

LG Electronics Inc.
Separate Financial Statements
December 31, 2017 and 2016

LG Electronics Inc.

Index

December 31, 2017 and 2016

	Page(s)
Independent Auditor’s Report	1 - 2
Separate Financial Statements	
Separate Statements of Financial Position	3
Separate Statements of Profit or Loss	4
Separate Statements of Comprehensive Income.....	5
Separate Statements of Changes in Equity	6
Separate Statements of Cash Flows	7
Notes to the Separate Financial Statements	8 – 93
Report on the Review of the Internal Accounting Control System	94
Report on the Operations of the Internal Accounting Control System	95

Independent Auditor's Report

(English Translation of a Report Originally Issued in Korean)

To the Board of Directors and Shareholders of
LG Electronics Inc.

We have audited the accompanying separate financial statements of LG Electronics Inc. (the "Company"), which comprise the separate statements of financial position as of December 31, 2017 and 2016, and the separate statements of profit or loss, separate statements of comprehensive income, separate statements of changes in equity and separate statements of cash flows for the years then ended, and notes to the separate financial statements, including a summary of significant accounting policies and other explanatory information.

Management's Responsibilities for the Financial Statements

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

Auditor's Responsibilities

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

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

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

Opinion

In our opinion, the accompanying separate financial statements present fairly, in all material respects, the separate financial position of LG Electronics Inc. as of December 31, 2017 and 2016, and its separate financial performance and its separate cash flows for the years then ended in accordance with Korean IFRS.

Other matter

Auditing standards and their application in practice vary among countries. The procedures and practices used in the Republic of Korea to audit such financial statements may differ from those generally accepted and applied in other countries.

Seoul, Korea

March 8, 2018

This report is effective as of March 8, 2018, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying separate financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

LG Electronics Inc.

Separate Statements of Financial Position

December 31, 2017 and 2016

<i>(in millions of Korean won)</i>	Note	2017	2016
Assets			
Current assets			
Cash and cash equivalents	4,5,36	1,586,258	1,181,725
Deposits held by financial institutions	4,5,36	80,500	80,500
Trade receivables	4,6,36	5,612,250	4,985,573
Loans and other receivables	4,6,36	472,794	492,178
Other financial assets	4,7,36	-	30,093
Inventories	8	1,343,666	1,186,521
Current income tax assets		1,455	1,518
Other current assets	9	412,902	344,551
Assets held for sale	37	6,070	8,906
		<u>9,515,895</u>	<u>8,311,565</u>
Non-current assets			
Deposits held by financial institutions	4,5,36	1,785	1,159
Loans and other receivables	4,6,36	292,123	306,113
Other financial assets	4,7,36	33,945	48,672
Property, plant and equipment	10	7,142,306	7,164,642
Intangible assets	11	1,474,201	1,234,531
Deferred income tax assets	16	973,957	884,654
Investments in subsidiaries, associates and joint ventures	12	8,066,087	7,995,665
Investment properties	13	95,307	96,615
Other non-current assets	9	564,175	555,459
		<u>18,643,886</u>	<u>18,287,510</u>
Total assets		<u>28,159,781</u>	<u>26,599,075</u>
Liabilities			
Current liabilities			
Trade payables	4,36	6,126,168	5,516,849
Borrowings	4,14,36	767,666	661,148
Other payables	4,15,36	2,351,601	2,080,451
Other financial liabilities	4,7,36	6,985	8,665
Provisions	18	316,235	392,948
Other current liabilities	19	1,907,269	1,883,065
		<u>11,475,924</u>	<u>10,543,126</u>
Non-current liabilities			
Borrowings	4,14,36	6,674,174	5,970,172
Other payables	4,15,36	215	5,552
Other financial liabilities	4,7,36	69,892	75,736
Net defined benefit liability	17	220,610	345,368
Provisions	18	91,763	811,036
Other non-current liabilities	19	82,346	82,633
		<u>7,139,000</u>	<u>7,290,497</u>
Total liabilities		<u>18,614,924</u>	<u>17,833,623</u>
Equity			
Paid-in capital:	20		
Share capital		904,169	904,169
Share premium		3,088,179	3,088,179
Retained earnings	21	5,602,967	4,851,573
Accumulated other comprehensive income	22	(17,639)	(45,650)
Other components of equity	23	(32,819)	(32,819)
		<u>9,544,857</u>	<u>8,765,452</u>
Total equity		<u>9,544,857</u>	<u>8,765,452</u>
Total liabilities and equity		<u>28,159,781</u>	<u>26,599,075</u>

LG Electronics Inc.
Separate Statements of Profit or Loss
Years ended December 31, 2017 and 2016

<i>(in millions of Korean won, except per share amounts)</i>	Note	2017	2016
Net sales	24	31,966,513	28,743,246
Cost of sales	25	<u>25,341,438</u>	<u>22,759,725</u>
Gross profit		6,625,075	5,983,521
Selling and marketing expenses	25,26	2,810,541	2,612,068
Administrative expenses	25,26	571,445	589,121
Research and development expenses	25,26	1,994,767	2,106,181
Service costs	25,26	<u>547,096</u>	<u>966,606</u>
Operating profit (loss)		701,226	(290,455)
Financial income	27	219,704	257,822
Financial expenses	28	474,542	431,272
Other non-operating income	29	1,264,641	1,620,050
Other non-operating expenses	30	<u>938,536</u>	<u>1,330,365</u>
Profit (loss) before income tax		772,493	(174,220)
Income tax expense	16	<u>14,447</u>	<u>102,267</u>
Profit (loss) for the year		<u>758,046</u>	<u>(276,487)</u>
Earnings (loss) per share during the year <i>(in Korean won)</i>	31		
Earnings (loss) per ordinary share		4,205	(1,540)
Earnings (loss) per preferred share		4,255	(1,490)

LG Electronics Inc.
Separate Statements of Comprehensive Income
Years ended December 31, 2017 and 2016

(in millions of Korean won)

	Note	2017	2016
Profit (loss) for the year		<u>758,046</u>	<u>(276,487)</u>
Other comprehensive income, net of tax			
<i>Items that will not be reclassified subsequently to profit or loss:</i>			
Remeasurements of the net defined benefit liability	17	66,233	154,841
<i>Items that will be reclassified subsequently to profit or loss:</i>			
Cash flow hedges	36	29,191	(656)
Available-for-sale financial assets	7	<u>(1,180)</u>	<u>(370)</u>
Other comprehensive income for the year, net of tax		<u>94,244</u>	<u>153,815</u>
Total comprehensive income (loss) for the year, net of tax		<u>852,290</u>	<u>(122,672)</u>

LG Electronics Inc.

Separate Statements of Changes in Equity

Years ended December 31, 2017 and 2016

<i>(in millions of Korean won)</i>	Note	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Other Components of Equity	Total Equity
Balance at January 1, 2016		3,992,348	5,046,104	(44,624)	(32,819)	8,961,009
Total comprehensive income:						
Loss for the year		-	(276,487)	-	-	(276,487)
Remeasurements of the net defined benefit liability	17	-	154,841	-	-	154,841
Cash flow hedges	36	-	-	(656)	-	(656)
Available-for-sale financial assets	7	-	-	(370)	-	(370)
Total comprehensive loss		-	(121,646)	(1,026)	-	(122,672)
Transactions with owners:						
Dividends	21	-	(72,885)	-	-	(72,885)
Total transactions with owners		-	(72,885)	-	-	(72,885)
Balance at December 31, 2016		3,992,348	4,851,573	(45,650)	(32,819)	8,765,452
Balance at January 1, 2017		3,992,348	4,851,573	(45,650)	(32,819)	8,765,452
Total comprehensive income:						
Profit for the year		-	758,046	-	-	758,046
Remeasurements of the net defined benefit liability	17	-	66,233	-	-	66,233
Cash flow hedges	36	-	-	29,191	-	29,191
Available-for-sale financial assets	7	-	-	(1,180)	-	(1,180)
Total comprehensive loss		-	824,279	28,011	-	852,290
Transactions with owners:						
Dividends	21	-	(72,885)	-	-	(72,885)
Total transactions with owners		-	(72,885)	-	-	(72,885)
Balance at December 31, 2017		3,992,348	5,602,967	(17,639)	(32,819)	9,544,857

LG Electronics Inc.
Separate Statements of Cash Flows
Years ended December 31, 2017 and 2016

<i>(in millions of Korean won)</i>	Note	2017	2016
Cash flows from operating activities			
Cash generated from operations	32	558,366	2,004,506
Interest received		13,375	11,038
Interest paid		(216,903)	(234,316)
Dividends received		453,546	468,395
Income tax paid		(115,574)	(85,117)
Net cash inflow from operating activities		<u>692,810</u>	<u>2,164,506</u>
Cash flows from investing activities			
Decrease in deposits held by financial institutions		-	112
Decrease in loans and other receivables		90,286	90,090
Proceeds from redemption and disposal of other financial assets		11,028	1,145
Proceeds from disposal of property, plant and equipment		490,037	56,598
Proceeds from disposal of intangible assets		1,297	2,432
Proceeds from disposal of investments in subsidiaries, associates and joint ventures		56,310	75,404
Proceeds from disposal of investment properties		-	21,853
Proceeds from disposal of assets held for sale		12,710	3,095
Transfer of business	32	13,942	985
Increase in deposits held by financial institutions		(625)	-
Increase in loans and other receivables		(62,062)	(48,555)
Acquisition of other financial assets		(2,963)	(5,600)
Acquisition of property, plant and equipment		(1,108,219)	(1,303,594)
Acquisition of intangible assets		(538,727)	(378,067)
Acquisition of investments in subsidiaries, associates and joint ventures		(70,138)	(91,773)
Net cash outflow from investing activities		<u>(1,107,124)</u>	<u>(1,575,875)</u>
Cash flows from financing activities			
Proceeds from borrowings		1,527,017	1,226,258
Repayments of borrowings		(630,535)	(1,238,500)
Dividends paid	21	(72,885)	(72,885)
Net cash inflow (outflow) from financing activities		<u>823,597</u>	<u>(85,127)</u>
Effects of exchange rate changes on cash and cash equivalents		(4,750)	-
Net increase in cash and cash equivalents		404,533	503,504
Cash and cash equivalents at the beginning of the year	5	1,181,725	678,221
Cash and cash equivalents at the end of the year	5	<u>1,586,258</u>	<u>1,181,725</u>

LG Electronics Inc.
Notes to the Separate Financial Statements
December 31, 2017 and 2016

1. General Information

LG Electronics Inc. (the “Company”) was spun off from LG Electronics Investment Ltd. on April 1, 2002. The Company’s shares were listed on the Korea Exchange on April 22, 2002, and some of its preferred shares, in the form of global depositary receipts (“GDRs”), are listed on the London Stock Exchange at the end of the reporting period. The Company is domiciled in Korea at Yeoui-daero, Yeongdeungpo-gu, Seoul.

As of December 31, 2017, LG Corp. owns 33.7% of the Company’s total shares, excluding preferred shares, while financial institutions, foreign investors and others own the rest.

The Company operates following major business segments: Home Appliance & Air Solution segment manufactures and sells refrigerators, washing machines, vacuum cleaners, and residential and commercial air conditioners; Home Entertainment segment manufactures and sells TVs, monitors, and digital media products; Mobile Communications segment manufactures and sells mobile communications equipment; and Vehicle Components segment designs and manufactures automobile parts. As of December 31, 2017, the Company operates manufacturing facilities mainly in Changwon, Pyeongtaek, Gumi and Incheon in the Republic of Korea.

2. Significant Accounting Policies

The principal accounting policies applied in the preparation of these separate financial statements are stated below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of Preparation

The Company maintains its accounting records in Korean won and prepares statutory financial statements in the Korean language (Hangul) in accordance with International Financial Reporting Standards as adopted by the Republic of Korea (Korean IFRS). The accompanying separate financial statements have been condensed, restructured and translated into English from the Korean language financial statements.

Certain information attached to the Korean language financial statements, but not required for a fair presentation of the Company’s financial position, financial performance or cash flows, is not presented in the accompanying separate financial statements.

The separate financial statements of the Company have been prepared in accordance with Korean IFRS. These are the standards, subsequent amendments and related interpretations issued by the International Accounting Standards Board (IASB) that have been adopted by the Republic of Korea.

The preparation of financial statements requires the use of critical accounting estimates. Management also needs to exercise judgment in applying the Company’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the separate financial statements are disclosed in Note 3.

LG Electronics Inc.
Notes to the Separate Financial Statements
December 31, 2017 and 2016

Changes in Accounting Policies and Disclosures

(a) New and amended standards effective for the financial year beginning January 1, 2017.

- Amendments to Korean IFRS 1007 *Statement of Cash Flows*

Amendments to Korean IFRS 1007 *Statement of Cash Flows* require to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The disclosures required by this amendment are provided in Note 32(b) changes in liabilities from financing activities.

- Amendments to Korean IFRS 1012 *Income Tax*

When assessing whether there is sufficient future taxable profit to assess the probability of realizing a deferred tax asset, amendments clarify that the future taxable profit should exclude tax deductions resulting from the reversal of those deductible temporary differences. In addition, the Company is required to assess a deductible temporary difference separated by and in combination with other deductible temporary differences of the appropriate type depending on whether tax law restricts the source of taxable profit. The application of this amendment does not have a significant impact on the accompanying separate financial statements.

- Amendments to Korean IFRS 1112 *Disclosures of Interests in Other Entities*

Amendments to Korean IFRS 1112 clarify when an entity's interest in a subsidiary, a joint venture or an associate is classified as held for sales or discontinued operations in accordance with Korean IFRS 1105, the entity is required to disclose other information except for summarized financial information in accordance with Korean IFRS 1112. The application of this amendment does not have a significant impact on the accompanying separate financial statements.

(b) New and amended standards and interpretations issued, but not effective for December 31, 2017, and not early adopted by the Company

- Enactment of Korean IFRS 1109 *Financial Instruments*

The new standard for financial instruments issued in September, 2015 is effective for annual periods beginning on or after January 1, 2018 with early application permitted. This standard will replace Korean IFRS 1039 *Financial Instruments: Recognition and Measurement*. The Company will apply the standards for annual periods beginning on or after January 1, 2018.

The standard requires retrospective application with some exceptions. For example, an entity is not required to restate prior period in relation to classification and measurement (including impairment) of financial instruments. The standard requires prospective application of its hedge accounting requirements for all hedging relationships except the accounting for time value of options and other exceptions.

Korean IFRS 1109 requires all financial assets to be classified and measured on the basis of the entity's business model for managing financial assets and the contractual cash flow

LG Electronics Inc.
Notes to the Separate Financial Statements
December 31, 2017 and 2016

characteristics of the financial assets. A new impairment model, an expected credit loss model, is introduced and any subsequent changes in expected credit losses will be recognized in profit or loss. Also, hedge accounting rules are amended to extend the hedging relationship, which consists only of eligible hedging instruments and hedged items, qualifies for hedge accounting, and to change hedge effectiveness test method.

An effective implementation of Korean IFRS 1109 requires preparation processes including financial impact assessment, accounting policy establishment, accounting system development and the system stabilization. The impact on the Company's separate financial statements due to the application of the standard is dependent on judgments made in applying the standard, financial instruments held by the Company and macroeconomic variables.

For application of Korean IFRS 1109, the Company organized internal management process and completed accounting system adjustments, related to reporting of financial instruments. The Company performed an impact assessment to identify potential financial effects of applying Korean IFRS 1109. The assessment was performed based on current circumstances and available information as of December 31, 2017, and the results of the assessment are explained as below.

Classification and Measurement of Financial Assets

When implementing Korean IFRS 1109, the classification of financial assets will be driven by the Company's business model for managing the financial assets and contractual terms of cash flow. The following table shows the classification of financial assets measured subsequently at amortized cost, at fair value through other comprehensive income and at fair value through profit or loss. If a hybrid contract contains a host that is a financial asset, an embedded derivative is not separated from the host, and the Company classifies the financial assets based on the entire hybrid contract.

<i>Business model for the contractual cash flows characteristics</i>	<i>Solely represent payments of principal and interest</i>	<i>All other</i>
<i>Hold the financial asset for the collection of the contractual cash flows</i>	Measured at amortized cost ¹	
<i>Hold the financial asset for the collection of the contractual cash flows and sale</i>	Measured at fair value through other comprehensive income ¹	Measured at fair value through profit or loss ²
<i>Hold for sale and others</i>	Measured at fair value through profit or loss	

¹ A designation at fair value through profit or loss is allowed only if such designation mitigates an accounting mismatch (irrevocable).

² An equity investment that is not held for trading can be recorded in other comprehensive income (irrevocable).

As of December 31, 2017, the Company owns loans and receivables of ₩8,045,710 million and available-for-sales financial assets of ₩32,083 million.

LG Electronics Inc.
Notes to the Separate Financial Statements
December 31, 2017 and 2016

The effect of implementation of Korean IFRS 1109 on classification and measurement of financial assets (excluding derivatives) held by the Company as of December 31, 2017, is as follows:

<i>(in millions of Korean won)</i>	Classification in accordance with		Amount in accordance with	
	Account	Korean IFRS 1039	Korean IFRS 1109	Korean IFRS 1039
Cash and cash equivalents	Loans and trade receivables	Measured at amortized cost	1,586,258	1,586,258
Deposits held by financial institutions	Loans and trade receivables	Measured at amortized cost	82,285	82,285
Trade receivables	Loans and trade receivables	Measured at amortized cost	5,612,250	5,612,250
Other receivables	Loans and trade receivables	Measured at amortized cost	764,917	764,917
Other financial assets	Financial assets available-for-sale	Designated as financial asset at fair value through other comprehensive income	32,083	21,684
Other financial assets	Financial assets available-for-sale	Measured at fair value through profit or loss	-	10,399
Total financial assets excluding derivatives			8,077,793	8,077,793

With implementation of Korean IFRS 1109, ₩10,399 million of available-for-sale financial assets as of December 31, 2017, are classified as financial assets at fair value through profit or loss. However, the change in fair value of those financial assets will not have a significant impact on the accompanying separate financial statements.

Classification and Measurement of Financial Liabilities

Korean IFRS 1109 requires the amount of the change in the liability's fair value attributable to changes in the credit risk of that financial liability to be recognized in other comprehensive income, unless this treatment of the credit risk component creates or enlarges an accounting mismatch. Amounts presented in other comprehensive income are not subsequently recycled to profit or loss.

The Company does not hold financial liabilities designated at fair value through profit or loss as of December 31, 2017 in accordance to Korean IFRS 1109.

Impairment of Financial Assets and Contract Assets

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than recognizing incurred credit losses only when there is an objective evidence of loss as is the case under Korean IFRS 1039. It applies to debt instruments measured at amortized cost or at fair value through other comprehensive income, lease receivables, contract assets, loan commitments and financial guarantee contracts.

LG Electronics Inc.
Notes to the Separate Financial Statements
December 31, 2017 and 2016

Under Korean IFRS 1109 'expected credit loss' model, the Company can recognize expected credit loss earlier than the incurred loss model under Korean IFRS 1039 because the Company shall measure a loss allowance which is updated to reflect changes in credit risk since initial recognition for a financial instrument at the amount equal to the 12-month or lifetime expected credit loss. Korean IFRS 1109 clarifies an exception that a loss allowance for lifetime expected credit losses is required for a financial instrument if contract assets or trade receivables are not considered to contain a significant financing component.

For trade receivables, contract assets, and lease receivables that contain a significant financing component, the Company measures the loss allowance at an amount equal to lifetime expected credit losses at initial recognition. The Company plans to use the simplified approach assuming that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have a low credit risk at the reporting date. Based on the estimation using the simplified approach, the Company expects the application of Korean IFRS 1109 will not have a significant impact on the loss allowance as of December 31, 2017.

Hedge Accounting

Hedge accounting mechanics required by Korean IFRS 1039 remains unchanged in Korean IFRS 1109, however, it changes from the complex and rule-based requirement in Korean IFRS 1039 for hedge accounting to principle-based approach that focuses on the Company's risk management practices. Korean IFRS 1109 allows more hedging instruments and hedged items to qualify for hedge accounting, and relaxes the hedge accounting requirement by removing quantitative (within range of 80-125%) hedge effectiveness to ensure that the hedging relationship has been highly effective throughout the reporting period and is expected to be highly effective.

When the Company first applies Korean IFRS 1109, the Company plans to choose as its accounting policy choice to continue to apply all of the hedge accounting requirements of Korean IFRS 1039. Therefore, the Company expects the application of Korean IFRS 1109 will not have a significant impact on the accompanying separate financial statements.

- Enactment of Korean IFRS 1115 *Revenue from Contracts with Customers*

Korean IFRS 1115 *Revenue from Contracts with Customers* issued in November, 2015 is effective for annual reporting periods beginning on or after January 1, 2018, and earlier application is permitted. This standard replaces Korean IFRS 1018 *Revenue*, Korean IFRS 1011 *Construction Contracts*, Interpretation 2031 *Revenue-Barter Transactions Involving Advertising Services*, Interpretation 2113 *Customer Loyalty Programs*, Interpretation 2115 *Agreements for the Construction of Real Estate*, and Interpretation 2118 *Transfers of assets from customers*. The Company must apply Korean IFRS 1115 *Revenue from Contracts with Customers* within annual reporting periods beginning on or after January 1, 2018, and will apply cumulative effect of the standard implementation by recognizing adjustments on the beginning balance of retained earnings (or other appropriate equity components) in the annual reporting period of implementation. In accordance with the standard, the Company will apply the standard retrospectively to prior reporting period for uncompleted contracts upon implementation date and

LG Electronics Inc.
Notes to the Separate Financial Statements
December 31, 2017 and 2016

apply the practical expedient with no restatement for completed contracts and other.

According to the current Korean IFRS 1018, revenue is recognized in the form of the sales of goods, the rendering of services, interest, royalties, dividends, construction contracts and others. However, according to Korean IFRS 1115, five-step model must be applied for revenue recognition:

- Identify the contracts with customers
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations, and
- Recognize revenue when the entity satisfies a performance obligation

As of December 31, 2017, for the preparation of implementing Korean IFRS 1115, the Company formed a task force team consisting of members from Accounting Division, with support from Information Strategy Division and other practical departments, if necessary. The team analyzed the Company's profit system, organized relevant internal management processes, and established accounting system. The team periodically reports plan and progress of the implementation to the management.

In order to assess the effects of applying Korean IFRS 1115, the Company estimated the financial effects on the accompanying separate financial statements based on current circumstances and available information as of December 31, 2017. Expected financial effects on the accompanying separate financial statements by the major areas of Korean IFRS 1115 are as follows.

Identification of performance obligation

The Company sells home appliances, mobile communications equipment, TVs, monitors, automobile parts and others.

Based on the analysis of the financial effects of applying Korean IFRS 1115 for the fiscal year 2017, the Company expects that identifying performance obligation will not have a significant impact on the accompanying separate financial statements because the Company separates contracts to recognize revenue from service rendered, apart from sales of goods or products.

Variable consideration

The Company may provide promotional incentive to enhance customer's revenue or allow sales returns, which may cause variable consideration.

With implementation of Korean IFRS 1115, the Company estimates an amount of variable consideration by using the expected value which the Company expects to better predict the amount of consideration. The Company recognizes revenue with transaction price including variable consideration only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur. The refund liability is measured at the amount of consideration received for which the Company does not expect to be entitled.

LG Electronics Inc.
Notes to the Separate Financial Statements
December 31, 2017 and 2016

According to current Korean IFRS, the Company estimates an amount of promotional incentive and reverses sales and trade receivables. Instead, with implementation of Korean IFRS 1115, the Company will reverse sales but recognize a refund liability. The Company recognizes an amount of gross profit for products the Company expects to be returned as a return provision according to current Korean IFRS. While, with the implementation of Korean IFRS 1115, the Company will recognize expected amount of return as the refund liability and cost of sales as assets.

Based on the analysis of the financial effects of applying Korean IFRS 1115 for the fiscal year 2017, the Company's revenue is not expected to change when Korean IFRS 1115 is applied. Meanwhile, the Company's trade receivables, contract assets and contract liabilities are expected to increase by ₩144,364 million, ₩650 million, ₩145,014 million, respectively.

