

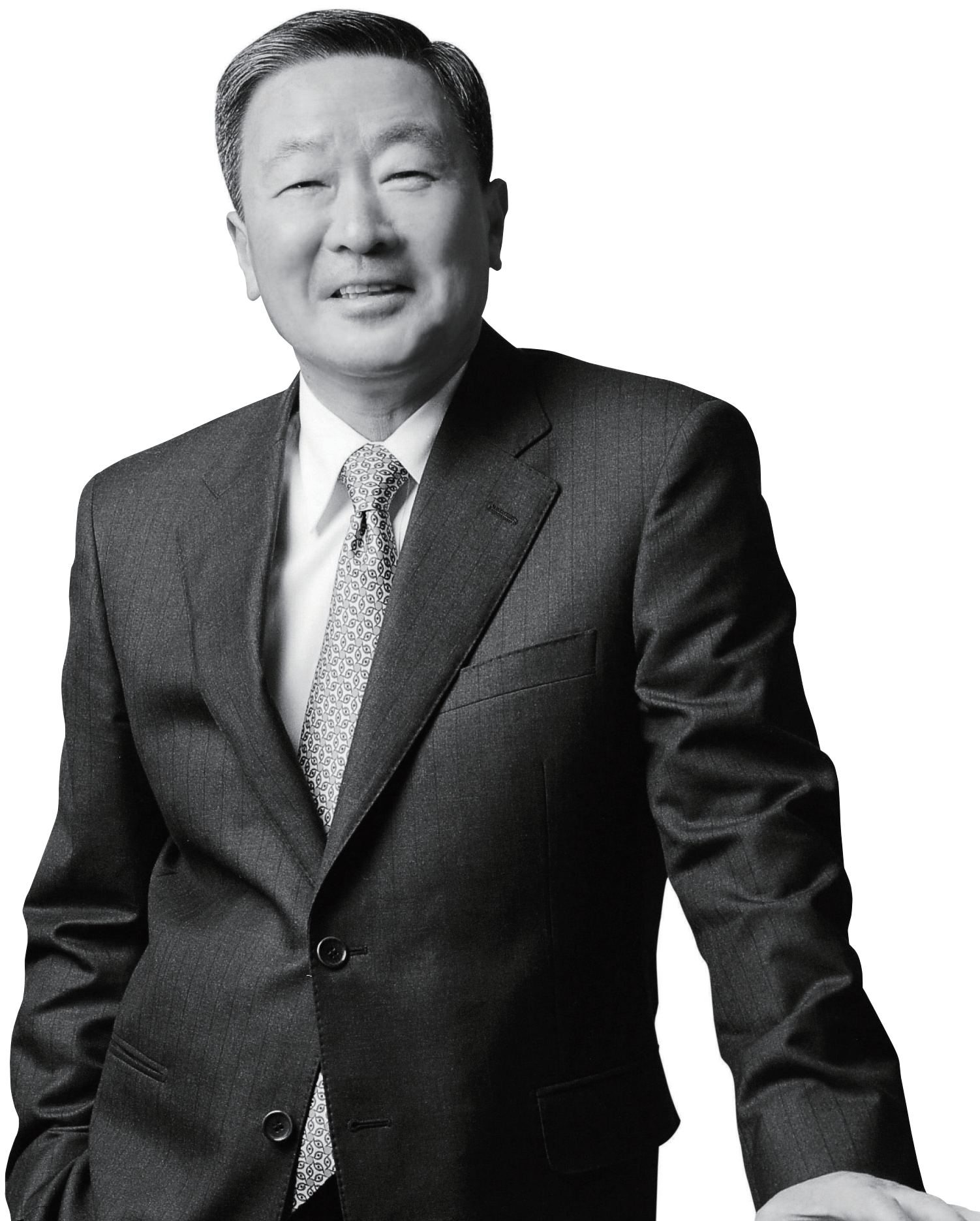
2016 ANNUAL REPORT

LG Annual Report

2016.1.1 ~ 2016.12.31



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LG will bolster the effort
towards advancing our
business structure
by innovating the very
foundation of our
business—R&D and
manufacturing

To our valued shareholders and customers

First and foremost, I would like to express our deepest appreciation for your continued trust and support for LG.

In order to overcome the challenging business conditions presented by the year 2016, LG Corp. and our affiliates focused on creating differentiated value, and our concerted efforts have been rewarded by increased profits in core businesses and enhanced market positions in future growth business areas.

In the electronics and display businesses, we have increased our share across global markets with superior technologies in OLED, motors and compressors, combined with product offerings that create value for customers. In particular, the successful launch of LG SIGNATURE secured our position as a premium home appliance brand.

Our petrochemical business posted excellent profits through enhanced cost competitiveness, while continuing the transition to a high value-added business portfolio. Cosmetics sales grew significantly thanks to an expanding customer base across global markets.

We have achieved sustained growth in a stagnant telecommunications market with new service offerings and a broad range of marketing efforts.

In our future growth business areas, we have continued our efforts towards building a solid profit base for the future by securing new contracts for our vehicle component business and energy solution business, and discovering new growth drivers such as bio business.

