LG CORP.

SEPARATE FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED
DECEMBER 31, 2018 AND 2017

ATTACHMENT: INDEPENDENT AUDITORS' REPORT

LG CORP.

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Independent Auditors' Report

English Translation of Independent Auditors' Report Originally Issued in Korean on March 18, 2019.

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

Report on the Audited Separate Financial Statements Our Opinion

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, 2018 and December 31, 2017, respectively, 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 then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the separate financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and December 31, 2017, respectively, and its financial performance and its cash flows for the years then ended in accordance with Korean International Financial Reporting Standards ("K-IFRS").

Basis for Audit Opinion

We conducted our audits in accordance with the Korean Standards on Auditing ("KSAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Separate Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements, including those related to independence, that are relevant to our audit of the separate financial statements in the Republic of Korea as required by prevailing audit regulations. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

We determined that there are no key audit matters to report in the audit report.

Responsibilities of Management and Those Charged with Governance for the Separate Financial Statements

Management is responsible for the preparation of the accompanying separate financial statements in accordance with K-IFRS, and for such internal control as they determine is necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate financial statements, management of the Company is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance's responsibilities include overseeing the Company's financial reporting process.

Deloitte.

Auditors' Responsibilities for the Audit of the Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with KSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.

As part of an audit in accordance with KSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the separate financial statements, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of the management's use of the going-concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the separate financial statements.

We communicate with those charged with governance of the Company regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance of the Company with a statement that we have complied with relevant ethical requirements, including those related to independence, and to communicate with them all matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report, unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditors' report is Young-Jae Kim.

Deloitte Anjin LLC

March 18, 2019

Notice to Readers

This report is effective as of March 18, 2019, 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, 2018 AND 2017

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

Young-Soo Kwon

President and Chief Operating Officer

LG Corp.

LG CORP.
SEPARATE STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2018 AND 2017

	Korean won	
	December 31, 2018	December 31, 2017
	(In millions)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents (Notes 5, 6 and 26)	₩ 132,903	₩ 357,788
Financial institution deposits (Notes 5, 23 and 26)	250,500	300,500
Other receivables, net (Notes 5, 7, 22 and 26)	9,730	28,869
Other current assets (Note 8)	4,485	3,781
Assets held for sale	-	29,375
Total current assets	397,618	720,313
NON-CURRENT ASSETS:		
Available-for-sale (“AFS”) financial assets (Notes 5 and 26)	97,334	104,249
Other non-current receivables, net (Notes 5, 7, 22, 23 and 26)	499	499
Investments in subsidiaries (Note 11)	1,058,892	1,008,607
Investments in associates and joint ventures (Note 11)	6,943,881	6,559,405
Other non-current assets (Note 8)	3,081	2,719
Property, plant and equipment, net (Notes 9)	36,306	37,111
Investment property, net (Notes 9 and 24)	772,903	788,909
Intangible assets (Note 10)	17,128	17,081
Total non-current assets	8,930,024	8,518,580
TOTAL ASSETS	₩ 9,327,642	₩ 9,238,893

(Continued)

LG CORP.
SEPARATE STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2018 AND 2017 (CONTINUED)

	Korean won			
	December 31, 2018		December 31, 2017	
	(In millions)			
LIABILITIES AND SHAREHOLDERS' EQUITY				
CURRENT LIABILITIES:				
Other current payables (Notes 5, 22 and 26)	₩	112,297	₩	104,517
Current tax liabilities		26,161		156,063
Other current liabilities (Notes 13 and 22)		7,195		14,073
Liabilities related to assets held for sale		-		5,415
Total current liabilities		145,653		280,068
NON-CURRENT LIABILITIES:				
Other non-current payables (Notes 5, 22 and 26)		11,030		13,351
Net defined benefit liability (Notes 12)		3,848		12,234
Deferred tax liability (Note 20)		63,152		146,347
Other non-current liabilities (Note 13)		5,218		5,551
Total non-current liabilities		83,248		177,483
TOTAL LIABILITIES		228,901		457,551
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)		35,857		41,099
Retained earnings (Note 17)		5,776,908		5,454,267
TOTAL EQUITY		9,098,741		8,781,342
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	₩	9,327,642	₩	9,238,893

(Concluded)

See accompanying notes.

LG CORP.
SEPARATE STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	Korean won			
	Year ended December 31, 2018		Year ended December 31, 2017	
	(In millions)			
Operating income:				
Dividend income (Notes 4, 18 and 22)	₩	368,202	₩	319,674
Royalty revenue (Notes 4, 18 and 22)		270,069		278,473
Rental revenue (Notes 4, 18, 22 and 24)		118,925		116,698
		757,196		714,845
Operating expenses:				
Employee benefit (Notes 18 and 22)		42,038		43,360
Depreciation (Notes 9 and 18)		19,762		19,992
Other operating expenses (Notes 18 and 22)		149,094		155,493
		210,894		218,845
Net operating income		546,302		496,000
Non-operating income and expenses:				
Financial income (Note 19)		11,667		9,373
Financial expenses (Note 19)		1,249		3,620
Other non-operating income		36,239		630,800
Other non-operating expenses		38,999		13,494
Profit before income tax expense		553,960		1,119,059
Income tax expense (Note 20)		1,298		166,305
Profit for the year(Note 17)	₩	552,662	₩	952,754
Earnings per share (in Korean won):				
Common stock basic/diluted (Note 21)	₩	3,413	₩	5,419
Pre-1996 Commercial Law Amendment preferred stock basic/diluted (Note 21)		3,193		5,469

See accompanying notes.

LG CORP.
SEPARATE STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	Korean won			
	Year ended December 31, 2018		Year ended December 31, 2017	
	(In millions)			
Profit for the year	₩	552,662	₩	952,754
Other comprehensive income (loss):				
Items that may be reclassified subsequently to profit or loss				
Net gain (loss) on Other financial assets		-		20,743
Items that will not be reclassified subsequently to profit or loss				
Remeasurement on the net defined benefit liability		(1,353)		900
Net gain (loss) on Other financial assets		(5,242)		-
Total comprehensive income for the year	₩	546,067	₩	974,397

See accompanying notes.

LG CORP.
SEPARATE STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	Korean won					
	Issued capital	Capital surplus	Other capital items	Accumulated other comprehensive income (loss)	Retained earnings	Total
	(In millions)					
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 Other 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
Balance at January 1, 2018	₩ 879,359	₩ 2,409,002	₩ (2,385)	₩ 41,099	₩ 5,454,267	₩ 8,781,342
Annual dividends	-	-	-	-	(228,668)	(228,668)
Profit for the year	-	-	-	-	552,662	552,662
Remeasurement on the net defined benefit liability	-	-	-	-	(1,353)	(1,353)
Net gain (loss) on Other financial assets	-	-	-	(5,242)	-	(5,242)
Balance at December 31, 2018	₩ 879,359	₩ 2,409,002	₩ (2,385)	₩ 35,857	₩ 5,776,908	₩ 9,098,741

See accompanying notes.

LG CORP.
SEPARATE STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	Korean won	
	Year ended December 31, 2018	Year ended December 31, 2017
	(In millions)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Profit for the year	₩ 552,662	₩ 952,754
Additions of expenses not involving cash outflows:		
Depreciation	19,762	19,992
Amortization of intangible assets	1,862	1,806
Retirement benefits	3,893	4,242
Interest expenses	333	311
Income tax expense	1,298	166,305
Loss on disposals of property, plant and equipment	1	456
Loss on disposals of intangible assets	-	2
Impairment loss on investments in associates	38,863	12,902
Loss on foreign currency translations	72	1,086
Other selling and administration expenses	86	87
	66,170	207,189
Deduction of incomes not involving cash inflows:		
Interest income	9,964	8,383
Dividend income	368,202	319,673
Other operating income	333	311
Gain on disposals of property, plant and equipment	18	-
Gain on disposals of investments in associates	-	259,890
Gain on disposals of investments in subsidiaries	35,813	370,872
Gain on foreign currency translation	630	-
	(414,960)	(959,129)
Movements in working capital:		
Other receivables	18,270	(21,862)
Other current assets	(705)	(252)
Other non-current assets	(1,347)	(1,390)
Other payables	4,489	5,605
Other current liabilities	623	7,436
Net defined benefit liability	(14,146)	(5,296)
	7,184	(15,759)

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LG CORP.
SEPARATE STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017(CONTINUED)

	Korean won			
	Year ended December 31, 2018		Year ended December 31, 2017	
	(In millions)			
Interest income received	₩	10,833	₩	7,818
Dividend income received		368,202		319,673
Income taxes paid		(217,704)		(52,193)
Net cash provided by operating activities		372,387		460,353
CASH FLOWS FROM INVESTING ACTIVITIES:				
Cash inflows from investing activities:				
Decrease in financial institution deposits		686,035		660,130
Decrease of loans		-		28,545
Decrease in deposits		-		3
Disposals of investments in subsidiaries		57,688		610,446
Disposals of property, plant and equipment		192		2,379
Disposals of intangible assets		-		71
		743,915		1,301,574
Cash outflows for investing activities:				
Increase in financial institution deposits		636,035		860,000
Increase in deposits		-		2
Acquisitions of investments in subsidiaries		50,285		113,640
Acquisitions of Other financial assets		-		400
Acquisitions of investments in associates		423,339		313,021
Acquisitions of property, plant and equipment		1,032		2,306
Acquisitions of investment properties		1,473		11,987
Acquisitions of intangible assets		926		1,725
		(1,113,090)		(1,303,081)
Net cash used in investing activities		(369,175)		(1,507)

(Continued)

LG CORP.
SEPARATE STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018 AND 2017 (CONTINUED)

	Korean won	
	Year ended December 31, 2018	Year ended December 31, 2017
	(In millions)	
CASH FLOWS FROM FINANCING ACTIVITIES:		
Cash inflows from financing activities:		
Proceeds from short-term borrowings	₩ -	₩ 12,097
	-	12,097
Cash outflows for financing activities:		
Payments of dividends	228,655	228,655
Redemptions of short-term borrowings	-	12,097
	(228,655)	(240,752)
Net cash used in financing activities	(228,655)	(228,655)
NET INCREASE IN CASH AND CASH EQUIVALENTS	(225,443)	230,191
CASH AND CASH EQUIVALENTS, AT THE BEGINNING OF YEAR	357,788	128,683
Effects of exchange rate changes on cash and cash equivalents	558	(1,086)
CASH AND CASH EQUIVALENTS, AT THE END OF YEAR	₩ 132,903	₩ 357,788

(Concluded)

See accompanying notes.