Costs to fulfill a contract

The Company's Vehicle Components segment is contracted with car makers for a supply of auto parts and supplies the auto parts to the customers through research and development. If the costs incurred in fulfilling a contract are directly related to the contracts, generate or enhance resources of the entity that will be used in satisfying performance obligations in the future, are expected to be recovered, and are not within the scope of other standards, it is recognized as an asset. Recognized assets are amortized on a systematic basis consistent with the way in which the related goods or services are provided.

Based on the analysis of the financial effects of applying Korean IFRS 1115 for the fiscal year 2017, the Company's contract assets and retained earnings are expected to increase by ₩3,541 million and ₩3,541 million, respectively, when Korean IFRS 1115 is applied, as the costs to fulfill a contract will be capitalized.

Warranties

The Company determines standard warranty coverage periods per product and country considering warranty periods required by law and others when entering into contracts with customers for the sales of products. If the Company provides an extended warranty beyond the standard warranty coverage period or a customer has the option to purchase an additional warranty separately, the warranty is considered as distinct service according to Korean IFRS 1115.

Based on the analysis of the financial effects of applying Korean IFRS 1115 for the fiscal year 2017, the Company will have no significant impact because extended warranties beyond standard terms have been recognized as separate revenue.

Others

The Company has decided to classify and disclose contract assets and contract liabilities and analyzed those accounts that qualify contract assets and contract liabilities as defined in Korean IFRS 1115. Based on the analysis of the financial effects of applying Korean IFRS 1115 for the fiscal year 2017, trade receivables of ₩329,143 million and other receivables of ₩920 million

LG Electronics Inc.
Notes to the Separate Financial Statements
December 31, 2017 and 2016

are expected to be reclassified to contract assets by applying Korean IFRS 1115. Provisions of ₩370 million and other liabilities of ₩288,523 million are expected to be reclassified to contract liabilities by applying Korean IFRS 1115.

The effect of applying Korean IFRS 1109 and 1115 on the accompanying separate financial statements as of December 31, 2017, is as shown in the table below:

(in millions of Korean won)

Account	Current standards	Korean IFRS 1109	Korean IFRS 1115	After application
Current assets:				
Trade receivables	5,612,250	-	(184,779)	5,427,471
Other receivables	472,794	-	(920)	471,874
Contract assets	-	-	330,713	330,713
Current assets without financial effect	3,430,851	-	-	3,430,851
Total current assets	9,515,895	-	145,014	9,660,909
Non-current assets:				
Contract assets	-	-	3,541	3,541
Non-current assets without financial effect	18,643,886	-	-	18,643,886
Total non-current assets	18,643,886	-	3,541	18,647,427
Total assets	28,159,781	-	148,555	28,308,336
Current liabilities:				
Provisions	316,235	-	(370)	315,865
Contract liabilities	-	-	432,725	432,725
Other liabilities	1,907,269	-	(287,341)	1,619,928
Current liabilities without financial effect	9,252,420	-	-	9,252,420
Total current liabilities	11,475,924	-	145,014	11,620,938
Non-current liabilities:				
Contract liabilities	-	-	1,182	1,182
Other liabilities	82,346	-	(1,182)	81,164
Non-current liabilities without financial effect	7,056,654	-	-	7,056,654
Total non-current liabilities	7,139,000	-	-	7,139,000
Total liabilities	18,614,924	-	145,014	18,759,938
Equity:				
Retained earnings	5,602,967	11,433	3,541	5,617,941
Accumulated other comprehensive income	(17,639)	(11,433)	-	(29,072)
Equity without financial effect	3,959,529	-	-	3,959,529
Total equity	9,544,857	-	3,541	9,548,398

LG Electronics Inc.
Notes to the Separate Financial Statements
December 31, 2017 and 2016

- Amendments to Korean IFRS 1102 *Share-based Payment*

Amendments to Korean IFRS 1102 clarify that accounting for a modification to the terms and conditions and fair value measurement of a cash-settled share-based payment are in the same way as an equity-settled share-based payment when it changes the classification of the transaction from cash-settled to equity-settled. This amendment will be effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company does not expect the amendments to have a significant impact on the accompanying separate financial statements.

- Enactment of Interpretation 2122 *Foreign Currency Transaction and Advance Consideration*

According to the enactment, the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the entity shall determine a date of the transaction for each payment or receipt of advance consideration. The enactment will be effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company does not expect the enactment to have a significant impact on the financial statements.

- Enactment of Korean IFRS 1116 *Leases*

Korean IFRS 1116 *Leases* issued on May 22, 2017 is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted. This standard will replace Korean IFRS 1017 *Leases*, Interpretation 2104 *Determining whether an Arrangement contains a Lease*, Interpretation 2015 *Operating Leases-Incentives*, and Interpretation 2027 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

At inception of a contract, the entity shall assess whether the contract is, or contains, a lease. Also, at the date of initial application, the entity shall assess whether the contract is, or contains, a lease in accordance with the standard. However, the entity will not need to reassess all contracts with applying the practical expedient because the entity elected to apply the practical expedient only to contracts entered before the date of initial application.

For a contract that is, or contains, a lease, the entity shall account for each lease component within the contract as a lease separately from non-lease components of the contract.

A lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. The lessee may elect not to apply the requirements to short-term lease (a lease term of 12 months or less at the commencement date) and low value assets (e.g. underlying assets below \$ 5,000). In addition, as a practical expedient, the lessee may elect, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

Lessor accounting treatment does not change significantly from Korean IFRS 1017 *Leases*.

LG Electronics Inc.
Notes to the Separate Financial Statements
December 31, 2017 and 2016

Lessee accounting

A lessee shall apply this standard to its leases either:

- retrospectively to each prior reporting period presented applying Korean IFRS 1008 *Accounting Policies, Changes in Accounting Estimates and Errors* (Full retrospective application); or
- retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application.

The Company plans to apply Korean IFRS 1116 retrospectively with the cumulative effect of initially applying the standard as at January 1, 2019. The Company will not restate any comparative information. Instead, the cumulative effect of applying the standard will be recognized as an adjustment to the opening balance of retained earnings (or another component of equity, as appropriate) at the date of initial application.

The Company performed an impact assessment to identify potential financial effects of applying Korean IFRS 1116. The assessment was performed based on available information as of December 31, 2017 to identify effects on financial statements. The Company is analyzing the effects on the financial statements; however, it is difficult to provide reasonable estimates of financial effects until the analyses is complete.

The total minimum lease payment expected to be paid by the Company in relation to operating leases before discounted to their present value is ₩132,940 million. And, for a contract that is, or contains, a lease, the Company plans to account for each lease component within the contract as a lease separately from non-lease components of the contract.

Lessor accounting

The Company expects the impact on the financial statements applying the new standard will not be significant as accounting for the Company, as a lessor, will not significantly change.

Intermediate lessor accounting

If the Company, as an intermediate lessor, classified the sublease as an operating lease before the date of initial application, the Company shall reclassify the sublease as a finance lease or an operating lease in accordance with Korean IFRS 1116. When the Company determines the sublease as a finance lease, the Company shall account the lease as a new lease entered on the date of initial application.

As of December 31, 2017, the sub-lease contract amounts to ₩26,281 million and the Company is analyzing the impacts on the financial statements including classification of the sublease as an operating lease or a finance lease. However, it is difficult to provide reasonable estimates of financial effects until the analyses is complete.

LG Electronics Inc.
Notes to the Separate Financial Statements
December 31, 2017 and 2016

- Amendments to Korean IFRS 1040 *Transfers of Investment Property*

Transfer to, or from, investment property, including property under construction, can only be made if there has been a change in use that is supported by evidence, and provides a list of circumstances as examples. The amendment will be effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company does not expect the amendment to have a significant impact on accompanying separate the financial statements.

Investments in Subsidiaries, Associates and Joint ventures

In accordance with Korean IFRS 1027 *Separate Financial Statements*, the investments in subsidiaries, associates and joint ventures are recorded at acquisition cost on the basis of the direct equity interest. The Company recognizes a dividend from subsidiaries, associates and joint ventures in profit when its right to receive the dividend is established.

Segment Reporting

Operating segments are established on the basis of business divisions whose internal reporting is provided to the chief operating decision-maker who is the chief executive officer. Segmental disclosures are disclosed in Note 4 of the separate financial statements in accordance with Korean IFRS 1108 *Operating Segment*.

Foreign Currency Translation

(a) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Company operates (the "functional currency"). The Company's functional and presentation currency is 'Korean won'. The separate financial statements are presented in Korean won.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation in case of items subject to re-measurement. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies, are recognized in the separate statements of profit or loss, except cash flow hedges qualifying to be recognized in other comprehensive income.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analyzed between translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortized cost are recognized in profit or loss, and other changes in carrying amount are recognized in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities, such as equities held at fair value through profit or loss, are recognized in the separate statements of profit or loss as part of the

LG Electronics Inc.
Notes to the Separate Financial Statements
December 31, 2017 and 2016

fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available-for-sale, are recognized in other comprehensive income.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits at banks, and other short-term highly liquid investments with original maturities of three months or less.

Financial Instruments

Classification

The Company classifies its financial instruments in the following categories: financial assets and liabilities at fair value through profit or loss, loans and receivables, available-for-sale financial assets, held-to-maturity investments, other financial liabilities at amortized cost, derivatives for hedging purpose, and financial guarantee liabilities. The classification depends on the purpose for which the financial instruments were acquired and the nature of the instruments. The company determines the classification of financial instruments at initial recognition.

(a) Financial assets and liabilities at fair value through profit or loss

Financial assets and liabilities at fair value through profit or loss are financial instruments held for trading. Financial assets and liabilities are classified in this category if acquired or incurred principally for the purpose of selling or repurchasing it in the near term. Derivatives that are not designated as hedges and financial instruments having embedded derivatives are also included in this category. Financial assets and liabilities at fair value through profit or loss of the Company are categorized in other financial assets and other financial liabilities on the separate statements of financial position, respectively.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Company's loans and receivables comprise cash and cash equivalents, deposits held by financial institutions, trade receivables, and other receivables.

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in other financial assets as non-current assets unless their maturities are less than 12 months or management intends to dispose of them within 12 months of the end of the reporting period.

(d) Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability

LG Electronics Inc.
Notes to the Separate Financial Statements
December 31, 2017 and 2016

to hold to maturity and are classified as other financial assets in the statements of financial position. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months after the end of the reporting period, which are classified as current assets.

(e) Financial liabilities measured at amortized cost

Non-derivative financial liabilities are included in financial liabilities at amortized cost, except for financial liabilities at fair value through profit or loss. When a transfer of financial assets does not qualify for derecognition, associated financial liabilities are classified as the same category of the financial assets, and the transferred assets are continuously recognized and a financial liability is measured as the consideration received. Financial liabilities measured at amortized cost are included in non-current liabilities, except for maturities less than 12 months after the end of the reporting period, which are classified as current liabilities.

(f) Other

Derivatives for hedging purpose and financial guarantee liabilities are grouped in other financial assets or other financial liabilities, and are accounted in accordance with Derivative Financial Instruments and Financial Guarantee Contracts in Note 2.

Recognition and Measurement

Regular purchases and sales of financial assets are recognized on the trade date. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss is initially recognized at fair value, and transaction costs are expensed in the separate statements of profit or loss. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity financial assets are subsequently carried at amortized cost using the effective interest rate method.

Gains or losses arising from changes in the fair value of the financial assets carried at fair value through profit or loss are presented in the separate statements of profit or loss within other non-operating income and expenses in the period in which they arise. However, gains or losses on settlement of derivatives relative to borrowings are presented in financial income and expenses. The Company recognizes a dividend from financial assets at fair value through profit or loss in the separate statements of profit or loss within non-operating income when its right to receive the dividend is established.

Changes in the fair value of monetary and non-monetary securities classified as available-for-sale financial assets are recognized in other comprehensive income. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognized in equity are reported in the separate statements of profit or loss as other non-operating income and expenses.

Interest on available-for-sale securities and held-to-maturity financial assets calculated using the

LG Electronics Inc.
Notes to the Separate Financial Statements
December 31, 2017 and 2016

effective interest method is recognized in the separate statements of profit or loss as part of financial income. Dividends on available-for-sale equity instruments are recognized in the separate statements of profit or loss as part of other non-operating income when the Company's right to receive payments is established.

Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

Derecognition

Financial assets are derecognized when the contractual rights to receive cash from the investments have expired or have been transferred and the Company has substantially transferred all risks and rewards of ownership or when the risk and rewards of ownership of transferred assets have not been substantially retained or transferred and the Company has not retained control over these assets.

Trade receivable discounted and collaterals on factoring transaction such as trade receivable and others that do not qualify for the requirement above are not derecognized because the Company retains substantially all the risks and rewards due to recourse conditions in case of debtors' default on obligations and others. Financial liabilities associated with such transactions are categorized in 'borrowings' in the statements of financial position.

Impairment of Financial Assets

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or a group of financial assets that can be reliably estimated.

The criteria that the Company uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- For economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganization;
- The disappearance of an active market for that financial asset because of financial difficulties;
- or
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, even though the decrease cannot be identified with the individual financial assets in the portfolio,

LG Electronics Inc.
Notes to the Separate Financial Statements
December 31, 2017 and 2016

including:

- (i) adverse changes in the payment status of borrowers in the portfolio;
- (ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

(a) Loans and receivables and held-to-maturity financial assets (measured at amortized cost)

Impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognized in the separate statements of profit or loss. Impairment of assets measured at amortized cost is presented as a deduction in an allowance account. Impairment of other financial assets is directly deducted from their carrying amount. The Company writes off financial assets when the assets are determined to be no longer recoverable. In case of financial assets with variable interest rates, impairment losses are recognized with current effective interest rates in accordance with the contract.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in the separate statements of profit or loss.

(b) Available-for-sale financial assets

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities classified as available-for-sale, the Company uses the criteria referred to in (a) above. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the asset is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from equity and recognized in the separate statements of profit or loss. Impairment losses recognized in the separate statements of profit or loss on equity instruments are not reversed through the separate statements of profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the separate statements of profit or loss.

Derivative Financial Instruments

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The resulting gain or loss that does not meet the conditions for hedge accounting is recognized in other non-operating income and expenses or financial income and expenses according to the nature of transactions.

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

LG Electronics Inc.
Notes to the Separate Financial Statements
December 31, 2017 and 2016

ineffective portion is recognized immediately in the separate statements of profit or loss within other non-operating income and expenses or financial income and expenses.

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the separate statements of profit or loss within other non-operating income and expenses or financial income and expenses.

Trade Receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets. Trade receivables are recognized initially at fair value, less allowance for doubtful debts.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the monthly weighted-average method, except for inventories in-transit which is determined using the specific identification method. The cost of finished goods and work-in-process comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). The Company periodically reviews a possibility of the significant changes in net realizable value of inventories from not in use, decrease in market value and obsolescence, and recognizes as Allowances for Valuation of Inventories. Net realizable value is the estimated selling price in the ordinary course of business, less applicable selling expenses.

Assets Held for Sale and Discontinued Operations

Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount or fair value less costs to sell.

When a component of discontinued operations or a component of the Company representing a separate major line of business or geographical area of operation has been disposed of, the Company discloses in the separate statements of profit or loss the post-tax profit or loss of discontinued operations and the post-tax gain or loss recognized on the measurement to fair value less costs to sell or on the disposal of the assets or disposal groups constituting the discontinued operation. The net cash flows attributable to the operating, investing and financing activities of discontinued operations are presented in the notes to the separate financial statements.

Property, Plant and Equipment

All property, plant and equipment are stated at historical cost less depreciation and impairment. Historical cost includes expenditures directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will

LG Electronics Inc.
Notes to the Separate Financial Statements
December 31, 2017 and 2016

flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the separate statements of profit or loss during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate the difference between their acquisition cost and their residual values over their major estimated useful lives, as follows:

Buildings and structures	20, 40 years
Machinery	5, 10 years
Tools	5 years
Equipment	5 years
Other	5 years

The assets' depreciation method, residual values, and useful lives are reviewed, and adjusted if appropriate, at each financial year-end. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within other non-operating income and expenses in the separate statements of profit or loss.

Borrowing Costs

Borrowing costs incurred in the acquisition or construction of a qualifying asset are capitalized in the period when it is prepared for its intended use, and investment income earned on the temporary investment of borrowings made specifically for the purpose of obtaining a qualifying asset is deducted from the borrowing costs eligible for capitalization during the period. Other borrowing costs are recognized as expenses for the period in which they are incurred.

Government Grants

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Company will comply with all attached conditions.

Government grants relating to income are deferred and recognized in the separate statements of profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are presented as a deduction of related assets and are credited to depreciation over the expected lives of the related assets.

Intangible Assets

(a) Goodwill

Goodwill represents the excess of the aggregate of the consideration transferred, and the acquisition-date fair value of the Company's previously held equity interest in the acquiree over the

LG Electronics Inc.
Notes to the Separate Financial Statements
December 31, 2017 and 2016

net identifiable assets at the date of acquisition. Goodwill is tested at least annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed.

(b) Industrial property rights

Industrial property rights are shown at historical cost. Industrial property rights have a finite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of industrial property rights over their estimated useful lives of ten years.

(c) Development costs

New product development project is processed through product planning, design planning, product design, mass production verification, production readiness approval, and shipment approval. The Company generally recognizes expenditures incurred during and after the product design phase as development costs, and expenditures incurred before the phase are recognized as expenses within research and development expenses. Costs recognized as development costs are controlled by the Company and directly attributable to identifiable development projects, and meet all the following criteria.

- It is technically feasible to complete the intangible asset so that it will be available for use;
- Management intends to complete the intangible asset and use or sell it;
- There is the ability to use or sell the intangible asset;
- It can be demonstrated how the intangible asset will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development for using and selling the intangible asset are available; and
- The expenditure attributable to the intangible asset during its development can be reliably measured.

Amortization of development costs based on the straight-line method over their estimated useful lives of one to three years begins at the commencement of the commercial production of the related products or use of the related technology.

(d) Membership

Membership rights are regarded as intangible assets with an indefinite useful life and are not amortized because there is no foreseeable limit to the period over which the assets are expected to be utilized. All membership rights are tested annually for impairment and stated at acquisition cost less accumulated impairment.

(e) Other intangible assets

Other intangible assets such as customer relationships, values of technics and software which meet the definition of an intangible asset are amortized using the straight-line method over their estimated useful lives of five to ten years.

LG Electronics Inc.
Notes to the Separate Financial Statements
December 31, 2017 and 2016

Investment Property

Investment property is held to earn rentals or for capital appreciation or both. Investment property is measured initially at its cost including transaction costs incurred in acquiring the asset. After recognition as an asset, investment property is carried at its cost less any accumulated depreciation and impairment losses.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the separate statements of profit or loss during the financial period in which they are incurred.

Land held for investment is not depreciated. Investment property, except for land, is depreciated using the straight-line method over their estimated useful lives (representative useful lives: 20 years, 40 years).

The depreciation method, the residual value and the useful life of an asset are reviewed at each financial year end and, if management judges that previous estimates should be adjusted, the change is accounted for as a change in an accounting estimate.

Impairment of Non-Financial Assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortization and are tested at least annually for impairment. At the end of each reporting period, assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized as 'profit or loss for the year' for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and its value in use. The value in use is measured by determining the estimated pre-tax cash flows based on past performance and its expectations of market development, and applying the pre-tax discount rates that reflect specific risks relating to the relevant operating segments. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

Trade Payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method. Current trade payables measured initially at fair value are not significantly different from amortized cost using the effective interest method.

LG Electronics Inc.

Notes to the Separate Financial Statements

December 31, 2017 and 2016

Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the separate statements of profit or loss over the period of the borrowings using the effective interest method. The Company classifies the liability as current as long as it does not have an unconditional right to defer its settlement for over 12 months after the end of the reporting period.

Financial Guarantee Contracts

Financial guarantee contracts are contracts that require 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 original or modified terms of a debt instrument. Financial guarantee contracts provided by the Company are initially measured at fair value on the date the guarantee was given. Subsequent to initial recognition, the Company's liabilities under such guarantees are measured at the higher of the amounts below and recognized as 'other financial liabilities':

- The amount determined in accordance with Korean IFRS 1037 *Provisions, Contingent Liabilities and Contingent Assets*; or
- The initial amount, less accumulated amortization recognized in accordance with Korean IFRS 1018 *Revenue*.

Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events and an outflow of resources required to settle the obligation is probable and can be reliably estimated. The Company recognizes a warranty provision, a sales return provision, a provision for restoration, and a provision for litigation.

A warranty provision is accrued for the estimated costs of future warranty claims based on historical experience. Sales return provision is for the estimated sales returns based on historical results. Where the Company, as a tenant, is required to restore its leased assets to their original state at the end of the lease-term, the Company recognizes the present value of the estimated cost of restoration as a provision for restoration. When there is a probability that an outflow of economic benefits will occur from litigation or disputes, and whose amount is reasonably estimable, a corresponding amount of provision is recognized as a provision for litigation in the separate financial statements.

A contingent liability is disclosed (Note 33) when;

- a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or
- a present obligation that arises from past events but is not recognized because: it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or the amount of the obligation cannot be measured with sufficient reliability.

LG Electronics Inc.
Notes to the Separate Financial Statements
December 31, 2017 and 2016

Current and Deferred Income Tax

The tax expense for the year comprises current and deferred tax. Tax is recognized in the statements of profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case the tax is also recognized in other comprehensive income or directly in equity, respectively.

The tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the separate financial statements. It represents future tax consequences that will arise when recovering or settling the carrying amount of its assets and liabilities. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor tax profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilized.

Deferred income tax liabilities are provided on taxable temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax assets are recognized only to the extent that it is probable that the taxable temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention either to settle the balances on a net basis.

Employee Benefits

(a) Post-employment benefits

The Company operates various pension schemes. The schemes are generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations. The Company operates both defined contribution and defined benefit plans.

A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate fund. The Company has no legal or constructive obligations to pay further contributions

LG Electronics Inc.
Notes to the Separate Financial Statements
December 31, 2017 and 2016

even if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. For the defined contribution plan, the Company pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Company has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expenses when an employee has rendered service. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

A defined benefit plan is a pension plan that is not a defined contribution plan. Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary levels. The liability recognized in the separate statements of financial position in respect of the net defined benefit pension plan is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognized past-service costs. The defined benefit liability is calculated annually by independent qualified actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability. The remeasurements of the net defined benefit liability are recognized in other comprehensive income.

If any plan amendments, curtailments, or settlements occur, past service costs or any gains or losses on settlement are recognized as profit or loss for the year.

(b) Other long-term employee benefits

The Company provides other long-term employee benefits to their employees. The entitlement to these benefits is usually conditional on the employee working more than ten years. The expected costs of these benefits are accrued over the period of employment using the same accounting methodology as used for defined benefit pension plans. The Company recognizes past service cost, net interest on other long-term employee benefits and remeasurements as profit or loss for the year. These benefits are calculated annually by independent qualified actuaries.

(c) Termination benefits

Termination benefits are payable when employment is terminated by the Company before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognizes termination benefits at the earlier of the following dates: when the entity can no longer withdraw the offer of those benefits or when the entity recognizes costs for a restructuring.

Share Capital

Ordinary shares and preferred shares without mandatory dividends or the obligation to be repaid are classified as equity.

Where the Company purchases its own ordinary shares, the consideration paid, including any

LG Electronics Inc.
Notes to the Separate Financial Statements
December 31, 2017 and 2016

directly attributable incremental costs, is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such treasury shares are subsequently reissued, any consideration received is included in equity attributable to the Company's equity holders.

Revenue Recognition

Revenue comprises the fair value of the consideration received or receivable for the sales of goods and services in the ordinary course of the Company's activities. Revenue is shown net of value-added tax, returns, rebates and discounts.

The Company recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Company and when specific criteria have been met for each of the Company's activities as described below. The revenue can be reliably measured only when any contingency related to sales is resolved. The Company bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) Sales of goods

The Company manufactures and sells home appliances, mobile communication, TV, monitors, vehicle components and others. Sales of goods are recognized when the Company has delivered products to the customer. Delivery does not occur until the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Company has objective evidence that all criteria for acceptance have been satisfied.

The products are often sold with volume discounts and customers have a right to return faulty products. Accumulated experience is used to estimate and provide for the discounts and returns. The volume discounts are assessed based on anticipated annual purchases. The Company recognizes provisions for product warranties and sales returns based on reasonable expectation reflecting warranty obligation and sales return rates incurred historically.