Building on our core strength in world-leading EV battery technology, our vehicle component business is rapidly emerging as a key business partner for global automakers, supplying key components for GM's core EV models.

Thanks to these and other solid performances across business areas, LG Corp. posted a consolidated revenue of KRW 10.73 trillion in 2016, up eight percent from the previous year. Our operating profits grew by 18 percent from year 2015 at KRW 1.34 trillion.

However, we expect challenges and changes to continue for the foreseeable future: low growth that has dogged the global economy is continuing to persist, and the rising specter of protectionism across the globe is signaling radical changes in the political and economic climate. Industries around the world are being compelled to cope with game-changing technology innovations, such as artificial intelligence, that are hurtling forward at a breakneck speed.

In response to these tectonic shifts in the business landscape, LG is determined to stay ahead by accurately reading changes and making farsighted and preemptive responses.

First, our primary focus will be on innovating R&D and manufacturing—the very foundation of our business—in order to bolster our effort towards advancing our business structure as a whole.

We will work on dramatically enhancing the competitiveness of our core businesses, while directing our internal and external resources to fostering future growth business areas.

We will implement new technologies and innovations to enhance manufacturing productivity on a fundamental level, and align our R&D efforts to customer values to establish a strong and clear link between our R&D efforts and business opportunities and performances.

Second, we will continue to innovate our business management system to ensure timely response to changing business conditions.

LG Corp. and our subsidiaries will implement innovations across our business management processes to further enhance our capabilities in business forecasting, enabling our entire organization to mount active and timely responses to changing business conditions and deliver preemptive risk management.

Third, LG will renew our commitment for corporate integrity to remain a respected corporate member of our society.

In line with our strong commitment for transparency in business management, LG was one of the first Korean businesses to make a transition to a holding company structure. We have stayed faithful to our management philosophy, the “Jeong-Do” management, which represents our unwavering conviction of the value of fair competition.

We stand firm in our belief that the sustainability of our business hinges entirely on the trust bestowed by our customers and society. LG will renew our commitment for corporate integrity and adhere to the basics and our core principles in all of our business decisions and conducts.

It is this enduring trust and support from our shareholders and customers that have allowed LG to overcome numerous challenges over the years and grow into a global corporation. We will scrupulously repay your enduring trust by making a substantial progress in advancing our business structure and management system, and ultimately, maximizing our corporate value.

Thank You.

CEO & Chairman Bon Moo Koo

A handwritten signature in black ink, appearing to read 'Bon M Koo', written in a cursive style.

challenge is our power



Yoon, Dae Hee
Director

Chair Professor,
Gachon University



Lee, Chang Kyu
Director

Chairman, Gimco Co., Ltd.



Noh, Young Bo
Director

Representative Partner,
Bae, Kim & Lee LLC



Choi, Sang Tai
Director

Visiting Professor,
Ulsan National Institute
of Science and Technology



holding structure



LG Electronics Inc. (33.7%)

LG Display Co., Ltd. (37.9%)
-Nanumnuri Co., Ltd. (100%)
LG Innotek Co., Ltd. (40.8%)
-Innowith Co., Ltd. (100%)
Hi Plaza Inc. (100%)
Hi-M Solutek Co., Ltd. (100%)
Hi Teleservice Inc. (100%)
Ace R&A Co., Ltd. (100%)
Hi Entech Co., Ltd. (100%)
LG-Hitachi Water Solutions Co., Ltd. (51.0%)
Hanuri Co., Ltd. (100%)

Silicon Works Co., Ltd. (33.1%)

LG Siltron Inc. (51.0%)

Lusem Co., Ltd. (68.0%)

※ LG Fuel Cell Systems Korea Inc. (100%)

LG Fuel Cell Systems Korea Inc. (100%)

※LG Fuel Cell Systems Inc.(overseas affiliate) holds 100% of shares in LG Fuel Cell Systems Korea Inc.

LG Chem, Ltd. (33.5%)

SEETEC Co., Ltd. (50.0%)
Haengboknuri Co., Ltd. (100%)
FarmHannong Co., Ltd. (100%)
-AGROTECH CO., Ltd. (100%)
-FarmBiotec Co., Ltd. (100%)
-Sesil Co., Ltd. (71.1%)
※-FarmHwaong Co., Ltd. (68.4%)

LG Household & Health Care, Ltd. (34.0%)

Coca-Cola Beverage Company (90.0%)
-Hankook Beverage Co., Ltd. (100%)
HAI TAI HTB Co., Ltd. (100%)
TheFaceShop Co., Ltd. (100%)
Clean Soul Ltd. (50.0%)
CNP Cosmetics Co., Ltd. (86.0%)
K&I Co., Ltd. (60.0%)
Zenisce Co., Ltd. (70.0%)
Balkeunnuri Co., Ltd. (100%)
LG Farouk Co. (50%)
Genstory Co., Ltd. (50%)

LG Hausys, Ltd. (33.5%)

LG Tostem BM Co., Ltd. (50.0%)
Hausys Eng Co., Ltd. (100%)

LG Life Sciences, Ltd. (30.4%)

Sarangnuri (100%)

LG MMA Corp. (50.0%)

※FarmHannong Co., Ltd. and Sesil Co., Ltd. hold 32.1% and 36.3% of shares in FarmHwaong Co., Ltd., respectively.