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, 2018.

As of December 31, 2018, the Company’s related parties and major shareholders are as follows:

Name of shareholder	Number of shares	Percentage of shares (%) (*)
Ku, Bon Jun	13,317,448	7.57
Ku, Gwang Mo	25,881,884	14.72
Ku, Bon Shik	7,728,609	4.39
Kim, Young Shik	7,253,100	4.12
Ku, Bon Neung and others	21,899,938	12.45
LG Yonam Education Foundation	3,675,742	2.09
LG Yonam Foundation	572,525	0.33
Others	95,542,562	54.33
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 at the board of directors in a meeting held on February 8, 2019, and will be finalized at the shareholders’ meeting on March 26, 2019.

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

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

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

1) Newly adopted and revised standards, their interpretations and thereby changes in accounting policies being effective for the financial year beginning on January 1, 2018, are as follows:

- K-IFRS 1109 – Financial Instruments (Enactment)

The Company has applied K-IFRS 1109 Financial Instruments and the related consequential amendments to other IFRSs that are effective for an annual period that begins on or after January 1, 2018. K-IFRS 1109 introduced new requirements for:

1) The classification and measurement of financial assets and financial liabilities
2) Impairment of financial assets
3) General hedge accounting

Additionally, the Company adopted consequential amendments to K-IFRS 1107 Financial Instruments: Disclosures that were applied to the disclosures for 2018.

At the date of initial application, the Company elected not to restate prior periods, and hence the Company did not restate comparative financial statements in accordance with K-IFRS 1109.

Details of these new requirements as well as their impact on the Company's separate financial statements are described below.

(a) Classification and measurement of financial assets

All recognized financial assets that are within the scope of K-IFRS 1109 are required to be measured subsequently at amortized cost or at fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

- Debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding, are measured subsequently at amortized cost.
- Debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are SPPI on the principal amount outstanding, are measured subsequently at fair value through other comprehensive income ("FVTOCI").
- All other debt instruments and equity investments are measured subsequently at fair value through profit or loss ("FVTPL").

Despite the foregoing, the Company may make the following irrevocable election/designation at initial recognition of a financial asset:

- The Company may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognized by an acquirer in a business combination in other comprehensive income.
- The Company may irrevocably designate a debt investment that meets the amortized cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

In the current year, the Company has not designated any debt investments that meet the amortized cost or FVTOCI criteria as measured at FVTPL.

When a debt investment measured at FVTOCI is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment. When an equity investment designated as measured at FVTOCI is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is subsequently transferred to retained earnings.

Debt instruments that are measured subsequently at amortized cost or at FVTOCI are subject to impairment. See (b) below.

The directors of the Company reviewed and assessed the Company's existing financial assets as at January 1, 2018, based on the facts and circumstances that existed at that date and concluded that the initial application of K-IFRS 1109 has had the following impact on the Company's financial assets with regard to their classification and measurement:

- The Company's investments in redeemable notes were classified as AFS financial assets under K-IFRS 1039 Financial Instruments: Recognition and Measurement. The notes have been reclassified as financial assets measured at amortized cost because they are held within a business model whose objective is to collect the contractual cash flows and they have contractual cash flows that are SPPI on the principal amount outstanding.
- The Company's investments in corporate bonds that were classified as AFS financial assets under K-IFRS 1039 have been classified as financial assets at FVTOCI because they are held within a business model whose objective is both to collect contractual cash flows and to sell the bonds, and they have contractual cash flows that are SPPI on principal outstanding. The change in the fair value of these redeemable notes continues to accumulate in the investment revaluation reserve until they are derecognized or reclassified.
- The Company's investments in equity instruments (neither held for trading nor a contingent consideration arising from a business combination) that were previously classified as AFS financial assets and were measured at fair value at each reporting date under K-IFRS 1109 have been designated as at FVTOCI. The change in fair value on these equity instruments continues to be accumulated in the investment revaluation reserve.
- There is no change in the measurement of the Company's investments in equity instruments that are held for trading; those instruments were and continue to be measured at FVTPL.
- Financial assets classified as held to maturity and loans and receivables under K-IFRS 1039 that were measured at amortized cost continue to be measured at amortized cost under K-IFRS 1109 as they are held within a business model to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding.

Financial assets classified as financial assets at FVTPL under K-IFRS 1039 continue to be measured at FVTPL.

None of the other reclassifications of financial assets have had any impact on the Company's financial position, profit or loss, other comprehensive income or total comprehensive income in the current year.

(b) Impairment of financial assets

In relation to the impairment of financial assets, K-IFRS 1109 requires an expected credit loss ("ECL") model as opposed to an incurred credit loss model under K-IFRS 1039. The ECL model requires the Company to account for ECLs and changes in those ECLs at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.

Specifically, K-IFRS 1109 requires the Company to recognize a loss allowance for ECLs on:

(1) Debt investments measured subsequently at amortized cost or at FVTOCI
(2) Lease receivables
(3) Accounts receivable and other receivables
(4) Financial guarantee contracts to which the impairment requirements of K-IFRS 1109 apply

In particular, K-IFRS 1109 requires the Company to measure the loss allowance for a financial instrument at an amount equal to the lifetime ECLs if the credit risk on that financial instrument has increased significantly since initial recognition, or if the financial instrument is a purchased or originated credit-impaired financial asset. However, if the credit risk on a financial instrument has not increased significantly since initial recognition (except for a purchased or originated credit-impaired financial asset), the Company is required to measure the loss allowance for that financial instrument at an amount equal to 12-month ECL. K-IFRS 1109 also requires a simplified approach for measuring the loss allowance at an amount equal to lifetime ECL for accounts and other receivable and lease receivables in certain circumstances. Accordingly, the Company applied the simplified approach to measure the loss allowance for accounts receivable and other receivables.

The Company has assessed whether there has been a significant increase in credit risk since initial recognition of financial instruments that remain recognized on the date of initial application of K-IFRS 1109 (i.e., January 1, 2018), and the directors have assessed the credit risk of the respective financial instruments on the date of their initial recognition. The result of the assessment is as follows (Unit: Korean won in millions):

Title	Credit risk attributes at January 1, 2018	Cumulative additional loss allowance recognized on January 1, 2018
Accounts receivable and other receivables	The Company applies the simplified approach and recognizes lifetime ECL for these assets. Debtors' credit risk is assessed to be low.	-
Loans and leasehold deposits	Debtors' credit risk is assessed to be low.	-
Cash and bank balances	All bank balances are assessed to have low credit risk at each reporting date as they are held with reputable international banking institutions.	-

There is no difference between the ending provision for impairment in accordance with K-IFRS 1039 and the provision in accordance with K-IFRS 1037 (for the financial guarantee contracts) to the opening loss allowance determined in accordance with K-IFRS 1109 for the above financial instruments on January 1, 2018.

The consequential amendments to K-IFRS 1107 have also resulted in more extensive disclosures about the Company’s exposure to credit risk in the separate financial statements.

(c) Classification and measurement of financial liabilities

A significant change introduced by K-IFRS 1109 in the classification and measurement of financial liabilities relates to the accounting for changes in the fair value of a financial liability designated as at FVTPL attributable to changes in the credit risk of the issuer.

Specifically, K-IFRS 1109 requires that the changes in the fair value of the financial liability that is attributable to changes in the credit risk of that liability be presented in other comprehensive income, unless the recognition of the effects of changes in the liability’s credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability’s credit risk are not subsequently reclassified to profit or loss, but are instead transferred to retained earnings when the financial liability is derecognized. Previously, under K-IFRS 1039, the entire amount of the change in the fair value of the financial liability designated as at FVTPL was presented in profit or loss.

Apart from the above, the application of K-IFRS 1109 has had no impact on the classification and measurement of the Company’s financial liabilities.

(d) Disclosures in relation to the initial application of K-IFRS 1109

The table below shows information related to financial assets and financial liabilities that have been reclassified as a result of transition to K-IFRS 1109 and K-IFRS 1039 (Unit: Korean won in millions):

	Classification		Book value	
Title	K-IFRS 1039	K-IFRS 1109	K-IFRS 1039	K-IFRS 1109
Marketable equity securities (*1)	AFS financial assets	Financial assets measured at FVTOCI	44,930	44,930
Unmarketable equity securities (*1)	AFS financial assets	Financial assets measured at FVTOCI	58,319	58,319
Investment (*2)	AFS financial assets	Financial assets measured at FVTPL	1,000	1,000
Financial institution deposits	Loans and receivables	Financial liabilities measured at amortized cost	300,500	300,500
Accounts receivable and other receivables	Loans and receivables	Financial liabilities measured at amortized cost	29,368	29,368
Accounts payable and other payables	Financial liabilities measured at amortized cost	Financial liabilities measured at amortized cost	117,868	117,868

(*1) Among AFS financial assets as of and for the year ended December 31, 2017, marketable equity securities and unmarketable equity securities were designated as financial assets measured at FVTOCI by applying the irrevocable election at the date of initial application.
(*2) Classified as unmarketable equity securities of AFS financial assets on December 31, 2017, but was classified as financial assets measured at FVTPL under K-IFRS 1109.

The additional loss allowance on the initial application of K-IFRS 1109 is due to a change in the measurement of loss allowance related to each financial asset. No financial assets or financial liabilities designated as financial assets at FVTPL in accordance with K-IFRS 1039 are subject to reclassification and there are no financial assets or financial liabilities that the Company elected to reclassify as it applies K-IFRS 1109.

- K-IFRS 1115 – Revenue from Contracts with Customers (Enactment)

In the current year, the Company has applied K-IFRS 1115 Revenue from Contracts with Customers, which is effective for an annual period that begins on or after January 1, 2018. K-IFRS 1115 introduced a five-step approach to revenue recognition. Far more prescriptive guidance has been added in K-IFRS 1115 to deal with specific scenarios. Details of the new requirements as well as the accounting policy the Company applied are noted in (16) Revenue recognition and their impact on the Company's separate financial statements are described below.
The Company has applied K-IFRS 1115 in accordance with the fully retrospective transitional approach using the expedient in K-IFRS 1115 allowing both non-disclosure of the amount of the transaction price allocated to the remaining performance obligations, and an explanation of when it expects to recognize that amount as revenue for all reporting periods presented before the date of initial application, i.e., January 1, 2018. Furthermore, as a practical expedient, the Company elects to retrospectively restate only contracts that are not completed at the date of initial application. For contracts that were modified before the initial application date, the Company does not retrospectively restate the contract for those contract modifications.

