LG CORP.

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

ATTACHMENT: INDEPENDENT AUDITOR'S REPORT

LG CORP.

Deloitte.

Deloitte Anjin LLC
9F., One IFC,
10, Gukjegeumyung-ro,
Youngdeungpo-gu, Seoul
07326, Korea

Tel: +82 (2) 6676 1000
Fax: +82 (2) 6674 2114
www.deloitteanjin.co.kr

Independent Auditor's Report

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

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, 2017 and 2016, and the related separate statements of income, separate statements of comprehensive income, separate statements of changes in shareholders' equity and separate statements of cash flows, all expressed in Korean won, for the years ended December 31, 2017 and 2016, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Separate Financial Statements

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

Auditor's Responsibility

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

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

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

Deloitte.

Opinion

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

Deloitte Anjin LLC

March 15, 2018

Notice to Readers

This report is effective as of March 15, 2018, the auditors' report date. Certain subsequent events or circumstances may have occurred between the auditors' report date and the time the auditors' report is read. Such events or circumstances could significantly affect the separate financial statements and may result in modifications to the auditors' report.

LG CORP. (the "Company")

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

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

Hyun-Hwoi Ha

President and Chief Operating Officer

LG Corp.

LG CORP.
SEPARATE STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2017 AND 2016

	Korean won			
	December 31, 2017		December 31, 2016	
	(In millions)			
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents (Notes 5, 6 and 26)	₩	357,788	₩	128,683
Financial institution deposits (Notes 5, 23 and 26)		300,500		100,630
Other receivables, net (Notes 5, 7, 22 and 26)		28,869		34,541
Other current assets (Note 8)		3,781		3,986
Assets held for sale (Note 28)		29,375		83,295
Total current assets		720,313		351,135
NON-CURRENT ASSETS:				
Available-for-sale ("AFS") financial assets (Notes 5 and 26)		104,249		76,485
Other non-current receivables, net (Notes 5, 7, 22, 23 and 26)		499		489
Investments in subsidiaries (Note 11)		1,008,607		1,163,917
Investments in associates and joint ventures (Note 11)		6,559,405		5,916,101
Other non-current assets (Note 8)		2,719		2,463
Property, plant and equipment, net (Notes 9)		37,111		39,987
Investment property, net (Notes 9 and 24)		788,909		794,001
Intangible assets (Note 10)		17,081		15,844
Total non-current assets		8,518,580		8,009,287
TOTAL ASSETS	₩	9,238,893	₩	8,360,422

(Continued)

LG CORP.
SEPARATE STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2017 AND 2016 (CONTINUED)

	Korean won			
	December 31, 2017		December 31, 2016	
	(In millions)			
LIABILITIES AND SHAREHOLDERS' EQUITY				
CURRENT LIABILITIES:				
Other current payables (Notes 5, 22 and 26)	₩	104,517	₩	100,670
Current tax liabilities		156,063		27,028
Other current liabilities (Notes 13 and 22)		14,073		6,637
Liabilities related to assets held for sale (Note 28)		5,415		710
Total current liabilities		280,068		135,045
NON-CURRENT LIABILITIES:				
Other non-current payables (Notes 5, 22 and 26)		13,351		10,440
Net defined benefit liability (Notes 12)		12,234		14,398
Deferred tax liability (Note 20)		146,347		159,064
Other non-current liabilities (Note 13)		5,551		5,862
Total non-current liabilities		177,483		189,764
TOTAL LIABILITIES		457,551		324,809
SHAREHOLDERS' EQUITY				
Issued capital (Note 14)		879,359		879,359
Capital surplus (Note 15)		2,409,002		2,409,002
Other capital items (Note 14)		(2,385)		(2,385)
Accumulated other comprehensive income (Note 16)		41,099		20,356
Retained earnings (Note 17)		5,454,267		4,729,281
TOTAL EQUITY		8,781,342		8,035,613
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	₩	9,238,893	₩	8,360,422

(Concluded)

See notes

LG CORP.
SEPARATE STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	Korean won	
	Year ended December 31, 2017	Year ended December 31, 2016
	(In millions)	
Operating income:		
Dividend income (Notes 4, 18 and 22)	₩ 319,674	₩ 261,298
Royalty revenue (Notes 4, 18 and 22)	278,473	247,829
Rental revenue (Notes 4, 18, 22 and 24)	116,698	104,876
	714,845	614,003
Operating expenses:		
Employee benefit (Notes 18 and 22)	43,360	35,977
Depreciation (Notes 9 and 18)	19,992	17,953
Other operating expenses (Notes 18 and 22)	155,493	135,948
	218,845	189,878
Net operating income	496,000	424,125
Non-operating income and expenses:		
Financial income (Note 19)	9,373	7,333
Financial expenses (Note 19)	3,620	440
Other non-operating income	630,800	446
Other non-operating expenses	13,494	490
Profit before income tax expense	1,119,059	430,974
Income tax expense (Note 20)	166,305	90,816
Profit for the year(Note 17)	₩ 952,754	₩ 340,158
Earnings per share (in Korean won):		
Common stock basic/diluted (Note 21)	₩ 5,419	₩ 1,934
Pre-1996 Commercial Law Amendment preferred stock basic/diluted (Note 21)	5,469	1,984

See notes

LG CORP.
SEPARATE STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	Korean won	
	Year ended December 31, 2017	Year ended December 31, 2016
	(In millions)	
Profit for the year	₩ 952,754	₩ 340,158
Other comprehensive income (loss):		
Items that may be reclassified subsequently to profit or loss		
Net gain (loss) on AFS financial assets	20,743	(3,182)
Items that will not be reclassified subsequently to profit or loss		
Remeasurement on the net defined benefit liability	900	(3,130)
Total comprehensive income for the year	₩ 974,397	₩ 333,846

See notes

LG CORP.
SEPARATE STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	Korean won					
	Issued capital	Capital surplus	Other capital items	Accumulated other comprehensive income (loss)	Retained earnings	Total
	(In millions)					
Balance at January 1, 2016	₩ 879,359	₩ 2,409,002	₩ (2,385)	₩ 23,538	₩ 4,620,921	₩ 7,930,435
Annual dividends	-	-	-	-	(228,668)	(228,668)
Profit for the year	-	-	-	-	340,158	340,158
Remeasurement on the net defined benefit liability	-	-	-	-	(3,130)	(3,130)
Net gain (loss) on AFS financial assets	-	-	-	(3,182)	-	(3,182)
Balance at December 31, 2016	₩ 879,359	₩ 2,409,002	₩ (2,385)	₩ 20,356	₩ 4,729,281	₩ 8,035,613
Balance at January 1, 2017	₩ 879,359	₩ 2,409,002	₩ (2,385)	₩ 20,356	₩ 4,729,281	₩ 8,035,613
Annual dividends	-	-	-	-	(228,668)	(228,668)
Profit for the year	-	-	-	-	952,754	952,754
Remeasurement on the net defined benefit liability	-	-	-	-	900	900
Net gain (loss) on AFS financial assets	-	-	-	20,743	-	20,743
Balance at December 31, 2017	₩ 879,359	₩ 2,409,002	₩ (2,385)	₩ 41,099	₩ 5,454,267	₩ 8,781,342

See notes

LG CORP.
SEPARATE STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	Korean won			
	Year ended December 31, 2017		Year ended December 31, 2016	
	(In millions)			
CASH FLOWS FROM OPERATING ACTIVITIES:				
Profit for the year	₩	952,754	₩	340,158
Additions of expenses not involving cash outflows:				
Depreciation		19,992		17,953
Amortization of intangible assets		1,806		1,553
Retirement benefits		4,242		3,572
Interest expenses		311		290
Income tax expense		166,305		90,816
Loss on disposals of property, plant and equipment		456		27
Loss on disposals of intangible assets		2		-
Impairment loss on investments in associates		12,902		-
Loss on foreign currency translations		1,086		-
Other selling and administration expenses		87		192
		207,189		114,403
Deduction of incomes not involving cash inflows:				
Interest income		8,383		6,454
Dividend income		319,673		261,298
Other operating income		311		290
Gain on disposals of property, plant and equipment		-		56
Gain on disposals of investments in associates		259,890		-
Gain on disposals of investments in subsidiaries		370,872		-
Gain on foreign currency translation		-		877
		(959,129)		(268,975)
Movements in working capital:				
Other receivables		(21,862)		1,436
Other current assets		(252)		126
Other non-current assets		(1,390)		(2,049)
Other payables		5,605		7,608
Other current liabilities		7,436		115
Net defined benefit liability		(5,296)		(1,817)
		(15,759)		5,419

(Continued)

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

	Korean won	
	Year ended December 31, 2017	Year ended December 31, 2016
	(In millions)	
Interest income received	₩ 7,818	₩ 6,314
Dividend income received	319,673	261,299
Income taxes paid	(52,193)	(56,045)
Net cash provided by operating activities	460,353	402,573
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash inflows from investing activities:		
Decrease in financial institution deposits	660,130	280,000
Decrease of loans	28,545	-
Decrease in deposits	3	153
Disposals of investments in subsidiaries	610,446	-
Disposals of property, plant and equipment	2,379	62
Disposals of intangible assets	71	-
	1,301,574	280,215
Cash outflows for investing activities:		
Increase in financial institution deposits	860,000	150,130
Increase in deposits	2	-
Acquisitions of investments in subsidiaries	113,640	-
Acquisitions of AFS financial assets	400	200
Acquisitions of investments in associates	313,021	11,662
Acquisitions of property, plant and equipment	2,306	13,870
Acquisitions of investment properties	11,987	211,995
Acquisitions of intangible assets	1,725	1,192
	(1,303,081)	(389,049)
Net cash used in investing activities	(1,507)	(108,834)

