 |

**See accompanying notes to the separate financial statements.**

# LG CORP.
## SEPARATE STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
## FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

| | Korean won | | | | | |
|---|---|---|---|---|---|---|
| | Issued capital | Capital surplus | Other capital items | Accumulated other comprehensive income (loss) | Retained earnings | Total |
| Balance at January 1, 2013 | ₩879,359,040,000 | ₩2,409,002,192,481 | ₩ (2,385,112,284) | ₩33,373,769,943 | ₩ 4,089,274,280,004 | ₩ 7,408,624,170,144 |
| Annual dividends | | | | | (175,936,602,350) | (175,936,602,350) |
| Profit for the year | | | | | 355,978,550,242 | 355,978,550,242 |
| Disposals of treasury shares | | | | | | |
| Remeasurements of the net defined benefit liability | | | | | (372,876,021) | (372,876,021) |
| Net gain (loss) on AFS financial assets | | | | 1,559,458,505 | | 1,559,458,505 |
| Balance at December 31, 2013 | ₩879,359,040,000 | ₩2,409,002,192,481 | ₩ (2,385,112,284) | ₩34,933,228,448 | ₩ 4,268,943,351,875 | ₩ 7,589,852,700,520 |
| Balance at January 1, 2014 | ₩879,359,040,000 | ₩2,409,002,192,481 | ₩ (2,385,112,284) | ₩34,933,228,448 | ₩ 4,268,943,351,875 | ₩ 7,589,852,700,520 |
| Annual dividends | | | | | (175,936,602,350) | (175,936,602,350) |
| Profit for the year | | | | | 360,611,265,775 | 360,611,265,775 |
| Remeasurements of the net defined benefit | | | | | (1,394,072,832) | (1,394,072,832) |
| Net gain (loss) on AFS financial assets | | | | (4,206,073,695) | | (4,206,073,695) |
| Balance at December 31, 2014 | ₩879,359,040,000 | ₩2,409,002,192,481 | ₩ (2,385,112,284) | ₩30,727,154,753 | ₩ 4,452,223,942,468 | ₩ 7,768,927,217,418 |

**See accompanying notes to the separate financial statements.**

**LG CORP.**
**SEPARATE STATEMENTS OF CASH FLOWS**
**FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

| | Korean won | |
|---|---|---|
| | Year ended December 31, 2014 | Year ended December 31, 2013 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Profit for the year | ₩ 360,611,265,775 | ₩ 355,978,550,242 |
| Additions of expenses not involving cash outflows: | | |
| Depreciation | 16,322,974,749 | 16,347,435,072 |
| Amortization of intangible assets | 896,432,797 | 865,170,626 |
| Retirement benefits | 3,213,977,255 | 3,242,881,402 |
| Interest expenses | 442,593,344 | 415,549,552 |
| Income tax expense | 59,707,794,824 | 59,758,481,043 |
| Impairment loss on intangible assets | 665,634,388 | - |
| Loss on disposals of property, plant and equipment | 4,987,774 | 793,593,906 |
| Other selling and administration expenses | 199,497,784 | 50,792,179 |
| | 81,453,892,915 | 81,473,903,780 |
| Deduction of incomes not involving cash inflows: | | |
| Interest income | 6,410,834,393 | 7,176,124,982 |
| Dividend income | 209,394,373,740 | 200,289,747,657 |
| Other operating income | 442,593,344 | 415,549,552 |
| Gain on foreign currency translation | 31,717,632 | - |
| | (216,279,519,109) | (207,881,422,191) |
| Movements in working capital: | | |
| Other receivables | 1,696,548,113 | 7,102,422,096 |
| Other current assets | (3,654,383,725) | 22,976,623 |
| Other non-current receivables | - | 500,000,000 |
| Other non-current assets | (707,048,162) | (764,291,258) |
| Other payables | 4,525,468,468 | (5,109,563,323) |
| Other current liabilities | (457,459,844) | 552,094,904 |
| Net defined benefit liability | (4,239,404,092) | (5,110,327,165) |
| | ₩ (2,836,279,242) | ₩ (2,806,688,123) |

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**LG CORP.**
**SEPARATE STATEMENTS OF CASH FLOWS (CONTINUED)**
**FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

| | Korean won | |
|---|---|---|
| | Year ended December 31, 2014 | Year ended December 31, 2013 |
| Interest income received | ₩ 7,209,348,211 | ₩ 6,536,302,575 |
| Dividend income received | 209,394,373,740 | 200,289,747,657 |
| Income taxes paid | (60,646,984,472) | (67,683,659,886) |
| Net cash provided by operating activities | 378,906,097,818 | 365,906,734,054 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Cash inflows from investing activities: | | |
| Decrease in financial institution deposits | 250,000,000,000 | 230,000,000,000 |
| Disposals of property, plant and equipment | 21,481,408 | 6,834,630 |
| | 250,021,481,408 | 230,006,834,630 |
| Cash outflows for investing activities: | | |
| Increase in financial institution deposits | 190,000,000,000 | 270,000,000,000 |
| Increase in short-term loans | 7,412,175,000 | - |
| Increase in deposits | 514,457,903 | - |
| Acquisitions of investments in associates | 121,286,242,953 | 4,336,323,449 |
| Acquisitions of investments in subsidiaries | 162,157,943,701 | 60,000,000,000 |
| Acquisitions of property, plant and equipment | 2,201,865,674 | 1,423,318,976 |
| Acquisitions of intangible assets | 1,030,643,150 | 1,291,337,000 |
| Acquisitions of investment properties | 2,378,928,374 | 17,914,182,059 |
| | (486,982,256,755) | (354,965,161,484) |
| Net cash used in investing activities | ₩ (236,960,775,347) | ₩ (124,958,326,854) |

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**LG CORP.**
**SEPARATE STATEMENTS OF CASH FLOWS**
**FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013 (CONTINUED)**

| | Korean won | |
|---|---|---|
| | Year ended December 31, 2014 | Year ended December 31, 2013 |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Cash inflows from financing activities: | | |
| Proceeds from short-term borrowings | ₩ 11,028,170,534 | ₩ - |
| | 11,028,170,534 | - |
| Cash outflows for financing activities: | | |
| Payments of dividends | 175,925,990,460 | 175,934,403,900 |
| Redemptions of short-term borrowings | 11,028,170,534 | - |
| | (186,954,160,994) | (175,934,403,900) |
| Net cash used in financing activities | (175,925,990,460) | (175,934,403,900) |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | (33,980,667,989) | 65,014,003,300 |
| CASH AND CASH EQUIVALENTS, AT THE BEGINNING OF PERIOD | 185,978,801,182 | 120,964,797,882 |
| CASH AND CASH EQUIVALENTS, AT THE END OF PERIOD | ₩ 151,998,133,193 | ₩ 185,978,801,182 |

(Concluded)

**See accompanying notes to the separate financial statements.**

**LG CORP.**
**NOTES TO SEPARATE FINANCIAL STATEMENTS**
**AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

## 1. GENERAL:

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

The Company has been listed on the Korea Exchange stock market since February 1970. After numerous paid-in capital increases, spin-offs and mergers, the Company has outstanding capital stock of ₩879,359 million, including preferred stocks of ₩16,573 million as of December 31, 2014.

As of December 31, 2014, the Company's related parties and major shareholders are as follows.

| Name of shareholder | Number of shares | Percentage of shares (%) (*) |
|---|---|---|
| Ku, Bon Mu | 18,978,169 | 10.79 |
| Ku, Bon Jun | 13,317,448 | 7.57 |
| Ku, Gwang Mo | 10,249,715 | 5.83 |
| Ku, Bon Shik | 7,728,601 | 4.39 |
| Kim, Young Shik | 7,423,100 | 4.22 |
| Ku, Bon Neung and others | 21,808,196 | 12.40 |
| LG Yonam Education Foundation | 3,675,742 | 2.09 |
| LG Yonam Foundation | 572,525 | 0.33 |
| Others | 92,118,312 | 52.38 |
| Total | 175,871,808 | 100.00 |

(*) Includes preferred stocks

## 2. STANDARDS AFFECTING PRESENTATION AND DISCLOSURE AND SIGNIFICANT ACCOUNTING POLICIES:

The separate financial statements have been confirmed by the Board of Directors in a meeting held on February 2, 2015.

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

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

(1) 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 January 1, 2014, are as follows:

K-IFRS 1032 – *Financial Instruments: Presentation* (revised)

The amendments to K-IFRS 1032 clarify the requirement for the offset presentation of financial assets and financial liabilities: the right to offset must not be conditional upon the occurrence of future events and can be exercised anytime during the contract periods. The right to offset is executable even in the case of default or insolvency. The application of the amendments has had no material impact on the disclosures or on the amounts recognized in the separate financial statements.

K-IFRS 1110, 1112 and 1027 – *Investment Entities* (revised)

The amendments introduced an exception to the principle in K-IFRS 1110 *Consolidated financial statement* which required the consolidation of all subsidiaries. If a subsidiary meets definition of an investment entity, the reporting entity measure the subsidiary at fair value through profit or loss (FVTPL) instead of consolidation. Also, the consequential amendments have been made to K-IFRS 1112, *Disclosure of Interests in Other Entities* and K-IFRS 1027, *Separate Financial Statements* to introduce new disclosure requirements for investment entities. The application of the amendments has had no material impact on the disclosures or on the amounts recognized in the separate financial statements.

K-IFRS 1036 – *Impairment of Assets* (revised)

The amendments introduced disclosure requirements of recoverable amount when the recoverable amount of an asset or CGU is measured at fair value less costs of disposal. The application of the amendments has had no material impact on the disclosures or on the amounts recognized in the separate financial statements.

K-IFRS 2121 – *Levies* (enactment)

The enactment defines that the obligating event giving rise to the recognition of a liability to pay a levy is the activity that triggers the payment of the levy in accordance with the related legislation. The application of the amendments has had no material impact on the disclosures or on the amounts recognized in the separate financial statements.

2) The Company has not applied the following new and revised K-IFRSs that have been issued but are not yet effective:

K-IFRS 1019 – *Employee Benefits* (revised)

The amendments permits the Company to recognize amount of contributions as a reduction in the service cost in which the related service is rendered if the amount of the contributions are independent of the number of years of service. The amendments are effective for the annual periods beginning on or after July 1, 2014.

K-IFRS 1016 – *Property, Plant and Equipments* (revised)

The amendments to K-IFRS 1016 clarify that a depreciation method that is based on revenue is inappropriate. The amendments are effective for the annual periods beginning on or after January 1, 2016.

K-IFRS 1027 – *Separate Financial Statements* (revised)

The following amendments discuss accounting for investment in subsidiaries, related parties, and joint ventures at cost basis and allow the selection of the application of K-IFRS 1039 *Financial Instruments: Recognition and*

*Measurement* or the application of equity method accounting under K-IFRS 1028 *Investment in Associates and Joint Ventures*. The amendments are effective for the annual periods beginning on or after January 1, 2016.

