

LG Electronics
Consolidated Financial Statements
December 31, 2015 and 2014

LG Electronics

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December 31, 2015 and 2014

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Independent Auditor's Report

(English Translation of a Report Originally Issued in Korean)

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

We have audited the accompanying consolidated financial statements of LG Electronics Inc. and its subsidiaries (collectively the "Group"), which comprise the consolidated statements of financial position as of December 31, 2015 and 2014, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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



Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of December 31, 2015 and 2014, and their financial performance and cash flows for the years then ended in accordance with the Korean IFRS.

Other Matter

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

A handwritten signature in black ink that reads "Samil PricewaterhouseCoopers". The signature is written in a cursive, flowing style.

Seoul, Korea
March 10, 2016

This report is effective as of March 10, 2016, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

LG Electronics
Consolidated Statements of Financial Position
December 31, 2015 and 2014

| <i>(in millions of Korean won)</i> | Note | 2015 | 2014 |
|--|-------------|-------------------|-------------------|
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | 5,6,37 | 2,710,156 | 2,244,406 |
| Financial deposits | 5,6,37 | 87,454 | 67,700 |
| Trade receivables | 5,7,37 | 7,093,352 | 7,683,915 |
| Loans and other receivables | 5,7,37 | 654,141 | 633,219 |
| Other financial assets | 5,8,37 | 20,674 | 11,193 |
| Inventories | 9 | 4,872,676 | 5,711,273 |
| Current income tax assets | | 161,314 | 246,878 |
| Other current assets | 10 | 794,227 | 884,114 |
| Assets held for sale | 39 | 3,619 | - |
| | | <u>16,397,613</u> | <u>17,482,698</u> |
| Non-current assets | | | |
| Financial deposits | 5,6,37 | 69,970 | 94,323 |
| Loans and other receivables | 5,7,37 | 506,788 | 548,564 |
| Other financial assets | 5,8,37 | 84,810 | 56,775 |
| Property, plant and equipment | 11 | 10,460,298 | 10,596,853 |
| Intangible assets | 12 | 1,473,280 | 1,394,336 |
| Deferred income tax assets | 17 | 1,637,796 | 1,573,395 |
| Investments in associates and joint ventures | 13 | 4,841,861 | 4,594,461 |
| Investment property | 14 | 121,271 | 2,699 |
| Other non-current assets | 10 | 720,209 | 724,316 |
| | | <u>19,916,283</u> | <u>19,585,722</u> |
| Total assets | | <u>36,313,896</u> | <u>37,068,420</u> |
| Liabilities | | | |
| Current liabilities | | | |
| Trade payables | 5,37 | 6,086,975 | 6,741,710 |
| Borrowings | 5,15,37 | 2,326,128 | 2,575,550 |
| Other payables | 5,16,37 | 2,847,145 | 3,020,870 |
| Other financial liabilities | 5,8,37 | 13,823 | 6,528 |
| Current income tax liabilities | | 76,575 | 95,963 |
| Provisions | 19 | 575,944 | 714,307 |
| Other current liabilities | 20 | 2,853,101 | 2,525,649 |
| | | <u>14,779,691</u> | <u>15,680,577</u> |
| Non-current liabilities | | | |
| Borrowings | 5,15,37 | 6,501,122 | 6,426,881 |
| Other payables | 5,16,37 | 6,590 | 14,320 |
| Other financial liabilities | 5,8,37 | 69,926 | 62,574 |
| Deferred income tax liabilities | 17 | 5,800 | 6,012 |
| Net defined benefit liabilities | 18 | 787,610 | 798,450 |
| Provisions | 19 | 1,074,346 | 1,001,397 |
| Other non-current liabilities | 20 | 105,324 | 87,112 |
| | | <u>8,550,718</u> | <u>8,396,746</u> |
| Total liabilities | | <u>23,330,409</u> | <u>24,077,323</u> |
| Equity attributable to owners of the Parent Company | | | |
| Paid-in capital: | 21 | | |
| Capital stock | | 904,169 | 904,169 |
| Share premium | | 3,088,179 | 3,088,179 |
| Retained earnings | 22 | 9,016,546 | 9,081,044 |
| Accumulated other comprehensive loss | 23 | (1,171,979) | (1,143,557) |
| Other components of equity | 24 | (210,343) | (210,412) |
| | | <u>11,626,572</u> | <u>11,719,423</u> |
| Non-controlling interests | | <u>1,356,915</u> | <u>1,271,674</u> |
| Total equity | | <u>12,983,487</u> | <u>12,991,097</u> |
| Total liabilities and equity | | <u>36,313,896</u> | <u>37,068,420</u> |

LG Electronics
Consolidated Statements of Income
Years ended December 31, 2015 and 2014

| <i>(in millions of Korean won, except per share amounts)</i> | Note | 2015 | 2014 |
|--|-------------|-------------------|-------------------|
| Continuing operations | | | |
| Net sales | 25 | 56,509,008 | 59,040,767 |
| Cost of sales | 26 | <u>43,635,063</u> | <u>45,299,122</u> |
| Gross profit | | 12,873,945 | 13,741,645 |
| Selling and marketing expenses | 26,27 | 6,607,913 | 6,973,017 |
| Administrative expenses | 26,27 | 1,409,512 | 1,314,126 |
| Research and development expenses | 26,27 | 2,377,830 | 2,264,286 |
| Service costs | 26,27 | <u>1,286,399</u> | <u>1,361,659</u> |
| Operating income | | 1,192,291 | 1,828,557 |
| Financial income | 28 | 542,586 | 416,660 |
| Financial expenses | 29 | 903,084 | 752,456 |
| Gain from equity method valuation | 13 | 359,510 | 304,419 |
| Other non-operating income | 30 | 1,881,632 | 1,378,552 |
| Other non-operating expenses | 31 | <u>2,479,810</u> | <u>1,957,462</u> |
| Profit before income tax | | 593,125 | 1,218,270 |
| Income tax expense | 17 | <u>340,154</u> | <u>539,761</u> |
| Profit for the year from continuing operations | | <u>252,971</u> | <u>678,509</u> |
| Discontinued operations | | | |
| Loss for the year from discontinued operations | 40 | <u>(3,828)</u> | <u>(177,152)</u> |
| Profit for the year | | <u>249,143</u> | <u>501,357</u> |
| Profit(loss) for the year attributable to: | | | |
| Equity holders of the Parent Company | | | |
| Continuing operations | | 128,228 | 576,171 |
| Discontinued operations | | <u>(3,834)</u> | <u>(176,821)</u> |
| | | <u>124,394</u> | <u>399,350</u> |
| Non-controlling interests | | | |
| Continuing operations | | 124,743 | 102,338 |
| Discontinued operations | | <u>6</u> | <u>(331)</u> |
| | | <u>124,749</u> | <u>102,007</u> |
| Earnings(loss) per share attributable to the equity holders of the Parent Company during the year (in won): | | | |
| Earnings(loss) per share for profit attributable to the common equity holders of the Parent Company | | | |
| From continuing operations | | 686 | 2,213 |
| From discontinued operations | | 707 | 3,195 |
| | | (21) | (982) |
| Earnings(loss) per share for profit attributable to the preferred equity holders of the Parent Company | | | |
| From continuing operations | | 736 | 2,263 |
| From discontinued operations | | 757 | 3,245 |
| | | (21) | (982) |

LG Electronics
Consolidated Statements of Comprehensive Income
Years ended December 31, 2015 and 2014

(in millions of Korean won)

| | Note | 2015 | 2014 |
|--|-------------|------------------|------------------|
| Profit for the year | | <u>249,143</u> | <u>501,357</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 | 18 | (95,354) | (134,275) |
| Share of remeasurements for the net defined benefit liability of associates | 13 | (31,388) | (43,058) |
| Items that will be reclassified subsequently to profit or loss: | | | |
| Other comprehensive income from associates and joint ventures | 13 | 22,235 | 13,189 |
| Cash flow hedges | 37 | (19,848) | (38,111) |
| Available-for-sale financial assets | 8 | 2,426 | (2,851) |
| Currency translation differences | | <u>(26,378)</u> | <u>(199,468)</u> |
| Other comprehensive loss for the year, net of tax | | <u>(148,307)</u> | <u>(404,574)</u> |
| Total comprehensive income for the year, net of tax | | <u>100,836</u> | <u>96,783</u> |
| Comprehensive income(loss) for the year, net of tax, attributable to: | | | |
| Equity holders of the Parent Company | | (20,035) | (3,724) |
| Non-controlling interests | | <u>120,871</u> | <u>100,507</u> |

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Consolidated Statements of Changes in Equity
Years ended December 31, 2015 and 2014

| | | Attributable to equity holders of the Parent Company | | | | | | |
|------------------------------------|---|--|-----------|---------------------------------------|----------------------------------|------------|------------------------------|-----------------|
| | | Paid-in | Retained | Accumulated Other Comprehensive | Other Components of Equity | Total | Non-controlling Interests | Total Equity |
| <i>(in millions of Korean won)</i> | | Capital | Earnings | Income(loss) | - | - | - | - |
| Note | | | | | | | | |
| | Balance at January 1, 2014 | 3,992,348 | 8,885,523 | (907,440) | (231,229) | 11,739,202 | 950,167 | 12,689,369 |
| | Comprehensive income: | | | | | | | |
| | Profit for the year | - | 399,350 | - | - | 399,350 | 102,007 | 501,357 |
| 18 | Remeasurements of the net defined benefit liability | - | (123,899) | - | - | (123,899) | (10,376) | (134,275) |
| | Share of remeasurements for the net defined benefit liability of associates | - | (43,058) | - | - | (43,058) | - | (43,058) |
| 13 | Share of other comprehensive income (excluding remeasurements) of associates and joint ventures | - | - | 13,189 | - | 13,189 | - | 13,189 |
| 13 | | - | - | 13,189 | - | 13,189 | - | 13,189 |
| 37 | Cash flow hedges | - | - | (38,111) | - | (38,111) | - | (38,111) |
| 8 | Available-for-sale financial assets | - | - | (2,752) | - | (2,752) | (99) | (2,851) |
| | Currency translation differences | - | - | (208,443) | - | (208,443) | 8,975 | (199,468) |
| | Total comprehensive income | - | 232,393 | (236,117) | - | (3,724) | 100,507 | 96,783 |
| | Transactions with equity holders: | | | | | | | |
| 22 | Dividends | - | (36,872) | - | - | (36,872) | (35,533) | (72,405) |
| | Changes in controlling interests in subsidiaries | - | - | - | 20,817 | 20,817 | 256,533 | 277,350 |
| | Total transactions with equity holders | - | (36,872) | - | 20,817 | (16,055) | 221,000 | 204,945 |
| | Balance at December 31, 2014 | 3,992,348 | 9,081,044 | (1,143,557) | (210,412) | 11,719,423 | 1,271,674 | 12,991,097 |
| | Balance at January 1, 2015 | 3,992,348 | 9,081,044 | (1,143,557) | (210,412) | 11,719,423 | 1,271,674 | 12,991,097 |
| | Comprehensive income: | | | | | | | |
| | Profit for the year | - | 124,394 | - | - | 124,394 | 124,749 | 249,143 |
| 18 | Remeasurements of the net defined benefit liability | - | (84,619) | - | - | (84,619) | (10,735) | (95,354) |
| | Share of remeasurements for the net defined benefit liability of associates | - | (31,388) | - | - | (31,388) | - | (31,388) |
| 13 | Share of other comprehensive income (excluding remeasurements) of associates and joint ventures | - | - | 22,235 | - | 22,235 | - | 22,235 |
| 13 | | - | - | 22,235 | - | 22,235 | - | 22,235 |
| 37 | Cash flow hedges | - | - | (19,848) | - | (19,848) | - | (19,848) |
| 8 | Available-for-sale financial assets | - | - | 2,427 | - | 2,427 | (1) | 2,426 |
| | Currency translation differences | - | - | (33,236) | - | (33,236) | 6,858 | (26,378) |
| | Total comprehensive income | - | 8,387 | (28,422) | - | (20,035) | 120,871 | 100,836 |
| | Transactions with equity holders: | | | | | | | |
| 22 | Dividends | - | (72,885) | - | - | (72,885) | (36,284) | (109,169) |
| | Changes in controlling interests in subsidiaries | - | - | - | 69 | 69 | 654 | 723 |
| | Total transactions with equity holders | - | (72,885) | - | 69 | (72,816) | (35,630) | (108,446) |
| | Balance at December 31, 2015 | 3,992,348 | 9,016,546 | (1,171,979) | (210,343) | 11,626,572 | 1,356,915 | 12,983,487 |

LG Electronics
Consolidated Statements of Cash Flows
Years ended December 31, 2015 and 2014

| <i>(in millions of Korean won)</i> | Note | 2015 | 2014 |
|---|------|--------------------|--------------------|
| Cash flows from operating activities | | | |
| Cash generated from operations | 33 | 3,347,226 | 2,903,252 |
| Interest received | | 75,579 | 75,835 |
| Interest paid | | (466,160) | (439,787) |
| Dividends received | | 71,897 | 17,363 |
| Income tax paid | | (409,767) | (527,477) |
| Net cash inflow from operating activities | | <u>2,618,775</u> | <u>2,029,186</u> |
| Cash flows from investing activities | | | |
| Decrease in financial deposits | | 69,809 | 22,351 |
| Decrease in loans and other receivables | | 162,167 | 187,648 |
| Proceeds from disposal of other financial assets | | 78,818 | 64,600 |
| Proceeds from disposal of property, plant and equipment | | 81,575 | 100,635 |
| Proceeds from disposal of intangible assets | | 1,999 | 17,616 |
| Proceeds from disposal of and recovery of investments in associates and joint ventures | | 54,050 | 680 |
| Transfer of business | 33 | 112,340 | - |
| Decrease in others | | 1,230 | 3,678 |
| Increase in financial deposits | | (64,625) | (18,708) |
| Increase in loans and other receivables | | (141,290) | (142,463) |
| Acquisition of other financial assets | | (39,637) | (40,865) |
| Acquisition of property, plant and equipment | | (1,747,253) | (2,165,948) |
| Acquisition of intangible assets | | (483,592) | (418,155) |
| Acquisition of investments in associates and joint ventures | | - | (7,783) |
| Business combination | 38 | (18,803) | - |
| Net cash outflow from investing activities | | <u>(1,933,212)</u> | <u>(2,396,714)</u> |
| Cash flows from financing activities | | | |
| Proceeds from borrowings | | 1,980,473 | 2,530,287 |
| Issuance of common shares of subsidiaries | | 723 | - |
| Repayments of borrowings | | (2,061,111) | (2,392,532) |
| Dividends paid | | (109,003) | (73,459) |
| Net cash inflow(outflow) from financing activities | | <u>(188,918)</u> | <u>64,296</u> |
| Exchange losses on cash and cash equivalents | | <u>(30,895)</u> | <u>(97,632)</u> |
| Net increase(decrease) in cash and cash equivalents | | 465,750 | (400,864) |
| Cash and cash equivalents at the beginning of year | 6 | 2,244,406 | 2,645,270 |
| Cash and cash equivalents at the end of year | 6 | <u>2,710,156</u> | <u>2,244,406</u> |

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Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

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 (“DRs”), are listed on the London Stock Exchange as of the reporting date. The Parent Company is domiciled in Korea at Yeoui-daero, Yeungdeungpo-gu, Seoul.

As of December 31, 2015, 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 five major business segments: Home Entertainment segment manufactures and sells TVs, monitors, and digital media products; Mobile Communications segment manufactures and sells mobile communications equipment; Home Appliance & Air solution segment manufactures and sells refrigerators, washing machines, vacuum cleaners, residential and commercial air conditioners; 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 125 subsidiaries as of December 31, 2015, which are as follows:

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(a) Consolidated subsidiaries as of December 31, 2015 and 2014, are as follows:

| Territory | Location | Subsidiaries | 2015 | | 2014 | | Closing Month | Major Business | Basis of control |
|-----------------------|----------|---------------------------------------|---|--------------------------|---|--------------------------|---------------|---|---------------------------------|
| | | | Percentage of ownership Controlling interest | Non-controlling interest | Percentage of ownership 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 | 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 | Innovation Investment Fund | 83.3% | 16.7% | 83.3% | 16.7% | 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 |

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Notes to the Consolidated Financial Statements
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| Territory | Location | Subsidiaries | 2015 | | 2014 | | Closing Month | Major Business | Basis of control |
|-----------|----------|--|-------------------------|--------------------------|-------------------------|--------------------------|---------------|---|---------------------------------|
| | | | Percentage of ownership | | Percentage of ownership | | | | |
| | | | Controlling interest | Non-controlling interest | Controlling interest | Non-controlling interest | | | |
| 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 |
| | 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) Computer 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 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 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 |

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Notes to the Consolidated Financial Statements
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| Territory | Location | Subsidiaries | 2015 | | 2014 | | 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 Tianjin Appliances Co., Ltd.(LGETA) | 80.0% | 20.0% | 80.0% | 20.0% | December | Production of Electronic products | More than half of voting rights |
| | 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 | Shanghai LG Electronics Co., Ltd.(LGESH) | 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% | 100.0% | - | 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 |

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Notes to the Consolidated Financial Statements
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| Territory | Location | Subsidiaries | 2015 | | 2014 | | Closing Month | Major Business | Basis of control |
|-----------|-------------|---|-------------------------|--------------------------|-------------------------|--------------------------|---------------|--|---------------------------------|
| | | | Percentage of ownership | | Percentage of ownership | | | | |
| | | | Controlling interest | Non-controlling interest | Controlling interest | Non-controlling interest | | | |
| | 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 |
| | 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.(LGSJ) 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) Ltd.(LGITTW) ¹ | 40.8% | 59.2% | 40.8% | 59.2% | December | 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 |

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| Territory | Location | Subsidiaries | 2015 | | 2014 | | Closing Month | Major Business | Basis of control |
|-----------|----------------|---|-------------------------|--------------------------|-------------------------|--------------------------|---------------|-----------------------------------|---------------------------------|
| | | | Percentage of ownership | | Percentage of ownership | | | | |
| | | | Controlling interest | Non-controlling interest | Controlling interest | Non-controlling interest | | | |
| | 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 |
| Europe | Austria | LG Electronics Austria GmbH(LGEAG) | 100.0% | - | 100.0% | - | December | Sales of Electronic products | More than half of voting rights |
| | 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.(LGEEH) | 100.0% | - | 100.0% | - | December | European Holding | More than half of voting rights |
| | Netherlands | LG Electronics European Shared Service Center B.V.(LGESC) | 100.0% | - | 100.0% | - | December | Services | More than half of voting rights |
| | France | LG Electronics France S.A.S.(LGEFS) | 100.0% | - | 100.0% | - | December | Sales of Electronic products | More than half of voting rights |
| | Greece | LG Electronics Hellas S.A.(LGEHS) | 100.0% | - | 100.0% | - | December | Sales of Electronic products | More than half of voting rights |
| | Italy | LG Electronics Italia S.p.A(LGEIS) | 100.0% | - | 100.0% | - | December | Sales of Electronic products | More than half of voting rights |
| | Latvia | LG Electronics Latvia, LLC(LGELA) | 100.0% | - | 100.0% | - | December | Sales of Electronic products | More than half of voting rights |
| | Hungary | LG Electronics Magyar KFT(LGEMK) | 100.0% | - | 100.0% | - | December | Sales of Electronic products | More than half of voting rights |