(b) Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with such transaction is recognized by reference to the percentage of completion of the services. Any changes in expected revenue, cost or the amount of services rendered are accounted for as changes in estimates. These changes in estimates may bring adjustments to the expected revenue or cost which is recognized in the statement of profit or loss in the period in which the management recognizes the changes in circumstances.

(c) Royalty income

Royalty income is recognized on an accrual basis in accordance with the substance of the relevant agreements.

LG Electronics Inc.
Notes to the Separate Financial Statements
December 31, 2017 and 2016

(d) Other income

Income from rental, lease and others is recognized in income on a straight-line basis over the period of the contract.

(e) Interest income

Interest income is recognized using the effective interest method. When receivables are impaired, the Company reduces the carrying amount to its recoverable amount and continues unwinding the discount as interest income. Interest income on impaired receivables is recognized using the original effective interest rate.

(f) Dividend income

Dividend income is recognized when the right to receive payment is established.

Leases

A lease is an agreement, whereby the lessor conveys to the lessee, in return for a payment or series of payments, the right to use an asset for an agreed period of time.

(a) Lessees

The Company classifies leases that do not transfer substantially all the risks and rewards of ownership incidental to ownership of assets as operating leases. Payments made under operating leases are charged to the separate statements of profit or loss on a straight-line basis over the period of the lease.

The Company classifies leases that transfer substantially all the risks and rewards of ownership incidental to ownership of assets as finance leases. Finance leases are recognized as financial lease assets and liabilities at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

(b) Lessors

The Company classifies a lease that transfers substantially all the risks and rewards incidental to ownership of an asset at inception of the lease as a finance lease. A lease other than a finance lease is classified as an operating lease.

Lease income from operating lease is recognized on a straight-line basis over the lease term. Initial direct costs incurred by lessors in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as the lease income.

Dividend Distribution

A dividend liability is recognized in the separate financial statements when the dividends are approved by the shareholders at their general meeting.

LG Electronics Inc.
Notes to the Separate Financial Statements
December 31, 2017 and 2016

Earnings per Share

Basic earnings per share is calculated by dividing the profit attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares in issue excluding shares held as treasury shares. Preferred shares have a right to participate in the profits of the Company. These participation rights have been considered in presenting the EPS for ordinary shares and preferred shares.

Greenhouse Gas Emissions Rights (Allowances) and Obligations

Emission rights are defined as allowed amount of emissions that can be released, allocated by the Korean government as 'Act on the Allocation and Trading of Greenhouse-Gas Emission Permits' takes effect. Emission rights that are received free of charge from the government are measured at zero, while the rights purchased additionally from trading market such as the Korea Exchange are measured at acquisition cost. Emission rights are subsequently stated as acquisition cost less accumulated impairment loss. Emission liabilities are measured as the sum of the carrying amount of emission rights to be delivered to the government to settle the obligation for emissions occurred and expected expenditure required at the end of the reporting period for any excess emissions. The emission rights and liabilities are classified as 'intangible assets' and 'provisions', respectively, in the separate statement of financial position.

Business Combination

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Company. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the Company's share of the identifiable net assets acquired is recorded as goodwill.

3. Critical Accounting Estimates and Judgments

The estimates and judgments are continuously evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable.

The Company makes estimates and assumptions concerning the future. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing adjustments to the carrying amounts of assets and liabilities after the end of the reporting period are addressed below.

(a) Revenue Recognition

The Company recognizes revenue using the percentage of completion method for the rendering of

LG Electronics Inc.
Notes to the Separate Financial Statements
December 31, 2017 and 2016

service such as installation. When using the percentage of completion method, revenue shall be recognized in accordance with the progress of the transaction. It is calculated based on potential economic benefits and the estimated cost for the completion of the transaction. The factors for the estimation of revenue may vary.

(b) Impairment of Goodwill

The Company tests goodwill regularly for impairment. The recoverable amounts of cash-generating units have been determined based on fair value less costs of disposal or value-in-use calculations. These calculations require the use of estimates.

(c) Income Taxes

The Company recognizes assets and liabilities for anticipated tax audit issues based on the best estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

(d) Fair Value of Financial Instruments

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Company uses its judgment to select a variety of methods and makes assumptions that are mainly based on market conditions existing at the end of each reporting period.

(e) Provisions

The Company recognizes provisions for product warranties and sales returns based on their historical data.

(f) Net Defined Benefit Liabilities

The present value of the defined benefit liability depends on various factors that are determined on an actuarial basis. The assumptions used in determining the net cost (income) for pensions include the discount rate, which is the interest rate that is used to determine the present value of estimated future cash outflows expected to be required to settle the defined benefit liability. In determining the appropriate discount rate, the Company considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability. Other key assumptions for defined benefit liability are based on current market conditions.

LG Electronics Inc.
Notes to the Separate Financial Statements
December 31, 2017 and 2016

4. Financial Instruments by Category and Offsetting Financial Assets and Financial Liabilities

(a) Categorizations of financial instruments as of December 31, 2017 and 2016, are as follows:

December 31, 2017						
<i>(in millions of Korean won)</i>	Financial assets at fair value through profit or loss	Loans and receivables	Available-for-sale financial assets	Held-to-maturity financial assets	Other	Total
Cash and cash equivalents	-	1,586,258	-	-	-	1,586,258
Deposits held by financial institutions	-	82,285	-	-	-	82,285
Trade receivables	-	5,612,250	-	-	-	5,612,250
Loans and other receivables	-	764,917	-	-	-	764,917
Other financial assets	-	-	32,083	-	1,862	33,945
Total	-	8,045,710	32,083	-	1,862	8,079,655

December 31, 2017				
<i>(in millions of Korean won)</i>	Financial liabilities at fair value through profit or loss	Financial liabilities carried at amortized cost	Other	Total
Trade payables	-	6,126,168	-	6,126,168
Borrowings	-	7,441,840	-	7,441,840
Other payables	-	2,351,816	-	2,351,816
Other financial liabilities	-	-	76,877	76,877
Total	-	15,919,824	76,877	15,996,701

December 31, 2016						
<i>(in millions of Korean won)</i>	Financial assets at fair value through profit or loss	Loans and receivables	Available-for-sale financial assets	Held-to-maturity financial assets	Other	Total
Cash and cash equivalents	-	1,181,725	-	-	-	1,181,725
Deposits held by financial institutions	-	81,659	-	-	-	81,659
Trade receivables	-	4,985,573	-	-	-	4,985,573
Loans and other receivables	-	798,291	-	-	-	798,291
Other financial assets	-	-	32,581	-	46,184	78,765
Total	-	7,047,248	32,581	-	46,184	7,126,013

December 31, 2016				
<i>(in millions of Korean won)</i>	Financial liabilities at fair value through profit or loss	Financial liabilities carried at amortized cost	Other	Total
Trade payables	-	5,516,849	-	5,516,849
Borrowings	-	6,631,320	-	6,631,320
Other payables	-	2,086,003	-	2,086,003
Other financial liabilities	-	-	84,401	84,401
Total	-	14,234,172	84,401	14,318,573

LG Electronics Inc.
Notes to the Separate Financial Statements
December 31, 2017 and 2016

(b) Net gains or losses on each category of financial instruments for the years ended December 31, 2017 and 2016, are as follows:

<i>(in millions of Korean won)</i>	2017					
	Financial assets at fair value through profit or loss	Loans and receivables	Available-for-sale financial assets	Held-to-maturity financial assets	Other	Total
Interest income	-	21,557	-	-	-	21,557
Exchange differences	-	(547,913)	-	-	-	(547,913)
Bad debt expense	-	5,566	-	-	-	5,566
Loss on disposal of trade receivables	-	(3,485)	-	-	-	(3,485)
Gain on disposal of available-for-sale financial assets	-	-	9,173	-	-	9,173
Impairment loss on available-for-sale financial assets	-	-	(250)	-	-	(250)
Dividend income	-	-	228	-	-	228
Loss on valuation of available-for-sale financial assets, net of tax (through other comprehensive loss)	-	-	(1,180)	-	-	(1,180)
Gain on derivatives, net of tax (through other comprehensive income)	-	-	-	-	2,224	2,224
Others	-	334	-	-	-	334

<i>(in millions of Korean won)</i>	2017			
	Financial liabilities at fair value through profit or loss	Financial liabilities carried at amortized cost	Other	Total
Interest expenses	-	(190,420)	(17,317)	(207,737)
Exchange differences	-	603,212	(70,221)	532,991
Gain on derivatives, net of tax (through other comprehensive income)	-	-	26,967	26,967
Others	-	(589)	3,062	2,473

<i>(in millions of Korean won)</i>	2016					
	Financial assets at fair value through profit or loss	Loans and receivables	Available-for-sale financial assets	Held-to-maturity financial assets	Other	Total
Interest income	-	19,485	-	-	-	19,485
Exchange differences	-	145,255	-	-	-	145,255
Bad debt expense	-	70,802	-	-	-	70,802
Loss on disposal of trade receivables	-	(3,219)	-	-	-	(3,219)
Gain on disposal of available-for-sale financial assets	-	-	50	-	-	50
Impairment loss on available-for-sale financial assets	-	-	(6,116)	-	-	(6,116)
Dividend income	-	-	254	-	-	254

LG Electronics Inc.
Notes to the Separate Financial Statements
December 31, 2017 and 2016

<i>(in millions of Korean won)</i>	2016					
	Financial assets at fair value through profit or loss	Loans and receivables	Available-for-sale financial assets	Held-to-maturity financial assets	Other	Total
Loss on valuation of available-for-sale financial assets, net of tax (through other comprehensive loss)	-	-	(370)	-	-	(370)
Gain on derivatives, net of tax (through other comprehensive income)	-	-	-	-	773	773
Others	-	13,922	-	-	-	13,922

<i>(in millions of Korean won)</i>	2016			
	Financial liabilities at fair value through profit or loss	Financial liabilities carried at amortized cost	Other	Total
Interest expenses	-	(203,901)	(22,518)	(226,419)
Exchange differences	-	(183,407)	20,616	(162,791)
Loss on derivatives, net of tax (through other comprehensive loss)	-	-	(1,429)	(1,429)
Others	-	-	3,295	3,295

(c) Recognized financial instruments that are subject to an enforceable master netting arrangements or similar arrangements as of December 31, 2017 and 2016, are as follows:

<i>(in millions of Korean won)</i>	2017					
	Recognized financial instrument	Recognized financial instrument offset	Net amounts presented in the statement of financial position	Amounts not offset		Net amount
				Financial instruments	Cash collateral	
Financial assets						
Trade receivables	52,820	(52,819)	1	-	-	1
Financial liabilities						
Trade payables	85,107	(52,819)	32,288	-	-	32,288

<i>(in millions of Korean won)</i>	2016					
	Recognized financial instrument	Recognized financial instrument offset	Net amounts presented in the statement of financial position	Amounts not offset		Net amount
				Financial instruments	Cash collateral	
Financial assets						
Trade receivables	49,904	(47,507)	2,397	-	-	2,397
Financial liabilities						
Trade payables	63,109	(47,507)	15,602	-	-	15,602

LG Electronics Inc.
Notes to the Separate Financial Statements
December 31, 2017 and 2016

5. Cash and Cash Equivalents, and Deposits held by Financial Institutions

(a) Cash and cash equivalents

Cash and cash equivalents in the separate statements of financial position are equal to the cash and cash equivalents in the separate statements of cash flows. Details are as follows:

<i>(in millions of Korean won)</i>	December 31, 2017	December 31, 2016
Cash on hand	10	10
Bank deposits	1,586,248	1,181,715
Total	1,586,258	1,181,725

(b) Deposits held by financial institutions

The deposits held by financial institutions restricted in use as of December 31, 2017 and 2016, are as follows:

<i>(in millions of Korean won)</i>	December 31, 2017	December 31, 2016
Current		
Fund for business cooperation	80,500	80,500
Non-current		
Deposit for checking account	33	37
National project	1,752	1,122
Subtotal	1,785	1,159
Total	82,285	81,659

6. Trade Receivables and Other Receivables

(a) Trade receivables and other receivables, net of allowance for doubtful accounts, as of December 31, 2017 and 2016, are as follows:

<i>(in millions of Korean won)</i>	December 31, 2017			December 31, 2016		
	Original amount	Allowance for doubtful accounts	Carrying amount	Original amount	Allowance for doubtful accounts	Carrying amount
Trade receivables	5,634,969	(22,719)	5,612,250	5,014,606	(29,033)	4,985,573
Other receivables						
Current	479,488	(6,694)	472,794	501,493	(9,315)	492,178
Non-current	292,634	(511)	292,123	306,121	(8)	306,113

LG Electronics Inc.
Notes to the Separate Financial Statements
December 31, 2017 and 2016

(b) Details of other receivables as of December 31, 2017 and 2016, are as follows:

<i>(in millions of Korean won)</i>	December 31, 2017	December 31, 2016
Current		
Loans	18,206	24,708
Non-trade receivables	341,033	312,721
Accrued income	97,472	145,962
Deposits	16,083	8,787
Subtotal	472,794	492,178
Non-current		
Loans	77,091	81,950
Non-trade receivables	11,613	-
Deposits	203,419	224,163
Subtotal	292,123	306,113
Total	764,917	798,291

(c) The aging analysis of trade receivables and other receivables as of December 31, 2017 and 2016, is as follows:

<i>(in millions of Korean won)</i>	December 31, 2017				December 31, 2016			
	Trade receivables	Other receivables		Total	Trade receivables	Other receivables		Total
		Current	Non-current			Current	Non-current	
Receivables not past due	5,351,238	353,236	282,949	5,987,423	4,651,879	358,689	296,845	5,307,413
Past due but not impaired								
Up to 6 months	236,993	14,325	9,188	260,506	186,612	21,471	9,274	217,357
7 to 12 months	14,090	18,324	497	32,911	17,541	35,291	2	52,834
Over 1 year	21,779	85,977	-	107,756	147,937	75,796	-	223,733
Subtotal	272,862	118,626	9,685	401,173	352,090	132,558	9,276	493,924
Impaired	10,869	7,626	-	18,495	10,637	10,246	-	20,883
Total	5,634,969	479,488	292,634	6,407,091	5,014,606	501,493	306,121	5,822,220

(d) The allowance for doubtful accounts is recognized based on aging analysis and historical experience.

(e) The Company classifies individually impaired receivables as defaulted receivables if the receivables are impaired due to reasons including bankruptcy and insolvency of the debtors. Defaulted receivables are classified into two categories of rehabilitation related receivables and other defaulted receivables. The Company performs impairment test on rehabilitation related receivables based on expected repayment amount and recognizes impairment loss on other defaulted receivables based on types and values of collaterals.

LG Electronics Inc.
Notes to the Separate Financial Statements
December 31, 2017 and 2016

- (f) Movements in allowance for doubtful accounts for the years ended December 31, 2017 and 2016, are as follows:

<i>(in millions of Korean won)</i>	2017			At Dec. 31
	At Jan. 1	Addition (Reversal)	Write-off and other	
Trade receivables	29,033	(5,165)	(1,149)	22,719
Other receivables				
Current	9,315	(904)	(1,717)	6,694
Non-current	8	503	-	511

<i>(in millions of Korean won)</i>	2016			At Dec. 31
	At Jan. 1	Addition (Reversal)	Write-off and other	
Trade receivables	101,442	(72,419)	10	29,033
Other receivables				
Current	7,693	1,622	-	9,315
Non-current	13	(5)	-	8

The bad debt expenses of trade receivables have been included in selling and marketing expenses in the separate statement of profit or loss and the bad debt expenses of other receivables have been included in other non-operating expenses'. Amounts charged to the allowance account are generally reversed when reasons for allowance are resolved, or written off when there is no expectation of recovering additional cash.

- (g) There are no financial assets transferred but not derecognized in their entirety, and no associated liabilities recognized as of December 31, 2017.

7. Other Financial Assets and Liabilities

- (a) Details of other financial assets and liabilities as of December 31, 2017 and 2016, are as follows:

<i>(in millions of Korean won)</i>	December 31, 2017	December 31, 2016
Other financial assets		
Derivatives	1,862	46,184
Available-for-sale	32,083	32,581
Total	33,945	78,765
Current	-	30,093
Non-current	33,945	48,672

<i>(in millions of Korean won)</i>	December 31, 2017	December 31, 2016
Other financial liabilities		
Derivatives	68,589	73,226
Financial guarantee liability	8,288	11,175
Total	76,877	84,401
Current	6,985	8,665
Non-current	69,892	75,736

LG Electronics Inc.
Notes to the Separate Financial Statements
December 31, 2017 and 2016

(b) Details of derivatives as of December 31, 2017 and 2016, are as follows:

<i>(in millions of Korean won)</i>	December 31, 2017		December 31, 2016	
	Assets	Liabilities	Assets	Liabilities
Current				
Currency swap	-	-	30,093	-
Non-current				
Currency swap	-	32,921	16,091	-
Interest rate swap	1,862	35,668	-	73,226
Subtotal	1,862	68,589	16,091	73,226
Total	1,862	68,589	46,184	73,226

The details of major derivative contracts at the end of the reporting period are presented in Note 36.

(c) Available-for-sale financial assets

i) Changes in carrying amount of available-for-sale financial assets for the years ended December 31, 2017 and 2016, are as follows:

<i>(in millions of Korean won)</i>	2017					
	At Jan. 1	Acquisition	Disposals	Valuation (OCI)	Impairment	At Dec. 31
Listed equity securities	14,835	-	-	(993)	-	13,842
Unlisted equity securities	17,746	2,963	(2,218)	-	(250)	18,241
Total	32,581	2,963	(2,218)	(993)	(250)	32,083

<i>(in millions of Korean won)</i>	2016					
	At Jan. 1	Acquisition	Disposals	Valuation (OCI)	Impairment	At Dec. 31
Listed equity securities	15,323	-	-	(488)	-	14,835
Unlisted equity securities	18,523	6,433	(1,094)	-	(6,116)	17,746
Total	33,846	6,433	(1,094)	(488)	(6,116)	32,581

ii) The listed equity securities among the above equity securities are measured using quoted prices in active markets. However, the unlisted securities are measured at cost as they are mostly in the beginning of their business stages and their fair values cannot be reliably measured.

iii) During the year ended December 31, 2017, the unlisted equity securities amounting to ₩ 2,218 million (2016: ₩ 1,094 million), whose fair value could not be measured reliably and therefore measured at cost, have been derecognized as a result of disposal or return of capital investments. Accordingly, a gain on disposal amounting to ₩ 9,121 million (2016: nil) was recognized as other non-operating income in the statements of profit or loss for the year ended December 31, 2017.

iv) For the years ended December 31, 2017 and 2016, there is no accumulated other comprehensive income recognized for listed equity securities that was reclassified to

LG Electronics Inc.
Notes to the Separate Financial Statements
December 31, 2017 and 2016

impairment loss.

- v) During the year ended December 31, 2017, the Company disposed of unlisted debt securities that carrying amount is not significant, and gain on disposal amounting to ₩ 52 million (2016: ₩ 50 million) was recognized as other non-operating income.
- vi) There is no available-for-sale financial assets held for sale as of December 31, 2017.

8. Inventories

(a) Inventories as of December 31, 2017 and 2016, consist of:

<i>(in millions of Korean won)</i>	December 31, 2017			December 31, 2016		
	Cost	Valuation allowance	Carrying amount	Cost	Valuation allowance	Carrying amount
Finished products and merchandise	676,318	(38,688)	637,630	529,151	(36,966)	492,185
Work-in-process	86,835	(1,741)	85,094	69,039	(2,097)	66,942
Raw materials and supplies	555,770	(63,000)	492,770	562,348	(81,985)	480,363
Other	148,126	(19,954)	128,172	179,067	(32,036)	147,031
Total	1,467,049	(123,383)	1,343,666	1,339,605	(153,084)	1,186,521

(b) The cost of inventories recognized as expense and included in Cost of sales in 2017 amounts to ₩23,633,394 million (2016: ₩21,293,057 million) and Loss on valuation of inventories amounts to ₩39,098 million (2016: ₩147,041 million).

(c) There is no inventory provided as collateral for borrowings as of December 31, 2017.

9. Other Assets

Details of other assets as of December 31, 2017 and 2016, are as follows:

<i>(in millions of Korean won)</i>	December 31, 2017	December 31, 2016
Current:		
Advances	138,730	41,507
Prepaid expenses	219,055	218,168
Prepaid value added tax	55,117	84,876
Subtotal	412,902	344,551
Non-current:		
Long-term prepaid expenses	285,984	250,517
Long-term advances	278,191	304,942
Subtotal	564,175	555,459
Total	977,077	900,010

LG Electronics Inc.
Notes to the Separate Financial Statements
December 31, 2017 and 2016

10. Property, Plant and Equipment, and Intangible Assets

(a) Details of property, plant and equipment as of December 31, 2017 and 2016, are as follows::

<i>(in millions of Korean won)</i>	Land	Buildings	Structures	Machinery	Tools	Equipment	Other	Construction -in-progress	Total
At December 31, 2017									
Acquisition cost	2,121,661	4,102,134	203,543	2,438,819	1,976,031	387,351	390,993	252,407	11,872,939
Accumulated depreciation	-	(885,525)	(109,909)	(1,463,355)	(1,678,775)	(298,187)	(95,726)	-	(4,531,477)
Accumulated impairment	-	(130,897)	(7)	(63,068)	(3,893)	(942)	(349)	-	(199,156)
Net book amount	2,121,661	3,085,712	93,627	912,396	293,363	88,222	294,918	252,407	7,142,306
At December 31, 2016									
Acquisition cost	2,424,067	3,408,668	204,265	2,063,185	2,074,781	375,862	257,637	880,832	11,689,297
Accumulated depreciation	-	(812,886)	(102,284)	(1,329,737)	(1,743,144)	(303,377)	(75,919)	-	(4,367,347)
Accumulated impairment	-	(129,503)	(47)	(22,892)	(3,779)	(171)	(916)	-	(157,308)
Net book amount	2,424,067	2,466,279	101,934	710,556	327,858	72,314	180,802	880,832	7,164,642

(b) Changes in property, plant and equipment for the years ended December 31, 2017 and 2016, are as follows:

2017									
<i>(in millions of Korean won)</i>	Land	Buildings	Structures	Machinery	Tools	Equipment	Other	Construction -in-progress	Total
At January 1, 2017	2,424,067	2,466,279	101,934	710,556	327,858	72,314	180,802	880,832	7,164,642
Acquisitions	1,979	201,469	3,034	44,361	109,879	42,568	185,567	539,074	1,127,931
Transfer-in (out)	17,393	645,636	-	447,523	46,453	7,530	2,964	(1,167,499)	-
Disposals and others	(317,077)	(108,972)	(2,794)	(8,794)	(3,486)	-	(20,849)	-	(461,972)
Decrease due to transfer of business	-	-	-	-	(827)	(6)	-	-	(833)
Depreciation	-	(104,732)	(8,523)	(231,145)	(185,277)	(33,319)	(53,566)	-	(616,562)
Impairment ²	-	(12,612)	(20)	(50,105)	(1,228)	(865)	-	-	(64,830)
Reclassified to assets held for sale	(4,701)	(1,356)	(4)	-	(9)	-	-	-	(6,070)
At December 31, 2017	2,121,661	3,085,712	93,627	912,396	293,363	88,222	294,918	252,407	7,142,306

2016									
<i>(in millions of Korean won)</i>	Land	Buildings	Structures	Machinery	Tools	Equipment	Other	Construction -in-progress	Total
At January 1, 2016	2,428,466	2,353,605	101,768	712,505	352,173	84,335	92,065	325,489	6,450,406
Acquisitions ¹	(6,892)	50,469	400	48,466	145,687	22,822	88,116	1,033,321	1,382,389
Transfer-in (out)	2,876	150,265	7,851	184,498	54,076	1,035	77,332	(477,933)	-
Disposals and others	(383)	(652)	(348)	(17,518)	(5,115)	(439)	(45,160)	(45)	(69,660)
Decrease due to transfer of business	-	-	(68)	-	(27)	(1)	-	-	(96)
Depreciation	-	(87,398)	(7,634)	(200,471)	(217,601)	(35,338)	(31,453)	-	(579,895)
Impairment	-	(10)	(35)	(16,924)	(1,335)	(100)	(98)	-	(18,502)
At December 31, 2016	2,424,067	2,466,279	101,934	710,556	327,858	72,314	180,802	880,832	7,164,642

LG Electronics Inc.
Notes to the Separate Financial Statements
December 31, 2017 and 2016

¹ It includes settlement of land purchase price.