- K-IFRS 1102—Share-based Payment (Amendment)

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 application of K-IFRS 1102 has not had a significant impact on the financial position and/or financial performance of the Company.

- 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). There is no significant impact on the financial position and/or financial performance of the Company..

- K-IFRS 2122—Foreign Currency Transactions and Advance Consideration (Enactment)

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.

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-IFRSs 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.

Since the Company does not adopt K-IFRS for the first time and is not a venture capital investment organization, the Company believes that the amendment will have no impact on its separate financial statements. In addition, the Company does not have any interest in affiliates or joint ventures that are investment companies.
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.

2) New and revised K-IFRSs issued, but not yet effective

- K-IFRS 1116—Leases (Enactment)

a) General impact of application of K-IFRS 1116 Leases

K-IFRS 1116 provides a comprehensive model for the identification of lease arrangements and their treatments in the financial statements for both lessors and lessees. K-IFRS 1116 will supersede the current lease guidance, including K-IFRS 1017 Leases and the related interpretations when it becomes effective for accounting periods beginning on or after January 1, 2019.

The lessees have an option to choose between the full retrospective application for each reporting date and modified retrospective application at the initial application date.

The Company plans to apply the modified retrospective approach as of January 1, 2019, in accordance with K-IFRS 1116. Therefore, the cumulative effect of applying K-IFRS 1116 will be adjusted in the retained earnings (or, where appropriate, other components of equity) at the date of initial application, and the comparative financial statements will not be restated.

The lessee and lessor must account for each lease element of the lease, separate from the non-lease element in a lease contract. The lessee is required to recognize lease assets and liabilities that represent the right to use the underlying assets and the obligation to pay the lease payments. However, in the case of short-term lease and small-value-based lease, the exemption provisions of the standard may be selected. In addition, the lessee is not required to separate the lease element from the non-lease element in accordance with the simplified approach and can account for each lease element and related non-lease element as one lease element.

In contrast to lessee accounting, K-IFRS 1116 does not substantially carry forward the lessor accounting requirements in K-IFRS 1017.

b) Impact of the new definition of a lease

The Company will make use of the practical expedient available on transition to K-IFRS 1116 not to reassess whether a contract is/or contains a lease. Accordingly, the definition of a lease in accordance with K-IFRS 1117 will continue to apply to those leases entered or modified before January 1, 2019.

The Company will apply the definition of a lease and related guidance set out in K-IFRS 1116 to all lease contracts entered into or modified on or after January 1, 2019 (whether it is a lessor or a lessee in the lease contract).

The change in definition of a lease mainly relates to the concept of control. K-IFRS 1116 distinguishes between leases and service contracts on the basis of whether the use of an identified asset is controlled by the customer. Control is considered to exist if the customer has:

- the right to obtain substantially all of the economic benefits from the use of an identified asset; and
- the right to direct the use of that asset.

The Company has shown that the new definition in K-IFRS 1116 will not change significantly the scope of contracts that meet the definition of a lease for the Company.

c) Impact on Lessee Accounting

Operating leases

K-IFRS 1116 will change how the Company accounts for leases previously classified as operating leases under K-IFRS 1017, which were off balance sheet. On initial application of K-IFRS 1116, for all leases (except as short-term leases and leases of low-value assets), the Company will:

a) recognize right-of-use assets and lease liabilities in the separate statements of financial position, initially measured at the present value of the future lease payments;

b) recognize depreciation of right-of-use assets and interest on lease liabilities in the separate statements of comprehensive income; and
c) separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the separate statements of cash flows.

Under K-IFRS 1116, right-of-use assets will be tested for impairment in accordance with K-IFRS 1036 Impairment of Assets. This will replace the previous requirement to recognize a provision for onerous lease contracts.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as personal computers and office furniture), the Company will opt to recognize a lease expense on a straight-line basis as permitted by K-IFRS 1116.

The Company analyzes the impact of adopting K-IFRS 1116 on its separate financial statements.

Finance leases

The main difference between K-IFRS 1116 and K-IFRS 1017 with respect to assets formerly held under a finance lease is the measurement of the residual value guarantees provided by the lessee to the lessor. K-IFRS 1116 requires that the Company recognize as part of its lease liability only the amount expected to be payable under a residual value guarantee, rather than the maximum amount guaranteed as required by K-IFRS 1017. On initial application, the Company will present equipment previously included in property, plant and equipment within the line item for right-of-use assets and the lease liability, previously presented within borrowing, will be presented in a separate line for lease liabilities.

Based on an analysis of the Company's finance leases as at December 31, 2018, on the basis of the facts and circumstances that exist at that date, the directors of the Company have assessed that the impact of this change will not have an impact on the amounts recognized in the Company's consolidated financial statements.

d) Impact on Lessor Accounting

Under K-IFRS 1116, a lessor continues to classify leases as either finance leases or operating leases and account for those two types of leases differently. However, K-IFRS 1116 has changed and expanded the disclosures required, in particular regarding how a lessor manages the risks arising from its residual interest in leased assets.

Under K-IFRS 1116, an intermediate lessor accounts for the head lease and the sublease as two separate contracts. The intermediate lessor is required to classify the sublease as a finance or operating lease by reference to the right-of-use asset arising from the head lease (and not by reference to the underlying asset as was the case under K-IFRS 1017).

Because of this change, the Company will reclassify certain of its sublease agreements as finance leases. As required by K-IFRS 1109, an allowance for ECLs will be recognized on the finance lease receivables. The leased assets will be derecognized and finance lease receivables recognized. This change in accounting will change the timing of recognition of the related revenue (recognized in finance income).

- K-IFRS 1109 – Prepayment Features with Negative Compensation (Amendment)

The amendments to K-IFRS 1109 clarify that for the purpose of assessing whether a prepayment feature meets the SPPI condition, the party exercising the option may pay or receive reasonable compensation for the prepayment irrespective of the reason for prepayment. In other words, prepayment features with negative compensation do not automatically fail an SPPI test. The amendment applies to annual periods beginning on or after January 1, 2019, with earlier application permitted.

- K-IFRS 1028 – Long-Term Interests in Associates and Joint Ventures (Amendment)

The amendment clarifies that K-IFRS 1109, including its impairment requirements, applies to long-term interests. Furthermore, in applying K-IFRS 1109 to long-term interests, an entity does not take into account adjustments to their carrying amount required by K-IFRS 1028 (i.e., adjustments to the carrying amount of long-term interests arising from the allocation of losses of the investee or assessment of impairment in accordance with K-IFRS 1028). The amendments apply retrospectively to annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted.

- Annual Improvements to K-IFRSs 2015–2017 Cycle

The annual improvements include amendments to four standards, such as K-IFRS 1012, Income Taxes; K-IFRS 1023, Borrowing Costs; K-IFRS 1103, Business Combinations; and K-IFRS 1111, Joint Arrangements.

1. K-IFRS 1012 Income Taxes
   The amendments clarify that an entity should recognize the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized the transactions that generated the distributable profits.

2. K-IFRS 1023 Borrowing Costs
   The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that the specific borrowing becomes part of the funds that an entity borrows generally when calculating the capitalization rate on general borrowings.

3. K-IFRS 1103 Business Combinations
   The amendments to K-IFRS 1103 clarify that when an entity obtains control of a business that is a joint operation, the entity applies the requirements for a business combination achieved in stages, including remeasuring its previously held interest (“PHI”) in the joint operation at fair value. The PHI to be remeasured includes any unrecognized assets, liabilities and goodwill related to the joint operation.

4. K-IFRS 1111 Joint Arrangements
   The amendments to K-IFRS 1111 clarify that when a party that participates in, but does not have joint control of, a joint operation that is a business obtains joint control of such a joint operation, the entity does not remeasure its PHI in the joint operation.

All the amendments are effective for annual periods beginning on or after January 1, 2019 and generally require prospective application. Earlier application is permitted.

- K-IFRS 1019 Employee Benefits Plan Amendment, Curtailment or Settlement (Amendment)

The amendments clarify that the past service cost (or the gain or loss on settlement) is calculated by measuring the defined benefit liability (asset) using updated assumptions and comparing benefits offered and plan assets before and after the plan amendment (or curtailment or settlement), but ignoring the effect of the asset ceiling (that may arise when the defined benefit plan is in a surplus position). K-IFRS 1019 is now clear that the change in the effect of the asset ceiling that may result from the plan amendment (or curtailment or settlement) is determined in a second step and is recognized in the normal manner in other comprehensive income.

The paragraphs that relate to measuring the current service cost and the net interest on the net defined benefit liability (asset) have also been amended. The Company will now be required to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. In the case of the net interest, the amendments make it clear that for the period post plan amendment, the net interest is calculated by multiplying the net defined benefit liability (asset) as remeasured under paragraph 99 with the discount rate used in the remeasurement (also taking into account the effect of contributions and benefit payments on the net defined benefit liability (asset)).

The amendments are applied prospectively. They apply only to plan amendments, curtailments or settlements that occur on or after the beginning of the annual period in which the amendments to K-IFRS 1019 are first applied. The amendments to K-IFRS 1019 must be applied to annual periods beginning on or after January 1, 2019, but they can be applied earlier if an entity elects to do so.

- K-IFRS 1115 Revenue from Contracts with Customers (Amendment)

This amendment relates to prevent the revision of meaning 'contract' referred in K-IFRS 1115 paragraph 129.1 to 'individual contract' in relation to 'additional disclosure of contracts based on contract costs incurred to date', so that even if application of K-IFRS 1115 is adopted, the range of disclosure has not been reduced. In addition, K-IFRS 1115 does not distinguish the types of contracts that the service contracts that did not qualify for the application of K-IFRS 1011 in paragraph 45.1 can be qualified in K-IFRS 1115 paragraph 129.1 and it is to clarify that the range of the contracts subject to make disclosure in accordance with paragraph 129.1 can be expanded compared to the previous standard. This amendment is effective for annual periods beginning on or after January 1, 2019 and earlier application is permitted.

- K-IFRS 2123 Interpretation Uncertainty over Income Tax Treatments (Enactment)

K-IFRS 2123 interpretation sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The interpretation requires an entity to:

1. Determine whether uncertain tax positions are assessed separately or as a Company.
2. Assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings:
   A. If yes, the entity should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings.
   B. If no, the entity should reflect the effect of uncertainty in determining its accounting tax position.

The interpretation is effective for annual periods beginning on or after January 1, 2019. The Company can apply the interpretation with either full retrospective application or modified retrospective application without restatement of comparatives retrospectively or prospectively.

The directors of the Company do not anticipate that the application of the amendments in the future will have an impact on the Company’s consolidated 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.