As of December 31, 2016
Holding Company_1
No. of subsidiaries_15
No. of sub-subsidiaries_40
No. of greatsub-subsidiaries_7
Other_1



LG Uplus Corp. (36.0%)

CS Leader Co, Ltd. (100%)
AIN Tele Service Co, Ltd. (100%)
Medialog Corp. (98.4%)
Dacom Crossing Co, Ltd. (51.0%)
CS One Partner Co, Ltd. (100%)
WithU Corporation Co, Ltd. (100%)

GIIR Inc. (35.0%)

HS Ad Co, Ltd. (100%)
L Best Co, Ltd. (100%)

LG CNS Co., Ltd. (85.0%)

LG N-Sys Inc. (100%)
※ Ucess Partners Co, Ltd.
BNE PARTNERS, Inc. (91.5%)
Korea Elecom Co, Ltd. (93.1%)
Haengbokmaru Co, Ltd. (100%)
BizTech Partners Co, Ltd. (100%)

Serveone Co., Ltd. (100%)

Konjiam Yewon Co, Ltd. (90.0%)

LG Management Development Institute (100%)
LG Sports Ltd. (100%)

※Ucess Partners Co, Ltd. has been sold in year 2016, but it remains an affiliate of LG based on Monopoly Regulation and Fair Trade Act as of December 31, 2016.

Management's Discussion & Analysis

2016. 1. 1~2016. 12. 31

In order to overcome the challenging business conditions presented by the year 2016, LG Corp. and our affiliates focused on creating differentiated value, and our concerted efforts have been rewarded by increased profits in core businesses and enhanced market positions in future growth business areas.

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However, we expect challenges and changes to continue for the foreseeable future: low growth that has dogged the global economy is continuing to persist, and the rising specter of protectionism across the globe is signaling radical changes in the political and economic climate. Industries around the world are being compelled to cope with game-changing technology innovations, such as artificial intelligence, that are hurtling forward at a breakneck speed.

In response to these tectonic shifts in the business landscape, LG is determined to stay ahead by accurately reading changes and making farsighted and preemptive responses.

1. Sales and Profit before Tax of Subsidiaries

Unit : KRW one million

Company	Sales			Profit Before Tax		
	2016	2015	YoY	2016	2015	YoY
LG Corp.(*1)	614,003	574,117	6.9%	430,974	400,562	7.6%
Serveone Co., Ltd. (*2)	5,661,636	4,767,046	18.8%	158,894	110,483	43.8%
LG CNS Co., Ltd. (*2)	3,036,923	3,227,462	-5.9%	133,654	67,581	97.8%
LG Siltron Inc. (*2)	836,297	777,382	7.6%	9,069	(22,782)	139.8%
Lusem Co., Ltd. (*1)	125,955	186,537	-32.5%	1,388	2,918	-52.4%
LG Management Development Institute(*1)	81,350	76,751	6.0%	3,068	1,875	63.6%
LG Sports Ltd. (*1)	50,193	46,634	7.6%	(4,315)	(3,123)	-38.2%
LG Holdings Japan Co.,Ltd.(*1)	8,818	7,680	14.8%	4,959	1,876	164.3%

(*1) based on the separate statements of income

(*2) based on the consolidated statements of income

Corporate Purchase Outsourcing and Real Estate Services Segment

In 2016, Construction Management (CM) unit led the top line growth of the segment. Also, Maintenance, Repair, and Operation (MRO) unit, which accounts for the biggest chunk of the revenue, saw rise in sales in China and Vietnam. As a result, sales revenue of Serveone grew by 18.8% to KRW 5.66 trillion and generated operating profit of KRW 187 billion up by 41.1% from the year 2015.

IT Services Segment

After seeing drastic deterioration of profitability in 2015, LG CNS restored profitability levels well within the reach of previous years in 2016 thanks to the management's focus on profitability rather than revenue growth.

Semiconductor and Electronic Components Manufacturing Segment

After seeing operating profit turning into the black in the year 2015, net income of LG Siltron turned to positive in the year 2016 as well. LG Siltron successfully achieved turnaround through productivity enhancement and effective purchase management. LG Siltron posted sales of KRW 836 billion and operating profit of KRW 34 billion, up by 7.6% and 529.6%, respectively from the year 2015.