(Continued)

LG CORP.
SEPARATE STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017 AND 2016 (CONTINUED)

	Korean won			
	Year ended December 31, 2017		Year ended December 31, 2016	
	(In millions)			
CASH FLOWS FROM FINANCING ACTIVITIES:				
Cash inflows from financing activities:				
Proceeds from short-term borrowings	₩	12,097	₩	24,953
		12,097		24,953
Cash outflows for financing activities:				
Payments of dividends		228,655		228,665
Redemptions of short-term borrowings		12,097		24,953
		(240,752)		(253,618)
Net cash used in financing activities		(228,655)		(228,665)
NET INCREASE IN CASH AND CASH EQUIVALENTS		230,191		65,074
CASH AND CASH EQUIVALENTS, AT THE BEGINNING OF YEAR		128,683		63,609
Effects of exchange rate changes on cash and cash equivalents		(1,086)		-
CASH AND CASH EQUIVALENTS, AT THE END OF YEAR	₩	357,788	₩	128,683

(Concluded)

See notes

LG CORP.
NOTES TO SEPARATE FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

1 GENERAL:

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

The Company has been listed on the Korea Exchange stock market since February 1970. After numerous paid-up capital increases, spin-offs and mergers, the Company has outstanding capital stock of ₩879,359 million, including preferred stocks of ₩16,573 million as of December 31, 2017.

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

Name of shareholder	Number of shares	Percentage of shares (%) (*)
Ku, Bon Mu	19,458,169	11.06
Ku, Bon Jun	13,317,448	7.57
Ku, Gwang Mo	10,759,715	6.12
Ku, Bon Shik	7,728,601	4.39
Kim, Young Shik	7,253,100	4.12
Ku, Bon Neung and others	17,728,638	10.08
LG Yonam Education Foundation	3,675,742	2.09
LG Yonam Foundation	572,525	0.33
Others	95,377,870	54.23
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 8, 2018 and will be finalized at the shareholders' meeting on March 23, 2018.

The Company has adopted the Korean International Financial Reporting Standards (“K-IFRSs”) from January 1, 2010, which is determined as the transition date of the Company to K-IFRS. Also, these are the separate financial statements of the Company in accordance with K-IFRS 1027 (Separate Financial Statements), those presented by a parent, an investor with joint control of, or significant influence over, an investee, in which the investments are accounted for at cost or in accordance with K-IFRS 1039 (Financial Instruments) or K-IFRS 1028 Investment in Associates.

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

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

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

- Amendments to K-IFRS 1007 – *The Statement of Cash Flows (Revised)*

These amendments require disclosures that allow users of financial statements to assess the change in the liability resulting from financing activities, including both cash flow and non-cash changes. Additional disclosures related to the first application of the amendments for the year ended are described in Note 27. The Company did not disclose comparative information for the prior periods in accordance with the transitional provisions of the amendments. Except for the additional disclosure requirements, these amendments have no material impact on the Company's separate financial statements.

- Amendments to K-IFRS 1012 – *Income Taxes (Revised)*

The standard is based on the assumption that future taxable income can be estimated at an amount exceeding the carrying amount of the asset when the realization of the deferred tax asset on the deductible temporary differences of the debt instruments measured at fair value is assessed. There is no material impact on the Company's separate financial statements.

- Annual Improvements to K-IFRS 2014-2016 Cycle

Amendments to K-IFRS 1112, "Disclosure of Interests in Other Companies," were applied for the first time during the year, and other amendments that did not come into force were adopted by the Company (see Note 2. (1)2). The amendment stipulates that it is not necessary to provide condensed financial information for the interests of subsidiaries, jointly controlled entities or associates classified as held for sale (or included in a disposal group classified as held for sale). It is clarified that it is the only exception to the disclosure rule of K-IFRS 1112.

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

Amendments to K-IFRS 1109 – Financial Instruments

The amendments to K-IFRS 1109 contain the requirements for the classification and measurement of financial assets and financial liabilities based on a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets and based on the contractual terms that give rise on specified dates to cash flows, impairment methodology based on the expected credit losses, and broadened types of instruments that qualify as hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting and the change of the hedge effectiveness test. The amendments are effective for annual periods beginning on or after January 1, 2018.

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

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

1.1.1 Classification and measurement of financial assets
As of December 31, 2017, the Company retains loans and receivables amounting to ₩329,868 million, AFS financial assets amounting to ₩104,249 million. According to K-IFRS 1109, only financial assets with specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding and financial assets objective to hold in order to collect contractual cash flows can be measured at amortized cost. As of December 31, 2017, the Company measures loans and receivables amounting to ₩329,868 million as amortized costs.

When applying K-IFRS 1109 to the above financial assets as of December 31, 2017, items with specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding and financial assets objective to hold in order to collect contractual cash flows is classified as measured at amortized cost assets and it is judged that it does not have a significant impact on the financial statements.

According to K-IFRS 1109, equity instruments that are not held for short-term trading purposes can be selected irrevocably by designating as other comprehensive income - fair value measurement items at initial recognition point, and this comprehensive income will not be recycled to the current profit and loss subsequently. As of December 31, 2017, equity instruments classified as AFS financial assets of the Company are ₩104,249 million.

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

1.1.2 Classification and measurement of financial liabilities

As of December 31, 2017, the Company measured financial liabilities of ₩117,868 million as amortized cost. It is judged that the financial liabilities do not have a great impact on the financial statements even though K-IFRS 1109 is applied.

1.1.3 Impairment methodology: financial assets and contractual assets

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

The Company retains loans and receivables measured at amortized costs amounting ₩329,868 million, equity securities classified as AFS financial assets and measured at fair value through other comprehensive income amounting ₩104,249 million. As retaining loans and receivables have no significant financial elements, it is judged to have no significant difference with the loss allowances of the Company as of December 31, 2017.

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

Amended in September 2015, K-IFRS 1115 – Revenue from Contracts with Customers is effective for annual periods beginning on or after January 1, 2018, earlier application is permitted. This Standard will supersede K-IFRS 1018- Revenue, K-IFRS 1011 - Construction Contracts, K-IFRS 2031-Revenue-Barter Transactions Involving Advertising Services, K-IFRS 2113 - Customer Loyalty Programmes, K-IFRS 2115-Agreements for the Construction of Real Estate, and K-IFRS 2118 - Transfers of Assets from Customers. The Company intends to elect this Standard for annual periods beginning on January 1, 2018 (date of initial application); however, the Company will recognize the cumulative effect of initially applying this Standard as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) of the annual reporting period that includes the date of initial application.

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

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

Amendments to K-IFRS 1116 – *Lease*

The standard provides a comprehensive model for identifying and accounting for lease commitments to both leaseholders and lessor. This standard replaces the existing lease provisions, including the K-IFRS 1017 "Lease" and related interpretations, and the Company will adopt the standard beginning from the fiscal year beginning on or after January 1, 2019.

The standard distinguishes between a lease and a service contract based on whether the identified asset is controlled by the customer. The requirement that the lessee should distinguish between operating leases and finance leases is eliminated and instead the lessee is replaced by a model that recognizes the rights of assets and liabilities for all leases except short-term and minority assets.

An asset is measured initially at cost and subsequently measured at cost less accumulated depreciation and accumulated impairment losses, reflecting the remeasurement of the lease liability to the cost (with some exceptions). Lease liability is measured at the present value of the lease payments that were not paid at initial recognition. Subsequently, the liability is adjusted to reflect the effect of lease changes, as well as interest and lease payments. In addition, in accordance with K-IFRS 1017, operating lease payments are presented as cash flows from operating activities. However, since the lease payments are classified as principal and interest and are shown as cash flow and operating cash flow, respectively.
In contrast to the accounting treatment of the lessee, the standard requires the lessor to apply most of the accounting requirements for the lessor in accordance with K-IFRS 1017 to continue to require the lessor to classify the lease as an operating lease or a finance lease. The standard also requires expanded disclosure of annotations.

As of December 31, 2017, the Company has entered into an operating lease agreement amounting to ₩699 million. K-IFRS 1017 does not require the recognition of a liability for a license asset or future payment of the lease for such a lease, but instead requires a specific disclosure of the operating lease as noted in Note 24. According to our preliminary assessment, these leases are expected to meet the definition of a lease under the standard, and accordingly, if the Company adopts this standard, the lessee will recognize all the leases, except short-term and minority assets. The requirements of these standards, which require recognition of the rights of assets and related liabilities, are expected to have a significant impact on the amounts recognized in the separate financial statements, and we are analyzing the potential impact of these standards.

On the other hand, the Company believes that the application of the standard would not have a significant effect on the amount recognized in the separate financial statements, as follows: 1) the Company leases the finance lease as a leaseholder and 2) the lease provider (operating lease and finance lease).

Amendments to K-IFRS 1102—Share-based Payment

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

- Amendments to K-IFRS 1040 – *Investment Property (Revised)*

This amendment assesses whether real estate meets (or fails to meet) the definition of an investment property and replaces it with investment property (or from investment property) where observable evidence supports that a change in use that has occurred be clear. The amendment also provides evidence that there is a change in the use of the circumstances other than those listed in K-IFRS 1040 and that the use of the property under construction can be changed (not limited to assets).