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

At initial recognition, all recognized financial assets that are within the scope of K-IFRS 1109 are classified as to be amortized cost, FVTOCI and FVTPL on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the 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.

On derecognition of all financial assets, the difference between the total amount of proceeds received and the accumulated other comprehensive income and book value of financial assets is recognized in profit or loss.

If the entirety of financial assets are not eliminated (eg, the Company has the option to repurchase a portion of the transferred asset, or it holds a residual interest and the holding of such residual interest is not considered to have all the risks and rewards of ownership and it holds control of assets), Based on the relative fair value of each part of the financial asset as of the date of transfer, the Company allocates the existing book value of financial assets as part of the continuing involvement that is recognized and no longer recognized.

1) Classification of financial assets

Debt instruments that meet the following conditions are measured subsequently at amortized cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the principal amount outstanding.

Debt instruments that meet the following conditions are measured subsequently at FVTOCI:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the principal amount outstanding.

By default, all other financial assets are measured subsequently at FVTPL.
Despite the foregoing, the Company may make the following irrevocable election/designation at initial recognition of a financial asset:

- the Company may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if certain criteria are met (see (1-3) below); and
- the Company may irrevocably designate a debt investment that meets the amortized cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch (see (1-4) below).

1-1) Amortized cost and 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. For financial assets other than purchased or originated credit-impaired financial assets (i.e., assets that are credit-impaired on initial recognition), 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) excluding ECLs, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including ECLs, to the amortized cost of the debt instrument on initial recognition.

The amortized cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortized cost of a financial asset before adjusting for any loss allowance.

Interest income is recognized using the effective interest method for debt instruments measured subsequently at amortized cost and at FVTOCI. For financial assets other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognized by applying the effective interest rate to the amortized cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognized by applying the effective interest rate to the gross carrying amount of the financial asset.

For purchased or originated credit-impaired financial assets, the Company recognizes interest income by applying the credit-adjusted effective interest rate to the amortized cost of the financial asset from initial recognition. The calculation does not revert to the gross basis even if the credit risk of the financial asset subsequently improves so that the financial asset is no longer credit-impaired.

Interest income is recognized in profit or loss and is included in the "finance income - interest income" line item (see Note 19).

1-2) Debt instruments classified as at FVTOCI

The corporate bonds held by the Company are classified as at FVTOCI. Fair value is determined in the manner described in Note 28. The corporate bonds are initially measured at fair value plus transaction costs. Subsequently, changes in the carrying amount of these corporate bonds as a result of foreign exchange gains and losses, impairment gains or losses, and interest income calculated using the effective interest method are recognized in profit or loss. The amounts that are recognized in profit or loss are the same as the amounts that would have been recognized in profit or loss if these corporate bonds had been measured at amortized cost. All other changes in the carrying amount of these corporate bonds are recognized in other comprehensive income and accumulated under the heading of investments revaluation reserve. When these corporate bonds are derecognized, the cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss.

1-3) Equity instruments designated as at FVTOCI

On initial recognition, the Company may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognized by an acquirer in a business combination.

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Company manages together and has evidence of a recent actual pattern of short-term profit-taking; or
- it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognized in other comprehensive income and accumulated in the investments revaluation reserve. The cumulative gain or loss is not reclassified to profit or loss on disposal of the equity investments; instead, it is transferred to retained earnings.

Dividends on these investments in equity instruments are recognized in profit or loss in accordance with K-IFRS 1109, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the ‘operating income’ line item (Note 4) in profit or loss.

1-4) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortized cost or FVTOCI are measured at FVTPL. Specifically:

- Investments in equity instruments are classified as at FVTPL, unless the Company designates an equity investment that is neither held for trading nor a contingent consideration arising from a business combination as at FVTOCI on initial recognition (see (1-3) above).
- Debt instruments that do not meet the amortized cost criteria or the FVTOCI criteria (see (1-1) and (1-2) above) are classified as at FVTPL. In addition, debt instruments that meet either the amortized cost criteria or the FVTOCI criteria may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency (so called ‘accounting mismatch’) that would arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases. The Company has not designated any debt instruments as at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognized in profit or loss to the extent they are not part of a designated hedging relationship (see hedge accounting policy). The net gain or loss recognized in profit or loss includes any dividend earned on the financial asset and is included in the ‘operating income’ line item (Note 4). Meanwhile, interest income on financial assets at FVTPL is included in 'financial income - other' (Note 19). Fair value is determined in the manner described in Note 26.

2) Foreign exchange gains and losses

The carrying amount of financial assets that are denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. Specifically;

- for financial assets measured at amortized cost that are not part of a designated hedging relationship, exchange differences are recognized in profit or loss in the ‘other gains and losses’ line item (Note 19);
- for debt instruments measured at FVTOCI that are not part of a designated hedging relationship, exchange differences on the amortized cost of the debt instrument are recognized in profit or loss in the ‘other gains and losses’ line item (Note 19). Other exchange differences are recognized in other comprehensive income in the investments revaluation reserve;

- for financial assets measured at FVTPL that are not part of a designated hedging relationship, exchange differences are recognized in profit or loss in the ‘other gains and losses’ line item (Note 19); and
- for equity instruments measured at FVTOCI, exchange differences are recognized in other comprehensive income in the investments revaluation reserve.

3) Impairment of financial assets

The Company recognizes a loss allowance for ECLs on investments in debt instruments that are measured at amortized cost or at FVTOCI, lease receivables, trade receivables and contract assets, as well as on financial guarantee contracts. The amount of ECLs is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Company always recognizes lifetime ECL for trade receivables, contract assets and lease receivables. The ECLs on these financial assets are estimated using a provision matrix based on the Company’s historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Company recognizes lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Company measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Lifetime ECL represents the ECLs that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

3-1) Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Company compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Company considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Company’s debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organizations, as well as consideration of various external sources of actual and forecast economic information that relate to the Company’s core operations.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- an actual or expected significant deterioration in the financial instrument’s external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk for a particular financial instrument, for example, a significant increase in the credit spread, the credit default swap prices for the debtor or the length of time or the extent to which the fair value of a financial asset has been less than its amortized cost;
- an actual or expected significant deterioration in the operating results of the debtor;
- significant increases in credit risk on other financial instruments of the same debtor;
- an actual or expected significant adverse change in the regulatory, economic or technological environment of the debtor that results in a significant decrease in the debtor’s ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Company presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Company has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Company assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if:

(1) The financial instrument has a low risk of default,
(2) The debtor has a strong capacity to meet its contractual cash flow obligations in the near term, and
(3) Adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Company considers a financial asset to have low credit risk when the asset has external credit rating of ‘investment grade’ in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of ‘performing’. Performing means that the counterparty has a strong financial position and there are no past due amounts.

For financial guarantee contracts, the date that the Company becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of assessing the financial instrument for impairment. In assessing whether there has been a significant increase in the credit risk since initial recognition of a financial guarantee contracts, the Company considers the changes in the risk that the specified debtor will default on the contract.

The Company regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

3-2) Definition of default

The Company considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the debtor; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Company, in full (without taking into account any collateral held by the Company).

Irrespective of the above analysis, the Company considers that default has occurred when a financial asset is more than 90 days past due unless the Company has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

3-3) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;
(b) a breach of contract, such as a default or past due event (see (3-2) above);
(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower’s financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
(e) the disappearance of an active market for that financial asset because of financial difficulties.

3-4) Write-off policy

The Company writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are more than two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Company's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognized in profit or loss.

3-5) Measurement and recognition of ECLs

The measurement of ECLs is a function of the probability of default, loss given default (i.e., the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date; for financial guarantee contracts, the exposure includes the amount drawn down as at the reporting date, together with any additional amounts expected to be drawn down in the future by default date determined based on historical trend, the Company's understanding of the specific future financing needs of the debtors and other relevant forward-looking information.

For financial assets, the ECL is estimated as the difference between all contractual cash flows that are due to the Company in accordance with the contract and all the cash flows that the Company expects to receive, discounted at the original effective interest rate. For a lease receivable, the cash flows used for determining the ECLs is consistent with the cash flows used in measuring the lease receivable in accordance with K-IFRS 1017 *Leases*.
For a financial guarantee contract, as the Company is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed, the expected loss allowance is the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the Company expects to receive from the holder, the debtor or any other party.

If the Company has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Company measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which simplified approach was used.

The Company recognizes an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognized in other comprehensive income and accumulated in the investment revaluation reserve, and does not reduce the carrying amount of the financial asset in the separate statements of financial position.

4) 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.

On derecognition of a financial asset measured at amortized cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss. In addition, on derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss. In contrast, on derecognition of an investment in equity instrument that the Company has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained earnings.

(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 at 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 measured at FVTPL or other financial liabilities.

4) Financial liabilities measured at FVTPL
Financial liabilities are classified as Financial liabilities measured 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 it is designated as Financial liabilities measured at FVTPL.

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 loss allowance determined in accordance with K-IFRS 1109 (see financial assets above); and
- the amount recognized initially less, where appropriate, cumulative amortization recognized in accordance with K-IFRS 1115 set out above.

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

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 that 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.
• 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, 2018 and 2017, are as follows:

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

Sectors	Year ended December 31, 2018		Year ended December 31, 2017	
Dividend income	₩	368,202	₩	319,674
Royalty revenue		270,069		278,473
Rent revenue		118,925		116,698
Total	₩	757,196	₩	714,845

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, 2018 and 2017, is ₩490,986 million and ₩451,562 million, respectively.

5 CLASSIFICATION OF FINANCIAL INSTRUMENTS AND FAIR VALUE:

Carrying amount and fair value of financial assets and liabilities as of December 31, 2018 and 2017, are as follows (Unit: Korean won in millions):

1) Financial assets

Financial assets	Account	December 31, 2018				December 31, 2017			
		Carrying amount		Fair value		Carrying amount		Fair value	
Cash and cash equivalents	Cash and cash equivalents	₩	132,903	₩	132,903	₩	357,788	₩	357,788
Financial assets measured at FVTPL (*1)	Investment(*2)		1,000		1,000		1,000		1,000
	Subtotal		1,000		1,000		1,000		1,000
Financial assets measured at FVTOCI	Marketable equity Securities (*3)		33,818		33,818		44,930		44,930
	Unmarketable equity securities (*3)		62,516		62,516		58,319		58,319
	Subtotal		96,334		96,334		103,249		103,249
Financial liabilities measured at amortized cost	Financial institution deposits		250,500		250,500		300,500		300,500
	Other accounts receivable		8,620		8,620		26,890		26,890
	Accrued income		1,110		1,110		1,979		1,979
	Deposits		499		499		499		499
	Subtotal		260,729		260,729		329,868		329,868
	Total	₩	490,966	₩	490,966	₩	791,905	₩	791,905

(*1) In accordance with K-IFRS 1109, AFS financial assets were classified as at Financial assets measured at FVTPL and financial assets measured at FVTOCI.
(*2) It was classified as Unmarketable equity securities of AFS financial assets as of and for the year ended December 31, 2017, but was classified as financial assets measured at FVTPL under K-IFRS 1109.
(*3) Among AFS financial assets as of and for the year ended December 31, 2017, Marketable equity securities and Unmarketable equity securities were designated as Financial assets measured at FVTOCI by applying the irrevocable election at the date of initial application.