K-IFRS 1038 – *Intangible Assets* (revised)

The amendments to K-IFRS 1038 introduce a rebuttable presumption that a revenue-based amortization method for intangible assets is inappropriate unless otherwise proved. However, the amendments suggested limited circumstances when the presumption can be reasonable; if the intangible asset is expressed as a measure of revenue or if it can be demonstrated that revenue and the consumption of economic benefits of the intangible asset are highly correlated. The amendments are effective for the annual periods beginning on or after January 1, 2016.

K-IFRS 1111 – *Accounting for Acquisitions of Interests in Joint Operations* (revised)

The amendments to K-IFRS 1111 provide guidance on how to account for the acquisition of a joint operation that constitutes a business as defined in K-IFRS 1103, *Business Combinations*. A joint operator is also required to disclose the relevant information required by K-IFRS 1103 and other standards for business combinations. The amendments to K-IFRS 1111 are effective for the annual periods beginning on or after January 1, 2016.

Annual Improvements to K-IFRS 2010-2012 Cycle

The amendments to K-IFRS 1102 (i) changes the definitions of 'vesting condition' and 'market condition'; and (ii) add definition for 'performance condition' and 'service condition' which were previously included within the definition of 'vesting condition'. The amendments to K-IFRS 1103 *Business Combinations* clarify the classification and measurement of the contingent consideration in business combination. The amendments to K-IFRS 1108 clarify that a reconciliation of the total of the reportable segments' assets should only be provided if the segment assets are regularly provided to the chief operating decision maker. The amendments are effective for the annual periods beginning on or after July 1, 2014.

Annual Improvements to K-IFRS 2011-2013 Cycle

The amendments to K-IFRS 1103 clarify the scope of the portfolio exception for measuring the fair values of the group of financial assets and financial liabilities on a net basis, including all contracts that are within the scope, and the standard does not apply to the accounting for the formation of all types of joint arrangement in the financial statements of the joint arrangement itself. The amendments to K-IFRS 1113 *Fair values Measurements* and K-IFRS 1040 *Investment Properties* exist and these amendments are effective for the annual periods beginning on or after July 1, 2014.

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

(2) Basis of preparing separate financial statements

1) Basis of measurement

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

2) Functional and reporting currency

The separate financial statements of the Company are presented in the currency of the primary economic environment in which the entity operates (its functional currency). The Company's functional currency and the reporting currency for the separate financial statements is Korean won ("KRW").

(3) Foreign currency translation

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

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

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

(4) Cash and cash equivalents

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

(5) Financial assets

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

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

1) Effective interest method

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

2) Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

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

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

• such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise;
• the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or

investment strategy, and information about the grouping is provided internally on that basis; or
• it forms part of a contract containing one or more embedded derivatives, and K-IFRS 1039 *Financial Instruments: Recognition and Measurement* 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 Company has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are measured at amortized cost using the effective interest method, less any impairment, with revenue recognized on an effective-yield basis.

4) Financial assets AFS

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

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

5) Loans and receivables

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

6) Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period.
Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that have occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

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

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

• significant financial difficulty of the issuer or counterparty,
• default or delinquency in interest or principal payments,
• it becoming probable that the borrower will enter bankruptcy or financial reorganization, or

• the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

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

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

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

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

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

7) Derecognition of financial assets

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

(6) Property, plant and equipment

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

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

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

| | Estimated useful lives (years) |
| --- | --- |
| Buildings | 25–50 |
| Structures | 25 |
| Furniture, fixtures and vehicles | 6–12 |

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

(7) Investment in subsidiaries, associates and joint ventures

In accordance with K-IFRS 1027, the Company's separate financial statements are financial statements that were prepared by the parent, or the investor with joint control of, or significant influence over, an investee, and where this parent, or investor, accounts for the investments at cost or in accordance with K-IFRS 1109. The Company chose the cost method based on K-IFRS 1027 to report investments in subsidiaries, associates and joint ventures. Dividends obtained from subsidiaries, associates and joint ventures are recognized in profit or loss when the right to receive dividends is confirmed.

(8) Investment property

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

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

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

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

(9) Intangible assets

1) Intangible assets acquired separately

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

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

2) Derecognition of intangible assets

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

(10) Impairment of non-financial assets

The Company tests for impairment on assets with indefinite useful life, such as goodwill, and 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 when there has been an event to suspect such impairment. 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. If the cash inflow of an individual asset occurs separately from other assets or group of assets, the recoverable amount is measured for that individual account. Otherwise, it is measured for each cash-generating-unit (CGU). All non-financial assets that have incurred impairment are tested for reversal of impairment at the end of each reporting period.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount.

(11) Financial liabilities and equity instruments issued by the Company

1) Classification as debt or equity

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

2) Equity instruments

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

3) Financial liabilities

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

4) Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as FVTPL.

A financial liability is classified as held for trading if:

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

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

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

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

5) Other financial liabilities

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

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

6) Financial guarantee contract liabilities

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

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

7) Derecognition of financial liabilities

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

(12) Lease

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

1) The Company as lessor

Amounts due from lessees under finance leases are recognized as receivables at the amount of the Company’s net investment in the leases. Finance lease interest income is allocated to accounting periods, so as to reflect an effective interest rate on the Company’s net investment outstanding in respect of the leases. Rental income from operating leases is recognized on the 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 the straight-line basis over the lease term.

2) The Company as lessee

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

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

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

(13) Borrowing costs

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

(14) Employee benefits

1) Defined benefit plan

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

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

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

2) Profit-sharing and bonuses

The Company has profit-sharing and bonus plans that distribute certain portion of net income of the period to its employees. In compliance with the official regulations of such profit-sharing and bonus plans, any incurred constructive obligation in exchange for the employees' providing services to the Company for a specific period shall be recognized as provisions and the related costs are expenses during the current period. When recognizing obligations for the plans, the Company takes into account the possibility that an employee may not fulfill the vesting period requirement for profit-sharing or bonuses.

(15) Provisions

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

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

Where 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. 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 certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Meanwhile, increase in provision due to passage of time is recognized in profit and loss as incurred, and at the end of the each reporting period, the provisions are reviewed and adjusted by the best estimated value. Changes in estimated costs or discount rate used are reflected as asset cost.

Provisions are calculated as present value of the best estimate of the expenditure required to settle the present obligation using a pretax discount rate that reflects current market assessments of the time value of money and those risks specific to the liability.

(16) Revenue recognition

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

1) Dividend income

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

2) Royalty revenue

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

3) Rental revenue

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

4) Interest income

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

(17) Income tax

Income tax expense consists of current tax and deferred tax.

1) Current tax payable

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

2) Deferred tax

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is 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 the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income tax levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

3) Recognition of current tax payable and deferred tax

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

(18) Treasury stock

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

(19) Fair Value

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

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

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

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

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

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

## 4. SEGMENT INFORMATION:

The Company has only one operating segment in accordance with K-IFRS 1108, *Operating segments,* from entire Company's perspective. Operating segment information for years ended December 31, 2014 and 2013 are as follows:

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

| Sectors | Year ended December 31, 2014 | Year ended December 31, 2013 |
|---|---|---|
| Dividend income | ₩ 209,394 | ₩ 200,290 |
| Royalty revenue | 264,859 | 269,085 |
| Rent revenue | 101,491 | 98,671 |
| Total | ₩ 575,744 | ₩ 568,046 |

2) Regional information

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

3) Major client information

Operating income from major clients that covers more than 10% of operation income for years ended December 31, 2014 and 2013, is ₩309,396 million and ₩305,317 million, respectively.

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

Carrying amount and fair value of financial assets and liabilities as of December 31, 2014 and 2013, are as follows (Unit: Korean won in millions):

1) Financial assets

| Financial assets | Account | December 31, 2014 | | December 31, 2013 | |
|---|---|---|---|---|---|
| | | Carrying amount | Fair value | Carrying amount | Fair value |
| Cash and cash equivalents | Cash and cash equivalents | ₩ 151,998 | ₩ 151,998 | ₩ 185,979 | ₩ 185,979 |
| AFS financial assets | Marketable equity securities | 41,272 | 41,272 | 45,344 | 45,344 |
| | Unmarketable equity securities (*) | 48,295 | 48,295 | 49,772 | 49,772 |
| | Subtotal | 89,567 | 89,567 | 95,116 | 95,116 |
| Loans and receivables | Financial institution deposits | 80,000 | 80,000 | 140,000 | 140,000 |
| | Loans | 7,420 | 7,420 | - | - |
| | Other account receivables | 10,732 | 10,732 | 12,429 | 12,429 |
| | Accrued income | 789 | 789 | 1,587 | 1,587 |
| | Deposits | 565 | 565 | 26 | 26 |
| | Subtotal | 99,506 | 99,506 | 154,042 | 154,042 |
| | Total | ₩ 341,071 | ₩ 341,071 | ₩ 435,137 | ₩ 435,137 |

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

2) Financial liabilities

| Financial liabilities | Account | December 31, 2014 | | December 31, 2013 | |
|---|---|---|---|---|---|
| | | Carrying amount | Fair value | Carrying amount | Fair value |
| Financial liabilities measured at amortized cost | Other accounts payables | ₩ 38,497 | ₩ 38,497 | ₩ 35,511 | ₩ 35,511 |
| | Accrued expenses | 406 | 406 | 402 | 402 |
| | Accrued dividends | 318 | 318 | 308 | 308 |
| | Deposits received | 64,176 | 64,176 | 61,706 | 61,706 |
| | Total | ₩ 103,397 | ₩ 103,397 | ₩ 97,927 | ₩ 97,927 |

## 6. CASH AND CASH EQUIVALENTS:

Cash and cash equivalents in the separate statements of cash flows are equivalent to cash and cash equivalents in the separate statements of financial position. Details of cash and cash equivalents as of December 31, 2014 and 2013, are as follows (Unit: Korean won in millions):

| Description | December 31, 2014 | December 31, 2013 |
|---|---|---|
| Cash on hand | ₩ 8 | ₩ 13 |
| Bank deposits | 80,010 | 90,046 |
| Other cash equivalents | 71,980 | 95,920 |
| Total | ₩ 151,998 | ₩ 185,979 |

## 7. ACCOUNT AND OTHER RECEIVABLES:

As of December 31, 2014 and 2013, account receivables and other receivables are not impaired or overdue. Details are as follows (Unit: Korean won in millions):

| Description | December 31, 2014 | | December 31, 2013 | |
|---|---|---|---|---|
| | Current | Non-current | Current | Non-current |
| Loans | ₩ 7,420 | ₩ - | ₩ - | ₩ - |
| Account receivables | 10,732 | - | 12,430 | - |
| Accrued income | 789 | - | 1,587 | - |
| Deposits | 100 | 465 | - | 26 |
| Total | ₩ 19,041 | ₩ 465 | ₩ 14,017 | ₩ 26 |

## 8. OTHER ASSETS:

Details of other assets as of December 31, 2014 and 2013 are as follows (Unit: Korean won in millions):

| Description | December 31, 2014 | | December 31, 2013 | |
|---|---|---|---|---|
| | Current | Non-current | Current | Non-current |
| Advanced payments | ₩ - | ₩ 2,417 | ₩ - | ₩ 3,270 |
| Prepaid expenses | 3,761 | - | 106 | - |
| Total | ₩ 3,761 | ₩ 2,417 | ₩ 106 | ₩ 3,270 |