These amendments are effective for annual periods beginning on or after January 1, 2018, and are subject to early adoption. Such amendments may also be applied retrospectively (if applicable, without further judgment) or forwardly.

Amendments to K-IFRS 2122 – *Foreign currency transactions and pre-payment*

This interpretation is the first time an entity recognizes an asset, cost, or revenue (or a portion thereof), eliminating the non-monetary assets or non-monetary liabilities incurred. It deals with how to determine the trading date to determine the applicable exchange rate.

The interpretation stipulates that the transaction date is the first day of recognizing non-monetary assets or non-monetary liabilities, either as a prepayment of a consideration or as an auction. The interpretation states that if the advance payment or the athlete's auction is made several times, the transaction date for each advance payment or the athlete's auction is determined separately.

The interpretation is effective for annual periods beginning on or after January 1, 2018, and is permitted for early adoption. The entity may apply this interpretation retroactively or prospectively. For progressive applications, certain transitional provisions apply.

As the Company has already accounted for prepayments in foreign currencies or the consideration given to them by the Company in a manner consistent with the interpretation, it is expected that the interpretation will not affect the Company's separate financial statements.

- Annual Improvements to K-IFRS 2014-2016 Cycle

This amendment includes certain amendments to K-IFRS 1101 'First-time adoption of K-IFRS and K-IFRS 1028, Investments in associates and joint ventures.' In accordance with K-IFRS 1028, a venture capital investment organization or a similar entity may elect each of its associates and joint ventures individually as a profit or loss or fair value measurement and make it clear that you need to do it when you first recognize an investment. In addition, when the equity method is applied to associates and joint ventures, which are not investment companies, they are permitted to apply the fair value measurement applied to subsidiaries as they are, and it is clear that you can choose for each. These amendments are retroactive and may be applied early.

These amendments will be effective for fiscal years beginning on or after January 1, 2018. Since the Company does not adopt K-IFRS for the first time and is not a venture capital investment organization, we believe that the amendment will have no impact on the separate financial statements. In addition, the Company does not have any interest in affiliates or joint ventures that are investment companies.

We believe that the effects of the amendments listed above will not be material to the separate financial statements.

(2) Basis of preparing separate financial statements

1) Basis of measurement

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

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

(3) Foreign currency translation

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

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

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

(4) Cash and cash equivalents

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

(5) Financial assets

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

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

1) Effective interest method

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

2) Financial assets at FVTPL

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

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

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

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

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

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

3) Held-to-maturity investments

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

4) Financial assets AFS

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

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

5) Loans and receivables

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

6) Impairment of financial assets

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

For listed and unlisted equity investments classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.
For all other financial assets, including redeemable notes classified as AFS and finance lease receivables, objective evidence of impairment could include:

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

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

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

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

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

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

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

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

7) Derecognition of financial assets

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

(6) Property, plant and equipment

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

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

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

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

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

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

(7) Investment property

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

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

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

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

(8) Intangible assets

1) Intangible assets acquired separately

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

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

2) Derecognition of intangible assets

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

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

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

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

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

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

(10) Investment in subsidiaries, associates and joint ventures

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

(11) Financial liabilities and equity instruments

1) Classification as debt or equity

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

2) Equity instruments

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

3) Financial liabilities

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

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

4) Financial liabilities at FVTPL

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

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

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

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

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

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

5) Other financial liabilities

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

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

6) Financial guarantee contract liabilities

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instruments.

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

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

7) Derecognition of financial liabilities

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

(12) Lease

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

1) The Company as lessor

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

2) The Company as lessee

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

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

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

(13) Borrowing costs

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

(14) Employee benefits

Defined benefit plan

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

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

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

(15) Provisions

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

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

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

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

(16) Revenue recognition

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

1) Dividend income

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

2) Royalty revenue

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

3) Rental revenue

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

4) Interest income

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

(17) Income tax

Income tax expense consists of current tax and deferred tax.

1) Current tax payable

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

2) Deferred tax

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

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

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

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

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

3) Recognition of current tax payable and deferred tax

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

(18) Treasury stock

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

(19) Fair Value

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

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

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

3 SIGNIFICANT CONSIDERATION AND MAJOR SOURCES OF ESTIMATION UNCERTAINTIES:

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

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

4 SEGMENT INFORMATION:

The Company has only one operating segment in accordance with K-IFRS 1108, *Operating Segments*, from entire Company's perspective. Operating segment information for years ended December 31, 2017 and 2016, are as follows:

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

Sectors	Year ended December 31, 2017		Year ended December 31, 2016	
Dividend income	₩	319,674	₩	261,298
Royalty revenue		278,473		247,829
Rent revenue		116,698		104,876
Total	₩	714,845	₩	614,003

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, 2017 and 2016, is ₩451,562 million and ₩384,072 million, respectively.

5 CLASSIFICATION OF FINANCIAL INSTRUMENTS AND FAIR VALUE:

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

1) Financial assets

Financial assets	Account	December 31, 2017				December 31, 2016			
		Carrying amount		Fair value		Carrying amount		Fair value	
Cash and cash equivalents	Cash and cash equivalents	₩	357,788	₩	357,788	₩	128,683	₩	128,683
AFS financial assets	Marketable equity securities		44,930		44,930		27,434		27,434
	Unmarketable equity securities (*)		59,319		59,319		49,051		49,051
	Subtotal		104,249		104,249		76,485		76,485
Loans and receivables	Financial institution deposits		300,500		300,500		100,630		100,630
	Loans		-		-		28,545		28,545
	Other account receivables		26,890		26,890		4,582		4,582
	Accrued income		1,979		1,979		1,414		1,414
	Deposits		499		499		489		489
	Subtotal		329,868		329,868		135,660		135,660
Total		₩	791,905	₩	791,905	₩	340,828	₩	340,828

(*) 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, 2017		December 31, 2016	
		Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities measured at amortized cost	Other accounts payables	₩ 39,560	₩ 39,560	₩ 40,211	₩ 40,211
	Accrued expenses	2,946	2,946	1,709	1,709
	Accrued dividends	328	328	314	314
	Deposits received	75,034	75,034	68,876	68,876
	Total	₩ 117,868	₩ 117,868	₩ 111,110	₩ 111,110

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, 2017 and 2016, are as follows (Unit: Korean won in millions):

Description	December 31, 2017	December 31, 2016
Cash on hand	₩ 8	₩ 7
Bank deposits	263,614	60,006
Other cash equivalents	94,166	68,670
Total	₩ 357,788	₩ 128,683

7 ACCOUNT AND OTHER RECEIVABLES:

As of December 31, 2017 and 2016, account receivables and other receivables are not impaired or overdue. Details are as follows (Unit: Korean won in millions):

Description	December 31, 2017		December 31, 2016	
	Current	Non-current	Current	Non-current
Loans	₩ -	₩ -	₩ 28,545	₩ -
Account receivables	26,890	-	4,582	-
Accrued income	1,979	-	1,414	-
Deposits	-	499	-	489
Total	₩ 28,869	₩ 499	₩ 34,541	₩ 489

8 OTHER ASSETS:

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

Description	December 31, 2017		December 31, 2016	
	Current	Non-current	Current	Non-current
Advanced payments	₩ -	₩ 2,719	₩ -	₩ 2,463
Prepaid expenses	3,781	-	3,986	-
Total	₩ 3,781	₩ 2,719	₩ 3,986	₩ 2,463

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, 2017 and 2016, are as follows (Unit: Korean won in millions):

	Year ended December 31, 2017										
	Property, plant and equipment						Investment property				
Description	Land	Buildings	Structures	Vehicles	Furniture and fixtures	Construction in progress	Land	Buildings	Structures	Construction in progress	Total
Beginning balance	₩ 6,465	₩18,571	₩ 409	₩19,596	₩ 7,866	₩ -	₩381,352	₩ 524,620	₩ 8,752	₩ 821	₩ 968,452
Acquisition	-	-	-	23	243	2,010	-	1,360	-	11,223	14,859
Disposals	-	-	-	(5,929)	(29)	-	-	-	-	-	(5,958)
Transfers in	200	1,115	25	-	-	-	-	12,044	-	-	13,384
Transfers out	-	-	-	-	-	-	(200)	(1,115)	(25)	(12,044)	(13,384)
Ending balance	₩ 6,665	₩19,686	₩ 434	₩13,690	₩ 8,080	₩ 2,010	₩381,152	₩ 536,909	₩ 8,727	₩ -	₩ 977,353

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

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

	Year ended December 31, 2017						
	Property, plant and equipment				Investment property		
Description	Buildings	Structures	Vehicles	Furniture and fixtures	Buildings	Structures	Total
Beginning balance	₩ 5,570	₩ 193	₩ 3,703	₩ 3,454	₩ 118,088	₩ 3,456	₩ 134,464
Disposals	-	-	(3,113)	(10)	-	-	(3,123)
Transfers in	300	12	-	-	-	-	312
Transfers out	-	-	-	-	(300)	(12)	(312)
Depreciation	592	16	1,615	1,121	16,339	309	19,992
Ending balance	₩ 6,462	₩ 221	₩ 2,205	₩ 4,565	₩ 134,127	₩ 3,753	₩ 151,333

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

(3) Details of valuation with fair value of investment property as of December 31, 2017, are as follows (Unit: Korean won in millions):

Description	Date of revaluation	Land	Buildings and structures	Total
Book value of investment property:				
Book value (*1)		₩ 384,784	₩ 420,679	₩ 805,463
Result of valuation:				
Twin tower (*2)	2012-03-16	456,800	343,200	800,000
Gasandong building	2009-04-21	50,966	110,104	161,070
Gwanghwamun building	2010-09-30	145,452	84,548	230,000
Buho building	2013-06-04	16,513	1,238	17,751
Seoul-station building(*3)	2016-09-30	136,793	73,941	210,734
Total		₩ 806,524	₩ 613,031	₩ 1,419,555

(*1) It includes the valuation amounts related to its own use (carrying value: ₩16,555 million).
(*2) It is the whole valuation amount of Twin Tower.
(*3) Acquisition cost was considered as market value.