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| Territory | Location | Subsidiaries | 2015 | | 2014 | | Closing Month | Major Business | Basis of control |
|---------------|----------|--|-------------------------|--------------------------|-------------------------|--------------------------|---------------|---|---------------------------------|
| | | | Percentage of ownership | | Percentage of ownership | | | | |
| | | | Controlling interest | Non-controlling interest | Controlling interest | Non-controlling interest | | | |
| | Poland | LG Electronics Mlawa Sp. z o.o.(LGEMA) | 100.0% | - | 100.0% | - | December | Production of Electronic products | More than half of voting rights |
| | Sweden | LG Electronics Nordic AB(LGESW) | 100.0% | - | 100.0% | - | December | Sales of Electronic products | More than half of voting rights |
| | Poland | LG Electronics Polska Sp. z o.o.(LGEPL) | 100.0% | - | 100.0% | - | December | Sales of Electronic products | More than half of voting rights |
| | 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% | - | - | - | 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 |

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| Territory | Location | Subsidiaries | 2015 | | 2014 | | Closing Month | Major Business | Basis of control |
|---------------|-----------|--|-------------------------|--------------------------|-------------------------|--------------------------|---------------|--|---------------------------------|
| | | | Percentage of ownership | | Percentage of ownership | | | | |
| | | | Controlling interest | Non-controlling interest | Controlling interest | Non-controlling interest | | | |
| | 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 |
| | 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.(LGEGB) | 100.0% | - | 100.0% | - | December | Sales of Electronic products | More than half of voting rights |

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| Territory | Location | Subsidiaries | 2015 | | 2014 | | Closing Month | Major Business | Basis of control |
|------------------------|-----------|--|-------------------------|--------------------------|-------------------------|--------------------------|---------------|---|---------------------------------|
| | | | Percentage of ownership | | Percentage of ownership | | | | |
| | | | Controlling interest | Non-controlling interest | Controlling interest | Non-controlling interest | | | |
| | 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 |
| | 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 |

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| Territory | Location | Subsidiaries | 2015 | | 2014 | | Closing Month | Major Business | Basis of control |
|-----------|--------------|---|-------------------------|--------------------------|-------------------------|--------------------------|---------------|---|---------------------------------|
| | | | Percentage of ownership | | Percentage of ownership | | | | |
| | | | Controlling interest | Non-controlling interest | Controlling interest | Non-controlling interest | | | |
| | 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 |
| | 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 |
| 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 |

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| Territory | Location | Subsidiaries | 2015 | | 2014 | | Closing Month | Major Business | Basis of control |
|-----------|----------|------------------------------------|-------------------------|--------------------------|-------------------------|--------------------------|---------------|---|---------------------------------|
| | | | Percentage of ownership | | Percentage of ownership | | | | |
| | | | Controlling interest | Non-controlling interest | Controlling interest | Non-controlling interest | | | |
| | 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. when considering the size and dispersion of holdings of the other shareholders and their voting patterns at previous shareholders' 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 year ended December 31, 2015, were used for those subsidiaries with different fiscal year ends.

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(b) Financial information of major subsidiaries as of and for the years ended December 31, 2015 and 2014, is as follows (Before elimination of intercompany transactions):

| <i>(in millions of Korean won)</i> | 2015 | | | | |
|---|-----------|-------------|-----------|-----------|-------------------|
| | Assets | Liabilities | Equity | Sales | Net Income (loss) |
| LG Innotek Co., Ltd. | 3,598,753 | 2,038,249 | 1,560,504 | 5,691,346 | 43,578 |
| LG Electronics do Brasil Ltda.(LGEBR) | 845,113 | 710,508 | 134,605 | 2,276,927 | (147,764) |
| LG Electronics U.S.A., Inc.(LGEUS) | 2,604,240 | 2,225,082 | 379,158 | 6,855,211 | 51,174 |
| Zenith Electronics Corporation(Zenith) | 1,158,934 | 25,421 | 1,133,513 | 171,313 | 39,685 |
| LG Electronics European Shared Service Center B.V.(LGESC) | 1,463,216 | 1,435,769 | 27,447 | 236,746 | 1,551 |
| LG Electronics RUS, LLC(LGERA) | 582,293 | 287,013 | 295,280 | 1,500,852 | 28,278 |
| LG Electronics (China) Co. Ltd.(LGECH) | 819,831 | 851,696 | (31,865) | 1,289,413 | (34,701) |
| LG Electronics Tianjin Appliances Co., Ltd.(LGETA) | 475,424 | 237,458 | 237,966 | 1,057,203 | (6,030) |
| LG Electronics Mobilecomm U.S.A., Inc.(LGEMU) | 1,422,461 | 1,296,625 | 125,836 | 6,558,774 | 30,618 |
| LG Electronics India Pvt. Ltd.(LGEIL) | 721,565 | 289,990 | 431,575 | 2,269,603 | 128,294 |
| Inspur LG Digital Mobile Communications Co., Ltd.(LGEYT) | 711,388 | 586,285 | 125,103 | 3,235,686 | 61,815 |
| LG Electronics Mlawa Sp. z o.o(LGEMA) | 660,449 | 309,582 | 350,867 | 1,515,361 | 71,097 |
| LG Electronics Reynosa S.A. DE C.V.(LGERES) | 537,263 | 248,987 | 288,276 | 2,137,546 | (4,622) |
| P.T. LG Electronics Indonesia(LGEIN) | 456,463 | 193,262 | 263,201 | 1,317,705 | 11,723 |
| LG Electronics Nanjing New Technology co.,LTD(LGENT) | 373,211 | 215,085 | 158,126 | 1,164,039 | 28,944 |
| LG Electronics Wroclaw Sp.z.o.o(LGEWR) | 538,236 | 364,485 | 173,751 | 1,470,504 | 16,030 |
| Hiplaza Co., Ltd. | 471,017 | 324,739 | 146,278 | 1,452,959 | 4,771 |
| LG Electronics Mexico S.A. DE C.V.(LGEMS) | 370,466 | 300,400 | 70,066 | 1,536,983 | 568 |
| NanJing LG-Panda Appliances Co., Ltd.(LGEPN) | 473,044 | 336,579 | 136,465 | 1,240,685 | 33,815 |
| LG Electronics Thailand Co., Ltd.(LGETH) | 411,732 | 198,365 | 213,367 | 1,026,936 | 29,389 |
| Taizhou LG Electronics Refrigeration Co., Ltd.(LGETR) | 346,545 | 225,418 | 121,127 | 813,199 | 13,008 |
| LG Electronics Egypt S.A.E(LGEEG) | 500,455 | 497,945 | 2,510 | 518,382 | (11,212) |

| <i>(in millions of Korean won)</i> | 2014 | | | | |
|---|-----------|-------------|-----------|-----------|-------------------|
| | Assets | Liabilities | Equity | Sales | Net Income (loss) |
| LG Innotek Co., Ltd. | 4,104,519 | 2,563,340 | 1,541,179 | 5,840,223 | 58,869 |
| LG Electronics do Brasil Ltda.(LGEBR) | 1,490,163 | 1,129,559 | 360,604 | 3,778,395 | 20,904 |
| LG Electronics U.S.A., Inc.(LGEUS) | 2,219,819 | 1,913,542 | 306,277 | 6,156,130 | 26,521 |
| Zenith Electronics Corporation(Zenith) | 1,065,817 | 41,012 | 1,024,805 | 158,857 | 23,770 |
| LG Electronics European Shared Service Center B.V.(LGESC) | 1,177,424 | 1,150,662 | 26,762 | 214,461 | 2,789 |
| LG Electronics RUS, LLC(LGERA) | 831,398 | 495,292 | 336,106 | 2,681,926 | 107,603 |
| LG Electronics (China) Co. Ltd.(LGECH) | 700,743 | 699,069 | 1,674 | 1,445,188 | (22,498) |
| LG Electronics Tianjin Appliances Co., Ltd.(LGETA) | 609,917 | 351,590 | 258,327 | 1,138,777 | 13,135 |
| LG Electronics Mobilecomm U.S.A., Inc.(LGEMU) | 1,377,154 | 1,287,733 | 89,421 | 5,839,161 | 9,598 |
| LG Electronics India Pvt. Ltd.(LGEIL) | 546,532 | 247,941 | 298,591 | 2,192,141 | 134,547 |

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| <i>(in millions of Korean won)</i> | 2014 | | | | |
|--|---------|-------------|---------|-----------|-------------------|
| | Assets | Liabilities | Equity | Sales | Net Income (loss) |
| Inspur LG Digital Mobile Communications Co., Ltd.(LGEYT) | 809,792 | 693,958 | 115,834 | 3,401,492 | 56,443 |
| LG Electronics Mlawa Sp. z o.o.(LGEMA) | 785,962 | 495,564 | 290,398 | 1,590,103 | 21,218 |
| LG Electronics Reynosa S.A. DE C.V.(LGERES) | 497,851 | 223,798 | 274,053 | 2,363,369 | 28,311 |
| P.T. LG Electronics Indonesia(LGEIN) | 529,226 | 294,766 | 234,460 | 1,638,883 | 13,099 |
| LG Electronics Nanjing New Technology co.,LTD(LGENT) | 403,907 | 270,474 | 133,433 | 1,436,267 | 25,851 |
| LG Electronics Wroclaw Sp.z.o.o(LGEWR) | 514,334 | 350,868 | 163,466 | 1,617,828 | 11,850 |
| Hiplaza Co., Ltd. | 455,031 | 310,459 | 144,572 | 1,456,821 | 3,729 |
| LG Electronics Mexico S.A. DE C.V.(LGEMS) | 563,773 | 484,788 | 78,985 | 1,580,154 | 11,068 |
| NanJing LG-Panda Appliances Co., Ltd.(LGEPN) | 489,848 | 373,576 | 116,272 | 1,231,675 | 3,867 |
| LG Electronics Thailand Co., Ltd.(LGETH) | 405,724 | 215,502 | 190,222 | 1,052,583 | 32,631 |
| Taizhou LG Electronics Refrigeration Co., Ltd.(LGETR) | 429,546 | 322,366 | 107,180 | 845,567 | (24,368) |
| LG Electronics Egypt S.A.E(LGEEG) | 388,014 | 374,278 | 13,736 | 340,020 | (11,978) |

(c) Information of subsidiaries with material non-controlling interests

- i) Non-controlling interest rate of subsidiaries and accumulated non-controlling interest, are as follows:

| <i>(in millions of Korean won)</i> | December 31, 2015 | December 31, 2014 |
|---|-------------------|-------------------|
| Non-controlling interest rate of subsidiaries | 59.2% | 59.2% |
| Accumulated non-controlling interest | 1,048,029 | 1,002,971 |

- ii) Profit and dividends attributed to non-controlling interest, are as follows:

| <i>(in millions of Korean won)</i> | 2015 | 2014 |
|---|--------|--------|
| Profit attributed to non-controlling interest | 55,048 | 65,965 |
| Dividends to non-controlling interest | 3,503 | - |

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

| <i>(in millions of Korean won)</i> | December 31, 2015 | December 31, 2014 |
|--|-------------------|-------------------|
| Current assets | 1,788,891 | 2,082,013 |
| Non-current assets | 2,125,447 | 2,346,748 |
| Total assets | 3,914,338 | 4,428,761 |
| Current liabilities | 1,295,457 | 1,646,619 |
| Non-current liabilities | 853,826 | 1,085,652 |
| Total liabilities | 2,149,283 | 2,732,271 |
| Equity of the owners of Parent company | 1,765,053 | 1,696,488 |
| Non-controlling interest | 2 | 2 |
| Total equity | 1,765,055 | 1,696,490 |

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iv) Summarized consolidated statements of comprehensive income of subsidiaries with material non-controlling interests for the years ended December 31, 2015 and 2014, are as follows (before elimination of intercompany transactions):

- LG Innotek Co., Ltd. and its subsidiaries

| <i>(in millions of Korean won)</i> | 2015 | 2014 |
|--|-------------|-------------|
| Net sales | 6,138,129 | 6,466,119 |
| Profit for the year | 95,092 | 112,677 |
| Other comprehensive loss, net of tax | (20,611) | (12,032) |
| Total comprehensive income, net of tax | 74,481 | 100,645 |

v) Summarized consolidated statements of cash flows of subsidiaries with material non-controlling interest for the years ended December 31, 2015 and 2014, are as follows (before elimination of intercompany transactions):

- LG Innotek Co., Ltd. and its subsidiaries

| <i>(in millions of Korean won)</i> | 2015 | 2014 |
|--|-------------|-------------|
| Cash flows from operating activities | 678,363 | 743,027 |
| Cash flows from investing activities | (306,247) | (308,830) |
| Cash flows from financing activities | (408,463) | (440,155) |
| Exchange gains on cash and cash equivalents | 182 | 2,799 |
| Net decrease in cash and cash equivalents | (36,165) | (3,159) |
| Cash and cash equivalents at the beginning of year | 396,451 | 399,610 |
| Cash and cash equivalents at the end of year | 360,286 | 396,451 |

(d) Significant restrictions on its subsidiaries

i) The significant restrictions on the use of assets and on the 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.

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

| Subsidiaries | The nature and limitation of the protective rights for non-controlling interest |
|-------------------------------------|---|
| 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 years ended December 31, 2015 and 2014, are as follows:

| <i>(in millions of Korean won)</i> | 2015 | 2014 |
|--|-------------|-------------|
| LG Innotek Co., Ltd. and its subsidiaries | | |
| Decrease in the Parent Company's interest by exercise of conversion rights (A) | - | 20,017 |
| Consideration received from non-controlling interest (B) | - | - |
| Changes in the Parent Company's ownership interest (A+B) | - | 20,017 |
| LG-Shaker Co., Ltd.(LGESR) | | |
| Increase in the Parent Company's interest by exercise of stock option (A) | - | 1,813 |
| Consideration paid to non-controlling interest (B) | - | 1,013 |
| Changes of the Parent Company's ownership interest (A-B) | - | 800 |
| HiEntech (Tianjin) Co., LTD. | | |
| Decrease in the Parent Company's interest by disposal of shares (A) | (654) | - |
| Consideration received from non-controlling interest (B) | 723 | - |
| Changes in the Parent Company's ownership interest (A+B) | 69 | - |

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(f) Subsidiaries newly included in the consolidation for the year ended December 31, 2015, are:

| Subsidiary | Reason | Country | Percentage of ownership | Closing month | Major business |
|---------------------------------------|-------------------|----------------|--------------------------------|----------------------|-----------------------|
| LG Electronics Finland Lab, Oy(LGEFL) | Newly established | Finland | 100.0% | December | R&D |
| LPRFIC Oy | Newly acquired | Finland | 100.0% | December | R&D |

(g) Subsidiaries excluded from the consolidation for the year ended December 31, 2015, are:

| Subsidiary | Reason | Country |
|--|---------------|----------------|
| LG Innotek (Guangzhou) Co., Ltd.(LGITGZ) | Merger | China |
| LPRFIC Oy | Merger | Finland |
| VENS BEIJING VEHICLE ENGINEERING CO.,LTD | Liquidation | China |
| LG Electronics Mobilecomm France(LGEMF) | Liquidation | France |
| LG Electronics Norway AS(LGENO) | Liquidation | Norway |
| Hi Logistics Co., Ltd. | Disposal | Korea |
| Hi Logistics (China) Co., Ltd. | Disposal | China |
| Hi Logistics India Private Limited | Disposal | India |
| HI LOGISTICS MALAYSIA SDN BHD | Disposal | Malaysia |
| Hi Logistics Vietnam Co., LTD. | Disposal | Vietnam |
| Hi Logistics Europe B.V. | Disposal | Netherlands |
| HILOGISTICS MEXICO SA DE CV | Disposal | Mexico |
| Hi Logistics Reynosa | Disposal | Mexico |
| Hi Logistics USA | Disposal | USA |
| Hi Logistics Middle East FZE | Disposal | UAE |
| Hi Logistics Egypt | Disposal | Egypt |
| HI LOGISTICS RUS Limited Liability Company | Disposal | Russia |
| LG INNOTEK (FUZHOU) CO.,LTD.(LGITFZ) | Disposal | China |

(h) Gain or loss resulting from the loss of control of the subsidiaries.

Gains on disposal of ₩24,344 million and ₩9,584 million, respectively, are recognized due to disposal of Hi Logistics Co., Ltd. and its 11 subsidiaries, and LG INNOTEK (FUZHOU) CO.,LTD. No gain or loss was incurred due to the loss of control over LG Innotek (Guangzhou) Co., Ltd. and four other subsidiaries.

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2. Significant Accounting Policies

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

Basis of Preparation

The Group maintains its accounting records in Korean won and prepares statutory financial statements in the Korean language (Hangul) in accordance with the International Financial Reporting Standards as adopted by the Republic of Korea ("Korean IFRS"). The accompanying consolidated 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 financial statements.

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

The preparation of the consolidated financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

Changes in Accounting Policy and Disclosures

- (a) New and amended standards and interpretations effective for the financial year beginning January 1, 2015.
 - i) The new and amended standards and interpretations adopted by the Group from the financial year, 2015:
 - Korean IFRS 1019(Amendment): 'Employee Benefits'

In defined benefit plans with contributions from employees or third parties, if such contributions are linked to service provided by employees or third parties at the same period when contributions were made, a practical expedient of reducing such contributions from the service cost is allowed. It was clarified that when contributions reflect the actuarial valuation method, such contributions made by employees or third parties should be attributed by the same method used to attribute the total benefit. The amendments do not have a significant impact on these consolidated financial statements.

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- Annual improvements of Korean IFRS

Korean IFRS 1102, 'Share-based Payment'

Korean IFRS 1103, 'Business Combination'

Korean IFRS 1108, 'Operating Segment'

Korean IFRS 1113, 'Fair Value Measurement'

Korean IFRS 1016, 'Property, Plant and Equipment'

Korean IFRS 1038, 'Intangible Assets'

Korean IFRS 1024, 'Related Party Disclosures'

Korean IFRS 1040, 'Investment Property'

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

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

- i) There are no new and amended standards and interpretations early adopted by the Group from the financial year 2015.

- ii) New and amended standards and interpretations not yet adopted by the Group are as follows:

- Korean IFRS 1016(Amendment): 'Property, Plant and Equipment' and Korean IFRS 1038(Amendment): 'Intangible Assets'

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 limited circumstances in which intangible assets are measured based on revenue. The Group is assessing the impact of application of this amendment on its consolidated financial statements.

- Korean IFRS 1111(Amendment): 'Joint Arrangements'

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 Group is assessing the impact of application of this amendment on its consolidated financial statements.

- Korean IFRS 1001(Amendment): 'Presentation of Financial Statements'

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

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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 Company is assessing the impact of application of this amendment on its consolidated financial statements.

- Korean IFRS 1110, 'Consolidated Financial Statements', Korean IFRS 1112, 'Disclosures of Interests in Other Entities: Exemption for consolidation of investee' and Korean IFRS 1028, Investments in Associates and Joint ventures

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 a significant impact on the accompanying consolidated financial statements.

