

LG Electronics
Consolidated Interim Financial Statements
September 30, 2016 and 2015

	Page(s)
Report on Review of Interim Financial Statements	1 - 2
Consolidated Interim Financial Statements	
Consolidated Interim Statements of Financial Position	3
Consolidated Interim Statements of Income	4
Consolidated Interim Statements of Comprehensive Income.....	5
Consolidated Interim Statements of Changes in Equity	6
Consolidated Interim Statements of Cash Flows	7
Notes to the Consolidated Interim Financial Statements	8 - 78



Report on Review of Interim Financial Statements

(English Translation of a Report Originally Issued in Korean)

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

Reviewed Financial Statements

We have reviewed the accompanying consolidated interim financial statements of LG Electronics Inc. and its subsidiaries (collectively the "Group"). These interim financial statements consist of the consolidated interim statement of financial position of the Group as of September 30, 2016, and the related consolidated interim statements of income and comprehensive income for the three-month and nine-month periods ended September 30, 2016 and 2015, and consolidated interim statements of changes in equity and cash flows for the nine-month periods ended September 30, 2016 and 2015, and a summary of significant accounting policies and other explanatory notes, expressed in Korean won.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated interim financial statements in accordance with International Financial Reporting Standards as adopted by the Republic of Korea ("Korean IFRS") 1034, '*Interim Financial Reporting*', and for such internal control as management determines is necessary to enable the preparation of consolidated interim financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to issue a report on these consolidated interim financial statements based on our reviews.

We conducted our reviews in accordance with quarterly and semi-annual review standards established by the Securities and Futures Commission of the Republic of Korea. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Korean Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.



Conclusion

Based on our reviews, nothing has come to our attention that causes us to believe the accompanying consolidated interim financial statements do not present fairly, in all material respects, in accordance with the Korean IFRS 1034, 'Interim Financial Reporting'.

Other matters

We have audited the accompanying consolidated statement of financial position of the Group as of December 31, 2015, and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, in accordance with the Korean Standards on Auditing. We expressed an unqualified opinion on those consolidated financial statements in our audit report dated March 10, 2016. These consolidated financial statements are not included in this review report. The consolidated statement of financial position as of December 31, 2015, presented herein for comparative purposes, is consistent, in all material respects, with the above audited statement of financial position as of December 31, 2015.

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

A handwritten signature in cursive script that reads "Samil PricewaterhouseCoopers". The signature is written in black ink and is positioned in the lower-left quadrant of the page.

Seoul, Korea
November 14, 2016

This interim report is effective as of November 14, 2016, the review report date. Certain subsequent events or circumstances, which may occur between the review report date and the time of reading this report, could have a material impact on the accompanying consolidated interim financial statements and notes thereto. Accordingly, the readers of the review report should understand that there is a possibility that the above review report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

LG Electronics

Consolidated Interim Statements of Financial Position September 30, 2016 and December 31, 2015

<i>(in millions of Korean won)</i>	Note	September 30, 2016 (Unaudited)	December 31, 2015
Assets			
Current assets			
Cash and cash equivalents	5,30	3,488,547	2,710,156
Financial deposits	5,30	80,549	87,454
Trade receivables	5,6,30	6,644,714	7,093,352
Other receivables	5,6,30	409,671	654,141
Other financial assets	5,7,30	8,367	20,674
Inventories	8	5,544,772	4,872,676
Current income tax assets		128,202	161,314
Other current assets		969,079	794,227
Assets held for sale	32	3,619	3,619
		<u>17,277,520</u>	<u>16,397,613</u>
Non-current assets			
Financial deposits	5,30	61,747	69,970
Loans and other receivables	5,6,30	474,140	506,788
Other financial assets	5,7,30	55,004	84,810
Property, plant and equipment	9	10,606,166	10,460,298
Intangible assets	9	1,523,506	1,473,280
Deferred income tax assets		1,768,285	1,637,796
Investments in associates and joint ventures	10	4,701,711	4,841,861
Investment properties		106,263	121,271
Other non-current assets		711,214	720,209
		<u>20,008,036</u>	<u>19,916,283</u>
Total assets		<u>37,285,556</u>	<u>36,313,896</u>
Liabilities			
Current liabilities			
Trade payables	5,30	6,740,663	6,086,975
Borrowings	5,11,30	2,191,886	2,326,128
Other payables	5,30	2,535,684	2,840,217
Other financial liabilities	5,7,30	31,479	13,823
Current income tax liabilities		184,414	76,575
Provisions	13	640,928	575,944
Other current liabilities		3,037,152	2,853,101
		<u>15,362,206</u>	<u>14,772,763</u>
Non-current liabilities			
Borrowings	5,11,30	6,815,839	6,501,122
Other payables	5,30	10,315	13,518
Other financial liabilities	5,7,30	129,565	69,926
Deferred income tax liabilities		4,702	5,800
Net defined benefit liability	12	1,248,261	787,610
Provisions	13	1,023,315	1,074,346
Other non-current liabilities		113,558	105,324
		<u>9,345,555</u>	<u>8,557,646</u>
Total liabilities		<u>24,707,761</u>	<u>23,330,409</u>
Equity attributable to owners of the Parent Company			
Paid-in capital:	14		
Share capital		904,169	904,169
Share premium		3,088,179	3,088,179
Retained earnings	15	9,194,964	9,016,546
Accumulated other comprehensive loss	16	(1,647,380)	(1,171,979)
Other components of equity	17	(209,708)	(210,343)
		<u>11,330,224</u>	<u>11,626,572</u>
Non-controlling interests		<u>1,247,571</u>	<u>1,356,915</u>
Total equity		<u>12,577,795</u>	<u>12,983,487</u>
Total liabilities and equity		<u>37,285,556</u>	<u>36,313,896</u>

LG Electronics
Consolidated Interim Statements of Income
Three-Month and Nine-Month Periods Ended September 30, 2016 and 2015

<i>(in millions of Korean won, except per share amounts)</i>	Note	Period Ended September 30			
		2016 (Unaudited)		2015 (Unaudited)	
		Three months	Nine months	Three months	Nine months
Continuing operations					
Net sales	18	13,224,230	40,589,262	14,028,794	41,948,901
Cost of sales	19	9,915,237	30,190,114	10,769,940	32,408,743
Gross profit		3,308,993	10,399,148	3,258,854	9,540,158
Selling and marketing expenses	19,20	1,550,226	4,847,617	1,666,653	4,896,345
Administrative expenses	19,20	358,949	1,032,056	359,351	1,072,191
Research and development expenses	19,20	613,589	1,883,626	599,481	1,811,551
Service costs	19,20	502,997	1,262,849	339,387	916,777
Operating income		283,232	1,373,000	293,982	843,294
Financial income	21	82,536	311,529	168,264	409,686
Financial expenses	22	189,413	620,770	233,291	675,661
Gain (loss) from equity method valuation	10	20,002	(28,550)	69,963	361,691
Other non-operating income	23	353,321	1,328,976	666,419	1,467,562
Other non-operating expenses	24	501,734	1,559,366	854,450	1,934,100
Profit before income tax		47,944	804,819	110,887	472,472
Income tax expense (benefit)		129,466	419,762	(14,173)	80,324
Profit (loss) for the period from continuing operations		(81,522)	385,057	125,060	392,148
Discontinued operations					
Loss for the period from discontinued operations	33	-	-	(310)	(2,575)
Profit (loss) for the period		(81,522)	385,057	124,750	389,573
Profit(loss) for the period attributable to:					
Equity holders of the Parent Company					
Continuing operations		(62,013)	399,612	84,014	275,622
Discontinued operations		-	-	(310)	(2,581)
		(62,013)	399,612	83,704	273,041
Non-controlling interests					
Continuing operations		(19,509)	(14,555)	41,046	116,526
Discontinued operations		-	-	-	6
		(19,509)	(14,555)	41,046	116,532
Earnings per share for profit attributable to the equity holders of the Parent Company during the period (in Korean won):					
Earnings(loss) per share for profit attributable to the common equity holders of the Parent Company					
From continuing operations		(345)	2,216	464	1,513
From discontinued operations		(345)	2,216	465	1,527
		-	-	(1)	(14)
Earnings(loss) per share for profit attributable to the preferred equity holders of the Parent Company					
From continuing operations		(333)	2,253	477	1,551
From discontinued operations		(333)	2,253	478	1,565
		-	-	(1)	(14)

LG Electronics
Consolidated Interim Statements of Comprehensive Income
Three-Month and Nine-Month Periods Ended September 30, 2016 and 2015

(in millions of Korean won)

	Note	Period Ended September 30			
		2016 (Unaudited)		2015 (Unaudited)	
		Three months	Nine months	Three months	Nine months
Profit (loss) for the period		<u>(81,522)</u>	<u>385,057</u>	<u>124,750</u>	<u>389,573</u>
Other comprehensive income(loss), net of tax					
Items that will not be reclassified subsequently to profit or loss:					
Remeasurements of the net defined benefit liability	12	(13,377)	(159,476)	(65,730)	(101,889)
Share of remeasurements of associates	10	(299)	(1,336)	(200)	(1,107)
Items that will be reclassified subsequently to profit or loss:					
Share of other comprehensive income(loss) (excluding remeasurements) of associates and joint ventures	10	(96,898)	(126,449)	67,126	99,508
Cash flow hedges	30	8,172	(40,629)	(33,675)	(37,785)
Available-for-sale financial assets	7	1,203	(317)	(2,142)	(203)
Exchange differences on translation of foreign operations		<u>(352,401)</u>	<u>(353,925)</u>	<u>167,776</u>	<u>192,826</u>
Other comprehensive income(loss) for the period, net of tax		<u>(453,600)</u>	<u>(682,132)</u>	<u>133,155</u>	<u>151,350</u>
Total comprehensive income (loss) for the period, net of tax		<u>(535,122)</u>	<u>(297,075)</u>	<u>257,905</u>	<u>540,923</u>
Comprehensive income(loss) for the period, net of tax, attributable to:					
Equity holders of the Parent Company		(480,299)	(224,098)	196,966	393,171
Non-controlling interests		<u>(54,823)</u>	<u>(72,977)</u>	<u>60,939</u>	<u>147,752</u>
Total comprehensive income (loss) for the period, net of tax		<u>(535,122)</u>	<u>(297,075)</u>	<u>257,905</u>	<u>540,923</u>

LG Electronics
Consolidated Interim Statements of Cash Flows
Nine-Month Periods Ended September 30, 2016 and 2015

<i>(in millions of Korean won)</i>	Note	Nine-Month Period Ended September 30	
		2016 (Unaudited)	2015 (Unaudited)
Cash flows from operating activities			
Cash generated from operations	26	3,028,059	1,996,786
Interest received		59,376	56,202
Interest paid		(331,610)	(346,020)
Dividend received		71,919	71,897
Income tax paid		(360,078)	(279,292)
Net cash inflow from operating activities		2,467,666	1,499,573
Cash flows from investing activities			
Decrease in financial deposits		56,170	44,481
Decrease in loans and other receivables		116,843	126,718
Proceeds from redemption and disposal of other financial assets		32,625	49,718
Proceeds from disposal of property, plant and equipment		47,520	64,503
Proceeds from disposal of intangible assets		1,784	1,822
Proceeds from disposal of investments in associates and joint ventures		-	54,050
Proceeds from disposal of investment properties		21,853	824
Transfer of business	26	6,535	22,010
Decrease in others		133	406
Increase in financial deposits		(44,227)	(32,359)
Increase in loans and other receivables		(104,654)	(122,752)
Acquisition of other financial assets		(67,396)	(29,691)
Acquisition of property, plant and equipment		(1,318,272)	(1,283,363)
Acquisition of intangible assets		(338,188)	(357,416)
Acquisition of investments in associates and joint ventures		(65,390)	-
Business combination	31	(11,684)	(14,603)
Net cash outflow from investing activities		(1,666,348)	(1,475,652)
Cash flows from financing activities			
Proceeds from borrowings		1,467,483	2,240,893
Issuance of common shares of subsidiaries		6,422	723
Repayments of borrowings		(1,241,842)	(1,499,424)
Dividends paid		(114,886)	(90,186)
Net cash inflow from financing activities		117,177	652,006
Effects of exchange rate changes on cash and cash equivalents		(140,104)	40,988
Net increase in cash and cash equivalents		778,391	716,915
Cash and cash equivalents at the beginning of period		2,710,156	2,244,406
Cash and cash equivalents at the end of period		3,488,547	2,961,321

LG Electronics

Notes to the Consolidated Interim Financial Statements

September 30, 2016 and 2015(Unaudited), and December 31, 2015

1. General Information

LG Electronics Inc. (the "Parent Company") was spun off from LG Electronics Investment Ltd. on April 1, 2002. The Parent Company's shares are listed on the Korea Exchange, 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 Parent Company is domiciled in Korea at Yeoui-daero, Yeongdeungpo-gu, Seoul.

As of September 30, 2016, LG Corp. owns 33.7% of the Parent Company's total shares, excluding preferred shares, while financial institutions, foreign investors and others own the rest.

The Parent Company and its subsidiaries (the "Group") operate following major business segments: Home Appliance & Air Solution segment manufactures and sells refrigerators, washing machines, vacuum cleaners, residential and commercial air conditioners; Mobile Communications segment manufactures and sells mobile communications equipment; Home Entertainment segment manufactures and sells TVs, monitors, and digital media products; Vehicle Components segment designs and manufactures automobile parts; and LG Innotek Co., Ltd. manufactures and sells LED, optics solutions, substrate materials, and automotive components businesses. The Parent Company has 127 subsidiaries (Note 1) and 12 associates and joint ventures (Note 10).

LG Electronics
Notes to the Consolidated Interim Financial Statements
September 30, 2016 and 2015(Unaudited), and December 31, 2015

(a) Consolidated subsidiaries as of September 30, 2016 and December 31, 2015, are as follows:

Territory	Location	Subsidiary	September 30, 2016		December 31, 2015		Closing month	Major business	Basis of control
			Percentage of ownership		Percentage of ownership				
			Controlling interest	Non-controlling interest	Controlling interest	Non-controlling interest			
The Republic of Korea	Korea	Hiplaza Co., Ltd.	100.0%	-	100.0%	-	December	Wholesales and Retails of Electronic products	More than half of voting rights
	Korea	Hi Entech Co., Ltd.	100.0%	-	100.0%	-	December	Water engineering	More than half of voting rights
	Korea	LG Hitachi Water Solution Co., Ltd.	51.0%	49.0%	51.0%	49.0%	December	Water treatment	More than half of voting rights
	Korea	ACE R&A Co., Ltd.	100.0%	-	100.0%	-	December	Production and Sales of Air conditioner	More than half of voting rights
	Korea	Hi M Solutek Co., Ltd.	100.0%	-	100.0%	-	December	Maintenance	More than half of voting rights
	Korea	Hi Teleservice Co., Ltd.	100.0%	-	100.0%	-	December	Marketing Services	More than half of voting rights
	Korea	LGE Alliance Fund	96.2%	3.8%	96.2%	3.8%	December	Investment	More than half of voting rights
	Korea	LG Innotek Co., Ltd. ¹	40.8%	59.2%	40.8%	59.2%	December	Production and Sales of Electrical/Electronic materials	De-facto control
	Korea	LG Innotek Alliance Fund ¹	40.4%	59.6%	40.4%	59.6%	December	Investment	De-facto control
	Korea	Innowith Co., Ltd. ¹	40.8%	59.2%	40.8%	59.2%	December	Services	De-facto control
	Korea	Hanuri Co., Ltd.	100.0%	-	100.0%	-	December	Business facility maintenance	More than half of voting rights
	Korea	LGE Alliance Fund II	98.7%	1.3%	98.7%	1.3%	December	Investment	More than half of voting rights
China	China	Inspur LG Digital Mobile Communications Co., Ltd.(LGEYT)	70.0%	30.0%	70.0%	30.0%	December	Production of Electronic products	More than half of voting rights

LG Electronics

Notes to the Consolidated Interim Financial Statements

September 30, 2016 and 2015(Unaudited), and December 31, 2015

Territory	Location	Subsidiary	September 30, 2016		December 31, 2015		Closing month	Major business	Basis of control
			Percentage of ownership		Percentage of ownership				
			Controlling interest	Non-controlling interest	Controlling interest	Non-controlling interest			
	China	LG Electronics (China) Co., Ltd.(LGECH)	100.0%	-	100.0%	-	December	Sales of Electronic products	More than half of voting rights
	China	LG Electronics (China) Research and Development Center Co., Ltd.(LGERD)	100.0%	-	100.0%	-	December	R&D	More than half of voting rights
	China	LG Electronics (Hangzhou) Co., Ltd.(LGEHN)	70.0%	30.0%	70.0%	30.0%	December	Production of Electronic products	More than half of voting rights
	China	LG Electronics (Kunshan) Co.,Ltd.(LGEKS)	100.0%	-	100.0%	-	December	Production of Electronic products	More than half of voting rights
	China	LG Electronics (Shanghai) Research and Development Center Co., Ltd.(LGCRC)	100.0%	-	100.0%	-	December	R&D	More than half of voting rights
	China	LG Electronics Air-Conditioning(Shandong) Co., Ltd.(LGEQA)	100.0%	-	100.0%	-	December	Production and Sales of Electronic products	More than half of voting rights
	China	LG Electronics HK Ltd.(LGEHK)	100.0%	-	100.0%	-	December	Sales of Electronic products	More than half of voting rights
	China	LG Electronics Huizhou Ltd.(LGEHZ)	80.0%	20.0%	80.0%	20.0%	December	Production of Electronic products	More than half of voting rights
	China	LG Electronics Nanjing Battery Pack Co.,Ltd.(LGENB) ²	50.0%	50.0%	-	-	December	Production of Electronic products	More than half of voting rights
	China	LG Electronics Nanjing New Technology co.,LTD(LGENT)	70.0%	30.0%	70.0%	30.0%	December	Production of Electronic products	More than half of voting rights
	China	LG Electronics Nanjing Vehicle Components Co.,Ltd.(LGENV)	100.0%	-	-	-	December	Production of Electronic products	More than half of voting rights
	China	LG Electronics Qinhuangdao Inc.(LGEQH)	100.0%	-	100.0%	-	December	Production of Casting	More than half of voting rights
	China	LG Electronics Shenyang Inc.(LGESY)	78.9%	21.1%	78.9%	21.1%	December	Production of Electronic products	More than half of voting rights
	China	LG Electronics Tianjin Appliances Co., Ltd.(LGETA)	80.0%	20.0%	80.0%	20.0%	December	Production of Electronic products	More than half of voting rights