² Divisions in other segments, managed as a separate cash-generating unit (hereafter 'CGU'), have been tested for impairment as accumulation of operating losses has been experienced and a future downturn in sales is expected. And impairment loss of ₩42,554 million (2016: ₩2,937 million) was recognized as other non-operating expense. This impairment loss was allocated to property, plant and equipment, mainly to tools, machinery, and others, since there was no goodwill allocated to the CGU. The recoverable amount was measured at fair value less costs of disposal, and the fair value amount is categorized within 'Level 3' of fair value hierarchy.

(c) Line items including depreciation in the separate statements of profit or loss for the years ended December 31, 2017 and 2016, are as follows:

<i>(in millions of Korean won)</i>	2017	2016
Cost of sales	497,663	442,758
Selling and marketing expenses	9,785	10,364
Administrative expenses	13,515	37,853
Research and development expenses	85,903	77,542
Service costs	5,255	5,358
Other non-operating expenses	4,441	6,020
Total	616,562	579,895

(d) Capitalized borrowing costs and capitalization rates for the years ended December 31, 2017 and 2016, are as follows:

<i>(in millions of Korean won)</i>	2017	2016
Capitalized borrowing costs	14,747	12,578
Capitalization rate (%)	3.13	3.51

(e) There are no property, plant and equipment pledged as collateral for borrowings from banks.

11. Intangible assets

(a) Details of intangible assets are as of December 31, 2017 and 2016, are as follows:

<i>(in millions of Korean won)</i>	Goodwill	Industrial property rights	Development costs	Membership rights	Other intangible assets	Construction -in-progress	Total
At December 31, 2017							
Acquisition cost	88,449	832,322	2,354,335	67,205	620,605	508,415	4,471,331
Accumulated amortization and impairment	(1,214)	(401,930)	(2,068,869)	(3,256)	(521,861)	-	(2,997,130)
Net book amount	87,235	430,392	285,466	63,949	98,744	508,415	1,474,201

LG Electronics Inc.
Notes to the Separate Financial Statements
December 31, 2017 and 2016

<i>(in millions of Korean won)</i>	Goodwill	Industrial property rights	Development costs	Membership rights	Other intangible assets	Construction -in-progress	Total
At December 31, 2016							
Acquisition cost	88,449	802,719	2,159,801	65,903	595,358	220,705	3,932,935
Accumulated amortization and impairment	(1,214)	(383,964)	(1,837,864)	(2,311)	(473,051)	-	(2,698,404)
Net book amount	87,235	418,755	321,937	63,592	122,307	220,705	1,234,531

(b) Changes in intangible assets for the years ending December 31, 2017 and 2016, are as follows:

<i>(in millions of Korean won)</i>	Goodwill	Industrial property rights	Development costs	Membership rights	Other intangible assets	Construction -in-progress	Total
At January 1, 2017	87,235	418,755	321,937	63,592	122,307	220,705	1,234,531
Acquisitions	-	123,550	14,001	1,339	13,518	44,021	196,429
Acquisitions by internal development	-	-	11,428	-	-	454,568	465,996
Transfer-in (out)	-	-	186,150	-	12,674	(198,824)	-
Disposals and others	-	(25,310)	(1,583)	-	(3)	(11,429)	(38,325)
Decrease due to transfer of business	-	-	(566)	-	-	-	(566)
Amortization	-	(80,609)	(241,247)	-	(49,450)	-	(371,306)
Impairment ^{1,2}	-	(5,994)	(4,654)	(982)	(302)	(626)	(12,558)
At December 31, 2017	87,235	430,392	285,466	63,949	98,744	508,415	1,474,201

<i>(in millions of Korean won)</i>	Goodwill	Industrial property rights	Development costs	Membership rights	Other intangible assets	Construction -in-progress	Total
At January 1, 2016	87,235	389,988	356,104	64,566	147,444	109,573	1,154,910
Acquisitions	-	111,750	7,237	-	26,444	42,743	188,174
Acquisitions by internal development	-	-	11,489	-	-	261,110	272,599
Transfer-in (out)	-	-	185,141	-	3,565	(188,706)	-
Disposals and others	-	(7,596)	(110)	(11)	(2,037)	(4,015)	(13,769)
Decrease due to transfer of business	-	(304)	(754)	-	-	-	(1,058)
Amortization	-	(74,884)	(236,783)	-	(52,948)	-	(364,615)
Impairment ^{1,2}	-	(199)	(387)	(963)	(161)	-	(1,710)
At December 31, 2016	87,235	418,755	321,937	63,592	122,307	220,705	1,234,531

¹ Divisions in other segments, managed as a separate cash-generating unit (hereafter 'CGU'), have been tested for impairment as accumulation of operating losses has been experienced and a future downturn in sales is expected, and impairment loss of ₩10,855 million (2016: ₩418 million) was recognized as other non-operating expenses. This impairment loss was allocated to intangible assets, mainly to patent, software, and others, since there was no goodwill allocated to the CGU. The recoverable amount was measured at the higher of fair value less costs of disposal and value in use, and the fair value amount is categorized within 'Level 3' of fair value hierarchy.

² As a result of impairment test for all projects related to development costs, an impairment loss of development costs relating to certain projects determined to have low business value, was recognized as other non-operating expenses.

LG Electronics Inc.
Notes to the Separate Financial Statements
December 31, 2017 and 2016

- (c) Line items including amortization of intangible assets for the years ended December 31, 2017 and 2016, are as follows:

<i>(in millions of Korean won)</i>	2017	2016
Cost of sales	212,065	203,224
Selling and marketing expenses	16,658	12,322
Administrative expenses	71,184	75,634
Research and development expenses	70,136	71,836
Service costs	1,263	1,599
Total	371,306	364,615

- (d) Capitalized borrowing costs and capitalization rates of intangible assets used for the years ended December 31, 2017 and 2016, are as follows:

<i>(in millions of Korean won)</i>	2017	2016
Capitalized borrowing costs	282	85
Capitalization rate (%)	3.13	3.51

- (e) There are no intangible assets pledged as collateral for borrowings as of December 31, 2017.

- (f) Impairment tests for goodwill

- i) Goodwill is allocated among the Company's cash-generating units (CGUs) based on operating segments. As of December 31, 2017, an operating segment-level summary of goodwill allocation is presented below:

<i>(in millions of Korean won)</i>	H&A	MC	Other	Total
Goodwill	55,230	29,894	2,111	87,235

- ii) The recoverable amount of CGUs has been determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by the management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rate which does not exceed the long-term average growth rate for the electronic industry in which the Company operated.
- iii) Management determined the estimated pre-tax cash flow based on past performance and its expectations of market development. Value-in-use is measured by applying the pre-tax discount rates reflecting specific risks relating to the relevant operating segments. Discount rates and nominal long-term growth rates used for calculating the value-in-use of major operating segments are as follows:

	H&A	MC	Other
Discount rates	11.9%	13.7%	11.0%
Nominal long-term growth rates	2.5%	0.0%	1.0%

- iv) During the year ended December 31, 2017, there is no impairment loss on goodwill recognized on the basis of recoverable amounts of a CGU determined based on fair value

LG Electronics Inc.
Notes to the Separate Financial Statements
December 31, 2017 and 2016

less costs of disposal.

(g) Research and development expenses

Research and development expenses are for the years ended December 31, 2017 and 2016, are as follows:

<i>(in millions of Korean won)</i>	2017	2016
Uncapitalized research and development expenditures	2,926,873	3,041,854
Amortization from internally capitalized development costs	166,235	158,647
Total	3,093,108	3,200,501

12. Investments in Subsidiaries, Associates and Joint Ventures

(a) Investments in subsidiaries, associates and joint ventures as of December 31, 2017 and 2016, are as follows:

<i>(in millions of Korean won)</i>	Location	Closing month	Percentage of ownership (%)	Carrying amount	
				December 31, 2017	December 31, 2016
Subsidiaries					
LG Electronics U.S.A., Inc.(LGEUS)	USA	December	100.0	955,542	955,542
LG Innotek Co., Ltd.	Korea	December	40.8	541,538	541,538
LG Electronics India Pvt. Ltd.(LGEIL)	India	March	100.0	311,746	311,746
LG Electronics do Brasil Ltda.(LGEBR)	Brazil	December	100.0	270,631	270,631
LG Electronics Mlawa Sp. z.O.O.(LGEMA)	Poland	December	100.0	214,091	214,091
LG Electronics Tianjin Appliances Co., Ltd.(LGETA)	China	December	70.0	161,331	161,331
LG Electronics European Holdings B.V.(LGEEH)	Netherlands	December	100.0	148,551	148,551
Hiplaza Co., Ltd.	Korea	December	100.0	136,459	136,459
LG Electronics Egypt S.A.E(LGEEG)	Egypt	December	100.0	110,245	20,323
Taizhou LG Electronics Refrigeration Co., Ltd.(LGETR)	China	December	88.4	97,608	97,608
P.T. LG Electronics Indonesia(LGEIN)	Indonesia	December	100.0	94,118	94,118
LG Electronics Vietnam Haiphong Co., Ltd.(LGEVH)	Vietnam	December	100.0	84,784	84,784
LG Electronics Panama, S.A.(LGEPS)	Panama	December	100.0	79,222	79,222
LG Electronics Wroclaw Sp. z.O.O.(LGEWR)	Poland	December	100.0	70,014	70,014
LG Electronics Mexico S.A. DE C.V.(LGEMS)	Mexico	December	100.0	68,721	68,721
LG Electronics Shenyang Inc.(LGESY)	China	December	56.3	63,840	66,415
Hi Entech Co., Ltd.	Korea	December	100.0	63,118	63,118
LG Electronics Thailand Co., Ltd.(LGETH)	Thailand	December	100.0	55,578	55,578
LG Electronics Australia Pty, Ltd.(LGEAP)	Australia	December	100.0	50,664	50,664
Inspur LG Digital Mobile Communications Co., Ltd.(LGEYT)	China	December	60.5	48,624	48,624
LG Electronics RUS, LLC(LGERA)	Russia	December	100.0	43,645	43,645

LG Electronics Inc.
Notes to the Separate Financial Statements
December 31, 2017 and 2016

<i>(in millions of Korean won)</i>	Location	Closing month	Percentage of ownership (%)	Carrying amount	
				December 31, 2017	December 31, 2016
LG Electronics Huizhou Ltd.(LGEHZ)	China	December	45.0	41,984	41,984
LG Electronics Nanjing New Technology co.,LTD(LGENT)	China	December	45.0	38,744	38,744
LG Electronics S.A. (Pty) Ltd.(LGESA)	Republic of South Africa	December	100.0	32,112	32,112
NanJing LG-Panda Appliances Co., Ltd.(LGEPN)	China	December	50.0	26,614	26,614
LG Electronics Colombia Ltda.(LGECEB)	Colombia	December	60.7	25,215	25,215
LG Electronics Peru S.A.(LGEPR)	Peru	December	100.0	25,043	25,043
LG Electronics Overseas Trading FZE(LGEOT)	United Arab Emirates	December	100.0	22,538	22,538
Qingdao LG Inspur Digital Communication Co., Ltd.(LGEQD)	China	December	60.0	22,142	22,142
LG Electronics Air-Conditioning(Shandong) Co., Ltd.(LGEQA)	China	December	100.0	20,615	20,615
LG Soft India Private Limited.(LGSi)	India	March	100.0	20,105	20,105
LG Electronics Finland Lab Oy(LGEFL)	Finland	December	100.0	12,061	9,956
LGE Alliance Fund	Korea	December	96.2	6,200	7,910
V-ENS (M) Sdn. Bhd.	Malaysia	December	100.0	1,856	1,904
Tianjin Lijie cartridge heater Co., Ltd.(LGETL)	China	December	100.0	226	206
LG Alina Electronics(LGERI) (*2)	Russia	December	-	-	470
Others				215,131	215,131
Associates					
LG Display Co., Ltd.	Korea	December	37.9	3,480,623	3,480,623
Hitachi-LG Data Storage Inc.(HLDS)	Japan	December	49.0	131,378	120,668
Ericsson-LG Co., Ltd.	Korea	December	25.0	38,834	51,098
LG Fuel Cell Systems Inc.	USA	December	33.0	76,775	69,375
Kiwigrid GmbH ^{1,3}	Germany	December	17.6	13,019	-
ROBOTIS Co.,Ltd. ^{1,3}	Korea	December	10.1	9,000	-
Korea Information Certificate Authority Inc. ³	Korea	December	6.5	2,088	2,378
SKT Vietnam PTE., Ltd.	Singapore	December	25.4	-	-
Joint ventures					
LG Holdings (HK) Ltd.	China	December	49.0	84,989	129,386
Arcelik-LG Klima Sanayi ve Ticaret A.S.(LGEAT)	Turkey	December	50.0	40,844	40,844
EIC PROPERTIES PTE LTD.	Singapore	December	38.2	7,881	7,881
Total				8,066,087	7,995,665

¹ It was newly acquired in 2017.

² It was liquidated in 2017.

³ Classified as an associate although the percentage of ownership is less than 20% because the Company can exercise a significant influence in the Board of Directors of the investee.

LG Electronics Inc.
Notes to the Separate Financial Statements
December 31, 2017 and 2016

(b) Changes in investments in subsidiaries, associates and joint ventures for the years ended December 31, 2017 and 2016, are as follows:

<i>(in millions of Korean won)</i>	2017	2016
Opening carrying amount	7,995,665	7,963,467
Acquisitions ¹	160,060	136,560
Disposal ²	(59,131)	(49,377)
Impairment	(30,507)	(54,985)
Closing carrying amount	8,066,087	7,995,665

¹ It includes the amount of debt for equity swaps of trade receivables from subsidiaries.

² It includes the decrease in associates and joint ventures' equity due to capital reduction.

(c) Impairment test for investments in subsidiaries, associates and joint ventures

- i) The Company records the investments in subsidiaries, associates and joint ventures at acquisition cost on the basis of the direct equity interest and assesses at the end of each reporting period whether there is any indication that asset may be impaired. If any such indication exists, the Company estimates the recoverable amount of the asset by future cash flow projection technique. And if the recoverable amount of an asset is less than its carrying amount, the Company recognizes an impairment loss immediately by reducing its carrying amount to its recoverable amount.
- ii) The difference of ₩27,884 million between recoverable amount and carrying amount relating to LG Fuel Cell Systems Inc., an associate, is recognized in the statement of profit or loss within other non-operating expenses for the year ended December 31, 2017.
- iii) The difference of ₩2,575 million (2016: ₩253 million) between recoverable amount and carrying amount relating to LG Electronics Shenyang Inc., a subsidiary, is recognized in the statement of profit or loss within other non-operating expenses for the year ended December 31, 2017.
- iv) The difference of ₩48 million (2016: ₩61 million) between recoverable amount and carrying amount relating to V-ENS (M) Sdn. Bhd., a subsidiary, is recognized in the statement of profit or loss within other non-operating expenses for the year ended December 31, 2017.
- v) The difference of ₩54,671 million between recoverable amount and carrying amount relating to LG Electronics Ukraine Inc., a subsidiary, is recognized in the statement of profit or loss within other non-operating expenses for the year ended December 31, 2016.

LG Electronics Inc.
Notes to the Separate Financial Statements
December 31, 2017 and 2016

(d) Details of marketable investments in subsidiaries and associates as of December 31, 2017 and 2016, are as follows:

December 31, 2017					
	Type	Shares held (Unit: shares)	Price per share (Unit: won)	Fair value (in millions of Korean won)	Book amount
LG Display Co., Ltd.	Associate	135,625,000	29,900	4,055,188	3,480,623
LG Innotek Co., Ltd.	Subsidiary	9,653,181	144,000	1,390,058	541,538
Korea Information Certificate Authority Inc.	Associate	2,010,247	5,670	11,398	2,088
December 31, 2016					
	Type	Shares held (Unit: shares)	Price per share (Unit: won)	Fair value (in millions of Korean won)	Book amount
LG Display Co., Ltd.	Associate	135,625,000	31,450	4,265,406	3,480,623
LG Innotek Co., Ltd.	Subsidiary	9,653,181	88,400	853,341	541,538
Korea Information Certificate Authority Inc.	Associate	2,289,708	5,660	12,960	2,378

13. Investment Properties

(a) Details of investment properties as of December 31, 2017 and 2016, are as follows:

<i>(in millions of Korean won)</i>	Land	Buildings	Total
At December 31, 2017			
Acquisition cost	63,670	52,695	116,365
Accumulated depreciation	-	(21,058)	(21,058)
Net book amount	63,670	31,637	95,307
At December 31, 2016			
Acquisition cost	63,670	52,695	116,365
Accumulated depreciation	-	(19,750)	(19,750)
Net book amount	63,670	32,945	96,615

(b) Changes in investment properties for the years ended December 31, 2017 and 2016, are as follows:

2017			
<i>(in millions of Korean won)</i>	Land	Buildings	Total
At January 1	63,670	32,945	96,615
Depreciation	-	(1,308)	(1,308)
At December 31	63,670	31,637	95,307

LG Electronics Inc.
Notes to the Separate Financial Statements
December 31, 2017 and 2016

<i>(in millions of Korean won)</i>	2016		
	Land	Buildings	Total
At January 1	77,796	43,050	120,846
Transfer-in (out) ¹	(8,906)	-	(8,906)
Disposals	(5,220)	(8,730)	(13,950)
Depreciation	-	(1,375)	(1,375)
At December 31	63,670	32,945	96,615

¹ Reclassified as assets held for sale from investment properties.

- (c) The fair value of investment property is valued by an independent professional appraiser with certified qualification or determined based on the evaluation reflecting official land value or recently available transaction price of similar properties, and it is classified as 'level 3' of the fair value hierarchy. The fair value of investment properties as of December 31, 2017, is ₩109,220 million (2016: ₩99,478 million).
- (d) Rental income amounting to ₩2,910 million (2016: ₩3,570 million) and rental expenses amounting to ₩1,758 million (2016: ₩1,804 million) are recognized in the separate statement of profit or loss relating to investment properties for the year ended December 31, 2017.
- (e) As of December 31, 2017, the Company assumes obligation for repairs and maintenance of the investment properties owned by the Company.

14. Borrowings

- (a) The carrying amounts of borrowings as of December 31, 2017 and 2016, are as follows:

<i>(in millions of Korean won)</i>	December 31, 2017	December 31, 2016
Current		
Short-term borrowings	127,925	-
Current portion of long-term borrowings	-	190,000
Current portion of debentures	639,741	471,148
Subtotal	767,666	661,148
Non-current		
Long-term borrowings	2,177,140	1,690,000
Debentures	4,497,034	4,280,172
Subtotal	6,674,174	5,970,172
Total	7,441,840	6,631,320

LG Electronics Inc.
Notes to the Separate Financial Statements
December 31, 2017 and 2016

(b) Details of borrowings as of December 31, 2017 and 2016, are as follows:

i) Short-term borrowings consist of:

<i>(in millions of Korean won)</i>	Annual interest rate at		Carrying amount	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Short-term borrowings in foreign currency				
LG Electronics European Shared Service Center B.V. (LGESC)	3M EURIBOR+1.1	-	127,925	-
Total			127,925	-

ii) Long-term borrowings consist of:

<i>(in millions of Korean won)</i>	Maturity date	Annual interest rate at December 31, 2017(%)	December 31, 2017		
			Total	Current	Non-current
Local currency loans					
Kookmin Bank	2027.01.28	3M CD+0.91	190,000	-	190,000
Kookmin Bank	2029.04.30	3M CD+1.14	200,000	-	200,000
Nonghyup Bank	2030.07.07	3M CD+1.05	190,000	-	190,000
Woori Bank	2030.04.15	3M CD+0.82	390,000	-	390,000
Bank of China	2027.01.15	3M CD+0.95	100,000	-	100,000
KEB Hana Bank	2024.01.03	3M CD+0.98	200,000	-	200,000
KEB Hana Bank	2025.04.23	3M LIBOR+1.20	107,140	-	107,140
Korea Development Bank	2023.12.19	2.65	120,000	-	120,000
Korea Development Bank	2023.12.19	2.69	80,000	-	80,000
Korea Development Bank	2025.09.09	3.00	200,000	-	200,000
The Export-Import Bank of Korea	2026.07.29	2.21	200,000	-	200,000
The Export-Import Bank of Korea	2027.05.25	2.75	200,000	-	200,000
Total			2,177,140	-	2,177,140

<i>(in millions of Korean won)</i>	Maturity date	Annual interest rate at December 31, 2016(%)	December 31, 2016		
			Total	Current	Non-current
Local currency loans					
Kookmin Bank	2027.01.28	3M CD+0.91	190,000	-	190,000
Kookmin Bank	2029.04.30	3M CD+1.14	200,000	-	200,000
Nonghyup Bank	2030.07.07	3M CD+1.05	190,000	-	190,000
Shinhan Bank	2017.02.16	4.60	190,000	190,000	-
Woori Bank	2030.04.15	3M CD+0.82	390,000	-	390,000
KEB Hana Bank	2024.01.03	3M CD+0.98	200,000	-	200,000
Korea Development Bank	2023.12.19	2.65	120,000	-	120,000

LG Electronics Inc.
Notes to the Separate Financial Statements
December 31, 2017 and 2016

<i>(in millions of Korean won)</i>	Maturity date	Annual interest rate at December 31, 2016(%)	December 31, 2016		
			Total	Current	Non-current
Korea Development Bank	2025.09.09	3.00	200,000	-	200,000
The Export-Import Bank of Korea	2026.07.29	2.21	200,000	-	200,000
Total			1,880,000	190,000	1,690,000

¹ The Company entered into an interest rate swap and cross-currency swap contracts to hedge cash flow risk related to floating interest rate and foreign exchange rate of some portion of borrowings (Note 36).

iii) Debentures consist of:

<i>(in millions of Korean won)</i>		Maturity date	Annual Interest rate at December 31, 2017(%)	December 31, 2017		
				Total	Current	Non-current
Fixed rate notes in local currency	Private, non-guaranteed bonds(67 th)	2018.03.21	3.11	300,000	300,000	-
Fixed rate notes in local currency	Private, non-guaranteed bonds(68-1 st)	2020.05.23	3.29	100,000	-	100,000
Fixed rate notes in local currency	Private, non-guaranteed bonds(68-2 nd)	2020.05.24	3.29	20,000	-	20,000
Fixed rate notes in local currency	Private, non-guaranteed bonds(68-3 rd)	2023.05.22	3.68	50,000	-	50,000
Fixed rate notes in local currency	Private, non-guaranteed bonds(68-4 th)	2023.05.23	3.68	30,000	-	30,000
Fixed rate notes in local currency	Public, non-guaranteed bonds(69-2 nd)	2018.07.31	3.54	140,000	140,000	-
Fixed rate notes in local currency	Public, non-guaranteed bonds(69-3 rd)	2020.07.31	3.85	150,000	-	150,000
Floating rate notes in foreign currency	Private, guaranteed bonds(70 th)	2019.01.31	3M LIBOR+1.60	214,280	-	214,280
Fixed rate notes in local currency	Public, non-guaranteed bonds(71-1 st)	2018.10.18	3.55	200,000	200,000	-
Fixed rate notes in local currency	Public, non-guaranteed bonds(71-2 nd)	2020.10.19	3.82	110,000	-	110,000
Fixed rate notes in local currency	Public, non-guaranteed bonds(71-3 rd)	2023.10.18	4.25	90,000	-	90,000
Fixed rate notes in local currency	Public, non-guaranteed bonds(73-2 nd)	2019.01.24	3.60	120,000	-	120,000
Fixed rate notes in local currency	Public, non-guaranteed bonds(73-3 rd)	2021.01.24	3.95	160,000	-	160,000
Fixed rate notes in local currency	Public, non-guaranteed bonds(73-4 th)	2024.01.24	4.44	120,000	-	120,000
Fixed rate notes in local currency	Public, non-guaranteed bonds(74-1 st)	2019.05.29	3.30	200,000	-	200,000
Fixed rate notes in local currency	Public, non-guaranteed bonds(74-2 nd)	2021.05.29	3.52	130,000	-	130,000
Fixed rate notes in local currency	Public, non-guaranteed bonds(74-3 rd)	2024.05.29	4.04	210,000	-	210,000
Fixed rate notes in local currency	Public, non-guaranteed bonds(74-4 th)	2029.05.29	4.44	60,000	-	60,000
Fixed rate notes in local currency	Private, non-guaranteed bonds(75 th)	2026.07.16	3.96	100,000	-	100,000
Fixed rate notes in local currency	Private, non-guaranteed bonds(76-1 st)	2028.11.17	3.79	40,000	-	40,000
Fixed rate notes in local currency	Private, non-guaranteed bonds(76-2 nd)	2028.11.18	3.79	60,000	-	60,000
Fixed rate notes in local currency	Public, non-guaranteed bonds(77-1 st)	2020.02.02	2.28	210,000	-	210,000
Fixed rate notes in local currency	Public, non-guaranteed bonds(77-2 nd)	2022.02.02	2.51	230,000	-	230,000
Fixed rate notes in local currency	Public, non-guaranteed bonds(77-3 rd)	2025.02.02	2.97	210,000	-	210,000
Fixed rate notes in local currency	Public, non-guaranteed bonds(77-4 th)	2030.02.02	3.45	100,000	-	100,000
Fixed rate notes in local currency	Public, non-guaranteed bonds(78-1 st)	2019.02.24	1.88	110,000	-	110,000
Fixed rate notes in local currency	Public, non-guaranteed bonds(78-2 nd)	2021.02.24	2.14	200,000	-	200,000
Fixed rate notes in local currency	Public, non-guaranteed bonds(78-3 rd)	2023.02.24	2.45	140,000	-	140,000
Fixed rate notes in local currency	Public, non-guaranteed bonds(79-1 st)	2019.09.06	1.48	90,000	-	90,000
Fixed rate notes in local currency	Public, non-guaranteed bonds(79-2 nd)	2021.09.06	1.75	90,000	-	90,000
Fixed rate notes in local currency	Public, non-guaranteed bonds(79-3 rd)	2023.09.06	2.08	130,000	-	130,000
Fixed rate notes in local currency	Public, non-guaranteed bonds(79-4 th)	2026.09.06	2.67	150,000	-	150,000