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

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

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

In addition, rental income related to investment property during this period is ₩116,698 million.

10 INTANGIBLE ASSETS:

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

Description	December 31, 2017			December 31, 2016		
	Intellectual property rights	Membership	Other	Intellectual property rights	Membership	Other
Acquisition cost	₩ 15,795	₩ 9,058	₩ 6,610	₩ 14,667	₩ 7,802	₩ 5,950
Accumulated depreciation	(9,477)	-	(4,239)	(8,503)	-	(3,406)
Accumulated impairment	-	(666)	-	-	(666)	-
Carrying amounts	₩ 6,318	₩ 8,392	₩ 2,371	₩ 6,164	₩ 7,136	₩ 2,544

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

Description	Year ended December 31, 2017			
	Intellectual property rights	Membership	Other	Total
Beginning balance	₩ 6,164	₩ 7,136	₩ 2,544	₩ 15,844
Acquisition	-	1,328	660	1,988
Disposals	-	(72)	-	(72)
Transfers in (out)	1,127	-	-	1,127
Amortization	(973)	-	(883)	(1,806)
Ending balance	₩ 6,318	₩ 8,392	₩ 2,371	₩ 17,081

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

11 INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES:

(1) Composition of the Company's investments in subsidiaries as of December 31, 2017 and 2016, is as follows (Unit: Korean won in millions):

	December 31, 2017					
Companies	Location of incorporation	Major operation	Closing date	Percentage of ownership (%)	Percentage of ownership (common stock) (%)	Book value
LG Siltron Inc.(*1)	South Korea	Manufacturing	12-31	-	-	₩ -
LG CNS Co., Ltd.	South Korea	Services	12-31	84.95	84.95	330,533
Serveone Co., Ltd.	South Korea	Renting	12-31	100.00	100.00	250,054
Lusem Co., Ltd. (*2)	South Korea	Manufacturing	12-31	67.96	67.96	-
LG Sports Ltd.	South Korea	Services	12-31	100.00	100.00	106,097
LG Management Development Institute	South Korea	Research and development	12-31	100.00	100.00	17,203
LG Holdings Japan Co., Ltd.	Japan	Renting	12-31	100.00	100.00	191,080
LG Corp. U.S.A.(*3)	U.S.A	Renting	12-31	100.00	100.00	113,640
		Total				₩ 1,008,607

	December 31, 2016					
Companies	Location of incorporation	Major operation	Closing date	Percentage of ownership (%)	Percentage of ownership (common stock) (%)	Book value
LG Siltron Inc.(*1)	South Korea	Manufacturing	12-31	51.00	51.00	₩ 239,575
LG CNS Co., Ltd.	South Korea	Services	12-31	84.95	84.95	330,533
Serveone Co., Ltd.	South Korea	Renting	12-31	100.00	100.00	250,054
Lusem Co., Ltd. (*2)	South Korea	Manufacturing	12-31	67.96	67.96	29,375
LG Sports Ltd.	South Korea	Services	12-31	100.00	100.00	106,097
LG Management Development Institute	South Korea	Research and development	12-31	100.00	100.00	17,203
LG Holdings Japan Co., Ltd.	Japan	Renting	12-31	100.00	100.00	191,080
LG Corp. U.S.A.(*3)	U.S.A	Renting	12-31	-	-	-
		Total				₩ 1,163,917

(*1) The sale was completed during the current period. We recognized ₩370,872 million of gain on disposals of investments in subsidiaries.
(*2) They are classified as held for sale during the current period.
(*3) Newly established during current period.

(2) Composition of the Company's investments in associates and joint ventures as of December 31, 2017 and 2016, is as follows (Unit: Korean won in millions):

	December 31, 2017					
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.(*1)	South Korea	Manufacturing	12-31	30.06	33.54	1,621,179
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 (*2).	South Korea	Manufacturing	12-31	-	-	-
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. (*3)	South Korea	Manufacturing	12-31	50.00	50.00	115,350
LG Fuel Cell System Inc. (*4)	America	Research and experimental development	12-31	15.30	15.30	35,525
Slicon Works Co., Ltd.	South Korea	Manufacturing	12-31	33.08	33.08	145,004
LG international Co., Ltd.(*5)	South Korea	Commodities brokerage	12-31	24.69	24.69	296,741
		Total				₩ 6,559,405

	December 31, 2016					
Companies	Location of incorporation	Major operation	Closing date	Percentage of ownership (%)	Percentage of ownership (common stock) (%)	Book value
LG Electronics Inc.	South Korea	Manufacturing	12-31	30.47	33.67	₩ 2,804,603
LG Chem Ltd.(*1)	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 (*2).	South Korea	Manufacturing	12-31	30.00	30.43	-
LG Uplus Corp.	South Korea	Telecommunications	12-31	36.05	36.05	1,162,048
GIIR Corporation	South Korea	Hoardings	12-31	35.00	35.00	39,496
LG Hitachi Co., Ltd.	South Korea	Services	12-31	49.00	49.00	14,023
LG MMA Corp. (*3)	South Korea	Manufacturing	12-31	50.00	50.00	115,350
LG Fuel Cell System Inc. (*4)	America	Research and experimental development	12-31	14.97	14.97	32,148
Slicon Works Co., Ltd.	South Korea	Manufacturing	12-31	33.08	33.08	145,003
LG international Co., Ltd.(*5)	South Korea	Commodities brokerage	12-31	-	-	-
		Total				₩ 5,916,101

(*1) The percentage of ownership changed due to merge with LG Life Science Co., Ltd.

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

(*3) It is a joint venture.

(*4) Notwithstanding that the ownership is less than 20%, it has been classified as associate since the Company has authority to appoint director, etc. During the year ended December 31, 2017, the Company recognized an impairment loss amounting to ₩12,902 million as profit or loss due to the financial condition deterioration caused by cumulative loss of LG Fuel Cell Systems. The recoverable amount was determined based on the value of use, and the discount rate applied to measure the value of use was 12.08% per annum. In addition, the shareholding ratio has been increasing at the end of the year as a result of the capital increase, and the amount of capital increase is ₩16,280 million.

(*5) Newly acquired 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, which is a reputable actuary, using the projected unit credit method.

(1) As of December 31, 2017 and 2016, 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, 2017		December 31, 2016	
Present value of defined benefit obligation	₩	51,275	₩	52,416
Fair value of plan assets		(39,041)		(38,018)
Net defined benefit liability	₩	12,234	₩	14,398

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

Description	Year ended December 31, 2017		Year ended December 31, 2016	
Beginning balance	₩	52,416	₩	41,833
Current service cost		3,921		3,380
Interest cost		1,123		931
Remeasurement on the net defined benefit liability		(1,323)		4,038
Benefits paid		(1,065)		(3,949)
Other		(3,797)		6,183
Ending balance	₩	51,275	₩	52,416

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

Description	Year ended December 31, 2017		Year ended December 31, 2016	
Service cost	₩	3,921	₩	3,380
Current service cost		3,921		3,380
Net interest on the net defined benefit Liability (asset)		321		192
Interest cost on defined benefit obligation		1,123		931
Comprising interest on plan assets		(802)		(739)
Operational management fee on plan assets		78		72
Total	₩	4,320	₩	3,644

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

Description	Year ended December 31, 2017		Year ended December 31, 2016	
Beginning balance	₩	38,018	₩	33,391
Comprising interest on plan assets		802		739
Remeasurement-return on plan assets		(136)		(91)
Benefits paid		(1,065)		(3,949)
Contributions from the employer		1,500		8,000
Operational management fee on plan assets		(78)		(72)
Ending balance	₩	39,014	₩	38,018

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

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

Description	December 31, 2017	December 31, 2016
Discount rate (%)	2.65	2.23
Expected rate of salary increase (%)	6.00	7.46

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

	Year ended December 31, 2017					
Description	Center scenario		+ 1%		- 1%	
Change in discount rate	₩	51,275	₩	49,309	₩	53,443
Change in rate of salary increase		51,275		53,358		49,344

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

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

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

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

Description	Year ended December 31, 2017		Year ended December 31, 2016	
Actuarial gains arising from changes in demographic assumptions	₩	469	₩	54
Actuarial gains (losses) arising from changes in financial assumptions		(4,301)		(2)
Actuarial gains arising from experience		3,613		2,997
Return on plan assets, excluding amounts included in interest income		136		91
Actuarial gains (losses) arising from transfer in/out adjustment		(1,104)		989
Total	₩	(1,187)	₩	4,129

Meanwhile, the Company deducted ₩287 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):

	2018	
Estimated contributions to plan assets	₩	8,404

13. OTHER LIABILITIES:

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

Description	December 31, 2017				December 31, 2016			
	Current		Non-current		Current		Non-current	
Advances from lease	₩	-	₩	5,551	₩	-	₩	5,862
VAT withheld		6,049		-		6,063		-
Withholdings		8,024		-		574		-
Total	₩	14,073	₩	5,551	₩	6,637	₩	5,862

14. ISSUED CAPITAL:

Details of issued capital as of December 31, 2017, are as follows (Unit: Korean won in millions):

Type of stock	Number of authorized shares	Number of issued shares	Number of shares owned by related party	Par value (in Korean won)		Amount of issued capital	
Common stock	700,000,000	172,557,131	80,493,938	₩	5,000	₩	862,786
Preferred stock (*)	-	3,314,677	-		5,000		16,573

(*) Preferred stocks are stocks without voting rights that are eligible for 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, 2017 and 2016, respectively. The carrying amounts of common stock and preferred stock are ₩2,334 million and ₩51 million, respectively.