LG Electronics

Notes to the Consolidated Interim Financial Statements

September 30, 2016 and 2015(Unaudited), and December 31, 2015

Territory	Location	Subsidiary	September 30, 2016		December 31, 2015		Closing month	Major business	Basis of control
			Percentage of ownership		Percentage of ownership				
			Controlling interest	Non-controlling interest	Controlling interest	Non-controlling interest			
	China	NanJing LG-Panda Appliances Co., Ltd.(LGEPN)	70.0%	30.0%	70.0%	30.0%	December	Production of Electronic products	More than half of voting rights
	China	Qingdao LG Inspur Digital Communication Co., Ltd.(LGEQD)	70.0%	30.0%	70.0%	30.0%	December	Production of Electronic products	More than half of voting rights
	China	Taizhou LG Electronics Refrigeration Co., Ltd.(LGETR)	100.0%	-	100.0%	-	December	Production of Electronic products	More than half of voting rights
	China	Tianjin Lijie cartridge heater Co., Ltd.(LGETL)	66.7%	33.3%	66.7%	33.3%	December	Production of Heater	More than half of voting rights
	China	LG Innotek Yantai Co., Ltd.(LGITYT) ¹	40.8%	59.2%	40.8%	59.2%	December	Production and Sales of Electrical/Electronic materials	De-facto control
	China	LG INNOTEK HUIZHOU CO.,LTD(LGITHZ) ¹	40.8%	59.2%	40.8%	59.2%	December	Production and Sales of Electrical/Electronic materials	De-facto control
	China	LG Innotek Trading (Shanghai) Co., Ltd(LGITSH) ¹	40.8%	59.2%	40.8%	59.2%	December	Sales of Electrical/Electronic materials	De-facto control
	China	HiEntech (Tianjin) Co., LTD.	80.0%	20.0%	80.0%	20.0%	December	Water engineering	More than half of voting rights
Asia	Australia	LG Electronics Australia Pty, Ltd.(LGEAP)	100.0%	-	100.0%	-	December	Sales of Electronic products	More than half of voting rights
	India	LG Electronics India Pvt. Ltd.(LGEIL) ⁴	100.0%	-	100.0%	-	March	Production and Sales of Electronic products	More than half of voting rights
	Japan	LG Electronics Japan Lab. Inc.(LGEJL)	100.0%	-	100.0%	-	December	R&D	More than half of voting rights
	Japan	LG Electronics Japan, Inc.(LGEJP)	100.0%	-	100.0%	-	December	Sales of Electronic products	More than half of voting rights
	Malaysia	LG Electronics Malaysia SDN. BHD(LGEML)	100.0%	-	100.0%	-	December	Sales of Electronic products	More than half of voting rights

LG Electronics
Notes to the Consolidated Interim Financial Statements
September 30, 2016 and 2015(Unaudited), and December 31, 2015

Territory	Location	Subsidiary	September 30, 2016		December 31, 2015		Closing month	Major business	Basis of control
			Percentage of ownership		Percentage of ownership				
			Controlling interest	Non-controlling interest	Controlling interest	Non-controlling interest			
	Philippines	LG Electronics Philippines Inc.(LGEPH)	100.0%	-	100.0%	-	December	Sales of Electronic products	More than half of voting rights
	Singapore	LG Electronics Singapore PTE LTD.(LGESL)	100.0%	-	100.0%	-	December	Sales of Electronic products	More than half of voting rights
	Taiwan	LG Electronics Taiwan Taipei Co., Ltd.(LGETT)	100.0%	-	100.0%	-	December	Sales of Electronic products	More than half of voting rights
	Thailand	LG Electronics Thailand Co., Ltd.(LGETH)	100.0%	-	100.0%	-	December	Production and Sales of Electronic products	More than half of voting rights
	Vietnam	LG Electronics Vietnam Co., Ltd.(LGEVN)	100.0%	-	100.0%	-	December	Production and Sales of Electronic products	More than half of voting rights
	India	LG Soft India Private Limited.(LGS1) ⁴	100.0%	-	100.0%	-	March	R&D	More than half of voting rights
	Indonesia	P.T. LG Electronics Indonesia(LGEIN)	100.0%	-	100.0%	-	December	Production and Sales of Electronic products	More than half of voting rights
	Philippines	LG Electronics Pasig Inc. ³	38.0%	62.0%	38.0%	62.0%	December	Real estates	De-facto control
	Indonesia	PT. LG INNOTEK INDONESIA(LGITIN) ¹	40.8%	59.2%	40.8%	59.2%	December	Production and Sales of Electronic materials	De-facto control
	Taiwan	LG INNOTEK (TAIWAN) CO., LTD.(LGITTW) ¹	40.8%	59.2%	40.8%	59.2%	December	Sales of Electrical/Electronic materials	De-facto control
	Vietnam	LG Innotek Vietnam Hai Phong Co.,Ltd.(LGITVH) ¹	40.8%	59.2%	-	-	December	Production and Sales of Electrical/Electronic materials	De-facto control
	Malaysia	V-ENS (M) Sdn. Bhd.	100.0%	-	100.0%	-	December	Automotive engineering	More than half of voting rights
	Vietnam	LG Electronics Vietnam Haiphong Co., Ltd.(LGEVH)	100.0%	-	100.0%	-	December	Production of Electronic products	More than half of voting rights
	Indonesia	PT.LG Electronics Service Indonesia(LGEID)	99.8%	0.2%	99.8%	0.2%	December	Services	More than half of voting rights

LG Electronics

Notes to the Consolidated Interim Financial Statements

September 30, 2016 and 2015(Unaudited), and December 31, 2015

Territory	Location	Subsidiary	September 30, 2016		December 31, 2015		Closing month	Major business	Basis of control
			Percentage of ownership		Percentage of ownership				
			Controlling interest	Non-controlling interest	Controlling interest	Non-controlling interest			
	Philippines	HI-M SOLUTEK PHILIPPINES INC.	100.0%	-	-	-	December	Services	More than half of voting rights
Europe	Netherlands	LG Electronics Benelux Sales B.V.(LGEBN)	100.0%	-	100.0%	-	December	Sales of Electronic products	More than half of voting rights
	Czech Republic	LG Electronics CZ, s.r.o.(LGE CZ)	100.0%	-	100.0%	-	December	Sales of Electronic products	More than half of voting rights
	Germany	LG Electronics Deutschland GmbH(LGEDG)	100.0%	-	100.0%	-	December	Sales of Electronic products	More than half of voting rights
	Spain	LG Electronics Espana S.A.(LGEES)	100.0%	-	100.0%	-	December	Sales of Electronic products	More than half of voting rights
	Netherlands	LG Electronics European Holdings B.V.(LGE EH)	100.0%	-	100.0%	-	December	European Holding	More than half of voting rights
	Netherlands	LG Electronics European Shared Service Center B.V.(LGE SC)	100.0%	-	100.0%	-	December	Services	More than half of voting rights
	France	LG Electronics France S.A.S.(LGE FS)	100.0%	-	100.0%	-	December	Sales of Electronic products	More than half of voting rights
	Greece	LG Electronics Hellas S.A.(LGE HS)	100.0%	-	100.0%	-	December	Sales of Electronic products	More than half of voting rights
	Italy	LG Electronics Italia S.p.A(LGE IS)	100.0%	-	100.0%	-	December	Sales of Electronic products	More than half of voting rights
	Latvia	LG Electronics Latvia, LLC(LGE LA)	100.0%	-	100.0%	-	December	Sales of Electronic products	More than half of voting rights
	Hungary	LG Electronics Magyar KFT(LGE MK)	100.0%	-	100.0%	-	December	Sales of Electronic products	More than half of voting rights
	Poland	LG Electronics Mlawa Sp. z o.o(LGE MA)	100.0%	-	100.0%	-	December	Production of Electronic products	More than half of voting rights
	Sweden	LG Electronics Nordic AB(LGE SW)	100.0%	-	100.0%	-	December	Sales of Electronic products	More than half of voting rights
	Poland	LG Electronics Polska Sp. z o.o(LGE PL)	100.0%	-	100.0%	-	December	Sales of Electronic products	More than half of voting rights

LG Electronics

Notes to the Consolidated Interim Financial Statements

September 30, 2016 and 2015(Unaudited), and December 31, 2015

Territory	Location	Subsidiary	September 30, 2016		December 31, 2015		Closing month	Major business	Basis of control
			Percentage of ownership		Percentage of ownership				
			Controlling interest	Non-controlling interest	Controlling interest	Non-controlling interest			
	Portugal	LG Electronics Portugal S.A.(LGEPT)	100.0%	-	100.0%	-	December	Sales of Electronic products	More than half of voting rights
	Romania	LG Electronics Romania S.R.L.(LGERO)	100.0%	-	100.0%	-	December	Sales of Electronic products	More than half of voting rights
	UK	LG Electronics United Kingdom Ltd.(LGEUK)	100.0%	-	100.0%	-	December	Sales of Electronic products	More than half of voting rights
	Poland	LG Electronics Wroclaw Sp.z o.o(LGEWR)	100.0%	-	100.0%	-	December	Production of Electronic products	More than half of voting rights
	Finland	LG Electronics Finland Lab, Oy(LGEFL)	100.0%	-	100.0%	-	December	R&D	More than half of voting rights
	Poland	LG Innotek Poland Sp. z.o. o.(LGITPO) ¹	40.8%	59.2%	40.8%	59.2%	December	Production and Sales of Electrical/Electronic materials	De-facto control
North America	USA	LG Electronics Miami Inc.(LGEMI)	100.0%	-	100.0%	-	December	Sales of Electronic products	More than half of voting rights
	USA	LG Electronics Alabama Inc.(LGEAI)	100.0%	-	100.0%	-	December	Services	More than half of voting rights
	Canada	LG Electronics Canada, Inc.(LGECI)	100.0%	-	100.0%	-	December	Sales of Electronic products	More than half of voting rights
	Mexico	LG Electronics Mexicali, S.A. DE C.V.(LGEMX)	100.0%	-	100.0%	-	December	Production of Electronic products	More than half of voting rights
	Mexico	LG Electronics Mexico S.A. DE C.V.(LGEMS)	100.0%	-	100.0%	-	December	Sales of Electronic products	More than half of voting rights
	USA	LG Electronics Mobile Research U.S.A., L.L.C.(LGEMR)	100.0%	-	100.0%	-	December	R&D	More than half of voting rights
	USA	LG Electronics Mobilecomm U.S.A., Inc.(LGEMU)	100.0%	-	100.0%	-	December	Sales of Electronic products	More than half of voting rights
	Mexico	LG Electronics Monterrey Mexico S.A.de C.V.(LGEMM)	100.0%	-	100.0%	-	December	Production of Electronic products	More than half of voting rights

LG Electronics

Notes to the Consolidated Interim Financial Statements

September 30, 2016 and 2015(Unaudited), and December 31, 2015

Territory	Location	Subsidiary	September 30, 2016		December 31, 2015		Closing month	Major business	Basis of control
			Percentage of ownership		Percentage of ownership				
			Controlling interest	Non-controlling interest	Controlling interest	Non-controlling interest			
	Mexico	LG Electronics Reynosa S.A. DE C.V.(LGERs)	100.0%	-	100.0%	-	December	Production of Electronic products	More than half of voting rights
	USA	LG Electronics U.S.A., Inc.(LGEUS)	100.0%	-	100.0%	-	December	Sales of Electronic products	More than half of voting rights
	Mexico	Servicios Integrales LG S.A DE C.V	100.0%	-	100.0%	-	December	Services	More than half of voting rights
	Mexico	Servicios LG Monterrey Mexico S.A. de C.V.	100.0%	-	100.0%	-	December	Services	More than half of voting rights
	USA	Zenith Electronics Corporation of Pennsylvania	100.0%	-	100.0%	-	December	Production of Electronic products	More than half of voting rights
	USA	Zenith Electronics Corporation(Zenith)	100.0%	-	100.0%	-	December	R&D	More than half of voting rights
	USA	LG Innotek USA, Inc.(LGITUS) ¹	40.8%	59.2%	40.8%	59.2%	December	Sales of Electrical/Electronic materials	De-facto control
	Mexico	LG INNOTEK MEXICO SA DE CV(LGITMX) ¹	40.8%	59.2%	40.8%	59.2%	December	Production and Sales of Automotive materials	De-facto control
South America	Brazil	LG Armagem Geral Ltda.	100.0%	-	100.0%	-	December	Services	More than half of voting rights
	Argentina	LG Electronics Argentina S.A.(LGEAR)	100.0%	-	100.0%	-	December	Sales of Electronic products	More than half of voting rights
	Colombia	LG Electronics Colombia Ltda.(LGECEB)	100.0%	-	100.0%	-	December	Sales of Electronic products	More than half of voting rights
	Brazil	LG Electronics do Brasil Ltda.(LGEBR)	100.0%	-	100.0%	-	December	Production and Sales of Electronic products	More than half of voting rights
	Honduras	LG Electronics Honduras S.de R.L. ²	20.0%	80.0%	20.0%	80.0%	December	Sales of Electronic products	De-facto control
	Chile	LG Electronics Inc Chile Ltda.(LGECL)	100.0%	-	100.0%	-	December	Sales of Electronic products	More than half of voting rights
	Panama	LG Electronics Panama, S.A.(LGEPS)	100.0%	-	100.0%	-	December	Sales of Electronic products	More than half of voting rights

LG Electronics

Notes to the Consolidated Interim Financial Statements

September 30, 2016 and 2015(Unaudited), and December 31, 2015

Territory	Location	Subsidiary	September 30, 2016		December 31, 2015		Closing month	Major business	Basis of control
			Percentage of ownership		Percentage of ownership				
			Controlling interest	Non-controlling interest	Controlling interest	Non-controlling interest			
	Peru	LG Electronics Peru S.A.(LGEPR)	100.0%	-	100.0%	-	December	Sales of Electronic products	More than half of voting rights
	Venezuela	LG Electronics Venezuela S.A.(LGEVZ)	100.0%	-	100.0%	-	December	Sales of Electronic products	More than half of voting rights
	Brazil	SOCIO VIP Ltda.	100.0%	-	100.0%	-	December	Services	More than half of voting rights
	Panama	C&S America Solutions	100.0%	-	100.0%	-	December	Services	More than half of voting rights
	Panama	LG Consulting corp.	100.0%	-	100.0%	-	December	Services	More than half of voting rights
	Guatemala	LG Electronics Guatemala S.A.	100.0%	-	100.0%	-	December	Sales of Electronic products	More than half of voting rights
Middle East and Africa	Nigeria	EASYTEC GLOBAL SERVICES INNOVATION LIMITED	100.0%	-	100.0%	-	December	Services	More than half of voting rights
	Angola	LG Electronics Angola Limitada(LGEAO)	100.0%	-	100.0%	-	December	Sales and Services of Electronic products	More than half of voting rights
	Jordan	LG Electronics (Levant) Jordan(LGELF)	100.0%	-	100.0%	-	December	Sales of Electronic products	More than half of voting rights
	UAE	LG Electronics Africa Logistics FZE(LGEAF)	100.0%	-	100.0%	-	December	Sales of Electronic products	More than half of voting rights
	Algeria	LG Electronics Algeria SARL(LGEAS)	70.0%	30.0%	70.0%	30.0%	December	Sales of Electronic products	More than half of voting rights
	UAE	LG Electronics Dubai FZE(LGEDF)	100.0%	-	100.0%	-	December	Sales of Electronic products	More than half of voting rights
	Egypt	LG Electronics Egypt S.A.E(LGEEG)	100.0%	-	100.0%	-	December	Production and Sales of Electronic products	More than half of voting rights
	UAE	LG Electronics Gulf FZE(LGEGF)	100.0%	-	100.0%	-	December	Sales of Electronic products	More than half of voting rights
	UAE	LG Electronics Middle East Co., Ltd.(LGEME)	100.0%	-	100.0%	-	December	Services	More than half of voting rights

LG Electronics

Notes to the Consolidated Interim Financial Statements

September 30, 2016 and 2015(Unaudited), and December 31, 2015

Territory	Location	Subsidiary	September 30, 2016		December 31, 2015		Closing month	Major business	Basis of control
			Percentage of ownership		Percentage of ownership				
			Controlling interest	Non-controlling interest	Controlling interest	Non-controlling interest			
	Morocco	LG Electronics Morocco S.A.R.L(LGEMC)	100.0%	-	100.0%	-	December	Sales of Electronic products	More than half of voting rights
	Nigeria	LG Electronics Nigeria Limited(LGENI)	100.0%	-	100.0%	-	December	Sales of Electronic products	More than half of voting rights
	Tunisia	LG Electronics North Africa Service Company S.A.R.L	100.0%	-	100.0%	-	December	Sales of Electronic products	More than half of voting rights
	UAE	LG Electronics Overseas Trading FZE(LGEOT)	100.0%	-	100.0%	-	December	Sales of Electronic products	More than half of voting rights
	South Africa	LG Electronics S.A. (Pty) Ltd.(LGESA)	100.0%	-	100.0%	-	December	Production and Sales of Electronic products	More than half of voting rights
	Turkey	LG Electronics Ticaret A.S.(LGETK)	100.0%	-	100.0%	-	December	Sales of Electronic products	More than half of voting rights
	Saudi Arabia	LG-Shaker Co., Ltd.(LGESR)	51.0%	49.0%	51.0%	49.0%	December	Production of Electronic products	De-facto control
	Kenya	LG Electronics Service Kenya Limited(LGESK)	100.0%	-	100.0%	-	December	Services	More than half of voting rights
	Saudi Arabia	LG Electronics Saudi Arabia Limited	100.0%	-	100.0%	-	December	Services	More than half of voting rights
	UAE	Hi.M Solutek HVAC Service and Maintenance LLC	100.0%	-	-	-	December	Services	More than half of voting rights
Other	Russia	LG Alina Electronics(LGERI)	95.0%	5.0%	95.0%	5.0%	December	Services	More than half of voting rights
	Kazakhstan	LG Electronics Almaty Kazakhstan(LGEAK)	100.0%	-	100.0%	-	December	Production and Sales of Electronic products	More than half of voting rights
	Russia	LG Electronics RUS, LLC(LGERA)	100.0%	-	100.0%	-	December	Production and Sales of Electronic products	More than half of voting rights
	Ukraine	LG Electronics Ukraine Inc.(LGEUR)	100.0%	-	100.0%	-	December	Sales of Electronic products	More than half of voting rights

¹ Although the Parent Company holds less than half of the voting rights of LG Innotek Co., Ltd. which is an intermediate parent of its subsidiaries, the Parent Company is deemed to have control over LG Innotek Co., Ltd. due to the size and dispersion of holdings of the other shareholders and their voting patterns at previous shareholders'

LG Electronics

Notes to the Consolidated Interim Financial Statements

September 30, 2016 and 2015(Unaudited), and December 31, 2015

meetings (Note 3).

- ² Control exists as there is power over more than half of the voting rights by virtue of an agreement with other investors although the Parent Company holds less than half of the voting power.
- ³ Although the Parent Company holds less than half of the voting rights, the Group is deemed to have control as the Parent Company has the substantial power to direct the relevant activities and is exposed to variable returns.
- ⁴ In the preparation of consolidated financial statements, the financial statements for the nine-month period ended September 30, 2016 were used for those subsidiaries with different fiscal year ends.