- Annual improvements of Korean IFRS

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 Group is assessing the impact of application of the annual improvements of Korean IFRS on its consolidated financial statements.

- (c) New standards, amendments and interpretations effective for the financial year beginning or after January 1, 2017.

- Korean IFRS 1109, Financial Instruments

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

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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

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.

Consolidation

The Group has prepared the consolidated financial statements in accordance with Korean IFRS 1110, 'Consolidated Financial Statements'.

(a) Subsidiaries

Subsidiaries are all entities over which the Parent Company has control. The Parent Company controls the corresponding investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Consolidation of a subsidiary begins from the date the Parent Company obtains control of a subsidiary and ceases when the Parent Company loses control of the subsidiary.

The Group applies the acquisition method to account for business combinations. The consideration transferred is measured at the fair values of the assets transferred, and identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are initially measured at their fair values at the acquisition date. The Group recognizes any non-controlling interest in the acquiree on an acquisition-by-acquisition basis in the event of liquidation, either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of acquiree's identifiable net assets. All other non-controlling interests are measured at their acquisition-date fair values, unless another measurement basis is required by IFRSs. Acquisition-related costs are expensed as incurred.

Goodwill is recognized as the excess of the aggregate of the consideration transferred, the amount of any non-controlling interest in the acquiree, and the acquisition-date fair value of the

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acquirer's previously held equity interest in the acquiree over the identifiable net assets acquired. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss.

Balances of receivables and payables, income and expenses and unrealized gains on transactions between the Group subsidiaries are eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In transactions with non-controlling interests, which do not result in loss of control, the Group recognizes directly in equity any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received, and attribute it to the owners of the parent.

If the Group loses control of a subsidiary, any investment continuously retained in the subsidiary is re-measured at its fair value at the date when control is lost and any resulting differences are recognized in profit or loss.

(b) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost. The Group's investment in associates includes goodwill identified at acquisition, net of any accumulated impairment loss (Note 13).

The Group's share of its associates' post-acquisition profits or losses is recognized in the consolidated statements of income, and its share of post-acquisition movements in reserves is recognized in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group. Dilution gains and losses arising in investments in associates are recognized in the consolidated statements of income.

(c) Joint Arrangements

A joint arrangement of which two or more parties have joint control is classified as either a joint operation or a joint venture. A joint operator has rights to the assets, and obligations for the liabilities, relating to the joint operation and recognizes the assets, liabilities, revenues and expenses relating to its interest in a joint operation. A joint venturer has rights to the net assets

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relating to the joint venture and accounts for that investment using the equity method.

(d) Transactions with non-controlling interests

The Group applies a policy of treating transactions with non-controlling interests as transactions with owners of the Group. The difference between any consideration paid and the relevant share of the carrying value of net assets of the subsidiary is recorded in equity. Gains and losses on disposal of non-controlling interests are also recognized in other components of equity.

(e) Business Combinations

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. The consideration transferred in a business combination includes fair values of the assets and liabilities from arrangements for contingent payments. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group measures non-controlling interests in the acquiree that entitle their holders to a proportionate share of the entity's net assets in the event of liquidation, on a case by case basis, at the proportionate share of the acquiree's identifiable net assets or fair value. All other components of non-controlling interests are measured at fair values, unless another measurement basis is required by IFRSs. Acquisition-related costs are recognized as expenses in the periods in which the costs are incurred.

In case of business combination achieved in stages, previously held equity interest in the acquiree is re-measured to fair value and a gain or loss is recognized in the consolidated statements of income.

The excess of the aggregate of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of the Group's previously held equity interest in the acquiree over the net identifiable assets at the date of acquisition is recorded as goodwill. If the cost of the acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the consolidated statements of income.

Segment Reporting

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

Foreign Currency Translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's companies are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in 'Korean won', which is the

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Parent Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at each reporting date of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statements of income, except qualifying cash flow hedges which are recognized in other comprehensive income.

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

Translation differences on non-monetary financial assets and liabilities, such as equities held at fair value through profit or loss, are recognized in the consolidated statements of income as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available-for-sale, are recognized in other comprehensive income.

(c) Translation into presentation currency

The results and financial position of all Group companies whose functional currency is different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities are translated at the closing rate as of the reporting date;
- Income and expenses are translated at monthly average exchange rates; and
- All resulting exchange differences are recognized in other comprehensive income.

When the Parent Company ceases to control the subsidiary, exchange differences that were recorded in equity are recognized in the consolidated statements of income as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Cash and Cash Equivalents

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

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Financial Instruments

Classification

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

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

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

(b) Loans and receivables

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

(c) Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity and are classified as 'other financial assets' in the consolidated statements of financial position. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months after the end of the reporting period, which are classified as current assets.

(d) Available-for-sale financial assets

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

(e) Financial liabilities measured at amortized cost

Non-derivative financial liabilities are included in financial liabilities at amortized cost, except for

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financial liability through profit or loss. In this case the transferred asset continues to be recognized and a financial liability is measured as the consideration received. Financial liabilities measured at amortized cost are included in non-current liabilities, except for maturities less than 12 months after the end of the reporting period, which are classified as current liabilities.

(f) Other

Derivatives for hedging purpose and financial guarantee liabilities are grouped in 'other financial assets' or 'other financial liabilities'.

Recognition and Measurement

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

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

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

Interest on available-for-sale securities and held-to-maturity financial assets are calculated using the effective interest method and is recognized in the consolidated statements of income as part of 'financial income'. Dividends on available-for-sale equity instruments are recognized in the consolidated statements of income as part of 'other non-operating income' when the Group's right to receive payments is established.

Offsetting

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

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liability simultaneously.

Derecognition

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

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

Impairment of Financial Assets

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

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

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

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

The amount of the loss is measured as the difference between the asset's carrying amount and

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

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

(b) Available-for-sale financial assets

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

Derivative Financial Instruments

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

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in the consolidated statements of income within 'other non-operating income and expenses' or 'financial income and expenses'.

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the consolidated

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statements of income within 'other non-operating income and expenses' or 'financial income and expenses'.

Trade Receivables

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

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the weighted-average method, except for inventories in-transit which is determined using the specific identification method. The cost of finished goods and work-in-process comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). The Group periodically reviews a possibility of the significant changes in net realizable value of inventories from disuse, decrease in market value and obsolescence and recognizes as 'Allowances for Valuation of Inventories'. Net realizable value is the estimated selling price in the ordinary course of business, less applicable selling expenses.

Assets Held for Sale and Discontinued Operations

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

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

Property, Plant and Equipment

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

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

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

| | |
|--------------------------|--------------|
| Buildings and Structures | 20, 40 years |
| Machinery | 5, 10 years |
| Tools | 5 years |
| Equipment | 5 years |
| Other | 5 years |

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

Borrowing Costs

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

Government Grants

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

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

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

Intangible Assets

(a) Goodwill

Goodwill represents the excess of the aggregate of the consideration transferred, and the acquisition-date fair value of the Group's previously held equity interest in the acquiree over the net identifiable assets at the date of acquisition. Goodwill is tested at least annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed.

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(b) Industrial property rights

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

(c) Development costs

Development costs which are individually identifiable and directly related to a new technology or to new products which carry probable future benefits are capitalized as intangible assets. Amortization of development costs based on the straight-line method over their estimated useful lives of one to five years begins at the commencement of the commercial production of the related products or use of the related technology.

(d) Membership

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

(e) Other intangible assets

Other intangible assets such as software which meet the definition of an intangible asset are amortized using the straight-line method over their estimated useful lives of one to thirty years.

Research and Development Costs

Costs associated with research are recognized as an expense as incurred. Costs that are identifiable, controllable and directly attributable to development projects are recognized as intangible assets when all the following criteria are met:

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

Other development expenditures that do not meet these criteria are recognized as an expense as incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period. Capitalized development costs which are stated as intangible assets are amortized using the straight-line method over their estimated useful lives when the assets are

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available for use or sale and are tested at least annually for impairment.

Investment Property

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

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

Land held for investment is not depreciated. Investment property, except for land, is depreciated using the straight-line method over their estimated useful lives of twenty to forty years.

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

Impairment of Non-Financial Assets

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

Trade Payables

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

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Borrowings

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

Financial Guarantee Contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the original or modified terms of a debt instrument. Financial guarantee contracts provided by the Group are initially measured at fair value on the date the guarantee was given. Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of the amounts below and recognized as 'other financial liabilities':

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

Provisions

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

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

Current and Deferred Income Tax

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

The current income tax charge is calculated on the basis of the tax laws enacted or substantively

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enacted at the reporting date in the countries where the Group operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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

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

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

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

Employee Benefits

(a) Post-employment benefits

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

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate fund. The Group has no legal or constructive obligations to pay further contributions even if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. For the defined contribution plan, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The contributions are recognized as employee benefit expenses when an employee has rendered service. Prepaid contributions are recognized as an asset to the

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extent that a cash refund or a reduction in the future payments is available.

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

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

(b) Other long-term employee benefits

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

(c) Termination benefits

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

Share Capital

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

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

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Revenue Recognition

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

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

(a) Sales of goods

The Group manufactures and sells mobile communication, display, multimedia, home electronics products and their related core parts. Sales of goods are recognized when the Group has delivered products to the customer. Delivery does not occur until the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

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

(b) Sales of services

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

(c) Royalty income

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

(d) Other income

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

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(e) Interest income

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

(f) Dividend income

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

Leases

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

(a) Lessees

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

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

(b) Lessors

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

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

Dividend Distribution

A dividend liability is recognized in the consolidated financial statements when the dividends are approved by the shareholders.

Earnings(loss) per Share

Basic earnings per share is calculated by dividing the profit attributable to shareholders of the Parent Company by the weighted average number of shares issued excluding shares purchased

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by the Parent Company and held as treasury shares. Preferred shares have a right to participate in the profits of the Parent Company. These participation rights have been considered in presenting the EPS for common shares and preferred shares.

Greenhouse Gas Emissions Rights (Allowances) and Obligations

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

3. Critical Accounting Estimates and Judgments

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

Critical Accounting Estimates and Assumptions

The Group makes estimates and assumptions concerning the future. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing adjustments to the carrying amounts of assets and liabilities after the end of the reporting date 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 in accordance with the accounting policy stated in Note 2. 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.

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(c) Income Taxes

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

(d) Fair Value of Financial Instruments

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The 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, sales return in accordance with the accounting policy stated in Note 2 as of the reporting date. The amounts are estimated based on 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 Judgment 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.

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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 year.

| Divisions | Products |
|--|--|
| Home Entertainment (HE) | TVs, Monitors, PCs, Security devices, Audio, Video and others |
| Mobile Communications (MC) | Mobile communications |
| Home Appliance & Air Solution (H&A) | Refrigerators, Washing machines, Residential and commercial air conditioners, Microwaves, Vacuum cleaners 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 years ended December 31, 2015 and 2014, is as follows:

| <i>(in millions of Korean won)</i> | 2015 | | | | | | | Total |
|--------------------------------------|------------|------------|------------|-----------|-----------|-----------------------------|---|------------|
| | HE | MC | H&A | VC | Innotek | Other segments ¹ | Inter-segment transactions ² | |
| Net sales | 17,397,568 | 14,399,596 | 16,531,291 | 1,832,387 | 6,138,129 | 2,038,990 | (1,828,953) | 56,509,008 |
| External sales | 17,390,418 | 14,399,313 | 16,527,476 | 1,832,377 | 4,812,177 | 1,547,247 | - | 56,509,008 |
| Internal sales | 7,150 | 283 | 3,815 | 10 | 1,325,952 | 491,743 | (1,828,953) | - |
| Operating income (loss) ³ | 57,265 | (48,306) | 981,664 | 5,017 | 223,685 | (27,034) | - | 1,192,291 |
| Depreciation and amortization | 390,655 | 304,178 | 470,795 | 93,791 | 461,721 | 180,486 | - | 1,901,626 |

| <i>(in millions of Korean won)</i> | 2014 | | | | | | | Total |
|------------------------------------|------------|------------|------------|-----------|-----------------------------|---|------------|-------|
| | HE | MC | H&A | Innotek | Other segments ¹ | Inter-segment transactions ² | | |
| Net sales | 19,378,588 | 15,105,251 | 16,762,514 | 6,466,119 | 3,318,605 | (1,990,310) | 59,040,767 | |
| External sales | 19,371,264 | 15,088,568 | 16,761,984 | 4,995,150 | 2,823,801 | - | 59,040,767 | |
| Internal sales | 7,324 | 16,683 | 530 | 1,470,969 | 494,804 | (1,990,310) | - | |
| Operating income ³ | 511,251 | 316,144 | 625,409 | 313,959 | 61,794 | - | 1,828,557 | |
| Depreciation and amortization | 400,028 | 325,399 | 460,083 | 481,292 | 209,774 | - | 1,876,576 | |

¹ Other segments include operating segments not qualifying as reportable segments, supporting and R&D divisions. VC segment for the year ended December 31, 2014, is classified into other segment as it did not meet the criteria of reportable segments.

² Accounting of sales between segments are treated at arm's length.

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

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

| December 31, 2015 | | | | | | | |
|------------------------------------|------------|-----------|------------|-----------|-----------|--|------------|
| <i>(in millions of Korean won)</i> | HE | MC | H&A | VC | Innotek | Other segments and inter-segment transactions ¹ | Total |
| Segment assets | 12,823,746 | 8,093,823 | 12,709,503 | 1,585,695 | 3,914,338 | (2,813,209) | 36,313,896 |
| Segment liabilities | 12,801,524 | 6,384,968 | 8,725,810 | 1,378,281 | 2,149,283 | (8,109,457) | 23,330,409 |

| December 31, 2014 | | | | | | | |
|------------------------------------|------------|-----------|------------|-----------|--|------------|--|
| <i>(in millions of Korean won)</i> | HE | MC | H&A | Innotek | Other segments and inter-segment transactions ¹ | Total | |
| Segment assets | 13,681,965 | 8,592,805 | 12,193,598 | 4,428,761 | (1,828,709) | 37,068,420 | |
| Segment liabilities | 12,878,052 | 6,466,785 | 8,596,783 | 2,732,271 | (6,596,568) | 24,077,323 | |

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.

(c) External sales by geographic areas and non-current assets by geographic areas as of and for the years ended December 31, 2015 and 2014, are as follows:

| <i>(in millions of Korean won)</i> | External sales | | Non-current assets² | |
|-------------------------------------|-----------------------|-------------------|---------------------------------------|--------------------------|
| | 2015 | 2014 | December 31, 2015 | December 31, 2014 |
| Geographic areas¹ | | | | |
| Korea | 14,311,194 | 14,692,583 | 9,544,117 | 9,330,933 |
| North America | 16,396,260 | 14,828,104 | 334,591 | 353,937 |
| Asia | 5,887,654 | 5,865,226 | 649,060 | 577,036 |
| Europe | 5,814,259 | 6,530,694 | 263,568 | 265,938 |
| South America | 4,298,969 | 5,778,089 | 154,903 | 240,977 |
| Middle East & Africa | 4,699,928 | 4,575,485 | 189,698 | 186,277 |
| China | 3,260,610 | 3,518,326 | 792,143 | 888,236 |
| Others | 1,840,134 | 3,252,260 | 126,769 | 150,554 |
| Total | 56,509,008 | 59,040,767 | 12,054,849 | 11,993,888 |

¹ The comparative segment information by geographic areas is presented based on the current classification at the end of reporting period.

² Non-current assets consist of property, plant and equipment, intangible assets and investment property.

(d) There is no external customer representing more than 10% of net sales for the years ended December 31, 2015 and 2014.

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

(a) Categorizations of financial instruments as of December 31, 2015 and 2014, are as follows:

| December 31, 2015 | | | | | | |
|------------------------------------|---|-----------------------|-------------------------------------|-----------------------------------|---------------|-------------------|
| <i>(in millions of Korean won)</i> | 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 |

| December 31, 2015 | | | | |
|------------------------------------|--|---------------------------------------|---------------|-------------------|
| <i>(in millions of Korean won)</i> | 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 |

| December 31, 2014 | | | | | | |
|------------------------------------|---|-----------------------|-------------------------------------|-----------------------------------|---------------|-------------------|
| <i>(in millions of Korean won)</i> | 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 | - | 2,244,406 | - | - | - | 2,244,406 |
| Financial deposits | - | 162,023 | - | - | - | 162,023 |
| Trade receivables | - | 7,683,915 | - | - | - | 7,683,915 |
| Loans and other receivables | - | 1,181,783 | - | - | - | 1,181,783 |
| Other financial assets | 5,654 | - | 48,885 | 2,662 | 10,767 | 67,968 |
| Total | 5,654 | 11,272,127 | 48,885 | 2,662 | 10,767 | 11,340,095 |

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December 31, 2014

| <i>(in millions of Korean won)</i> | Liabilities at fair value through profit or loss | Liabilities carried at amortized cost | Other | Total |
|------------------------------------|---|--|---------------|-------------------|
| Trade payables | - | 6,741,710 | - | 6,741,710 |
| Borrowings | - | 9,002,431 | - | 9,002,431 |
| Other payables | - | 3,035,190 | - | 3,035,190 |
| Other financial liabilities | 3,409 | - | 65,693 | 69,102 |
| Total | 3,409 | 18,779,331 | 65,693 | 18,848,433 |

(b) Income and expenses by category of financial instruments for the years ended December 31, 2015 and 2014, are as follows:

2015

| <i>(in millions of Korean won)</i> | 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 | - | 93,218 | 108 | 86 | - | 93,412 |
| Exchange differences | - | 445,655 | - | - | - | 445,655 |
| Bad debt expenses | - | (15,267) | - | - | - | (15,267) |
| Loss on disposal of trade receivables | - | (22,370) | - | - | - | (22,370) |
| Gain on disposal of available-for-sale financial assets | - | - | 8,217 | - | - | 8,217 |
| Impairment loss of available-for-sale financial assets | - | - | (3,776) | - | - | (3,776) |
| Dividend income | - | - | 815 | - | - | 815 |
| Gain on derivatives (through profit or loss) | 82,012 | - | - | - | - | 82,012 |
| Gain for the year from discontinued operations | 7 | 2,108 | - | - | - | 2,115 |
| Gain on valuation of available-for-sale financial assets, net of tax (through other comprehensive income) | - | - | 2,426 | - | - | 2,426 |
| Gain on derivatives, net of tax (through other comprehensive income) | - | - | - | - | 3,108 | 3,108 |

2015

| <i>(in millions of Korean won)</i> | Liabilities at fair value through profit or loss | Liabilities carried at amortized cost | Other | Total |
|--|---|--|--------------|--------------|
| Interest expenses | - | (397,717) | (54,475) | (452,192) |
| Exchange differences | - | (1,051,779) | 183,589 | (868,190) |
| Loss on derivatives (through profit or loss) | (31,892) | - | - | (31,892) |
| Loss for the year from discontinued operations | (2) | (669) | - | (671) |
| Loss on derivatives, net of tax (through other comprehensive income) | - | - | (22,956) | (22,956) |