2) Financial liabilities

Financial liabilities	Account	December 31, 2018		December 31, 2017	
		Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities measured at amortized cost	Other accounts payables	₩ 44,147	₩ 44,147	₩ 39,560	₩ 39,560
	Accrued expenses	2,605	2,605	2,946	2,946
	Accrued dividends	341	341	328	328
	Deposits received	76,234	76,234	75,034	75,034
	Total	₩ 123,327	₩ 123,327	₩ 117,868	₩ 117,868

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, 2018 and 2017, are as follows (Unit: Korean won in millions):

Description	December 31, 2018	December 31, 2017
Cash on hand	₩ 10	₩ 8
Bank deposits	50,005	263,614
Other cash equivalents	82,888	94,166
Total	₩ 132,903	₩ 357,788

7 ACCOUNTS RECEIVABLE AND OTHER RECEIVABLES:

As of December 31, 2018 and 2017, account receivables and other receivables are not impaired or overdue. Details are as follows (Unit: Korean won in millions):

Description	December 31, 2018		December 31, 2017	
	Current	Non-current	Current	Non-current
Account receivables	₩ 8,620	₩ -	₩ 26,890	₩ -
Accrued income	1,110	-	1,979	-
Deposits	-	499	-	499
Total	₩ 9,730	₩ 499	₩ 28,869	₩ 499

8 OTHER ASSETS:

Details of other assets as of December 31, 2018 and 2017, are as follows (Unit: Korean won in millions):

Description	December 31, 2018		December 31, 2017	
	Current	Non-current	Current	Non-current
Advanced payments	₩ -	₩ 3,081	₩ -	₩ 2,719
Prepaid expenses	4,485	-	3,781	-
Total	₩ 4,485	₩ 3,081	₩ 3,781	₩ 2,719

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, 2018 and 2017, are as follows (Unit: Korean won in millions):

	Year ended December 31, 2018										
	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	₩ 6,666	₩19,686	₩ 434	₩13,690	₩ 8,080	₩ 2,010	₩381,152	₩ 536,909	₩ 8,727	₩ -	₩ 977,354
Acquisition	-	-	-	21	603	529	-	1,384	590	-	3,127
Disposals	-	-	-	(434)	-	-	-	-	-	-	(434)
Transfers in	217	1,217	27	2,539	-	-	-	-	-	-	4,000
Transfers out	-	-	-	-	-	(2,539)	(217)	(1,217)	(27)	-	(4,000)
Ending balance	₩ 6,883	₩20,903	₩ 461	₩15,816	₩ 8,683	₩ -	₩380,935	₩ 537,076	₩ 9,290	₩ -	₩ 980,047

	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

(2) Changes in accumulated depreciation for the years ended December 31, 2018 and 2017, are as follows (Unit: Korean won in millions):

	Year ended December 31, 2018						
	Property, plant and equipment				Investment property		
Description	Buildings	Structures	Vehicles	Furniture and fixtures	Buildings	Structures	Total
Beginning balance	₩ 6,461	₩ 221	₩ 2,205	₩ 4,565	₩ 134,126	₩ 3,753	₩ 151,331
Disposals	-	-	(257)	-	-	-	(257)
Transfers in	360	14	-	-	-	-	374
Transfers out	-	-	-	-	(360)	(14)	(374)
Depreciation	630	17	1,372	852	16,560	333	19,764
Ending balance	₩ 7,451	₩ 252	₩ 3,320	₩ 5,417	₩ 150,326	₩ 4,072	₩ 170,838

	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

(3) Details of valuation with fair value of investment property as of December 31, 2018, 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	₩ 405,139	₩ 789,923
Result of valuation:				
Twin tower (*2)	2018-02-13	581,400	318,600	900,000
Gasandong building	2018-02-13	78,889	92,608	171,497
Gwanghwamun building	2018-02-13	216,070	93,930	310,000
Buho building	2018-02-13	18,174	14	18,188
Seoul-station building(*3)	2016-09-30	136,793	73,941	210,734
Total		₩ 1,031,326	₩ 579,093	₩ 1,610,419

(*1) It includes the valuation amounts related to its own use (carrying value: ₩17,020 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 ₩118,925 million.

10 INTANGIBLE ASSETS:

(1) Composition of the Company's intangible assets as of December 31, 2018 and 2017, is as follows (Unit: Korean won in millions):

	December 31, 2018			December 31, 2017		
Description	Intellectual property rights	Membership	Other	Intellectual property rights	Membership	Other
Acquisition cost	₩ 16,776	₩ 9,582	₩ 7,012	₩ 15,795	₩ 9,058	₩ 6,610
Accumulated depreciation	(10,555)	-	(5,021)	(9,477)	-	(4,239)
Accumulated impairment	-	(666)	-	-	(666)	-
Carrying amounts	₩ 6,221	₩ 8,916	₩ 1,991	₩ 6,318	₩ 8,392	₩ 2,371

(2) Changes in intangible assets for the years ended December 31, 2018 and 2017, are as follows (Unit: Korean won in millions)

	Year ended December 31, 2018			
Description	Intellectual property rights	Membership	Other	Total
Beginning balance	₩ 6,318	₩ 8,392	₩ 2,371	₩ 17,081
Acquisition	-	524	402	926
Transfers in (out)	982	-	-	982
Amortization	(1,079)	-	(782)	(1,861)
Ending balance	₩ 6,221	₩ 8,916	₩ 1,991	₩ 17,128

	Year ended December 31, 2017			
Description	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

11 INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES:

(1) Composition of the Company's investments in subsidiaries as of December 31, 2018 and 2017, is as follows (Unit: Korean won in millions):

	December 31, 2018						
Companies	Location of incorporation	Major operation	Closing date	Percentage of ownership (%)	Percentage of ownership (common stock) (%)	Book value	
LG CNS Co., Ltd.	South Korea	Services	12-31	84.95	84.95	₩	330,533
S&I Corporation Co., Ltd.(*1)	South Korea	Renting	12-31	100.00	100.00		250,054
Lusem Co., Ltd. (*2)	South Korea	Manufacturing	12-31	-	-		-
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		163,925
		Total				₩	1,058,892

	December 31, 2017						
Companies	Location of incorporation	Major operation	Closing date	Percentage of ownership (%)	Percentage of ownership (common stock) (%)	Book value	
LG CNS Co., Ltd.	South Korea	Services	12-31	84.95	84.95	₩	330,533
S&I Corporation Co., Ltd.(*1)	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

(*1) S&I Corporation (formerly Serveone Co., Ltd) conducted physical division which was to divide Serwon Co., Ltd. during the current period and changed its Name.
(*2) It was classified as held for sale during the previous period. The sale was completed during the current period.
(*3) Newly established during the prior period. They participated in additional capital increase with consideration

(2) Composition of the Company's investments in associates and joint ventures as of December 31, 2018 and 2017, is as follows (Unit: Korean won in millions):

	December 31, 2018					
Companies	Location of incorporation	Major operation	Closing date	Percentage of ownership (%)	Percentage of ownership (common stock) (%)	Book value
LG Electronics Inc.	South Korea	Manufacturing	12-31	30.47	33.67	₩ 2,804,603
LG Chem Ltd.	South Korea	Manufacturing	12-31	30.06	33.34	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 Uplus Corp.	South Korea	Telecommunications	12-31	36.05	36.05	1,162,048
GIIR Corporation	South Korea	Hoardings	12-31	35.00	35.00	39,496
LG Hitachi Co., Ltd.	South Korea	Services	12-31	49.00	49.00	14,023
LG MMA Corp. (*1)	South Korea	Manufacturing	12-31	50.00	50.00	115,350
LG Fuel Cell System Inc. (*2)	America	Research and experimental development	12-31	15.56	15.56	-
Slicon Works Co., Ltd.	South Korea	Manufacturing	12-31	33.08	33.08	145,004
LG international Co., Ltd.	South Korea	Commodities brokerage	12-31	24.69	24.69	296,741
ZKW Holding GmbH (*3)	Austria	Manufacturing	12-31	30.00	30.00	404,713
MGIV GmbH (*3)	Austria	Manufacturing	12-31	30.00	30.00	15,289
		Total				₩ 6,943,881

	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.	South Korea	Manufacturing	12-31	30.06	33.34	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 Uplus Corp.	South Korea	Telecommunications	12-31	36.05	36.05	1,162,048
GIIR Corporation	South Korea	Hoardings	12-31	35.00	35.00	39,496
LG Hitachi Co., Ltd.	South Korea	Services	12-31	49.00	49.00	14,023
LG MMA Corp. (*1)	South Korea	Manufacturing	12-31	50.00	50.00	115,350
LG Fuel Cell System Inc. (*2)	America	Research and experimental development	12-31	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.	South Korea	Commodities brokerage	12-31	24.69	24.69	296,741
		Total				₩ 6,559,405

(*1) It is a joint venture.

(*2) Notwithstanding that the ownership is less than 20%, it has been classified as associate since the Company has authority to appoint director, etc. On the other hand, the book value is reflected as impairment loss during the current period.