LG Electronics

Notes to the Consolidated Interim Financial Statements

September 30, 2016 and 2015(Unaudited), and December 31, 2015

(b) Financial information of major subsidiaries as of September 30, 2016 and December 31, 2015, and for the three-month and nine-month periods ended September 30, 2016 and 2015, is as follows (before elimination of intercompany transactions):

<i>(in millions of Korean won)</i>	September 30, 2016			2016			
	Assets	Liabilities	Equity	Three months		Nine months	
				Sales	Net Income (loss)	Sales	Net Income (loss)
LG Innotek Co., Ltd.	3,857,745	2,408,445	1,449,300	1,254,802	(45,774)	3,378,290	(82,285)
LG Electronics U.S.A., Inc.(LGEUS)	2,608,548	2,303,070	305,478	1,959,341	(18,920)	5,520,569	(52,025)
LG Electronics European Shared Service Center B.V.(LGESC)	1,286,664	1,256,434	30,230	68,936	318	209,558	4,158
LG Electronics Mobilecomm U.S.A., Inc.(LGEMU)	886,439	762,678	123,761	1,275,117	(6,040)	4,266,994	6,407
Zenith Electronics Corporation(Zenith)	1,091,506	17,965	1,073,541	23,639	1,313	94,715	14,637
LG Electronics do Brasil Ltda.(LGEBR)	969,613	713,731	255,882	510,732	51,337	1,312,411	105,740
LG Electronics (China) Co. Ltd.(LGECH)	703,518	742,402	(38,884)	187,268	4,334	597,122	(10,977)
LG Electronics India Pvt. Ltd.(LGEIL)	730,839	433,804	297,035	553,969	44,327	1,915,038	184,427
Inspur LG Digital Mobile Communications Co., Ltd.(LGEYT)	660,875	570,557	90,318	750,910	160	2,308,293	28,313
LG Electronics Mlawa Sp. z o.o.(LGEMA)	642,411	303,878	338,533	369,843	(5,957)	1,041,080	5,131
LG Electronics Vietnam Haiphong Co., Ltd.(LGEVH)	832,478	700,793	131,685	482,867	(2,332)	1,306,922	62,197
LG Electronics RUS, LLC(LGERA)	634,064	239,331	394,733	360,630	30,462	961,266	71,096
LG Electronics Wroclaw Sp.z o.o.(LGEWR)	282,848	110,656	172,192	160,349	(4,904)	875,629	7,513
LG Electronics Reynosa S.A. DE C.V.(LGERs)	886,110	496,101	390,009	648,394	18,780	1,741,018	142,184
LG Electronics Egypt S.A.E(LGEEG)	480,799	494,670	(13,871)	88,867	7,865	332,225	(19,292)
LG Electronics Tianjin Appliances Co., Ltd.(LGETA)	474,510	238,494	236,016	172,372	1,917	747,703	19,207
NanJing LG-Panda Appliances Co., Ltd.(LGEPN)	423,953	288,725	135,228	232,917	11,108	793,018	29,430
Hiplaza Co., Ltd.	495,657	339,983	155,674	510,557	11,095	1,303,776	14,120
P.T. LG Electronics Indonesia(LGEIN)	476,312	197,653	278,659	287,998	6,599	900,068	36,874
LG Electronics Thailand Co., Ltd.(LGETH)	391,594	172,993	218,601	227,476	(810)	808,427	11,638
LG Electronics Mexico S.A. DE C.V.(LGEMS)	378,280	324,690	53,590	297,359	(6,109)	1,040,188	(5,677)
LG Electronics Nanjing New Technology co.,LTD(LGENT)	364,633	201,695	162,938	273,264	5,411	941,964	28,597

LG Electronics

Notes to the Consolidated Interim Financial Statements

September 30, 2016 and 2015(Unaudited), and December 31, 2015

<i>(in millions of Korean won)</i>	December 31, 2015			2015			
	Assets	Liabilities	Equity	Three months		Nine months	
				Sales	Net Income (loss)	Sales	Net Income (loss)
LG Innotek Co., Ltd.	3,598,753	2,038,249	1,560,504	1,433,962	12,168	4,200,100	43,969
LG Electronics U.S.A., Inc.(LGEUS)	2,604,240	2,225,082	379,158	1,873,481	36,147	4,781,788	56,442
LG Electronics European Shared Service Center B.V.(LGESC)	1,463,216	1,435,769	27,447	61,950	86	177,667	5,210
LG Electronics Mobilecomm U.S.A., Inc.(LGEMU)	1,422,461	1,296,625	125,836	1,539,617	18,376	4,754,616	15,321
Zenith Electronics Corporation(Zenith)	1,158,934	25,421	1,133,513	44,137	10,400	128,693	26,847
LG Electronics do Brasil Ltda.(LGEBR)	845,113	710,508	134,605	554,422	(120,871)	1,878,368	(157,560)
LG Electronics (China) Co. Ltd.(LGECH)	819,831	851,696	(31,865)	324,092	(22,269)	1,007,937	(10,156)
LG Electronics India Pvt. Ltd.(LGEIL)	721,565	289,990	431,575	507,507	23,971	1,736,969	106,169
Inspur LG Digital Mobile Communications Co., Ltd.(LGEYT)	711,388	586,285	125,103	849,020	23,881	2,358,631	50,044
LG Electronics Mlawa Sp. z o.o(LGEMA)	660,449	309,582	350,867	299,491	42,418	1,107,398	55,172
LG Electronics Vietnam Haiphong Co., Ltd.(LGEVH)	622,130	543,409	78,721	237,407	7,143	524,219	1,777
LG Electronics RUS, LLC(LGERA)	582,293	287,013	295,280	372,024	12,039	996,702	(5,397)
LG Electronics Wroclaw Sp.z o.o(LGEWR)	538,236	364,485	173,751	311,475	2,314	960,298	7,099
LG Electronics Reynosa S.A. DE C.V.(LGERES)	537,263	248,987	288,276	618,750	11,817	1,479,161	14,908
LG Electronics Egypt S.A.E(LGEEG)	500,455	497,945	2,510	140,120	(9,081)	417,104	(17,006)
LG Electronics Tianjin Appliances Co., Ltd.(LGETA)	475,424	237,458	237,966	199,734	12,278	893,257	32,444
NanJing LG-Panda Appliances Co., Ltd.(LGEPN)	473,044	336,579	136,465	354,278	26,015	975,335	40,777
Hiplaza Co., Ltd.	471,017	324,739	146,278	407,466	10,338	1,056,659	(737)
P.T. LG Electronics Indonesia(LGEIN)	456,463	193,262	263,201	325,315	4,725	1,005,215	7,212
LG Electronics Thailand Co., Ltd.(LGETH)	411,732	198,365	213,367	253,044	17,001	820,496	30,824
LG Electronics Mexico S.A. DE C.V.(LGEMS)	370,466	300,400	70,066	381,373	(9,191)	1,227,668	5,988
LG Electronics Nanjing New Technology co.,LTD(LGENT)	373,211	215,085	158,126	309,375	15,691	879,664	29,617

LG Electronics

Notes to the Consolidated Interim Financial Statements

September 30, 2016 and 2015(Unaudited), and December 31, 2015

(c) Information of subsidiaries with material non-controlling interests is as follows:

- LG Innotek Co., Ltd. and its subsidiaries

i) Non-controlling interest rate and accumulated non-controlling interest

<i>(in millions of Korean won)</i>	September 30, 2016	December 31, 2015
Non-controlling interest rate	59.2%	59.2%
Accumulated non-controlling interest	959,189	1,048,029

ii) Profit(loss) attributed to non-controlling interest and dividend to non-controlling interest for the three-month and nine-month periods ended September 30, 2016 and 2015, are as follows:

<i>(in millions of Korean won)</i>	2016		2015	
	Three months	Nine months	Three months	Nine months
Profit(loss) attributed to non-controlling interest	(22,927)	(47,914)	12,021	47,079
Dividend to non-controlling interest	-	4,904	-	3,503

iii) Summarized consolidated statements of financial position of subsidiaries with material non-controlling interests, are as follows (before elimination of intercompany transactions):

<i>(in millions of Korean won)</i>	September 30, 2016	December 31, 2015
Current assets	2,014,692	1,788,891
Non-current assets	2,139,109	2,125,447
Total assets	4,153,801	3,914,338
Current liabilities	1,553,029	1,295,457
Non-current liabilities	977,485	853,826
Total liabilities	2,530,514	2,149,283
Equity of the owners of Parent Company	1,623,285	1,765,053
Non-controlling interests	2	2
Total equity	1,623,287	1,765,055

LG Electronics

Notes to the Consolidated Interim Financial Statements

September 30, 2016 and 2015(Unaudited), and December 31, 2015

- iv) Summarized consolidated statements of comprehensive income of subsidiaries with material non-controlling interests for the three-month and nine-month periods ended September 30, 2016 and 2015, are as follows (before elimination of intercompany transactions):

<i>(in millions of Korean won)</i>	2016		2015	
	Three months	Nine months	Three months	Nine months
Net sales	1,384,461	3,699,951	1,558,844	4,547,214
Profit(loss) for the period	(37,959)	(82,022)	23,776	83,288
Other comprehensive income(loss), net of tax	(24,199)	(51,464)	8,788	14,601
Total comprehensive income(loss), net of tax	(62,158)	(133,486)	32,564	97,889

- v) Summarized consolidated statements of cash flows of subsidiaries with material non-controlling interests for the nine-month periods ended September 30, 2016 and 2015, are as follows (before elimination of intercompany transactions):

<i>(in millions of Korean won)</i>	2016	2015
Cash flows from operating activities	170,427	458,566
Cash flows from investing activities	(239,446)	(244,310)
Cash flows from financing activities	104,166	(267,582)
Exchange gains(losses) on cash and cash equivalents	(5,682)	3,281
Net increase(decrease) in cash and cash equivalents	29,465	(50,045)
Cash and cash equivalents at the beginning of period	360,286	396,451
Cash and cash equivalents at the end of period	389,751	346,406

- (d) Significant restrictions on its subsidiaries

- i) The significant restrictions on the use of assets and on settlement of liabilities by the Group are as follows:

Cash and other short-term financial instruments held by subsidiaries in Egypt, Algeria, Russia and Kazakhstan are subject to currency regulations of each relevant country. Accordingly, there are transfer limits on their cash and short-term financial instruments from these countries.

LG Electronics

Notes to the Consolidated Interim Financial Statements

September 30, 2016 and 2015(Unaudited), and December 31, 2015

- ii) The nature and extent to which the protective rights of non-controlling interest can restrict the use of the assets and settlement of the liabilities of the Group are as follows:

<u>Subsidiary</u>	<u>The nature and extent of the protective rights for non-controlling interest</u>
LG Hitachi Water Solution Co., Ltd.	For the following special resolutions of the board of directors, consents from directors who were appointed by non-controlling interest holder are required. <ul style="list-style-type: none"> - Acquisitions and disposals of assets over ₩1,000 million not included in the business plan - Borrowings and issues of debentures over ₩1,000 million not included in the business plan - Expenditures over ₩1,000 million not included in the business plan - Initial agreement, amendment and termination of significant contracts over ₩1,000 million
LG-Shaker Co., Ltd.(LGESR)	Unanimous approval is required for the confirmation of financial statements and dividend declaration.

- (e) Changes in the Parent Company's interest in the subsidiaries

Changes in the Parent Company's interest in the subsidiaries without loss of control for the nine-month periods ended September 30, 2016 and 2015, are as follows:

<i>(in millions of Korean won)</i>	2016	2015
HiEntech (Tianjin) Co., LTD.		
Decrease in the Parent Company's interest by issuance of common shares (A)	-	(654)
Consideration received from non-controlling interest (B)	-	723
Changes in the Parent Company's ownership interest (A+B)	-	69
LG Electronics Nanjing Battery Pack Co.,Ltd. (LGENB)		
Decrease in the Parent Company's interest by issuance of common shares (A)	(5,787)	-
Consideration received from non-controlling interest (B)	6,422	-
Changes in the Parent Company's ownership interest (A+B)	635	-

- (f) Subsidiaries newly included in the scope of preparation of consolidated interim financial statements for the nine-month period ended September 30, 2016, are:

<u>Subsidiary</u>	<u>Reason</u>	<u>Country</u>	<u>Percentage of ownership</u>	<u>Closing month</u>	<u>Major business</u>
LG Electronics Nanjing Battery Pack Co.,Ltd.(LGENB)	Newly established	China	50.0%	December	Production of Electronic products
LG Electronics Nanjing Vehicle Components Co.,Ltd.(LGENV)	Newly established	China	100.0%	December	Production of Electronic products
Hi.M Solutek HVAC Service and Maintenance LLC	Newly established	UAE	100.0%	December	Services
HI-M SOLUTEK PHILIPPINES INC.	Newly established	Philippines	100.0%	December	Services
LG Innotek Vietnam Hai Phong Co.,Ltd.(LGITVH)	Newly established	Vietnam	40.8%	December	Production and sales of Electrical/ Electronic materials

LG Electronics

Notes to the Consolidated Interim Financial Statements

September 30, 2016 and 2015(Unaudited), and December 31, 2015

- (g) Subsidiaries excluded from the scope of preparation of consolidated financial statements for the nine-month period ended September 30, 2016, are:

Subsidiary	Reason	Country
Innovation Investment Fund	Liquidation	Korea
Shanghai LG Electronics Co., Ltd.(LGESH)	Liquidation	China
LG Electronics Austria GmbH(LGEAG)	Merger	Austria

- (h) Gain or loss resulted from loss of control over a subsidiary

During the period, a loss amounting to ₩629 million was recognized from liquidation of Shanghai LG Electronics Co., Ltd. and no gain or loss incurred from the loss of control over Innovation Investment Fund and LG Electronics Austria GmbH.

2. Significant Accounting Policies

Basis of Preparation

The Group maintains its accounting records in Korean won and prepares statutory financial statements in the Korean language (Hangeul) in accordance with International Financial Reporting Standards as adopted by the Republic of Korea (Korean IFRS). The accompanying consolidated interim 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 Group's financial position, financial performance or cash flows, is not presented in the accompanying consolidated interim financial statements.

The consolidated interim financial statements for the nine-month period ended September 30, 2016, have been prepared in accordance with Korean IFRS 1034, '*Interim Financial Reporting*'. These consolidated interim financial statements have been prepared in accordance with Korean IFRS which is effective as of September 30, 2016.

Changes in Accounting Policies and Disclosures

- (a) New and amended standards and interpretations effective for the financial year beginning January 1, 2016.

- i) The new and amended standards and interpretations adopted by the Group from the financial year 2016:

- Amendment to Korean IFRS 1016: '*Property, Plant and Equipment*', and Korean IFRS 1038: '*Intangible Assets*' (Date of amendment: September 2014)

Amendments to Korean IFRS 1016 and Korean IFRS 1038 clarify that the use of a revenue-based depreciation and amortization method is not permitted since the method are affected by factors, such as number of units sold and selling price, that are not directly related to the economic consumption of an asset. However, the revenue-based method is acceptable in

LG Electronics

Notes to the Consolidated Interim Financial Statements

September 30, 2016 and 2015(Unaudited), and December 31, 2015

limited circumstances in which intangible assets are measured based on revenue. The application of this amendment does not have a significant impact on the accompanying consolidated financial statements.

- Amendment to Korean IFRS 1111: '*Joint Arrangements*' (Date of amendment: September 2014)

Amendment to Korean IFRS 1111 requires the acquirer of an interest in a joint operation, in which the activity constitutes a business, as defined in Korean IFRS 1103, '*Business Combinations*', to apply all of the principles on business combinations accounting in Korean IFRS 1103 and other Korean IFRSs, and to disclose the information related to the business combination. The application of this amendment does not have a significant impact on the accompanying consolidated financial statements.

- Amendment to Korean IFRS 1001: '*Presentation of Financial Statements*' (Date of amendment: May 2015)

Amendment to Korean IFRS 1001, '*Presentation of Financial Statements*', clarifies that the disclosed line items can be omitted, added, or aggregated in the list according to their materiality. In addition, the amendment clarifies that the share in the other comprehensive income of associates and joint ventures accounted for under the equity method should be presented separately in the financial statements based on whether they will or will not subsequently be reclassified to profit or loss. Also, additional requirements for disclosures in the notes and others are provided. The application of this amendment does not have a significant impact on the accompanying consolidated financial statements.

- Amendment to Korean IFRS 1110, '*Consolidated Financial Statements*', Korean IFRS 1112, '*Disclosures of Interests in Other Entities*', and Korean IFRS 1028, '*Investments in Associates and Joint ventures*' (Date of amendment: May 2015)

Korean IFRS 1110, '*Consolidated Financial Statements*', provides the exemption from preparing the consolidated financial statements in case an immediate parent company is also an investment entity, and clarifies that the investment entity is required to measure its investment in a subsidiary at fair value where that subsidiary provides services in support of the investment entity's activities. Korean IFRS 1028, '*Investments in Associates and Joint Ventures*', provides the exemption from applying the equity method on the financial statements in case an immediate parent company is also an investment entity. When applying the equity method to an associate and a joint venture, which are also investment entities, these investment entities measure all of their subsidiaries based on their financial statements at fair value. Korean IFRS 1112, '*Disclosures of Interests in Other Entities*' clarifies that an investment entity which does not prepare consolidated financial statements should provide disclosures relating to the investment entity required by Korean IFRS 1112. The application of this amendment does not have an impact on the accompanying consolidated financial statements.

LG Electronics

Notes to the Consolidated Interim Financial Statements

September 30, 2016 and 2015(Unaudited), and December 31, 2015

- Annual improvements of Korean IFRS (Date of amendment: February, May 2015)

Korean IFRS 1105, '*Non-current assets held for sale and Discontinued operations*',

Korean IFRS 1107, '*Financial Instruments: Disclosure*',

Korean IFRS 1019, '*Employee benefits*',

Korean IFRS 1034, '*Interim Financial Reporting*'

The annual improvements of Korean IFRS do not have a material impact on these consolidated financial statements.

- (b) New and amended standards and interpretations effective for the financial year after January 1, 2017.

- Korean IFRS 1109, '*Financial Instruments*' (Date of enactment: September 2015)

The new standard issued in December 2015 regarding financial instruments replaces Korean IFRS 1039, '*Financial Instruments: Recognition and Measurement*'.

Korean IFRS 1109, '*Financial Instruments*', requires financial assets to be classified and measured on the basis of the holder's business model and the instrument's contractual cash flow characteristics. The standard requires a financial instrument to be classified and measured at amortized cost, fair value through other comprehensive income, or fair value through profit or loss, and provides guidance on accounting for related gains and losses. The impairment model is changed into an expected credit loss model, and changes in those expected credit losses are recognized in profit or loss. The new standard is effective for the financial year initially beginning on or after January 1, 2018, but early adoption is allowed. Early adoption of only the requirements related to financial liabilities designated at fair value through profit or loss is also permitted. The Group is in the process of determining the effects resulting from the adoption of the new standard.

- Korean IFRS 1115, '*Revenue from Contracts with Customers*' (Date of enactment: November 2015)

The new Standard for the recognition of revenue issued in December 2015 will replace Korean IFRS 1018, '*Revenue*', Korean IFRS 1011, '*Construction Contracts*', and related Interpretations.

Korean IFRS 1115, '*Revenue from Contracts with Customers*', will replace the risk-and-reward model under the current standards and is based on the principle that revenue is recognized when control of goods or services transfer to the customer by applying the five-step process. Key changes to current practices include guidance on separate recognition of distinct goods or services in any bundled arrangement, constraint on recognizing variable consideration, criteria on recognizing revenue over time, and increased disclosures. The new standard is effective for annual reporting beginning on or after January 1, 2018, but early application is permitted. The Group is in the process of determining the effects resulting from the adoption of the new standard.

LG Electronics

Notes to the Consolidated Interim Financial Statements

September 30, 2016 and 2015(Unaudited), and December 31, 2015

Accounting Policies

The significant accounting policies and computation method used in the preparation of these consolidated interim financial statements are the same as the policies and methods adopted for the preparation of the financial statements for the year ended December 31, 2015, unless otherwise stated in Note 2.

Income Tax Expense

Income tax expense for the interim period is recognized based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate is applied to the pre-tax income for the period.

3. Critical Accounting Estimates and Judgements

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

Critical Accounting Estimates and Assumptions

For the consolidated interim financial statements, the Group's management makes judgements, estimates and assumptions which affect accounting policies and its assets, liabilities, income and cost. 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 Group recognizes revenue using the percentage of completion method for the rendering of 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 Group 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 Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and

LG Electronics

Notes to the Consolidated Interim Financial Statements

September 30, 2016 and 2015(Unaudited), and December 31, 2015

calculations for which the ultimate tax determination is uncertain. The Group recognizes assets and liabilities for anticipated tax audit issues based on the best estimates of whether additional taxes will be due. Income tax expense in each interim period is recognized based on the best estimate of the weighted average annual income tax rate expected for the full financial year as explained in Note 2. 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 Group uses its judgement 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 Group recognizes provisions for product warranties and sales returns based on their historical data.