2. Gain(Loss) Valuation of Equity Method

Unit : KRW one million

Company	2016	2015	YoY
LG Chem Ltd.	376,203	347,857	8.1%
LG Household & Health Care, Ltd.	170,156	137,601	23.7%
LG Electronics Inc.	18,315	38,325	-52.2%
LG Uplus Corp.	174,115	134,912	29.1%
LG Life Sciences, Ltd.	8,086	2,957	173.5%
LG Hitachi Co., Ltd.	334	317	5.4%
GIIR Corporation	4,938	3,788	30.4%
LG Hausys, Ltd.	20,913	20,940	-0.1%
LG MMA Corp.	26,470	30,566	-13.4%
Others	7,793	2,603	199.4%
Total	807,323	719,866	12.1%

3. Other Revenue

Unit : KRW one million

Account	2016	2015	YoY
Brand royalty income	247,829	256,839	-3.5%
Rental Income	104,876	102,844	2.0%
Others	51,078	47,285	8.0%
Total	403,783	406,968	-0.8%

1) Brand royalty income

LG Corp. reserves the legal rights over the brand "LG". Value of a brand is determined separately from intellectual property rights such as patent rights and a brand constitutes an important competitiveness-enhancing factor that contributes to increasing a company's cash flows in the future. Brand value has a material impact on sales by working as a factor to add image and credibility to the fundamental competitiveness of a company's products.

As such, LG Corp. set the vision and core values of the "LG" brand, charged royalty from 2005 to users of the brand for enhancing the brand value through systematic brand management and strategic action plan. The company plans to reinvest part of the brand royalty income with the aim of elevating it into the global No. 1 brand, thereby, creating a virtuous circle of positive contribution to the brand users.

Basic terms of the brand license agreements are as provided in the following:

- License fee = (Consolidated sales - Consolidated advertising expenses) X 0.2%

- Payable monthly

- 1-year term

- Adjustment factors applicable depending upon the specific form of usage of the brand (whether used by a joint venture, whether logos are used, etc.)

Brand license fees are calculated and charged monthly based on the amounts of consolidated sales and consolidated advertising expenses as reported on the user's financial statements for the prior period. When the user's performance for the relevant period is fixed in the following year, then the fees are finally reconciled based on the relevant year's actual figures.

As of the end of 2016, LG Corp. posted brand royalty income of KRW 247,829 million and 22 companies made brand contract.

2) Rental income

LG Corp. recorded rental income of KRW 104,876 million in 2016, a 2.0% increase from the previous year.

※ Dividends received

Unit : KRW one million

Company	2016	2015	YoY
LG Chem Ltd.	99,987	88,877	12.5%
LG Uplus Corp.	39,344	23,607	66.7%
LG CNS Co., Ltd.	6,667	12,593	-47.1%
LG Electronics Inc.	22,038	22,038	0.0%
LG Household & Health Care, Ltd.	29,235	21,262	37.5%
Serveone Co., Ltd.	28,000	20,000	40.0%
LG MMA Corp.	21,000	15,000	40.0%
LG Hausys, Ltd.	5,412	5,412	0.0%
Silicon Works Co., Ltd.	5,381	2,754	95.4%
Lusem Co., Ltd.	700	700	0.0%
GIIR Inc.	1,160	1,160	0.0%
Others	2,374	1,031	130.4%
Total	261,298	214,434	21.9%

4. Investments in Associates for the Years Ended December 31, 2016

Unit : KRW one million

Company	Beginning balance	Acquisitions	Dividends received	Gain(Loss) from valuation	Gain from valuation recognized in accumulated other comprehensive income	Others	Ending balance
LG Chem Ltd.	3,867,167	-	(99,987)	376,203	(1,187)	-	4,142,196
LG Household & Health Care Ltd.	607,915	-	(29,235)	170,156	5,730	-	754,566
LG Electronics Inc.	3,482,395	-	(22,038)	18,315	108,623	-	3,587,295
LG Uplus Corp.	1,572,882	-	(39,344)	174,115	(1,969)	-	1,705,684
LG Life Science Co., Ltd.	75,313	-	-	8,086	(83,399)	-	-
LG Hitachi Co., Ltd.	8,298	-	(5)	334	(63)	-	8,564
GILR Corporation	44,417	-	(1,160)	4,938	(191)	-	48,004
LG Hausys, Ltd.	257,848	-	(5,412)	20,913	1,721	-	275,070
LG MMA Corp.	211,114	-	(21,000)	26,470	(143)	-	216,441
Silicon Works Co., Ltd.	159,584	-	(5,381)	13,268	(436)	-	167,035
Others	58,698	17,143	0	(5,475)	3,787	146	74,299
Total	10,345,631	17,143	(223,562)	807,323	32,473	146	10,979,154

5. Property, Plant and Equipment

Unit : KRW one million

Description	Beginning balance	Acquisitions	Disposals	Depreciation	Transfers	Impairment	Others	Ending balance
Land	514,898	106	(2,150)		4,398		(25)	517,227
Buildings	1,004,764	3,365	(1,699)	(43,983)	61,976		(1,212)	1,023,211
Structures	198,289	185	(14)	(13,491)	21,778		293	207,040
Machinery	214,832	4,143	(995)	(115,513)	132,595	(42)	1,676	236,696
Vehicles	10,584	11,984	(136)	(2,322)	255		(2,828)	17,537
Tools and equipment	11,066	2,151	(16)	(3,858)	0	(282)	68	9,129
Furniture and fixtures	67,982	14,917	(114)	(23,153)	9,505	(6)	(383)	68,748
Construction in progress	202,827	215,830	(8,427)		(226,963)	(246)	(480)	182,541
Other property	246,073	29,931	(285)	(48,369)	(8,347)	(122)	380	219,261
Total	2,471,315	282,612	(13,836)	(250,689)	(4,803)	(698)	(2,511)	2,481,390

6. Investment Property

Unit : KRW one million

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

Details of the fair value of investment property as of December 31, 2016, are as follows.