(*3) 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, 2018 and 2017, 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, 2018		December 31, 2017	
Present value of defined benefit obligation	₩	33,834	₩	51,275
Fair value of plan assets		(29,986)		(39,041)
Net defined benefit liability	₩	3,848	₩	12,234

(2) Changes in defined benefit obligation for the years ended December 31, 2018 and 2017, are as follows (Unit: Korean won in millions):

Description	Year ended December 31, 2018		Year ended December 31, 2017	
Beginning balance	₩	51,275	₩	52,416
Current service cost		3,557		3,921
Interest cost		1,302		1,123
Remeasurement on the net defined benefit liability		1,402		(1,323)
Benefits paid		(21,607)		(1,065)
Other		(2,095)		(3,797)
Ending balance	₩	33,834	₩	51,275

(3) Income and loss related to defined benefit plan for the years ended December 31, 2018 and 2017, are as follows (Unit: Korean won in millions):

Description	Year ended December 31, 2018		Year ended December 31, 2017	
Service cost	₩	3,557	₩	3,921
Current service cost		3,557		3,921
Net interest on the net defined benefit Liability (asset)		324		321
Interest cost on defined benefit obligation		1,302		1,123
Comprising interest on plan assets		(978)		(802)
Operational management fee on plan assets		81		78
Total	₩	3,962	₩	4,320

(4) Changes in plan asset for the years ended December 31, 2018 and 2017, are as follows (Unit: Korean won in millions):

Description	Year ended December 31, 2018	Year ended December 31, 2017
Beginning balance	₩ 39,041	₩ 38,018
Comprising interest on plan assets	978	802
Remeasurement-return on plan assets	(384)	(136)
Benefits paid	(16,068)	(1,065)
Contributions from the employer	6,500	1,500
Operational management fee on plan assets	(81)	(78)
Ending balance	₩ 29,986	₩ 39,041

(5) All of the plan assets are mainly invested in financial instruments that guarantee principal and interest rate as of December 31, 2018 and 2017.

(6) Actuarial assumptions used as of December 31, 2018 and 2017, are as follows:

Description	December 31, 2018	December 31, 2017
Discount rate (%)	2.34	2.65
Expected rate of salary increase (%)	5.67	6.00

(7) The sensitivity analysis of the defined benefit obligation as of December 31, 2018 and 2017, are as follows (Unit: Korean won in millions):

	Year ended December 31, 2018		
Description	Center scenario	+ 1%	- 1%
Change in discount rate	₩ 33,834	₩ 32,074	₩ 35,814
Change in rate of salary increase	33,834	35,737	32,104

(*)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, 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.

(8) Remeasurement related to net defined benefit liability for the years ended December 31, 2018 and 2017, are as follows (Unit: Korean won in millions):

Description	Year ended December 31, 2018	Year ended December 31, 2017
Actuarial gains arising from changes in demographic assumptions	₩ 85	₩ 469
Actuarial gains (losses) arising from changes in financial assumptions	(2)	(4,301)
Actuarial gains arising from experience	1,805	3,613
Return on plan assets, excluding amounts included in interest income	384	136
Actuarial gains (losses) arising from transfer in/out adjustment	(486)	(1,104)
Total	₩ 1,786	₩ (1,187)

Meanwhile, the Company deducted ₩(432) 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):

	2019
Estimated contributions to plan assets	₩ 120

13. <u>OTHER LIABILITIES:</u>

Other liabilities as of December 31, 2018 and 2017, are as follows (Unit: Korean won in millions):

Description	December 31, 2018		December 31, 2017	
	Current	Non-current	Current	Non-current
Advances from lease	₩ -	₩ 5,218	₩ -	₩ 5,551
VAT withheld	6,703	-	6,049	-
Withholdings	492	-	8,024	-
Total	₩ 7,195	₩ 5,218	₩ 14,073	₩ 5,551

14. <u>ISSUED CAPITAL:</u>

Details of issued capital as of December 31, 2018, 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	80,329,246	₩ 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, 2018 and 2017, 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, 2018 and 2017, is as follows (Unit: Korean won in millions):

Description	December 31, 2018		December 31, 2017	
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, 2018 and 2017, is as follows (Unit: Korean won in millions):

Description	December 31, 2018		December 31, 2017	
Gain on valuation of AFS financial assets	₩	35,857	₩	41,099

17. RETAINED EARNINGS:

(1) Composition of retained earnings as of December 31, 2018 and 2017, is as follows (Unit: Korean won in millions):

Description	December 31, 2018		December 31, 2017	
Retained earnings restricted to appropriation (*)	₩	302,147	₩	279,280
Retained earnings subject to appropriation		5,474,761		5,174,987
Total	₩	5,776,908	₩	5,454,267

(*) 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, 2018 and 2017, are as follows (Unit: Korean won in millions):

Description	Year ended December 31, 2018		Year ended December 31, 2017	
Beginning balance	₩	5,454,267	₩	4,729,281
Profit for the year		552,662		952,754
Dividends		(228,668)		(228,668)
Remeasurement on the net defined benefit liability		(1,353)		900
Ending balance	₩	5,776,908	₩	5,454,267

(3) Separate statements of appropriation of retained earnings for the years ended December 31, 2018 and 2017, are as follows (Unit: Korean won in millions):

	Korean won	
	Year ended December 31, 2018	Year ended December 31, 2017
UNAPPROPRIATED RETAINED EARNINGS:		
Unappropriated retained earnings carried over from prior year	₩ -	₩ -
Profit for the year	552,662	952,754
Actuarial gains and losses on defined benefit plans	(1,353)	900
	551,309	953,654
APPROPRIATION:		
Legal reserve	35,171	22,866
Dividends	351,708	228,668
Other reserve	164,430	702,120
	551,309	953,654
UNAPPROPRIATED RETAINED EARNINGS CARRIED FORWARD TO SUBSEQUENT YEAR	₩ -	₩ -

(4) The amount of dividends and dividends per share for the years ended December 31, 2018 and 2017, is as follows (Unit: Korean won in millions):

	December 31, 2018				
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, 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

18. OPERATING INCOME:

Operating income for the years ended December 31, 2018 and 2017, is as follows (Unit: Korean won in millions):

	Year ended December 31, 2018		Year ended December 31, 2017	
Operating income:				
Dividends income	₩	368,202	₩	319,674
Royalties revenue		270,069		278,473
Rental revenue		118,925		116,698
		757,196		714,845
Operating expenses:				
Employee benefit:				
Salaries and wages		31,905		35,995
Severance benefits		3,893		4,242
Welfare		6,240		3,123
		42,038		43,360
Depreciation:		19,762		19,992
Other operating expenses:				
Amortization of intangible assets		1,861		1,806
Taxes and dues		5,786		5,390
Advertising expenses		72,140		83,751
Training expenses		982		956
Commission		53,433		46,781
Insurance premium		727		330
Operating lease expense		659		682
Other selling and administrative expenses		13,506		15,797
		149,094		155,493
Net operating income	₩	546,302	₩	496,000

19. FINANCIAL INCOME AND FINANCIAL EXPENSES:

(1) Financial income consists of interest income. The details for the years ended December 31, 2018 and 2017, are as follows (Unit: Korean won in millions):

Description	Year ended December 31, 2018		Year ended December 31, 2017	
Interest income	₩	9,965	₩	8,383
Gain on financial warranty		168		5
Gain on foreign currency transaction and translation		1,534		985
Total	₩	11,667	₩	9,373

(2) Financial expenses for the years ended December 31, 2018 and 2017, are as follows (Unit: Korean won in millions):

Description	Year ended December 31, 2018		Year ended December 31, 2017	
Interest expense	₩	333	₩	311
Loss on foreign currency transaction and translation		916		3,309
Total	₩	1,249	₩	3,620

(3) Net gain (loss) from financial instruments for the years ended December 31, 2018 and 2017, is as follows (Unit: Korean won in millions):

Description	Year ended December 31, 2018		Year ended December 31, 2017	
Financial assets:				
Other financial assets (*1)	₩	(3,823)	₩	22,755
Financial assets measured at amortized cost (*2)		10,583		6,556
Subtotal		6,760		29,311
Financial liabilities:				
Financial liabilities measured at amortized cost		(333)		(809)
Subtotal		(333)		(809)
Total	₩	6,427	₩	28,502

(*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, 2018 and 2017, is as follows (Unit: Korean won in millions):

Description	Year ended December 31, 2018		Year ended December 31, 2017	
Current income tax payable	₩	86,951	₩	181,228
Adjustment for prior corporate taxes		852		-
Changes in deferred tax assets:		(86,505)		(14,923)
Beginning deferred tax assets due to temporary differences		(146,348)		(159,065)
Beginning deferred assets as held for sale due to temporary differences		(5,415)		(710)
Ending deferred tax assets due to temporary differences		(63,152)		(146,348)
Ending assets held for sale due to temporary differences		-		(5,415)
Deferred taxes directly reflected in equity		2,106		(6,911)
Income tax expense	₩	1,298	₩	166,305

(2) A reconciliation between accounting income before income tax and income tax expense of the Company for the years ended December 31, 2018 and 2017, is as follows (Unit: Korean won in millions):

Description	Year ended December 31, 2018		Year ended December 31, 2017	
Income before income tax expense	₩	553,960	₩	1,119,059
Tax expense calculated on book income		129,068		270,350
Adjustments:		(127,770)		(104,045)
Non-taxable income		(73,005)		(113,269)
Non-deductible expenses		12,402		4,022
Adjustment for prior corporate taxes		852		-
Others (differences due to the tax rates, etc.)		(68,019)		5,202
Income tax expense	₩	1,298	₩	166,305

(3) Income tax directly reflected in equity for the years ended December 31, 2018 and 2017, is as follows (Unit: Korean won in millions):

Description	Year ended December 31, 2018	Year ended December 31, 2017
Revaluation of Other financial assets	₩ 1,674	₩ (6,624)
Remeasurement of defined benefit obligation	432	(287)
Total deferred tax directly reflected in equity	₩ 2,106	₩ (6,911)

(4) Changes in deferred tax assets (liabilities) for the years ended December 31, 2018 and 2017, are as follows (Unit: Korean won in millions):

	Year ended December 31, 2018				
Description	Beginning balance	Reflected in income (loss)	Reflected in equity	Replaced	Ending balance
Temporary differences:					
Investments in subsidiaries and associates	₩ (143,433)	₩ 87,715	₩ -	₩ (5,415)	₩ (61,133)
Property, plant and equipment	13,762	1,312	-	-	15,074
Intangible assets	179	(10)	-	-	169
Other financial assets	(8,085)	-	1,674	-	(6,411)
Provisions	1,446	(925)	432	-	953
Other financial liabilities	3,727	(1,089)	-	-	2,638
Others	(13,944)	(498)	-	-	(14,442)
Deferred tax assets (liabilities)	₩ (146,348)	₩ 86,505	₩ 2,106	₩ (5,415)	₩ (63,152)

	Year ended December 31, 2017				
Description	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
Other 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)

(5) There are no deferred tax liabilities related to assets held for sale as of December 31, 2018.