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

(1) Changes in acquisition cost of property, plant and equipment and investment property for the years ended December 31, 2014 and 2013, are as follows (Unit: Korean won in millions):

| | Year ended December 31, 2014 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Property, plant and equipment | | | | | Investment property | | | |
| Description | Land | Buildings | Structures | Vehicles | Furniture and fixtures | Land | Buildings | Structures | Total |
| Beginning balance | ₩4,874 | ₩ 10,765 | ₩ 229 | ₩ 7,042 | ₩ 5,656 | ₩246,150 | ₩454,505 | ₩ 8,932 | ₩738,153 |
| Acquisition | - | 138 | - | 1,582 | 526 | - | 2,417 | - | 4,663 |
| Disposals | - | - | - | (35) | (3) | - | - | - | (38) |
| Transfers in | 180 | 162 | 4 | - | - | - | - | - | 346 |
| Transfers out | - | - | - | - | - | (180) | (162) | (4) | (346) |
| Ending balance | ₩ 5,054 | ₩ 11,065 | ₩ 233 | ₩ 8,589 | ₩ 6,179 | ₩245,970 | ₩456,760 | ₩ 8,928 | ₩742,778 |

| | Year ended December 31, 2013 | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Property, plant and equipment | | | | | | Investment property | | | | |
| Description | Land | Buildings | Structures | Vehicles | Furniture and fixtures | Construc-tion in progress | Land | Buildings | Structures | Construction in progress | Total |
| Beginning balance | ₩5,015 | ₩ 11,447 | ₩ 246 | ₩ 7,666 | ₩ 5,088 | ₩ 10 | ₩230,206 | ₩451,098 | ₩ 8,915 | ₩ - | ₩ 719,691 |
| Acquisition | - | 49 | - | 505 | 874 | 5 | 15,803 | 2,563 | - | 109 | 19,908 |
| Disposals | - | - | - | (1,140) | (306) | - | - | - | - | - | (1,446) |
| Transfers in | - | 4 | - | 11 | - | - | 141 | 844 | 17 | - | 1,017 |
| Transfers out | (141) | (735) | (17) | - | - | (15) | - | - | - | (109) | (1,017) |
| Ending balance | ₩ 4,874 | ₩ 10,765 | ₩ 229 | ₩ 7,042 | ₩ 5,656 | ₩ - | ₩246,150 | ₩454,505 | ₩ 8,932 | ₩ - | ₩ 738,153 |

(2) Changes in accumulated depreciation for the years ended December 31, 2014 and 2013, are as follows (Unit: Korean won in millions):

| | Year ended December 31, 2014 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Property, plant and equipment | | | | Investment property | | |
| Description | Buildings | Structures | Vehicles | Furniture and fixtures | Buildings | Structures | Total |
| Beginning balance | ₩ 2,441 | ₩ 83 | ₩ 2,296 | ₩ 2,443 | ₩ 76,050 | ₩ 2,588 | ₩ 85,901 |
| Disposals | - | - | (10) | (1) | - | - | (11) |
| Depreciation | 325 | 9 | 598 | 606 | 14,468 | 317 | 16,323 |
| Transfers in | 29 | 1 | - | - | - | - | 30 |
| Transfers out | - | - | - | - | (29) | (1) | (30) |
| Ending balance | ₩ 2,79 5 | ₩ 93 | ₩ 2,884 | ₩ 3,048 | ₩ 90,489 | ₩ 2,904 | ₩ 102,213 |

| | Year ended December 31, 2013 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Property, plant and equipment | | | | Investment property | | |
| Description | Buildings | Structures | Vehicles | Furniture and fixtures | Buildings | Structures | Total |
| Beginning balance | ₩ 2,244 | ₩ 80 | ₩ 1,863 | ₩ 2,230 | ₩ 61,517 | ₩ 2,265 | ₩ 70,199 |
| Disposals | - | - | (340) | (305) | - | - | (645) |
| Depreciation | 317 | 9 | 773 | 518 | 14,413 | 317 | 16,347 |
| Transfers in | - | - | - | - | 120 | 6 | 126 |
| Transfers out | (120) | (6) | - | - | - | - | (126) |
| Ending balance | ₩ 2,441 | ₩ 83 | ₩ 2,296 | ₩ 2,443 | ₩ 76,050 | ₩ 2,588 | ₩ 85,901 |

(3) Detail of valuation to fair value of investment property as of December 31, 2014, is as follows (Unit: Korean won in millions):

| Description | Date of revaluation | Land | Buildings and structures | Total |
|---|---|---|---|---|
| Book value of investment property: | | | | |
| Book value(*1) | | ₩ 247,991 | ₩ 380,113 | ₩ 628,104 |
| Result of valuation: | | | | |
| Twin tower (*2) | 2012-03-16 | 456,800 | 343,200 | 800,000 |
| Gasandong building (*3) | 2009-04-21 | 50,966 | 110,104 | 161,070 |
| Gwanghwamun building | 2010-09-30 | 145,452 | 84,548 | 230,000 |
| Buho building | 2013-06-04 | 16,513 | 1,238 | 17,751 |
| Total | | ₩ 669,731 | ₩ 539,090 | ₩ 1,208,821 |

(*1) It includes the valuation amounts related to its own use (carrying value: ₩9,838 million).
(*2) It is the whole valuation amount of Twin Tower.
(*3) According to the Industrial Collaboration and Establishment of Facilities law, the Company can sell partial or entire land only if the Company obtains either approval from or sells off some or entire land to Korea Industrial Complex Corporation.

Fair value assessment was performed by an independent third party, Nara Appraisal Co., Ltd., & Daeil Appraisal Board. The fair value of investment property is classified as Level 3 based on the input variables that are used in the valuation method.

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

## 10. INTANGIBLE ASSETS:

(1) Composition of the Company's intangible assets as of December 31, 2014 and 2013, is as follows (Unit: Korean won in millions):

| Description | December 31, 2014 | | | | December 31, 2013 | | |
|---|---|---|---|---|---|---|---|
| | Intellectual property rights | Membership | Other | Construction in progress | Intellectual property rights | Membership | Other |
| Acquisition cost | ₩ 11,244 | ₩ 6,848 | ₩ 4,322 | ₩ 71 | ₩ 9,830 | ₩ 6,754 | ₩ 3,048 |
| Accumulated depreciation | (7,108) | - | (2,054) | - | (6,607) | - | (1,660) |
| Accumulated impairment | - | (666) | - | - | - | - | - |
| Carrying amounts | ₩ 4,136 | ₩ 6,182 | ₩ 2,268 | ₩ 71 | ₩ 3,223 | ₩ 6,754 | ₩ 1,388 |

(2) Changes in intangible assets for the years ended December 31, 2014 and 2013, are as follows (Unit: Korean won in millions)

| Description | Year ended December 31, 2014 | | | | |
|---|---|---|---|---|---|
| | Intellectual property rights | Membership | Other | Construction in progress | Total |
| Beginning balance | ₩ 3,223 | ₩ 6,754 | ₩ 1,388 | ₩ - | ₩ 11,365 |
| Acquisition | - | 94 | 1,275 | 71 | 1,440 |
| Transfers in (out) | 1,414 | - | - | - | 1,414 |
| Impairment | - | (666) | - | - | (666) |
| Amortization | (501) | - | (395) | - | (896) |
| Ending balance | ₩ 4,136 | ₩ 6,182 | ₩ 2,268 | ₩ 71 | ₩ 12,657 |

| Description | Year ended December 31, 2013 | | | | |
|---|---|---|---|---|---|
| | Intellectual property rights | Membership | Other | Construction in progress | Total |
| Beginning balance | ₩ 2,875 | ₩ 6,232 | ₩ 966 | ₩ - | ₩ 10,073 |
| Acquisition | - | 500 | 265 | 548 | 1,313 |
| Transfers in (out) | 844 | 22 | 526 | (548) | 844 |
| Amortization | (496) | - | (369) | - | (865) |
| Ending balance | ₩ 3,223 | ₩ 6,754 | ₩ 1,388 | ₩ - | ₩ 11,365 |

## 11. INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES:

(1) Composition of the Company's investments in subsidiaries as of December 31, 2014 and 2013, is as follows (Unit: Korean won in millions):

| Companies | December 31, 2014 | | | | | |
|---|---|---|---|---|---|---|
| | Location of incorporation | Major operation | Closing date | Percentage of ownership (%) | Percentage of ownership (Common stock) (%) | Book value |
| LG Siltron Inc. | South Korea | Manufacturing | 12-31 | 51.00 | 51.00 | ₩ 239,575 |
| LG CNS Co., Ltd. | South Korea | Services | 12-31 | 84.97 | 84.97 | 330,533 |
| Serveone Co., Ltd. | South Korea | Renting | 12-31 | 100.00 | 100.00 | 223,424 |
| Lusem Co., Ltd. | South Korea | Manufacturing | 12-31 | 64.81 | 64.81 | 29,375 |
| LG Sports Ltd. (*1) | South Korea | Services | 12-31 | 100.00 | 100.00 | 106,097 |
| LG Management Development Institute | South Korea | Research and development | 12-31 | 100.00 | 100.00 | 17,203 |
| LG Solar Energy Inc. | South Korea | Sunlight Generation | 12-31 | 100.00 | 100.00 | 26,630 |

| | | | | | | |
|---|---|---|---|---|---|---|
| LG Holdings Japan Co., Ltd. (*1,2) | Japan | Renting | 12-31 | 100.00 | 100.00 | 122,157 |
| Total | | | | | | ₩ 1,094,994 |

(*1) The Company took part in paid-in capital increase for the year ended December 31, 2014.
(*2) The Company established and acquired for the year ended December 31, 2014.

| | December 31, 2013 | | | | | |
|---|---|---|---|---|---|---|
| Companies | Location of incorporation | Major operation | Closing date | Percentage of ownership (%) | Percentage of ownership (Common stock) (%) | Book value |
| LG Siltron Inc. | South Korea | Manufacturing | 12-31 | 51.00 | 51.00 | ₩ 239,575 |
| LG CNS Co., Ltd. | South Korea | Services | 12-31 | 84.97 | 84.97 | 330,533 |
| Serveone Co., Ltd. | South Korea | Renting | 12-31 | 100.00 | 100.00 | 223,424 |
| Lusem Co., Ltd. | South Korea | Manufacturing | 12-31 | 64.81 | 64.81 | 29,375 |
| LG Sports Ltd. | South Korea | Services | 12-31 | 100.00 | 100.00 | 66,097 |
| LG Management Development Institute | South Korea | Research and development | 12-31 | 100.00 | 100.00 | 17,203 |
| LG Solar Energy Inc. | South Korea | Sunlight Generation | 12-31 | 100.00 | 100.00 | 26,630 |
| Total | | | | | | ₩ 932,837 |