15. CAPITAL SURPLUS:

Composition of the Company's capital surplus as of December 31, 2017 and 2016, is as follows (Unit: Korean won in millions):

Description	December 31, 2017		December 31, 2016	
Paid-up capital in excess of par value	₩	898,266	₩	898,266
Assets revaluations reserves		338,100		338,100
Other capital surplus		1,172,636		1,172,636
Total	₩	2,409,002	₩	2,409,002

16. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS):

Composition of accumulated other comprehensive income (loss) as of December 31, 2017 and 2016, is as follows (Unit: Korean won in millions):

Description	December 31, 2017		December 31, 2016	
Gain on valuation of AFS financial assets	₩	41,099	₩	20,356

17. RETAINED EARNINGS:

(1) Composition of retained earnings as of December 31, 2017 and 2016, are as follows (Unit: Korean won in millions):

Description	December 31, 2017		December 31, 2016	
Retained earnings restricted to appropriation (*)	₩	279,280	₩	256,413
Retained earnings subject to appropriation		5,174,987		4,472,868
Total	₩	5,454,267	₩	4,729,281

(*) 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, 2017 and 2016, are as follows (Unit: Korean won in millions):

Description	Year ended December 31, 2017		Year ended December 31, 2016	
Beginning balance	₩	4,729,281	₩	4,620,921
Profit for the year		952,754		340,158
Dividends		(228,668)		(228,668)
Remeasurement on the net defined benefit liability		900		(3,130)
Ending balance	₩	5,454,267	₩	4,729,281

(3) Separate statements of appropriation of retained earnings for the years ended December 31, 2017 and 2016, are as follows (Unit: Korean won in millions):

	Korean won	
	Year ended December 31, 2017	Year ended December 31, 2016
UNAPPROPRIATED RETAINED EARNINGS:		
Unappropriated retained earnings carried over from prior year	₩ -	₩ -
Profit for the year	952,754	340,158
Actuarial gains and losses on defined benefit plans	900	(3,130)
	953,654	337,028
APPROPRIATION:		
Legal reserve	22,866	22,866
Dividends	228,668	228,668
Other reserve	702,120	85,494
	953,654	337,028
UNAPPROPRIATED RETAINED EARNINGS CARRIED FORWARD TO SUBSEQUENT YEAR	₩ -	₩ -

(4) The amount of dividends and dividends per share for the years ended December 31, 2017 and 2016, is as follows (Unit: Korean won in millions):

December 31, 2017

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

December 31, 2016

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

18. OPERATING INCOME:

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

		Year ended December 31, 2017		Year ended December 31, 2016
Operating income:				
Dividends income	₩	319,674	₩	261,298
Royalties revenue		278,473		247,829
Rental revenue		116,698		104,876
		714,845		614,003
Operating expenses:				
Employee benefit:				
Salaries and wages		35,995		29,483
Severance benefits		4,242		3,572
Welfare		3,123		2,922
		43,360		35,977
Depreciation:		19,992		17,953
Other operating expenses:				
Amortization of intangible assets		1,806		1,553
Taxes and dues		5,390		4,347
Advertising expenses		83,751		72,215
Training expenses		956		1,363
Commission		46,781		43,869
Insurance premium		330		349
Operating lease expense		682		652
Other selling and administrative expenses		15,797		11,600
		155,493		135,948
Net operating income	₩	496,000	₩	424,125

19. FINANCIAL INCOME AND FINANCIAL EXPENSES:

(1) Financial income consists of interest income. The details for the years ended December 31, 2017 and 2016, are as follows (Unit: Korean won in millions):

Description		Year ended December 31, 2017		Year ended December 31, 2016
Interest income	₩	8,383	₩	6,454
Gain on financial warranty		5		-
Gain on foreign currency transaction and translation		985		879
Total	₩	9,373	₩	7,333

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

Description		Year ended December 31, 2017		Year ended December 31, 2016
Interest expense	₩	311	₩	290
Loss on foreign currency transaction and translation		3,309		150
Total	₩	3,620	₩	440

(3) Net gain (loss) from financial instruments for the years ended December 31, 2017 and 2016, is as follows (Unit: Korean won in millions):

Description	Year ended December 31, 2017		Year ended December 31, 2016	
Financial assets:				
AFS financial assets (*1)	₩	22,755	₩	(812)
Loans and receivables (*2)		6,556		7,169
Subtotal		29,311		6,357
Financial liabilities:				
Financial liabilities measured at amortized cost		(809)		(289)
Subtotal		(809)		(289)
Total	₩	28,502	₩	6,068

(*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, 2017 and 2016, is as follows (Unit: Korean won in millions):

Description	Year ended December 31, 2017		Year ended December 31, 2016	
Current income tax payable	₩	181,228	₩	53,801
Changes in deferred tax assets:		(14,923)		37,015
Beginning deferred tax assets due to temporary differences		(159,065)		(124,775)
Beginning deferred assets as held for sale due to temporary differences		(710)		-
Ending deferred tax assets due to temporary differences		(146,348)		(159,065)
Ending assets held for sale due to temporary differences		(5,415)		(710)
Deferred taxes directly reflected in equity		(6,911)		2,015
Income tax expense	₩	166,305	₩	90,816

(2) A reconciliation between accounting income before income tax and income tax expense of the Company for the years ended December 31, 2017 and 2016, is as follows (Unit: Korean won in millions):

Description	Year ended December 31, 2017		Year ended December 31, 2016	
Income before income tax expense	₩	1,119,059	₩	430,974
Tax expense calculated on book income		270,350		141,979
Adjustments:		(104,045)		(51,163)
Non-taxable income		(113,269)		(70,759)
Non-deductible expenses		4,022		1,126
Adjustment for prior corporate taxes		5,415		-
Others (differences due to the tax rates, etc.)		(213)		18,470
Income tax expense	₩	166,305	₩	90,816

(3) Income tax directly reflected in equity for the years ended December 31, 2017 and 2016, is as follows (Unit: Korean won in millions):

Description	Year ended December 31, 2017		Year ended December 31, 2016	
Revaluation of AFS financial assets	₩	(6,624)	₩	1,016
Remeasurement of defined benefit obligation		(287)		999
Total deferred tax directly reflected in equity	₩	(6,911)	₩	2,015

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

Description	Year ended December 31, 2017									
	Beginning balance		Reflected in income (loss)		Reflected in equity		Replaced		Ending balance	
Temporary differences:										
Investments in subsidiaries and associates	₩	(168,290)	₩	20,152	₩	-	₩	4,705	₩	(143,433)
Property, plant and equipment		12,380		1,382		-		-		13,762
Intangible assets		191		(12)		-		-		179
AFS financial assets		(1,461)		-		(6,624)		-		(8,085)
Provisions		1,472		261		(287)		-		1,446
Other financial liabilities		2,335		1,392		-		-		3,727
Others		(5,692)		(8,252)		-		-		(13,944)
Deferred tax assets (liabilities)	₩	(159,065)	₩	14,923	₩	(6,911)	₩	4,705	₩	(146,348)

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

(5) Deferred tax liabilities related to assets held for sale as of December 31, 2017 are as follows (Unit: Korean won in millions):

Description	December 31, 2017	
Liabilities held for sale	₩	5,415

(6) As of December 31, 2017, 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, 2017	
Investments in subsidiaries	₩	(406,740)
Investments in associates and joint ventures		1,361,738
Total	₩	954,998

21. EARNINGS PER SHARE:

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

	2017	2016
Basic earnings per share of common share	₩ 5,419	₩ 1,934
Basic earnings per share of Pre-1996 Commercial Law Amendment preferred share (*)	5,469	1,984

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

(2) Net income and weighted-average number of shares used to calculate earnings per share of common share for the years ended December 31, 2017 and 2016, are as follows (Unit: Korean won in millions):

Description	Year ended December 31, 2017	Year ended December 31, 2016
Profit for the year attributable to owners of the Company	₩ 952,754	₩ 340,158
Less dividends for Pre-1996 Commercial Law Amendment preferred share and preferred stock portion of residual profit	(18,092)	(6,564)
Net income used to calculate basic earnings per share of common share	₩ 934,662	₩ 333,594
Weighted-average number of common shares	172,463,342 shares	172,463,342 shares

(3) Net income and weighted-average number of shares used to calculate earnings per share of Pre-1996 Commercial Law Amendment preferred share for the years ended December 31, 2017 and 2016, are as follows (Unit: Korean won in millions):

Description	Year ended December 31, 2017	Year ended December 31, 2016
Dividends for preferred share and preferred stock portion of residual profit	₩ 18,092	₩ 6,564
Net income used to calculate basic earnings per share of preferred share	18,092	6,564
Weighted-average number of preferred shares	3,307,867 shares	3,307,867 shares