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| <i>(in millions of Korean won)</i> | 2014 | | | | | Total |
|---|---|-----------------------|-------------------------------------|-----------------------------------|---------|----------|
| | Assets at fair value through profit or loss | Loans and receivables | Available-for-sale financial assets | Held-to-maturity financial assets | Other | |
| Interest income | - | 93,917 | 230 | 76 | - | 94,223 |
| Exchange differences | - | 121,215 | - | - | - | 121,215 |
| Bad debt expenses | - | (28,571) | - | - | - | (28,571) |
| Loss on disposal of trade receivables | - | (21,331) | - | - | - | (21,331) |
| Gain on disposal of available-for-sale financial assets | - | - | 1,553 | - | - | 1,553 |
| Impairment loss of available-for-sale financial assets | - | - | (1,114) | - | - | (1,114) |
| Dividend income | - | - | 293 | - | - | 293 |
| Gain on derivatives (through profit or loss) | 52,080 | - | - | - | - | 52,080 |
| Gain(loss) for the year from discontinued operations | 242 | (1,849) | 35 | - | - | (1,572) |
| Loss on valuation of available-for-sale financial assets, net of tax (through other comprehensive income) | - | - | (2,851) | - | - | (2,851) |
| Loss on derivatives, net of tax (through other comprehensive income) | - | - | - | - | (7,499) | (7,499) |

| <i>(in millions of Korean won)</i> | 2014 | | | Total |
|--|--|---------------------------------------|----------|-----------|
| | Liabilities at fair value through profit or loss | Liabilities carried at amortized cost | Other | |
| Interest expenses | - | (383,576) | (36,813) | (420,389) |
| Exchange differences | - | (568,113) | 5,674 | (562,439) |
| Loss on derivatives (through profit or loss) | (40,347) | - | - | (40,347) |
| Loss for the year from discontinued operations | (470) | (41,458) | - | (41,928) |
| Loss on derivatives, net of tax (through other comprehensive income) | - | - | (30,612) | (30,612) |

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(c) Recognized financial instruments that are subject to an enforceable master netting arrangements or similar arrangements are as follows:

| <i>(in millions of Korean won)</i> | 2015 | | | | | |
|------------------------------------|---------------------------------------|---|--|--------------------------|--------------------|------------|
| | Recognized financial instrument | Recognized financial instrument offset | Net amounts presented in the statement of financial position | Amounts not offset | | Net amount |
| | | | | Financial instruments | Cash collateral | |
| Financial assets | | | | | | |
| Trade receivables | 205,422 | (190,186) | 15,236 | - | - | 15,236 |
| Financial liabilities | | | | | | |
| Trade payables | 313,048 | (190,186) | 122,862 | - | - | 122,862 |

| <i>(in millions of Korean won)</i> | 2014 | | | | | |
|------------------------------------|---------------------------------------|---|--|--------------------------|--------------------|------------|
| | Recognized financial instrument | Recognized financial instrument offset | Net amounts presented in the statement of financial position | Amounts not offset | | Net amount |
| | | | | Financial instruments | Cash collateral | |
| Financial assets | | | | | | |
| Trade receivables | 253,669 | (235,663) | 18,006 | - | - | 18,006 |
| Financial liabilities | | | | | | |
| Trade payables | 404,966 | (235,663) | 169,303 | - | - | 169,303 |

6. Cash and Cash Equivalents, and Financial Deposits

(a) Cash and cash equivalents

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

| <i>(in millions of Korean won)</i> | December 31, 2015 | December 31, 2014 |
|------------------------------------|-------------------|-------------------|
| Cash on hand | 18,519 | 5,320 |
| Bank deposits | 2,691,637 | 2,239,086 |
| Total | 2,710,156 | 2,244,406 |

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(b) Financial deposits

The financial deposits restricted in use are as follows:

| <i>(in millions of Korean won)</i> | December 31, 2015 | December 31, 2014 |
|------------------------------------|--------------------------|--------------------------|
| Current | | |
| Fund for business cooperation | 80,500 | 65,000 |
| Non-current | | |
| Deposit for drawing a bill | 36,376 | 59,636 |
| National project | 1,232 | 1,650 |
| Deposit for customs and warehouse | - | 362 |
| Deposit for checking account | 228 | 241 |
| Others | 32,060 | 31,508 |
| Subtotal | 69,896 | 93,397 |
| Total | 150,396 | 158,397 |

7. Trade Receivables, and Loans and Other Receivables

(a) Trade receivables, and loans and other receivables, net of allowance for doubtful accounts, as of December 31, 2015 and 2014, are as follows:

| <i>(in millions of Korean won)</i> | December 31, 2015 | | | December 31, 2014 | | |
|------------------------------------|--------------------------|---|------------------------|--------------------------|---|------------------------|
| | Original amount | Less : allowance for doubtful accounts | Carrying amount | Original amount | Less : allowance for doubtful accounts | Carrying amount |
| Current | | | | | | |
| Trade receivables | 7,237,329 | (143,977) | 7,093,352 | 7,811,780 | (127,865) | 7,683,915 |
| Loans and other receivables | 670,776 | (16,635) | 654,141 | 652,399 | (19,180) | 633,219 |
| Non-Current | | | | | | |
| Loans and other receivables | 506,907 | (119) | 506,788 | 548,624 | (60) | 548,564 |

(b) Details of loans and other receivables as of December 31, 2015 and 2014, are as follows:

| <i>(in millions of Korean won)</i> | December 31, 2015 | December 31, 2014 |
|------------------------------------|--------------------------|--------------------------|
| Current | | |
| Loans | 45,378 | 16,996 |
| Non-trade receivables | 356,570 | 421,970 |
| Accrued income | 229,490 | 186,692 |
| Deposits | 22,703 | 7,561 |
| Subtotal | 654,141 | 633,219 |
| Non-current | | |
| Loans | 110,274 | 151,158 |
| Non-trade receivables | 7,700 | 8,297 |
| Deposits | 388,814 | 389,109 |
| Subtotal | 506,788 | 548,564 |
| Total | 1,160,929 | 1,181,783 |

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- (c) The aging analysis of trade receivables and loans and other receivables as of December 31, 2015 and 2014, is as follows:

| <i>(in millions of Korean won)</i> | December 31, 2015 | | | | December 31, 2014 | | | |
|------------------------------------|-------------------|-----------------------------|-------------|-----------|-------------------|-----------------------------|-------------|-----------|
| | Trade receivables | Loans and other receivables | | Total | Trade receivables | Loans and other receivables | | Total |
| | | Current | Non-current | | | Current | Non-current | |
| Current | 6,039,338 | 606,189 | 504,877 | 7,150,404 | 7,062,715 | 592,987 | 539,939 | 8,195,641 |
| Past due but not impaired | | | | | | | | |
| Up to 6 months | 998,920 | 21,653 | 1,985 | 1,022,558 | 529,886 | 33,809 | 5,240 | 568,935 |
| 7 to 12 months | 86,335 | 21,091 | 1 | 107,427 | 99,275 | 2,802 | 304 | 102,381 |
| Over 1 year | 12,725 | 5,693 | 44 | 18,462 | 14,579 | 2,939 | 3,141 | 20,659 |
| Subtotal | 1,097,980 | 48,437 | 2,030 | 1,148,447 | 643,740 | 39,550 | 8,685 | 691,975 |
| Impaired | 100,011 | 16,150 | - | 116,161 | 105,325 | 19,862 | - | 125,187 |
| Total | 7,237,329 | 670,776 | 506,907 | 8,415,012 | 7,811,780 | 652,399 | 548,624 | 9,012,803 |

- (d) The allowance for doubtful accounts is recognized based on aging analysis and historical experience.
- (e) Defaulted receivables which are uncertain to be collected due to reasons including debtors' insolvency are classified into rehabilitation-related receivables and other defaulted receivables. In case of receivables from a debtor under court receivership or composition, its carrying amount is measured at the present value of estimated future cash flows based on repayment schedule. All other defaulted receivables are measured based on the class and the amount of provided collateral.
- (f) Movements in allowance for doubtful accounts for the years ended December 31, 2015 and 2014, are as follows:

| <i>(in millions of Korean won)</i> | 2015 | | | | |
|------------------------------------|-----------|---------------------|-----------|---------|------------|
| | At Jan. 1 | Addition (reversal) | Write-off | Other | At Dec. 31 |
| Trade receivables | 127,865 | 13,575 | (10,639) | 13,176 | 143,977 |
| Loans and other receivables | | | | | |
| Current | 19,180 | 133 | (1,949) | (729) | 16,635 |
| Non-current | 60 | 59 | - | - | 119 |
| | 2014 | | | | |
| <i>(in millions of Korean won)</i> | At Jan. 1 | Addition (reversal) | Write-off | Other | At Dec. 31 |
| Trade receivables | 114,361 | 27,806 | (6,743) | (7,559) | 127,865 |
| Loans and other receivables | | | | | |
| Current | 20,438 | 166 | (1,944) | 520 | 19,180 |
| Non-current | 71 | (11) | - | - | 60 |

The bad debt expenses of trade receivables have been included in 'selling and marketing expenses' in the consolidated statements of income and the bad debt expenses of other

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receivables have been included in 'other non-operating expenses'. Amounts charged to the allowance account are generally reversed when reasons for allowance are resolved, or written off when there is no expectation of recovering additional cash.

- (g) There are no financial assets transferred, but not derecognized in their entirety, and no associated liabilities recognized as of December 31, 2015.

8. Other Financial Assets and Liabilities

- (a) Details of other financial assets and liabilities as of December 31, 2015 and 2014, are as follows:

| <i>(in millions of Korean won)</i> | December 31, 2015 | December 31, 2014 |
|------------------------------------|--------------------------|--------------------------|
| Other financial assets | | |
| Derivatives | 48,440 | 16,421 |
| Available-for-sale | 54,406 | 48,885 |
| Held-to-maturity | 2,638 | 2,662 |
| Total | 105,484 | 67,968 |
| Current | 20,674 | 11,193 |
| Non-current | 84,810 | 56,775 |

| <i>(in millions of Korean won)</i> | December 31, 2015 | December 31, 2014 |
|------------------------------------|--------------------------|--------------------------|
| Other financial liabilities | | |
| Derivatives | 83,170 | 68,582 |
| Financial guarantee liability | 579 | 520 |
| Total | 83,749 | 69,102 |
| Current | 13,823 | 6,528 |
| Non-current | 69,926 | 62,574 |

- (b) Details of derivatives as of December 31, 2015 and 2014, are as follows:

| <i>(in millions of Korean won)</i> | December 31, 2015 | | December 31, 2014 | |
|------------------------------------|--------------------------|--------------------|--------------------------|--------------------|
| | Assets | Liabilities | Assets | Liabilities |
| Current | | | | |
| Currency forward | 13,806 | 3,368 | 5,654 | 3,409 |
| Currency swap | 4,347 | 10,184 | 5,515 | 3,013 |
| Subtotal | 18,153 | 13,552 | 11,169 | 6,422 |
| Non-current | | | | |
| Currency swap | 30,287 | - | 5,252 | 28,352 |
| Interest rate swap | - | 69,618 | - | 33,808 |
| Subtotal | 30,287 | 69,618 | 5,252 | 62,160 |
| Total | 48,440 | 83,170 | 16,421 | 68,582 |

The details of derivative contracts are described in Note 37.

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(c) Available-for-sale financial assets

- i) Changes in available-for-sale financial assets for the years ended December 31, 2015 and 2014, are as follows:

| <i>(in millions of Korean won)</i> | 2015 | | | | | | |
|------------------------------------|---------------|--------------|----------------|-----------------|----------------|------------|---------------|
| | At Jan. 1 | Acquisition | Disposal | Valuation (OCI) | Impairment | Others | At Dec. 31 |
| Listed equity securities | 13,107 | - | (1,369) | 4,588 | - | (997) | 15,329 |
| Unlisted equity securities | 34,356 | 7,625 | (1,570) | - | (3,776) | 1,240 | 37,875 |
| Debt securities | 1,422 | - | (87) | (14) | - | (119) | 1,202 |
| Total | 48,885 | 7,625 | (3,026) | 4,574 | (3,776) | 124 | 54,406 |

| <i>(in millions of Korean won)</i> | 2014 | | | | | | |
|------------------------------------|---------------|--------------|----------------|-----------------|----------------|------------|---------------|
| | At Jan. 1 | Acquisition | Disposal | Valuation (OCI) | Impairment | Others | At Dec. 31 |
| Listed equity securities | 17,720 | - | (1,000) | (3,596) | (17) | - | 13,107 |
| Unlisted equity securities | 33,515 | 2,666 | (1,111) | - | (797) | 83 | 34,356 |
| Debt securities | 1,840 | - | (323) | 21 | (300) | 184 | 1,422 |
| Total | 53,075 | 2,666 | (2,434) | (3,575) | (1,114) | 267 | 48,885 |

- ii) The listed equity securities among the above equity securities are measured using quoted prices in active markets. However, the unlisted equity securities are measured at cost as they are mostly in the beginning of their business stages and their fair values cannot be reliably measured.
- iii) During the year ended December 31, 2015, listed equity securities amounting to ₩1,369 million have been derecognized as a result of disposal and the Group recognized gain on disposal amounting to ₩1,372 million. In addition, the unlisted equity securities amounting to ₩1,570 million (2014: ₩1,111 million), whose fair value could not be measured reliably and therefore measured at cost, have been derecognized as a result of disposal or return of capital investments. Accordingly, a gain on disposal amounting to ₩6,845 million (2014: gain and loss on disposal amounting to ₩731 million and ₩2 million, respectively) was recognized as profit and loss for the year ended December 31, 2015.
- iv) For the year ended December 31, 2015, there is no accumulated other comprehensive loss recognized for listed equity securities that was reclassified to impairment loss. (2014: ₩17 million of accumulated other comprehensive loss recognized for listed equity securities was reclassified to impairment loss.)
- v) There is no available-for-sale financial assets held for sale as of December 31, 2015.

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(d) Details of held-to-maturity financial assets as of December 31, 2015 and 2014, are as follows:

| <i>(in millions of Korean won)</i> | December 31, 2015 | December 31, 2014 |
|------------------------------------|--------------------------|--------------------------|
| Maturity | | |
| Within 1 year | 2,521 | 24 |
| 1 to 5 years | 117 | 2,638 |

The amount recognized as interest income in relation to held-to-maturity financial assets in 2015 is ₩86 million (2014: ₩76 million). No impairment losses were recognized in relation to held-to-maturity financial assets.

9. Inventories

(a) Inventories as of December 31, 2015 and 2014, are as follows:

| <i>(in millions of Korean won)</i> | December 31, 2015 | | | December 31, 2014 | | |
|------------------------------------|--------------------------|----------------------------|------------------------|--------------------------|----------------------------|------------------------|
| | Cost | Valuation allowance | Carrying amount | Cost | Valuation allowance | Carrying amount |
| Finished products and merchandise | 2,945,563 | (91,114) | 2,854,449 | 3,407,608 | (87,153) | 3,320,455 |
| Work-in-process | 297,787 | (9,474) | 288,313 | 328,100 | (6,044) | 322,056 |
| Raw materials and supplies | 1,486,266 | (50,777) | 1,435,489 | 1,802,905 | (29,362) | 1,773,543 |
| Other | 326,974 | (32,549) | 294,425 | 327,951 | (32,732) | 295,219 |
| Total | 5,056,590 | (183,914) | 4,872,676 | 5,866,564 | (155,291) | 5,711,273 |

(b) The cost of inventories recognized as expense and included in 'Cost of sales' in 2015 amounts to ₩42,214,803 million (2014: ₩44,088,907 million) and 'Loss on valuation of inventories' amounts to ₩174,064 million (2014: ₩141,938 million) from continuing operations. The cost of inventories recognized as expense and included in 'Cost of sales' in 2015 amounts to ₩20,871 million (2014: ₩870,987 million) and 'Loss on valuation of inventories' amounts to ₩4,747 million (2014: ₩5,577 million) from discontinued operations.

(c) There is no inventory provided as collateral for borrowings as of December 31, 2015.

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10. Other Assets

Details of other assets as of December 31, 2015 and 2014, are as follows:

| <i>(in millions of Korean won)</i> | December 31, 2015 | December 31, 2014 |
|------------------------------------|--------------------------|--------------------------|
| Current: | | |
| Advances | 52,534 | 107,991 |
| Prepaid expenses | 278,616 | 270,299 |
| Prepaid value added tax | 463,077 | 505,824 |
| Subtotal | 794,227 | 884,114 |
| Non-current: | | |
| Long-term prepaid expenses | 425,295 | 450,838 |
| Long-term advances | 294,756 | 272,993 |
| Other investment assets | 158 | 485 |
| Subtotal | 720,209 | 724,316 |
| Total | 1,514,436 | 1,608,430 |

11. Property, Plant and Equipment

(a) Details of property, plant and equipment as of December 31, 2015 and 2014, are as follows:

| <i>(in millions of Korean won)</i> | Land | Buildings | Structures | Machinery | Tools | Equipment | Other | Construction -in-progress | Total |
|------------------------------------|------------------|------------------|-------------------|------------------|----------------|------------------|----------------|--------------------------------------|-------------------|
| At December 31, 2015 | | | | | | | | | |
| Acquisition cost | 2,825,800 | 5,757,725 | 356,250 | 6,443,032 | 3,481,084 | 890,708 | 337,211 | 456,322 | 20,548,132 |
| Accumulated depreciation | - | (1,403,977) | (157,349) | (4,641,064) | (2,849,200) | (667,962) | (176,232) | - | (9,895,784) |
| Accumulated Impairment | - | (129,631) | (894) | (41,145) | (6,767) | (1,274) | (981) | - | (180,692) |
| Government grants | (5,991) | (686) | - | (3,111) | (1,253) | (317) | - | - | (11,358) |
| Net book amount | 2,819,809 | 4,223,431 | 198,007 | 1,757,712 | 623,864 | 221,155 | 159,998 | 456,322 | 10,460,298 |

| <i>(in millions of Korean won)</i> | Land | Buildings | Structures | Machinery | Tools | Equipment | Other | Construction -in-progress | Total |
|------------------------------------|------------------|------------------|-------------------|------------------|----------------|------------------|----------------|--------------------------------------|-------------------|
| At December 31, 2014 | | | | | | | | | |
| Acquisition cost | 2,383,173 | 5,760,519 | 346,714 | 6,742,359 | 3,372,883 | 933,835 | 326,545 | 725,969 | 20,591,997 |
| Accumulated depreciation | - | (1,286,173) | (150,645) | (4,815,299) | (2,688,306) | (687,789) | (166,579) | - | (9,794,791) |
| Accumulated Impairment | - | (136,221) | (311) | (43,854) | (4,464) | (1,140) | (1,033) | - | (187,023) |
| Government grants | (7,977) | (875) | - | (2,122) | (2,178) | (178) | - | - | (13,330) |
| Net book amount | 2,375,196 | 4,337,250 | 195,758 | 1,881,084 | 677,935 | 244,728 | 158,933 | 725,969 | 10,596,853 |