(2) Composition of the Company's investments in associates and joint ventures as of December 31, 2014 and 2013, are as follows (Unit: Korean won in millions):

| | December 31, 2014 | | | | | |
|---|---|---|---|---|---|---|
| Companies | Location of incorporation | Major operation | Closing date | Percentage of ownership (%) | Percentage of ownership (Common stock) (%) | Book value |
| LG Electronics Inc. | South Korea | Manufacturing | 12-31 | 30.47 | 33.67 | ₩ 2,804,603 |
| LG Chem Ltd. | South Korea | Manufacturing | 12-31 | 30.07 | 33.53 | 1,277,994 |
| LG Hausys, Ltd. | South Korea | Manufacturing | 12-31 | 30.07 | 33.53 | 183,828 |
| LG Household & Health Care Ltd. | South Korea | Manufacturing | 12-31 | 30.00 | 34.03 | 141,608 |
| LG Life Science Co., Ltd. | South Korea | Manufacturing | 12-31 | 30.00 | 30.43 | 83,295 |
| LG Uplus Corp. | South Korea | Telecommunications | 12-31 | 36.05 | 36.05 | 1,162,048 |
| GIIR Corporation | South Korea | Hoardings | 12-31 | 35.00 | 35.00 | 39,496 |
| LG Hitachi Co., Ltd. | South Korea | Services | 12-31 | 49.00 | 49.00 | 14,023 |
| LG MMA Corp. (*1) | South Korea | Manufacturing | 12-31 | 50.00 | 50.00 | 115,350 |
| LG Fuel Cell System Inc.(*2,3) | America | Research and Experimental Development | 12-31 | 13.65 | 13.65 | 20,486 |
| Slicon Works Co., Ltd. (*4) | South Korea | Manufacturing | 12-31 | 28.22 | 28.22 | 115,605 |
| Total | | | | | | ₩ 5,958,336 |

| | December 31, 2013 | | | | | |
|---|---|---|---|---|---|---|
| Companies | Location of incorporation | Major operation | Closing date | Percentage of ownership (%) | Percentage of ownership (Common stock) (%) | Book value |
| LG Electronics Inc. | South Korea | Manufacturing | 12-31 | 30.47 | 33.67 | ₩ 2,804,603 |
| LG Chem Ltd. | South Korea | Manufacturing | 12-31 | 30.07 | 33.53 | 1,277,994 |
| LG Hausys, Ltd. | South Korea | Manufacturing | 12-31 | 30.07 | 33.53 | 183,828 |

| | | | | | | |
|---|---|---|---|---|---|---|
| LG Household & Health Care Ltd. | South Korea | Manufacturing | 12-31 | 30.00 | 34.03 | 141,608 |
| LG Life Science Co., Ltd. | South Korea | Manufacturing | 12-31 | 30.00 | 30.43 | 83,295 |
| LG Uplus Corp. | South Korea | Telecommunications | 12-31 | 36.05 | 36.05 | 1,162,048 |
| GIIR Corporation | South Korea | Hoardings | 12-31 | 35.00 | 35.00 | 39,496 |
| LG Hitachi Co., Ltd. | South Korea | Services | 12-31 | 49.00 | 49.00 | 14,023 |
| LG MMA Corp. (*1) | South Korea | Manufacturing | 12-31 | 50.00 | 50.00 | 115,350 |
| LG Fuel Cell System Inc.(*2,3) | America | Research and Experimental Development | 12-31 | 12.00 | 12.00 | 14,805 |
| | | Total | | | | ₩ 5,837,050 |

(*1) It is a joint venture.
(*2) Notwithstanding that the ownership is less than 20%, it has been classified as subsidiaries since the Company has authority to appoint director, etc.
(*3) The Company acquired additional ownership by taking part in paid-in capital for the year ended December 31, 2014.
(*4) Acquired through acquiring shares during the current period.

## 12. RETIREMENT BENEFIT PLAN:

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

(1) As of December 31, 2014 and 2013, amounts recognized in the separate statements of financial position related to retirement benefit obligation are as follows (Unit: Korean won in millions):

| Description | December 31, 2014 | December 31, 2013 |
|---|---|---|
| Present value of defined benefit obligation | ₩ 41,178 | ₩ 33,609 |
| Fair value of plan assets | (32,076) | (25,375) |
| Net defined benefit liability | ₩ 9,102 | ₩ 8,234 |

(2) Changes in defined benefit obligation for the years ended December 31, 2014 and 2013, are as follows (Unit: Korean won in millions):

| Description | Year ended December 31, 2014 | Year ended December 31, 2013 |
|---|---|---|
| Beginning balance | ₩ 33,609 | ₩ 34,348 |
| Current service cost | 2,877 | 2,934 |
| Past service costs | 70 | - |
| Interest cost | 1,034 | 1,089 |
| Actuarial gain | 1,842 | 498 |
| Benefits paid | (229) | (259) |
| Other | 1,975 | (5,001) |
| Ending balance | ₩ 41,178 | ₩ 33,609 |

(3) Income and loss related to defined benefit plan for the years ended December 31, 2014 and 2013, are as follows (Unit: Korean won in millions):

| Description | Year ended December 31, 2014 | | Year ended December 31, 2013 | |
|---|---|---|---|---|
| Service cost | ₩ | 2,947 | ₩ | 2,934 |
| Current service cost | | 2,877 | | 2,934 |
| Past service costs | | 70 | | - |
| Net interest on the net defined benefit Liability (asset) | | 267 | | 309 |
| Interest cost on defined benefit obligation | | 1,034 | | 1,089 |
| Comprising interest on plan assets | | (767) | | (780) |
| Others | | 54 | | 51 |
| Total | ₩ | 3,268 | ₩ | 3,294 |

(4) Changes in plan asset for the years ended December 31, 2014 and 2013, are as follows (Unit: Korean won in millions):

| Description | Year ended December 31, 2014 | | Year ended December 31, 2013 | |
|---|---|---|---|---|
| Beginning balance | ₩ | 25,375 | ₩ | 24,789 |
| Comprising interest on plan assets | | 767 | | 780 |
| Remeasurements-return on plan assets | | 3 | | 6 |
| Benefits paid | | (215) | | (240) |
| Contributions from the employer | | 6,200 | | 3,500 |
| Operational management fee on plan assets | | (54) | | (51) |
| Others | | - | | (3,409) |
| Ending balance | ₩ | 32,076 | ₩ | 25,375 |

(5) All of the plan assets are mainly invested in financial instruments that guarantee principal and interest rate as of December 31, 2014 and 2013.

(6) Actuarial assumptions used as of December 31, 2014 and 2013, are as follows:

| Description | December 31, 2014 | December 31, 2013 |
|---|---|---|
| Discount rate (%) | 2.58 | 3.29 |
| Expected rate of salary increase (%) | 7.94 | 7.70 |

(7) The sensitivity analysis of the defined benefit obligation as of December 31, 2014 and 2013, are as follows (Unit: Korean won in millions):

| | Year ended December 31, 2014 | | | | | |
|---|---|---|---|---|---|---|
| Description | Center scenario | | + 1% | | - 1% | |
| Change in discount rate | ₩ | 41,178 | ₩ | 39,782 | ₩ | 42,714 |
| Change in rate of salary increase | | 41,178 | | 42,624 | | 39,832 |

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

| | Year ended December 31, 2013 | | | | | |
|---|---|---|---|---|---|---|
| Description | Center scenario | | + 1% | | - 1% | |
| Change in discount rate | ₩ | 33,609 | ₩ | 32,556 | ₩ | 34,756 |
| Change in rate of salary increase | | 33,609 | | 34,699 | | 32,586 |

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

(8) Remeasurements related to net defined benefit liability for the years ended December 31, 2014 and 2013, are as follows (Unit: Korean won in millions):

| Description | Year ended December 31, 2014 | Year ended December 31, 2013 |
|---|---|---|
| Actuarial gains (losses) arising from changes in demographic assumptions | ₩ 147 | ₩ 162 |
| Actuarial gains (losses) arising from changes in financial assumptions | 1,115 | 180 |
| Actuarial gains (losses) arising from experience | 505 | 632 |
| Return on plan assets excluding amounts included in interest income | (3) | (6) |
| Actuarial gains (losses) arising from transfer in/out adjustment | 75 | (476) |
| Total | ₩ 1,839 | ₩ 492 |

Meanwhile, the Company deducted ₩445 million arising from income tax effect for actuarial gain (loss) during the current period.

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

| | 2015 |
|---|---|
| Estimated contributions to plan assets (*) | ₩ 2,473 |

(*) The above estimation is measured assuming that 95% of defined benefit liability may be contributed.

## 13. OTHER LIABILITIES:

Other liabilities as of December 31, 2014 and 2013 are as follows (Unit: Korean won in millions):

| Description | December 31, 2014 | | December 31, 2013 | |
|---|---|---|---|---|
| | Current | Non-current | Current | Non-current |
| Advances from lease | ₩ 131 | ₩ 6,423 | ₩ - | ₩ 6,997 |
| VAT withheld | 6,000 | - | 6,441 | - |
| Withholdings | 436 | - | 453 | - |
| Total | ₩ 6,567 | ₩ 6,423 | ₩ 6,894 | ₩ 6,997 |

## 14. ISSUED CAPITAL:

Details of issued capital as of December 31, 2014, are as follows (Unit: Korean won in millions):

| Type of stock | Number of authorized shares | Number of issued shares | Number of shares owned by related party | Par value (in Korean won) | Amount of issued capital |
|---|---|---|---|---|---|
| Common stock | 700,000,000 | 172,557,131 | 83,753,496 | ₩ 5,000 | ₩ 862,786 |
| Preferred stock (*) | - | 3,314,677 | - | 5,000 | 16,573 |

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

The Company has 93,789 shares of common stock and 6,810 shares of preferred stock as of December 31, 2014 and 2013. The carrying amounts of common stock and preferred stock are ₩2,334 million and ₩51 million, respectively.

## 15. CAPITAL SURPLUS:

Composition of the Company's capital surplus as of December 31, 2014 and 2013, are as follows (Unit: Korean won in millions):

| Description | December 31, 2014 | | December 31, 2013 | |
|---|---|---|---|---|
| Paid-in capital in excess of par value | ₩ | 898,266 | ₩ | 898,266 |
| Assets revaluations reserves | | 338,100 | | 338,100 |
| Other capital surplus | | 1,172,636 | | 1,172,636 |
| Total | ₩ | 2,409,002 | ₩ | 2,409,002 |

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

Composition of accumulated other comprehensive income (loss) as of December 31, 2014 and 2013, is as follows (Unit: Korean won in millions):

| Description | December 31, 2014 | | December 31, 2013 | |
|---|---|---|---|---|
| Gain on valuation of AFS financial assets | ₩ | 30,727 | ₩ | 34,933 |

## 17. RETAINED EARNINGS:

(1) Composition of retained earnings as of December 31, 2014 and 2013, are as follows (Unit: Korean won in millions):

| Description | December 31, 2014 | | December 31, 2013 | |
|---|---|---|---|---|
| Retained earnings restricted to appropriation (*) | ₩ | 215,953 | ₩ | 198,359 |
| Retained earnings subject to appropriation | | 4,236,271 | | 4,070,584 |
| Total | ₩ | 4,452,224 | ₩ | 4,268,943 |

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

(2) Changes in retained earnings for the years ended December 31, 2014 and 2013, are as follows (Unit: Korean won in millions):

| Description | Year ended December 31, 2014 | | Year ended December 31, 2013 | |
|---|---|---|---|---|
| Beginning balance | ₩ | 4,268,943 | ₩ | 4,089,274 |
| Profit for the year | | 360,611 | | 355,979 |
| Dividends | | (175,937) | | (175,937) |
| Remeasurements of the net defined benefit liability | | (1,393) | | (373) |
| Ending balance | ₩ | 4,452,224 | ₩ | 4,268,943 |