LG Electronics Inc.
Notes to the Separate Financial Statements
December 31, 2017 and 2016

Floating rate notes in foreign currency	Private, non-guaranteed bonds(80 th)	2022.02.02	1M LIBOR+0.90	107,140	-	107,140
Fixed rate notes in local currency	Private, non-guaranteed bonds(81 st)	2027.03.10	3.42	50,000	-	50,000
Fixed rate notes in local currency	Private, non-guaranteed bonds(82 nd)	2027.03.22	3.29	50,000	-	50,000
Fixed rate notes in local currency	Public, non-guaranteed bonds(83-1 st)	2022.04.28	2.36	160,000	-	160,000
Fixed rate notes in local currency	Public, non-guaranteed bonds(83-2 nd)	2024.04.28	2.79	130,000	-	130,000
Fixed rate notes in local currency	Public, non-guaranteed bonds(83-3 rd)	2027.04.28	3.20	70,000	-	70,000
Floating rate notes in foreign currency	Private, guaranteed bonds(84 th)	2023.02.24	3M EURIBOR+0.75	127,925	-	127,925
Fixed rate notes in local currency	Private, non-guaranteed bonds(85-1 st)	2027.11.17	3.62	30,000	-	30,000
Fixed rate notes in local currency	Private, non-guaranteed bonds(85-2 nd)	2032.11.17	4.03	20,000	-	20,000
Floating rate notes in foreign currency	Private, non-guaranteed bonds(86-1 st)	2020.11.22	1M LIBOR+0.78	48,213	-	48,213
Floating rate notes in foreign currency	Private, non-guaranteed bonds(86-2 nd)	2022.11.22	1M LIBOR+0.86	91,069	-	91,069
Less: discount on debentures				(11,852)	(259)	(11,593)
Total				5,136,775	639,741	4,497,034

<i>(in millions of Korean won)</i>		Maturity date	Annual Interest rate at December 31, 2016(%)	December 31, 2016		
				Total	Current	Non-current
Fixed rate notes in local currency	Public, non-guaranteed bonds (66-2 nd)	2017.09.10	3.28	130,000	130,000	-
Fixed rate notes in local currency	Private, non-guaranteed bonds (67 th)	2018.03.21	3.11	300,000	-	300,000
Fixed rate notes in local currency	Private, non-guaranteed bonds (68-1 st)	2020.05.23	3.29	100,000	-	100,000
Fixed rate notes in local currency	Private, non-guaranteed bonds (68-2 nd)	2020.05.24	3.29	20,000	-	20,000
Fixed rate notes in local currency	Private, non-guaranteed bonds (68-3 th)	2023.05.22	3.68	50,000	-	50,000
Fixed rate notes in local currency	Private, non-guaranteed bonds (68-4 th)	2023.05.23	3.68	30,000	-	30,000
Fixed rate notes in local currency	Public, non-guaranteed bonds (69-2 nd)	2018.07.31	3.54	140,000	-	140,000
Fixed rate notes in local currency	Public, non-guaranteed bonds (69-3 rd)	2020.07.31	3.85	150,000	-	150,000
Floating rate notes in foreign currency	Private, guaranteed bonds (70 th)	2019.01.31	3M LIBOR+1.60	241,700	-	241,700
Fixed rate notes in local currency	Public, non-guaranteed bonds (71-1 st)	2018.10.18	3.55	200,000	-	200,000
Fixed rate notes in local currency	Public, non-guaranteed bonds (71-2 nd)	2020.10.19	3.82	110,000	-	110,000
Fixed rate notes in local currency	Public, non-guaranteed bonds (71-3 rd)	2023.10.18	4.25	90,000	-	90,000
Floating rate notes in foreign currency	Private, non-guaranteed bonds (72 nd)	2017.06.19	3M LIBOR+1.30	241,700	241,700	-
Fixed rate notes in local currency	Public, non-guaranteed bonds (73-1 st)	2017.01.24	3.16	100,000	100,000	-
Fixed rate notes in local currency	Public, non-guaranteed bonds (73-2 nd)	2019.01.24	3.60	120,000	-	120,000
Fixed rate notes in local currency	Public, non-guaranteed bonds (73-3 rd)	2021.01.24	3.95	160,000	-	160,000
Fixed rate notes in local currency	Public, non-guaranteed bonds (73-4 th)	2024.01.24	4.44	120,000	-	120,000
Fixed rate notes in local currency	Public, non-guaranteed bonds (74-1 st)	2019.05.29	3.30	200,000	-	200,000
Fixed rate notes in local currency	Public, non-guaranteed bonds (74-2 nd)	2021.05.29	3.52	130,000	-	130,000
Fixed rate notes in local currency	Public, non-guaranteed bonds (74-3 rd)	2024.05.29	4.04	210,000	-	210,000
Fixed rate notes in local currency	Public, non-guaranteed bonds (74-4 th)	2029.05.29	4.44	60,000	-	60,000
Fixed rate notes in local currency	Private, non-guaranteed bonds (75 th)	2026.07.16	3.96	100,000	-	100,000
Fixed rate notes in local currency	Private, non-guaranteed bonds (76-1 st)	2028.11.17	3.79	40,000	-	40,000
Fixed rate notes in local currency	Private, non-guaranteed bonds (76-2 nd)	2028.11.18	3.79	60,000	-	60,000
Fixed rate notes in local currency	Public, non-guaranteed bonds (77-1 st)	2020.02.02	2.28	210,000	-	210,000
Fixed rate notes in local currency	Public, non-guaranteed bonds (77-2 nd)	2022.02.02	2.51	230,000	-	230,000
Fixed rate notes in local currency	Public, non-guaranteed bonds (77-3 rd)	2025.02.02	2.97	210,000	-	210,000

LG Electronics Inc.
Notes to the Separate Financial Statements
December 31, 2017 and 2016

Fixed rate notes in local currency	Public, non-guaranteed bonds (77-4 th)	2030.02.02	3.45	100,000	-	100,000
Fixed rate notes in local currency	Public, non-guaranteed bonds (78-1 st)	2019.02.24	1.88	110,000	-	110,000
Fixed rate notes in local currency	Public, non-guaranteed bonds (78-2 nd)	2021.02.24	2.14	200,000	-	200,000
Fixed rate notes in local currency	Public, non-guaranteed bonds (78-3 rd)	2023.02.24	2.45	140,000	-	140,000
Fixed rate notes in local currency	Public, non-guaranteed bonds (79-1 st)	2019.09.06	1.48	90,000	-	90,000
Fixed rate notes in local currency	Public, non-guaranteed bonds (79-2 nd)	2021.09.06	1.75	90,000	-	90,000
Fixed rate notes in local currency	Public, non-guaranteed bonds (79-3 rd)	2023.09.06	2.08	130,000	-	130,000
Fixed rate notes in local currency	Public, non-guaranteed bonds (79-4 th)	2026.09.06	2.67	150,000	-	150,000
Less: discount on debentures				(12,080)	(552)	(11,528)
Total				4,751,320	471,148	4,280,172

¹ The Company entered into interest rate swap and cross-currency swap contracts to hedge cash flow risk related to floating interest rate and foreign exchange rate of the debenture (Note 36).

The principal and interests of private bonds (70th, 84th) are guaranteed by Shinhan Bank (Note 33).

15. Other Payables

Other payables as of December 31, 2017 and 2016, are as follows:

<i>(in millions of Korean won)</i>	December 31, 2017	December 31, 2016
Current		
Non-trade payables	1,644,556	1,526,248
Accrued expenses	690,532	540,087
Leasehold deposits received	16,513	14,116
Subtotal	2,351,601	2,080,451
Non-current		
Leasehold deposits received	215	5,552
Total	2,351,816	2,086,003

16. Current Income Tax and Deferred Income Tax

Income tax expense

(a) Details of income tax expense for the years ended December 31, 2017 and 2016, are as follows:

<i>(in millions of Korean won)</i>	2017	2016
Current income taxes		
Current tax on profits for the year	124,070	94,082
Adjustments in respect of prior years	(1,087)	(6,511)
Deferred tax		
Changes in temporary differences	(38,555)	(58,796)
Changes in tax credits	(198,506)	20,301
Changes in tax losses	128,525	53,191
Income tax expense	14,447	102,267

LG Electronics Inc.
Notes to the Separate Financial Statements
December 31, 2017 and 2016

(b) The reconciliation between loss before income tax and income tax expense for the years ended December 31, 2017 and 2016, is as follows:

<i>(in millions of Korean won)</i>	2017	2016
Profit (loss) before income tax	772,493	(174,220)
Tax expense based on statutory tax rate	186,943	(42,161)
Income not subject to tax	(15,456)	(21,410)
Expenses not deductible for tax purposes	66,947	55,011
Recognition of deferred tax asset on tax credits	(172,652)	(211,274)
Adjustments in respect of prior years	(1,087)	(6,511)
Re-measurement of deferred tax – change in the Korean tax rate ¹	(23,247)	-
Changes in unrecognized deferred tax assets and others	(27,001)	328,612
Income tax expense	14,447	102,267
Effective tax rate	1.9%	(-)58.7%

¹ In accordance with the revised tax law, the 27.5% tax rate was used for cumulative temporary difference that is expected to be realized in 2018 and thereafter. As a result, income tax expenses has decreased by ₩23,247 million.

Deferred income tax

(a) Deferred tax assets and deferred tax liabilities after offsetting as of December 31, 2017 and 2016, are as follows:

<i>(in millions of Korean won)</i>	December 31, 2017	December 31, 2016
Deferred tax assets:		
Deferred tax asset to be recovered within 12 months	617,279	598,946
Deferred tax asset to be recovered after more than 12 months	1,582,570	1,310,945
Deferred tax assets before offsetting	2,199,849	1,909,891
Deferred tax liabilities:		
Deferred tax liability to be settled within 12 months	3,484	3,214
Deferred tax liability to be settled after more than 12 months	1,222,408	1,022,023
Deferred tax liabilities before offsetting	1,225,892	1,025,237
Deferred tax assets after offsetting	973,957	884,654

LG Electronics Inc.
Notes to the Separate Financial Statements
December 31, 2017 and 2016

(b) Changes in deferred income tax assets and liabilities for the years ended December 31, 2017 and 2016, are as follows:

<i>(in millions of Korean won)</i>	2017			
	At January 1	Charged (credited) to statement of profit or loss	Credited to other comprehensive income	At December 31
Changes in temporary differences				
Investments in subsidiaries, associates and joint ventures	(252,697)	(36,969)	-	(289,666)
Property, plant and equipment	(138,947)	45,745	-	(93,202)
Accrued expenses	364,769	22,052	-	386,821
Provisions	136,903	(47,258)	-	89,645
Other	116,560	54,985	(19,233)	152,312
Subtotal	226,588	38,555	(19,233)	245,910
Tax credits carryforwards	513,516	198,506	-	712,022
Tax loss carryforwards	144,550	(128,525)	-	16,025
Deferred tax assets (liabilities)	884,654	108,536	(19,233)	973,957

<i>(in millions of Korean won)</i>	2016			
	At January 1	Charged (credited) to statement of profit or loss	Credited to other comprehensive income	At December 31
Changes in temporary differences				
Investments in subsidiaries, associates and joint ventures	(254,612)	1,915	-	(252,697)
Property, plant and equipment	(148,990)	10,043	-	(138,947)
Accrued expenses	360,337	4,432	-	364,769
Provisions	93,984	42,919	-	136,903
Other	166,180	(513)	(49,107)	116,560
Subtotal	216,899	58,796	(49,107)	226,588
Tax credits carryforwards	533,817	(20,301)	-	513,516
Tax loss carryforwards	197,741	(53,191)	-	144,550
Deferred tax assets (liabilities)	948,457	(14,696)	(49,107)	884,654

(c) Tax effects recognized in other comprehensive income directly for the years ended December 31, 2017 and 2016, are as follows:

<i>(in millions of Korean won)</i>	2017			2016		
	Before tax	Tax effects	After tax	Before tax	Tax effects	After tax
Remeasurements of net defined benefit liabilities	77,584	(11,351)	66,233	204,276	(49,435)	154,841
Cash flow hedges	36,886	(7,695)	29,191	(866)	210	(656)
Available-for-sale financial assets	(993)	(187)	(1,180)	(488)	118	(370)
Total	113,477	(19,233)	94,244	202,922	(49,107)	153,815

LG Electronics Inc.
Notes to the Separate Financial Statements
December 31, 2017 and 2016

(d) Details of deductible (taxable) temporary differences, tax credits and tax losses carryforward unrecognized as deferred tax assets (liabilities) as of December 31, 2017, are as follows:

<i>(in millions of Korean won)</i>	2017	Remark
Taxable temporary difference (investment in subsidiary)	(772,640)	Planned permanent reinvestment of undistributed profit
Deductible temporary difference (investment in subsidiary)	1,224,351	Unlikely to reverse (disposed of) in the foreseeable future
Tax credits carryforwards	414,462	Uncertainty of future taxable profit

(e) Expirations of unrecognized tax credits carryforwards as of December 31, 2017, are as follows:

<i>(in millions of Korean won)</i>	1 year or less	1 to 2 years	2 to 3 years	Over 3 years
Tax credits carryforwards	130,668	59,766	895	223,133

17. Post-employment Benefits

Defined Benefit Plan

(a) The amounts of net defined benefit liabilities as of December 31, 2017 and 2016, are as follows:

<i>(in millions of Korean won)</i>	December 31, 2017	December 31, 2016
Present value of funded obligations	2,378,703	2,265,932
Fair value of plan assets	(2,158,093)	(1,920,564)
Net defined benefit liability	220,610	345,368

(b) The amounts recognized in the separate statements of profit or loss for the years ended December 31, 2017 and 2016, are as follows:

<i>(in millions of Korean won)</i>	2017	2016
Current service cost	269,927	290,866
Net interest cost	9,359	15,410
Operating management cost	1,812	1,748
Total	281,098	308,024

(c) Line items in which expenses are included for the years ended December 31, 2017 and 2016, are as follows:

<i>(in millions of Korean won)</i>	2017	2016
Manufacturing costs	143,563	148,570
Selling and marketing expenses	35,596	38,512
Administrative expenses	18,123	22,052
Research and development expenses	80,292	94,912
Service costs	3,524	3,978
Total	281,098	308,024

LG Electronics Inc.
Notes to the Separate Financial Statements
December 31, 2017 and 2016

(d) Movements in the present value of defined benefit obligations for the years ended December 31, 2017 and 2016, are as follows:

<i>(in millions of Korean won)</i>	2017	2016
At January 1	2,265,932	2,236,821
Current service cost	269,927	290,866
Interest expense	59,910	58,531
Remeasurements for:		
- Actuarial loss arising from changes in demographic assumptions	6,706	9,449
- Actuarial gain arising from changes in financial assumptions	(73,443)	(222,581)
- Actuarial gain arising from experience adjustments	(28,296)	(755)
Decrease due to transfer of business	-	(1,042)
Benefits paid	(122,033)	(105,357)
At December 31	2,378,703	2,265,932

(e) Movements in the fair value of plan assets for the years ended December 31, 2017 and 2016, are as follows:

<i>(in millions of Korean won)</i>	2017	2016
At January 1	1,920,564	1,661,805
Interest income	50,551	43,121
Remeasurements of plan assets	(17,449)	(9,611)
Employer contributions	300,000	300,000
Benefits paid	(93,761)	(73,003)
Operating management cost	(1,812)	(1,748)
At December 31	2,158,093	1,920,564

(f) The significant actuarial assumptions used as of December 31, 2017 and 2016, are as follows:

	December 31, 2017	December 31, 2016
Discount rate	3.1%	2.7%
Expected salary growth rate	5.0%	5.0%

(g) The sensitivity analysis of the defined benefit obligation to changes in principal assumptions as of December 31, 2017, is as follows:

<i>(in millions of Korean won)</i>	1%p increase	1%p decrease
Discount rate	(195,100)	224,785
Expected salary growth rate	218,591	(193,850)

The above sensitivity analysis are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. The sensitivity of the defined benefit obligation to changes in principal actuarial assumptions is calculated using the projected unit credit method, the same method applied when

LG Electronics Inc.
Notes to the Separate Financial Statements
December 31, 2017 and 2016

calculating the defined benefit obligations.

(h) Plan assets consist of:

<i>(in millions of Korean won)</i>	December 31, 2017		December 31, 2016	
	Amount	Composition(%)	Amount	Composition(%)
Securities combined with derivatives (guaranteed)	955,971	44.3	616,140	32.1
Time deposits and others	1,202,122	55.7	1,304,424	67.9
Total	2,158,093	100.0	1,920,564	100.0

(i) The weighted average duration of the defined benefit obligations is 9.3 years. Expected maturity analysis of undiscounted pension benefits as of December 31, 2017, is as follows:

<i>(in millions of Korean won)</i>	Within 1 year	1 to 2 years	2 to 5 years	5 to 10 years	Over 10 years	Total
Pension benefits	131,438	167,130	536,355	763,188	1,613,726	3,211,837

The Company evaluates the fund contribution level annually and if there is a shortfall in the funds, the Company has a policy to finance the funds. Expected contributions to post-employment benefit plans for the year ending December 31, 2018, are ₩300,000 million.

Defined Contribution Plan

The expense recognized in the current year in relation to defined contribution plan was ₩6,610 million (2016: ₩5,283 million).

18. Provisions

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

<i>(in millions of Korean won)</i>	2017				
	Warranty	Sales returns	Restoration	Litigation and others	Total
At January 1	397,950	272	14,185	791,577	1,203,984
Additions	364,681	40,608	1,483	92,790	499,562
Utilizations	(436,647)	(40,510)	(3,151)	(815,240)	(1,295,548)
At December 31	325,984	370	12,517	69,127	407,998
Current	314,051	370	1,814	-	316,235
Non-current	11,933	-	10,703	69,127	91,763

LG Electronics Inc.
Notes to the Separate Financial Statements
December 31, 2017 and 2016

<i>(in millions of Korean won)</i>	2016				
	Warranty	Sales returns	Restoration	Litigation and others	Total
At January 1	183,481	838	5,760	833,635	1,023,714
Additions	710,376	31,654	9,071	114,243	865,344
Utilizations	(495,907)	(32,220)	(646)	(156,301)	(685,074)
At December 31	397,950	272	14,185	791,577	1,203,984
Current	390,038	272	2,638	-	392,948
Non-current	7,912	-	11,547	791,577	811,036

(b) Greenhouse Gas Emission Liabilities

As of December 31, 2017, emission rights received free of charge for each reporting period and greenhouse gas emission estimated by management, are as follows:

<i>(in tons)</i>	2017	2016
Emission rights received free of charge ¹	1,221,133	1,234,304

¹ Emission rights received free of charge are defined as allowed amount of emissions that can be released, allocated by the Korean government for free in accordance with 'Act on the Allocation and Trading of Greenhouse-Gas Emission Permits'.

In 2017, there is no emission right that the Company additionally purchased from the market and there is no recognized emission liability as greenhouse gas emission estimated by management is 1,039,357 tons.

19. Other Liabilities

Other liabilities as of December 31, 2017 and 2016, are as follows:

<i>(in millions of Korean won)</i>	December 31, 2017	December 31, 2016
Current		
Advances from customers	407,409	277,669
Unearned income	42,890	32,002
Withholding	143,440	102,396
Accrued expenses	1,313,530	1,470,998
Subtotal	1,907,269	1,883,065
Non-current		
Accrued expenses	81,164	82,593
Unearned revenue	1,182	40
Subtotal	82,346	82,633
Total	1,989,615	1,965,698

LG Electronics Inc.
Notes to the Separate Financial Statements
December 31, 2017 and 2016

20. Paid-in Capital

(a) As of December 31, 2017 and 2016, the number of shares authorized is 600 million.

	Par value per share	December 31, 2017		December 31, 2016	
		Number of shares issued	Amount (in millions of Korean won)	Number of shares issued	Amount (in millions of Korean won)
Ordinary shares	5,000	163,647,814	818,239	163,647,814	818,239
Preferred shares	5,000	17,185,992	85,930	17,185,992	85,930
Total		180,833,806	904,169	180,833,806	904,169

The preferred shareholders have no voting rights and are entitled to preferred dividends at a rate of one percentage point over that of ordinary shares. This preferred dividend rate is not applicable to stock dividends. In addition, the preferred shareholders have same rights on the remaining assets as ordinary shareholders. Repayment and conversion are not applicable to preferred shares.

(b) Share premium balance as of December 31, 2017, is ₩3,088,179 million. The share premium of ₩1,876,153 million was recognized, which is ₩2,815,707 million of the carrying amount of net assets acquired from the entity split-off back on April 1, 2002, less the Company's capital of ₩783,961 million and less the Company's capital adjustment of ₩155,593 million. In addition, the amount of ₩331,766 million paid in excess of par value due to issuance of ordinary shares (merged with LG IBMPC Co., Ltd.) and the exercise of conversion options in 2005 and 2006 are included. The excess in paid-in capital amounting to ₩880,260 million over the par value was recognized as the share premium due to the issuance of ordinary shares in 2011.

21. Retained Earnings and Dividends

(a) Retained earnings as of December 31, 2017 and 2016, consist of:

<i>(in millions of Korean won)</i>	December 31, 2017	December 31, 2016
Legal reserve ¹	175,054	167,766
Discretionary reserve	4,603,535	4,805,354
Unappropriated retained earnings (undisposed accumulated deficit)	824,378	(121,547)
Total	5,602,967	4,851,573

¹ The Commercial Code of the Republic of Korea requires the Company to appropriate, as a legal reserve, an amount equal to a minimum of 10% of cash dividends paid until such reserve equals 50% of its issued capital stock. The reserve is not available for the payment of cash dividends, but may be transferred to capital stock or used to reduce accumulated deficit.

LG Electronics Inc.
Notes to the Separate Financial Statements
December 31, 2017 and 2016

(b) Appropriation of retained earnings for the years ended December 31, 2017 and 2016, is as follows:

<i>(in millions of Korean won)</i>	2017	2016
Unappropriated retained earnings (deficit for disposition)		
Unappropriated retained earnings carried over from prior year	99	99
Remeasurement of net defined benefit liability	66,233	154,841
Profit (loss) for the year	758,046	(276,487)
	<u>824,378</u>	<u>(121,547)</u>
Transfer from discretionary reserve		
Reserve for research and manpower development	4,603,535	4,805,354
Total	<u>4,603,535</u>	<u>4,805,354</u>
Appropriation of retained earnings		
Earned profit reserves	7,288	7,288
Reserve for research and manpower development	5,347,641	4,603,535
Dividends	72,885	72,885
Ordinary Share :		
₩ 400 (8%) in 2017		
₩ 400 (8%) in 2016		
Preferred share :		
₩ 450 (9%) in 2017		
₩ 450 (9%) in 2016		
	<u>5,427,814</u>	<u>4,683,708</u>
Unappropriated retained earnings to be carried forward to subsequent year	<u>99</u>	<u>99</u>

(c) Dividends

Details of dividends per share and a total dividend in respect of the year ended December 31, 2017, which is to be proposed at the annual general meeting on March 16, 2018, are as follows. These separate financial statements do not reflect this dividend payable.