(f) Net Defined Benefit Liability

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 Group 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.

Significant Judgement on Accounting Policies Adopted by the Group

In order to determine the Group's de-facto control, the Group considers the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders and additional facts and circumstances including voting patterns at previous shareholders' meetings.

LG Electronics

Notes to the Consolidated Interim Financial Statements

September 30, 2016 and 2015(Unaudited), and December 31, 2015

4. Segment Information

The segments of the Group are strategic business divisions providing different products and services. They are reported separately because each business division requires different technologies and marketing strategies. The main products of each business division are as follows and the comparative information is presented in conformity with the same classification in the current period.

Divisions	Products
Home Appliance & Air Solution (H&A)	Refrigerators, Washing machines, Residential and commercial air conditioners, Microwaves, Vacuum cleaners and others
Mobile Communications (MC)	Mobile communications
Home Entertainment (HE)	TVs, Monitors, PCs, Security devices, Audio, Video and others
Vehicle Components (VC)	Vehicle components and others
LG Innotek Co., Ltd. and its subsidiaries (Innotek)	LED, Display & Network, Substrate & Material, Optics solution, Auto & Motor and others
Other segments	Display materials, Lighting solutions, Solar energy systems and others

(a) The segment information for sales and operating income(loss) for the three-month and nine-month periods ended September 30, 2016 and 2015, is as follows:

<i>(in millions of Korean won)</i>	Three-month period ended September 30, 2016							Total
	H&A	MC	HE	VC	Innotek	Other segments ¹	Inter-segment transactions ²	
Sales	4,271,293	2,517,065	4,141,496	674,876	1,384,461	677,533	(442,494)	13,224,230
External sales	4,270,503	2,516,396	4,140,055	674,876	1,164,846	457,554	-	13,224,230
Internal sales	790	669	1,441	-	219,615	219,979	(442,494)	-
Operating income(loss) ³	342,864	(436,349)	381,499	(16,238)	20,568	(9,112)	-	283,232
Depreciation and amortization	113,153	71,260	80,227	33,246	79,724	45,527	-	423,137
<i>(in millions of Korean won)</i>	Nine-month period ended September 30, 2016							Total
	H&A	MC	HE	VC	Innotek	Other segments ¹	Inter-segment transactions ²	
Sales	13,190,944	8,806,047	12,632,089	1,907,383	3,699,951	1,704,071	(1,351,223)	40,589,262
External sales	13,189,681	8,804,711	12,626,441	1,907,383	2,877,413	1,183,633	-	40,589,262
Internal sales	1,263	1,336	5,648	-	822,538	520,438	(1,351,223)	-
Operating income(loss) ³	1,184,323	(792,061)	1,073,425	(48,776)	(12,995)	(30,916)	-	1,373,000
Depreciation and amortization	345,333	209,820	255,184	93,626	257,506	138,557	-	1,300,026

LG Electronics

Notes to the Consolidated Interim Financial Statements

September 30, 2016 and 2015(Unaudited), and December 31, 2015

Three-month period ended September 30, 2015								
<i>(in millions of Korean won)</i>	H&A	MC	HE	VC	Innotek	Other segments ¹	Inter-segment transactions ²	Total
Sales	4,153,432	3,280,083	4,286,426	478,603	1,558,844	691,400	(419,994)	14,028,794
External sales	4,152,998	3,279,912	4,284,026	478,603	1,237,258	595,997	-	14,028,794
Internal sales	434	171	2,400	-	321,586	95,403	(419,994)	-
Operating income(loss) ³	245,615	(96,302)	37,003	(849)	60,663	47,852	-	293,982
Depreciation and amortization	118,528	72,414	96,463	25,007	113,144	50,462	-	476,018

Nine-month period ended September 30, 2015								
<i>(in millions of Korean won)</i>	H&A	MC	HE	VC	Innotek	Other segments ¹	Inter-segment transactions ²	Total
Sales	12,701,873	10,333,277	12,657,880	1,312,059	4,547,214	1,773,969	(1,377,371)	41,948,901
External sales	12,699,051	10,332,880	12,654,660	1,312,049	3,561,969	1,388,292	-	41,948,901
Internal sales	2,822	397	3,220	10	985,245	385,677	(1,377,371)	-
Operating income(loss) ³	766,937	(58,701)	(51,878)	(4,733)	178,627	13,042	-	843,294
Depreciation and amortization	349,480	221,804	291,226	64,669	357,506	137,506	-	1,422,191

¹ Other segments include operating segments not qualifying as reportable segments and divisions that support the operating segments and R&D.

² Accounting of sales between segments are accounted as arm's length transactions.

³ Non-operating income(loss) is not separately disclosed as the Chief Operating Decision Maker does not review them by segment.

(b) The segment information for assets and liabilities is as follows:

<i>(in millions of Korean won)</i>	September 30, 2016		December 31, 2015	
	Assets	Liabilities	Assets	Liabilities
H&A	11,643,719	7,305,149	11,339,667	7,378,446
MC	5,638,583	5,120,052	7,452,814	5,920,010
HE	10,502,972	9,980,498	10,590,961	10,559,044
VC	2,085,598	2,011,310	1,683,449	1,473,062
Innotek	4,153,801	2,530,514	3,914,338	2,149,283
Subtotal¹	34,024,673	26,947,523	34,981,229	27,479,845
Other segments and inter-segment transactions	3,260,883	(2,239,762)	1,332,667	(4,149,436)
Total	37,285,556	24,707,761	36,313,896	23,330,409

¹ The amounts of assets and liabilities of each segment are before inter-segment elimination, and common assets and liabilities are allocated based on the operations of the segments.

LG Electronics

Notes to the Consolidated Interim Financial Statements

September 30, 2016 and 2015(Unaudited), and December 31, 2015

- (c) External sales by geographic area for the three-month and nine-month periods ended September 30, 2016 and 2015, and non-current assets by geographic area as of September 30, 2016 and December 31, 2015, are as follows:

<i>(in millions of Korean won)</i>	External sales				Non-current assets ¹	
	2016		2015		September 30, 2016	December 31, 2015
	Three months	Nine months	Three months	Nine months		
Korea	3,765,730	10,555,829	3,632,061	10,772,703	9,909,419	9,544,117
North America	3,908,344	11,884,127	4,176,235	11,804,094	283,853	334,591
Asia	1,486,396	4,797,156	1,359,471	4,377,165	639,447	649,060
Europe	1,167,552	4,275,388	1,344,736	4,024,147	239,814	263,568
South America	1,035,227	2,874,894	1,079,597	3,420,700	150,741	154,903
Middle East & Africa	789,893	3,019,995	1,192,421	3,757,477	152,414	189,698
China	666,931	2,107,675	773,486	2,503,920	726,989	792,143
Others	404,157	1,074,198	470,787	1,288,695	133,258	126,769
Total	13,224,230	40,589,262	14,028,794	41,948,901	12,235,935	12,054,849

¹ Non-current assets consist of property, plant and equipment, intangible assets and investment properties.

- (d) There is no external customer contributing to more than 10% of net sales for the nine-month periods ended September 30, 2016 and 2015.

5. Financial Instruments by Category

- (a) Categorizations of financial instruments as of September 30, 2016 and December 31, 2015, are as follows:

<i>(in millions of Korean won)</i>	September 30, 2016					
	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	-	3,488,547	-	-	-	3,488,547
Financial deposits	-	142,296	-	-	-	142,296
Trade receivables	-	6,644,714	-	-	-	6,644,714
Loans and other receivables	-	883,811	-	-	-	883,811
Other financial assets	800	-	54,887	117	7,567	63,371
Total	800	11,159,368	54,887	117	7,567	11,222,739

<i>(in millions of Korean won)</i>	September 30, 2016			
	Liabilities at fair value through profit or loss	Liabilities carried at amortized cost	Other	Total
Trade payables	-	6,740,663	-	6,740,663
Borrowings	-	9,007,725	-	9,007,725
Other payables	-	2,545,999	-	2,545,999
Other financial liabilities	4,363	-	156,681	161,044
Total	4,363	18,294,387	156,681	18,455,431

LG Electronics

Notes to the Consolidated Interim Financial Statements

September 30, 2016 and 2015(Unaudited), and December 31, 2015

<i>(in millions of Korean won)</i>	December 31, 2015					
	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	-	2,710,156	-	-	-	2,710,156
Financial deposits	-	157,424	-	-	-	157,424
Trade receivables	-	7,093,352	-	-	-	7,093,352
Loans and other receivables	-	1,160,929	-	-	-	1,160,929
Other financial assets	13,806	-	54,406	2,638	34,634	105,484
Total	13,806	11,121,861	54,406	2,638	34,634	11,227,345

<i>(in millions of Korean won)</i>	December 31, 2015			
	Liabilities at fair value through profit or loss	Liabilities carried at amortized cost	Other	Total
Trade payables	-	6,086,975	-	6,086,975
Borrowings	-	8,827,250	-	8,827,250
Other payables	-	2,853,735	-	2,853,735
Other financial liabilities	3,368	-	80,381	83,749
Total	3,368	17,767,960	80,381	17,851,709

(b) Profit or loss by each category of financial instruments for the nine-month periods ended September 30, 2016 and 2015, are as follows:

<i>(in millions of Korean won)</i>	2016					
	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	-	70,790	19	64	-	70,873
Exchange differences	-	(266,082)	-	-	-	(266,082)
Bad debt expenses	-	25,412	-	-	-	25,412
Loss on disposal of trade receivables	-	(10,429)	-	-	-	(10,429)
Gain on disposal of available-for-sale financial assets	-	-	50	-	-	50
Impairment loss of available-for-sale financial assets	-	-	(6,001)	-	-	(6,001)
Dividend income	-	-	286	-	-	286
Gain on derivatives (through profit or loss)	16,155	-	-	-	-	16,155
Loss on valuation of available-for-sale financial assets, net of tax (through other comprehensive loss)	-	-	(317)	-	-	(317)
Loss on derivatives, net of tax (through other comprehensive loss)	-	-	-	-	(2,170)	(2,170)

LG Electronics

Notes to the Consolidated Interim Financial Statements

September 30, 2016 and 2015(Unaudited), and December 31, 2015

<i>(in millions of Korean won)</i>	2016			
	Liabilities at fair value through profit or loss	Liabilities carried at amortized cost	Other	Total
Interest expenses	-	(278,566)	(39,820)	(318,386)
Exchange differences	-	265,065	(85,613)	179,452
Loss on derivatives (through profit or loss)	(58,357)	-	-	(58,357)
Loss on derivatives, net of tax (through other comprehensive loss)	-	-	(38,459)	(38,459)
Others	-	(1,078)	79	(999)

<i>(in millions of Korean won)</i>	2015					
	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	-	68,757	83	64	-	68,904
Exchange differences	-	592,936	-	-	-	592,936
Bad debt expenses	-	(24,068)	-	-	-	(24,068)
Loss on disposal of trade receivables	-	(17,700)	-	-	-	(17,700)
Gain on disposal of available-for-sale financial assets	-	-	7,297	-	-	7,297
Impairment loss of available-for-sale financial assets	-	-	(3,776)	-	-	(3,776)
Dividend income	-	-	775	-	-	775
Gain on derivatives (through profit or loss)	61,220	-	-	-	-	61,220
Gain for the period from discontinued operations	4	2,170	-	-	-	2,174
Loss on valuation of available-for-sale financial assets, net of tax (through other comprehensive income)	-	-	(203)	-	-	(203)
Gain on derivatives, net of tax (through other comprehensive income)	-	-	-	-	2,624	2,624

<i>(in millions of Korean won)</i>	2015			
	Liabilities at fair value through profit or loss	Liabilities carried at amortized cost	Other	Total
Interest expenses	-	(301,970)	(40,327)	(342,297)
Exchange differences	-	(1,145,214)	236,351	(908,863)
Loss on derivatives (through profit or loss)	(23,441)	-	-	(23,441)
Loss for the period from discontinued operations	(4)	(678)	-	(682)
Loss on derivatives, net of tax (through other comprehensive loss)	-	-	(40,409)	(40,409)
Others	-	(6,455)	79	(6,376)

LG Electronics

Notes to the Consolidated Interim Financial Statements

September 30, 2016 and 2015(Unaudited), and December 31, 2015

6. Trade Receivables and Other Receivables

(a) Trade receivables and other receivables, net of allowance for doubtful accounts, as of September 30, 2016 and December 31, 2015, are as follows:

<i>(in millions of Korean won)</i>	September 30, 2016			December 31, 2015		
	Original amount	Allowance for doubtful accounts	Carrying amount	Original amount	Allowance for doubtful accounts	Carrying amount
Trade receivables	6,763,319	(118,605)	6,644,714	7,237,329	(143,977)	7,093,352
Other receivables						
Current	426,872	(17,201)	409,671	670,776	(16,635)	654,141
Non-current	474,252	(112)	474,140	506,907	(119)	506,788

(b) Movements in allowance for doubtful accounts for the nine-month periods ended September 30, 2016 and 2015, are as follows:

<i>(in millions of Korean won)</i>	2016				
	At January 1	Addition (reversal)	Write-off	Other	At September 30
Trade receivables	143,977	(24,558)	(5,684)	4,870	118,605
Other receivables					
Current	16,635	(931)	(223)	1,720	17,201
Non-current	119	77	-	(84)	112

<i>(in millions of Korean won)</i>	2015				
	At January 1	Addition (reversal)	Write-off	Other	At September 30
Trade receivables	127,865	22,669	(9,432)	12,841	153,943
Other receivables					
Current	19,180	(119)	(263)	(470)	18,328
Non-current	60	(15)	-	1	46

(c) The aging analysis of trade receivables and other receivables as of September 30, 2016 and December 31, 2015, is as follows:

<i>(in millions of Korean won)</i>	September 30, 2016				December 31, 2015			
	Trade receivables	Other receivables		Total	Trade receivables	Other receivables		Total
	Current	Non-current	Current		Non-current	Current	Non-current	
Current	5,998,759	393,735	463,594	6,856,088	6,039,338	606,189	504,877	7,150,404
Past due but not impaired								
Up to 6 months	631,944	9,283	10,657	651,884	998,920	21,653	1,985	1,022,558
7 to 12 months	18,722	3,261	1	21,984	86,335	21,091	1	107,427
Over 1 year	11,120	5,437	-	16,557	12,725	5,693	44	18,462
Subtotal	661,786	17,981	10,658	690,425	1,097,980	48,437	2,030	1,148,447
Impaired	102,774	15,156	-	117,930	100,011	16,150	-	116,161
Total	6,763,319	426,872	474,252	7,664,443	7,237,329	670,776	506,907	8,415,012

LG Electronics

Notes to the Consolidated Interim Financial Statements

September 30, 2016 and 2015(Unaudited), and December 31, 2015

(d) There are no financial assets transferred, but not derecognized in their entirety, and no associated liabilities recognized as of September 30, 2016.

7. Other Financial Assets and Liabilities

(a) Details of other financial assets and liabilities as of September 30, 2016 and December 31, 2015, are as follows:

<i>(in millions of Korean won)</i>	September 30, 2016	December 31, 2015
Other financial assets		
Derivatives	8,367	48,440
Available-for-sale	54,887	54,406
Held-to-maturity	117	2,638
Total	63,371	105,484
Current	8,367	20,674
Non-current	55,004	84,810
Other financial liabilities		
Derivatives	160,693	83,170
Financial guarantee liability	351	579
Total	161,044	83,749
Current	31,479	13,823
Non-current	129,565	69,926

(b) Details of derivatives as of September 30, 2016 and December 31, 2015, are as follows:

<i>(in millions of Korean won)</i>	September 30, 2016		December 31, 2015	
	Assets	Liabilities	Assets	Liabilities
Current				
Currency Forward	800	4,363	13,806	3,368
Currency Swap	7,567	26,994	4,347	10,184
Subtotal	8,367	31,357	18,153	13,552
Non-current				
Currency Swap	-	8,445	30,287	-
Interest Rate Swap	-	120,891	-	69,618
Subtotal	-	129,336	30,287	69,618
Total	8,367	160,693	48,440	83,170

The details of major derivative contracts at the end of the reporting period are presented in Note 30.

LG Electronics

Notes to the Consolidated Interim Financial Statements

September 30, 2016 and 2015(Unaudited), and December 31, 2015

(c) Changes in carrying amounts of available-for-sale financial assets for the nine-month periods ended September 30, 2016 and 2015, are as follows:

<i>(in millions of Korean won)</i>	2016						
	At Jan. 1	Acquisition	Disposal	Valuation (OCI)	Impairment	Other	At Sept. 30
Listed equity securities	15,329	-	-	(409)	-	(3)	14,917
Unlisted equity securities	37,875	8,140	(1)	-	(5,371)	(673)	39,970
Debt securities	1,202	-	(476)	5	(630)	(101)	-
Total	54,406	8,140	(477)	(404)	(6,001)	(777)	54,887

<i>(in millions of Korean won)</i>	2015						
	At Jan. 1	Acquisition	Disposal	Valuation (OCI)	Impairment	Other	At Sept. 30
Listed equity securities	13,107	-	(1,369)	1,119	-	(1,000)	11,857
Unlisted equity securities	34,356	4,827	(570)	-	(3,776)	1,279	36,116
Debt securities	1,422	-	(87)	(14)	-	61	1,382
Total	48,885	4,827	(2,026)	1,105	(3,776)	340	49,355

(d) Held-to-maturity financial assets

i) Maturity analysis of held-to-maturity financial assets as of September 30, 2016 and December 31, 2015, is as follows:

<i>(in millions of Korean won)</i>	September 30, 2016	December 31, 2015
Within 1 year	-	2,521
1 to 5 years	117	117
Total	117	2,638

ii) The amount recognized as interest income in relation to held-to-maturity financial assets for the nine-month period ended September 30, 2016, is ₩64 million (2015: ₩64 million). No impairment losses were recognized in relation to held-to-maturity financial assets for the nine-month periods ended September 30, 2016 and 2015.