Unit : KRW one million

	Book value of investment property.	Results of valuation										
		Central hub logistics center (*1)	Chungju HUB Center (*1)(*)2)	Twin tower (*1)(*)3)	Gasandong building (*1)	Gwang hwamun building (*1)	Buho building (*1)	Seoul Station building (*2), (*4)	Incheon IT Center (*1)	Kyobashi Trust Tower (*1)(*)2)	Others (*2), (*4)	Total
Date of revaluation	-	2013. 01.01.	2013. 12.04.	2012. 03.16.	2009. 04.21.	2010. 09.30.	2013. 06.04.	2016. 09.30.	2009. 01.01.	2014. 04.01.	2016. 02.26.	-
Land	589,494	5,570	7,046	456,800	50,966	145,452	16,513	136,793	15,391	166,620	539	1,001,690
Buildings and structures	543,040	4,345	8,908	343,200	110,104	84,548	1,238	73,941	9,169	30,414	-	665,867
Total	1,132,534	9,915	15,954	800,000	161,070	230,000	17,751	210,734	24,560	197,034	539	1,667,557

(*)1 Includes the value of investment property (carrying value that is subject to valuation: ₩268,808 million) occupied by the owner.

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

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

(*)4 Newly acquired during current period. establishment of factory or only if there is a consent.

7. Debentures and Borrowings

1) Short-term Borrowings

Unit : KRW one million

Account	2016.12.31	2015.12.31	YoY
short-term borrowings	190,795	168,518	13.22%

2) Long-term Borrowings

Unit : KRW one million

Account	2016.12.31		2015.12.31	
	Current	Non-current	Current	Non-current
Korean currency long-term borrowings (*1)	187,427	349,348	221,162	477,816
Foreign currency long-term borrowings	-	3,059	-	2,868
Debentures in Korean won	320,000	830,000	100,000	950,000
Discount on debentures	(60)	(2,318)	(133)	(2,570)
Present value discount account	(392)	(289)	(466)	(680)
Total	506,975	1,179,800	320,563	1,427,434

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

3) Debentures as of December 31, 2016, 2015

Unit : KRW one million

Company	Description	Issue date	Maturity date	Annual interest rate	2016.12.31	2015.12.31
LG CNS Co., Ltd.	5th public offering	2012. 03. 05	2017. 03. 05	4.15%	100,000	100,000
	7th public offering	2013. 05. 07	2018. 05. 07	2.96%	100,000	100,000
	8th public offering	2013.12. 05	2016. 12. 05	3.42%	-	100,000
	9-1th public offering	2015. 04. 16	2018. 04. 16	1.88%	50,000	50,000
	9-2th public offering	2015. 04. 16	2020. 04. 16	2.07%	100,000	100,000
	9-3th public offering	2015. 04.16	2022. 04. 16	2.44%	50,000	50,000
Serveone Co., Ltd.	3rd public offering	2014. 02. 14	2017. 02. 14	3.21%	100,000	100,000
	4-1th public offering	2015. 10. 01	2018. 10. 01	1.96%	50,000	50,000
	4-2th public offering	2015. 10. 01	2020. 10. 01	2.24%	150,000	150,000
	5-1th public offering	2016. 10. 27	2019. 10. 27	1.92%	110,000	-
	5-2th public offering	2016. 10. 27	2021. 10. 27	2.10%	90,000	-
LG Siltron Inc.	38-2th public offering	2012. 06. 04	2017. 06. 04	3.94%	50,000	50,000
	39th public offering	2014. 02. 07	2017. 02. 07	4.21%	30,000	30,000
	40th public offering	2014. 03. 14	2017. 03. 14	4.37%	40,000	40,000
	41st public offering	2015. 06. 16	2018. 06. 16	4.07%	70,000	70,000
LG N-Sys Co.,Ltd.	2-1nd public offering	2015. 05. 29	2018. 05. 29	2.32%	40,000	40,000
	2-2nd public offering	2015. 05. 29	2020. 05. 29	2.89%	20,000	20,000
Subtotal					1,150,000	1,050,000
Discount on debentures					(2,378)	(2,703)
Current debentures (*)					(319,940)	(99,867)
Total					827,682	947,430

(*) Discounts on debentures have been deducted.

8. Issued Capital

Details of issued capital as of December 31, 2016, are as follows.

Unit : KRW one million

Type of stock	Number of authorized shares	Number of issued shares	Number of shares owned by related party	Par value (in KRW)	Amount of issued capital
Common stock	700,000,000	172,557,131	83,037,766	5,000	862,786
Preferred stock	-	3,314,677	-	5,000	16,573

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

The Group has 93,789 shares of common stock and 6,810 shares of preferred stock as of December 31, 2016 and 2015, respectively; the carrying amounts of common stocks are ₩2,334 million (preferred stock: ₩51 million).