	2017		2016	
	Ordinary shares	Preferred shares	Ordinary shares	Preferred shares
Outstanding shares	163,647,814	17,185,992	163,647,814	17,185,992
Treasury shares	(763,172)	(4,690)	(763,171)	(4,690)
Numbers of shares for dividend	162,884,642	17,181,302	162,884,643	17,181,302
Par value (in Korean won)	5,000	5,000	5,000	5,000
Dividend rate	8%	9%	8%	9%
Dividends per share (in Korean won)	400	450	400	450
Total dividend amount (in millions of Korean won)	65,154	7,731	65,154	7,731
Dividend payout ratio ¹ (Dividends/Net profit)	8.59%	1.02%	-	-
Stock price ² (in Korean won)	100,375	44,988	49,810	24,390
Dividend yield ratio (Dividend per share/ Market price)	0.40%	1.00%	0.80%	1.85%

LG Electronics Inc.
Notes to the Separate Financial Statements
December 31, 2017 and 2016

¹ Dividend payout ratio is not calculated for the year ended December 31, 2016 due to the net loss of the Company.

² Average of prices in the stock market for one week preceding the two business days before the record date of the shareholders' list for the general meeting of shareholders related to above dividends.

22. Accumulated Other Comprehensive Income

Accumulated other comprehensive income as of December 31, 2017 and 2016, consist of:

<i>(in millions of Korean won)</i>	December 31, 2017	December 31, 2016
Cash flow hedge	(27,032)	(56,223)
Available-for-sale financial assets	9,393	10,573
Total	(17,639)	(45,650)

23. Other Components of Equity

Other components of equity as of December 31, 2017 and 2016, consist of:

<i>(in millions of Korean won)</i>	December 31, 2017	December 31, 2016
Treasury shares ¹	(44,893)	(44,893)
Consideration for conversion rights	9,891	9,891
Gain on disposal of treasury shares	2,183	2,183
At December 31	(32,819)	(32,819)

¹ As of December 31, 2017, the Company has treasury shares consisting of 763,172 ordinary shares (December 31, 2016: 763,171 shares) and 4,690 preferred shares (December 31, 2016: 4,690 shares) at the end of the reporting period. The Company intends to either grant these treasury shares to employees and directors as compensation, or to sell them in the future.

24. Net Sales

Details of net sales for the years ended December 31, 2017 and 2016, are as follows:

<i>(in millions of Korean won)</i>	2017	2016
Sales of goods	30,930,643	28,070,245
Rendering of services	486,296	336,585
Royalty income	549,574	336,416
Total	31,966,513	28,743,246

LG Electronics Inc.
Notes to the Separate Financial Statements
December 31, 2017 and 2016

25. Expenses by Nature

Expenses that are recorded by nature for the years ended December 31, 2017 and 2016, consist of:

<i>(in millions of Korean won)</i>	2017	2016
Changes in finished goods and work-in-process	(76,808)	(52,008)
Raw materials and merchandise used	19,842,961	17,779,288
Employee benefit expense	3,890,052	3,670,939
Depreciation and amortization	984,735	939,865
Advertising expense	631,319	683,653
Promotion expense	313,683	297,265
Transportation expense	563,591	528,467
Commission expense	1,624,546	1,553,937
Other expenses	3,491,208	3,632,295
Total¹	31,265,287	29,033,701

¹ Cost of sales, selling and marketing expenses, administrative expenses, research and development expenses and service costs are included.

26. General Operating Expenses (Selling and Marketing expenses, Administrative Expenses, Research and Development Expenses, and Service Costs)

Details of general operating expenses for the years ended December 31, 2017 and 2016, are as follows:

<i>(in millions of Korean won)</i>	2017	2016
Salaries	1,433,748	1,386,084
Post-employment benefits	143,734	166,373
Employee welfare benefits	236,069	233,409
Freight expense	555,489	520,691
Rental expense	169,636	171,725
Commission expense	1,144,211	1,061,049
Depreciation	115,766	132,492
Amortization	159,241	161,391
Taxes and dues	36,361	18,270
Advertising expense	631,319	683,653
Promotional expense	313,683	297,265
R&D expense	330,380	439,684
Direct service costs	373,160	783,982
Bad debts expense	(5,165)	(72,419)
Other	286,217	290,327
Total	5,923,849	6,273,976

LG Electronics Inc.
Notes to the Separate Financial Statements
December 31, 2017 and 2016

27. Financial Income

Financial income for the years ended December 31, 2017 and 2016, consists of:

<i>(in millions of Korean won)</i>	2017	2016
Interest income	21,557	19,485
Exchange differences	184,004	215,240
Other	14,143	23,097
Total	219,704	257,822

28. Financial Expenses

Financial expenses for the years ended December 31, 2017 and 2016, consist of:

<i>(in millions of Korean won)</i>	2017	2016
Interest expense	207,737	226,419
Exchange differences	251,984	195,754
Loss on disposal of trade receivables	3,485	3,219
Other	11,336	5,880
Total	474,542	431,272

29. Other Non-operating Income

Other non-operating income for the years ended December 31, 2017 and 2016, consists of:

<i>(in millions of Korean won)</i>	2017	2016
Dividend income	464,714	489,476
Exchange differences	685,683	1,060,198
Gain on disposal of property, plant and equipment	65,575	4,606
Gain on disposal of investment property	-	7,903
Gain on disposal of assets held for sale	3,804	-
Gain on disposal of available-for-sale financial assets	9,173	50
Gain on disposal of investments in subsidiaries, associates and joint ventures	4,253	28,774
Gain on transfer of business	4,882	-
Other	26,557	29,043
Total	1,264,641	1,620,050

LG Electronics Inc.
Notes to the Separate Financial Statements
December 31, 2017 and 2016

30. Other Non-operating Expenses

Other non-operating expenses for the years ended December 31, 2017 and 2016, consist of:

<i>(in millions of Korean won)</i>	2017	2016
Exchange differences	632,625	1,097,220
Loss on disposal of property, plant and equipment	39,149	17,987
Impairment loss on property, plant and equipment	64,830	18,502
Loss on disposal of intangible assets	37,027	11,336
Impairment loss on intangible assets	12,558	1,710
Impairment loss on available-for-sale financial assets	250	6,116
Loss on disposal of investments in subsidiaries, associates and joint ventures	7,120	5,659
Impairment loss on investments in subsidiaries, associates and joint ventures	30,507	54,985
Other	114,470	116,850
Total	938,536	1,330,365

31. Earnings per Share

The Company has no potential dilutive ordinary shares. Accordingly, basic earnings (loss) per share is identical to diluted earnings(loss) per share.

- (a) Basic earnings (loss) per ordinary share for the years December 31, 2017 and 2016, is as follows::

	2017	2016
Profit (loss) attributable to ordinary shares ¹ <i>(in millions of Korean won)</i>	684,939	(250,882)
Weighted average number of ordinary shares outstanding <i>(unit: shares)</i> ²	162,884,643	162,884,643
Basic earnings (loss) per ordinary share <i>(in Korean won)</i>	4,205	(1,540)

- (b) Basic earnings(loss) per preferred share for the years December 31, 2017 and 2016, is as follows:

	2017	2016
Profit (loss) attributable to preferred shares ¹ <i>(in millions of won)</i>	73,107	(25,605)
Weighted average number of preferred shares outstanding <i>(unit: shares)</i> ²	17,181,302	17,181,302
Basic earnings (loss) per preferred share <i>(in Korean won)</i>	4,255	(1,490)

LG Electronics Inc.
Notes to the Separate Financial Statements
December 31, 2017 and 2016

¹ Profit (loss) attributable to ordinary and preferred shares are as follows:

<i>(in millions of Korean won)</i>	2017	2016
Profit (loss) for the year (A)	758,046	(276,487)
Ordinary share dividends (B)	65,154	65,154
Preferred share dividends (C)	7,731	7,731
Undistributed profit (loss) (D=A-B-C)	685,161	(349,372)
Undistributed profit (loss) available for ordinary shares (E)	619,785	(316,036)
Undistributed profit (loss) available for preferred shares (F)	65,376	(33,336)
Profit (loss) attributable to ordinary shares (G=B+E)	684,939	(250,882)
Profit (loss) attributable to preferred shares (H=C+F)	73,107	(25,605)

² Weighted average numbers of shares outstanding are calculated as follows:

<i>(unit: shares)</i>	2017	2016
Ordinary shares issued	163,647,814	163,647,814
Ordinary treasury shares	(763,172)	(763,171)
Ordinary shares outstanding	162,884,642	162,884,643
Weighted average number of ordinary shares outstanding	162,884,643	162,884,643
Preferred shares issued	17,185,992	17,185,992
Preferred treasury shares	(4,690)	(4,690)
Preferred shares outstanding	17,181,302	17,181,302
Weighted average number of preferred shares outstanding	17,181,302	17,181,302

32. Cash Flow Information

Cash flows from operating activities are presented using the indirect method. Details of cash generated from operations for the years ended December 31, 2017 and 2016, are as follows:

(a) Cash generated from operations

<i>(in millions of Korean won)</i>	2017	2016
Profit (loss) for the year	758,046	(276,487)
Adjustments:		
Interest expense, net	186,180	206,934
Exchange differences, net	(24,648)	6,419
Depreciation	616,562	579,895
Amortization	371,306	364,615
Loss on disposal of property, plant and equipment and intangible assets, net	10,601	24,717
Provisions for severance benefits	281,098	308,024
Provisions	499,562	865,344
Dividend income	(464,714)	(489,476)
Income tax expense	14,447	102,267
Loss (gain) on disposal of investments in subsidiaries, associates and joint ventures	2,867	(23,115)

LG Electronics Inc.
Notes to the Separate Financial Statements
December 31, 2017 and 2016

<i>(in millions of Korean won)</i>	2017	2016
Impairment loss on investments in subsidiaries, associates and joint ventures	30,507	54,985
Other	136,238	148,529
	<u>1,660,006</u>	<u>2,149,138</u>
Changes in operating assets and liabilities:		
Decrease(increase) in trade receivables	(819,844)	770,893
Decrease(increase) in loans and other receivables	(3,605)	58,340
Increase in inventories	(196,077)	(280,681)
Increase in other assets	(206,494)	(151,794)
Increase in trade payables	713,255	374,305
Increase in other payables	289,616	236,097
Decrease in provisions	(1,295,548)	(685,074)
Increase in other liabilities	18,573	173,885
Payment of defined benefit liability	(28,272)	(32,354)
Deposit in plan assets, net	(331,290)	(331,762)
	<u>(1,859,686)</u>	<u>131,855</u>
Cash generated from operations	<u>558,366</u>	<u>2,004,506</u>

(b) Changes in liabilities arising from financing activities

<i>(in millions of Korean won)</i>	At Jan. 1, 2017	Net cash flow from financing activities	<u>Non-cash transactions</u>		At Dec. 31, 2017
			Exchange differences (profit/loss)	Amortization	
Short-term borrowings	-	135,549	(7,624)	-	127,925
Long-term borrowings	1,880,000	303,052	(5,912)	-	2,177,140
Debentures	4,751,320	457,881	(75,912)	3,486	5,136,775
Total	<u>6,631,320</u>	<u>896,482</u>	<u>(89,448)</u>	<u>3,486</u>	<u>7,441,840</u>

(c) Significant non-cash transactions

<i>(in millions of Korean won)</i>	2017	2016
Reclassification of construction-in-progress to property, plant and equipment	1,167,499	477,933
Reclassification of construction-in-progress to intangible assets	198,824	188,706
Reclassification of current portion of borrowings and debentures	639,615	843,479
Debt for equity swaps of trade receivables from subsidiaries	89,922	44,787
Other payables to acquire property, plant and equipment	136,144	131,441
Other payables to acquire intangible assets	15,693	15,527

(d) Assets and liabilities arising from the transfer of business

– Transfer of Set-top Box business

- i) On May 17, 2017, set-top box product business of Home Entertainment segment were transferred to Technicolor SA.

LG Electronics Inc.
Notes to the Separate Financial Statements
December 31, 2017 and 2016

ii) Total consideration received and the assets of the transferred business are as follows:

<i>(in millions of Korean won)</i>	Amount
Total consideration	
Cash and cash equivalents	13,942
Assets of the transferred business:	
Trade receivables and other receivables	4,481
Inventories	3,180
Property, plant and equipment and intangible assets	1,399

– Transfer of CCTV and home security product business

i) On December 9, 2016, CCTV and home security product business were transferred to LG Innotek Co., Ltd.

ii) Total consideration received, and assets and liabilities of the transferred business are as follows:

<i>(in millions of Korean won)</i>	Amount
Total consideration	
Cash and cash equivalents	1,298
Assets of the transferred business:	
Inventories	1,136
Property, plant and equipment, and intangible assets	1,154
Other assets	50
Liabilities of the transferred business:	
Net defined benefit liabilities	1,042

33. Contingencies

(a) At the end of the reporting period, the Company is provided with performance guarantees of ₩191,608 million (December 31, 2016: ₩124,076 million) from Seoul Guarantee Insurance Company and one other financial institution relating to the performance guarantees. The Company is also provided with guarantee of principal US\$ 200 million and EUR 100 million (December 31, 2016: US\$ 200 million) and interests from Shinhan Bank for the guaranteed private placement bond.

(b) At the end of the reporting period, the financial guarantees provided by the Company to related parties amount to ₩3,997,783 million (December 31, 2016: ₩5,027,123 million) on the indebtedness of its subsidiaries. Details are as follows:

<i>(in millions of Korean won)</i>	Beneficiary	December 31, 2017	December 31, 2016
LG Electronics European Shared Service Center B.V.(LGESC)	BNP Paribas and others	766,832	890,245
LG Electronics do Brasil Ltda.(LGEBR)	Citibank and others	466,970	544,517
LG Electronics Ticaret A.S.(LGETK)	Citibank and others	392,537	505,191
LG Electronics Vietnam Haiphong Co., Ltd.(LGEVH)	VIETIN and others	368,074	426,178
LG Electronics U.S.A., Inc.(LGEUS)	JP Morgan and others	301,162	611,612

LG Electronics Inc.
Notes to the Separate Financial Statements
December 31, 2017 and 2016

<i>(in millions of Korean won)</i>	Beneficiary	December 31, 2017	December 31, 2016
LG Electronics (China) Co., Ltd.(LGECH)	Citibank and others	257,264	283,498
LG Electronics Peru S.A.(LGEPR)	Nova scotia and others	188,121	211,703
LG Electronics Inc Chile Ltda.(LGECL)	Scotiabank and others	160,487	172,587
LG Electronics Argentina S.A.(LGEAR)	BBVA and others	117,854	130,472
LG Electronics Colombia Ltda.(LGECEB)	Citibank and others	104,310	128,623
LG Electronics Algeria SARL(LGEAS)	Societe Generale and others	99,622	116,027
LG Electronics India Pvt. Ltd.(LGEIL)	Citibank and others	99,568	137,456
LG Electronics Egypt S.A.E(LGEEG)	Misr and others	92,432	66,468
LG Electronics Morocco S.A.R.L(LGEMC)	Citibank and others	87,949	92,900
LG Electronics RUS, LLC(LGERA)	Citibank and others	80,056	136,660
LG Electronics Almaty Kazakhstan(LGEAK)	Citibank and others	73,430	90,651
LG Electronics Thailand Co., Ltd.(LGETH)	MIZUHO and others	56,847	69,831
LG Electronics Philippines Inc. (LGEPH)	ANZ and others	47,892	54,624
LG-Shaker Co., Ltd.(LGESR)	SABB and others	34,982	103,983
LG Electronics Monterrey Mexico S.A.de C.V.(LGEMM)	Citibank	32,142	36,255
Others	Citibank and others	169,252	217,642
Total		3,997,783	5,027,123

(c) At the end of the reporting period, the Company is providing KEB Hana Bank with a payment guarantee for buyers up to ₩46,000 million (December 31, 2016: ₩46,000 million).

(d) As of December 31, 2017, there are a number of legal actions, disputes and investigations arising from the normal course of business that remain pending at the end of the reporting period. The ultimate effect of those lawsuits on the financial position of the Company at the end of the reporting period cannot reflect a reasonable expectation. Management does not expect the outcome of the litigations will have a material effect on the Company's financial position.

34. Commitments

(a) At the end of the reporting period, the Company has overdraft facility agreements with various banks, including Shinhan Bank, with a limit of ₩165,500 million (December 31, 2016: ₩165,500 million).

(b) At the end of the reporting period, the Company has sales agreements for export trade receivables with KEB Hana Bank and 19 other banks amounting to ₩1,915,663 million (December 31, 2016: ₩2,535,433 million) and has sales agreements for domestic trade receivables with BTMU amounting to ₩500,000 million (December 31, 2016: ₩500,000 million).

(c) At the end of the reporting period, the Company has corporate electronic settlement services contracts and vendor prepayment services contracts with Shinhan Bank and seven other banks for

LG Electronics Inc.
Notes to the Separate Financial Statements
December 31, 2017 and 2016

up to ₩1,160,000 million (December 31, 2016: ₩1,150,000 million) which guarantee the payment of trade payables in case the suppliers sell their trade receivables.

(d) At the end of the reporting period, the Company has other trade financing agreements and loan commitments with financial institutions, including Shinhan Bank, of up to ₩453,570 million (December 31, 2016: ₩820,850 million).

(e) At the end of the reporting period, the Company has agreements with insurance companies, including Chubb, of up to 120% of the guaranteed insurance amount to appeal against the transfer pricing assessment on LG Electronics do Brasil Ltda., a subsidiary.

(f) Contractual commitments for the acquisition of assets

The property, plant and equipment, and intangible assets contracted for, but not yet acquired at the end of the reporting period, are as follows:

<i>(in millions of Korean won)</i>	December 31, 2017	December 31, 2016
Property, plant and equipment	122,189	335,455
Intangible assets	18,703	13,278
Total	140,892	348,733

(g) Operating lease commitments – the Company as lessee

i) The future aggregate minimum lease payments under non-cancellable operating leases at the end of the reporting period, are as follows:

<i>(in millions of Korean won)</i>	December 31, 2017			Total lease payments
	1 year or less	1 to 5 years	Over 5 years	
Buildings	44,112	50,462	4,433	99,007
Vehicles	6,014	4,004	-	10,018
Equipment	13,382	10,533	-	23,915
Total	63,508	64,999	4,433	132,940

ii) Lease payment under operating lease recognized in the separate statement of profit or loss for the year ended December 31, 2017, is ₩124,373 million (2016: ₩116,600 million).

iii) As of December 31, 2017, total future minimum sublease receipts under non-cancellable sublease agreements for some buildings amount to ₩26,281 million and lease income recognized related to the subleases for the year ended December 31, 2017, amounts to ₩14,184 million (2016: ₩14,547 million).

LG Electronics Inc.
Notes to the Separate Financial Statements
December 31, 2017 and 2016

(h) Operating lease commitments – the Company as lessor

- i) The Company has non-cancellable operating lease agreements regarding healthcare rental business that lends water purifiers to customers and real estate rental business. The future aggregate lease receipts under operating leases at the end of the reporting period, are as follows:

<i>(in millions of Korean won)</i>	December 31, 2017			Total lease payments
	1 year or less	1 to 5 years	Over 5 years	
Healthcare rental	229,942	387,107	-	617,049
Real estate rental	371	-	-	371
Total	230,313	387,107	-	617,420

- ii) The Company recognized ₩160,573 million (2016: ₩113,432 million) in lease income for the year ended December 31, 2017.

iii) Details of assets subject to operating lease are as follows:

<i>(in millions of Korean won)</i>	December 31, 2017	December 31, 2016
Acquisition cost	419,452	259,950
Accumulated depreciation	(87,218)	(57,314)
Accumulated impairment	(231)	(793)
Net book amount	332,003	201,843

iv) Changes in net book amount of assets subject to operating lease for the years ended December 31, 2017 and 2016, are as follows:

<i>(in millions of Korean won)</i>	2017	2016
At January 1	201,843	178,563
Acquisition	182,276	76,660
Transfer	-	(8,906)
Disposal	(8,103)	(20,361)
Depreciation	(44,013)	(24,113)
Impairment loss	-	-
At December 31	332,003	201,843

(i) Trademark license commitments

At the end of the reporting period, the Company has various agreements as follows:

Purpose	Related products	Provided by	Used by
Use of license	Home appliance/ Mobile	Qualcomm Incorporated and others	LG Electronics Inc.
Provision for license	Home appliance/ Mobile	LG Electronics Inc.	Panasonic Corporation and others

LG Electronics Inc.
Notes to the Separate Financial Statements
December 31, 2017 and 2016

35. Related Party

(a) Major transactions for the years ended December 31, 2017 and 2016, and balances of receivables and payables from transaction with related parties as of December 31, 2017 and 2016, are as follows:

i) Major income and expense transactions with related parties

(in millions of Korean won)

Classification	Name	2017					
		Income transactions			Expense transactions		
		Sales	Others	Total	Purchases	Others	Total
Significantly influencing the Company	LG Corp.	1,532	13	1,545	2	149,128	149,130
Subsidiaries	LG Innotek Co., Ltd.	525,074	-	525,074	596,875	8,246	605,121
	Hiplaza Co., Ltd.	1,487,116	-	1,487,116	49	20,536	20,585
	LG Electronics Vietnam Haiphong Co., Ltd.	1,213,916	770	1,214,686	33,216	11,801	45,017
	LG Electronics Mobilecomm U.S.A., Inc.	2,094,680	-	2,094,680	-	8,592	8,592
	LG Electronics Egypt S.A.E	247,768	194	247,962	-	270	270
	LG Electronics U.S.A., Inc.	4,289,841	-	4,289,841	5,014	116,447	121,461
	LG Electronics do Brasil Ltda.	764,376	-	764,376	3,532	1,561	5,093
	LG Electronics Gulf FZE	536,981	-	536,981	-	1,211	1,211
	Inspur LG Digital Mobile Communications Co., Ltd.	1,334,399	3,333	1,337,732	149,525	20,077	169,602
	LG Electronics Japan, Inc.	321,293	-	321,293	5,293	21,833	27,126
	LG Electronics (Kunshan) Co.,Ltd.	393,665	8	393,673	10,565	2,881	13,446
	LG Electronics RUS, LLC	333,758	185	333,943	3	1,537	1,540
	LG Electronics Australia Pty, Ltd.	344,528	-	344,528	7	1,990	1,997
	LG Electronics Mexico S.A. DE C.V.	239,118	-	239,118	57	539	596
	Qingdao LG Inspur Digital Communication Co., Ltd.	448,249	537	448,786	73,397	4,942	78,339
	LG Electronics (Levant) Jordan	330,882	-	330,882	900	5,064	5,964
	LG Electronics Philippines Inc.	52,359	-	52,359	-	536	536
	LG Electronics Colombia Ltda.	87,642	-	87,642	116	900	1,016
	LG Electronics Deutschland GmbH	323,831	-	323,831	1,846	33,107	34,953
	LG Electronics Nanjing New Technology co., LTD	238,850	78	238,928	431,449	1,349	432,798
	LG Electronics Mlawa Sp. z.O.O.	287,997	221	288,218	1,979	5,415	7,394
	LG Electronics Canada, Inc.	465,386	-	465,386	47	3,795	3,842
	Others	4,320,771	1,523	4,322,294	441,229	346,553	787,782
	Subtotal	20,682,480	6,849	20,689,329	1,755,099	619,182	2,374,281

LG Electronics Inc.
Notes to the Separate Financial Statements
December 31, 2017 and 2016

(in millions of Korean won)