8. Inventories

Inventories as of September 30, 2016 and December 31, 2015, consist of:

<i>(in millions of Korean won)</i>	September 30, 2016			December 31, 2015		
	Cost	Valuation allowance	Carrying amount	Cost	Valuation allowance	Carrying amount
Finished products and merchandise	3,213,374	(137,777)	3,075,597	2,945,563	(91,114)	2,854,449
Work-in-process	407,887	(9,871)	398,016	297,787	(9,474)	288,313
Raw materials and supplies	1,794,296	(35,971)	1,758,325	1,486,266	(50,777)	1,435,489
Other	345,074	(32,240)	312,834	326,974	(32,549)	294,425
Total	5,760,631	(215,859)	5,544,772	5,056,590	(183,914)	4,872,676

LG Electronics

Notes to the Consolidated Interim Financial Statements

September 30, 2016 and 2015(Unaudited), and December 31, 2015

9. Property, Plant and Equipment, and Intangible Assets

(a) Changes in property, plant and equipment for the nine-month periods ended September 30, 2016 and 2015, are as follows:

<i>(in millions of Korean won)</i>	2016	2015
At January 1	10,460,298	10,596,853
Acquisitions	1,394,786	1,161,960
Acquisitions due to business combination	-	2,513
Transfer-out	-	(23,194)
Disposals and others	(47,567)	(79,650)
Depreciation	(1,002,331)	(1,140,123)
Impairment	(60,003)	(29,140)
Exchange differences	(139,017)	7,665
At September 30	10,606,166	10,496,884

(b) Line items including depreciation in the statements of income for the nine-month periods ended September 30, 2016 and 2015, are as follows:

<i>(in millions of Korean won)</i>	2016	2015
Continuing operations:		
Cost of sales	797,024	904,131
Selling and marketing expenses	33,694	35,882
Administrative expenses	61,607	66,128
Research and development expense	82,053	94,653
Service costs	10,788	12,302
Other non-operating expenses	17,165	26,898
Subtotal	1,002,331	1,139,994
Discontinued operations	-	129
Total	1,002,331	1,140,123

(c) Changes in intangible assets for the nine-month periods ended September 30, 2016 and 2015, are as follows:

<i>(in millions of Korean won)</i>	2016	2015
At January 1	1,473,280	1,394,336
Acquisitions	143,562	152,697
Acquisitions through internal development	241,520	192,414
Acquisitions from business combination	-	15,183
Disposals and others	(9,679)	(23,383)
Amortization	(313,804)	(308,927)
Impairment	(9,424)	(5,355)
Exchange differences	(1,949)	118
At September 30	1,523,506	1,417,083

LG Electronics

Notes to the Consolidated Interim Financial Statements

September 30, 2016 and 2015(Unaudited), and December 31, 2015

(d) Line items including amortization of intangible assets for the nine-month periods ended September 30, 2016 and 2015, are as follows:

<i>(in millions of Korean won)</i>	2016	2015
Continuing operations:		
Cost of sales	165,344	156,850
Selling and marketing expenses	12,476	20,243
Administrative expenses	71,456	81,848
Research and development expenses	62,788	48,401
Service costs	1,740	1,584
Subtotal	313,804	308,926
Discontinued operations	-	1
Total	313,804	308,927

10. Investments in Associates and Joint Ventures

(a) Investments in associates and joint ventures

i) Carrying amounts of investments in associates and joint ventures, as of September 30, 2016 and December 31, 2015, are as follows:

<i>(in millions of Korean won)</i>	September 30, 2016	December 31, 2015
Associates	4,516,839	4,648,197
Joint ventures	184,872	193,664
Total	4,701,711	4,841,861

ii) Investments in associates as of September 30, 2016 and December 31, 2015, are as follows:

<i>(in millions of Korean won)</i>	September 30, 2016				December 31, 2015			
	Acquisition cost	Net asset amount	Unrealized gain	Carrying amount	Acquisition cost	Net asset amount	Unrealized gain	Carrying amount
LG Display Co., Ltd.	679,218	4,488,499	(67,900)	4,420,599	679,218	4,621,566	(59,197)	4,562,369
Ericsson-LG Co., Ltd	26,629	75,471	(34)	75,437	26,629	78,983	(49)	78,934
Hitachi-LG Data Storage Inc.(HLDS)	91,250	(24,862)	(1,464)	-	51,184	(19,761)	(1,482)	-
Korea Information Certificate Authority Inc.	852	3,890	-	3,890	852	3,605	-	3,605
LG Fuel Cell Systems Inc.	69,375	13,881	-	13,881	44,051	(77)	-	-
SKT Vietnam PTE., Ltd.	72,194	740	-	-	72,194	793	-	-
One-Red, LLC ¹	3,128	3,032	-	3,032	3,128	3,289	-	3,289
Total	942,646	4,560,651	(69,398)	4,516,839	877,256	4,688,398	(60,728)	4,648,197

¹ The financial statements as of August 31, 2016 were used due to a different closing date.

LG Electronics

Notes to the Consolidated Interim Financial Statements

September 30, 2016 and 2015(Unaudited), and December 31, 2015

- iii) Investments in joint ventures as of September 30, 2016 and December 31, 2015, are as follows:

<i>(in millions of Korean won)</i>	September 30, 2016				December 31, 2015			
	Acquisition cost	Net asset amount	Unrealized gain	Carrying amount	Acquisition cost	Net asset amount	Unrealized gain	Carrying amount
LG Holdings(HK) Ltd.	115,234	127,147	-	127,147	115,234	137,638	-	137,638
Arcelic-LG Klima Sanayi ve Ticarta A.S.(LGEAT)	14,718	43,537	(728)	42,809	14,718	41,417	(134)	41,283
EIC PROPERTIES PTE LTD.	9,636	13,952	-	13,952	9,636	14,063	-	14,063
LG-MRI LLC	516	964	-	964	516	680	-	680
Total	140,104	185,600	(728)	184,872	140,104	193,798	(134)	193,664

(b) Associates and joint ventures

- i) Associates as of September 30, 2016, are as follows:

Name of Associate	Location	Closing Month	Percentage of ownership	Nature of relationships with the Group
LG Display Co., Ltd.	Korea	December	37.9%	Production and supply of display products
Ericsson-LG Co., Ltd	Korea	December	25.0%	Supply of communication devices and network solution products
Hitachi-LG Data Storage Inc.(HLDS)	Japan	December	49.0%	Production and supply of data storages
Korea Information Certificate Authority Inc. ¹	Korea	December	7.5%	Certificate services
LG Fuel Cell Systems Inc.	USA	December	32.2%	R&D of fuel cell
SKT Vietnam PTE., Ltd.	Singapore	December	25.4%	Communication services
One-Red, LLC	USA	March	25.0%	DVD related patent licensing
Hi Logistics (China) Co.,Ltd. ²	China	December	35.0%	Services of Logistics

¹ Classified as an associate although the percentage of ownership is less than 20% because the Group can exercise a significant influence in the Board of Directors of the investee.

² Reclassified as assets held for sale (Note 32).

- ii) Joint ventures as of September 30, 2016, are as follows:

All joint arrangements, over which the Group has joint control, are structured through separate companies and are categorized as joint ventures as the parties with joint control are assumed to have rights to the net assets of the arrangement.

Name of Joint venture	Location	Closing month	Percentage of ownership	Nature of relationships with the Group
LG Holdings(HK) Ltd.	China	December	49.0%	Real estate
Arcelic-LG Klima Sanayi ve Ticarta A.S.(LGEAT)	Turkey	December	50.0%	Production and supply of air conditioning products
EIC PROPERTIES PTE LTD.	Singapore	December	38.2%	Real estate
LG-MRI LLC	USA	December	50.0%	Production and supply of digital display products

LG Electronics

Notes to the Consolidated Interim Financial Statements

September 30, 2016 and 2015(Unaudited), and December 31, 2015

iii) All associates and joint ventures are accounted for using the equity method.

(c) Changes in investments in associates and joint ventures

i) Changes in the carrying amounts of investments in associates for the nine-month periods ended September 30, 2016 and 2015, are as follows:

<i>(in millions of Korean won)</i>	2016	2015
Opening carrying amount	4,648,197	4,408,091
Acquisition	65,390	-
Gain(loss) from equity method ¹	(18,822)	351,196
Share of other comprehensive income(loss) of associates	(106,086)	95,989
Dividend/ recovery	(71,633)	(71,123)
Disposal	-	(32,364)
Exchange differences	(207)	196
Closing carrying amount	4,516,839	4,751,985

¹ The Group recognized additional equity method loss of ₩ 22,695 million for loans of Hitachi-LG Data Storage Inc. and others.

ii) Changes in the carrying amounts of investments in joint ventures for the nine-month periods ended September 30, 2016 and 2015, are as follows:

<i>(in millions of Korean won)</i>	2016	2015
Opening carrying amount	193,664	186,370
Gain from equity method	12,967	10,495
Share of other comprehensive loss of joint ventures	(21,699)	2,412
Exchange differences	(60)	(4)
Closing carrying amount	184,872	199,273

(d) Summarized consolidated financial information on the associate material to the reporting entity as of September 30, 2016 and December 31, 2015, and for the three-month and nine-month periods ended September 30, 2016 and 2015 is as follows:

- LG Display Co., Ltd. and its subsidiaries

<i>(in millions of Korean won)</i>	September 30, 2016	December 31, 2015
Current assets	9,818,530	9,531,634
Non-current assets	13,751,781	13,045,526
Total assets	23,570,311	22,577,160
Current liabilities	7,075,384	6,606,712
Non-current liabilities	4,193,264	3,265,492
Total liabilities	11,268,648	9,872,204
Equity of the owners of LG Display Co., Ltd.	11,841,884	12,192,952
Non-controlling interests	459,779	512,004
Total equity	12,301,663	12,704,956

LG Electronics

Notes to the Consolidated Interim Financial Statements

September 30, 2016 and 2015(Unaudited), and December 31, 2015

<i>(in millions of Korean won)</i>	2016		2015	
	Three months	Nine months	Three months	Nine months
Net sales	6,723,775	18,568,118	7,158,201	20,888,135
Profit for the period	189,554	106,825	198,632	1,036,959
Equity of the owners of LG Display Co., Ltd.				
Profit for the period	177,825	108,676	189,168	982,388
Other comprehensive income (loss), net of tax	(204,970)	(280,836)	165,713	243,005
Total comprehensive income(loss) net of tax	(27,145)	(172,160)	354,881	1,225,393
Dividends from associates	-	67,813	-	67,813

(e) Reconciliations of the summarized financial information of an associate material to the reporting entity to the carrying amount of the Group's interest for the nine-month periods ended September 30, 2016 and 2015, are as follows:

- LG Display Co., Ltd. and its subsidiaries

<i>(in millions of Korean won)</i>	2016	2015
Opening equity attributable to owners of LG Display Co., Ltd.	12,192,952	11,431,412
Profit for the period	108,676	982,388
Other comprehensive income(loss), net of tax	(280,836)	243,005
Dividends	(178,908)	(178,908)
Closing equity attributable to owners of LG Display Co., Ltd.	11,841,884	12,477,897
Group ownership (%)	37.9	37.9
The Group's share at the end of the reporting period	4,488,499	4,729,571
Unrealized gain	(67,900)	(63,250)
Carrying amount at the reporting date	4,420,599	4,666,321

(f) The Group's share in the operating results of the individually insignificant associates and joint ventures for the three-month and nine-month periods ended September 30, 2016 and 2015, is as follows:

<i>(in millions of Korean won)</i>	2016			
	Associates		Joint ventures	
	Three months	Nine months	Three months	Nine months
Profit(loss) for the period	6,048	(53,536)	4,586	13,573
Other comprehensive income(loss), net of tax	362	(2,540)	(19,647)	(21,711)
Total comprehensive income(loss), net of tax	6,410	(56,076)	(15,061)	(8,138)

LG Electronics

Notes to the Consolidated Interim Financial Statements

September 30, 2016 and 2015(Unaudited), and December 31, 2015

<i>(in millions of Korean won)</i>	2015			
	Associates		Joint ventures	
	Three months	Nine months	Three months	Nine months
Profit(loss) for the period	(7,492)	(12,457)	2,647	10,495
Other comprehensive income, net of tax	814	1,066	4,251	2,412
Total comprehensive income(loss), net of tax	(6,678)	(11,391)	6,898	12,907

(g) Accumulated unrecognized changes in equity due to discontinued use of the equity method for the nine-month period ended September 30, 2016, and the year ended December 31, 2015, are as follows:

<i>(in millions of Korean won)</i>	September 30, 2016		December 31, 2015	
	Unrecognized losses	Unrecognized accumulated losses	Unrecognized losses	Unrecognized accumulated losses
Hitachi-LG Data Storage Inc.(HLDS)	(17,689)	3,554	17,666	21,243

(h) Details of marketable investments in associates as of September 30, 2016 and December 31, 2015, are as follows:

	Type	September 30, 2016			
		Shares held <i>(Unit: shares)</i>	Price per share <i>(Unit: won)</i>	Fair value <i>(in millions of Korean won)</i>	Book value
LG Display Co., Ltd.	Associate	135,625,000	28,100	3,811,063	4,420,599
Korea Information Certificate Authority Inc.	Associate	2,000,000	8,370	16,740	3,890

	Type	December 31, 2015			
		Shares held <i>(Unit: shares)</i>	Price per share <i>(Unit: won)</i>	Fair value <i>(in millions of Korean won)</i>	Book value
LG Display Co., Ltd.	Associate	135,625,000	24,550	3,329,594	4,562,369
Korea Information Certificate Authority Inc.	Associate	2,000,000	10,850	21,700	3,605

11. Borrowings

(a) The carrying amounts of borrowings as of September 30, 2016 and December 31, 2015, are as follows:

<i>(in millions of Korean won)</i>	September 30, 2016	December 31, 2015
Current		
Short-term borrowings	668,914	910,031
Current portion of long-term borrowings	710,490	382,060
Current portion of debentures	812,482	1,034,037
Subtotal	2,191,886	2,326,128

LG Electronics

Notes to the Consolidated Interim Financial Statements

September 30, 2016 and 2015(Unaudited), and December 31, 2015

<i>(in millions of Korean won)</i>	September 30, 2016	December 31, 2015
Non-current		
Long-term borrowings	1,920,365	2,244,982
Debentures	4,895,474	4,256,140
Subtotal	6,815,839	6,501,122
Total	9,007,725	8,827,250

(b) Details of borrowings as of September 30, 2016 and December 31, 2015, are as follows:

<i>(in millions of Korean won)</i>	Maturity date	Annual interest rate at September 30, 2016(%)	Carrying amount	
			September 30, 2016	December 31, 2015
Short-term borrowings in local currency				
Shinhan Bank and others	-	3.16 ~ 3.62	5,272	105,528
Short-term borrowings in foreign currency				
HSBC and others ¹	-	1.30 ~ 14.93	663,642	804,503
Long-term borrowings in local currency				
Korea Development Bank and others ²	2030.07.07	1.75 ~ 4.62	2,305,653	2,339,817
Long-term borrowings in foreign currency				
HSBC and others	2021.07.12	2.25 ~ 12.48	325,202	287,225
Local currency loans				
Public, non-guaranteed bonds	2030.02.02	1.48 ~ 4.90	4,130,000	3,780,000
Private, non-guaranteed bonds	2028.11.18	1.95 ~ 3.96	910,000	800,000
Foreign currency loans				
Public, non-guaranteed bonds ¹	2016.12.02	2.00	244,038	254,859
Private, non-guaranteed bonds ¹	2017.06.19	3ML+1.30	219,260	234,400
Private, guaranteed bonds ¹	2019.01.31	3ML+1.60	219,260	234,400
Less: discount on debentures			(14,602)	(13,482)
Total			9,007,725	8,827,250

¹ The Group entered into cross-currency swap contracts to hedge cash flow risk related to floating interest rate and foreign exchange rate of the debenture (Note 30).

² The Group entered into interest rate swap contracts to hedge cash flow risk related to floating interest rates fluctuation (Note 30).

LG Electronics

Notes to the Consolidated Interim Financial Statements

September 30, 2016 and 2015(Unaudited), and December 31, 2015

12. Post-employment Benefits

Defined Benefit Plan

(a) The amounts of net defined benefit liabilities as of September 30, 2016 and December 31, 2015, are as follows:

<i>(in millions of Korean won)</i>	September 30, 2016	December 31, 2015
Present value of funded obligations	3,119,943	2,705,167
Present value of unfunded obligations	32,875	30,927
Subtotal	3,152,818	2,736,094
Fair value of plan assets	(1,904,557)	(1,948,484)
Net defined benefit liability	1,248,261	787,610

(b) The amounts recognized in the consolidated statements of income for the three-month and nine-month periods ended September 30, 2016 and 2015, are as follows:

<i>(in millions of Korean won)</i>	2016		2015	
	Three months	Nine months	Three months	Nine months
Current service cost	95,185	284,359	87,401	265,359
Past service cost	(318)	(318)	184	82
Net interest cost	5,431	16,338	6,349	19,059
Managing cost	490	1,641	378	1,288
Total	100,788	302,020	94,312	285,788

(c) Line items in which expenses are included for the three-month and nine-month periods ended September 30, 2016 and 2015, are as follows:

<i>(in millions of Korean won)</i>	2016		2015	
	Three months	Nine months	Three months	Nine months
Continuing operations:				
Manufacturing cost	48,789	145,248	47,020	138,345
Selling and marketing expenses	15,524	46,683	15,868	49,190
Administrative expenses	6,585	19,369	7,981	24,442
Research and development expenses	27,841	84,700	21,195	66,376
Service costs	2,049	6,020	2,248	7,435
Subtotal	100,788	302,020	94,312	285,788
Discontinued operations	-	-	-	-
Total	100,788	302,020	94,312	285,788

LG Electronics

Notes to the Consolidated Interim Financial Statements

September 30, 2016 and 2015(Unaudited), and December 31, 2015

- (d) Changes in the present value of defined benefit obligations for the nine-month periods ended September 30, 2016 and 2015, are as follows:

<i>(in millions of Korean won)</i>	2016	2015
At January 1	2,736,094	2,341,633
Current service cost	284,359	265,359
Past service cost	(318)	82
Interest expense	54,235	53,904
Remeasurements for:		
- Actuarial loss arising from changes in financial assumptions	201,587	128,725
Increase due to business combination	-	142
Decrease due to transfer of business	-	(1,925)
Benefits paid	(119,977)	(106,076)
Others	(3,162)	1,184
At September 30	3,152,818	2,683,028

- (e) Changes in the fair value of plan assets for the nine-month periods ended September 30, 2016 and 2015, are as follows:

<i>(in millions of Korean won)</i>	2016	2015
At January 1	1,948,484	1,543,183
Interest income	37,897	34,845
Remeasurements	(8,126)	(6,668)
Employer contributions	8,830	7,741
Increase due to business combination	-	133
Decrease due to transfer of business	-	(1,488)
Benefits paid	(80,292)	(74,868)
Managing cost	(1,641)	(1,288)
Others	(595)	442
At September 30	1,904,557	1,502,032

- (f) The principal actuarial assumptions used as of September 30, 2016 and December 31, 2015, are as follows:

	September 30, 2016	December 31, 2015
Weighted average of discount rate of the Group	2.1%	2.7%
Weighted average of expected salary growth rate of the Group	6.1%	6.1%

As of September 30, 2016, the discount rates applied to the Parent Company and subsidiaries are between 0.6%~9.4% (2015: 0.6%~9.4%), and the expected salary growth rates are between 1.0%~11.0% (2015: 1.0%~11.0%).

LG Electronics

Notes to the Consolidated Interim Financial Statements

September 30, 2016 and 2015(Unaudited), and December 31, 2015

- (g) The sensitivity analysis of the defined benefit obligation to changes in principal assumptions as of September 30, 2016, is as follows:

<i>(in millions of Korean won)</i>	1%p increase	1%p decrease
Discount rate	(276,969)	322,103
Expected salary growth rate	305,192	(275,307)

The above sensitivity analyses 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 calculating the defined benefit obligations.

Defined Contribution Plan

Recognized expense related to the defined contribution plan during the nine-month period ended September 30, 2016, amounts to ₩7,387 million (2015: ₩6,524 million).

13. Provisions

Changes in provisions for the nine-month periods ended September 30, 2016 and 2015, are as follows:

	2016				
<i>(in millions of Korean won)</i>	Warranty	Sales returns	Restoration	Litigation and others	Total
At January 1, 2016	569,101	57,063	16,163	1,007,963	1,650,290
Additions	991,429	174,863	10,920	108,155	1,285,367
Utilization	(919,302)	(192,340)	(2,080)	(134,930)	(1,248,652)
Exchange differences	(17,860)	(2,563)	(724)	(1,615)	(22,762)
At September 30, 2016	623,368	37,023	24,279	979,573	1,664,243
Current	577,508	37,023	4,495	21,902	640,928
Non-current	45,860	-	19,784	957,671	1,023,315
	2015				
<i>(in millions of Korean won)</i>	Warranty	Sales returns	Restoration	Litigation and others	Total
At January 1, 2015	663,239	69,941	13,409	969,115	1,715,704
Additions	548,580	171,256	5,381	129,455	854,672
Utilization	(609,553)	(182,716)	(2,039)	(46,170)	(840,478)
Exchange differences	(6,733)	(164)	136	(11,430)	(18,191)
At September 30, 2015	595,533	58,317	16,887	1,040,970	1,711,707
Current	540,734	58,317	326	1,754	601,131
Non-current	54,799	-	16,561	1,039,216	1,110,576

LG Electronics

Notes to the Consolidated Interim Financial Statements

September 30, 2016 and 2015(Unaudited), and December 31, 2015

14. Paid-in Capital

- (a) As of September 30, 2016 and December 31, 2015, the number of shares authorized is 600 million.