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(b) Changes in property, plant and equipment for the years ended December 31, 2015 and 2014, are as follows:

| <i>(in millions of Korean won)</i> | 2015 | | | | | | | | Total |
|--|------------------|------------------|----------------|------------------|----------------|----------------|----------------|---------------------------|-------------------|
| | Land | Buildings | Structures | Machinery | Tools | Equipment | Other | Construction -in-progress | |
| At January 1, 2015 | 2,375,196 | 4,337,250 | 195,758 | 1,881,084 | 677,935 | 244,728 | 158,933 | 725,969 | 10,596,853 |
| Acquisitions | 69,383 | 128,033 | 7,386 | 198,072 | 254,716 | 68,715 | 54,631 | 971,988 | 1,752,924 |
| Acquisitions from business combination | - | - | - | - | 2,192 | 298 | 23 | 8,505 | 11,018 |
| Transfer-in(out) | 414,939 | 36,940 | 16,145 | 470,048 | 170,244 | 7,908 | 5,379 | (1,243,849) | (122,246) |
| Disposals | (28,349) | (11,944) | (440) | (28,924) | (10,133) | (322) | (3,914) | (633) | (84,659) |
| Decrease due to transfer of business | (8,192) | (11,256) | (271) | (308) | (1,107) | (3,546) | (2,200) | (12) | (26,892) |
| Depreciation | - | (189,917) | (15,527) | (703,256) | (462,981) | (92,429) | (50,044) | - | (1,514,154) |
| Impairment ¹ | (2,869) | (22,659) | (727) | (30,430) | (3,913) | (787) | (338) | - | (61,723) |
| Exchange differences | (299) | (43,016) | (4,317) | (28,574) | (3,089) | (3,410) | (2,472) | (5,646) | (90,823) |
| At December 31, 2015 | 2,819,809 | 4,223,431 | 198,007 | 1,757,712 | 623,864 | 221,155 | 159,998 | 456,322 | 10,460,298 |

| <i>(in millions of Korean won)</i> | 2014 | | | | | | | | Total |
|------------------------------------|------------------|------------------|----------------|------------------|----------------|----------------|----------------|---------------------------|-------------------|
| | Land | Buildings | Structures | Machinery | Tools | Equipment | Other | Construction -in-progress | |
| At January 1, 2014 | 2,375,668 | 4,149,255 | 193,551 | 2,018,704 | 699,680 | 228,923 | 156,987 | 519,225 | 10,341,993 |
| Acquisitions | 460 | 119,991 | 14,357 | 231,670 | 315,668 | 95,922 | 44,564 | 1,354,127 | 2,176,759 |
| Transfer-in(out) | 23,526 | 459,720 | 13,162 | 434,146 | 169,272 | 16,118 | 22,023 | (1,138,453) | (486) |
| Disposals | (18,219) | (25,603) | (3,042) | (16,445) | (22,342) | (5,026) | (11,955) | (1,282) | (103,914) |
| Depreciation | - | (179,144) | (15,319) | (743,961) | (476,263) | (88,213) | (49,258) | - | (1,552,158) |
| Impairment | - | (133,861) | (1,142) | (25,046) | (2,466) | (504) | (619) | - | (163,638) |
| Exchange differences | (6,239) | (53,108) | (5,809) | (17,984) | (5,614) | (2,492) | (2,809) | (7,648) | (101,703) |
| At December 31, 2014 | 2,375,196 | 4,337,250 | 195,758 | 1,881,084 | 677,935 | 244,728 | 158,933 | 725,969 | 10,596,853 |

¹ Divisions in Innotek and other segments, managed as a separate cash-generating unit (hereafter 'CGU'), have been tested for impairment as accumulation of operating losses has been experienced and a future downturn in sales is expected. And impairment loss of ₩26,247 million (Innotek: ₩24,369 million, other segments: ₩1,878 million) was recognized as 'other non-operating expenses'. This impairment was attributed to tools, machinery, and others since there was no goodwill allocated to the CGU. The recoverable amount was measured at the higher of fair value less costs of disposal or value-in-use, and the fair value amount is categorized within Level 3 of fair value hierarchy. The pre-tax discount rate used for Innotek segment value-in-use calculation was 9.19%.

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(c) Line items including depreciation for the years ended December 31, 2015 and 2014, are as follows:

| <i>(in millions of Korean won)</i> | 2015 | 2014 |
|------------------------------------|------------------|------------------|
| Continuing operations | | |
| Cost of sales | 1,207,788 | 1,194,044 |
| Selling and marketing expenses | 47,317 | 46,802 |
| Administrative expenses | 87,429 | 67,953 |
| Research and development expense | 123,477 | 128,304 |
| Service costs | 16,174 | 16,022 |
| Other non-operating expenses | 31,834 | 64,913 |
| Subtotal | 1,514,019 | 1,518,038 |
| Discontinued operations | 135 | 34,120 |
| Total | 1,514,154 | 1,552,158 |

(d) Capitalized borrowing costs and capitalization rates for the years ended December 31, 2015 and 2014, are as follows:

| <i>(in millions of Korean won)</i> | 2015 | 2014 |
|------------------------------------|-------------|-------------|
| Capitalized borrowing costs | 23,369 | 9,722 |
| Capitalization rate(%) | 4.33 | 4.00 |

(e) Details of property, plant and equipment provided as collateral as of December 31, 2015 and 2014, are as follows:

i) List of collateral for the Group

| December 31, 2015 | | | | | |
|------------------------------------|------------------------|-----------------------|--------------------------|-----------------------|-----------------------------------|
| <i>(in millions of Korean won)</i> | Carrying amount | Secured amount | Related line item | Related amount | Secured party |
| Land, Building | 240,120 | 222,633 | Borrowings and others | 110,005 | Korea Development Bank and others |
| Machinery and others | 19,864 | 19,864 | Borrowings | 6,019 | Saudi Industrial Development Fund |

| December 31, 2014 | | | | | |
|------------------------------------|------------------------|-----------------------|--------------------------|-----------------------|-----------------------------------|
| <i>(in millions of Korean won)</i> | Carrying amount | Secured amount | Related line item | Related amount | Secured party |
| Land, Building | 249,740 | 213,483 | Borrowings and others | 109,007 | Korea Development Bank and others |
| Machinery and others | 17,233 | 17,228 | Borrowings | 5,393 | Saudi Industrial Development Fund |

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ii) List of collateral for external parties

The carrying amount of buildings pledged as collateral to guarantee the land lessor's obligation to the mortgagee, Nonghyup Bank and others, is ₩606 million as of December 31, 2015 (2014: ₩1,205 million) within the secured amount of up to ₩6,850 million (2014: ₩8,020 million).

12. Intangible assets

(a) Details of intangible assets as of December 31, 2015 and 2014, are as follows:

| <i>(in millions of Korean won)</i> | Goodwill | Industrial property rights | Development costs | Membership rights | Other intangible assets | Construction-in-progress | Total |
|---|-----------------|-----------------------------------|--------------------------|--------------------------|--------------------------------|---------------------------------|------------------|
| At December 31, 2015 | | | | | | | |
| Acquisition cost | 150,882 | 860,626 | 2,016,667 | 82,555 | 814,125 | 145,209 | 4,070,064 |
| Accumulated amortization and impairment | (1,214) | (419,586) | (1,620,039) | (1,668) | (554,277) | - | (2,596,784) |
| Net book amount | 149,668 | 441,040 | 396,628 | 80,887 | 259,848 | 145,209 | 1,473,280 |
| At December 31, 2014 | | | | | | | |
| Acquisition cost | 145,819 | 791,264 | 1,757,007 | 83,771 | 737,245 | 150,619 | 3,665,725 |
| Accumulated amortization and impairment | - | (354,708) | (1,414,313) | (1,061) | (501,307) | - | (2,271,389) |
| Net book amount | 145,819 | 436,556 | 342,694 | 82,710 | 235,938 | 150,619 | 1,394,336 |

(b) Changes in intangible assets for the years ending December 31, 2015 and 2014, are as follows:

| <i>(in millions of Korean won)</i> | 2015 | | | | | | |
|--------------------------------------|-----------------|-----------------------------------|--------------------------|--------------------------|--------------------------------|---------------------------------|------------------|
| | Goodwill | Industrial property rights | Development costs | Membership rights | Other intangible assets | Construction-in-progress | Total |
| At January 1, 2015 | 145,819 | 436,556 | 342,694 | 82,710 | 235,938 | 150,619 | 1,394,336 |
| Acquisitions | - | 100,764 | 23,467 | 577 | 93,157 | 64,934 | 282,899 |
| Acquisitions by internal development | - | - | 22,547 | - | - | 225,405 | 247,952 |
| Increase due to business combination | 5,481 | 975 | 57 | - | 12,937 | 1,228 | 20,678 |
| Transfer-in(out) | - | - | 272,406 | - | 19,082 | (291,488) | - |
| Disposals | - | (5,767) | (16,737) | (643) | (523) | (3,321) | (26,991) |
| Decrease due to transfer of business | (220) | (11,142) | - | (851) | (6,163) | (30) | (18,406) |
| Amortization | - | (79,827) | (246,387) | - | (92,490) | - | (418,704) |
| Impairment ¹ | (1,214) | (519) | (1,304) | (926) | (1,097) | (2,071) | (7,131) |
| Exchange differences | (198) | - | (115) | 20 | (993) | (67) | (1,353) |
| At December 31, 2015 | 149,668 | 441,040 | 396,628 | 80,887 | 259,848 | 145,209 | 1,473,280 |

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| <i>(in millions of Korean won)</i> | 2014 | | | | | | Total |
|--------------------------------------|-----------------|-----------------------------------|--------------------------|--------------------------|--------------------------------|---------------------------------|------------------|
| | Goodwill | Industrial property rights | Development costs | Membership rights | Other intangible assets | Construction-in-progress | |
| At January 1, 2014 | 145,933 | 420,626 | 318,201 | 83,079 | 262,893 | 132,958 | 1,363,690 |
| Acquisitions | - | 109,550 | 51,469 | 1,724 | 44,394 | 85,509 | 292,646 |
| Acquisitions by internal development | - | - | 24,871 | - | - | 185,553 | 210,424 |
| Transfer-in(out) | - | - | 217,748 | - | 26,213 | (243,961) | - |
| Disposals | - | (15,646) | (8,567) | (2,030) | (670) | (1,931) | (28,844) |
| Amortization | - | (74,555) | (257,189) | - | (94,300) | - | (426,044) |
| Impairment | - | (3,421) | (3,278) | (65) | (1,645) | (7,535) | (15,944) |
| Exchange differences | (114) | 2 | (561) | 2 | (947) | 26 | (1,592) |
| At December 31, 2014 | 145,819 | 436,556 | 342,694 | 82,710 | 235,938 | 150,619 | 1,394,336 |

¹ Divisions in other segments, managed as a separate cash-generating unit (hereafter 'CGU'), have been tested for impairment as accumulation of operating losses has been experienced and a future downturn in sales is expected. And impairment loss of ₩ 571 million was recognized as other non-operating expenses. This impairment was attributed to patents, software, and others since there was no goodwill allocated to the CGU. The recoverable amount was measured at fair value less costs of disposal, and the fair value amount is categorized within Level 3 of fair value hierarchy.

(c) Line items including amortization of intangible assets for the years ended December 31, 2015 and 2014, are as follows:

| <i>(in millions of Korean won)</i> | 2015 | 2014 |
|------------------------------------|----------------|----------------|
| Continuing operations: | | |
| Cost of sales | 217,034 | 235,917 |
| Selling and marketing expenses | 27,293 | 31,799 |
| Administrative expenses | 106,661 | 95,427 |
| Research and development expenses | 65,595 | 57,647 |
| Service costs | 2,119 | 2,270 |
| Subtotal | 418,702 | 423,060 |
| Discontinued operations | 2 | 2,984 |
| Total | 418,704 | 426,044 |

(d) Capitalized borrowing costs and capitalization rates of intangible assets used for the years ended December 31, 2015 and 2014, are as follows:

| <i>(in millions of Korean won)</i> | 2015 | 2014 |
|------------------------------------|-------------|-------------|
| Capitalized borrowing costs | 36 | 25 |
| Capitalization rate(%) | 3.79 | 4.04 |

(e) There are no intangible assets pledged as collateral for borrowings as of December 31, 2015.

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(f) Impairment tests for goodwill

- i) Goodwill is allocated among the Group's cash-generating units (CGUs) based on operating segments. As of December 31, 2015, an operating segment-level summary of goodwill allocation is presented below:

| <i>(in millions of Korean won)</i> | H&A | MC | Other | Total |
|------------------------------------|----------------|-----------|--------------|--------------|
| Goodwill | 64,531 | 29,894 | 55,243 | 149,668 |

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

| | H&A | MC | Other |
|--------------------------------|----------------|-----------|--------------|
| Discount rates | 8.6% | 14.3% | 9.2% |
| Nominal long-term growth rates | 2.1% | 3.0% | 2.9% |

- iv) During the year ended December 31, 2015, impairment loss on goodwill, amounting to ₩1,214 million, was recognized on the basis of recoverable amounts of a CGU determined based on fair value less costs of disposal.

(g) Research and development expenses

Research and development expenses for the years ended December 31, 2015 and 2014, are as follows:

| <i>(in millions of Korean won)</i> | 2015 | 2014 |
|--|------------------|------------------|
| Continuing operations: | | |
| Uncapitalized research and development expenditure | 3,572,117 | 3,452,492 |
| Amortization from internally capitalized development costs | 151,273 | 170,229 |
| Subtotal | 3,723,390 | 3,622,721 |
| Discontinued operations | - | 7,605 |
| Total | 3,723,390 | 3,630,326 |

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13. Investments in associates and joint ventures

(a) Details of investments in associates and joint ventures

- i) Carrying amounts of investments in associates and joint ventures as of December 31, 2015 and 2014, are as follows:

| <i>(in millions of Korean won)</i> | December 31, 2015 | December 31, 2014 |
|------------------------------------|--------------------------|--------------------------|
| Associates | 4,648,197 | 4,408,091 |
| Joint ventures | 193,664 | 186,370 |
| Total | 4,841,861 | 4,594,461 |

- ii) Investments in associates as of December 31, 2015 and 2014, are as follows:

| <i>(in millions of Korean won)</i> | December 31, 2015 | | | | December 31, 2014 | | | |
|--|--------------------------|-------------------------|------------------------|------------------------|--------------------------|-------------------------|------------------------|------------------------|
| | Acquisition cost | Net asset amount | Unrealized gain | Carrying amount | Acquisition cost | Net asset amount | Unrealized gain | Carrying amount |
| LG Display Co., Ltd. | 679,218 | 4,621,566 | (59,197) | 4,562,369 | 679,218 | 4,332,916 | (49,765) | 4,283,151 |
| Ericsson-LG Co., Ltd | 26,629 | 78,983 | (49) | 78,934 | 26,629 | 77,419 | (69) | 77,350 |
| Hitachi-LG Data Storage Inc.(HLDS) | 51,184 | (19,761) | (1,482) | - | 51,184 | (2,121) | (1,456) | - |
| Global OLED Technology LLC. | - | - | - | - | 53,454 | 28,598 | - | 28,598 |
| Korea Information Certificate Authority Inc. | 852 | 3,605 | - | 3,605 | 852 | 3,240 | - | 3,240 |
| LG Fuel Cell Systems Inc. | 44,051 | (77) | - | - | 44,051 | 12,818 | - | 12,818 |
| SKT Vietnam PTE., Ltd. | 72,194 | 793 | - | - | 72,194 | 717 | - | - |
| One-Red, LLC ¹ | 3,128 | 3,289 | - | 3,289 | 3,128 | 2,934 | - | 2,934 |
| Total | 877,256 | 4,688,398 | (60,728) | 4,648,197 | 930,710 | 4,456,521 | (51,290) | 4,408,091 |

¹ The financial statements as of November 30, 2015, were used due to a different closing date.

- iii) Investments in joint ventures as of December 31, 2015 and 2014, are as follows:

| <i>(in millions of Korean won)</i> | December 31, 2015 | | | | December 31, 2014 | | | |
|--|--------------------------|-------------------------|------------------------|------------------------|--------------------------|-------------------------|------------------------|------------------------|
| | Acquisition cost | Net asset amount | Unrealized gain | Carrying amount | Acquisition cost | Net asset amount | Unrealized gain | Carrying amount |
| LG Holdings(HK) Ltd. | 115,234 | 137,638 | - | 137,638 | 115,234 | 127,256 | - | 127,256 |
| Arcelic-LG Klima Sanayi ve Ticarta A.S.(LGEAT) | 14,718 | 41,417 | (134) | 41,283 | 14,718 | 44,908 | (345) | 44,563 |
| EIC PROPERTIES PTE LTD. | 9,636 | 14,063 | - | 14,063 | 9,636 | 13,912 | - | 13,912 |
| LG-MRI LLC | 516 | 680 | - | 680 | 516 | 639 | - | 639 |
| Total | 140,104 | 193,798 | (134) | 193,664 | 140,104 | 186,715 | (345) | 186,370 |

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(b) Associates and joint ventures

i) Associates are as follows:

| | 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 | 29.2% | 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 its voting rights through the Board of Directors.