		2017					
		Income transactions			Expense transactions		
Classification	Name	Sales	Others	Total	Purchases	Others	Total
Associates	LG Display Co., Ltd. and its subsidiaries	1,126,672	-	1,126,672	1,675,829	13,552	1,689,381
	Ericsson-LG Co., Ltd. and its subsidiaries	7,746	-	7,746	4,250	-	4,250
	Hitachi-LG Data Storage Inc.(HLDS) and its subsidiaries	676	-	676	17,626	714	18,340
	LG Fuel Cell Systems Inc. and its subsidiaries	2,485	-	2,485	-	-	-
	Korea Information Certificate Authority Inc.	-	-	-	-	14	14
	Subtotal	1,137,579	-	1,137,579	1,697,705	14,280	1,711,985
Joint venture	Arcelik-LG Klima Sanayi ve Ticaret A.S.(LGEAT)	-	-	-	47,140	-	47,140
	LG-MRI LLC	635	-	635	-	-	-
	Subtotal	635	-	635	47,140	-	47,140
Other related parties	LG CNS Co., Ltd. and its subsidiaries	71,365	-	71,365	141,595	323,508	465,103
	SERVEONE Co., Ltd. and its subsidiaries	122,933	223,000	345,933	640,143	299,699	939,842
	SK Siltron Incorporated and its subsidiaries ¹	3,169	-	3,169	28	-	28
	LUSEM CO., LTD.	2	-	2	1,746	27	1,773
	LG Management Development Institute	35	-	35	300	24,487	24,787
	LG SPORTS Ltd.	19	-	19	-	13,698	13,698
	LG MMA Ltd.	1,229	-	1,229	-	-	-
	Subtotal	198,752	223,000	421,752	783,812	661,419	1,445,231
Others ¹	LG Chem Ltd. and its subsidiaries	682,310	2,065	684,375	717,086	2,856	719,942
	LG INTERNATIONAL CORP and its subsidiaries	126,266	-	126,266	1,639,218	698,995	2,338,213
	LG Uplus Corp and its subsidiaries	716,852	-	716,852	2,106	5,076	7,182
	LG HAUSYS,LTD. and its subsidiaries	37,577	-	37,577	13,976	1,033	15,009
	Silicon Works Co., Ltd	5,088	-	5,088	9,933	-	9,933
	LG HOUSEHOLD & HEALTH CARE LTD and its subsidiaries	5,393	-	5,393	242	59	301
	G I I R Inc. and its subsidiaries	666	-	666	3,906	263,248	267,154
	Subtotal	1,574,152	2,065	1,576,217	2,386,467	971,267	3,357,734
	Total	23,595,130	231,927	23,827,057	6,670,225	2,415,276	9,085,501

LG Electronics Inc.
Notes to the Separate Financial Statements
December 31, 2017 and 2016

(in millions of Korean won)

		2016					
		Income transactions			Expense transactions		
Classification	Name	Sales	Others	Total	Purchases	Others	Total
Significantly influencing the Company	LG Corp.	2,122	10,053	12,175	-	131,986	131,986
Subsidiaries	LG Innotek Co., Ltd.	229,589	2,071	231,660	802,206	9,624	811,830
	Hiplaza Co., Ltd.	1,175,735	-	1,175,735	81	11,933	12,014
	LG Electronics Vietnam Haiphong Co., Ltd.	1,053,179	22,213	1,075,392	29,623	4,387	34,010
	LG Electronics Mobilecomm U.S.A., Inc.	2,710,835	-	2,710,835	2,249	25,037	27,286
	LG Electronics Egypt S.A.E	202,490	71	202,561	-	561	561
	LG Electronics U.S.A., Inc.	3,335,217	-	3,335,217	5,059	113,776	118,835
	LG Electronics do Brasil Ltda.	658,193	-	658,193	7,627	2,168	9,795
	LG Electronics Gulf FZE	667,027	-	667,027	39	1,662	1,701
	Inspur LG Digital Mobile Communications Co., Ltd.	1,515,852	-	1,515,852	60,279	30,057	90,336
	LG Electronics Japan, Inc.	391,743	-	391,743	7,185	28,230	35,415
	LG Electronics (Kunshan) Co.,Ltd.	537,487	-	537,487	19,528	821	20,349
	LG Electronics RUS, LLC	362,311	19	362,330	1,164	1,281	2,445
	LG Electronics Australia Pty, Ltd.	342,966	-	342,966	560	1,404	1,964
	LG Electronics Mexico S.A. DE C.V.	373,682	-	373,682	388	909	1,297
	Qingdao LG Inspur Digital Communication Co., Ltd.	485,714	96	485,810	92,894	5,133	98,027
	LG Electronics (Levant) Jordan	388,835	-	388,835	978	23,563	24,541
	LG Electronics Philippines Inc.	83,006	-	83,006	-	1,339	1,339
	LG Electronics Colombia Ltda.	96,072	-	96,072	-	849	849
	LG Electronics Deutschland GmbH	186,940	-	186,940	1,721	25,799	27,520
	LG Electronics Nanjing New Technology co., LTD	318,099	2	318,101	543,934	717	544,651
	LG Electronics Mlawa Sp. z.O.O.	277,018	-	277,018	2,199	1,370	3,569
	LG Electronics Canada, Inc.	468,987	-	468,987	4	3,409	3,413
	Others	4,517,954	25,295	4,543,249	468,721	416,639	885,360
	Subtotal	20,378,931	49,767	20,428,698	2,046,439	710,668	2,757,107
Associates	LG Display Co., Ltd. and its subsidiaries	990,106	10,053	1,000,159	1,560,675	19,604	1,580,279
	Ericsson-LG Co., Ltd. and its subsidiaries	8,060	-	8,060	4,537	-	4,537
	Hitachi-LG Data Storage Inc.(HLDS) and its subsidiaries	873	-	873	379	-	379
	LG Fuel Cell Systems Inc. and its subsidiaries	496	-	496	154	-	154

LG Electronics Inc.
Notes to the Separate Financial Statements
December 31, 2017 and 2016

(in millions of Korean won)

		2016					
		Income transactions			Expense transactions		
Classification	Name	Sales	Others	Total	Purchases	Others	Total
	Korea Information Certificate Authority Inc.	-	-	-	-	1	1
	Subtotal	999,535	10,053	1,009,588	1,565,745	19,605	1,585,350
Joint venture	LG-MRI LLC	289	-	289	350	-	350
Other related parties	LG CNS Co., Ltd. and its subsidiaries	46,528	-	46,528	193,443	259,871	453,314
	SERVEONE Co., Ltd. and its subsidiaries	27,984	-	27,984	924,021	99,357	1,023,378
	LG Siltron Incorporated and its subsidiaries ¹	422	-	422	42	-	42
	LUSEM CO., LTD.	4	-	4	2,195	42	2,237
	LG Management Development Institute	54	-	54	19	26,227	26,246
	LG SPORTS Ltd.	18	-	18	-	10,285	10,285
	LG MMA Ltd.	520	-	520	-	-	-
	Subtotal	75,530	-	75,530	1,119,720	395,782	1,515,502
Others ²	LG Chem Ltd. and its subsidiaries	251,764	6,960	258,724	393,650	7,193	400,843
	LG INTERNATIONAL CORP and its subsidiaries	124,840	13,921	138,761	1,773,664	618,578	2,392,242
	LG Uplus Corp and its subsidiaries	675,437	-	675,437	971	5,897	6,868
	LG HAUSYS, LTD. and its subsidiaries	25,784	-	25,784	19,659	16	19,675
	Silicon Works Co., Ltd	4,491	-	4,491	2,114	-	2,114
	LG HOUSEHOLD & HEALTH CARE LTD and its subsidiaries	2,909	-	2,909	249	175	424
	LG LIFE SCIENCES, LTD.	3,649	-	3,649	1	-	1
	G II R Inc. and its subsidiaries	365	-	365	70	176,974	177,044
	Subtotal	1,089,239	20,881	1,110,120	2,190,378	808,833	2,999,211
	Total	22,545,646	90,754	22,636,400	6,922,631	2,066,874	8,989,505

¹ All shares of LG Siltron Incorporated were sold to SK Holdings Co., Ltd. on August 17, 2017, and the name of LG Siltron Incorporated was changed to SK Siltron Co., Ltd.

² Although the entities are not the related parties of the Company in accordance with Korean IFRS 1024, the entity belongs to the Large Enterprise Group to which the Company also belongs in accordance with the Monopoly Regulation and Fair Trade Act.

LG Electronics Inc.
Notes to the Separate Financial Statements
December 31, 2017 and 2016

ii) The balances of receivables from and payables to related parties

(in millions of Korean won)

		December 31, 2017							
Classification	Name	Receivables				Payables			
		Trade receivables	Loans	Other receivables	Total	Trade payables	Borrowings	Other payables	Total
Significantly influencing the Company	LG Corp.	39	-	23,325	23,364	-	-	9,272	9,272
Subsidiaries	LG Innotek Co., Ltd.	380,623	-	2,368	382,991	149,835	-	38,605	188,440
	Hiplaza Co., Ltd.	155,550	-	11,732	167,282	-	-	9,750	9,750
	LG Electronics Vietnam Haiphong Co., Ltd.	151,420	-	1,283	152,703	170,225	-	1,894	172,119
	LG Electronics Mobilecomm U.S.A., Inc.	267,876	-	-	267,876	-	-	28,559	28,559
	LG Electronics Egypt S.A.E	55,145	-	66,906	122,051	11,029	-	5	11,034
	LG Electronics U.S.A., Inc.	500,636	-	-	500,636	-	-	11,237	11,237
	LG Electronics do Brasil Ltda.	244,857	-	38,524	283,381	386	-	331	717
	LG Electronics Gulf FZE	126,018	-	-	126,018	-	-	16	16
	Inspur LG Digital Mobile Communications Co., Ltd.	115,718	-	-	115,718	295,003	-	1,960	296,963
	LG Electronics Japan, Inc.	76,677	-	-	76,677	-	-	2,591	2,591
	LG Electronics (Kunshan) Co.,Ltd.	82,536	-	-	82,536	27,360	-	10,693	38,053
	LG Electronics RUS, LLC	44,353	-	12,087	56,440	475	-	301	776
	LG Electronics Australia Pty, Ltd.	58,662	-	-	58,662	-	-	609	609
	LG Electronics Mexico S.A. DE C.V.	46,594	-	-	46,594	-	-	7	7
	Qingdao LG Inspur Digital Communication Co., Ltd.	31,377	-	-	31,377	98,183	-	-	98,183
	LG Electronics (Levant) Jordan	68,467	-	9	68,476	-	-	626	626
	LG Electronics Philippines Inc.	41,346	-	18	41,364	-	-	32	32
	LG Electronics Colombia Ltda.	70,282	-	66	70,348	-	-	142	142
	LG Electronics Deutschland GmbH	117,195	-	14,331	131,526	-	-	10,456	10,456
	LG Electronics Nanjing New Technology co., LTD	28,956	-	167	29,123	151,227	-	-	151,227
	LG Electronics Mlawa Sp. z.O.O.	33,601	-	2	33,603	662,898	-	775	663,673
	LG Electronics Canada, Inc.	42,105	-	-	42,105	-	-	37	37
	Others	981,043	-	79,352	1,060,395	847,969	127,925	85,322	1,061,216
	Subtotal	3,721,037	-	226,845	3,947,882	2,414,590	127,925	203,948	2,746,463
Associates	LG Display Co., Ltd. and its subsidiaries	387,785	-	9,980	397,765	538,254	-	86,253	624,507
	Ericsson-LG Co., Ltd. and its subsidiaries	316	-	202	518	1,302	-	-	1,302

LG Electronics Inc.
Notes to the Separate Financial Statements
December 31, 2017 and 2016

(in millions of Korean won)

		December 31, 2017							
		Receivables				Payables			
Classification	Name	Trade receivables	Loans	Other receivables	Total	Trade payables	Borrowings	Other payables	Total
	Hitachi-LG Data Storage Inc.(HLDS) and its subsidiaries	33	-	1,531	1,564	6,106	-	237	6,343
	LG Fuel Cell Systems Inc. and its subsidiaries	1,201	-	-	1,201	-	-	5	5
	Korea Information Certificate Authority Inc.	-	-	-	-	-	-	7	7
	Subtotal	389,335	-	11,713	401,048	545,662	-	86,502	632,164
Joint venture	Arcelik-LG Klima Sanayi ve Ticaret A.S.(LGEAT)	-	-	-	-	1,692	-	-	1,692
	LG-MRI LLC	248	-	-	248	-	-	-	-
	Subtotal	248	-	-	248	1,692	-	-	1,692
Other related parties	LG CNS Co., Ltd. and its subsidiaries	20,662	-	2,202	22,864	2,498	-	117,524	120,022
	SERVEONE Co., Ltd. and its subsidiaries	73,380	-	58,704	132,084	116,305	-	158,893	275,198
	LUSEM CO., LTD.	-	-	-	-	244	-	46	290
	LG Management Development Institute	-	-	15,660	15,660	-	-	1,272	1,272
	LG SPORTS Ltd.	-	-	-	-	-	-	1,952	1,952
	LG MMA Ltd.	256	-	-	256	-	-	-	-
	Subtotal	94,298	-	76,566	170,864	119,047	-	279,687	398,734
Others ²	LG Chem Ltd. and its subsidiaries	274,747	-	7,272	282,019	261,385	-	88,240	349,625
	LG INTERNATIONAL CORP and its subsidiaries	20,900	-	18,834	39,734	392,637	-	116,795	509,432
	LG Uplus Corp and its subsidiaries	46,992	-	458	47,450	-	-	855	855
	LG HAUSYS,LTD. and its subsidiaries	18,164	-	169	18,333	2,547	-	3,187	5,734
	Silicon Works Co., Ltd	2,489	-	-	2,489	2,178	-	756	2,934
	LG HOUSEHOLD & HEALTH CARE LTD and its subsidiaries	2,048	-	-	2,048	-	-	1,258	1,258
	G II R Inc. and its subsidiaries	339	-	-	339	-	-	219,536	219,536
	Subtotal	365,679	-	26,733	392,412	658,747	-	430,627	1,089,374
	Total	4,570,636	-	365,182	4,935,818	3,739,738	127,925	1,010,036	4,877,699

(in millions of Korean won)

		December 31, 2016							
		Receivables				Payables			
Classification	Name	Trade receivables	Loans	Other receivables	Total	Trade payables	Borrowings	Other payables	Total
Significantly influencing the Company	LG Corp.	745	-	27,706	28,451	-	-	-	-
Subsidiaries	LG Innotek Co., Ltd.	139,457	-	6,541	145,998	202,099	-	7,020	209,119

LG Electronics Inc.
Notes to the Separate Financial Statements
December 31, 2017 and 2016

(in millions of Korean won)

		December 31, 2016							
		Receivables				Payables			
Classification	Name	Trade receivables	Loans	Other receivables	Total	Trade payables	Borrowings	Other payables	Total
	Hiplaza Co., Ltd.	110,446	-	19,281	129,727	-	-	7,240	7,240
	LG Electronics Vietnam Haiphong Co., Ltd.	352,021	-	2,197	354,218	130,138	-	961	131,099
	LG Electronics Mobilecomm U.S.A., Inc.	324,799	-	-	324,799	-	-	39,152	39,152
	LG Electronics Egypt S.A.E	243,230	-	79,399	322,629	15,692	-	37	15,729
	LG Electronics U.S.A., Inc.	296,145	-	-	296,145	-	-	23,006	23,006
	LG Electronics do Brasil Ltda.	241,705	-	24,536	266,241	839	-	942	1,781
	LG Electronics Gulf FZE	137,992	-	-	137,992	-	-	79	79
	Inspur LG Digital Mobile Communications Co., Ltd.	128,037	-	4	128,041	408,187	-	1,093	409,280
	LG Electronics Japan, Inc.	121,762	-	-	121,762	-	-	3,493	3,493
	LG Electronics (Kunshan) Co.,Ltd.	120,088	-	-	120,088	40,645	-	304	40,949
	LG Electronics RUS, LLC	100,719	-	13,773	114,492	969	-	145	1,114
	LG Electronics Australia Pty, Ltd.	95,585	-	-	95,585	-	-	10,710	10,710
	LG Electronics Mexico S.A. DE C.V.	74,896	-	-	74,896	300	-	98	398
	Qingdao LG Inspur Digital Communication Co., Ltd.	72,278	-	47	72,325	171,963	-	4	171,967
	LG Electronics (Levant) Jordan	70,831	-	1	70,832	-	-	3,346	3,346
	LG Electronics Philippines Inc.	67,066	-	3	67,069	-	-	62	62
	LG Electronics Colombia Ltda.	65,570	-	62	65,632	-	-	111	111
	LG Electronics Deutschland GmbH	55,816	-	6,350	62,166	-	-	3,375	3,375
	LG Electronics Nanjing New Technology co., LTD	46,629	-	215	46,844	192,212	-	23	192,235
	LG Electronics Mlawa Sp. z.O.O.	42,164	-	-	42,164	735,091	-	310	735,401
	LG Electronics Canada, Inc.	22,729	-	-	22,729	-	-	7,080	7,080
	Others	893,357	-	74,547	967,904	691,728	-	70,768	762,496
	Subtotal	3,823,322	-	226,956	4,050,278	2,589,863	-	179,359	2,769,222
Associates	LG Display Co., Ltd. and its subsidiaries	242,382	-	19,939	262,321	356,905	-	73,292	430,197
	Ericsson-LG Co., Ltd. and its subsidiaries	235	-	529	764	706	-	-	706
	Hitachi-LG Data Storage Inc.(HLDS) and its subsidiaries	-	-	-	-	-	-	340	340
	LG Fuel Cell Systems Inc. and its subsidiaries	245	-	-	245	-	-	-	-
	Subtotal	242,862	-	20,468	263,330	357,611	-	73,632	431,243

LG Electronics Inc.
Notes to the Separate Financial Statements
December 31, 2017 and 2016

(in millions of Korean won)

		December 31, 2016							
		Receivables				Payables			
Classification	Name	Trade receivables	Loans	Other receivables	Total	Trade payables	Borrowings	Other payables	Total
Joint venture	LG-MRI LLC	341	-	-	341	179	-	-	179
Other related parties	LG CNS Co., Ltd. and its subsidiaries	10,259	-	180	10,439	32,969	-	79,016	111,985
	SERVEONE Co., Ltd. and its subsidiaries	22,028	-	54,227	76,255	213,112	-	91,986	305,098
	LG Siltron Incorporated and its subsidiaries ¹	138	-	-	138	-	-	30	30
	LUSEM CO., LTD.	-	-	-	-	312	-	8	320
	LG Management Development Institute	-	-	15,671	15,671	-	-	1,391	1,391
	LG MMA Ltd.	286	-	-	286	-	-	-	-
	Subtotal		32,711	-	70,078	102,789	246,393	-	172,431
Others ²	LG Chem Ltd. and its subsidiaries	70,959	-	32,433	103,392	187,441	-	4,089	191,530
	LG INTERNATIONAL CORP and its subsidiaries	44,559	-	15,098	59,657	95,389	-	53,485	148,874
	LG Uplus Corp and its subsidiaries	55,266	-	1,389	56,655	143	-	75	218
	LG HAUSYS, LTD. and its subsidiaries	5,181	-	494	5,675	3,419	-	2,016	5,435
	Silicon Works Co., Ltd	1,302	-	9	1,311	470	-	328	798
	LG HOUSEHOLD & HEALTH CARE LTD and its subsidiaries	1,309	-	-	1,309	47	-	820	867
	LG LIFE SCIENCES, LTD	1,107	-	-	1,107	-	-	-	-
	G I R Inc. and its subsidiaries	139	-	-	139	103,615	-	49,793	153,408
Subtotal		179,822	-	49,423	229,245	390,524	-	110,606	501,130
Total		4,279,803	-	394,631	4,674,434	3,584,570	-	536,028	4,120,598

¹ All shares of LG Siltron Incorporated were sold to SK Holdings Co., Ltd. on August 17, 2017, and the name of LG Siltron Incorporated was changed to SK Siltron Co., Ltd.

² Although the entities are not the related parties of the Company in accordance with Korean IFRS 1024, the entity belongs to the Large Enterprise Group to which the Company also belongs in accordance with the Monopoly Regulation and Fair Trade Act.

iii) Significant capital transactions with related parties and others for the years ended December 31, 2017 and 2016, are as follows:

(in millions of Korean won)

		2017						
		Dividend income	Dividend paid	Cash distribution (reduction)	Financing loan transactions		Financing borrowing transactions	
Classification	Name				Loans	Collections	Borrowings	Repayments
Significantly influencing the Company	LG Corp.	-	22,038	-	-	-	-	-
Subsidiaries	LG Electronics Egypt S.A.E ¹	-	-	89,922	-	-	-	-

LG Electronics Inc.
Notes to the Separate Financial Statements
December 31, 2017 and 2016

(in millions of Korean won)

Classification	Name	2017						
		Dividend income	Dividend paid	Cash distribution (reduction)	Financing loan transactions		Financing borrowing transactions	
					Loans	Collections	Borrowings	Repayments
	LG Innotek Co., Ltd.	2,413	-	-	-	-	-	-
	LG Soft India Private Limited	23,921	-	-	-	-	-	-
	LG Electronics RUS, LLC	62,944	-	-	-	-	-	-
	LG Electronics Nanjing New Technology co., LTD	8,127	-	-	-	-	-	-
	LG Electronics (Hangzhou) Co., Ltd.	252	-	-	-	-	-	-
	P.T. LG Electronics Indonesia	75,560	-	-	-	-	-	-
	NanJing LG-Panda Appliances Co., Ltd.	6,174	-	-	-	-	-	-
	LG Electronics Tianjin Appliances Co., Ltd.	11,032	-	-	-	-	-	-
	LG Electronics Huizhou Ltd.	3,622	-	-	-	-	-	-
	LG Electronics India Pvt. Ltd.	145,581	-	-	-	-	-	-
	Inspur LG Digital Mobile Communications Co., Ltd.	22,398	-	-	-	-	-	-
	LG Electronics European Shared Service Center B.V.	-	-	-	-	-	135,549	-
	LG-Shaker Co., Ltd.	14,755	-	-	-	-	-	-
	LG Electronics do Brasil Ltda.	19,780	-	-	-	-	-	-
	Tianjin Lijie cartridge heater Co., Ltd.	-	-	20	-	-	-	-
	LG Electronics Finland Lab, Oy	-	-	2,105	-	-	-	-
	LGE Alliance Fund	-	-	1,710	-	-	-	-
	Subtotal	396,559	-	93,757	-	-	135,549	-
Associates	LG Display Co., Ltd.	67,813	-	-	-	-	-	-
	Korea Information Certificate Authority Inc.	114	-	-	-	-	-	-
	LG Fuel Cell Systems Inc.	-	-	35,284	-	-	-	-
	Ericsson-LG Co., Ltd. and its subsidiaries	-	-	(12,500)	-	-	-	-
	Hitachi-LG Data Storage Inc.(HLDS)	-	-	10,710	-	-	-	-
	LG Holdings(HK) Ltd.	-	-	(37,277)	-	-	-	-
	Subtotal	67,927	-	(3,783)	-	-	-	-
	Total	464,486	22,038	89,974	-	-	135,549	-

LG Electronics Inc.
Notes to the Separate Financial Statements
December 31, 2017 and 2016

(in millions of Korean won)

Classification	Name	2016						
		Dividend income	Dividend paid	Cash distribution (reduction)	Financing loan transactions		Financing borrowing transactions	
					Loans	Collections	Borrowings	Repayments
Significantly influencing the Company	LG Corp.	-	22,038	-	-	-	-	-
Subsidiaries	LG Electronics Ukraine Inc. ¹	-	-	56,694	-	-	-	-
	LG Innotek Co., Ltd.	3,379	-	-	-	-	-	-
	LG Electronics Australia Pty, Ltd.	42,658	-	-	-	-	-	-
	NanJing LG-Panda Appliances Co., Ltd.	9,622	-	-	-	-	-	-
	LG Electronics India Pvt. Ltd.	289,059	-	-	-	-	-	-
	LG Electronics Nanjing New Technology co.,LTD	3,823	-	-	-	-	-	-
	LG Electronics Huizhou Ltd.	3,805	-	-	-	-	-	-
	LG Electronics (Hangzhou) Co., Ltd.	246	-	-	-	-	-	-
	Inspur LG Digital Mobile Communications Co., Ltd.	29,894	-	-	-	-	-	-
	Qingdao LG Inspur Digital Communication Co., Ltd.	14,022	-	-	-	-	-	-
	LG Electronics Finland Lab, Oy	-	-	1,900	-	-	-	-
	LG Electronics do Brasil Ltda.	12,016	-	-	-	-	-	-
	LG Electronics Tianjin Appliances Co., Ltd.	9,065	-	-	-	-	-	-
	Subtotal	417,589	-	58,594	-	-	-	-
Associates	LG Display Co., Ltd.	67,813	-	-	-	-	-	-
	Ericsson-LG Co., Ltd.	3,750	-	(25,000)	-	-	-	-
	Korea Information Certificate Authority Inc.	70	-	1,136	-	-	-	-
	Hitachi-LG Data Storage Inc.(HLDS)	-	-	40,066	-	-	-	-
	LG Fuel Cell System Inc.	-	-	25,324	-	-	-	-
	Subtotal	71,633	-	41,526	-	-	-	-
	Total	489,222	22,038	100,120	-	-	-	-

¹ Includes the amount of debt for equity swaps of trade receivables.