9. Retained Earnings and Dividends

Changes in retained earnings for the years ended December 31, 2016 and 2015 are as follows.

Unit : KRW one million

	Year ended December 31, 2016	Year ended December 31, 2015
Beginning balance	9,871,746	9,153,234
Profit for the year attributable to the owner of the Company	1,074,795	944,189
Dividends	(228,668)	(175,937)
Remeasurements of net defined benefit liability	14,434	5,816
Changes in retained earnings by equity method	62,274	(55,556)
Ending balance	(2,521)	-
Ending balance	10,792,060	9,871,746

Details of dividends for the year ended December 31, 2016 and 2015, are as follows

Year ended December 31, 2016

Unit : KRW one million

Type of stock	Number of issued shares	Number of treasury stock	Number of dividend shares	Dividend per share (in KRW)	Total dividends
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

Year ended December 31, 2015

Unit : KRW one million

Type of stock	Number of issued shares	Number of treasury stock	Number of dividend shares	Dividend per share (in KRW)	Total dividends
Common stock	172,557,131	93,789	172,463,342	1,000	172,464
Preferred stock	3,314,677	6,810	3,307,867	1,050	3,473

Audit Report

2016. 1. 1~2016. 12. 31

Independent Auditors' Report

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

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

Report on the Consolidated Financial Statements

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an audit opinion on these consolidated financial statements based on our audits.

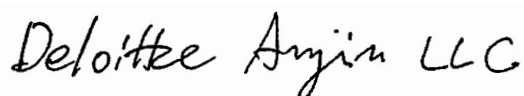
We conducted our audits in accordance with Korean Standards on Auditing ("KSAs"). Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

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



March 16, 2017

Notice to Readers

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

LG CORP. AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2016 AND 2015

Unit : KRW one million

	December 31, 2016	December 31, 2015
ASSETS		
CURRENT ASSETS :		
Cash and cash equivalents	1,129,035	870,393
Financial institution deposits	206,845	375,748
Current derivative assets	1,376	1,138
Trade receivables, net	2,551,435	2,200,006
Other receivables, net	74,481	67,236
Current tax assets	7,854	4,842
Current other assets	369,232	292,679
Inventories, net	322,857	343,518
Total current assets	4,663,115	4,155,560
NON-CURRENT ASSETS :		
Available-for-sale ("AFS") financial assets	91,043	93,124
Non-current trade receivables, net	17,032	8,369
Non-current other receivables, net	14,808	17,374
Investments in associates and joint ventures	10,979,154	10,345,631
Deferred tax assets, net	208,887	194,089
Non-current other assets	56,279	68,782
Property, plant and equipment, net	2,481,390	2,471,315
Investment property, net	863,726	652,570
Intangible assets	114,008	116,586
Total non-current assets	14,826,327	13,967,840
TOTAL ASSETS	19,489,442	18,123,400

(Continued)

LG CORP. AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2016 AND 2015 (CONTINUED)

Unit : KRW one million

	December 31, 2016	December 31, 2015
LIABILITIES AND EQUITY		
CURRENT LIABILITIES :		
Current derivative liabilities	4,406	2,817
Trade payables	1,635,402	1,353,031
Other payables	783,695	536,476
Short-term borrowings	190,795	168,518
Current portion of debentures and long-term borrowings	506,975	320,563
Current tax liabilities	82,386	70,638
Provisions	51,466	36,437
Other current liabilities	312,031	224,145
Liabilities related to assets held for sale	146	-
Total current liabilities	3,567,302	2,712,625
NON-CURRENT LIABILITIES:		
Non-current derivative liabilities	53	520
Other payables	83,463	244,555
Long-term borrowings	1,179,800	1,427,434
Net defined benefit liability	56,855	83,032
Deferred tax liability	346,255	297,952
Provisions	9,761	10,202
Other non-current liabilities	25,869	38,836
Total non-current liabilities	1,702,056	2,102,531
TOTAL LIABILITIES	5,269,358	4,815,156
EQUITY :		
Equity attributable to the owners of the parent company	13,874,365	12,975,511
Issued capital	879,359	879,359
Capital surplus	2,364,937	2,361,658
Other capital items	(2,385)	(2,390)
Accumulated other comprehensive income (loss)	(159,606)	(134,862)
Retained earnings	10,792,060	9,871,746
Non-controlling interests	345,719	332,733
TOTAL EQUITY	14,220,084	13,308,244
TOTAL LIABILITIES AND EQUITY	19,489,442	18,123,400

(Concluded)