(6) As of December 31, 2018, 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, 2018
Investments in subsidiaries	₩ (406,045)
Investments in associates and joint ventures	1,406,412
Total	₩ 1,000,367

21. EARNINGS PER SHARE:

(1) Net income per share for the years ended December 31, 2018 and 2017, is as follows:

	Year ended December 31, 2018		Year ended December 31, 2017	
Basic earnings per share of common share	₩	3,143	₩	5,419
Basic earnings per share of Pre-1996 Commercial Law Amendment preferred share (*)		3,193		5,469

(*) 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, 2018 and 2017, are as follows (Unit: Korean won in millions):

Description	Year ended December 31, 2018		Year ended December 31, 2017	
Profit for the year attributable to owners of the Company	₩	552,662	₩	952,754
Less dividends for Pre-1996 Commercial Law Amendment preferred share and preferred stock portion of residual profit		(10,563)		(18,092)
Net income used to calculate basic earnings per share of common share	₩	542,099	₩	934,662
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, 2018 and 2017, are as follows (Unit: Korean won in millions):

Description	Year ended December 31, 2018		Year ended December 31, 2017	
Dividends for preferred share and preferred stock portion of residual profit	₩	10,563	₩	18,092
Net income used to calculate basic earnings per share of preferred share		10,563		18,092
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, 2018 and 2017, are as follows:

December 31, 2018

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.	Korea Elecom Co., Ltd	LG CNS China, Inc. and 15 others	Korea Smart Card Co., Ltd.
	Haengbokmaru Co., Ltd.		Korea Smart Card CS Partners Co., Ltd.
	Biztechpartners Co., Ltd.		T-money Asia sdn bhd (T MONEY MALAYSIA SDN BHD)
	Sejong Green Power Co.,Ltd(*2)		Songdo U-Life LLC.
			U Life Solutions
			Songdo International Sports Club LLC.
			Recaudo Bogota S.A.S.
			Hellas SmarTicket Societe Anonyme
			Ulaanbaatar Smart card Co,LLC
			Ulleungdo Natural Energy Independent Island Co.,Ltd
			Daegu clean energy Co., Ltd.
			SMDep Co., Ltd. (*3)
			Mangilao Holdings LLC
			Mangilao Investment LLC
			Mangilao Solar LLC
S&I Corporation Co., Ltd.(*4)	Serveone Co., Ltd.	Serveone (Nanjing) Co., Ltd. and 3 Others	Dongnam Solar Energy Co., Ltd.
	Konjiam Yewon Co., Ltd.	S&I Corporation Vietnam Co., Ltd	
	Mirae M		
	Dream nuri		
LG Management Development Institute			
LG Sports Ltd.			
LG Holdings Japan Co., Ltd.			Combustion Synthesis Co., LTD.
LG Corp. U.S.A.			
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.		
	Ugimagkorea Co., Ltd.		
LG Hausys, Ltd.	Greennuri Co. Ltd.(*5)	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.		

December 31, 2018			
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 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.		
	FMG Co., Ltd. (*6)		
	OBM rap Co., Ltd		
	LG Farouk Co.		
	Ulleung Mountain Chu Spring Water Development Company		
	TAI GUK PHARM Co., Ltd. (*7)		
	JS Pharmaceutical Co., Ltd. (*7)		
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.	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.		
	Hanultari Co., Ltd. (*5)		
ZKW Holding GmbH (*8)		ZKW Group GmbH and others	
MGIV GmbH(*8)		Mommert Immobilien GmbH	
Joint ventures:			
LG MMA Corp.			
Other related parties' affiliates by the Act (*10)			
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 Genstory Co., Ltd.)			
Clean Soul Ltd.			
DACOM Crossing Corporation			
Robostar Co., Ltd. (*9)	Robomedi Co., Ltd. (*9)		

(*1) Joint ventures of associates are excluded.
(*2) Due to the obligation to purchase shares by agreement during the current period, it was transferred from Associate to Subsidiary
(*3) Subsidiary of Korea Smart Card Co., Ltd.
(*4) S&I Corporation (formerly Serveone Co., Ltd) conducted physical division which divides Serwon Co., Ltd. during the current period and changed its Name.
(*5) Newly established during the current period.
(*6) The Company name is changed from Zenisce Co., Ltd. to FMG Co., Ltd.
(*7) With stock acquisition during the current period, it has been classified as subsidiary of LG Household & Health Care Ltd..
(*8) With stock acquisition during the current period, it has been classified as associates.

(*9) With stock acquisition during the current period, it has been classified as associates of LG Electronics Inc..

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

December 31, 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 (formerly TMONEY 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.		
	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.		

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
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 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 the previous 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, it was also excluded from the large business group.
(*7) With stock acquisition during the previous period, it has been classified as associates.

(2) Major transactions with the related parties for the years ended December 31, 2018 and 2017, are as follows: (Unit: Korean won in millions):

	December 31, 2018		
	Revenue and others	Acquisition of property, plant and equipment	Other purchase
Subsidiaries:			
LG CNS Co., Ltd.	₩ 29,035	₩ 552	₩ 2,989
LG N-Sys Inc. (*2)	134	-	-
Biztechpartners Co., Ltd. (*3)	-	-	47
LG Siltron Inc. (*4)	-	-	-
S&I Corporation Co., Ltd.	12,638	1,689	37,998
Serveone Co., Ltd. (*5)	-	-	16
Lusem Co., Ltd. (*6)	-	-	-
LG Sports Ltd.	172	-	5,030
LG Management Development Institute	4,510	-	9,154
LG Holdings Japan Co., Ltd.	138	-	-
LG Corp. U.S.A	47	-	-
Associates and subsidiaries:			
LG Electronics Inc. (*1)	185,691	590	1,654
LG Chem Ltd. (*1)	211,174	-	10
LG Hausys, Ltd. (*1)	12,056	-	-
LG Household & Health Care Ltd. (*1)	64,188	-	-
LG Uplus Corp. (*1)	94,121	-	136
GIIR Corporation (*1)	2,712	-	17,982
Slicon Works Co., Ltd.	3,766	-	-
LG Hitachi Co., Ltd.	92	-	-
LG Fuel Cell Systems Inc.	-	-	-
LG International Corp. (*1)	9,838	-	5
Joint ventures:			
LG MMA Corp	53,753	-	-
Other related parties' Affiliates by the Act: (*7)			
LG display Co., Ltd and others	54,458	-	-
Total	₩ 738,523	₩ 2,831	₩ 75,021

	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. (*2)	973	-	101
Biztechpartners Co., Ltd. (*3)	-	-	47
LG Siltron Inc. (*4)	1,134	-	-
S&I Corporation Co., Ltd.	26,006	12,703	39,049
Serveone Co., Ltd. (*5)	-	-	-
Lusem Co., Ltd. (*6)	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. (*1)	174,017	-	11
LG Hausys, Ltd. (*1)	11,999	-	-
LG Household & Health Care Ltd. (*1)	56,552	-	-
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.	929	-	-
LG International Corp. (*1)	2,926	-	22
Joint ventures:			
LG MMA Corp	23,047	-	-
Other related parties' Affiliates by the Act: (*7)			
LG display Co., Ltd and others	60,820	-	-
Total	₩ 697,756	₩ 13,364	₩ 83,243

(*1) It includes transactions with an associates' subsidiary.
(*2) Merged with LG CNS Co., Ltd. on April 1, 2018
(*3) BNE Partners, Inc. (surviving corporation) merged with Biztechpartners Co., Ltd., and changed its name to Biztechpartners Co., Ltd
(*4) It was sold to SK Corp on August 17, 2017.
(*5) It was established by dividing the MRO division of S&I Corporation Co., Ltd. in the current period. The details of transactions for the current period are the transactions since the division.
(*6) It was classified as held for sale during the previous period and the sale was completed on February 27, 2018.
(*7) 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, 2018 and 2017, are as follows (Unit: Korean won in millions):

	December 31, 2018		
	Accounts receivable and others	Loans	Account payables and others
Subsidiaries:			
LG CNS Co., Ltd.	₩ 422	₩ -	₩ 5,178
LG N-Sys Inc. (*2)	-	-	-
S&I Corporation Co., Ltd.	3,787	-	2,790
Serveone Co., Ltd. (*3)	-	-	5,397
LG Sports Ltd.	2	-	550
LG Management Development Institute	12	-	4,531
LG Holdings Japan Co., Ltd.	126	-	-
LG Corp. U.S.A	47	-	-
Associates and subsidiaries:			
LG Electronics Inc. (*1)	742	-	29,440
LG Chem Ltd. (*1)	5,102	-	11,286
LG Hausys, Ltd. (*1)	133	-	39
LG Household & Health Care Ltd. (*1)	1,038	-	4,261
LG Uplus Corp	-	-	18
GIIR Corporation (*1)	494	-	19,094
LG Hitachi Co., Ltd.	8	-	-
LG International Corp. (*1)	-	-	4,696
Joint ventures:			
LG MMA Corp.	267	-	631
Other related parties' Affiliates by the Act: (*4)			
LG display Co., Ltd and others	1	-	11,246
Total	₩ 12,181	₩ -	₩ 99,157

	December 31, 2017					
	Accounts receivable and others		Loans		Account payables and others	
Subsidiaries:						
LG CNS Co., Ltd.	₩	580	₩	-	₩	5,519
LG N-Sys Inc. (*2)		-		-		400
S&I Corporation Co., Ltd.		3,790		-		6,405
Serveone Co., Ltd. (*3)		-		-		-
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. (*1)		7,897		-		9,183
LG Hausys, Ltd. (*1)		572		-		39
LG Household & Health Care Ltd. (*1)		357		-		5,347
LG Uplus Corp		1,558		-		5,393
GIIR Corporation (*1)		493		-		17,016
LG Hitachi Co., Ltd.		-		-		7
LG International Corp. (*1)		-		-		907
Joint ventures:						
LG MMA Corp.		345		-		578
Other related parties' Affiliates by the Act: (*4)						
LG display Co., Ltd and others		1,538		-		4,724
Total	₩	30,357	₩	-	₩	89,027

(*1) It includes transactions with an associates' subsidiary.
(*2) Merged with LG CNS Co., Ltd. on April 1, 2018
(*3) It was established by dividing the MRO division of S&I Corporation Co., Ltd. in the current period. The details of transactions for the current period are the transactions since the division.
(*4) 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, 2018 and 2017, are as follows (Unit: Korean won in millions):

Description	Year ended December 31, 2018					
	Payment in cash (reduction of capital)	Sale of portion	Loan		Borrowings	
			Loan	Payback	Borrowings	Repayment
Subsidiaries:						
LG Corp. U.S.A	₩ 50,285	₩ -	₩ -	₩ -	₩ -	₩ -
Associates:						
LG Fuel Cell Systems Inc.	3,338	-	-	-	-	-
Total	₩ 53,623	₩ -	₩ -	₩ -	₩ -	₩ -

Description	Year ended December 31, 2017					
	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	₩ -	₩ -

(5) The Company provided guarantees and guarantees for the related parties for the years ended December 31, 2018, are as follows (Unit: USD, JPY, Korean won in millions):

Company Provided	Amount of mortgage			Collateral offered	Usage history of provided company		
	USD	JPY	KRW (*)		USD	JPY	KRW (*)
LG Holdings Japan Co., Ltd.	-	20,000,000,000	202,636	Borrowing limited guarantee	JPY 4,000,000,000	SMBC	2017-12-15
LG Corp. U.S.A	100,000,000	-	111,810	Borrowing limited guarantee	USD 30,000,000	SC Bank	2018-05-15

(*)The amount of foreign currency guarantees provided is the amount converted at the exchange rate of December 31, 2018.