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

22. RELATED-PARTY TRANSACTIONS:

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

December 31, 2017			
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 CNS Co., Ltd.	LG N-Sys Inc.	LG CNS China, Inc. and 15 others	Korea Smart Card Co., Ltd.
	Korea Elecom Co., Ltd		Korea Smart Card CS Partners Co., Ltd.
	Haengbokmaru Co., Ltd.		High End Co., Ltd.
	Biztechpartners Co., Ltd.(*2)		T-money Asia sdn bhd (T MONEY MALAYSIA SDN BHD)
			Songdo U-Life LLC.
			U Life Solutions
			Songdo International Sports Club LLC.
			Recaudo Bogota S.A.S.
			Hellas SmarTicket Societe Anonyme
			Sejong Green Power Co.,Ltd
			Ulaanbaatar Smart card Co,LLC
			Ulleungdo Natural Energy Independent Island Co.,Ltd
			Daegu clean energy Co., Ltd.
			SMDep Co., Ltd. (*3)
			Mangilao Holdings LLC(*4)
			Mangilao Investment LLC(*4)
			Mangilao Solar LLC(*4)
Serveone Co., Ltd.	Konjiam Yewon Co., Ltd.	Serveone (Nanjing) Co., Ltd. and 4 others	Dongnam Solar Energy Co., Ltd.
	Mirae M (*4)		
	Dream nuri (*4)		
Lusem Co., Ltd.			.
LG Management Development Institute			
LG Sports Ltd.			
LG Holdings Japan Co., Ltd.			Combustion Synthesis Co., LTD.
LG Corp. U.S.A.(*4)			
Associates:			
LG Electronics Inc.	Hi Plaza Inc.	LG Electronics Mexico S.A. DE C.V. and others	
	Hi-M Solutec Co., Ltd.		
	HITeleservice Co., Ltd.		
	New Growth Venture Fund		
	New Growth Venture Fund Ⅱ		
	Ace R&D Co.,Ltd.		
	Hientech Co., Ltd.		
	LG-Hitachi Water Solutions Co., Ltd.		
	LG innotek Co., Ltd.		
	Innowith Co., Ltd.		

December 31, 2017			
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
	Hanuri Co., Ltd.		
	LG innotek Alliance Fund		
LG Chem Ltd.	Haengboknuri Co., Ltd.	LG Chem America, Inc. and others	
	FarmHannong Co., Ltd.		
	FarmHwaong Co., Ltd.		
	Sarangnuri Co., Ltd.		
LG Hausys, Ltd.	Hausys ENG Co. Ltd.	LG Hausys America, Inc. and others	
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.		
	HAITAI HTB Co., Ltd.		
	K&I Co.,Ltd		
	CNP COSMETICS Co., Ltd.		
	Balkeunnuri Co., Ltd.		
	Zenisce Co., Ltd.		
	OBM rap Co., Ltd		
	LG Farouk Co.		
	Ulleung Mountain Chu Spring Water Development Company (*4)		
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.	
LG International Corp. (*7)	Dangjin Tank Terminal Co., Ltd.	LG International (America) Inc. and others	
	Pantos Logistics Co., Ltd.	PANTOS LOGISTICS (CHINA) CO., LTD and others	
	Pantos Busan Newport Logistics Center Co., Ltd.		
	Helistar Air Co., Ltd.		
Joint ventures:			
LG MMA Corp.			
Other related parties' affiliates by the Act (*5)			
LG Display Co., Ltd.	Nanummnuri Co., Ltd	LG Display Nanjing Co. Ltd and others.	
Global Dynasty Overseas Resource Development Private Investment Company			
Saldevida Korea Co.			
LG. Tostem BM Co., Ltd			
SEETEC Co.,Ltd.			
MiGenstory Co., Ltd. (formerly			

December 31, 2017

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
Genstory Co., Ltd.)			
Clean Soul Ltd.			
DACOM Crossing Corporation			
JIHEUNG. Co., Ltd			
LG Siltron Inc.(*6)		LG Siltron America, Inc. and another(*6)	

(*1) Joint ventures of associates are excluded.
(*2) BNE Partners, Inc. (surviving corporation) merged with Biztechpartners Co., Ltd. and changed its name to Biztechpartners Co., Ltd.
(*3) Subsidiary of Korea Smart Card Co., Ltd.
(*4) Newly established during current period.
(*5) These companies are not related parties defined in paragraph 9 of K-IFRS 1024. However, the companies are designated by the Fair Trade Commission as related parties in accordance with the resolution of the Securities and Futures Commission in accordance with the substantive relationship stipulated in paragraph 10 of K-IFRS 1024.
(*6) LG Siltron Inc. was excluded from the scope of consolidation as it was sold to SK Corp. As of January 3, 2018, is was also excluded from the large business group.
(*7) With stock acquisition during current period, it has been classified as associates.

December 31, 2016

Companies with direct ownership	Companies with direct ownership's subsidiaries (domestic) (*1)	Companies with direct ownership's subsidiaries (overseas) (*1)	Companies with direct ownership's associates
Subsidiaries:			
LG Siltron Inc.(*2)		LG Siltron America, Inc. and another	
LG CNS Co., Ltd.	LG N-Sys Inc.	LG CNS China, Inc. and 16 others	Korea Smart Card Co., Ltd.
	BNE Partners, Inc.		Korea Smart Card CS Partners Co., Ltd.
	Korea Elecom Co., Ltd		High End Co.,Ltd
	Haengbokmaru Co., Ltd.		T-money America, INC.
	Biztechpartners Co., Ltd.		T MONEY MALAYSIA SDN BHD
			Songdo U-Life LLC.
			U Life Solutions
			Songdo International Sports Club LLC.
			Recaudo Bogota S.A.S.
			Hellas SmarTicket Societe Anonyme
			Sejong Green Power Co.,Ltd
			Ulaanbaatar Smart card Co,LLC
			Ulleungdo Natural Energy Independent Island Co.,Ltd
			Daegu clean energy Co., Ltd.
Serveone Co., Ltd.	Konjiam Yewon Co., Ltd.	Serveone (Nanjing) Co., Ltd. and 4 others	Dongnam Solar Energy Co., Ltd.
			Serveone Cenyar Services Co. (*3)
Lusem Co., Ltd.			.
LG Management Development Institute			

December 31, 2016			
Companies with direct ownership	Companies with direct ownership's subsidiaries (domestic) (*1)	Companies with direct ownership's subsidiaries (overseas) (*1)	Companies with direct ownership's associates
LG Sports Ltd.			
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	
	Hi-M Solutec Co., Ltd.		
	HITeleservice Co., Ltd.		
	New Growth Venture Fund		
	New Growth Venture Fund Ⅱ		
	Ace R&D Co.,Ltd		
	Hientech Co., Ltd.		
	LG-Hitachi Water Solutions Co., Ltd.		
	LG innotek Co., Ltd.		
	Innowith Co., Ltd		
	Hanuri Co., Ltd		
	LG innotek Alliance Fund		
LG Chem Ltd.	Haengboknuri Co., Ltd.	LG Chem America, Inc. and others	
	FarmHannong Co., Ltd.		
	Agrotech Co. Ltd.		
	FarmBiotec Co., Ltd.		
	FarmHwaong Co., Ltd.		
	Sesil Corp.		
LG Hausys, Ltd.	Hausys ENG Co. Ltd.	LG Hausys America, Inc. and others	
LG Uplus Corp.	CS Leader	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.		
	HAITAI HTB Co., Ltd.		
	K&I Co.,Ltd		
	CNP COSMETICS Co., Ltd.		
	Balkeunnuri Co., Ltd.		
	Zenisce Co., Ltd.		
	OBM rap Co., Ltd.		
LG Life Science Co., Ltd (*4).	Sarangnuri 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.			
Other related parties' affiliates by the Act (*5)			
LG Display Co., Ltd.	Nanummnuri Co., Ltd.	LG Display Nanjing Co. Ltd and	

December 31, 2016			
Companies with direct ownership	Companies with direct ownership's subsidiaries (domestic) (*1)	Companies with direct ownership's subsidiaries (overseas) (*1)	Companies with direct ownership's associates
		others.	
LG International Corp.	Dangjin Tank Terminal Co., Ltd.	LG International (America) Inc. and others	Global Dynasty Natural Resource Private Equity Fund
	Pantos Logistics Co., Ltd.	PANTOS LOGISTICS (CHINA) CO., LTD and others	Sal de Vida Korea Corp.
	Pantos Busan Newport Logistics Center Co., Ltd.		
	Helistar Air Co., Ltd.		
LG. Tostem BM Co., Ltd			
SEETEC Co.,Ltd.			
LG Farouk Co.			
Genstory Co., Ltd.			
Clean Soul Ltd.			
DACOM Crossing Corporation			
JIHEUNG. Co., Ltd			

(*1) Joint ventures of associates are excluded.
(*2) On August 17, 2017, it was sold to SK Corp.
(*3) It was a joint venture of Serveone Co., Ltd., but it was liquidated during the year.
(*4) It was classified as held for sale during the year and merged with LG Chem Co., Ltd. on January 1, 2017.
(*5) These companies are not related parties defined in paragraph 9 of K-IFRS 1024. However, the companies are designated by the Fair Trade Commission as related parties in accordance with the resolution of the Securities and Futures Commission in accordance with the substantive relationship stipulated in paragraph 10 of K-IFRS 1024.