LG CORP. AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

Unit : KRW one million

	Year ended December 31, 2016	Year ended December 31, 2015
Revenue and gain (loss) on valuation by equity method		
Sales of finished goods and merchandise	5,278,737	5,250,038
Service revenue	2,066,511	2,147,916
Construction revenue	2,169,020	1,440,577
Gain (loss) on valuation by equity method	807,323	719,866
Other revenue	403,783	406,968
	10,725,374	9,965,365
Cost of sales	8,924,325	8,338,210
Gross profit	1,801,049	1,627,155
Selling and administrative expenses	456,357	488,536
Operating income	1,344,692	1,138,619
Financial income	44,109	34,649
Financial expenses	99,046	100,391
Other non-operating income	82,787	58,006
Other non-operating expenses	97,912	54,736
Profit before income tax from continuing operations	1,274,630	1,076,147
Income tax expense from continuing operations	182,144	131,576
Profit from continuing operations	1,092,486	944,571
Profit from discontinued operations	(1,228)	(796)
Profit for the year	1,091,258	943,775
Profit for the year attributable to :		
Owners of the parent company	1,074,795	944,189
Non-controlling interests	16,463	(414)
Earnings per share (in Korean won) :		
Continuing and discontinued operations		
Common Stock Basic / Diluted	6,114	5,371
Pre-1996 Commercial Law Amendment Preferred Stock Basic / Diluted	6,164	5,421
Continuing operations		
Common Stock Basic / Diluted	6,118	5,374
Pre-1996 Commercial Law Amendment Preferred Stock Basic / Diluted	6,168	5,424

LG CORP. AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
 FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

Unit : KRW one million

	Year ended December 31, 2016	Year ended December 31, 2015
Profit for the year	1,091,258	943,775
Other comprehensive income (loss) :		
Items that may be reclassified subsequently to profit or loss		
Net gain (loss) on AFS financial assets	(2,210)	(7,322)
Net gain (loss) on changes in valuation of investments using equity method	(33,215)	5,385
Net gain (loss) on derivative instruments entered into for cash flow hedges	1,116	528
Overseas operations translation	10,218	7,987
Items that will not be reclassified subsequently to profit or loss		
Remeasurement of the net defined benefit liability	17,004	5,539
Increase (decrease) in retained earnings of equity method investments	63,033	(55,609)
Total comprehensive income for the year	1,147,204	900,283
Total comprehensive income attributable to:		
Owners of the parent company	1,126,759	900,549
Non-controlling interests	20,445	(266)

LG CORP. AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

Unit : KRW one million

	Issued capital	Capital surplus	Other capital items	Accumulated other comprehensive income (loss)	Retained earnings	Non- controlling interests	Total
Balance at January 1, 2015	879,359	2,362,706	(2,390)	(140,962)	9,153,234	333,888	12,585,835
Profit (loss) for the year					944,189	(414)	943,775
Net gain (loss) on AFS financial assets				(7,301)		(21)	(7,322)
Valuation through equity method				5,381	(55,556)	(49)	(50,224)
Valuation on derivative instruments entered into for cash flow hedges				403		125	528
Remeasurements of the net defined benefit liability					5,816	(277)	5,539
Overseas operations translation				7,617		370	7,987
Annual dividends					(175,937)	(2,607)	(178,544)
Changes in the shares of subsidiaries		(1,048)				1,058	10
Acquisition (disposal) of subsidiaries						660	660
Balance as of December 31, 2015	879,359	2,361,658	(2,390)	(134,862)	9,871,746	332,733	13,308,244
Balance as of January 1, 2016	879,359	2,361,658	(2,390)	(134,862)	9,871,746	332,733	13,308,244
Profit (loss) for the year					1,074,795	16,463	1,091,258
Net gain (loss) on AFS financial assets				(2,354)		144	(2,210)
Valuation through equity method				(33,178)	62,274	722	29,818
Valuation on derivative instruments entered into for cash flow hedges				723		393	1,116
Remeasurements of the net defined benefit liability					14,434	2,570	17,004
Overseas operations translation				10,065		153	10,218
Annual dividends					(228,668)	(1,559)	(230,227)
Changes in the shares of subsidiaries		2,919	5		(2,521)	(5,982)	(5,579)
Acquisition (Disposal) of subsidiaries		360				82	442
Balance as of December 31, 2016	879,359	2,364,937	(2,385)	(159,606)	10,792,060	345,719	14,220,084

LG CORP. AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
 FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

Unit : KRW one million

	Year ended December 31, 2016	Year ended December 31, 2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Profit for the year	1,091,258	943,775
Additions of expenses not involving cash outflows:		
Salaries and bonuses	1,052	11,039
Retirement benefits	46,194	49,669
Depreciation	269,606	281,565
Amortization of intangible assets	27,243	27,460
Loss on valuation of inventories	13,776	15,757
Bad debt expenses	11,626	3,200
Accrual of provision	31,749	42,602
Impairment loss on property, plant and equipment	698	151
Impairment loss on intangible assets	1,403	545
Loss on foreign currency translation	16,435	10,809
Loss on disposals of property, plant and equipment	6,550	1,479
Loss on disposals of intangible assets	2,079	843
Loss on transactions of derivatives	14,591	8,768
Loss on valuation of derivatives	3,810	1,254
Interest expenses	74,856	79,992
Loss on disposals of AFS financial assets	1	4
Impairment loss on AFS financial assets	266	787
Loss on disposals of investments in subsidiaries	26	-
Loss on disposals of investments in associates	-	296
Loss on redemption of debentures	-	1,356
Income tax expense	182,172	131,581
Others	12,073	1,518
	716,206	670,675
Deduction of items not involving cash inflows:		
Reversal of salaries and bonuses	-	2
Reversal of impairment loss on inventories	4,130	3,154
Reversal of allowance for doubtful accounts	364	2,958
Reversal of provisions	5,867	8,884
Reversal of impairment loss on intangible assets	-	15
Gain on foreign currency translation	17,825	15,841
Gain on disposals of property, plant and equipment	2,943	2,595
Gain on disposals of intangible assets	44	34
Gain on transactions of derivatives	17,276	7,361
Gain on valuation of derivatives	1,376	1,138
Interest income	20,629	19,260
Dividend income	2,703	1,633