	Par value per share	September 30, 2016		December 31, 2015	
		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 September 30, 2016, 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 Parent Company's capital of ₩783,961 million and less the Parent 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 (merger with LG IBMPC Co., Ltd.) and the exercise of conversion right and warrants 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.

15. Retained Earnings

Retained earnings as of September 30, 2016 and December 31, 2015, consist of:

<i>(in millions of Korean won)</i>	September 30, 2016	December 31, 2015
Legal reserve ¹	167,767	160,478
Discretionary reserve	4,805,354	5,317,480
Unappropriated retained earnings ²	4,221,843	3,538,588
Total	9,194,964	9,016,546

¹ The above legal reserve is profit reserve, and the Commercial Code of the Republic of Korea requires the Parent Company to appropriate 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.

² Dividend for the year ended December 31, 2015, of ₩72,885 million was approved at the annual general meeting held on March 18, 2016, and paid in April 2016 (2015 payments: ₩72,885 million).

LG Electronics

Notes to the Consolidated Interim Financial Statements

September 30, 2016 and 2015(Unaudited), and December 31, 2015

16. Accumulated Other Comprehensive Income(loss)

Accumulated other comprehensive income(loss) as of September 30, 2016 and December 31, 2015, consist of:

<i>(in millions of Korean won)</i>	September 30, 2016	December 31, 2015
Accumulated other comprehensive loss of associates and joint ventures	(183,781)	(57,332)
Cash flow hedge	(93,554)	(52,925)
Available-for-sale financial assets	10,624	10,941
Currency translation differences	(1,380,669)	(1,072,663)
Total	(1,647,380)	(1,171,979)

17. Other Components of Equity

Other components of equity as of September 30, 2016 and December 31, 2015, consist of:

<i>(in millions of Korean won)</i>	September 30, 2016	December 31, 2015
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
Capital transactions within the Group	(176,889)	(177,524)
Total	(209,708)	(210,343)

¹ As of September 30, 2016, the Parent Company has treasury shares consisting of 763,171 ordinary shares (December 31, 2015: 763,171 shares) and 4,690 preferred shares (December 31, 2015: 4,690 shares) at the end of the reporting period. The Parent Company intends to either grant these treasury shares to employees and directors as compensation, or to sell them in the future.

18. Net Sales

Details of net sales for the three-month and nine-month periods ended September 30, 2016 and 2015, are as follows:

<i>(in millions of Korean won)</i>	2016		2015	
	Three months	Nine months	Three months	Nine months
Continuing operations:				
Sales of goods	13,034,831	40,008,722	13,809,623	41,295,999
Rendering of services	144,635	395,732	122,137	341,350
Royalty income	44,764	184,808	97,034	311,552
Subtotal	13,224,230	40,589,262	14,028,794	41,948,901
Discontinued operations	-	-	4,193	24,638
Total	13,224,230	40,589,262	14,032,987	41,973,539

LG Electronics

Notes to the Consolidated Interim Financial Statements

September 30, 2016 and 2015(Unaudited), and December 31, 2015

19. Expenses by Nature

Expenses that are recorded by nature for the three-month and nine-month periods ended September 30, 2016 and 2015, consist of:

<i>(in millions of Korean won)</i>	2016		2015	
	Three months	Nine months	Three months	Nine months
Continuing operations:				
Changes in finished goods and work-in-process	(120,329)	(384,345)	(26,163)	(147,434)
Raw materials and merchandise used	8,196,011	24,889,697	8,860,172	26,697,987
Employee benefit expense	1,619,061	4,942,091	1,553,403	4,824,806
Depreciation and amortization	423,137	1,300,026	476,018	1,422,191
Advertising expense	240,486	841,205	273,988	763,340
Promotion expense	168,678	536,219	169,587	480,001
Transportation expense	340,647	1,020,626	370,019	1,084,395
Commission expense	689,793	2,056,657	697,859	2,033,987
Other expenses	1,383,514	4,014,086	1,359,929	3,946,334
Subtotal¹	12,940,998	39,216,262	13,734,812	41,105,607
Discontinued operations	-	-	4,644	27,915
Total	12,940,998	39,216,262	13,739,456	41,133,522

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

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

Details of general operating expenses for the three-month and nine-month periods ended September 30, 2016 and 2015, are as follows:

<i>(in millions of Korean won)</i>	2016		2015	
	Three months	Nine months	Three months	Nine months
Continuing operations:				
Salaries	699,195	2,162,540	680,179	2,120,695
Post-employment benefits	72,576	189,200	50,304	153,910
Employee benefits	149,186	453,695	155,288	447,049
Freight expense	337,490	1,010,167	366,215	1,073,968
Rental expense	110,823	334,023	110,209	324,778
Commission expense	504,475	1,481,943	511,664	1,478,982
Depreciation	61,134	189,198	68,370	209,134
Amortization	49,168	148,460	50,947	152,076
Taxes and dues	38,743	105,075	44,207	110,341
Advertising expense	240,486	841,205	273,988	763,340
Promotional expense	168,678	536,219	169,587	480,001
R&D expense	89,016	261,581	98,144	288,230
Service costs	356,565	829,250	194,028	485,562

LG Electronics

Notes to the Consolidated Interim Financial Statements

September 30, 2016 and 2015(Unaudited), and December 31, 2015

<i>(in millions of Korean won)</i>	2016		2015	
	Three months	Nine months	Three months	Nine months
Bad debts expense	(16,047)	(24,558)	2,576	24,202
Other	164,273	508,150	189,166	584,596
Subtotal	3,025,761	9,026,148	2,964,872	8,696,864
Discontinued operations	-	-	1,521	4,131
Total	3,025,761	9,026,148	2,966,393	8,700,995

21. Financial Income

Financial income for the three-month and nine-month periods ended September 30, 2016 and 2015, consists of:

<i>(in millions of Korean won)</i>	2016		2015	
	Three months	Nine months	Three months	Nine months
Continuing operations:				
Interest income	23,061	70,873	24,101	68,904
Foreign exchange gain	58,490	237,613	143,777	338,346
Gain on derivatives	958	2,961	325	2,357
Other	27	82	61	79
Subtotal	82,536	311,529	168,264	409,686
Discontinued operations	-	-	-	-
Total	82,536	311,529	168,264	409,686

22. Financial Expenses

Financial expenses for the three-month and nine-month periods ended September 30, 2016 and 2015, consist of:

<i>(in millions of Korean won)</i>	2016		2015	
	Three months	Nine months	Three months	Nine months
Continuing operations:				
Interest expense	102,911	318,386	119,424	342,297
Foreign exchange loss	83,327	289,522	107,470	307,553
Loss on derivatives	132	1,352	1,236	1,656
Loss on disposal of trade receivables	2,883	10,429	4,614	17,700
Other	160	1,081	547	6,455
Subtotal	189,413	620,770	233,291	675,661
Discontinued operations	-	-	-	-
Total	189,413	620,770	233,291	675,661

LG Electronics

Notes to the Consolidated Interim Financial Statements

September 30, 2016 and 2015(Unaudited), and December 31, 2015

23. Other Non-operating Income

Other non-operating income for the three-month and nine-month periods ended September 30, 2016 and 2015, consists of:

<i>(in millions of Korean won)</i>	2016		2015	
	Three months	Nine months	Three months	Nine months
Continuing operations:				
Dividend income	-	286	-	775
Exchange differences	312,648	1,239,217	637,416	1,324,923
Gain on derivatives	905	13,194	38,542	58,863
Gain on disposal of property, plant and equipment	3,946	12,947	6,757	12,781
Gain on disposal of intangible assets	-	-	-	73
Gain on disposal of investment property	-	7,903	-	-
Gain on disposal of available-for-sale financial assets	50	50	-	7,297
Gain on disposal of investments in associates and joint ventures	-	-	-	21,685
Gain on transfer of business	-	-	13,045	13,045
Other	35,772	55,379	(29,341)	28,120
Subtotal	353,321	1,328,976	666,419	1,467,562
Discontinued operations	-	-	138	2,028
Total	353,321	1,328,976	666,557	1,469,590

24. Other Non-operating Expenses

Other non-operating expenses for the three-month and nine-month periods ended September 30, 2016 and 2015, consist of:

<i>(in millions of Korean won)</i>	2016		2015	
	Three months	Nine months	Three months	Nine months
Continuing operations:				
Exchange differences	384,954	1,273,938	762,478	1,671,643
Loss on derivatives	8,066	57,005	1,994	21,785
Loss on disposal of property, plant and equipment	4,375	12,316	9,572	24,293
Impairment loss on disposal of property, plant and equipment	47,638	63,399	13,481	29,140
Loss on disposal of intangible assets	3,350	7,896	9,741	21,611
Impairment loss on disposal of available-for-sale financial assets	5,643	6,001	3,776	3,776
Other	47,708	138,811	53,408	161,852
Subtotal	501,734	1,559,366	854,450	1,934,100
Discontinued operations	-	-	298	2,008
Total	501,734	1,559,366	854,748	1,936,108

LG Electronics

Notes to the Consolidated Interim Financial Statements

September 30, 2016 and 2015(Unaudited), and December 31, 2015

25. Earnings per Share

The Group 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 three-month and nine-month periods ended September 30, 2016 and 2015, is as follows:

	2016		2015	
	Three months	Nine months	Three months	Nine months
Profit attributable to ordinary shares (in millions of Korean won)	(56,291)	360,899	75,522	246,405
Continuing operations	(56,291)	360,899	75,803	248,740
Discontinued operations	-	-	(281)	(2,335)
Weighted average number of ordinary shares outstanding	162,884,643 shares	162,884,643 shares	162,884,643 shares	162,884,643 shares
Basic earnings per ordinary share (in Korean won)	(345)	2,216	464	1,513
Continuing operations	(345)	2,216	465	1,527
Discontinued operations	-	-	(1)	(14)

(b) Basic earnings(loss) per preferred share for the three-month and nine-month periods ended September 30, 2016 and 2015, is as follows:

	2016		2015	
	Three months	Nine months	Three months	Nine months
Profit attributable to preferred shares (in millions of Korean won)	(5,722)	38,713	8,182	26,636
Continuing operations	(5,722)	38,713	8,211	26,882
Discontinued operations	-	-	(29)	(246)
Weighted average number of preferred shares outstanding	17,181,302 shares	17,181,302 shares	17,181,302 shares	17,181,302 shares
Basic earnings per preferred share (in Korean won)	(333)	2,253	477	1,551
Continuing operations	(333)	2,253	478	1,565
Discontinued operations	-	-	(1)	(14)

LG Electronics

Notes to the Consolidated Interim Financial Statements

September 30, 2016 and 2015(Unaudited), and December 31, 2015

26. Cash Flow Information

Cash flows from operating activities are prepared using the indirect method. Details of cash generated from operations for the nine-month periods ended September 30, 2016 and 2015, are as follows:

(a) Cash generated from operations

<i>(in millions of Korean won)</i>	2016	2015
Profit for the period	385,057	389,573
Adjustments:		
Interest expense, net	247,513	273,393
Foreign exchange loss, net	57,542	91,017
Loss(gain) on derivatives, net	42,202	(37,779)
Depreciation	1,002,331	1,139,994
Amortization	313,804	308,926
Loss on disposal of property, plant and equipment, intangible assets, net	7,265	33,050
Provisions for severance benefits	302,020	285,788
Provisions	1,285,367	854,672
Income tax expense	419,762	80,324
Loss(gain) from equity method	28,550	(361,691)
Other	265,340	214,442
Profit from discontinued operations	-	(1,566)
	<u>3,971,696</u>	<u>2,880,570</u>
Increase in trade receivables	(73,618)	(194,904)
Decrease in loans and other receivables	215,083	21,127
Increase in inventories	(1,055,359)	(324,608)
Increase in other assets	(286,385)	(134,384)
Increase in trade payables	1,199,437	252,521
Decrease in other payables	(217,419)	(357,777)
Decrease in provisions	(1,248,652)	(797,302)
Increase in other liabilities	214,864	327,808
Payment of defined benefit liability	(39,685)	(31,208)
Deposit in plan assets, net	(36,960)	(34,630)
	<u>(1,328,694)</u>	<u>(1,273,357)</u>
Cash generated from operations	<u>3,028,059</u>	<u>1,996,786</u>

LG Electronics

Notes to the Consolidated Interim Financial Statements

September 30, 2016 and 2015(Unaudited), and December 31, 2015

(b) Significant non-cash transactions:

<i>(in millions of Korean won)</i>	2016	2015
Reclassification of construction-in-progress of property, plant and equipment	442,094	692,268
Reclassification of intangible assets in progress	159,424	204,139
Reclassification of other assets to intangible assets	84,974	74,813
Reclassification of current maturities of borrowings and debentures	1,092,945	979,376
Other payables to acquire property, plant and equipment	271,942	78,797
Other payables to acquire intangible assets	6,448	7,351

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

- Transfer of Display Driver-IC design business

- i) On July 1, 2015, the assets and workforce of Display Driver-IC design business were transferred to Silicon Works Co., Ltd.
- ii) Total consideration received, and the assets and liabilities of the transferred business are as follows:

<i>(in millions of Korean won)</i>	Amount
Total consideration	
Cash and cash equivalents	22,010
Assets of the transferred business:	
Trade receivables and other receivables	8,199
Inventories	12,276
Property, plant and equipment and intangible assets	670
Other assets	24
Liabilities of the transferred business:	
Trade payables and other payables	11,760
Other liabilities	7
Net defined benefit liabilities	437

- Transfer of LG INNOTEK (FUZHOU) CO.,LTD.

- i) The Group transferred LG INNOTEK (FUZHOU) CO.,LTD., a subsidiary of the Group, to Yinoute Electronics HK on October 26, 2015.
- ii) Total consideration received, and the assets and liabilities arising from the transfer of business are as follows:

<i>(in millions of Korean won)</i>	Amount
Total consideration	
Cash and cash equivalents	5,158
Other receivables	6,457
Assets of the transferred business:	
Property, plant and equipment and intangible assets	11,568

LG Electronics

Notes to the Consolidated Interim Financial Statements

September 30, 2016 and 2015(Unaudited), and December 31, 2015

- Transfer of Hi Logistics Co., Ltd. and its subsidiaries

- i) The Group transferred Hi Logistics Co., Ltd. and its subsidiaries, leading logistics management services business, to Pantos Logistics Co., Ltd. on November 2, 2015.
- ii) Total consideration received, and the assets and liabilities arising from the transfer of business are as follows:

<i>(in millions of Korean won)</i>	Amount
Total consideration	
Cash and cash equivalents	105,400
Assets of the transferred business:	
Cash and cash equivalents	19,701
Trade receivables and other receivables	50,993
Inventories	67
Property, plant and equipment and intangible assets	32,970
Other assets	3,475
Liabilities of the transferred business:	
Trade payables and other payables	10,741
Net defined benefit liabilities and other liabilities	18,349

Costs of disposal related to transfer of business amounting to ₩527 million was recognized as an expense as incurred.

27. Contingencies

(a) At the end of the reporting period, borrowings are collateralized by property, plant and equipment(land, buildings and machinery) with maximum value of ₩224,913 million (December 31, 2015: ₩242,497 million) and the book value of ₩245,004 million (December 31, 2015: ₩259,984 million). In addition, buildings held by the Group are provided to Nonghyup Bank and others, as creditors of land, in order to guarantee obligations of landlords with maximum value of ₩9,120 million (December 31, 2015: ₩6,850 million) and the book value of ₩346 million (December 31, 2015: ₩606 million). Furthermore, pledge is established on available-for-sale financial assets of some of subsidiaries.

(b) At the end of the reporting period, the Parent Company and domestic subsidiaries are provided with guarantees of ₩208,566 million (December 31, 2015: ₩155,194 million) from Seoul Guarantee Insurance and others relating to the performance guarantees. The Parent Company is provided with guarantee of principal USD 200 million (December 31, 2015: USD 200 million) and interests from Shinhan Bank for the guaranteed private placement bonds.

(c) At the end of the reporting period, the financial guarantee provided by the Parent Company to external parties other than subsidiaries amounts to USD 24 million (December 31, 2015: USD 24 million). The Parent Company is providing Hana Bank with a payment guarantee for customers of up to ₩66,000 million (December 31, 2015: ₩66,000 million).

(d) In December 2012, the European Commission imposed a penalty on the Parent Company for

LG Electronics

Notes to the Consolidated Interim Financial Statements

September 30, 2016 and 2015(Unaudited), and December 31, 2015

anti-competitive activities among CRT (Cathode Ray Tube) manufacturers as a result of an investigation. The Parent Company recognized such penalty amounting to EUR 491,567 thousand as expected loss. However, the Parent Company appealed against the decision of the European Commission. The ultimate amount of loss resulting from the investigation may differ from the amount of penalty imposed and could be material. The Parent Company is provided with a performance guarantee of EUR 535,808 thousand from HSBC and others for the above.

In addition, the Parent Company is under investigation and has been named as a defendant in class actions in countries including the United States, Canada and Europe, in connection with the alleged anti-competitive activities among CRT manufacturers. There are also a number of other 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 Group as of the statement of financial position date cannot be presently determined.

At the end of the reporting period, LG Display Co., Ltd., an associate of the Group, has been named as a defendant in a case related to the infringement of patents. In addition, LG Display Co., Ltd. is currently under the investigation and civil suit for anti-competitive activities. The outcome of the case may affect the gain or loss from the equity method valuation. The Group does not have individual responsibility in the case and the investigation above.

At the end of the reporting period, the European Commission imposed a penalty amounting to EUR 37,121 thousand on Hitachi-LG Data Storage Inc. (HLDS), an associate of the Group, for anti-competitive activities among Optical Disk Drive (ODD) manufactures as a result of an investigation. However, HLDS appealed against the decision of the European Commission. The outcome of the investigation may affect gain or loss from equity method valuation. The Group does not have individual responsibility in the case above.

There are pending lawsuits other than above. However, management does not expect the outcome of the litigation will have a material effect on the Group's financial position.

28. Commitments

(a) At the end of the reporting period, the Parent Company has overdraft facility agreements with various banks, including Shinhan Bank, with a limit of ₩165,500 million (December 31, 2015: ₩175,500 million).

In addition, LG Innotek Co., Ltd. has overdraft facility agreements with various banks, including Shinhan Bank, with a limit of ₩27,000 million (December 31, 2015: ₩32,000 million). The total limit of overdrafts and comprehensive limits provided by financial institutions to the overseas subsidiaries of LG Innotek Co., Ltd. is ₩204,666 million (December 31, 2015: ₩224,663 million).

Other overseas subsidiaries have overdraft facility agreements with a limit of ₩1,517,233 million (December 31, 2015: ₩1,339,424 million) with Citibank and others.

LG Electronics

Notes to the Consolidated Interim Financial Statements

September 30, 2016 and 2015(Unaudited), and December 31, 2015

(b) At the end of the reporting period, the Parent Company has sales agreements for export trade receivables with Hana Bank and 22 other banks amounting to ₩2,650,853 million (December 31, 2015: ₩2,872,042 million). The Parent Company has sales agreements for domestic receivables with BTMU amounting to ₩400,000 million (December 31, 2015: ₩300,000 million).