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

	December 31, 2017		
	Revenue and others	Acquisition of property, plant and equipment	Other purchase
Subsidiaries:			
LG CNS Co., Ltd.	₩ 24,396	₩ 659	₩ 2,810
LG N-Sys Inc.	973	-	101
Biztechpartners Co., Ltd.(*2)	-	-	47
LG Siltron Inc.(*3)	1,134	-	-
Serveone Co., Ltd.	26,006	12,703	39,049
Lusem Co., Ltd.	25,385	-	-
LG Sports Ltd.	138	-	7,330
LG Management Development Institute	4,253	-	7,190
LG Holdings Japan Co., Ltd.	21	-	-
Associates and subsidiaries:			
LG Electronics Inc. (*1)	191,347	2	1,548
LG Chem Ltd.	174,017	-	11
LG Hausys, Ltd.	11,999	-	-
LG Household & Health Care Ltd. (*1)	56,552	-	-
LG Life Science Co., Ltd. (*4)	-	-	-
LG Uplus Corp. (*1)	86,199	-	205
GIIR Corporation (*1)	2,685	-	24,930
Slicon Works Co., Ltd.	4,842	-	-
LG Hitachi Co., Ltd.	87	-	-
LG Fuel Cell Systems Inc. (*1)	929	-	-
LG International Corp.(*5)	2,926	-	-
Joint ventures:			
LG MMA Corp	23,047	-	-
Other related parties' Affiliates by the Act: (*6)			
LG display Co., Ltd and others	60,820	-	-
Total	₩ 697,756	₩ 13,364	₩ 83,243

	December 31, 2016		
	Revenue and others	Acquisition of property, plant and equipment	Other purchase
Subsidiaries:			
LG CNS Co., Ltd.	₩ 18,282	₩ 374	₩ 2,789
LG N-Sys Inc.	1,373	-	64
Biztechpartners Co., Ltd.(*2)	-	-	47
LG Siltron Inc.(*3)	1,672	-	-
Serveone Co., Ltd.	36,841	4,273	32,313
Lusem Co., Ltd.	700	-	-
LG Sports Ltd.	91	-	4,930
LG Management Development Institute	2,076	-	7,181
LG Holdings Japan Co., Ltd.	17	-	-
Associates and subsidiaries:			
LG Electronics Inc. (*1)	165,724	10,161	2,025
LG Chem Ltd.	149,433	-	12
LG Hausys, Ltd.	11,369	-	-

LG Household & Health Care Ltd. (*1)	45,546	-	-
LG Life Science Co., Ltd. (*4)	5,616	-	-
LG Uplus Corp. (*1)	68,915	-	157
GIIR Corporation (*1)	2,383	-	24,448
Slicon Works Co., Ltd.	5,381	-	-
LG Hitachi Co., Ltd.	93	-	-
LG Fuel Cell Systems Inc. (*1)	1,965	-	-
LG International Corp.(*5)	2,874	-	-
Joint ventures:			
LG MMA Corp	22,039	-	-
Other related parties' Affiliates by the Act: (*6)			
LG display Co., Ltd and others	62,025	-	14
Total	₩ 604,415	₩ 14,808	₩ 73,980

(*1) It includes transactions with an associates' subsidiary.
(*2) BNE Partners, Inc. (surviving corporation) merged with Biztechpartners Co., Ltd., and changed its name to Biztechpartners Co., Ltd.
(*3) It was sold to SK Corp on August 17, 2017. The company has received ₩620,000 million for the sale, and recognized the gain on disposal of investments in subsidiaries of ₩370,872 million due to disposal of LG Siltron Inc.
(*4) Merged with LG Chem Co., Ltd. on January 1, 2017. As a result of the share exchange, the Company acquired LG Chem Co., Ltd. stock of ₩343,185 million and recognized the gain on disposal of investments in associates of ₩259,890 million as a result of disposal of LG Life Science Co., Ltd. stock.
(*5) With stock acquisition during current period, it has been classified as associates.
(*6) These companies are not related parties as defined in paragraph 9 of K-IFRS 1024; however, the companies are designated by the Fair Trade Commission as related parties in accordance with the resolution of the Securities and Futures Commission in accordance with the substantive relationship stipulated in paragraph 10 of K-IFRS 1024.

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

	December 31, 2017		
	Account receivables and others	Loans	Account payables and others
Subsidiaries:			
LG CNS Co., Ltd.	₩ 580	₩ -	₩ 5,519
LG N-Sys Inc.	-	-	400
LG Siltron Inc.(*2)	-	-	-
Serveone Co., Ltd.	3,790	-	6,405
LG Sports Ltd.	19	-	2,640
LG Management Development Institute	3	-	4,197
LG Holdings Japan Co., Ltd.	9	-	-
Associates and subsidiaries:			
LG Electronics Inc. (*1)	13,196	-	26,672
LG Chem Ltd.	7,897	-	9,183
LG Hausys, Ltd.	572	-	39
LG Household & Health Care Ltd. (*1)	357	-	5,347
LG Life Science Co., Ltd. (*3)	-	-	-
LG Uplus Corp	1,558	-	5,393
GIIR Corporation (*1)	494	-	17,016

	December 31, 2017		
	Account receivables and others	Loans	Account payables and others
LG Hitachi Co., Ltd.	-	-	7
LG Fuel Cell Systems Inc.	-	-	-
LG International Corp.(*4)	-	-	931
Joint ventures:			
LG MMA Corp.	345	-	578
Other related parties' Affiliates by the Act: (*5)			
LG display Co., Ltd and others	1,537	-	4,700
Total	₩ 30,357	₩ -	₩ 89,027

	December 31, 2016		
	Account receivables and others	Loans	Account payables and others
Subsidiaries:			
LG CNS Co., Ltd.	₩ -	₩ -	₩ 5,256
LG N-Sys Inc.	-	-	273
LG Siltron Inc.(*2)	118	-	-
Serveone Co., Ltd.	3,495	-	5,669
LG Sports Ltd.	5	-	-
LG Management Development Institute	9	-	3,371
LG Holdings Japan Co., Ltd.	4	-	-
Associates and subsidiaries:			
LG Electronics Inc. (*1)	62	-	29,229
LG Chem Ltd.	420	-	6,572
LG Hausys, Ltd.	379	-	39
LG Household & Health Care Ltd. (*1)	1,295	-	5,347
LG Life Science Co., Ltd. (*3)	163	-	2,737
LG Uplus Corp	1,251	-	5,395
GIIR Corporation (*1)	483	-	16,878
LG Hitachi Co., Ltd.	-	-	-
LG Fuel Cell Systems Inc.	1,006	28,545	-
LG International Corp.(*4)	-	-	-
Joint ventures:			
LG MMA Corp.	12	-	-
Other related parties' Affiliates by the Act: (*5)			
LG display Co., Ltd and others	35		10,349
Total	₩ 8,737	₩ 28,545	₩ 91,115

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

(*2) It was sold to SK Corp on August 17, 2017. The company has received ₩620,000 million for the sale, and recognized the gain on disposal of investments in subsidiaries of ₩370,872 million due to disposal of LG Siltron Inc.

(*3) Merged with LG Chem Co., Ltd. on January 1, 2017. As a result of the share exchange, the Company acquired LG Chem Co., Ltd. stock of ₩343,185 million and recognized the gain on disposal of investments in associates of ₩259,890 million as a result of disposal of LG Life Science Co., Ltd. stock.

(*4) With stock acquisition during current period, it has been classified as associates.
(*5) These companies are not related parties as defined in paragraph 9 of K-IFRS 1024; however, the companies are designated by the Fair Trade Commission as related parties in accordance with the resolution of the Securities and Futures Commission in accordance with the substantive relationship stipulated in paragraph 10 of K-IFRS 1024.

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

Year ended December 31, 2017

Description	Payment in cash (reduction of capital)	Sale of portion	Loan		Borrowings	
			Loan	Payback	Borrowings	Repayment
Subsidiaries:						
LG Corp. U.S.A	₩ 113,640	₩ -	₩ -	₩ -	₩ -	₩ -
Associates:						
LG Fuel Cell Systems Inc.	16,280	-	-	26,917	-	-
Etc:						
Related parties	-	296,711	-	-	-	-
Total	₩ 129,920	₩ 296,711	₩ -	₩ 26,917	₩ -	₩ -

Year ended December 31, 2016

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

(5) The Company provided guarantees and guarantees for the related parties for the years ended December 31, 2017, are as follows (Unit: JPY, Korean won in millions):

Company Provided	Amount of mortgage		Collateral Offered	Usage history of provided company		
	JPY	KRW		Credit Amount	Financial Institution	Date of occurrence
LG Holdings Japan Co., Ltd.	20,000,000,000	189,822	Borrowing limited guarantee	4,000,000,000	SMBC	2017-12-15

(6) 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, 2017 and 2016, are as follows (Unit: Korean won in millions):

Description	Year ended December 31, 2017	Year ended December 31, 2016
Short-term employee benefits	₩ 23,081	₩ 17,673
Severance benefits	3,041	2,748
Total	₩ 26,122	₩ 20,421

23. FUNDING ARRANGEMENTS AND PLEDGING:

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

(2) Restricted financial assets as of December 31, 2017 and 2016, are as follows (Unit: Korean won in millions):

Account	December 31, 2017	December 31, 2016	Detail
Financial institution deposits	₩ 500	₩ 500	Chungcheongbuk-do Province creative financial fund
	-	130	Pledged related with leasehold deposits
Long-term deposits	5	6	Deposit for the checking accounts
Total	₩ 505	₩ 636	

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

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

24. OPERATING LEASE CONTRACTS:

(1) The Company as lessee

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

Contents	December 31, 2017	
	Less than one year	Total
Vehicles	₩ 570	₩ 570
Furniture and fixtures	129	129
Total	₩ 699	₩ 699