(Continued)

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

Unit : KRW one million

	Year ended December 31, 2016	Year ended December 31, 2015
Gain on disposals of AFS financial assets	22	126
Gain on disposals of other financial assets	-	34
Gain on disposals of investments in subsidiaries	1,941	455
Gain on disposals of investments in associates	536	-
Gain on valuation by equity method	807,323	719,866
Others	386	406
	(883,365)	(783,762)
Movements in working capital :		
Derivatives	362	-
Trade receivables	(342,184)	81,455
Other receivables	(8,621)	29,755
Inventories	12,588	(47,297)
Non-current trade receivables	(30,327)	(9,047)
Non-current other receivables	3,060	(647)
Trade payables	271,240	(24,727)
Other payables	75,898	(62,539)
Non-current trade payables	-	101
Non-current other payables	(13)	(71)
Provisions	(17,413)	(12,419)
Net defined benefit liability	(51,531)	(55,715)
Others	(158)	153,713
	(87,099)	52,562
Interest income received	18,809	19,061
Dividend income received	225,997	182,260
Income tax received	1,271	277
Interest expenses paid	(56,695)	(64,474)
Income taxes paid	(148,184)	(134,082)
Net cash provided by operating activities	878,198	886,292

(Continued)

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

Unit : KRW one million

	Year ended December 31, 2016	Year ended December 31, 2015
CASH FLOWS FROM INVESTING ACTIVITIES :		
Cash inflows from investing activities :		
Decrease in financial institution deposits	461,026	473,147
Settlement of derivative instruments	16,908	7,991
Decrease in other receivables	21,505	8,458
Disposals of AFS financial assets	379	1,072
Decrease in non-current other receivables	325	1,497
Disposals of investments in subsidiaries	1,670	-
Disposals of investments in associates	195	186
Disposals of property, plant and equipment	10,152	6,835
Disposals of intangible assets	2,176	6,537
Disposals of assets (liabilities) held for sale	-	329
Acquisitions of controlling power on subsidiaries	-	427
Others	-	261
	514,336	506,740
Cash outflows for investing activities :		
Increase in financial institution deposits	292,391	513,209
Settlements of derivative instruments	13,992	7,506
Increase in other receivables	18,544	27,052
Acquisitions of non-current AFS financial assets	1,207	660
Increase in non-current other receivables	1,200	2,810
Acquisitions of investments in associates	17,143	41,512
Acquisitions of property, plant and equipment	274,496	263,024
Acquisitions of investment property	212,534	903
Acquisitions of intangible assets	25,050	16,741
Acquisitions of investments in subsidiaries	1,597	-
Others	-	1,589
	(858,154)	(875,006)
Net cash used in investing activities	(343,818)	(368,266)

(Continued)

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

Unit : KRW one million

	Year ended December 31, 2016	Year ended December 31, 2015
CASH FLOWS FROM FINANCING ACTIVITIES:		
Cash inflows from financing activities :		
Proceeds from short-term borrowings	478,294	1,064,357
Proceeds from long-term borrowings	80,000	215,414
Increase in other long-term liabilities	540	-
Issuance of debentures	199,185	527,729
Increase in government subsidy	853	2,534
Issuance of common stock of subsidiaries	679	348
Disposals of treasury stocks	433	-
	759,984	1,810,382
Cash outflows for financing activities :		
Redemptions of short-term borrowings	460,020	1,076,048
Redemptions of long-term borrowings	-	124,577
Redemptions of debentures	100,000	401,302
Redemptions of current portion of long-term borrowings	237,927	171,729
Disposals of derivative instruments	686	3,011
Payments of dividends	230,224	178,549
Acquisitions of treasury stocks	3,708	-
Cash outflows from consolidated capital transactions	2,684	100
Others	185	260
	(1,035,434)	(1,955,576)
Net cash used in financing activities	(275,450)	(145,194)
Net change in cash and cash equivalents	258,930	372,832
Cash and cash equivalents at the beginning of year	870,393	497,529
Effects of exchange rate changes on cash and cash equivalents	(288)	32
Cash and cash equivalents at the end of year	1,129,035	870,393

(Concluded)

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

Unit : KRW one million

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

(Continued)

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

Unit : KRW one million

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

(Concluded)

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

Unit : KRW one million

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

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

Unit : KRW one million

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

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

Unit : KRW one million

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

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

Unit : KRW one million

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

(Continued)

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

Unit : KRW one million

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

(Continued)

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

Unit : KRW one million

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

(Concluded)

LG Corp. / Finance & Accounting Team

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