LG Electronics Inc.
Notes to the Separate Financial Statements
December 31, 2017 and 2016

- (b) The compensation paid or payable to key management personnel for the years ended December 31, 2017 and 2016, consist of:

<i>(in millions of Korean won)</i>	2017	2016
Wages and salaries	16,248	15,176
Post-employment benefits	4,136	4,274
Other long-term benefits	137	157
Total	20,521	19,607

Key management refers to the directors who have significant control and responsibilities on the Company's business plans, operations and control.

- (c) The payment guarantees for the financial support of related parties at the end of the reporting period are presented in Note 33.
- (d) There is no collateral provided by the Company for the financial support of related parties at the end of the reporting period.
- (e) The Company has not recognized any bad debt expense or allowance for trade receivables from related parties at the end of the reporting period.

36. Risk Management

Financial Risk Management

The Company's financial risk management ("FRM") policy supports each business division to achieve excellent performance solidly and continuously against market risk, credit risk and liquidity risk. In addition, FRM helps the Company to enhance cost competitiveness through cost-efficient financing cost by improving financial structure and effective cash management.

While cooperating with other divisions, Finance Division in the Company mainly implements FRM. This involves setting-up risk management policies and recognizing, evaluating and hedging risks from a global point of view.

The Company mitigates the adverse effects from financial risk by monitoring the risk periodically and updating FRM policy each year.

The carrying amount, and profit or loss of each category of financial instruments and the details of borrowings related to the financial risk management are presented in Note 4 and Note 14, respectively.

- (a) Market risk
- i) Foreign exchange risk

Due to its multinational business operations, the Company is mainly exposed to foreign exchange risk on the US Dollar and Euro.

LG Electronics Inc.
Notes to the Separate Financial Statements
December 31, 2017 and 2016

The purpose of foreign exchange risk management is to provide the foundation of a stable business operation by minimizing the uncertainty and volatility of foreign exchange gains and losses from foreign exchange rate fluctuations.

The Company's foreign exchange risk management is implemented under its own foreign exchange policy through which the Company can minimize the exposure to foreign exchange risk by preferentially making equal amount of foreign exchange assets and liabilities from general operating activities. And the Company continuously considers efficient foreign exchange risk hedges against its remaining exposure with derivative financial instruments and scrutinizes changes in foreign exchange exposure and the results of hedging activities on a monthly basis. Speculative foreign exchange trading is prohibited in principle.

As of December 31, 2017 and 2016, if the foreign exchange rate of the Korean won fluctuated for monetary assets and liabilities denominated in major foreign currency other than functional currency by 10% while other variables were fixed, the effects on income(loss) before tax would be as follows:

<i>(in millions of Korean won)</i>	December 31, 2017		December 31, 2016	
	10% increase	10% decrease	10% increase	10% decrease
USD/KRW	56,741	(56,741)	7,908	(7,908)
EUR/KRW	(486)	486	27,491	(27,491)

ii) Interest rate risk

The Company is exposed to interest rate risk through changes in interest-bearing liabilities or assets. The risk mainly arises from borrowings and deposits held by financial institutions with variable interest rates linked to market interest rate changes in the future. The objective of interest rate risk management lies in improving corporate value by minimizing uncertainty caused by fluctuations in interest rates and minimizing net interest expense.

The Company minimizes its borrowings from others and optimizes its deposits by expanding internal finance sharing. The Company periodically establishes the plan for reaction by the monitoring trends of internal and external interest rates.

If interest rates fluctuate by 1%p without other variables changing, the effects on income and expenses related to borrowings and deposits held by financial institutions with variable interest rates for the years ended December 31, 2017 and 2016, are as follows:

<i>(in millions of Korean won)</i>	2017		2016	
	1%p increase	1%p decrease	1%p increase	1%p decrease
Interest income	15,862	(15,862)	11,817	(11,817)
Interest expense	1,279	(1,279)	-	-

There are no borrowings with variable interest rates and related interest expenses exposed to interest rate risk as of December 31, 2016.

LG Electronics Inc.
Notes to the Separate Financial Statements
December 31, 2017 and 2016

iii) Details of derivatives contracts are as follows:

The Company entered into the cross-currency swap and interest rate swap contracts to hedge cash flow risks related to the floating interest rates and foreign exchange rates of debentures.

December 31, 2017	Contractor	Contracted amount (in millions)	Contracted currency rate	Interest rate (paid)	Start date	Expiration date
USD/KRW cross-currency swap	Shinhan Bank and others	USD 530	1,097.3 ~ 1,155.2	2.17 ~ 3.22	2013.07.31 ~ 2017.11.20	2019.01.31 ~ 2025.04.23
Interest rate swap	Woori bank and others	KRW 1,270,000/ EUR 100	-	1.00 ~ 4.53	2014.01.03 ~ 2017.08.24	2023.02.24 ~ 2030.07.07

Interest rate received for the above swap contracts equals to annual interest rate of borrowings (Note 14).

At the end of the reporting period, the swap contracts are evaluated at fair value and the loss on valuation of the effective portion amounting to ₩40,777 million in 2017 (2016: loss on valuation amounting to ₩2,098 million) after applying the tax effect, is recognized in other comprehensive income. The Company reclassified ₩69,968 million to loss from equity in 2017 (2016: ₩1,442 million to loss from equity). Therefore, other comprehensive income from cash flow hedges amounts to ₩29,191 million in 2017 (2016: other comprehensive loss of ₩656 million) after applying the tax effect.

iv) Price risk

The Company is exposed to price risk through equity securities owned by the Company classified as available-for-sale financial assets in the separate financial statements.

The listed securities owned by the Company are traded in the open market, and related to KOSDAQ Index.

The effect of price index's fluctuation related to the listed securities on the equity (before applying the tax effect) is set out in the below table. The analysis is performed in respect of 30% increase/decrease in the price index under the assumption that other variations are consistent and the listed securities owned by the Company have correlation with the relevant past index.

(in millions of Korean won)	December 31, 2017		December 31, 2016	
	30% increase	30% decrease	30% increase	30% decrease
KOSDAQ	3,095	(3,095)	3,575	(3,575)

The valuation and the reclassified amounts of the available-for-sale financial assets related to the market risk above are presented in Note 7.

(b) Credit risk

The Company operates a consistent Global Credit / TR (trade receivables) policy to manage credit risk exposure.

LG Electronics Inc.
Notes to the Separate Financial Statements
December 31, 2017 and 2016

In regard to receivables, the Company operates an integrated receivable insurance program with the Korea Trade Insurance Corporation (K-SURE) and Seoul Guarantee Insurance Company (Coface). In an effort to minimize receivable credit risk, the Company applies the credit rating of the counterparty when determining the insurance coverage. In addition, the Company performs stringent credit risk managements based on credit valuation criteria for receivables without insurance coverage or collateral.

Details of credit quality for trade receivables that are neither past due nor impaired are as follows:

<i>(in millions of Korean won)</i>	December 31, 2017	December 31, 2016
Trade receivables with insurance or collateral		
Excellent	427,933	251,261
Good	148,860	157,368
Fair	223,258	153,126
Poor ¹	206,519	83,267
Subtotal	1,006,570	645,022
Trade receivables without insurance or collateral		
Tier 1	3,934,661	3,792,394
Tier 2	397,330	213,770
Tier 3	12,677	693
Subtotal	4,344,668	4,006,857
Total	5,351,238	4,651,879

¹Debtors with insurance or collateral, but without credit rating are included herein.

Criteria of categorizing trade receivables with insurance or collateral are as follows:

Category	Coface	K-SURE
Excellent	8~10	A~B
Good	7	C
Fair	3~6	D~E
Poor	0~2	F~R

Debtors for which credit ratings are not provided by insurance company are categorized using the criteria from domestic credit rating agency.

Criteria of categorizing trade receivables without insurance or collateral are as follows:

Tier 1 – National or local government, domestic credit rating agency AA- ~ AAA+, related parties including subsidiaries, associates, and others

Tier 2 – Debtors with domestic credit rating other than Tier 1

Tier 3 – Small debtors without credit history

LG Electronics Inc.
Notes to the Separate Financial Statements
December 31, 2017 and 2016

The credit rating of cash equivalents and deposits held by financial institutions estimated by the Company using external credit rating criteria as of December 31, 2017 and 2016, is as follows:

Category	December 31, 2017	December 31, 2016
Excellent	1,668,533	1,263,374
Good	-	-
Total	1,668,533	1,263,374

Excellent: Equal to or more than A-(Global credit rating agency such as Moody's), AAA(Domestic credit rating agency such as Korea investors service)

Good: Equal to or more than BBB-(Global credit rating agency such as Moody's), AA(Domestic credit rating agency such as Korea investors service)

(c) Liquidity risk

The Company forecasts its cash flow and liquidity status and sets action plans on a regular base to manage liquidity risk proactively. The Company systematically works with experts in four RTCs to carry out fund and liquidity management that can react proactively to the changing global financial environment.

The Company maintains adequate amount of cash and committed credit facilities in Kookmin Bank and Shinhan Bank to cope with potential financial distress.

In addition, the Company is able to source funds any time in domestic and international financial markets because it has good investment credit grades of AA Stable from Korea Investors Service, Korea Ratings and NICE Information Service, BBB from Standard & Poors, and Baa3 from Moody's as of December 31, 2017, respectively.

i) Cash flow information on maturity of financial liabilities as of December 31, 2017, are as follows:

<i>(in millions of Korean won)</i>	Total	Within 1 year	1 to 2 years	2 to 5 years	Over 5 years
Trade payables	6,126,168	6,126,168	-	-	-
Borrowings	8,641,894	987,794	959,596	2,907,504	3,787,000
Other payables	2,351,816	2,351,601	200	15	-
Total	17,119,878	9,465,563	959,796	2,907,519	3,787,000

The above cash flows are calculated at nominal value based on the earliest maturity dates, and include cash flows of principal and interests. Derivatives for cash flow hedges from changes in interest rate and exchange rate are reflected in the cash flows of related borrowings.

ii) The maturity analysis of financial guarantee contracts provided by the Company to subsidiaries and third party companies as of December 31, 2017, are as follows:

<i>(in millions of Korean won)</i>	Total	Within 1 year	1 to 2 years	2 to 5 years	Over 5 years
Financial guarantee contracts	4,043,783	3,760,378	94,877	188,528	-

LG Electronics Inc.
Notes to the Separate Financial Statements
December 31, 2017 and 2016

The financial guarantee contracts provided to the subsidiaries are analysed by their maturities according to the residual periods. And, the financial guarantee contracts provided to the third party companies are analysed at the maximum amount of guarantees allocated to earliest period in which the Company can be required to make the payments.

Capital Risk Management

The Company's capital risk management purpose is to maximize shareholders' value through maintaining a sound capital structure. The Company monitors financial ratios, such as liability to equity ratio and net borrowing ratio each month and implements required action plan to improve the capital structure.

Debt-to-equity ratio and net borrowing ratio as of December 31, 2017 and 2016, are as follows:

<i>(in millions of Korean won, except for ratios)</i>	December 31, 2017	December 31, 2016
Liability (A)	18,614,924	17,833,623
Equity (B)	9,544,857	8,765,452
Cash and cash equivalents (C)	1,586,258	1,181,725
Borrowings (D)	7,441,840	6,631,320
Debt-to-equity ratio (A/B)	195.0%	203.5%
Net borrowings ratio ((D-C)/B)	61.3%	62.2%

Fair Value Estimation

(a) The book amounts and fair values of the Company's financial assets and liabilities as of December 31, 2017 and 2016, are as follows:

<i>(in millions of Korean won)</i>	December 31, 2017			
	Current		Non-current	
	Book amount	Fair value	Book amount	Fair value
Assets at fair value				
Derivatives for hedging purposes				
Other financial assets	-	-	1,862	1,862
Available-for-sale financial assets				
Other financial assets	-	-	13,842	13,842
Assets at amortized cost				
Loans and other receivables				
Cash and cash equivalents	1,586,258	1	-	-
Deposits held by financial institutions	80,500	1	1,785	1,785
Trade receivables	5,612,250	1	-	-
Other receivables	472,794	1	292,123	278,305
Assets at cost				
Available-for-sale financial assets				
Other financial assets	-	-	18,241	2
Total	7,751,802		327,853	

LG Electronics Inc.
Notes to the Separate Financial Statements
December 31, 2017 and 2016

<i>(in millions of Korean won)</i>	December 31, 2017			
	Current		Non-current	
	Book amount	Fair value	Book amount	Fair value
Liabilities at fair value				
Derivatives for hedging purposes				
Other financial liabilities	-	-	68,589	68,589
Liabilities at amortized cost				
Trade payables	6,126,168	1	-	-
Borrowings	767,666	1	6,674,174	6,637,249
Other payables	2,351,601	1	215	208
Other liabilities				
Other financial liabilities	6,985	3	1,303	3
Total	9,252,420		6,744,281	

<i>(in millions of Korean won)</i>	December 31, 2016			
	Current		Non-current	
	Book amount	Fair value	Book amount	Fair value
Assets at fair value				
Derivatives for hedging purposes				
Other financial assets	30,093	30,093	16,091	16,091
Available-for-sale financial assets				
Other financial assets	-	-	14,835	14,835
Assets at amortized cost				
Loans and other receivables				
Cash and cash equivalents	1,181,725	1	-	-
Deposits held by financial institutions	80,500	1	1,159	1,159
Trade receivables	4,985,573	1	-	-
Other receivables	492,178	1	306,113	296,919
Assets at cost				
Available-for-sale financial assets				
Other financial assets	-	-	17,746	2
Total	6,770,069		355,944	

<i>(in millions of Korean won)</i>	December 31, 2016			
	Current		Non-current	
	Book amount	Fair value	Book amount	Fair value
Liabilities at fair value				
Derivatives for hedging purposes				
Other financial liabilities	-	-	73,226	73,226
Liabilities at amortized cost				
Trade payables	5,516,849	1	-	-
Borrowings	661,148	1	5,970,172	6,062,632
Other payables	2,080,451	1	5,552	4,705
Other liabilities				
Other financial liabilities	8,665	3	2,510	3
Total	8,267,113		6,051,460	

LG Electronics Inc.
Notes to the Separate Financial Statements
December 31, 2017 and 2016

¹ Excluded from disclosure as the carrying amount is the reasonable approximate of fair value.

² Unlisted equity securities are calculated at cost because the variability in the range of the estimated future cash flows is significant and the probabilities of the various estimates within the range cannot be reasonably assessed. As of December 31, 2017, there is no asset to be disposed of in near future.

³ Measured at the higher of the amount determined in accordance with Korean IFRS 1037 *Provisions, Contingent Liabilities and Contingent Assets*, and the amount initially recognized less cumulative amortization recognized in accordance with Korean IFRS 1018 *Revenue*.

(b) Fair value measurements of assets and liabilities

i) Fair value hierarchy and measurement method

The fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The fair value measurement is to estimate 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 under current market conditions. When measuring fair value using valuation techniques, the Company maximizes the use of market information and minimizes the use of unobservable inputs.

Financial instruments measured at fair value are categorized within the fair value hierarchy, and the defined levels are as follows:

- Level 1: Financial instruments measured at the quoted price in an active market for identical assets or liabilities are included in 'level 1'. Assets or liabilities categorized within 'level 1' include financial instruments such as marketable equity securities traded.

- Level 2: When financial instruments are measured by using a discounted cash flow, if all significant inputs required to measure the fair value of an instrument are observable, the instrument is included in 'level 2'. Assets or liabilities categorized within 'level 2' include financial instruments such as derivative financial instruments.

- Level 3: When financial instruments are measured by using a discounted cash flow, if one or more of the significant inputs are unobservable market data, the instrument is included in 'level 3'. There are no assets or liabilities categorized within 'level 3'.

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, an entity within the same industry, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price for financial assets held by the Company is the closing price at the end of the reporting period. These instruments are included in 'level 1'. Instruments included in 'level 1' comprise primarily equity investments classified as available for sale.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Company uses various valuation techniques and makes judgments based on current market conditions. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific

LG Electronics Inc.
Notes to the Separate Financial Statements
December 31, 2017 and 2016

estimates. If all significant inputs required to measure the fair value of an instrument are observable, the instrument is included in 'level 2'.

If one or more of the significant inputs are not based on observable market data, the instrument is included in 'level 3'. Financial instrument included 'level 3' uses other method including discounting cash flow method.

ii) Financial instruments measured at fair value

Fair value hierarchy classifications of the financial assets and financial liabilities that are measured at fair value as of December 31, 2017 and 2016, are as follows:

<i>(in millions of Korean won)</i>	December 31, 2017			
	Level 1	Level 2	Level 3	Total
Assets				
Other financial assets				
Available-for-sale financial assets				
- Marketable equity securities	13,842	-	-	13,842
Derivatives for hedging purposes	-	1,862	-	1,862
Liabilities				
Other financial liabilities				
Derivatives for hedging purposes	-	68,589	-	68,589

<i>(in millions of Korean won)</i>	December 31, 2016			
	Level 1	Level 2	Level 3	Total
Assets				
Other financial assets				
Available-for-sale financial assets				
- Marketable equity securities	14,835	-	-	14,835
Derivatives for hedging purposes	-	46,184	-	46,184
Liabilities				
Other financial liabilities				
Derivatives for hedging purposes	-	73,226	-	73,226

The above fair value amounts are recurring fair value measurements.

In case of investments in equity instruments that do not have a quoted market price in an active market and their fair value cannot be measured reliably, they are measured at cost and not included in the above fair value measurement hierarchy.

LG Electronics Inc.
Notes to the Separate Financial Statements
December 31, 2017 and 2016

- Valuation technique and inputs for fair value measurements categorized within 'level 2'

Valuation technique and inputs for fair value measurements categorized within 'level 2' as of December 31, 2017 and 2016, are as follows:

<i>(in millions of Korean won)</i>	Fair value		Valuation techniques	Inputs
	December 31, 2017	December 31, 2016		
Assets				
Other financial assets				
Derivatives for hedging purposes	1,862	46,184	Discounted cash flow	Discount rate and exchange rate
Liabilities				
Other financial liabilities				
Derivatives for hedging purposes	68,589	73,226	Discounted cash flow	Discount rate and exchange rate

- Fair value measurements categorized within 'level 3'

As of December 31, 2017, no financial instruments measured at fair value are categorized within 'level 3'.

iii) Financial instruments not measured at fair value but for which the fair value is disclosed

Financial instruments not measured at fair value but for which the fair value is disclosed as of December 31, 2017 and 2016, are as follows:

<i>(in millions of Korean won)</i>	December 31, 2017			
	Level 1	Level 2	Level 3	Total
Assets				
Non-current deposits held by financial institutions	-	-	1,785	1,785
Non-current other receivables	-	-	278,305	278,305
Liabilities				
Non-current borrowings	-	-	6,637,249	6,637,249
Non-current other payables	-	-	208	208

<i>(in millions of Korean won)</i>	December 31, 2016			
	Level 1	Level 2	Level 3	Total
Assets				
Non-current deposits held by financial institutions	-	-	1,159	1,159
Non-current other receivables	-	-	296,919	296,919
Liabilities				
Non-current borrowings	-	-	6,062,632	6,062,632
Non-current other payables	-	-	4,705	4,705

LG Electronics Inc.
Notes to the Separate Financial Statements
December 31, 2017 and 2016

- Valuation technique and inputs for fair value measurements categorized within 'level 2'

As of December 31, 2017, there are no financial instruments that are not measured at fair value but for which the fair value is disclosed and categorized within 'level 2'.

- Disclosure in relation to fair value measurements categorized within 'level 3'

Valuation technique, inputs and unobservable inputs of financial instruments that are not measured at fair value but for which the fair value is disclosed and categorized within 'level 3' as of December 31, 2017 and 2016, are as of follows:

<i>(in millions of Korean won)</i>	December 31, 2017		December 31, 2016		Valuation techniques	Inputs	Significant but unobservable inputs	Range of significant but unobservable inputs
	Carrying amount	Fair value	Carrying amount	Fair value				
Assets								
Non-current deposits held by financial institutions	1,785	1,785	1,159	1,159	Discounted cash flow	Discount rate	Discount rate	0.1%
Non-current other receivables	292,123	278,305	306,113	296,919	Discounted cash flow	Discount rate and exchange rate	Discount rate	3.4% ~ 3.6%
Liabilities								
Non-current borrowings	6,674,174	6,637,249	5,970,172	6,062,632	Discounted cash flow	Discount rate and exchange rate	Discount rate	2.1% ~ 3.9%
Non-current other payables	215	208	5,552	4,705	Discounted cash flow	Discount rate	Discount rate	2.2% ~ 2.4%

37. Assets Classified as Held for Sale

- (a) Details of assets classified as held for sale as of December 31, 2017 and 2016, are as follows:

<i>(in millions of Korean won)</i>	December 31, 2017	December 31, 2016
Assets classified as held for sale		
Property, plant and equipment ¹	6,070	-
Investment property ²	-	8,906

¹ As of December 31, 2017, sales procedure of the assets is in progress, and the sale is expected to be completed by June 2018.

² The investment property was sold in January 2017.

- (b) Assets held for sale are measured at fair value less costs to sell before the reclassification, and there is no impairment loss recognized.

38. Approval of the Separate Financial Statements

The issuance of the December 31, 2017 separate financial statements of the Company was approved by the Board of Directors on January 23, 2018.

Report on the Review of the Internal Accounting Control System

To the Presidents of
LG Electronics Inc.

We have reviewed the accompanying management's report on the operations of the Internal Accounting Control System ("IACS") of LG Electronics Inc. (the "Company") as of December 31, 2017. The Company's management is responsible for designing and operating IACS and for its assessment of the effectiveness of IACS. Our responsibility is to review the management's report on the operations of the IACS and issue a report based on our review. The management's report on the operations of the IACS of the Company states that "based on the assessment on the operations of the IACS as of December 31, 2017, the Company's IACS has been effectively designed and is operating as of December 31, 2017, in all material respects, in accordance with the IACS standards."

Our review was conducted in accordance with the IACS review standards established by the Korean Institute of Certified Public Accountants. Those standards require that we plan and perform, in all material respects, the review of management's report on the operations of the IACS to obtain a lower level of assurance than an audit. A review is to obtain an understanding of a company's IACS and consists principally of inquiries of management and, when deemed necessary, a limited inspection of underlying documents, which is substantially less in scope than an audit.

A company's IACS is a system to monitor and operate those policies and procedures designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the Republic of Korea. Because of its inherent limitations, IACS may not prevent or detect a material misstatement of the financial statements. Also, projections of any evaluation of effectiveness 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 management's report on the operations of the IACS, referred to above, is not presented fairly, in all material respects, in accordance with the IACS standards established by IACSOC.

Our review is based on the Company's IACS as of December 31, 2017, and we did not review management's assessment of its IACS subsequent to December 31, 2017. This report has been prepared pursuant to the Acts on External Audit for Stock Companies in Korea and may not be appropriate for other purposes or for other users.

Samil PricewaterhouseCoopers
March 8, 2018

Report on the Operations of the Internal Accounting Control System

To the Board of Directors and Audit Committee of
LG Electronics Inc.

I, as the Internal Accounting Control Officer (“IACO”) of LG Electronics Inc. (“the Company”), assessed the status of the design and operations of the Company’s internal accounting control system (“IACS”) for the year ended December 31, 2017.

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

Based on the assessment on the operations of the IACS, the Company’s IACS has been effectively designed and is operating as of December 31, 2017, in all material respects, in accordance with the IACS standards.

January 23, 2018

Do Hyun Jung
Chief Executive Officer

Min Kyo Kim
Internal Accounting Control Officer