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

2) The Company recognized rental expenses related to operating lease contracts for the years ended December 31, 2017 and 2016, in the amount of ₩682 million and ₩652 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, 2017 and 2016, as follows (Unit: Korean won in millions):

Contract	December 31, 2017 Less than one year	1 year–5 years	More than five years	Total
Building lease contract (Twin)	₩ 29,396	₩ -	₩ -	₩ 29,396
Building lease contract (Gasan)	15,930	68,296	104,715	188,941
Building lease contract (Gwanghwamun)	5,723	268	-	5,991
Building lease contract (Buho)	185	-	-	185
Building lease contract (Seoul station)	8,831	5,662	-	14,493
Total	₩ 60,065	₩ 74,226	₩ 104,715	₩ 239,006

Contract	December 31, 2016 Less than one year	1 year–5 years	More than five years	Total
Building lease contract (Twin)	₩ 14,870	₩ -	₩ -	₩ 14,870
Building lease contract (Gasan)	15,660	58,225	103,602	177,487
Building lease contract (Gwanghwamun)	5,596	-	-	5,596
Building lease contract (Buho)	182	-	-	182
Building lease contract (Seoul station)	4,785	7,997	700	13,482
Total	₩ 41,093	₩ 66,222	₩ 104,302	₩ 211,617

2) The Company recognized rental revenue related to operating lease contracts for the years ended December 31, 2017 and 2016, in the amount of ₩116,698 million and ₩104,876 million, respectively.

25. PENDING LITIGATIONS:

Pending litigations as of December 31, 2017, are one case where the Company sued and one case where the Company is sued (including trademark infringement and damages-related litigation).

26. RISK MANAGEMENT:

(1) Capital risk management

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

The Company's capital structure consists of net liability, which is borrowings, less cash and cash equivalents and equity. The overall capital risk management policy of the Company is unchanged from prior period. In addition, items managed as capital by the Company as of December 31, 2017 and 2016, are as follows (Unit: Korean won in millions):

	December 31, 2017	December 31, 2016
Total borrowings	₩ -	₩ -
Less cash and cash equivalents	357,788	128,683
Borrowings, net	(357,788)	(128,683)
Total equity	8,781,342	8,035,613
Debt ratio (*)	-	-

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

(2) Financial risk management

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

1) Price risk

The Company is exposed to price risks from AFS equity instruments. As of December 31, 2017, fair value of AFS equity instruments is ₩44,930 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 ₩3,406 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, 2017, the maximum exposure of credit risk from loans and receivables is similar to their carrying amount. The maximum amount of exposure to credit risk arising from the payment guarantees described in note 22.(5) is the limit of payment guarantees of ₩189,822 million.

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, 2017, is as follows (Unit: Korean won in millions):

Description	Within a year	1 year–5 years	Over five years	Total
Non-interest financial instrument	₩ 104,517	₩ 4,741	₩ 14,161	₩ 123,419
Financial Guarantee (*)	₩ 189,822	-	-	₩ 189,822

(*) The maximum amount of payment guarantees (JPY 20,000,000,000) provided to financial institutions for overseas subsidiary loans as described in Note 22.(5) above, which is the maximum amount that the company will be required to pay if the guarantor claims the full amount of the guarantee. Based on the estimates made at the end of the reporting period, the Company believes that it is more likely than not to pay the guarantees in accordance with the payment guarantees. However, the above assumptions may change, as the probability of a credit loss to the financial receivables held by the assurance provider may change the probability that the assurance provider will make payments to the Company under the guarantee contract.

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	₩ 13,603	₩ -
JPY	9	-
Total	₩ 13,612	₩ -

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	₩ 1,031	₩ (1,031)
JPY	1	(1)
Total	₩ 1,032	₩ (1,032)

(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, 2017 and 2016, are as follows (Unit: Korean won in millions):

Description	December 31, 2017			
	Level 1	Level 2	Level 3	Total
AFS financial assets	₩ 44,930	₩ -	₩ 58,176	₩ 103,106

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

There were no significant transfers between Levels 1 and 2 as of December 31, 2017 and 2016.

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, 2017 and 2016, is as follows (Unit: Korean won in millions):

Description	December 31, 2017				
	Fair value				Book value
	Level 1	Level 2	Level 3	Total	
Loans and receivables:					
Financial institution deposits	₩ -	₩ -	₩ 300,500	₩ 300,500	₩ 300,500
Loans (*)	-	-	-	-	-
Other account receivables (*)	-	-	26,890	26,890	26,890
Accrued income (*)	-	-	1,979	1,979	1,979
Deposits (*)	-	-	499	499	499
Total	-	-	329,868	329,868	329,868
Financial liabilities measured at amortized cost:					
Other accounts payables (*)	-	-	39,560	39,560	39,560
Accrued expenses (*)	-	-	2,946	2,946	2,946
Accrued dividends (*)	-	-	328	328	328
Deposits received	-	75,034	-	75,034	75,034
Total	₩ -	₩ 75,034	₩ 42,834	₩ 117,868	₩ 117,868

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

(*) 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, 2017 and 2016, are as follows (Unit: Korean won in millions):

Description	Year ended December 31, 2017						
	Beginning balance	Net income (loss)	Comprehensive income	Purchases	Disposals	Ending balance	Ending unrealized gain
AFS financial assets	₩ 48,307	₩ -	₩ 9,869	₩ -	₩ -	₩ 58,176	₩ 21,703

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

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

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

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

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

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

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

Description	Fair value	Valuation technique	Unobservable input(s)	Range (%)	Relationship of unobservable inputs to fair value
Financial assets					
AFS financial assets	₩ 58,176	Discounted cash flow method	Growth rate	0	Increase (decrease) in the growth rate used would result in increase (decrease) of fair value
			Discount rate	9.35 – 10.62	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%	-	-	₩ 931	₩ (761)
	Discount rate	+/-1%	-	-	1,298	(1,059)

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

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

27. NON- CASH TRANSACTIONS

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

Description	Year ended December 31, 2017		Year ended December 31, 2016	
Replaced Investments in Associates and Joint Ventures to asset held for sale	₩	268,950	₩	83,295

28. ASSETS HELD FOR SALE:

1) On November 30, 2017, the Company resolved to sell Lusem Co., Ltd., a subsidiary, on the Board of Directors' meeting. As of December 31, 2017, assets (liabilities) held for sale are as follows (Unit: Korean won in millions):

Description	December 31, 2017	
Investment securities of Lusem Co., Ltd.	₩	29,375
Total assets that are classified as held for sale		29,375
Deferred tax liabilities of Lusem Co., Ltd.		5,415
Total liabilities that are classified as held for sale		5,415
Net assets that are classified as held for sale	₩	23,960

29. EVENTS AFTER THE REPORTING PERIOD:

1) On February 14, 2018, additional investment of ₩16,200 million was made to LG Corp U.S.A., a subsidiary.

2) On February 27, 2018, Lusem Co., Ltd. was excluded from the consolidation due to the disposal of its entire stake in the Company, and the disposal amount is ₩75,000 million.

Deloitte Anjin LLC
9F., One IFC,
10, Gukjegeumyung-ro,
Youngdeungpo-gu, Seoul
07326, Korea

Tel: +82 (2) 6676 1000
Fax: +82 (2) 6674 2114
www.deloitteanjin.co.kr

Internal Accounting Control System ("IACS") Review Report

English Translation of a Report Originally Issued in Korean on March 15, 2018

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, 2017. 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, 2017, the Company's IACS has been appropriately designed and is operating effectively as of December 31, 2017, in all material respects, in accordance with the IACS Framework established by the Korea Listed Companies Association."

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

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

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

Our review is based on the Company's IACS as of December 31, 2017, and we did not review its IACS subsequent to December 31, 2017. 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 15, 2018

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

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

I, as the Internal Accounting Control Officer ("IACO") of LG Corp. (the "Company"), assessed the status of the design and operations of the Company's Internal Accounting Control System ("IACS") for the year ended December 31, 2017.

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, 2017, in all material respects, in accordance with the IACS standards.

February 8, 2018

Disclosure on Execution of External Audit

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

1. Company and Reporting Period subject to External Audit

Company	LG Corp.			
Reporting Period	2017/01/01	From	2017/12/31	To

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

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

3. Key Disclosure on Execution of External Audit

Title	Detail					
Audit Planning Stage	Dates Performed	April 2017 – September 2017	3	Days		
	Main Planning Work Performed	Understanding the Company and business environments, composing the audit member, identifying and evaluating significant risk of material misstatements, deciding the nature/timing/extent of an audit, reviewing the application of professionals and determining the materiality in the application of an audit				
Fieldwork Performed	Dates Performed		Number of Participant(s)		Main Fieldwork Performed	
			On-Site	Off-Site		
		Days	Number of Participant(s)	Number of Participant(s)		
	2017/12/04–2017/12/06	3	3	2	Interim audit (understanding the transaction type of each process, control testing)	
	2018/01/10–2018/01/26	12	6	4	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)	2018/01/02	1	Day(s)		
	Place (Where Performed)	LG Corp. headquarters				
	Financial Instruments Subjected to Counts	Cash, investment securities, memberships, and others				
External Confirmation	Bank Confirmation	O	Accounts Receivable/Payable Confirmation	O	Legal Confirmation	O
	Other Confirmation	N/A				
Communications with Those Charged with Governance	Number of Communications	5	Time(s) Performed			
	Time (When Performed)	2017/05/11, 2017/08/10, 2017/11/09, 2018/02/08, and 2018/02/22				