² Reclassified as assets held-for-sale (Note 39).

ii) Joint ventures 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.

| <i>(in millions of Korean won)</i> | 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 |

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

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(c) Valuation of the equity method of accounting on associates and joint ventures

i) Changes in investments in associates for the years ended December 31, 2015 and 2014, are as follows:

(in millions of Korean won)

| | 2015 | | | | | | | | |
|--|-------------------|-------------|---------------------|----------------------------|-------------------------|-------------------|---------------------|---|------------------|
| | Beginning balance | Acquisition | Valuation gain/loss | Other comprehensive income | Remeasurement component | Dividend/recovery | Exchange difference | Changes in ownership interest over associates | Ending balance |
| LG Display Co., Ltd. | 4,283,151 | - | 357,000 | 21,939 | (31,908) | (67,813) | - | - | 4,562,369 |
| Ericsson-LG Co., Ltd | 77,350 | - | 3,564 | 742 | 528 | (3,250) | - | - | 78,934 |
| Hitachi-LG Data Storage Inc.(HLDS) | - | - | - | - | - | - | - | - | - |
| Global OLED Technology LLC. | 28,598 | - | - | - | - | (28,598) | - | - | - |
| Korea Information Certificate Authority Inc. | 3,240 | - | 364 | 61 | - | (60) | - | - | 3,605 |
| LG Fuel Cell Systems Inc. | 12,818 | - | (12,505) | (305) | (8) | - | - | - | - |
| SKT Vietnam PTE., Ltd. | - | - | - | - | - | - | - | - | - |
| One-Red, LLC | 2,934 | - | (191) | - | - | - | 546 | - | 3,289 |
| Total | 4,408,091 | - | 348,232 | 22,437 | (31,388) | (99,721) | 546 | - | 4,648,197 |

(in millions of Korean won)

| | 2014 | | | | | | | | |
|--|-------------------|--------------|---------------------|----------------------------|-------------------------|-------------------|---------------------|---|------------------|
| | Beginning balance | Acquisition | Valuation gain/loss | Other comprehensive income | Remeasurement component | Dividend/recovery | Exchange difference | Changes in ownership interest over associates | Ending balance |
| LG Display Co., Ltd. | 3,975,100 | - | 339,772 | 10,678 | (42,399) | - | - | - | 4,283,151 |
| Ericsson-LG Co., Ltd | 89,338 | - | 5,627 | 42 | (657) | (17,000) | - | - | 77,350 |
| Hitachi-LG Data Storage Inc.(HLDS) | 28,009 | - | (28,744) | 735 | - | - | - | - | - |
| Global OLED Technology LLC. | 30,767 | - | (3,575) | 1,406 | - | - | - | - | 28,598 |
| Korea Information Certificate Authority Inc. | 2,890 | - | 288 | 1 | - | (60) | - | 121 | 3,240 |
| LG Fuel Cell Systems Inc. | 20,102 | 7,267 | (14,677) | (137) | (2) | - | - | 265 | 12,818 |
| SKT Vietnam PTE., Ltd. | - | - | - | - | - | - | - | - | - |
| One-Red, LLC | 3,139 | - | (17) | - | - | - | (188) | - | 2,934 |
| Total | 4,149,345 | 7,267 | 298,674 | 12,725 | (43,058) | (17,060) | (188) | 386 | 4,408,091 |

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- ii) Changes in the carrying amount of investments in joint ventures for the years ended December 31, 2015 and 2014, are as follows:

(in millions of Korean won)

| | 2015 | | | | | | | | |
|--|-------------------|-------------|---------------------|---|-------------------------|-------------------|---------------------|---|----------------|
| | Beginning balance | Acquisition | Valuation gain/loss | Other comprehensive income(excluding remeasurement) | Remeasurement component | Dividend/recovery | Exchange difference | Changes in ownership interest over associates | Ending balance |
| LG Holdings(HK) Ltd. | 127,256 | - | 7,457 | 2,925 | - | - | - | - | 137,638 |
| Arcelic-LG Klima Sanayi ve Ticarta A.S.(LGEAT) | 44,563 | - | 3,557 | (6,837) | - | - | - | - | 41,283 |
| EIC PROPERTIES PTE LTD. | 13,912 | - | 207 | (56) | - | - | - | - | 14,063 |
| LG-MRI LLC | 639 | - | 57 | - | - | - | (16) | - | 680 |
| Total | 186,370 | - | 11,278 | (3,968) | - | - | (16) | - | 193,664 |

(in millions of Korean won)

| | 2014 | | | | | | | | |
|--|-------------------|-------------|---------------------|---|-------------------------|-------------------|---------------------|---|----------------|
| | Beginning balance | Acquisition | Valuation gain/loss | Other comprehensive income(excluding remeasurement) | Remeasurement component | Dividend/recovery | Exchange difference | Changes in ownership interest over associates | Ending balance |
| LG Holdings(HK) Ltd. | 117,709 | - | 6,530 | 3,017 | - | - | - | - | 127,256 |
| Arcelic-LG Klima Sanayi ve Ticarta A.S.(LGEAT) | 47,544 | - | (463) | (2,518) | - | - | - | - | 44,563 |
| EIC PROPERTIES PTE LTD. | 13,693 | - | 254 | (35) | - | - | - | - | 13,912 |
| LG Fund for Enterprises | 1,292 | - | (606) | - | - | (686) | - | - | - |
| LG-MRI LLC | - | 516 | 30 | - | - | - | 93 | - | 639 |
| Total | 180,238 | 516 | 5,745 | 464 | - | (686) | 93 | - | 186,370 |

- (d) Summary of the consolidated financial information on the associate important to the reporting entity is as follows:

- LG Display Co., Ltd. and its subsidiaries

(in millions of Korean won)

| | December 31, 2015 | December 31, 2014 |
|--|-------------------|-------------------|
| Current assets | 9,531,634 | 9,240,629 |
| Non-current assets | 13,045,526 | 13,726,394 |
| Total assets | 22,577,160 | 22,967,023 |
| Current liabilities | 6,606,712 | 7,549,556 |
| Non-current liabilities | 3,265,492 | 3,634,057 |
| Total liabilities | 9,872,204 | 11,183,613 |
| Equity of the owners of LG Display Co., Ltd. | 12,192,952 | 11,431,412 |
| Non-controlling interests | 512,004 | 351,998 |
| Total equity | 12,704,956 | 11,783,410 |

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| <i>(in millions of Korean won)</i> | 2015 | 2014 |
|--|-------------|-------------|
| Net sales | 28,383,884 | 26,455,529 |
| Profit for the year | 1,023,456 | 917,404 |
| Equity of the owners of LG Display Co., Ltd. | | |
| Profit for the year | 966,553 | 904,268 |
| Other comprehensive loss, net of tax | (26,105) | (84,029) |
| Total comprehensive income, net of tax | 940,448 | 820,239 |
| Dividends received from associates | 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 years ended December 31, 2015 and 2014, are as follows:

- LG Display Co., Ltd. and its subsidiaries

| <i>(in millions of Korean won)</i> | 2015 | 2014 |
|---|-------------|-------------|
| Opening equity attributable to owners of LG Display Co., Ltd. | 11,431,412 | 10,611,173 |
| Profit for the year | 966,553 | 904,268 |
| Other comprehensive loss, net of tax | (26,105) | (84,029) |
| Dividends | (178,908) | - |
| Closing equity attributable to owners of LG Display Co., Ltd. | 12,192,952 | 11,431,412 |
| Group ownership(%) | 37.9 | 37.9 |
| The Group's share at the end of the reporting period | 4,621,566 | 4,332,916 |
| Unrealized loss | (59,197) | (49,765) |
| Carrying amount at the reporting date | 4,562,369 | 4,283,151 |

- (f) The Group's share in the operating results in the individually insignificant associates and joint ventures for the years ended December 31, 2015 and 2014, is as follows:

| <i>(in millions of Korean won)</i> | 2015 | | 2014 | |
|---|-------------------|-----------------------|-------------------|-----------------------|
| | Associates | Joint ventures | Associates | Joint ventures |
| Profit(loss) for the year | (25,782) | 11,067 | (41,164) | 5,099 |
| Other comprehensive income (loss), net of tax | 284 | (3,968) | 1,388 | 464 |
| Total comprehensive income(loss), net of tax | (25,498) | 7,099 | (39,776) | 5,563 |

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(g) Accumulated comprehensive income and loss that were not recognized due to discontinuation of the equity method for the years ended December 31, 2015 and 2014, are as follows:

| <i>(in millions of Korean won)</i> | 2015 | | 2014 | |
|------------------------------------|---------------------------------------|---|---------------------------------------|---|
| | Losses of the equity-method investees | Accumulated losses of the equity-method investees | Losses of the equity-method investees | Accumulated losses of the equity-method investees |
| Hitachi-LG Data Storage Inc.(HLDS) | 17,666 | 21,243 | 3,577 | 3,577 |

(h) The fair value and book value of marketable associate securities as of December 31, 2015 and 2014, are as follows:

| December 31, 2015 | | | | | |
|--|-----------|--------------------------------------|---------------------------------------|--|------------|
| | Type | 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 |

| December 31, 2014 | | | | | |
|--|-----------|--------------------------------------|---------------------------------------|--|------------|
| | Type | 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 | 33,650 | 4,563,781 | 4,283,151 |
| Korea Information Certificate Authority Inc. | Associate | 2,000,000 | 3,475 | 6,950 | 3,240 |

14. Investment Property

(a) Details of investment property as of December 31, 2015 and 2014, are as follows:

| <i>(in millions of Korean won)</i> | Land | Buildings | Total |
|------------------------------------|---------------|---------------|----------------|
| At December 31, 2015 | | | |
| Acquisition cost | 77,990 | 69,627 | 147,617 |
| Accumulated depreciation | - | (26,346) | (26,346) |
| Net book amount | 77,990 | 43,281 | 121,271 |
| At December 31, 2014 | | | |
| Acquisition cost | 1,085 | 3,678 | 4,763 |
| Accumulated depreciation | - | (2,064) | (2,064) |
| Net book amount | 1,085 | 1,614 | 2,699 |

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(b) Changes in investment property for the years ended December 31, 2015 and 2014, are as follows:

| <i>(in millions of Korean won)</i> | 2015 | | |
|------------------------------------|---------------|------------------|----------------|
| | Land | Buildings | Total |
| At January 1 | 1,085 | 1,614 | 2,699 |
| Transfer in ¹ | 76,905 | 43,156 | 120,061 |
| Disposals | - | (750) | (750) |
| Depreciation | - | (739) | (739) |
| At December 31 | 77,990 | 43,281 | 121,271 |

| <i>(in millions of Korean won)</i> | 2014 | | |
|------------------------------------|--------------|------------------|--------------|
| | Land | Buildings | Total |
| At January 1 | 1,839 | 3,084 | 4,923 |
| Transfer in ¹ | - | 1,457 | 1,457 |
| Disposals | (754) | (2,140) | (2,894) |
| Depreciation | - | (391) | (391) |
| Impairment | - | (396) | (396) |
| At December 31 | 1,085 | 1,614 | 2,699 |

¹ Reclassified from property, plant and equipment.

(c) The fair value of investment property is valued by an independent professional appraiser with certified qualification or determined based on the evaluation reflecting official land value or recently available transaction price of similar properties and it is classified as Level 3 of the fair value hierarchy. The fair value of investment property as of December 31, 2015, is ₩123,748 million (2014: ₩4,100 million).

(d) Rental income amounting to ₩1,541 million (2014: ₩518 million) and rental expenses amounting to ₩1,486 million (2014: ₩409 million) are recognized in the consolidated statements of income relating to investment property.

(e) As of December 31, 2015, the Group assumes obligation for repairs and maintenance of investment property owned by the Group.

15. Borrowings

(a) Carrying amounts of borrowings as of December 31, 2015 and 2014, are as follows:

| <i>(in millions of Korean won)</i> | December 31, 2015 | December 31, 2014 |
|---|--------------------------|--------------------------|
| Current | | |
| Short-term borrowings | 910,031 | 1,164,790 |
| Current portion of long-term borrowings | 382,060 | 331,569 |
| Current portion of debentures | 1,034,037 | 1,079,191 |
| Subtotal | 2,326,128 | 2,575,550 |

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| <i>(in millions of Korean won)</i> | December 31, 2015 | December 31, 2014 |
|------------------------------------|--------------------------|--------------------------|
| Non-current | | |
| Long-term borrowings | 2,244,982 | 2,131,877 |
| Debentures | 4,256,140 | 4,295,004 |
| Subtotal | 6,501,122 | 6,426,881 |
| Total | 8,827,250 | 9,002,431 |

(b) Details of borrowings

i) Short-term borrowings consist of:

| <i>(in millions of Korean won)</i> | Annual interest rate at Dec. 31, 2015 | Annual interest rate at Dec. 31, 2014 | Carrying amount | |
|------------------------------------|--|--|--------------------------|--------------------------|
| | | | December 31, 2015 | December 31, 2014 |
| General loans ¹ | | | | |
| HSBC and others | 1.0 ~ 14.8% | 0.9 ~ 13.7% | 910,031 | 1,164,790 |
| Total | | | 910,031 | 1,164,790 |

¹ The Group entered into a cross-currency swap contract to hedge cash flow risk related to foreign exchange rate and floating interest rate of some portion of borrowings (Note 37).

ii) Long-term borrowings consist of:

| <i>(in millions of Korean won)</i> | Maturity date | Annual interest rate at December 31, 2015(%) | December 31, 2015 | | |
|------------------------------------|----------------------|---|--------------------------|----------------|--------------------|
| | | | Total | Current | Non-current |
| Local currency loans | | | | | |
| Kookmin Bank ¹ | 2027.01.28 | 3M CD+0.91 | 190,000 | - | 190,000 |
| Kookmin Bank ¹ | 2029.04.30 | 3M CD+1.14 | 200,000 | - | 200,000 |
| Nonghyup Bank ¹ | 2030.07.07 | 3M CD+1.05 | 190,000 | - | 190,000 |
| Shinhan Bank | 2016.05.22 | 2.75 | 17 | 17 | - |
| Shinhan Bank | 2016.10.19 | 4.37 | 47,500 | 47,500 | - |
| Shinhan Bank | 2017.02.16 | 4.60 | 190,000 | - | 190,000 |
| Shinhan Bank | 2017.02.27 | 3.63 | 20,000 | - | 20,000 |
| Shinhan Bank | 2017.09.15 | 1.75 | 392 | 224 | 168 |
| Shinhan Bank | 2018.06.04 | 2.69 | 20,000 | - | 20,000 |
| Shinhan Bank | 2020.04.16 | 3.11 | 2,167 | 500 | 1,667 |
| IBK Securities | 2016.10.14 | 3.35 | 87,545 | 87,545 | - |
| Woori Bank ¹ | 2030.04.15 | 3M CD+0.82 | 390,000 | - | 390,000 |
| Hana Bank | 2016.03.28 | 1.97 | 165 | 165 | - |
| Hana Bank ¹ | 2024.01.03 | 3M CD+0.98 | 200,000 | - | 200,000 |
| Korea Development Bank | 2016.04.20 | 4.63 | 30,000 | 30,000 | - |
| Korea Development Bank | 2016.07.27 | 3.81 | 50,000 | 50,000 | - |
| Korea Development Bank | 2016.07.27 | 3.78 | 50,000 | 50,000 | - |
| Korea Development Bank | 2016.07.27 | 3.71 | 30,000 | 30,000 | - |
| Korea Development Bank | 2016.07.27 | 3.75 | 20,000 | 20,000 | - |
| Korea Development Bank | 2017.02.28 | 3.58 | 70,000 | - | 70,000 |

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| <i>(in millions of Korean won)</i> | Maturity date | Annual interest rate at December 31, 2015(%) | December 31, 2015 | | |
|------------------------------------|-------------------------|--|-------------------|----------------|------------------|
| | | | Total | Current | Non-current |
| Korea Development Bank | 2017.02.28 | 3.76 | 30,000 | - | 30,000 |
| Korea Development Bank | 2017.02.28 | 3.97 | 70,000 | - | 70,000 |
| Korea Development Bank | 2017.03.29 | 4.62 | 190,000 | - | 190,000 |
| Korea Development Bank | 2018.05.28 | 3.76 | 50,000 | - | 50,000 |
| Korea Development Bank | 2025.09.09 | 3.00 | 200,000 | - | 200,000 |
| Foreign currency loans | | | | | |
| HSBC and others | 2016.03.31 ~ 2019.06.18 | 1.47 ~ 10.40 | 299,256 | 66,109 | 233,147 |
| Total | | | 2,627,042 | 382,060 | 2,244,982 |

| <i>(in millions of Korean won)</i> | Maturity date | Annual interest rate at December 31, 2014(%) | December 31, 2014 | | |
|------------------------------------|---------------|--|-------------------|---------|-------------|
| | | | Total | Current | Non-current |
| Local currency loans | | | | | |
| Kookmin Bank | 2015.03.04 | 5.16 | 27,500 | 27,500 | - |
| Kookmin Bank | 2016.05.24 | 4.73 | 190,000 | - | 190,000 |
| Kookmin Bank ¹ | 2029.04.30 | 3M CD+1.14 | 200,000 | - | 200,000 |
| Shinhan Bank | 2016.05.22 | 2.75 | 83 | 66 | 17 |
| Shinhan Bank | 2016.10.19 | 4.37 | 95,000 | 47,500 | 47,500 |
| Shinhan Bank | 2017.02.16 | 4.60 | 190,000 | - | 190,000 |
| Shinhan Bank | 2017.02.27 | 3.63 | 50,000 | - | 50,000 |
| Shinhan Bank | 2017.09.15 | 1.75 | 615 | 224 | 391 |
| IBK Securities | 2016.10.14 | 3.35 | 84,520 | - | 84,520 |
| Woori Bank | 2017.10.28 | 4.62 | 190,000 | - | 190,000 |
| Hana Bank | 2015.06.28 | 2.77 | 180 | 180 | - |
| Hana Bank | 2015.09.28 | 2.77 | 180 | 180 | - |
| Hana Bank | 2016.03.28 | 2.77 | 825 | 660 | 165 |
| Hana Bank ¹ | 2024.01.03 | 3M CD+0.98 | 200,000 | - | 200,000 |
| Korea Development Bank | 2015.03.10 | 5.06 | 90,000 | 90,000 | - |
| Korea Development Bank | 2015.09.13 | 4.57 | 80,000 | 80,000 | - |
| Korea Development Bank | 2015.12.24 | 4.64 | 40,000 | 40,000 | - |
| Korea Development Bank | 2016.04.20 | 4.63 | 30,000 | - | 30,000 |
| Korea Development Bank | 2016.05.09 | 3.84 | 30,000 | - | 30,000 |
| Korea Development Bank | 2016.07.27 | 3.81 | 50,000 | - | 50,000 |
| Korea Development Bank | 2016.07.27 | 3.78 | 50,000 | - | 50,000 |
| Korea Development Bank | 2016.07.27 | 3.71 | 30,000 | - | 30,000 |
| Korea Development Bank | 2016.07.27 | 3.75 | 20,000 | - | 20,000 |
| Korea Development Bank | 2017.02.28 | 3.58 | 70,000 | - | 70,000 |
| Korea Development Bank | 2017.02.28 | 4.01 | 40,000 | - | 40,000 |
| Korea Development Bank | 2017.02.28 | 3.76 | 30,000 | - | 30,000 |
| Korea Development Bank | 2017.02.28 | 3.97 | 130,000 | - | 130,000 |

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| <i>(in millions of Korean won)</i> | Maturity date | Annual interest rate at December 31, 2014(%) | December 31, 2014 | | |
|------------------------------------|-------------------------|--|-------------------|----------------|------------------|
| | | | Total | Current | Non-current |
| Korea Development Bank | 2017.03.29 | 4.62 | 190,000 | - | 190,000 |
| Korea Development Bank | 2018.05.28 | 3.76 | 50,000 | - | 50,000 |
| Foreign currency loans | | | | | |
| HSBC and others | 2016.03.31 ~ 2019.06.18 | 1.66 ~ 10.70 | 304,543 | 45,259 | 259,284 |
| Total | | | 2,463,446 | 331,569 | 2,131,877 |

¹ The Group entered into interest rate swap contracts to hedge cash flow risk related to floating interest rates of these long-term borrowings(Note 37).