In addition, LG Innotek Co., Ltd. has trade receivables transfer agreements with various banks, including Hana Bank, amounting to ₩222,549 million (December 31, 2015: ₩308,616 million) at the end of the reporting period.

In addition, other subsidiaries transfer their trade receivable to Societe Generale Bank on a revolving basis, for up to USD 224 million (December 31, 2015: USD 284 million), and have sales agreements for trade receivables with a limit of USD 390 million (December 31, 2015: USD 190 million) with BTMU. In addition, other subsidiaries have entered into corporate electronic settlement services contracts and discount note agreements with Shinhan Bank and others with a limit of ₩26,000 million (December 31, 2015: ₩26,000 million) in connection with the collection of the trade receivables.

(c) At the end of the reporting period, the Parent Company has corporate electronic settlement services contracts and win-win payment services contracts with Shinhan Bank and seven other banks for up to ₩1,182,000 million (December 31, 2015: ₩1,320,000 million) which guarantee the payment of trade accounts payable in case the suppliers sell their trade receivables.

In addition, LG Innotek Co., Ltd. and its subsidiaries have provided payment guarantees to financial institutions, including Woori Bank, amounting to ₩145,578 million (December 31, 2015: ₩165,032 million) in connection with the discounting of notes which are paid to their suppliers.

In addition, other subsidiaries have contract arrangements such as corporate electronic settlement services contracts and note discount agreements with Shinhan Bank and other banks for up to ₩54,000 million limit (December 31, 2015: ₩56,000 million) to guarantee the payment of trade accounts payable.

(d) LG Innotek Co., Ltd., a subsidiary, has an agreement for underwriting commercial paper with a limit of ₩30,000 million (December 31, 2015: ₩40,000 million).

In addition, other subsidiaries have commercial paper agreements with Shinhan Bank and others for ₩40,000 million (December 31, 2015: ₩40,000 million).

(e) At the end of the reporting period, the Group has other trade financing agreements and loan commitments with financial institutions, including Shinhan Bank of up to ₩4,340,523 million (December 31, 2015: ₩4,620,485 million).

LG Electronics

Notes to the Consolidated Interim Financial Statements

September 30, 2016 and 2015(Unaudited), and December 31, 2015

(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>	September 30, 2016	December 31, 2015
Property, plant and equipment	635,287	670,641
Intangible assets	28,234	4,028
Total	663,521	674,669

(g) Operating lease commitments – the Group 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>	September 30, 2016			Total lease payments
	Within 1 year	1 to 5 years	Over 5 years	
Land	237	924	1,294	2,455
Buildings	212,653	315,896	42,683	571,232
Vehicles	27,528	32,279	-	59,807
Equipment and others	17,836	14,865	-	32,701
Total	258,254	363,964	43,977	666,195

- ii) Lease payment under operating lease recognized in the consolidated statement of income for the nine-month period ended September 30, 2016, is ₩253,779 million (2015: ₩239,466 million).
- iii) As of September 30, 2016, total future minimum sublease receipts under non-cancellable sublease agreements for some buildings amount to ₩15,732 million, and lease income related to the sublease for the nine-month period ended September 30, 2016, amounts to ₩7,787 million (2015: ₩7,339 million).

(h) Operating lease commitments – the Group as lessor

- i) The Group has non-cancellable operating lease agreements regarding healthcare rental business that lends water purifiers to customers, and real estate rentals. 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>	September 30, 2016			Total lease payments
	Within 1 year	1 to 5 years	Over 5 years	
Healthcare rental	105,867	153,873	-	259,740
Real estate rental	2,949	1,473	584	5,006
Total	108,816	155,346	584	264,746

LG Electronics

Notes to the Consolidated Interim Financial Statements

September 30, 2016 and 2015(Unaudited), and December 31, 2015

- ii) The Group recognized ₩82,200 million (2015: ₩73,759 million) in lease income for the nine-month period ended September 30, 2016.

- (i) Finance lease commitments – the Group as lessee

At the end of the reporting period, the Group has entered into a finance lease agreement for vehicle lease and has recognized related assets and liabilities in the consolidated statements of financial position. Net book value of the leased assets amounts to ₩5,615 million, and the present value of the finance lease liabilities amounts to ₩2,651 million.

As of September 30, 2016, future minimum lease payments under the finance lease agreement are as follows:

<i>(in millions of Korean won)</i>	September 30, 2016		December 31, 2015	
	Gross investment	PV of minimum lease payments	Gross investment	PV of minimum lease payments
Within 1 year	1,601	1,495	1,663	1,551
1 to 5 years	1,210	1,156	1,682	1,579
Total	2,811	2,651	3,345	3,130

- (j) Trademark license commitments

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

Purpose	Related products	Provided by	Used by
Use of license	Mobile/LED	Qualcomm Incorporated and others	The Group
Provision of license	Home appliance/LED	The Group	Panasonic Corporation and others

LG Electronics

Notes to the Consolidated Interim Financial Statements

September 30, 2016 and 2015(Unaudited), and December 31, 2015

29. Related Party

(a) Major transactions for the nine-month periods ended September 30, 2016 and 2015, and balances of receivables and payables from transaction with related parties as of September 30, 2016 and December 31, 2015, are as follows:

i) Major income and expense transactions with related parties

(in millions of Korean won)

Classification	Name	2016					
		Income transactions			Expense transactions		
		Sales	Others	Total	Purchases	Others	Total
Significantly influencing the Group	LG Corp.	1,237	-	1,237	-	105,770	105,770
Associates	LG Display Co., Ltd. and its subsidiaries	970,229	-	970,229	3,661,609	25,773	3,687,382
	Ericsson-LG Co., Ltd. and its subsidiaries	6,070	-	6,070	3,462	-	3,462
	Hitachi-LG Data Storage Inc. and its subsidiaries	828	253	1,081	88,312	1	88,313
	LG Fuel Cell Systems Inc. and its subsidiaries	450	737	1,187	39	-	39
	Korea Information Certificate Authority Inc.	-	-	-	-	1	1
	Hi Logistics (China) Co., Ltd.	210	-	210	-	40,072	40,072
	Subtotal	977,787	990	978,777	3,753,422	65,847	3,819,269
Joint ventures	Arcelik-LG Klima Sanayi ve Ticaret A.S.(LGEAT)	41,748	-	41,748	33,796	-	33,796
	LG Holdings (HK) Ltd. and its subsidiaries	-	-	-	-	2,125	2,125
	EIC PROPERTIES PTE LTD.	-	-	-	-	644	644
	LG-MRI LLC	168	-	168	8,311	-	8,311
	Subtotal	41,916	-	41,916	42,107	2,769	44,876
Other related parties	LG CNS Co., Ltd. and its subsidiaries	48,518	-	48,518	154,791	277,489	432,280
	SERVEONE Co., Ltd. and its subsidiaries	51,683	-	51,683	1,028,231	111,679	1,139,910
	LG Siltron Incorporated and its subsidiaries	3,544	-	3,544	9	-	9
	LUSEM CO., LTD.	30,837	-	30,837	1,708	47	1,755
	LG Management Development Institute	19	-	19	23	22,742	22,765
	LG SPORTS Ltd.	31	-	31	-	9,391	9,391
	LG MMA Ltd.	538	-	538	34	-	34
	LG Holdings Japan Co., Ltd.	14	-	14	-	2,806	2,806
Subtotal	135,184	-	135,184	1,184,796	424,154	1,608,950	
Total	1,156,124	990	1,157,114	4,980,325	598,540	5,578,865	

LG Electronics

Notes to the Consolidated Interim Financial Statements

September 30, 2016 and 2015(Unaudited), and December 31, 2015

(in millions of Korean won)

		2015					
Classification	Name	Income transactions			Expense transactions		
		Sales	Others	Total	Purchases	Others	Total
Significantly influencing the Group	LG Corp.	834	-	834	-	110,349	110,349
Associates	LG Display Co., Ltd. and its subsidiaries	727,010	54,050	781,060	4,237,949	8,851	4,246,800
	Ericsson-LG Co., Ltd. and its subsidiaries	7,129	-	7,129	3,894	-	3,894
	Hitachi-LG Data Storage Inc. and its subsidiaries	12,986	-	12,986	93,616	74	93,690
	LG Fuel Cell Systems Inc. and its subsidiaries	48	-	48	-	-	-
	Korea Information Certificate Authority Inc.	-	-	-	-	1	1
	Subtotal	747,173	54,050	801,223	4,335,459	8,926	4,344,385
Joint ventures	Arcelik-LG Klima Sanayi ve Ticaret A.S.(LGEAT)	46,663	-	46,663	52,593	-	52,593
	LG Holdings (HK) Ltd. and its subsidiaries	-	-	-	-	2,320	2,320
	EIC PROPERTIES PTE LTD.	-	-	-	-	629	629
	Subtotal	46,663	-	46,663	52,593	2,949	55,542
Other related parties	LG CNS Co., Ltd. and its subsidiaries	52,531	-	52,531	108,564	290,119	398,683
	SERVEONE Co., Ltd. and its subsidiaries	31,438	-	31,438	814,575	118,264	932,839
	LG Siltron Incorporated and its subsidiaries	5,232	-	5,232	6	-	6
	LUSEM CO., LTD.	37,902	-	37,902	6,492	268	6,760
	LG Management Development Institute	171	-	171	130	22,955	23,085
	LG SPORTS Ltd.	22	-	22	-	9,802	9,802
	LG MMA Ltd.	591	-	591	156	1	157
	LG Holdings Japan Co., Ltd.	13	-	13	-	2,391	2,391
	Subtotal	127,900	-	127,900	929,923	443,800	1,373,723
	Total	922,570	54,050	976,620	5,317,975	566,024	5,883,999

LG Electronics
Notes to the Consolidated Interim Financial Statements
September 30, 2016 and 2015(Unaudited), and December 31, 2015

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

(in millions of Korean won)

		September 30, 2016							
Classification	Name	Receivables				Payables			
		Trade receivables	Loans	Other receivables	Total	Trade payables	Borrowings	Other payables	Total
Significantly influencing the Group	LG Corp.	275	-	28,885	29,160	-	-	52	52
Associates	LG Display Co., Ltd. and its subsidiaries	469,939	-	4,597	474,536	992,426	-	89,570	1,081,996
	Ericsson-LG Co., Ltd. and its subsidiaries	5	-	251	256	774	-	-	774
	Hitachi-LG Data Storage Inc. and its subsidiaries ¹	-	-	71	71	26,533	-	3	26,536
	LG Fuel Cell Systems Inc. and its subsidiaries ¹	292	13,199	696	14,187	-	-	-	-
	Hi Logistics (China) Co., Ltd.	-	-	1	1	-	-	870	870
	Subtotal	470,236	13,199	5,616	489,051	1,019,733	-	90,443	1,110,176
Joint ventures	Arcelik-LG Klima Sanayi ve Ticaret A.S.(LGEAT)	5,102	-	411	5,513	3,935	-	4	3,939
	LG Holdings (HK) Ltd. and its subsidiaries	-	-	-	-	-	-	1,322	1,322
	EIC PROPERTIES PTE LTD.	-	-	-	-	-	-	69	69
	LG-MRI LLC	172	-	-	172	4,550	-	-	4,550
	Subtotal	5,274	-	411	5,685	8,485	-	1,395	9,880
Other related parties	LG CNS Co., Ltd. and its subsidiaries	18,756	-	431	19,187	36,010	-	93,451	129,461
	SERVEONE Co., Ltd. and its subsidiaries	10,818	-	60,829	71,647	362,978	-	88,804	451,782
	LG Siltron Incorporated and its subsidiaries	886	-	-	886	-	-	112	112
	LUSEM CO., LTD.	7,167	-	-	7,167	373	-	2	375
	LG Management Development Institute	-	-	17,864	17,864	-	-	2,507	2,507
	LG SPORTS Ltd.	-	-	-	-	-	-	980	980
	LG MMA Ltd.	298	-	-	298	14	-	-	14
	LG Holdings Japan Co., Ltd.	-	-	4,131	4,131	-	-	-	-
	Subtotal	37,925	-	83,255	121,180	399,375	-	185,856	585,231
	Total	513,710	13,199	118,167	645,076	1,427,593	-	277,746	1,705,339

¹ During the period, the Group recognized additional equity method loss of ₩22,695 million for loans of Hitachi-LG Data Storage Inc. and others.

LG Electronics
Notes to the Consolidated Interim Financial Statements
September 30, 2016 and 2015(Unaudited), and December 31, 2015

(in millions of Korean won)

		December 31, 2015							
Classification	Name	Receivables				Payables			
		Trade receivables	Loans	Other receivables	Total	Trade payables	Borrowings	Other payables	Total
Significantly influencing the Group	LG Corp.	8	-	30,352	30,360	-	-	593	593
Associates	LG Display Co., Ltd. and its subsidiaries	197,862	-	40,168	238,030	1,004,655	-	35,697	1,040,352
	Ericsson-LG Co., Ltd. and its subsidiaries	5	-	330	335	897	-	150	1,047
	Hitachi-LG Data Storage Inc. and its subsidiaries	-	-	54	54	26,723	-	3	26,726
	LG Display Co., Ltd. and its subsidiaries	-	14,111	224	14,335	-	-	-	-
	Ericsson-LG Co., Ltd. and its subsidiaries	-	-	104	104	-	-	10,232	10,232
	Subtotal	197,867	14,111	40,880	252,858	1,032,275	-	46,082	1,078,357
Joint ventures	Arcelik-LG Klima Sanayi ve Ticaret A.S.(LGEAT)	6,227	-	1,734	7,961	2,497	-	2	2,499
	LG Holdings (HK) Ltd. and its subsidiaries	-	-	-	-	-	-	1,534	1,534
	EIC PROPERTIES PTE LTD.	-	-	-	-	-	-	71	71
	Subtotal	6,227	-	1,734	7,961	2,497	-	1,607	4,104
Other related parties	LG CNS Co., Ltd. and its subsidiaries	7,744	-	755	8,499	21,493	-	200,068	221,561
	SERVEONE Co., Ltd. and its subsidiaries	9,753	-	60,865	70,618	264,625	-	69,436	334,061
	LG Siltron Incorporated and its subsidiaries	941	-	-	941	-	-	2,502	2,502
	LUSEM CO., LTD.	6,055	-	-	6,055	364	-	2	366
	LG Management Development Institute	-	-	17,864	17,864	8	-	1,094	1,102
	LG SPORTS Ltd.	-	-	-	-	-	-	176	176
	LG MMA Ltd.	41	-	-	41	-	-	9	9
	LG Holdings Japan Co., Ltd.	-	-	3,706	3,706	-	-	-	-
	Subtotal	24,534	-	83,190	107,724	286,490	-	273,287	559,777
	Total	228,636	14,111	156,156	398,903	1,321,262	-	321,569	1,642,831

LG Electronics
Notes to the Consolidated Interim Financial Statements
September 30, 2016 and 2015(Unaudited), and December 31, 2015

- iii) Significant capital transactions with related parties and others for the nine-month periods ended September 30, 2016 and 2015, are as follows:

(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 Group	-	22,038	-	-	-	-	-
LG Corp.	-	22,038	-	-	-	-	-
LG Display Co., Ltd.	67,813	-	-	-	-	-	-
Ericsson-LG Co., Ltd.	3,750	-	-	-	-	-	-
Associates	70	-	-	-	-	-	-
Korea Information Certificate Authority Inc.	70	-	-	-	-	-	-
Hitachi-LG Data Storage Inc.(HLDS)	-	-	40,066	22,772	-	-	-
LG Fuel Cell Systems Inc.	-	-	25,324	-	-	-	-
Total	71,633	22,038	65,390	22,772	-	-	-

(in millions of Korean won)

Classification Name	2015						
	Dividend income	Dividend paid	Cash distribution (reduction)	Financing loan transactions		Financing borrowing transactions	
				Loans	Collections	Borrowings	Repayments
Significantly influencing the Group	-	22,038	-	-	-	-	-
LG Corp.	-	22,038	-	-	-	-	-
LG Display Co., Ltd.	67,813	-	-	-	-	-	-
Ericsson-LG Co., Ltd.	3,250	-	-	-	-	-	-
Associates	60	-	-	-	-	-	-
Korea Information Certificate Authority Inc.	60	-	-	-	-	-	-
LG Fuel Cell Systems Inc.	-	-	-	7,191	-	-	-
Total	71,123	22,038	-	7,191	-	-	-

- (b) The compensation paid or payable to key management personnel for the nine-month periods ended September 30, 2016 and 2015, consist of:

(in millions of Korean won)

	2016	2015
Wages and salaries	12,222	15,226
Post-employment benefits	3,252	4,969
Other long-term benefits	118	84
Total	15,592	20,279

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

- (c) There is no payment guarantee provided by the Group for the financial support of the related

LG Electronics

Notes to the Consolidated Interim Financial Statements

September 30, 2016 and 2015(Unaudited), and December 31, 2015

parties other than subsidiaries at the end of the reporting period.

- (d) There is no collateral provided by the Group for the financial support of related parties at the end of the reporting period.
- (e) The Group has not recognized any bad debt expense or allowance for trade receivables from related parties at the end of the reporting period.

30. Risk Management

Financial Risk Management

The Group'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 Group to enhance cost competitiveness through cost-efficient financing cost by improving financial structure and effective cash management.

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

The Group anticipatively and systematically manages the financial risks over global business activities through its four overseas treasury centers in New Jersey (United States), Amsterdam (Netherlands), Beijing (China), and Singapore in coordination with the finance FD in the Parent Company. And it also helps to improve overseas subsidiaries' business competitiveness by performing integration of their finance functions.

The Group 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 5 and Note 11, respectively.

(a) Market risk

i) Foreign exchange risk

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

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 Group's foreign exchange risk management is implemented under its own foreign exchange policy through which the Group can minimize the exposure to foreign exchange risk by preferentially making equal amount of foreign exchange assets and liabilities from general

LG Electronics

Notes to the Consolidated Interim Financial Statements

September 30, 2016 and 2015(Unaudited), and December 31, 2015

operating activities. And the Group 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 September 30, 2016 and December 31, 2015, 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>	September 30, 2016		December 31, 2015	
	10% increase	10% decrease	10% increase	10% decrease
USD/KRW	26,335	(26,335)	19,679	(19,679)
EUR/KRW	32,762	(32,762)	49,706	(49,706)

ii) Interest rate risk

The Group is exposed to interest rate risk through changes in interest-bearing liabilities or assets. The risk mainly arises from borrowings and financial deposits 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 Group minimizes its borrowings from others and optimizes its deposits by expanding internal finance sharing. The Group periodically establishes the plan for reaction by the monitoring trends of internal and external interest rates, and minimizes the risk of net interest expense by properly operating short-term borrowings with variable interest rates and deposits.