(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, 2018 and 2017, are as follows (Unit: Korean won in millions):

Description	Year ended December 31, 2018	Year ended December 31, 2017
Short-term employee benefits	₩ 18,566	₩ 23,081
Severance benefits	3,881	3,041
Total	₩ 22,447	₩ 26,122

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, 2018 and 2017, are as follows (Unit: Korean won in millions):

Account	December 31, 2018	December 31, 2017	Detail
Financial institution deposits	₩ 500	₩ 500	Chungcheongbuk-do Province creative financial fund
Long-term deposits	5	5	Deposit for the checking accounts
Total	₩ 505	₩ 505	

(3) Details of pledging as of December 31, 2018, 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, 2018 and 2017, is as follows (Unit: Korean won in millions):

	December 31, 2018		
Contents	Less than one year	one year–five years	Total
Vehicles	₩ 487	₩ 469	₩ 956
Furniture and fixtures	81	-	81
Total	₩ 568	₩ 469	₩ 1,037

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

2) The Company recognized rental expenses related to operating lease contracts for the years ended December 31, 2018 and 2017, in the amount of ₩659 million and ₩682 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, 2018 and 2017, as follows (Unit: Korean won in millions):

	December 31, 2018			
Contract	Less than one year	1 year–5 years	More than five years	Total
Building lease contract (Twin)	₩ 60,974	₩ -	₩ -	₩ 60,974
Building lease contract (Gasan)	16,990	67,847	91,286	176,123
Building lease contract (Gwanghwamun)	23,198	195	-	23,393
Building lease contract (Buho)	748	-	-	748
Building lease contract (Seoul station)	14,272	2,354	-	16,626
Total	₩ 116,182	₩ 70,396	₩ 91,286	₩ 277,864

	December 31, 2017			
Contract	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

2) The Company recognized rental revenue related to operating lease contracts for the years ended December 31, 2018 and 2017, in the amount of ₩118,925 million and ₩116,698 million, respectively.

25. PENDING LITIGATIONS:

Pending litigations as of December 31, 2018, are one case where the Company sued and one case where the Company is sued (including trademark infringement and damages-related litigation).

26. <u>RISK MANAGEMENT:</u>

(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, 2018 and 2017, are as follows (Unit: Korean won in millions):

	December 31, 2018	December 31, 2017
Total borrowings	₩ -	₩ -
Less cash and cash equivalents	132,903	357,788
Borrowings, net	(132,903)	(357,788)
Total equity	9,098,741	8,781,342
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 equity instruments. As of December 31, 2018, fair value of equity instruments is ₩33,818 million, and when all the other variables are constant and when the price of equity instrument changes by 10%, the effect after tax to equity will be ₩2,563 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, 2018, 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 ₩314,446 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, 2018, is as follows (Unit: Korean won in millions):

Description	Within a year	1 year–5 years	Over five years	Total
Non-interest financial instrument	₩ 112,297	₩ 4,593	₩ 11,655	₩ 128,545
Financial Guarantee (*)	₩ 314,446	-	-	₩ 314,446

(*) The maximum amount of payment guarantees (USD 100,000,000 and 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	₩ 874	₩ -
JPY	126	-
Total	₩ 1,000	₩ -

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	₩ 66	₩ (66)
JPY	10	(10)
Total	₩ 76	₩ (76)

(3) Estimation of fair value

The fair values of financial instruments (i.e., financial assets held for trading and Other financial assets) 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, 2018 and 2017, are as follows (Unit: Korean won in millions):

Description	December 31, 2018			
	Level 1	Level 2	Level 3	Total
Financial assets measured at FVTOCI				
Marketable equity securities	₩ 33,819	₩ -	₩ -	₩ 33,819
Unmarketable equity securities	-	-	62,516	62,516
Total	₩ 33,819	₩ -	₩ 62,516	₩ 96,335

Description	December 31, 2017			
	Level 1	Level 2	Level 3	Total
Financial assets measured at FVTOCI				
Marketable equity securities	₩ 44,930	₩ -	₩ -	₩ 44,930
Unmarketable equity securities	-	-	58,176	58,176
Total	₩ 44,930	₩ -	₩ 58,176	₩ 103,106

There were no significant transfers between Levels 1 and 2 as of December 31, 2018 and 2017.

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, 2018 and 2017, is as follows (Unit: Korean won in millions):

	December 31, 2018				
	Fair value				Book value
Description	Level 1	Level 2	Level 3	Total	
Loans and receivables:					
Financial institution deposits	₩ -	₩ -	₩ 250,500	₩ 250,500	₩ 250,500
Loans (*)	-	-	-	-	-
Other accounts receivables (*)	-	-	8,620	8,620	8,620
Accrued income (*)	-	-	1,110	1,110	1,110
Deposits (*)	-	-	499	499	499
Total	-	-	260,729	260,729	260,729
Financial liabilities measured at amortized cost:					
Other accounts payable (*)	-	-	44,147	44,147	44,147
Accrued expenses (*)	-	-	2,605	2,605	2,605
Accrued dividends (*)	-	-	341	341	341
Deposits received	-	76,234	-	76,234	76,234
Total	₩ -	₩ 76,234	₩ 47,093	₩ 123,327	₩ 123,327

	December 31, 2017				
	Fair value				Book value
Description	Level 1	Level 2	Level 3	Total	
Loans and receivables:					
Financial institution deposits	₩ -	₩ -	₩ 300,500	₩ 300,500	₩ 300,500
Loans (*)	-	-	-	-	-
Other accounts 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 payable (*)	-	-	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

(*) 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, 2018 and 2017, are as follows (Unit: Korean won in millions):

Description	Beginning balance	Net income (loss)	Comprehensive income	Purchases	Disposals	Ending balance	Ending unrealized gain
	Year ended December 31, 2018						
Other financial assets	₩ 58,176	₩ -	₩ 4,340	₩ -	₩ -	₩ 62,516	₩ 25,900

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

The amount recognized as comprehensive income (loss) is relevant to non-listed shares as of December 31, 2017, and recognized as changes of valuation gain (loss) (see Note 16) on Other 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					
Other financial assets	₩ 62,516	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 is as follows (Unit: Korean won in millions):

Description	Unobservable input(s)	Changes of reasonably possible unobservable input	Net income		Other comprehensive income	
			Favorable change	Unfavorable change	Favorable change	Unfavorable change
Other financial assets	Growth rate	+/-1%	-	-	₩ 1,035	₩ (854)
	Discount rate	+/-1%	-	-	1,480	(1,222)

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, 2018	Year ended December 31, 2017
Replaced Investments in Associates and Joint Ventures to asset held for sale	₩ -	₩ 268,950

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Internal Accounting Control System ("IACS") Review Report

English Translation of a Report Originally Issued in Korean on March 18, 2019

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, 2018. 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, 2018, the Company's IACS has been appropriately designed and is operating effectively as of December 31, 2018, 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 separate 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 separate 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, 2018, and we did not review its IACS subsequent to December 31, 2018. 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 18, 2019

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, 2018.

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 separate financial statements for the purpose of establishing the reliability of financial reporting and the preparation of separate 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, 2018, in all material respects, in accordance with the IACS standards.

We certify that report does not contain any untrue statement of a fact, or omit to state a fact necessary to be presented herein. We also certify that this report does not contain or present any statement which cause material misunderstandings, and we have reviewed and verified this report with sufficient due care

February 8, 2019

Disclosure on Execution of External Audit

We attach required disclosure on the execution of external audit performed in accordance with ***Article 18-3 of the Act on External Audit of Stock Companies***.

1. Company and Reporting Period subject to External Audit

Company	LG Corp.			
Reporting Period	2018/01/01	From	2018/12/31	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)		Audit Professional(s): Engagement Partner(s)		Audit Professional(s): Members of KICPA (Registered)		Audit Professional(s): Members of KICPA (Non-Registered)		IT Specialist(s), Tax Specialist(s), and Valuation Specialist(s)		Construction contracts order-made production industry Specialist(s)		Total	
Number of Participant(s)		2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Number of Participant(s)		3	3	2	1	11	11	4	4	9	6	-	-	29	25
Hours Executed	Interim	11	16	122	105	1,806	1,514	198	507	-	-	-	-	2,137	2,142
	Audit	31	44	81	120	1,053	1,128	434	377	198	91	-	-	1,797	1,760
	Total	42	60	203	225	2,859	2,642	632	884	198	91	-	-	3,934	3,902

3. Key Disclosure on Execution of External Audit

Title	Detail					
Audit Planning Stage	Dates Performed	April 2018 – September 2018	5	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)		
	2018/12/03–2018/12/07	5	3	2	Interim audit (understanding the transaction type of each process and control testing)	
	2019/01/09–2019/01/25	11	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)	2019/01/02	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)	2018/02/22, 2018/05/10, 2018/08/09, 2018/11/08 and 2019/02/08				

4. Communications with Audit Committee

Title	Time (When Performed)	Attendants	Method	Key Content of Discussion
1	2018/02/22	Three Audit Committee, Engagement Partner and one other person	Face-to-Face Meeting	Audit schedule and Main audit matters
2	2018/05/10	Three Audit Committee, Engagement Partner and one other person	Face-to-Face Meeting	Review of Interim Financial Statements and Introduction to recent accounting trends
3	2018/08/09	Three Audit Committee, Engagement Partner and one other person	Face-to-Face Meeting	Review of Interim Financial Statements and Report on preliminary selection of Key Audit Matters
4	2018/11/08	Three Audit Committee, Engagement Partner and one other person	Face-to-Face Meeting	Review of Interim Financial Statements, Significance in audit and Selection of Key Audit Matters
5	2019/02/08	Three Audit Committee, Engagement Partner and one other person	Face-to-Face Meeting	Report on result of External audit, Independence of Auditor, Result of Main audit matters and Report on group audit matters