iii) Debentures consist of:

| <i>(in millions of Korean won)</i> | | Maturity date | Annual interest rate at December 31, 2015(%) | December 31, 2015 | | |
|---|--|---------------|--|-------------------|---------|-------------|
| | | | | Total | Current | Non-current |
| Fixed rate notes in local currency | Public, non-guaranteed bonds(30-2 nd) | 2017.02.09 | 4.90 | 50,000 | - | 50,000 |
| Fixed rate notes in local currency | Public, non-guaranteed bonds(31-1 st) | 2016.11.12 | 3.61 | 70,000 | 70,000 | - |
| Fixed rate notes in local currency | Public, non-guaranteed bonds(31-2 nd) | 2017.11.12 | 3.73 | 80,000 | - | 80,000 |
| Fixed rate notes in local currency | Public, non-guaranteed bonds(33-1 st) | 2017.11.10 | 2.48 | 30,000 | - | 30,000 |
| Fixed rate notes in local currency | Public, non-guaranteed bonds(33-2 nd) | 2019.11.10 | 2.98 | 70,000 | - | 70,000 |
| Fixed rate notes in local currency | Private, non-guaranteed bonds(34-1 st) | 2018.02.13 | 2.48 | 10,000 | - | 10,000 |
| Fixed rate notes in local currency | Private, non-guaranteed bonds(34-2 nd) | 2020.02.13 | 2.90 | 90,000 | - | 90,000 |
| Fixed rate notes in local currency | Public, non-guaranteed bonds(35-1 st) | 2018.02.13 | 2.26 | 40,000 | - | 40,000 |
| Fixed rate notes in local currency | Public, non-guaranteed bonds(35-2 nd) | 2020.02.13 | 2.54 | 60,000 | - | 60,000 |
| Fixed rate notes in local currency | Public, non-guaranteed bonds (58-2 nd) | 2016.02.16 | 4.91 | 60,000 | 60,000 | - |
| Fixed rate notes in local currency | Public, non-guaranteed bonds (60 th) | 2016.05.20 | 4.41 | 190,000 | 190,000 | - |
| Fixed rate notes in local currency | Public, non-guaranteed bonds (61 st) | 2016.06.29 | 4.38 | 190,000 | 190,000 | - |
| Fixed rate notes in local currency | Public, non-guaranteed bonds (62-2 nd) | 2016.08.05 | 4.34 | 80,000 | 80,000 | - |
| Fixed rate notes in local currency | Public, non-guaranteed bonds (64 th) | 2016.09.30 | 4.32 | 190,000 | 190,000 | - |
| Fixed rate notes in foreign currency ¹ | Public, non-guaranteed bonds (65 th) | 2016.12.02 | 2.00 | 254,859 | 254,859 | - |
| Fixed rate notes in local currency | Public, non-guaranteed bonds (66-2 nd) | 2017.09.10 | 3.28 | 130,000 | - | 130,000 |
| Fixed rate notes in local currency | Private, non-guaranteed bonds(67 th) | 2018.03.21 | 3.11 | 300,000 | - | 300,000 |
| Fixed rate notes in local currency | Private, non-guaranteed bonds(68-1 st) | 2020.05.23 | 3.29 | 100,000 | - | 100,000 |
| Fixed rate notes in local currency | Private, non-guaranteed bonds(68-2 nd) | 2020.05.24 | 3.29 | 20,000 | - | 20,000 |
| Fixed rate notes in local currency | Private, non-guaranteed bonds(68-3 rd) | 2023.05.22 | 3.68 | 50,000 | - | 50,000 |
| Fixed rate notes in local currency | Private, non-guaranteed bonds(68-4 th) | 2023.05.23 | 3.68 | 30,000 | - | 30,000 |
| Fixed rate notes in local currency | Public, non-guaranteed bonds(69-2 nd) | 2018.07.31 | 3.54 | 140,000 | - | 140,000 |

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| <i>(in millions of Korean won)</i> | | Maturity date | Annual interest rate at December 31, 2015(%) | December 31, 2015 | | |
|--|---|---------------|--|-------------------|------------------|------------------|
| | | | | Total | Current | Non-current |
| Fixed rate notes in local currency | Private, non-guaranteed bonds(69-3 rd) | 2020.07.31 | 3.85 | 150,000 | - | 150,000 |
| Floating rate notes in foreign currency ¹ | Private, guaranteed bonds(70 th) | 2019.01.31 | 3ML+1.60 | 234,400 | - | 234,400 |
| Fixed rate notes in local currency | Public, non-guaranteed bonds(71-1 st) | 2018.10.18 | 3.55 | 200,000 | - | 200,000 |
| Fixed rate notes in local currency | Public, non-guaranteed bonds(71-2 nd) | 2020.10.19 | 3.82 | 110,000 | - | 110,000 |
| Fixed rate notes in local currency | Public, non-guaranteed bonds(71-3 rd) | 2023.10.18 | 4.25 | 90,000 | - | 90,000 |
| Floating rate notes in foreign currency ¹ | Private, non-guaranteed bonds(72 nd) | 2017.06.19 | 3ML+1.30 | 234,400 | - | 234,400 |
| Fixed rate notes in local currency | Public, non-guaranteed bonds (73-1 st) | 2017.01.24 | 3.16 | 100,000 | - | 100,000 |
| Fixed rate notes in local currency | Public, non-guaranteed bonds (73-2 nd) | 2019.01.24 | 3.60 | 120,000 | - | 120,000 |
| Fixed rate notes in local currency | Public, non-guaranteed bonds (73-3 rd) | 2021.01.24 | 3.95 | 160,000 | - | 160,000 |
| Fixed rate notes in local currency | Public, non-guaranteed bonds (73-4 th) | 2024.01.24 | 4.44 | 120,000 | - | 120,000 |
| Fixed rate notes in local currency | Public, non-guaranteed bonds (74-1 st) | 2019.05.29 | 3.30 | 200,000 | - | 200,000 |
| Fixed rate notes in local currency | Public, non-guaranteed bonds (74-2 nd) | 2021.05.29 | 3.52 | 130,000 | - | 130,000 |
| Fixed rate notes in local currency | Public, non-guaranteed bonds (74-3 rd) | 2024.05.29 | 4.04 | 210,000 | - | 210,000 |
| Fixed rate notes in local currency | Public, non-guaranteed bonds (74-4 th) | 2029.05.29 | 4.44 | 60,000 | - | 60,000 |
| Fixed rate notes in local currency | Private, non-guaranteed bonds (75 th) | 2026.07.16 | 3.96 | 100,000 | - | 100,000 |
| Fixed rate notes in local currency | Private, non-guaranteed bonds (76-1 st) | 2028.11.17 | 3.79 | 40,000 | - | 40,000 |
| Fixed rate notes in local currency | Private, non-guaranteed bonds (76-2 nd) | 2028.11.18 | 3.79 | 60,000 | - | 60,000 |
| Fixed rate notes in local currency | Public, non-guaranteed bonds (77-1 st) | 2020.02.02 | 2.28 | 210,000 | - | 210,000 |
| Fixed rate notes in local currency | Public, non-guaranteed bonds (77-2 nd) | 2022.02.02 | 2.51 | 230,000 | - | 230,000 |
| Fixed rate notes in local currency | Public, non-guaranteed bonds (77-3 rd) | 2025.02.02 | 2.97 | 210,000 | - | 210,000 |
| Fixed rate notes in local currency | Public, non-guaranteed bonds (77-4 th) | 2030.02.02 | 3.45 | 100,000 | - | 100,000 |
| Less: discount on debentures | | | | (13,482) | (822) | (12,660) |
| Total | | | | 5,290,177 | 1,034,037 | 4,256,140 |

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| <i>(in millions of Korean won)</i> | | Maturity date | Annual interest rate at December 31, 2014(%) | December 31, 2014 | | |
|--|--|---------------|--|-------------------|---------|-------------|
| | | | | Total | Current | Non-current |
| Fixed rate notes in local currency | Public, non-guaranteed bonds(28 th) | 2015.11.29 | 5.10 | 200,000 | 200,000 | - |
| Fixed rate notes in local currency | Public, non-guaranteed bonds(29 th) | 2015.02.24 | 5.01 | 190,000 | 190,000 | - |
| Fixed rate notes in local currency | Public, non-guaranteed bonds(30-1 st) | 2015.02.09 | 4.32 | 30,000 | 30,000 | - |
| Fixed rate notes in local currency | Public, non-guaranteed bonds(30-2 nd) | 2017.02.09 | 4.90 | 50,000 | - | 50,000 |
| Fixed rate notes in local currency | Public, non-guaranteed bonds(31-1 st) | 2016.11.12 | 3.61 | 70,000 | - | 70,000 |
| Fixed rate notes in local currency | Public, non-guaranteed bonds(31-2 nd) | 2017.11.12 | 3.73 | 80,000 | - | 80,000 |
| Fixed rate notes in local currency | Public, non-guaranteed bonds(33-1 st) | 2017.11.10 | 2.48 | 30,000 | - | 30,000 |
| Fixed rate notes in local currency | Public, non-guaranteed bonds(33-2 nd) | 2019.11.10 | 2.98 | 70,000 | - | 70,000 |
| Fixed rate notes in local currency | Public, non-guaranteed bonds (56 th) | 2015.09.09 | 4.63 | 190,000 | 190,000 | - |
| Fixed rate notes in local currency | Public, non-guaranteed bonds (57 th) | 2015.10.22 | 4.30 | 190,000 | 190,000 | - |
| Fixed rate notes in local currency | Public, non-guaranteed bonds (58-2 nd) | 2016.02.16 | 4.91 | 60,000 | - | 60,000 |
| Fixed rate notes in local currency | Public, non-guaranteed bonds (60 th) | 2016.05.20 | 4.41 | 190,000 | - | 190,000 |
| Fixed rate notes in local currency | Public, non-guaranteed bonds (61 st) | 2016.06.29 | 4.38 | 190,000 | - | 190,000 |
| Fixed rate notes in local currency | Public, non-guaranteed bonds (62-2 nd) | 2016.08.05 | 4.34 | 80,000 | - | 80,000 |
| Fixed rate notes in local currency | Public, non-guaranteed bonds (64 th) | 2016.09.30 | 4.32 | 190,000 | - | 190,000 |
| Fixed rate notes in foreign currency ¹ | Public, non-guaranteed bonds (65 th) | 2016.12.02 | 2.00 | 238,957 | - | 238,957 |
| Fixed rate notes in local currency | Public, non-guaranteed bonds (66-1 st) | 2015.09.10 | 3.18 | 170,000 | 170,000 | - |
| Fixed rate notes in local currency | Public, non-guaranteed bonds (66-2 nd) | 2017.09.10 | 3.28 | 130,000 | - | 130,000 |
| Fixed rate notes in local currency | Private, non-guaranteed bonds(67 th) | 2018.03.21 | 3.11 | 300,000 | - | 300,000 |
| Fixed rate notes in local currency | Private, non-guaranteed bonds(68-1 st) | 2020.05.23 | 3.29 | 100,000 | - | 100,000 |
| Fixed rate notes in local currency | Private, non-guaranteed bonds(68-2 nd) | 2020.05.24 | 3.29 | 20,000 | - | 20,000 |
| Fixed rate notes in local currency | Private, non-guaranteed bonds(68-3 rd) | 2023.05.22 | 3.68 | 50,000 | - | 50,000 |
| Fixed rate notes in local currency | Private, non-guaranteed bonds(68-4 th) | 2023.05.23 | 3.68 | 30,000 | - | 30,000 |
| Fixed rate notes in local currency | Public, non-guaranteed bonds(69-1 st) | 2015.07.31 | 2.86 | 110,000 | 110,000 | - |
| Fixed rate notes in local currency | Public, non-guaranteed bonds(69-2 nd) | 2018.07.31 | 3.54 | 140,000 | - | 140,000 |
| Fixed rate notes in local currency | Public, non-guaranteed bonds(69-3 rd) | 2020.07.31 | 3.85 | 150,000 | - | 150,000 |
| Floating rate notes in foreign currency ¹ | Private, guaranteed bonds(70 th) | 2019.01.31 | 3ML+1.60 | 219,840 | - | 219,840 |
| Fixed rate notes in local currency | Public, non-guaranteed bonds(71-1 st) | 2018.10.18 | 3.55 | 200,000 | - | 200,000 |
| Fixed rate notes in local currency | Public, non-guaranteed bonds(71-2 nd) | 2020.10.19 | 3.82 | 110,000 | - | 110,000 |
| Fixed rate notes in local currency | Public, non-guaranteed bonds(71-3 rd) | 2023.10.18 | 4.25 | 90,000 | - | 90,000 |
| Floating rate notes in foreign currency ¹ | Private, non-guaranteed bonds(72 nd) | 2017.06.19 | 3ML+1.30 | 219,840 | - | 219,840 |
| Fixed rate notes in local currency | Public, non-guaranteed bonds (73-1 st) | 2017.01.24 | 3.16 | 100,000 | - | 100,000 |
| Fixed rate notes in local currency | Public, non-guaranteed bonds (73-2 nd) | 2019.01.24 | 3.60 | 120,000 | - | 120,000 |

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| <i>(in millions of Korean won)</i> | | Maturity date | Annual interest rate at December 31, 2014(%) | December 31, 2014 | | |
|------------------------------------|---|---------------|--|-------------------|------------------|------------------|
| | | | | Total | Current | Non-current |
| Fixed rate notes in local currency | Public, non-guaranteed bonds (73-3 rd) | 2021.01.24 | 3.95 | 160,000 | - | 160,000 |
| Fixed rate notes in local currency | Public, non-guaranteed bonds (73-4 th) | 2024.01.24 | 4.44 | 120,000 | - | 120,000 |
| Fixed rate notes in local currency | Public, non-guaranteed bonds (74-1 st) | 2019.05.29 | 3.30 | 200,000 | - | 200,000 |
| Fixed rate notes in local currency | Public, non-guaranteed bonds (74-2 nd) | 2021.05.29 | 3.52 | 130,000 | - | 130,000 |
| Fixed rate notes in local currency | Public, non-guaranteed bonds (74-3 rd) | 2024.05.29 | 4.04 | 210,000 | - | 210,000 |
| Fixed rate notes in local currency | Public, non-guaranteed bonds (74-4 th) | 2029.05.29 | 4.44 | 60,000 | - | 60,000 |
| Fixed rate notes in local currency | Private, non-guaranteed bonds (75 th) | 2026.07.16 | 3.96 | 100,000 | - | 100,000 |
| Fixed rate notes in local currency | Private, non-guaranteed bonds (76-1 st) | 2028.11.17 | 3.79 | 40,000 | - | 40,000 |
| Fixed rate notes in local currency | Private, non-guaranteed bonds (76-2 nd) | 2028.11.18 | 3.79 | 60,000 | - | 60,000 |
| Less: discount on debentures | | | | (14,442) | (809) | (13,633) |
| Total | | | | 5,374,195 | 1,079,191 | 4,295,004 |

¹ The Group entered into cross-currency swap contract to hedge cash flow risk related to floating interest rate and foreign exchange rate of these debenture (Note 37).

The principal and interests of private bonds(70th) are guaranteed by Shinhan Bank (Note 34).

16. Other Payables

Details of other payables as of December 31, 2015 and 2014, are as follows:

| <i>(in millions of Korean won)</i> | December 31, 2015 | December 31, 2014 |
|------------------------------------|-------------------|-------------------|
| Current | | |
| Non-trade payables | 2,087,735 | 2,064,545 |
| Accrued expenses | 737,883 | 938,149 |
| Dividends payable | 609 | 567 |
| Deposits received | 20,918 | 17,609 |
| Subtotal | 2,847,145 | 3,020,870 |
| Non-current | | |
| Non-trade payables | 5,652 | 13,560 |
| Deposits received | 938 | 760 |
| Subtotal | 6,590 | 14,320 |
| Total | 2,853,735 | 3,035,190 |

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17. Current Income Tax and Deferred Income Tax

Income tax expense

(a) Details of income tax expense(benefit) for the years ended December 31, 2015 and 2014, are as follows:

| <i>(in millions of Korean won)</i> | 2015 | 2014 |
|---------------------------------------|----------------|----------------|
| Current income taxes | | |
| Current tax on profits for the year | 361,132 | 353,795 |
| Adjustments in respect of prior years | 8,507 | 57,005 |
| Deferred income taxes | | |
| Changes in temporary differences | (35,397) | (180,733) |
| Changes in tax credits | 107,918 | 67,021 |
| Changes in tax losses | (102,729) | 189,242 |
| Income tax expense(benefit) | 339,431 | 486,330 |
| From continuing operations | 340,154 | 539,761 |
| From discontinued operations | (723) | (53,431) |

(b) The reconciliation between profit before income tax and income tax expense for the years ended December 31, 2015 and 2014, is as follows:

| <i>(in millions of Korean won)</i> | 2015 | 2014 |
|---|----------------|----------------|
| Profit(loss) before income tax: | | |
| From continuing operations | 593,125 | 1,218,270 |
| From discontinued operations | (4,551) | (230,583) |
| | 588,574 | 987,687 |
| Tax expense based on applicable tax rate ¹ | 158,035 | 284,356 |
| Income not subject to tax | (36,513) | (15,945) |
| Expenses not deductible for tax purposes | 31,823 | 24,288 |
| Recognition of deferred tax asset on tax credits | (69,861) | (124,485) |
| Adjustments in respect of prior years | (8,507) | 57,005 |
| Changes in unrecognized deferred tax assets | 240,888 | 220,529 |
| Tax effect on investment in subsidiaries and associates | 6,911 | 40,145 |
| Change in tax rates | (359) | 437 |
| Income tax expense(benefit) | 339,431 | 486,330 |
| From continuing operations | 340,154 | 539,761 |
| From discontinued operations | (723) | (53,431) |
| Effective tax rate | 57.7% | 49.2% |

¹ The applicable tax rate, calculated using the weighted average statutory tax rates applicable to each entity within the Group to the profit before tax of the Group is 26.9% (2014: 28.8%) for the year ended December 31, 2015. The applicable tax rate has decreased due to changes in the proportions of each entity's profit(loss) before income tax.