(3) Separate statements of appropriations of retained earnings for the years ended December 31, 2014 and 2013, are as follows (Unit: Korean won in millions):

| | Korean won | |
|---|---|---|
| | Year ended December 31, 2014 | Year ended December 31, 2013 |
| UNAPPROPRIATED RETAINED EARNINGS: | | |
| Unappropriated retained earnings carried over from prior year | ₩ - | ₩ - |
| Profit for the year | 360,611 | 355,979 |
| Actuarial gains and losses on defined benefit plans | (1,393) | (373) |
| | 359,218 | 355,606 |
| APPROPRIATIONS: | | |
| Legal reserve | 17,594 | 17,594 |
| Dividends | 175,937 | 175,937 |
| Other reserve | 165,687 | 162,075 |
| | 359,218 | 355,606 |
| UNAPPROPRIATED RETAINED EARNINGS CARRIED FORWARD TO SUBSEQUENT YEAR | ₩ - | ₩ - |

(4) The amount of dividends and dividends per share for the years ended December 31, 2014 and 2013, are as follows (Unit: Korean won in millions):

| | December 31, 2014 | | | | |
|---|---|---|---|---|---|
| Type of stock | Number of issued shares | Number of treasury stocks | Number of stocks eligible for dividend | Dividend per share (Korean won) | Total dividend |
| Common stock | 172,557,131 | 93,789 | 172,463,342 | 1,000 | 172,464 |
| Preferred stock | 3,314,677 | 6,810 | 3,307,867 | 1,050 | 3,473 |

| | December 31, 2013 | | | | |
|---|---|---|---|---|---|
| Type of stock | Number of issued shares | Number of treasury stocks | Number of stocks eligible for dividend | Dividend per share (Korean won) | Total dividend |
| Common stock | 172,557,131 | 93,789 | 172,463,342 | 1,000 | 172,464 |
| Preferred stock | 3,314,677 | 6,810 | 3,307,867 | 1,050 | 3,473 |

## 18. OPERATING INCOME:

Operating income for the years ended December 31, 2014 and 2013 are as follows (Unit: Korean won in millions):

| | Year ended December 31, 2014 | | Year ended December 31, 2013 | |
|---|---|---|---|---|
| **Operating income:** | | | | |
| Dividends income | ₩ | 209,394 | ₩ | 200,290 |
| Royalties revenue | | 264,859 | | 269,085 |
| Rental revenue | | 101,491 | | 98,671 |
| | | 575,744 | | 568,046 |
| **Operating expenses:** | | | | |
| Employee benefit: | | | | |
| Salaries and wages | | 20,357 | | 20,511 |
| Severance benefits | | 3,214 | | 3,243 |
| Welfare | | 2,531 | | 2,489 |
| | | 26,102 | | 26,243 |
| Depreciation: | | 16,323 | | 16,347 |
| Other operating expenses: | | | | |
| Amortization of intangible assets | | 896 | | 865 |
| Taxes and dues | | 4,177 | | 3,915 |
| Advertising expenses | | 64,286 | | 64,874 |
| Training expenses | | 890 | | 867 |
| Commission | | 36,440 | | 36,353 |
| Insurance premium | | 338 | | 361 |
| Operating lease expense | | 692 | | 497 |
| Other selling and administrative expenses | | 8,554 | | 8,237 |
| | | 116,273 | | 115,969 |
| **Net operating income** | ₩ | 417,046 | ₩ | 409,487 |

## 19. FINANCIAL INCOME AND FINANCIAL EXPENSES:

(1) Financial income consists of interest income. The details for the years ended December 31, 2014 and 2013, are as follows (Unit: Korean won in millions):

| Description | Year ended December 31, 2014 | | Year ended December 31, 2013 | |
|---|---|---|---|---|
| Interest income | ₩ | 6,411 | ₩ | 7,176 |
| Gain on financial warranty | | 388 | | - |
| Gain on foreign currency transaction and translation | | 32 | | - |
| Total | ₩ | 6,831 | ₩ | 7,176 |

(2) Financial expenses for the years ended December 31, 2014 and 2013, are as follows (Unit: Korean won in millions):

| Description | Year ended December 31, 2014 | | Year ended December 31, 2013 | |
|---|---|---|---|---|
| Interest expense | ₩ | 443 | ₩ | 416 |
| Loss on foreign currency transaction and translation | | 2,106 | | - |
| Total | ₩ | 2,549 | ₩ | 416 |

(3) Net gain (loss) from financial instruments for the years ended December 31, 2014 and 2013, is as follows (Unit: Korean won in thousands):

| Description | Year ended December 31, 2014 | Year ended December 31, 2013 |
|---|---|---|
| Financial assets: | | |
| AFS financial assets (*1) | ₩ (3,312) | ₩ 3,923 |
| Loans and receivables (*2) | 4,336 | 7,176 |
| Subtotal | 1,024 | 11,099 |
| Financial liabilities: | | |
| Financial liabilities measured at amortized cost | (443) | (416) |
| Subtotal | (443) | (416) |
| Total | ₩ 581 | ₩ 10,683 |

(*1) It includes dividend income and valuation gain or loss recognized in other comprehensive income.
(*2) It includes net income (loss) incurred from cash and cash equivalents and financial institution deposits.

## 20. INCOME TAX:

(1) Composition of income tax expense for the years ended December 31, 2014 and 2013, are as follows (Unit: Korean won in millions):

| Description | Year ended December 31, 2014 | Year ended December 31, 2013 |
|---|---|---|
| Current income tax payable | ₩ 61,822 | ₩ 61,893 |
| Adjustment relating to prior income tax expense | - | (51) |
| Changes in deferred tax assets: | (2,114) | (2,084) |
| Beginning deferred tax assets due to temporary differences | (134,386) | (136,091) |
| Ending deferred tax assets due to temporary differences | (130,484) | (134,386) |
| Deferred taxes directly reflected in equity | 1,788 | (379) |
| Income tax expense | ₩ 59,708 | ₩ 59,758 |

(2) A reconciliation between accounting income before income tax and income tax expense of the Company for the years ended December 31, 2014 and 2013, are as follows (Unit: Korean won in millions):

| Description | Year ended December 31, 2014 | Year ended December 31, 2013 |
|---|---|---|
| Income before income tax expense | ₩ 420,319 | ₩ 415,737 |
| Tax expense calculated on book income | 101,255 | 100,146 |
| Adjustments: | | |
| Non-taxable income | (42,106) | (40,995) |
| Non-deductible expenses | 748 | 813 |
| Tax refund | - | (51) |
| Others (differences due to the tax rates, etc.) | (189) | (155) |
| Income tax expense | ₩ 59,708 | ₩ 59,758 |

(3) Income tax directly reflected in equity for the years ended December 31, 2014 and 2013, is as follows (Unit: Korean won in millions):

| Description | Year ended December 31, 2014 | | Year ended December 31, 2013 | |
|---|---|---|---|---|
| Revaluation of AFS financial assets | ₩ | 1,343 | ₩ | (498) |
| Actuarial gain and loss on defined benefit plans | | 445 | | 119 |
| Total deferred tax directly reflected in equity | ₩ | 1,788 | ₩ | (379) |

(4) Changes in deferred tax assets (liabilities) for the years ended December 31, 2014 and 2013, are as follows (Unit: Korean won in millions):

| Description | Year ended December 31, 2014 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Beginning balance | | Reflected in income (loss) | | Reflected in equity | | Ending balance | |
| Temporary differences: | | | | | | | | |
| Investments in subsidiaries and associates | ₩ | (130,855) | ₩ | - | ₩ | - | ₩ | (130,855) |
| Property, plant and equipment | | 8,794 | | 1,142 | | - | | 9,936 |
| Intangible assets | | 60 | | 151 | | - | | 211 |
| AFS financial assets | | (6,115) | | - | | 1,343 | | (4,772) |
| Provisions | | 893 | | (135) | | 445 | | 1,203 |
| Other financial liabilities | | 1,592 | | (162) | | - | | 1,430 |
| Others | | (8,755) | | 1,118 | | - | | (7,637) |
| Deferred tax assets (liabilities) | ₩ | (134,386) | ₩ | 2,114 | ₩ | 1,788 | ₩ | (130,484) |

| Description | Year ended December 31, 2013 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Beginning balance | | Reflected in income (loss) | | Reflected in equity | | Ending balance | |
| Temporary differences: | | | | | | | | |
| Investments in subsidiaries and associates | ₩ | (130,855) | ₩ | - | ₩ | - | ₩ | (130,855) |
| Property, plant and equipment | | 7,690 | | 1,104 | | - | | 8,794 |
| Intangible assets | | 71 | | (11) | | - | | 60 |
| AFS financial assets | | (5,617) | | - | | (498) | | (6,115) |
| Provisions | | 862 | | (88) | | 119 | | 893 |
| Other financial liabilities | | 1,597 | | (5) | | - | | 1,592 |
| Others | | (9,839) | | 1,084 | | - | | (8,755) |
| Deferred tax assets (liabilities) | ₩ | (136,091) | ₩ | 2,084 | ₩ | (379) | ₩ | (134,386) |

(5) There is no balance of deferred tax asset (liability) relevant to assets held for sale as of December 31, 2014.

(6) As of December 31, 2014, temporary differences not recognized as deferred tax assets (liabilities) related to investment asset and equity interest are as follows (Unit: Korean won in millions):

| Description | December 31, 2014 | |
|---|---|---|
| Investments in subsidiaries | ₩ | (586,739) |
| Investments in associates and joint ventures | | 1,348,729 |
| Total | ₩ | 761,990 |

## 21. EARNINGS PER SHARE:

(1) Basic earnings per share is the net income attributable to one share of common stock. It is measured by dividing net income attributable to common stocks during a specified period by weighted-average number of common shares issued during that period.