As of September 30, 2016 and 2015, if interest rates fluctuate by 1% without other variables changing, the effects on income and expenses related to borrowings and financial deposits with variable interest rates for the nine-month periods ended September 30, 2016 and 2015, are as follows:

<i>(in millions of Korean won)</i>	2016		2015	
	1%p increase	1%p decrease	1%p increase	1%p decrease
Interest income	25,407	(25,407)	21,404	(21,404)
Interest expense	3,377	(3,377)	5,351	(5,351)

iii) Details of derivatives contracts are as follows:

Hedging purposes

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

LG Electronics

Notes to the Consolidated Interim Financial Statements

September 30, 2016 and 2015(Unaudited), and December 31, 2015

September 30, 2016	Contractor	Contracted amount (in millions)	Contracted currency rate	Interest rate (received)	Interest rate (paid)	Starting date	Expiration date
USD/KRW CRS	Shinhan Bank and others	USD400	1,052.1 ~ 1,113.6	3ML+1.30 ~3ML+1.60	3.22 ~ 3.42	2013.07.31 ~ 2013.12.19	2017.06.19 ~ 2019.01.31
CHF/KRW CRS	BNP PARIBAS and others	CHF215	1,213.6	2.00	3.64 ~ 3.74	2012.07.02	2016.12.02
USD/BRL CRS	Standard Chartered and others	USD120	3.2900 ~ 3.6450	1.30 ~ 2.54	11.95 ~ 13.50	2016.03.15 ~ 2016.07.07	2016.12.29 ~ 2017.06.29
KRW Interest rate swap	Woori Bank and others	KRW 1,170,000	-	3M CD+0.82 ~ 3M CD+1.14	3.07 ~ 4.53	2014.01.03 ~ 2015.07.07	2024.01.03 ~ 2030.07.07

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 ₩133,130 million in 2016 (2015: gain on valuation amounting to ₩96,077 million) after applying the tax effect, is recognized in other comprehensive income(loss). The Group has reclassified ₩92,501 million to loss from equity in 2016 (2015: ₩133,862 million to gain from equity). Therefore, other comprehensive loss from cash flow hedges amounts to ₩40,629 million in 2016 (2015: ₩37,785 million) after applying the tax effect.

Trading purposes

The Group entered into the currency forward contracts to manage the risk against possible future changes in foreign exchange rates. The subsidiaries' currency forward contracts as of September 30, 2016, and related profit or loss for the nine-month period ended September 30, 2016, are as follows:

<i>(in millions of Korean won)</i>	Purchase	Sale	Gain on valuation	Gain on transaction
Currency forward	439,007	443,289	6,854	35,348

iv) Price risk

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

The listed securities owned by the Group 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 Group have correlation with the relevant past index.

<i>(in millions of Korean won)</i>	September 30, 2016		December 31, 2015	
	30% increase	30% decrease	30% increase	30% decrease
KOSDAQ	3,474	(3,474)	3,673	(3,673)

LG Electronics

Notes to the Consolidated Interim Financial Statements

September 30, 2016 and 2015(Unaudited), and December 31, 2015

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 Group operates a consistent Global Credit / TR (trade receivables) policy to manage credit risk exposures.

In regard to receivables, the Group operates an integrated receivable insurance program with the world top three receivable insurers (Euler Hermes, Atradius, and Coface) and Korea Trade Insurance Corporation (K-SURE). In an effort to minimize receivable credit risk, the Group applies the credit rating of the counterparty when determining the insurance coverage. In addition, the Group performs stringent credit risk management based on credit valuation criteria for receivables without insurance coverage or collateral.

At the end of reporting period, trade receivable balance of the Group is ₩6,763,319 million (2015: ₩7,237,329 million) and its risk is managed appropriately with insurer's credit limit of ₩28,846,111 million (2015: ₩29,314,676 million). Therefore, the Group estimates credit risk exposure to itself as limited.

At the end of reporting period, the carrying value of financial assets represents net of impairment loss to reflect Group's maximum exposure to the credit risk.

(c) Liquidity risk

The Group forecasts its cash flow and liquidity status, and sets action plans on a regular basis to manage liquidity risk proactively. The Group 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 Group maintains adequate amount of cash and committed credit facilities in Woori Bank, Kookmin Bank, and Shinhan Bank to cope with potential financial distress.

In addition, the Group is able to source funds any time in the domestic and international financial markets as of the end of reporting period because it has good investment credit grades of AA Stable from Korea Investors Service, Korea Ratings and NICE Information Service, BBB Stable from Standard & Poors and Moody's, and Baa3 Stable, respectively, as of September 30, 2016.

LG Electronics

Notes to the Consolidated Interim Financial Statements

September 30, 2016 and 2015(Unaudited), and December 31, 2015

- i) Cash flow information on maturity of financial liabilities as of September 30, 2016, are as follows:

<i>(in millions of Korean won)</i>	Total	Within 1 year	1 to 2 years	3 to 5 years	Over 5 years
Trade payables	6,740,663	6,740,663	-	-	-
Borrowings	10,354,105	2,488,206	939,744	3,609,676	3,316,479
Other payables	2,548,119	2,536,332	5,045	1,442	5,300
Derivative liabilities	4,363	4,363	-	-	-
Total	19,647,250	11,769,564	944,789	3,611,118	3,321,779

The above cash flows are calculated at nominal value based on the earliest maturity dates and include cash flows of principal and interests. The Group's trading portfolio derivative liabilities that are not qualified for hedge accounting have been included at their fair value of ₩4,363 million within the less than 1-year time bucket. This is because the contractual maturities are not essential for an understanding of the timing of the cash flows. These contracts are managed on a net-fair value basis rather than by maturity date. 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 Group to third party companies as of September 30, 2016, are as follows:

<i>(in millions of Korean won)</i>	Total	Within 1 year	1 to 2 years	3 to 5 years	Over 5 years
Financial guarantee contracts	92,722	92,722	-	-	-

The above cash flow is the maximum amount of guarantees allocated to earliest period in which the Group can be required to make payments.

Capital Risk Management

The Group's capital risk management purpose is to maximize shareholders' value through maintaining a sound capital structure. The Group 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 September 30, 2016 and December 31, 2015, are as follows:

<i>(in millions of Korean won, except for ratios)</i>	September 30, 2016	December 31, 2015
Liability (A)	24,707,761	23,330,409
Equity (B)	12,577,795	12,983,487
Cash and cash equivalents and current financial deposits (C)	3,488,547	2,710,156
Borrowings (D)	9,007,725	8,827,250
Debt-to-equity ratio (A/B)	196.4%	179.7%
Net borrowings ratio ((D-C)/B)	43.9%	47.1%

LG Electronics

Notes to the Consolidated Interim Financial Statements

September 30, 2016 and 2015(Unaudited), and December 31, 2015

Fair Value Estimation

- (a) The book values and fair values of the Group's financial assets and liabilities as of September 30, 2016 and December 31, 2015, are as follows:

<i>(in millions of Korean won)</i>	September 30, 2016			
	Current		Non-current	
	Book amount	Fair value	Book amount	Fair value
Assets at fair value				
Financial assets at fair value through profit or loss				
Other financial assets	800	800	-	-
Derivatives for hedging purposes				
Other financial assets	7,567	7,567	-	-
Available-for-sale financial assets				
Other financial assets	-	-	14,917	14,917
Assets at amortized cost				
Loans and other receivables				
Cash and cash equivalents	3,488,547	1	-	-
Financial deposits	80,549	1	61,747	61,747
Trade receivables	6,644,714	1	-	-
Other receivables	409,671	1	474,140	474,397
Held-to-maturity financial assets				
Other financial assets	-	1	117	1
Assets at cost				
Available-for-sale financial assets				
Other financial assets	-	-	39,970	2
Total	10,631,848		590,891	

<i>(in millions of Korean won)</i>	December 31, 2015			
	Current		Non-current	
	Book amount	Fair value	Book amount	Fair value
Assets at fair value				
Financial assets at fair value through profit or loss				
Other financial assets	13,806	13,806	-	-
Derivatives for hedging purposes				
Other financial assets	4,347	4,347	30,287	30,287
Available-for-sale financial assets				
Other financial assets	-	-	16,531	16,531
Assets at amortized cost				
Loans and other receivables				
Cash and cash equivalents	2,710,156	1	-	-
Financial deposits	87,454	1	69,970	69,970
Trade receivables	7,093,352	1	-	-
Other receivables	654,141	1	506,788	497,253

LG Electronics

Notes to the Consolidated Interim Financial Statements

September 30, 2016 and 2015(Unaudited), and December 31, 2015

<i>(in millions of Korean won)</i>	December 31, 2015			
	Current		Non-current	
	Book amount	Fair value	Book amount	Fair value
Held-to-maturity financial assets				
Other financial assets	2,521	¹	117	¹
Assets at cost				
Available-for-sale financial assets				
Other financial assets	-	-	37,875	²
Total	10,565,777		661,568	

<i>(in millions of Korean won)</i>	September 30, 2016			
	Current		Non-current	
	Book amount	Fair value	Book amount	Fair value
Liabilities at fair value				
Financial liabilities at fair value through profit or loss				
Other financial liabilities	4,363	4,363	-	-
Derivatives for hedging purposes				
Other financial liabilities	26,994	26,994	129,336	129,336
Liabilities at amortized cost				
Trade payables	6,740,663	¹	-	-
Borrowings	2,191,886	¹	6,815,839	7,206,153
Other payables	2,535,684	¹	10,315	9,633
Other liabilities				
Other financial liabilities	122	³	229	³
Total	11,499,712		6,955,719	

<i>(in millions of Korean won)</i>	December 31, 2015			
	Current		Non-current	
	Book amount	Fair value	Book amount	Fair value
Liabilities at fair value				
Financial liabilities at fair value through profit or loss				
Other financial liabilities	3,368	3,368	-	-
Derivatives for hedging purposes				
Other financial liabilities	10,184	10,184	69,618	69,618
Liabilities at amortized cost				
Trade payables	6,086,975	¹	-	-
Borrowings	2,326,128	¹	6,501,122	7,064,295
Other payables	2,840,217	¹	13,518	12,555
Other liabilities				
Other financial liabilities	271	³	308	³
Total	11,267,143		6,584,566	

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

LG Electronics

Notes to the Consolidated Interim Financial Statements

September 30, 2016 and 2015(Unaudited), and December 31, 2015

cash flows is significant and the probabilities of the various estimates within the range cannot be reasonably assessed. As of September 30, 2016, 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 prices 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'. Assets or liabilities categorized within 'level 3' include financial instruments such as debt securities.

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. 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 Group 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 Group uses various valuation techniques and makes judgements 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

LG Electronics

Notes to the Consolidated Interim Financial Statements

September 30, 2016 and 2015(Unaudited), and December 31, 2015

specific 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 and others.

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 September 30, 2016 and December 31, 2015, are as follows:

<i>(in millions of Korean won)</i>	September 30, 2016			
	Level 1	Level 2	Level 3	Total
Assets				
Other financial assets				
Available-for-sale financial assets				
- Marketable equity securities	14,917	-	-	14,917
Financial assets at fair value through profit or loss	-	800	-	800
Derivatives for hedging purposes	-	7,567	-	7,567
Liabilities				
Other financial liabilities				
Financial liabilities at fair value through profit or loss	-	4,363	-	4,363
Derivatives for hedging purposes	-	156,330	-	156,330

<i>(in millions of Korean won)</i>	December 31, 2015			
	Level 1	Level 2	Level 3	Total
Assets				
Other financial assets				
Available-for-sale financial assets				
- Marketable equity securities	15,329	-	-	15,329
- Debt securities	-	-	1,202	1,202
Financial assets at fair value through profit or loss	-	13,806	-	13,806
Derivatives for hedging purposes	-	34,634	-	34,634
Liabilities				
Other financial liabilities				
Financial liabilities at fair value through profit or loss	-	3,368	-	3,368
Derivatives for hedging purposes	-	79,802	-	79,802

The above fair value amounts are recurring fair value measurements.

LG Electronics

Notes to the Consolidated Interim Financial Statements

September 30, 2016 and 2015(Unaudited), and December 31, 2015

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.

- 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 September 30, 2016 and December 31, 2015, are as follows:

<i>(in millions of Korean won)</i>	Fair value		Valuation techniques	Inputs
	September 30, 2016	December 31, 2015		
Assets				
Other financial assets				
Financial assets at fair value through profit or loss	800	13,806	Discounted cash flow	Discount rate and exchange rate
Derivatives for hedging purposes	7,567	34,634	Discounted cash flow	Discount rate and exchange rate
Liabilities				
Other financial liabilities				
Financial liabilities at fair value through profit or loss	4,363	3,368	Discounted cash flow	Discount rate and exchange rate
Derivatives for hedging purposes	156,330	79,802	Discounted cash flow	Discount rate and exchange rate

- Fair value measurements categorized within level 3

Changes in financial assets and financial liabilities that are measured at fair value and categorized within level 3 for the nine-month periods ended September 30, 2016 and 2015, are as follows:

<i>(in millions of Korean won)</i>	2016	2015
At January 1	1,202	1,422
Total gain(loss) for the period		
Gain(loss) included in profit for the period ¹	(626)	61
Gain(loss) included in other comprehensive income	5	(14)
Purchase, issue, sales and settlement		
Purchase	-	-
Sale and others	(581)	(87)
At September 30	-	1,382

¹ Gain and loss included in profit for the period are interest income amounting to ₩4 million and impairment loss ₩630 million for the nine-month period ended September 30, 2016 (2015: interest income ₩61 million).

Valuation technique, inputs, and range of significant but unobservable inputs of financial

LG Electronics

Notes to the Consolidated Interim Financial Statements

September 30, 2016 and 2015(Unaudited), and December 31, 2015

instruments that are measured at fair value and categorized within level 3 as of September 30, 2016 and December 31, 2015, are as follows:

<i>(in millions of Korean won)</i>	Fair value		Valuation techniques	Inputs	Significant but unobservable inputs	Range of significant but unobservable inputs
	September 30, 2016	December 31, 2015				
Other financial assets						
Available-for-sale financial assets						
- Debt securities	-	1,202	Discounted cash flow	Discount rate	Discount rate (credit spread)	-

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 September 30, 2016 and December 31, 2015, are as follows:

<i>(in millions of Korean won)</i>	September 30, 2016			
	Level 1	Level 2	Level 3	Total
Assets				
Non-current financial deposits	-	-	61,747	61,747
Non-current other receivables	-	-	474,397	474,397
Liabilities				
Non-current borrowings	-	-	7,206,153	7,206,153
Non-current other payables	-	-	9,633	9,633

<i>(in millions of Korean won)</i>	December 31, 2015			
	Level 1	Level 2	Level 3	Total
Assets				
Non-current financial deposits	-	-	69,970	69,970
Non-current other receivables	-	-	497,253	497,253
Liabilities				
Non-current borrowings	-	-	7,064,295	7,064,295
Non-current other payables	-	-	12,555	12,555

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

As of September 30, 2016, 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 September 30, 2016 and December 31, 2015, are as follows:

LG Electronics

Notes to the Consolidated Interim Financial Statements

September 30, 2016 and 2015(Unaudited), and December 31, 2015

<i>(in millions of Korean won)</i>	September 30, 2016		December 31, 2015		Valuation techniques	Inputs	Significant but unobservable inputs	Range of significant but unobservable inputs
	Carrying amount	Fair value	Carrying amount	Fair value				
Assets								
Non-current financial deposits	61,747	61,747	69,970	69,970	Discounted cash flow	Discount rate and exchange rate	Discount rate	0.1% ~ 2.1%
Non-current other receivables	474,140	474,397	506,788	497,253	Discounted cash flow	Discount rate and exchange rate	Discount rate	2.8% ~ 3.6%
Liabilities								
Non-current borrowings	6,815,839	7,206,153	6,501,122	7,064,295	Discounted cash flow	Discount rate and exchange rate	Discount rate	1.4% ~ 2.6%
Non-current other payables	10,315	9,633	13,518	12,555	Discounted cash flow	Discount rate and exchange rate	Discount rate	1.5% ~ 2.0%

31. Business Combinations

- (a) The Parent Company acquired the Power Conditioning System business from LG U plus Co., Ltd. on February 2, 2015, in order to maximize its market responsiveness by enhancing business capabilities in the Energy Storage System business, the Parent Company's future strategic business.

The following table summarizes the consideration paid and the fair value of assets acquired and liabilities assumed:

<i>(in millions of Korean won)</i>	Amount
Consideration	
Cash and cash equivalents	7,700
Total consideration	7,700
Recognized amounts of identifiable assets acquired and liabilities assumed	
Current assets	
Cash and cash equivalents	9
Trade receivables	66
Non-current assets	
Property, plant and equipment	2,513
Intangible assets	3,907
Non-current liabilities	
Net defined benefit liability	9
Total identifiable net assets	6,486
Goodwill	1,214

The acquisition-related direct costs in relation to business combination amounting to ₩147 million was recognized as an expense as the costs incurred.

- (b) The Group acquired 100% ownership of LPRFIC Oy on July 1, 2015, in order to secure wireless high-frequency integrated circuit technology for modem solutions.

LG Electronics

Notes to the Consolidated Interim Financial Statements

September 30, 2016 and 2015(Unaudited), and December 31, 2015

The following table summarizes the consideration paid and the fair value of assets acquired and liabilities assumed:

<i>(in millions of Korean won)</i>	Amount
Consideration	
Cash and cash equivalents	6,934
Contingent consideration ¹	3,131
Recognized amounts of identifiable assets acquired	
Current assets	
Cash and cash equivalents	3
Non-current assets	
Intangible assets	10,062
Total net assets	10,065

¹ The fair value of consideration, a part of payment for acquisition of shares held by employees of LPRFIC Oy, is contingent on completion of technology, and the nominal amount is ₩3,802 million. ₩1,899 million of contingent consideration was paid in July 2016.

The acquisition-related direct costs in relation to business combination, amounting to ₩214 million was recognized as an expense as the costs incurred.

LG Electronics Finland Lab, Oy(LGEFL), a subsidiary of the Group, merged with LPRFIC Oy on December 31, 2015. The merger does not have an impact on these consolidated financial statements.

- (c) On December 31, 2015, LG Innotek Co., Ltd., a subsidiary of the Group, acquired the metal power inductor business of Changsung Corporation, which excels in magnetic materials manufacturing technique for ₩14,000 million, in order to concentrate on fostering material/device business.

The following table summarizes the consideration paid and the fair value of assets acquired and liabilities assumed:

<i>(in millions of Korean won)</i>	Amount
Consideration ¹	
Cash and cash equivalents	14,000
Recognized amounts of identifiable assets acquired	
Non-current assets	
Property, plant and equipment	8,505
Intangible assets	1,228
Total identifiable net assets	9,733
Goodwill	4,267

¹ Consideration transferred during the measurement period.

The acquisition-related direct cost in relation to business combination amounting to ₩29 million was recognized as an expense as the costs incurred.

LG Electronics

Notes to the Consolidated Interim Financial Statements

September 30, 2016 and 2015(Unaudited), and December 31, 2015

32. Assets Classified as Held for Sale

- (a) Details of assets classified as held for sale as of September 30, 2016 and December 31, 2015, are as follows:

<i>(in millions of Korean won)</i>	September 30, 2016	December 31, 2015
Assets classified as held for sale		
Investment in associates and joint ventures ¹	3,619	3,619

¹ In accordance with the resolution of the Board of Directors dated October 28, 2015, the Group decided to dispose of its entire shareholdings in Hi Logistics (China) Co., Ltd., in which the Group owns 35%, for the purpose of logistics cost reduction and superior customer responsiveness. The sale is expected to be completed in 2016.

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

33. Discontinued Operations

As a result of the decreased demand for PDP TV products, the Group discontinued its operations of the PDP modules and PDP TV on November 30, 2014, in order to focus on its OLED TV and LCD TV division going forward.

- (a) Loss for the period from discontinued operations for the three-month and nine-month periods ended September 30, 2015, consists of:

<i>(in millions of Korean won)</i>	2015	
	Three months	Nine months
Net sales	4,193	24,638
Operating loss	(451)	(3,277)
Loss for the period before income tax benefit	(664)	(3,257)
Income tax benefit	(354)	(682)
Loss for the period, net of tax	(310)	(2,575)

- (b) Cash generated from discontinued operations for the nine-month period ended September 30, 2015, are as follows:

<i>(in millions of Korean won)</i>	2015
Net cash flows from operating activities	84,526
Net cash flows from investing activities	30
Net cash flow from discontinued operations	84,556