(2) Earnings per share for the years ended December 31, 2014 and 2013, are calculated as follows (Unit: Korean won in millions, except for earnings per share):

| Description | Year ended December 31, 2014 | Year ended December 31, 2013 |
|---|---|---|
| Profit for the year attributable to owners of the Company | ₩ 360,611 | ₩ 355,979 |
| Less net income of preferred stock: | 6,948 | 6,862 |
| (Dividends of preferred stock) | 3,473 | 3,473 |
| (Preferred stock portion of additional dividends) | 3,475 | 3,389 |
| Net income of common stock | 353,663 | 349,117 |
| Weighted-average number of common shares outstanding | 172,463,342 shares | 172,463,342 shares |
| Basic earnings per share | ₩ 2,051 | ₩ 2,024 |

(3) Weighted-average number of common shares outstanding for the years ended December 31, 2014 and 2013, are calculated as follows (Unit: a day and a share):

Year ended December 31, 2014

| | | Number of common shares | Weight | Accumulated number of common shares outstanding |
|---|---|---|---|---|
| 2014.01.01 | Beginning of year | 172,463,342 | 365 | 62,949,119,830 |
| Weighted-average number of common shares outstanding | | | x 1/365 | 172,463,342 |

Year ended December 31, 2013

| | | Number of common shares | Weight | Accumulated number of common shares outstanding |
|---|---|---|---|---|
| 2013.01.01 | Beginning of year | 172,463,342 | 365 | 62,949,119,830 |
| Weighted-average number of common shares outstanding | | | x 1/365 | 172,463,342 |

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

## 22. RELATED-PARTY TRANSACTIONS:

(1) Details of related parties as of December 31, 2014 and 2013, are as follows:

December 31, 2014

| Companies with direct ownership | Companies with direct ownership's subsidiaries (domestic)(*1) | Companies with direct ownership's subsidiaries (overseas)(*1) | Companies with direct ownership's associates |
|---|---|---|---|
| **Subsidiaries:** | | | |
| LG Siltron Inc. | | LG Siltron America, Inc. and another | |
| LG CNS Co., Ltd. | LG N-Sys Inc.<br>BNE Partners, Inc. | LG CNS China, Inc. and 20 others | Korea Smart Card Co., Ltd.<br>Korea Smart Card CS Partners Co., Ltd. |

| December 31, 2014 | | | |
|---|---|---|---|
| Companies with direct ownership | Companies with direct ownership's subsidiaries (domestic)(*1) | Companies with direct ownership's subsidiaries (overseas)(*1) | Companies with direct ownership's associates |
| | Ucess Partners Co., Ltd. | | T-money America, INC. |
| | Korea Elecom Co., Ltd | | T MONEY MALAYSIA SDN BHD |
| | EverOn Co., Ltd | | Songdo U-Life LLC. |
| | Oneseen Skytech | | U Life Solutions |
| | | | Songdo International Sports Club LLC. |
| | | | Recaudo Bogota S.A.S. |
| | | | Petro Cornergy Co., Ltd. |
| Serveone Co., Ltd. | Konjiam Yewon Co., Ltd. | Serveone (Nanjing) Co., Ltd. and 3 others | Dongnam Solar Energy Co., Ltd. |
| | LG-TOYO Engineering Co., Ltd. | | Serveone Cenyar Services Co.(*2) |
| | Gumi Ochang Sunlight Solar Co., Ltd. | | |
| Lusem Co., Ltd. | | | Zephyr Logic, Inc. |
| LG Management Development Institute | | | |
| LG Sports Ltd. | | | |
| LG Solar Energy Inc. | | | |
| LG Holdings Japan Co., Ltd. | | | Combustion Synthesis Co.,LTD. |
| **Associates:** | | | |
| LG Electronics Inc. | Hi Plaza Inc. | LG Electronics Mexico S.A. DE C.V. and others | |
| | Innovation Investment | | |
| | Hi Logistics | | |
| | Hi-M Solutec Co., Ltd. | | |
| | HITeleservice Co., Ltd. | | |
| | New Growth Venture Fund | | |
| | New Growth Venture Fund Ⅱ | | |
| | Hientech Co., Ltd. | | |
| | Ace R&A Co., Ltd. | | |
| | LG-Hitachi Water Solutions Co., Ltd. | | |
| | LG innotek Co., Ltd. | | |
| | Innowith | | |
| | Hanuri | | |
| | LG innotek Alliance Fund | | |
| LG Chem Ltd. | Haengboknuri | Tianjin LG DAGU Chemical Co., Ltd. and others | |
| LG Hausys, Ltd. | LG Hausys ENG., Ltd. | LG Hausys America, Inc. and others | |
| | LG Hausys Interpane | | |
| LG Uplus Corp. | CS Leader | DACOM America Inc. | |
| | Ain Teleservice | | |
| | CS One Partner | | |
| | MEDIA LOG Co., Ltd. | | |
| | 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. | | |
| | HTB Co., Ltd. | | |

December 31, 2014

| Companies with direct ownership | Companies with direct ownership's subsidiaries (domestic)(*1) | Companies with direct ownership's subsidiaries (overseas)(*1) | Companies with direct ownership's associates |
|---|---|---|---|
| | Future Co., Ltd | | |
| | CNP COSMETICS Co., Ltd. | | |
| LG Life Science Co., Ltd. | | 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. | | | |
| LG Fuel Cell Systems Inc. | LG Fuel Cell Systems (Korea) Inc. | | |
| Slicon Works Co., Ltd. | | Silicon Works Inc | |
| **Joint ventures:** | | | |
| LG MMA Corp. | | | |

(*1): Joint ventures of associates are excluded.
(*2): Joint venture of Serveone Co., Ltd.

December 31, 2013

| Companies with direct ownership | Companies with direct ownership's subsidiaries (domestic)(*1) | Companies with direct ownership's subsidiaries (overseas)(*1) | Companies with direct ownership's associates |
|---|---|---|---|
| **Subsidiaries:** | | | |
| LG Siltron Inc. | | LG Siltron America, Inc. and another | |
| LG CNS Co., Ltd. | LG N-Sys Inc. | LG CNS China, Inc. and 20 others | Korea Smart Card Co., Ltd. |
| | BNE Partners, Inc. | | Korea Smart Card CS Partners Co., Ltd. |
| | Ucess Partners Co., Ltd. | | Songdo U-Life LLC. |
| | Korea Elecom Co., Ltd | | U Life Solutions |
| | EverOn Co., Ltd | | Songdo International Sports Club LLC. |
| | Oneseen Skytech | | Recaudo Bogota S.A.S. |
| | | | Petro Cornergy Co., Ltd. |
| Serveone Co., Ltd. | Konjiam Yewon Co., Ltd. | Serveone (Nanjing) Co., Ltd. and another | Gumi Ochang Sunlight Solar Co., Ltd. |
| | LG-TOYO Engineering Co., Ltd. | | Dongnam Solar Energy Co., Ltd. |
| Lusem Co., Ltd. | | | Zephyr Logic, Inc. |
| LG Management Development Institute | | | |
| LG Sports Ltd. | | | |
| LG Solar Energy Inc. | | | |
| **Associates:** | | | |
| LG Electronics Inc. | Hi Plaza Inc. | LG Electronics Mexico S.A. DE C.V. and others | |
| | Innovation Investment | | |
| | Hi Business Logistics | | |
| | Hi-M Solutec Co., Ltd. | | |
| | HITeleservice Co., Ltd. | | |
| | New Growth Venture Fund | | |
| | New Growth Venture Fund Ⅱ | | |
| | Hientech Co., Ltd. | | |
| | Ace R&A Co., Ltd. | | |
| | LG-Hitachi Water Solutions Co., | | |

| December 31, 2013 | | | |
|---|---|---|---|
| Companies with direct ownership | Companies with direct ownership's subsidiaries (domestic)(*1) | Companies with direct ownership's subsidiaries (overseas)(*1) | Companies with direct ownership's associates |
| | Ltd. | | |
| | LG innotek Co., Ltd. | | |
| | Innowith | | |
| | Hanuri | | |
| | LG innotek Alliance Fund | | |
| LG Chem Ltd. | Haengboknuri | Tianjin LG DAGU Chemical Co., Ltd. and others | |
| LG Hausys, Ltd. | LG Hausys ENG., Ltd. | LG Hausys America, Inc. and others | |
| | LG Hausys Interpane | | |
| LG Uplus Corp. | CS Leader | DACOM America Inc. | |
| | Ain Teleservice | | |
| | CS One Partner | | |
| | MEDIA LOG Co., Ltd. | | |
| | 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. | | |
| | HTB Co., Ltd. | | |
| | Future Co., Ltd | | |
| LG Life Science Co., Ltd. | | 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. | | | |
| LG Fuel Cell Systems Inc. | LG Fuel Cell Systems (Korea) Inc. | | |
| **Joint ventures:** | | | |
| LG MMA Corp. | | | |

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

(2) Major transactions with the related parties for the years ended December 31, 2014 and 2013, are as follows: (Unit: Korean won in millions):

| | Year ended December 31, 2014 | | | |
|---|---|---|---|---|
| | Revenue and others | Purchase raw material | Acquisition of property, plant and equipment | Other purchase |
| **Subsidiaries:** | | | | |
| LG CNS Co., Ltd. | ₩ 24,738 | ₩ - | ₩ 1,377 | ₩ 2,320 |
| LG N-Sys Inc. | 1,608 | - | 74 | 94 |
| BNE Partners, Inc. | - | - | - | 45 |
| LG Siltron Inc. | 1,586 | - | - | - |
| Serveone Co., Ltd. | 34,039 | - | 2,754 | 25,989 |
| LG-TOYO Engineering Co., Ltd | 51 | - | - | - |
| Lusem Co., Ltd. | 700 | - | - | - |
| LG Sports Ltd. | 78 | - | - | 2,530 |
| LG Management Development Institute | 1,997 | - | - | 6,822 |
| LG Solar Energy Inc. | 6 | - | - | - |
| LG Holdings Japan Co., Ltd. | 399 | - | - | - |

| | | | | |
|---|---|---|---|---|
| **Associates and subsidiaries:** | | | | |
| LG Electronics Inc. (*1) | 166,328 | - | - | 558 |
| LG Chem Ltd. (*1) | 143,068 | - | - | 12 |
| LG Hausys, Ltd. (*1) | 11,181 | - | - | - |
| LG Household & Health Care Ltd. (*1) | 33,589 | - | - | - |
| LG Life Science Co., Ltd. (*1) | 5,313 | - | - | - |
| LG Uplus Corp. (*1) | 52,190 | - | - | 157 |
| GIIR Corporation (*1) | 2,337 | - | - | 22,733 |
| LG Hitachi Co., Ltd. | 94 | - | - | - |
| LG Fuel Cell Systems Inc. | 29 | - | - | - |
| **Joint ventures:** | | | | |
| LG MMA Corp. | 20,182 | - | - | - |
| Total | ₩ 499,513 | ₩ - | ₩ 4,205 | ₩ 61,260 |

| | Year ended December 31, 2013 | | | |
|---|---|---|---|---|
| | Revenue and others | Purchase raw material | Acquisition of property, plant and equipment | Other purchase |
| **Subsidiaries:** | | | | |
| LG CNS Co., Ltd. | ₩ 28,507 | ₩ - | ₩ 968 | ₩ 2,027 |
| LG N-Sys Inc. | 1,570 | - | - | 47 |
| LG Siltron Inc. | 4,260 | - | - | - |
| Serveone Co., Ltd. | 46,851 | - | 2,090 | 26,100 |
| LG-TOYO Engineering Co., Ltd | 28 | - | - | - |
| Lusem Co., Ltd. | 700 | - | - | - |
| LG Sports Ltd. | 82 | - | - | 4,845 |
| LG Management Development Institute | 1,904 | - | - | 6,754 |
| LG Solar Energy Inc. | 6 | - | - | - |
| **Associates and subsidiaries:** | | | | |
| LG Electronics Inc. (*1) | 161,599 | - | - | 1,140 |
| LG Chem Ltd. (*1) | 143,719 | - | - | 13 |
| LG Hausys, Ltd. (*1) | 8,423 | - | - | - |
| LG Household & Health Care Ltd. (*1) | 32,686 | - | - | - |
| LG Life Science Co., Ltd. (*1) | 5,160 | - | - | - |
| LG Uplus Corp. (*1) | 29,742 | - | - | 211 |
| GIIR Corporation (*1) | 2,299 | - | - | 19,008 |
| LG Hitachi Co., Ltd. | 104 | - | - | - |
| **Joint ventures:** | | | | |
| LG MMA Corp. | 16,049 | - | - | - |
| Total | ₩ 483,689 | ₩ - | ₩ 3,058 | ₩ 60,145 |

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

(3) Outstanding receivables and payables from transactions with related parties as of December 31, 2014 and 2013, are as follows (Unit: Korean won in millions):

| | December 31, 2014 | | | |
|---|---|---|---|---|
| | Account receivables and others | Loans | Account payables and others | Borrowings |
| **Subsidiaries:** | | | | |
| LG CNS Co., Ltd. | ₩ 362 | ₩ - | ₩ 5,592 | ₩ - |
| LG N-Sys Inc. | 38 | - | - | - |
| LG Siltron Inc. | - | - | 161 | - |
| Serveone Co., Ltd. | 3,492 | - | 7,114 | - |
| LG-TOYO Engineering Co., Ltd | 11 | - | - | - |
| LG Sports Ltd. | 2,874 | - | - | - |
| LG Management Development Institute | 2 | - | 2,726 | - |
| LG Solar Energy Inc. | - | - | - | - |
| LG Holdings Japan Co., Ltd. | 392 | - | - | - |
| **Associates and subsidiaries:** | | | | |
| LG Electronics Inc. (*1,2) | 5,208 | - | 22,882 | - |
| LG Chem Ltd. (*1) | 7 | - | 8,167 | - |
| LG Hausys, Ltd. (*1) | 344 | - | 38 | - |
| LG Household & Health Care Ltd. (*1) | 578 | - | 5,341 | - |
| LG Life Science Co., Ltd. (*1) | 18 | - | 2,737 | - |
| LG Uplus Corp. (*1) | - | - | 6,598 | - |
| GIIR Corporation (*1) | 439 | - | 23,712 | - |
| LG Hitachi Co., Ltd. | - | - | 10 | - |
| LG Fuel Cell Systems Inc. | 29 | 7,420 | - | - |
| **Joint ventures:** | | | | |
| LG MMA Corp. | - | - | 67 | - |
| Total | ₩ 13,794 | ₩ 7,420 | ₩ 85,145 | ₩ - |

| | December 31, 2013 | | | |
|---|---|---|---|---|
| | Account receivables and others | Loans | Account payables and others | Borrowings |
| **Subsidiaries:** | | | | |
| LG CNS Co., Ltd. | ₩ 194 | ₩ - | ₩ 5,213 | ₩ - |
| LG N-Sys Inc. | - | - | 17 | - |
| LG Siltron Inc. | - | - | 440 | - |
| Serveone Co., Ltd. | 3,491 | - | 8,051 | - |
| LG-TOYO Engineering Co., Ltd | 14 | - | - | - |
| LG Sports Ltd. | 13 | - | 770 | - |
| LG Management Development Institute | 16 | - | 2,869 | - |
| LG Solar Energy Inc. | 1 | - | - | - |
| **Associates and subsidiaries:** | | | | |
| LG Electronics Inc. (*1) | 8,893 | - | 22,045 | - |
| LG Chem Ltd. (*1) | 64 | - | 6,935 | - |
| LG Hausys, Ltd. (*1) | 552 | - | 36 | - |
| LG Household & Health Care Ltd. (*1) | 194 | - | 5,194 | - |
| LG Life Science Co., Ltd. (*1) | 12 | - | 2,661 | - |

| | | | | |
|---|---|---|---|---|
| LG Uplus Corp. (*1) | 1,060 | - | 5,396 | - |
| GIIR Corporation (*1) | - | - | 17,770 | - |
| LG Hitachi Co., Ltd. | 12 | - | - | - |
| **Joint ventures:** | | | | |
| LG MMA Corp. | - | - | 125 | - |
| Total | ₩ 14,516 | ₩ - | ₩ 77,522 | ₩ - |

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

(4) Fund transactions with the related parties for the years ended December 31, 2014 and 2013, are as follows: (Unit: Korean won in millions):

| Description | Year ended December 31, 2014 | | | | | |
|---|---|---|---|---|---|---|
| | Payment in cash (Reduction of capital) | Sale of portion | Loan | | Borrowings | |
| | | | Loan | Payback | Borrowings | Repayment |
| **Subsidiaries:** | | | | | | |
| LG Holdings Japan Co., Ltd. | ₩ 122,147 | ₩ - | ₩ - | ₩ - | ₩ - | ₩ - |
| LG Sports Ltd. | 40,000 | - | - | - | - | - |
| **Associates:** | | | | | | |
| LG Fuel Cell Systems (Korea) Inc. | 5,681 | - | 7,412 | - | - | - |
| **Total** | ₩ 167,828 | ₩ - | ₩ 7,412 | ₩ - | ₩ - | ₩ - |

| Description | Year ended December 31, 2013 | | | | | |
|---|---|---|---|---|---|---|
| | Payment in cash (Reduction of capital) | Sale of portion | Loan | | Borrowings | |
| | | | Loan | Payback | Borrowings | Repayment |
| **Subsidiaries:** | | | | | | |
| LG Sports Ltd. | ₩ 60,000 | ₩ - | ₩ - | ₩ - | ₩ - | ₩ - |
| **Associates:** | | | | | | |
| LG Fuel Cell Systems (Korea) Inc. | 4,336 | - | - | - | - | - |
| **Total** | ₩ 64,336 | ₩ - | ₩ - | ₩ - | ₩ - | ₩ - |

(5) The compensation and benefits for the Company's key managements (registered executives, including non-permanent and non-registered executives) who have significant control and responsibility on planning, operating and controlling the activities of the Company for the years ended December 31, 2014 and 2013, are as follows (Unit: Korean won in millions):

| Description | Year ended December 31, 2014 | Year ended December 31, 2013 |
|---|---|---|
| Short-term employee benefits | ₩ 12,089 | ₩ 11,518 |
| Severance benefits | 2,407 | 2,641 |
| Total | ₩ 14,496 | ₩ 14,159 |

(6) The warranty of payment for related parties as of December 31, 2014 is as follows:

| Beneficiary | Bank | Limitation | Guarantee |
|---|---|---|---|
| LG Holdings Japan Co., Ltd. | SMBC | JPY 12,000,000,000 | Facility |
| LG Holdings Japan Co., Ltd. | SMBC | JPY 500, 000,000 | Operation |
| Total | | JPY 12,500,000,000 | |

## 23. FUNDING ARRANGEMENTS AND PLEDGING:

(1) The Company has bank overdraft agreement limited to ₩5,000 million with Woori Bank, general loan agreement limited to ₩115,000 million with Kookmin Bank and two others.

(2) Restricted financial assets as of December 31, 2014 and 2013 are as follows (Unit: Korean won in millions):

| Account | December 31, 2014 | December 31, 2013 | Detail |
|---|---|---|---|
| Long-term deposits | ₩ 6 | ₩ 6 | Deposit for the checking accounts |

(3) Detail of pledging as of December 31, 2014, is as follows :

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

## 24. OPERATING LEASE CONTRACTS:

(1) The Company as lessee

1) The Company entered into operating lease contracts for vehicles and office equipment. Payment schedule related to the major operating lease contracts as of December 31, 2014 and 2013, is as follows (Unit: Korean won in millions):

| Contents | December 31, 2014 | |
|---|---|---|
| | Less than one year | Total |
| Vehicles | ₩ 470 | ₩ 470 |
| Furniture and fixtures | 62 | 62 |
| Property | 155 | 155 |
| Total | ₩ 687 | ₩ 687 |

| Contents | December 31, 2013 | |
|---|---|---|
| | Less than one year | Total |
| Vehicles | ₩ 437 | ₩ 437 |
| Furniture and fixtures | 60 | 60 |
| Total | ₩ 497 | ₩ 497 |

2) The Company recognized rental expenses related to operating lease contracts for the years ended December 31, 2014 and 2013, in the amount of ₩692 million and ₩497 million, respectively.

(2) The Company as lessor

1) The Company has real estate lease contracts and the major operating lease contracts as of December 31, 2014 and 2013, are as follows (Unit: Korean won in millions):

| | December 31, 2014 | | | |
|---|---|---|---|---|
| Contract | Less than one year | 1–5 years | More than five years | Total |
| Building lease contract (Twin) | ₩ 14,865 | ₩ - | ₩ - | ₩ 14,865 |
| Building lease contract (Gasan) | 16,907 | 55,955 | 131,272 | 204,134 |
| Building lease contract (Kwangwhamoon) | 6,045 | - | - | 6,045 |
| Building lease contract (Buho) | 79 | - | - | 79 |
| Total | ₩ 37,896 | ₩ 55,955 | ₩ 131,272 | ₩ 225,123 |

| | December 31, 2013 | | | |
|---|---|---|---|---|
| Contract | Less than one year | 1–5 years | More than five years | Total |
| Building lease contract (Twin) | ₩ 14,268 | ₩ - | ₩ - | ₩ 14,268 |
| Building lease contract (Gasan) | 16,890 | 56,038 | 145,190 | 218,118 |
| Building lease contract (Kwangwhamoon) | 6,099 | 767 | - | 6,866 |
| Building lease contract (Buho) | 225 | - | - | 225 |
| Total | ₩ 37,482 | ₩ 56,805 | ₩ 145,190 | ₩ 239,477 |

2) The Company recognized rental revenue related to operating lease contracts for the years ended December 31, 2014 and 2013, in the amount of ₩101,491 million and ₩98,671 million, respectively.

## 25. PENDING LITIGATION:

Pending litigations as of December 31, 2014, are two cases the Company sued (the amount of lawsuit ₩3,000 million) and four cases the Company is sued (the amount of lawsuit ₩200 million), including trademark infringement and damages related litigation.

**26. RISK MANAGEMENT:**

(1) Capital risk management

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

The Company's capital structure consists of net liability, which is borrowings, less cash and cash equivalents and equity. The overall capital risk management policy of the Company is unchanged from prior period. In addition, items managed as capital by the Company as of December 31, 2014 and 2013, are as follows (Unit: Korean won in millions):

| | December 31, 2014 | December 31, 2013 |
|---|---|---|
| Total borrowings | ₩ - | ₩ - |
| Less cash and cash equivalents | 151,998 | 185,979 |
| Borrowings, net | (151,998) | (185,979) |
| Total equity | 7,768,927 | 7,589,853 |
| Debt ratio | - | - |

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

(2) Financial risk management

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

1) Price risk

The Company is exposed to price risks from AFS equity instruments. As of December 31, 2014, fair value of AFS equity instruments is ₩41,272 million, and when all the other variables are constant and when the price of equity instrument changes by 10%, the effect after tax to equity will be ₩3,128 million.

2) Credit risk

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

As of December 31, 2014, the maximum exposure of credit risk from loans and receivables is similar to their carrying amount. Maximum exposure of credit risk from payment guarantee described on Note 21(6) is ₩115,018 million, the limitation amount of payment warrantee.

3) Liquidity risk

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

Maturity analysis of non-derivative financial liabilities according to its remaining maturity as of December 31, 2014, is as follows (Unit: Korean won in millions):

| Description | Within a year | 1–5 years | Over five years | Total |
|---|---|---|---|---|
| Non-interest financial instrument | ₩ 99,658 | ₩ 101 | ₩ 10,193 | ₩ 109,952 |
| Limitations of payment guarantee(*) | 115,018 | - | - | 115,018 |
| Total | ₩ 214,676 | ₩ 101 | ₩ 10,193 | ₩ 224,970 |

(*) As described in Note 22 (6), total guarantee of JPY 12,500,000,000, the carrying amount is the limit of payment guarantee on overseas subsidiary's debt that the company has provided to financial institution. If warrantee claims to retrieve full amount guaranteed, it would be the maximum amount that the company should pay.
Based on the forecast on December 31, 2014, the Company presumes that it is less likely to pay the guaranteed amount than not. Possibilities of the request of payment are variable according to potential credit loss of financial bond held by warrantee. Such possibilities of change may result in modification to the presumption.

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

4) Foreign currency risk

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

| Currency | Assets | Liabilities |
|---|---|---|
| USD | 7,448 | - |
| JPY | 392 | - |
| HKD | 439 | - |
| Total | 8,279 | - |

The Company regularly measures currency risk deprived from fluctuations of exchange rate.
Details of the Company's sensitivity to a 10% increase and decrease in Korean won against the relevant foreign currencies are as follows (Unit: Korean won in millions):

| Currency | 10% increase | 10% decrease |
|---|---|---|
| USD | 565 | (565) |
| JPY | 30 | (30) |
| HKD | 33 | (33) |
| Total | 628 | (628) |

(3) Estimation of fair value

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

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

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

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

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

1) Financial instruments that are measured subsequent to initial recognition at fair value by fair value hierarchy levels as of December 31, 2014 and 2013, are as follows (Unit: Korean won in millions):

| Description | December 31, 2014 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| AFS financial assets | ₩ 41,272 | ₩ - | ₩ 48,151 | ₩ 89,423 |

| Description | December 31, 2013 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| AFS financial assets | ₩ 45,344 | ₩ - | ₩ 49,628 | ₩ 94,972 |

There were no significant transfers between Levels 1 and 2 as of December 31, 2014 and 2013.

2) The fair value hierarchy of financial instruments with fair value cannot be reliably measured at fair value in the statements of financial position as of December 31, 2014 and 2013, is as follows (Unit: Korean won in millions):

| Description | December 31, 2014 | | | | |
|---|---|---|---|---|---|
| | Fair value | | | | Book value |
| | Level 1 | Level 2 | Level 3 | Total | |
| Loans and receivables: | | | | | |
| Financial institution deposits | ₩ - | ₩ - | ₩ 80,000 | ₩ 80,000 | ₩ 80,000 |
| Loans (*) | - | - | 7,420 | 7,420 | 7,420 |
| Other account receivables (*) | - | - | 10,732 | 10,732 | 10,732 |
| Accrued income (*) | - | - | 789 | 789 | 789 |
| Deposits (*) | - | - | 565 | 565 | 565 |
| Total | - | - | 99,506 | 99,506 | 99,506 |
| Financial liabilities measured at amortized cost: | | | | | |
| Other accounts payables (*) | - | - | 38,497 | 38,497 | 38,497 |
| Accrued expenses (*) | - | - | 406 | 406 | 406 |
| Accrued dividends (*) | - | - | 318 | 318 | 318 |
| Deposits received | - | 64,176 | - | 64,176 | 64,176 |
| Total | ₩ - | ₩ 64,176 | ₩ 39,221 | ₩ 103,397 | ₩ 103,397 |

| Description | December 31, 2013 | | | | |
|---|---|---|---|---|---|
| | Fair value | | | | Book value |
| | Level 1 | Level 2 | Level 3 | Total | |
| Loans and receivables: | | | | | |
| Financial institution deposits | ₩ - | ₩ - | ₩ 140,000 | ₩ 140,000 | ₩ 140,000 |
| Loans (*) | - | - | - | - | - |
| Other account receivables (*) | - | - | 12,429 | 12,429 | 12,429 |
| Accrued income (*) | - | - | 1,587 | 1,587 | 1,587 |
| Deposits (*) | - | - | 26 | 26 | 26 |
| Total | - | - | 154,042 | 154,042 | 154,042 |
| Financial liabilities measured at amortized cost: | | | | | |
| Other accounts payables (*) | - | - | 35,511 | 35,511 | 35,511 |
| Accrued expenses (*) | - | - | 402 | 402 | 402 |
| Accrued dividends (*) | - | - | 308 | 308 | 308 |
| Deposits received | - | 61,706 | - | 61,706 | 61,706 |
| Total | ₩ - | ₩ 61,706 | ₩ 36,221 | ₩ 97,927 | ₩ 97,927 |

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

3) Changes in Level 3 financial assets for the years ended December 31, 2014 and 2013, are as follows (Unit: Korean won in millions):

| Description | Year ended December 31, 2014 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Beginning balance | Net income (loss) | Comprehensive Income (loss) | Purchases | Disposals | Ending balance | Ending unrealized gain |
| AFS financial assets | ₩ 49,628 | ₩ - | ₩ (1,477) | ₩ - | ₩ - | ₩ 48,151 | ₩ 11,678 |

| Description | Year ended December 31, 2013 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Beginning balance | Net income (loss) | Comprehensive income(loss) | Purchases | Disposals | Ending balance | Ending unrealized gain |
| AFS financial assets | ₩ 46,604 | ₩ - | ₩ 3,024 | ₩ - | ₩ - | ₩ 49,628 | ₩ 13,155 |

The amount recognized as comprehensive income (loss) is relevant to non-listed shares as of December 31, 2013, and recognized as changes of valuation gain (loss) (see Note 16) on AFS financial assets.

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

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

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

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

| Description | Fair value | Valuation technique | Unobservable input(s) | Range (%) | Relationship of unobservable inputs to fair value |
|---|---|---|---|---|---|
| Financial assets | | | | | |
| AFS financial assets | ₩ 48,151 | Discounted cash flow method | Growth rate | 0 | Increase (decrease) in the growth rate used would result in increase (decrease) of fair value |
| | | | Discount rate | 6.91 ~ 7.89 | Increase (decrease) in the discount rate used would result in decrease (increase) of fair value |

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

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

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

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

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

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

| Description | Unobservable input(s) | Changes of reasonably possible Unobservable input | Net income | | Other comprehensive income | |
|---|---|---|---|---|---|---|
| | | | Favorable change | Unfavorable change | Favorable change | Unfavorable change |
| AFS financial assets | Growth rate | +/-1% | - | - | ₩ 4,258 | ₩ (3,212) |
| | Discount rate | +/-1% | - | - | 5,586 | (4,208) |

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

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

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# Internal Accounting Control System (IACS) Review Report

English Translation of a Report Originally Issued in Korean on March 11, 2015

To the Representative Director of
LG Corp.:

We have reviewed the accompanying Report on the Management's Assessment of IACS (the "Management's Report") of LG Corp. (the "Company") as of December 31, 2014. The Management's Report, and the design and operation of IACS, are the responsibility of the Company's management. Our responsibility is to review the Management's Report and issue a review report based on our procedures. The Company's management stated in the accompanying Management's Report that "based on the assessment of the IACS as of December 31, 2014, the Company's IACS has been appropriately designed and is operating effectively as of December 31, 2014, in all material respects, in accordance with the IACS Framework established by the Korea Listed Companies Association."

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

A company's IACS represents internal accounting policies and a system to manage and operate such policies to provide reasonable assurance regarding the reliability of financial statements prepared, in accordance with accounting principles generally accepted in the Republic of Korea, for the purpose of preparing and disclosing reliable accounting information. Because of its inherent limitations, IACS may not prevent or detect a material misstatement of the financial statements. Also, projections of any evaluation of effectiveness of IACS to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on our review, nothing has come to our attention that causes us to believe that the Management's Report referred to above is not fairly stated, in all material respects, in accordance with the IACS Framework established by the Korea Listed Companies Association.

Our review is based on the Company's IACS as of December 31, 2014, and we did not review its IACS subsequent to December 31, 2014. This report has been prepared pursuant to the Acts on External Audit of Stock Companies in the Republic of Korea and may not be appropriate for other purposes or for other users.

Deloitte Anjin LLC

March 11, 2015

# Report on the Operations of the Internal Accounting Control System (“IACS”)

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

I, as the Internal Accounting Control Officer (“IACO”) of LG Corp. (“the Company”), assessed the status of the design and operations of the Company’s Internal Accounting Control System (“IACS”) for the year ended December 31, 2014.

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

Based on the assessment on the operations of the IACS, the Company’s IACS has been effectively designed and is operating as of December 31, 2014, in all material respects, in accordance with the IACS standards.

February 2, 2015

# Disclosure on Execution of External Audit

We attach required disclosure on the execution of external audit performed in 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 | 2014/1/1 | From | 2014/12/31 | To |

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

(Unit: Number of Participant, Hour Executed )

| Participant(s) ＼ Number and Hour(s) | | Engagement Quality Reviewer(s) (Including QRM, etc...) | Audit Professional(s) | | | IT Specialist(s), Tax Specialist(s), Valuation Specialist(s) | Total |
|---|---|---|---|---|---|---|---|
| | | | Engagement Partner(s) | KICPA (Registered) | KICPA (Non-Registered) | | |
| Number of Participant(s) | | 2 | 1 | 12 | 4 | 5 | 24 |
| Hours Executed | Quarterly Review, 6-month Review | 24 | 125 | 1,935 | 278 | - | 2,362 |
| | Audit | 26 | 68 | 1,062 | 153 | 33 | 1,342 |
| | Total | 50 | 193 | 2,997 | 431 | 33 | 3,704 |

## 3. Key Disclosure on Execution of External Audit

| Title | Detail | | | |
|---|---|---|---|---|
| Audit Planning Stage | Dates Performed | April ~ September, 2014 | 3 | Days |
| | Main Planning Work | Understanding the Company and business environments, | | |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Performed | | | 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 | | | | |
| Field Work Performed | Dates Performed | | | Number of Participant(s) | | | | Main Field Work Performed |
| | | | | On Site | | Off Site | | |
| | | | Days | | Number of Participant(s) | | Number of Participant(s) | |
| | 2014/12/08~2014/12/10 | | 3 | | 3 | | 2 | Interim audit(Understanding the transaction type of each process, Control testing) |
| | 2015/1/12~2015/1/30 | | 12 | | 4 | | 2 | External audit(Substantive procedure for the material account balances and transactions, consolidation audit) |
| Physical Counts - Inventory (Observation) | Time (When Performed) | - | | | | | - | Day(s) |
| | Place (Where Performed) | - | | | | | | |
| | Inventory subjected to Counts | - | | | | | | |
| Physical Counts - Financial Instruments (Observation) | Time (When Performed) | 2015/1/2 | | | | 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 | 6 | Time(s) Performed | | | |
| | Time (When Performed) | 2014/4/11, 2014/4/25, 2014/08/07, 2014/11/06, 2015/01/21, 2015/02/13 | | | | |