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Deferred income tax

(a) Deferred tax assets and deferred tax liabilities after offsetting as of December 31, 2015 and 2014, are as follows:

| <i>(in millions of Korean won)</i> | December 31, 2015 | December 31, 2014 |
|--|--------------------------|--------------------------|
| Deferred tax assets: | | |
| Deferred tax asset to be recovered within 12 months | 1,004,154 | 879,857 |
| Deferred tax asset to be recovered after more than 12 months | 1,699,051 | 1,787,999 |
| Deferred tax assets before offsetting | 2,703,205 | 2,667,856 |
| Deferred tax liabilities: | | |
| Deferred tax liability to be settled within 12 months | 37,132 | 35,273 |
| Deferred tax liability to be settled after more than 12 months | 1,034,077 | 1,065,200 |
| Deferred tax liabilities before offsetting | 1,071,209 | 1,100,473 |
| Deferred tax assets after offsetting | 1,637,796 | 1,573,395 |
| Deferred tax liabilities after offsetting | 5,800 | 6,012 |

(b) Changes in deferred income tax assets and liabilities for the years ended December 31, 2015 and 2014, are as follows:

| <i>(in millions of Korean won)</i> | 2015 | | | | |
|---|---------------------|---|--|-----------------------------|-----------------------|
| | At January 1 | Charged (credited) to the statements of income | Charged(credited) to other comprehensive income | Exchange differences | At December 31 |
| Changes in temporary differences | | | | | |
| Investments in subsidiaries | (306,306) | 584 | (3,903) | - | (309,625) |
| Property, plant and equipment | (84,002) | 34,839 | - | (333) | (49,496) |
| Accrued expenses | 486,210 | 9,269 | - | 2,252 | 497,731 |
| Provisions | 194,405 | 2,318 | - | 1,160 | 197,883 |
| Other | 369,790 | (11,613) | 39,470 | (3,841) | 393,806 |
| Subtotal | 660,097 | 35,397 | 35,567 | (762) | 730,299 |
| Tax credits carryforwards | 694,684 | (107,918) | - | - | 586,766 |
| Tax loss carryforwards | 212,602 | 102,729 | - | (400) | 314,931 |
| Deferred tax assets(liabilities) | 1,567,383 | 30,208 | 35,567 | (1,162) | 1,631,996 |

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| <i>(in millions of Korean won)</i> | 2014 | | | | |
|---|------------------|---|--|-------------------------|-------------------|
| | At January 1 | Charged (credited) to the statements of income | Charged(credited) to other comprehensive income | Exchange differences | At December 31 |
| Changes in temporary differences | | | | | |
| Investments in subsidiaries | (274,541) | (35,933) | 4,168 | - | (306,306) |
| Property, plant and equipment | (115,069) | 33,093 | - | (2,026) | (84,002) |
| Accrued expenses | 426,953 | 66,477 | - | (7,220) | 486,210 |
| Provisions | 165,127 | 30,959 | - | (1,681) | 194,405 |
| Other | 244,381 | 86,137 | 60,167 | (20,895) | 369,790 |
| Subtotal | 446,851 | 180,733 | 64,335 | (31,822) | 660,097 |
| Tax credits carryforwards | 761,709 | (67,021) | - | (4) | 694,684 |
| Tax loss carryforwards | 403,340 | (189,242) | - | (1,496) | 212,602 |
| Deferred tax assets(liabilities) | 1,611,900 | (75,530) | 64,335 | (33,322) | 1,567,383 |

(c) Tax effects directly recognized in other comprehensive income for the years ended December 31, 2015 and 2014, are as follows:

| <i>(in millions of Korean won)</i> | 2015 | | | 2014 | | |
|---|------------------|----------------|------------------|------------------|----------------|------------------|
| | Before tax | Tax effects | After tax | Before tax | Tax effects | After tax |
| Remeasurements of net defined benefit liabilities | (128,942) | 33,588 | (95,354) | (176,642) | 42,367 | (134,275) |
| Cash flow hedge | (26,509) | 6,661 | (19,848) | (49,879) | 11,768 | (38,111) |
| Available-for-sale financial assets | 3,205 | (779) | 2,426 | (3,575) | 724 | (2,851) |
| Currency translation differences | (22,475) | (3,903) | (26,378) | (203,636) | 4,168 | (199,468) |
| Total | (174,721) | 35,567 | (139,154) | (433,732) | 59,027 | (374,705) |

(d) Tax effects directly recognized in equity for the years ended December 31, 2015 and 2014, are as follows:

| <i>(in millions of Korean won)</i> | 2015 | | | 2014 | | |
|--|---------------|----------------|--------------|---------------|----------------|--------------|
| | Before tax | Tax effects | After tax | Before tax | Tax effects | After tax |
| Issuance and exercise of conversion rights | - | - | - | (21,935) | 5,308 | (16,627) |

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(e) Details of deductible (taxable) temporary differences, tax credits and tax losses unrecognized as deferred tax assets (liabilities) as of December 31, 2015, are as follows:

| <i>(in millions of Korean won)</i> | 2015 | Remark |
|---|-------------|--|
| Taxable temporary difference (investment in subsidiary) | (4,075,286) | Planned permanent reinvestment of undistributed profit |
| Deductible temporary difference (investment in subsidiary) | 1,350,643 | Unlikely to reverse(disposed of) in the foreseeable future |
| Tax credits carryforwards | 428,978 | Uncertainty of future taxable profit |
| Tax losses carryforwards | 267,131 | Uncertainty of future taxable profit |

(f) Expirations of unrecognized tax credits and tax losses carryforwards as of December 31, 2015, are as follows:

| <i>(in millions of Korean won)</i> | Less than | | | |
|------------------------------------|------------------|----------------|----------------|---------------------|
| | 1 year | 2 years | 3 years | Over 3 years |
| Tax credits carryforwards | 114,315 | 133,461 | 144,631 | 36,571 |
| Tax losses carryforwards | 52,422 | 69,154 | 8,655 | 136,900 |

18. Post-employment Benefits

Defined Benefit Plan

(a) The amounts of net defined benefit liabilities as of December 31, 2015 and 2014, are as follows:

| <i>(in millions of Korean won)</i> | December 31, 2015 | December 31, 2014 |
|---------------------------------------|--------------------------|--------------------------|
| Present value of funded obligations | 2,705,167 | 2,307,568 |
| Present value of unfunded obligations | 30,927 | 34,065 |
| Subtotal | 2,736,094 | 2,341,633 |
| Fair value of plan assets | (1,948,484) | (1,543,183) |
| Net defined benefit liability | 787,610 | 798,450 |

(b) The amounts recognized in the consolidated statements of income for the years ended December 31, 2015 and 2014, are as follows:

| <i>(in millions of Korean won)</i> | 2015 | 2014 |
|------------------------------------|----------------|----------------|
| Current service cost | 356,348 | 321,164 |
| Past service cost | (512) | 25,592 |
| Net interest cost | 25,486 | 25,588 |
| Managing cost | 1,806 | 1,578 |
| Total | 383,128 | 373,922 |

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(c) Line items in which expenses are included for the years ended December 31, 2015 and 2014, are as follows:

| <i>(in millions of Korean won)</i> | 2015 | 2014 |
|------------------------------------|----------------|----------------|
| Continuing operations: | | |
| Cost of sales | 190,715 | 178,731 |
| Selling and marketing expenses | 66,075 | 62,812 |
| Administrative expenses | 29,411 | 26,014 |
| Research and development expenses | 87,379 | 90,606 |
| Service costs | 9,548 | 9,119 |
| Subtotal | 383,128 | 367,282 |
| Discontinued operations | - | 6,640 |
| Total | 383,128 | 373,922 |

(d) Changes in the present value of defined benefit obligations for the years ended December 31, 2015 and 2014, are as follows:

| <i>(in millions of Korean won)</i> | 2015 | 2014 |
|--|------------------|------------------|
| At January 1 | 2,341,633 | 1,882,934 |
| Current service cost | 356,348 | 321,164 |
| Past service cost | (512) | 25,592 |
| Interest expense | 71,870 | 74,740 |
| Remeasurements for: | | |
| - Actuarial loss arising from changes in demographic assumptions | 25,896 | 24,830 |
| - Actuarial loss(gain) arising from changes in financial assumptions | 114,277 | 179,213 |
| - Actuarial loss(gain) arising from experience adjustments | (18,919) | (37,018) |
| Increase due to business combination | 142 | - |
| Benefits paid | (138,093) | (129,297) |
| Decrease due to transfer of business | (16,584) | - |
| Others | 36 | (525) |
| At December 31 | 2,736,094 | 2,341,633 |

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(e) Changes in the fair value of plan assets for the years ended December 31, 2015 and 2014, are as follows:

| <i>(in millions of Korean won)</i> | 2015 | 2014 |
|--------------------------------------|------------------|------------------|
| At January 1 | 1,543,183 | 1,302,015 |
| Interest income | 46,384 | 49,152 |
| Remeasurements for: | | |
| - Return on plan assets | (7,688) | (9,617) |
| Employer contributions | 468,439 | 289,071 |
| Increase due to business combination | 133 | - |
| Benefits paid | (87,954) | (85,907) |
| Decrease due to transfer of business | (12,304) | - |
| Managing cost | (1,806) | (1,578) |
| Others | 97 | 47 |
| At December 31 | 1,948,484 | 1,543,183 |

(f) The principal actuarial assumptions used are as follows:

| | December 31, 2015 | December 31, 2014 |
|--|--------------------------|--------------------------|
| Weighted average of discount rate | 2.7% | 3.2% |
| Weighted average of future salary increase | 6.1% | 6.1% |

As of December 31, 2015, the discount rates applied to the Parent Company and subsidiaries are between 0.6%~9.4% (2014: 0.5%~9.1%), and the expected rates of future salary increase are between 1.0%~11.0% (2014: 0.0%~13.0%).

(g) The sensitivity analysis of the defined benefit obligation to changes in principal assumptions as of December 31, 2015, is as follows:

| <i>(in millions of Korean won)</i> | 1% increase | 1% decrease |
|------------------------------------|--------------------|--------------------|
| Discount rate | (240,085) | 279,181 |
| Future salary increase | 267,589 | (235,531) |

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.

(h) Plan assets consist of:

| <i>(in millions of Korean won)</i> | December 31, 2015 | | December 31, 2014 | |
|---|--------------------------|-----------------------|--------------------------|-----------------------|
| | Amount | Composition(%) | Amount | Composition(%) |
| Securities combined with derivatives (guaranteed) | 1,335,745 | 68.6 | 1,100,955 | 71.3 |
| Time deposits and others | 612,739 | 31.4 | 442,228 | 28.7 |
| Total | 1,948,484 | 100.0 | 1,543,183 | 100.0 |

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- (i) The weighted average duration of the defined benefit obligations is 10 years. Expected maturity analysis of undiscounted pension benefits as of December 31, 2015, is as follows:

| <i>(in millions of Korean won)</i> | Less than 1 year | Between 1 and 2 years | Between 2 and 5 years | Between 5 and 10 years | Over 10 years | Total |
|------------------------------------|-----------------------------|----------------------------------|----------------------------------|-----------------------------------|--------------------------|--------------|
| Pension benefits | 139,627 | 167,147 | 559,044 | 827,319 | 2,077,684 | 3,770,821 |

The Group evaluates the fund contribution level annually and if there is a shortfall in the funds the Group has a policy to finance the funds. Expected contributions to post-employment benefit plans for the year ending December 31, 2016, are ₩198,410 million.

Defined Contribution Plan

Recognized expense related to the defined contribution plan for the year ended December 31, 2015, is ₩11,544 million (2014: ₩11,275 million).

19. Provisions

- (a) Changes in provisions for the years ended December 31, 2015 and 2014, are as follows:

| 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 | 818,856 | 237,181 | 5,719 | 143,822 | 1,205,578 |
| Utilization | (894,841) | (247,696) | (2,177) | (87,237) | (1,231,951) |
| Exchange differences | (18,153) | (2,363) | (788) | (17,737) | (39,041) |
| At December 31, 2015 | 569,101 | 57,063 | 16,163 | 1,007,963 | 1,650,290 |
| Current | 515,847 | 57,063 | 232 | 2,802 | 575,944 |
| Non-current | 53,254 | - | 15,931 | 1,005,161 | 1,074,346 |

| 2014 | | | | | |
|------------------------------------|-----------------|----------------------|--------------------|----------------------------------|------------------|
| <i>(in millions of Korean won)</i> | Warranty | Sales returns | Restoration | Litigation and others | Total |
| At January 1, 2014 | 612,101 | 63,183 | 11,265 | 975,947 | 1,662,496 |
| Additions | 945,022 | 242,423 | 4,165 | 38,153 | 1,229,763 |
| Utilization | (872,010) | (233,496) | (1,852) | (30,714) | (1,138,072) |
| Exchange differences | (21,874) | (2,169) | (169) | (14,271) | (38,483) |
| At December 31, 2014 | 663,239 | 69,941 | 13,409 | 969,115 | 1,715,704 |
| Current | 599,258 | 69,941 | 3,543 | 41,565 | 714,307 |
| Non-current | 63,981 | - | 9,866 | 927,550 | 1,001,397 |

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(b) Greenhouse Gas Emission Liabilities

As of December 31, 2015, emission rights received free of charge for each reporting period and greenhouse gas emission estimated by management, are as follows:

| <i>(in tons)</i> | 2015 | 2016 | 2017 |
|---|-------------|-------------|-------------|
| Emission rights received free of charge | 1,007,651 | 988,093 | 968,129 |

In 2015, there is no emission right that the Group additionally purchased from the market and there is no recognized emission liability as greenhouse gas emission is 824,496 tons, estimated by management.

20. Other Liabilities

Other liabilities for the years ended December 31, 2015 and 2014, are as follows:

| <i>(in millions of Korean won)</i> | December 31, 2015 | December 31, 2014 |
|------------------------------------|--------------------------|--------------------------|
| Current | | |
| Advances from customers | 288,670 | 265,889 |
| Unearned income | 42,319 | 44,142 |
| Withholding | 418,009 | 335,778 |
| Accrued expenses | 2,102,150 | 1,879,813 |
| Other | 1,953 | 27 |
| Subtotal | 2,853,101 | 2,525,649 |
| Non-current | | |
| Unearned income | 7,554 | 8,086 |
| Accrued expenses | 96,058 | 77,315 |
| Other | 1,712 | 1,711 |
| Subtotal | 105,324 | 87,112 |
| Total | 2,958,425 | 2,612,761 |

21. Paid-in Capital

(a) As of December 31, 2015 and 2014, the number of shares authorized is 600 million.

| | Par value per share | December 31, 2015 | | December 31, 2014 | |
|-----------------|--------------------------------|------------------------------------|---|------------------------------------|---|
| | | Number of shares issued | Amount (in millions of Korean won) | Number of shares issued | Amount (in millions of Korean won) |
| Common stock | 5,000 | 163,647,814 | 818,239 | 163,647,814 | 818,239 |
| Preferred stock | 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 common shares. This preferred dividend rate is not

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applicable to stock dividends. In addition, the preferred shareholders have same rights on the remaining assets as common shareholders. Repayment and conversion are not applicable to preferred shares.

- (b) Share premium balance as of December 31, 2015, is ₩3,088,179 million. The share premium of ₩1,876,153 million was recognized, which is ₩2,815,707 million of the carrying value 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 common 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 common shares in 2011.

22. Retained Earnings and Dividends

Retained Earnings

- (a) Retained earnings consist of:

| <i>(in millions of Korean won)</i> | December 31, 2015 | December 31, 2014 |
|------------------------------------|--------------------------|--------------------------|
| Legal reserve | 160,478 | 153,190 |
| Discretionary reserve | 5,317,480 | 5,666,922 |
| Unappropriated retained earnings | 3,538,588 | 3,260,932 |
| Total | 9,016,546 | 9,081,044 |

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

- (b) Changes in retained earnings are as follows:

| <i>(in millions of Korean won)</i> | 2015 | 2014 |
|--|------------------|------------------|
| At January 1 | 9,081,044 | 8,885,523 |
| Profit for the year attributable to equity holders of the Parent Company | 124,394 | 399,350 |
| Remeasurements of net defined benefit liability | (84,619) | (123,899) |
| Share of remeasurements of associates | (31,388) | (43,058) |
| Dividends | (72,885) | (36,872) |
| At December 31 | 9,016,546 | 9,081,044 |

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Dividends of the Parent Company

Details of dividends per share and a total dividend in respect of the year ended December 31, 2015, which is to be proposed at the annual general meeting on March 18, 2016, are as follows. These consolidated financial statements do not reflect this dividend payable.

Dividends for the years ended December 31, 2015 and 2014, are as follows:

| <i>(Unit: shares)</i> | 2015 | | 2014 | |
|--|---------------|------------------|---------------|------------------|
| | Common shares | Preferred shares | Common shares | Preferred shares |
| Outstanding shares | 163,647,814 | 17,185,992 | 163,647,814 | 17,185,992 |
| Treasury shares | (763,171) | (4,690) | (763,170) | (4,690) |
| Numbers of shares for dividend | 162,884,643 | 17,181,302 | 162,884,644 | 17,181,302 |
| Par value (in Korean won) | 5,000 | 5,000 | 5,000 | 5,000 |
| Dividend rate | 8% | 9% | 8% | 9% |
| Dividends per share | 400 | 450 | 400 | 450 |
| Total dividend amount (in millions of Korean won) | 65,154 | 7,731 | 65,154 | 7,731 |
| Dividend payout ratio ¹ (Dividends/Net income) | - | - | - | - |
| Stock price ² (in Korean won) | 52,675 | 29,050 | 59,700 | 27,813 |
| Dividend yield ratio (Dividend per share/Market price) | 0.76% | 1.55% | 0.67% | 1.62% |

¹ Dividend payout ratio is not calculated due to the net loss of the Parent Company.

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

23. Accumulated Other Comprehensive Income(loss)

Details of accumulated other comprehensive income(loss) consist of:

| <i>(in millions of Korean won)</i> | December 31, 2015 | December 31, 2014 |
|---|--------------------|--------------------|
| Accumulated other comprehensive loss of associates and joint ventures | (57,332) | (79,567) |
| Cash flow hedge | (52,925) | (33,077) |
| Available-for-sale financial assets | 10,941 | 8,514 |
| Currency translation differences | (1,072,663) | (1,039,427) |
| Total | (1,171,979) | (1,143,557) |

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24. Other Components of Equity

Details of other components of equity consist of:

| <i>(in millions of Korean won)</i> | December 31, 2015 | December 31, 2014 |
|---------------------------------------|--------------------------|--------------------------|
| 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 | (177,524) | (177,593) |
| Total | (210,343) | (210,412) |

¹ As of December 31, 2015, the Parent Company has treasury shares consisting of 763,171 common shares (2014: 763,170 shares) and 4,690 preferred shares (2014: 4,690 shares) at the reporting date. The Parent Company intends to either grant these treasury shares to employees and directors as compensation, or to sell them in the future.

25. Net Sales

Details of net sales for the years ended December 31, 2015 and 2014, are as follows:

| <i>(in millions of Korean won)</i> | 2015 | 2014 |
|------------------------------------|-------------------|-------------------|
| Continuing operations: | | |
| Sales of goods | 55,684,592 | 58,307,228 |
| Sales of services | 455,293 | 434,969 |
| Royalty income | 369,123 | 298,570 |
| Subtotal | 56,509,008 | 59,040,767 |
| Discontinued operations | 27,884 | 1,015,307 |
| Total | 56,536,892 | 60,056,074 |

26. Expenses by Nature

Expenses that are recorded by nature for the years ended December 31, 2015 and 2014, consist of:

| <i>(in millions of Korean won)</i> | 2015 | 2014 |
|---|-------------------|-------------------|
| Continuing operations: | | |
| Changes in finished goods and work-in-process | 484,862 | (555,698) |
| Raw materials and merchandise used | 35,284,070 | 37,856,599 |
| Employee benefits | 6,210,216 | 6,095,018 |
| Depreciation and amortization | 1,901,626 | 1,876,576 |
| Advertising expense | 1,088,882 | 1,153,182 |
| Promotional expense | 698,107 | 833,284 |
| Freight expense | 1,433,815 | 1,587,319 |
| Commission expense | 2,771,935 | 2,751,176 |
| Other expenses | 5,443,204 | 5,614,754 |
| Subtotal¹ | 55,316,717 | 57,212,210 |
| Discontinued operations | 32,394 | 1,055,760 |
| Total | 55,349,111 | 58,267,970 |

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

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

Details of general operating expenses for the years ended December 31, 2015 and 2014, are as follows:

| <i>(in millions of Korean won)</i> | 2015 | 2014 |
|------------------------------------|-------------------|-------------------|
| Continuing operations: | | |
| Salaries | 2,662,877 | 2,566,251 |
| Post-employment benefits | 212,408 | 206,763 |
| Employee benefits | 596,732 | 574,157 |
| Freight expense | 1,420,263 | 1,564,122 |
| Rental expense | 434,497 | 420,010 |
| Commission expense | 2,030,715 | 1,989,453 |
| Depreciation | 275,136 | 259,472 |
| Amortization | 201,668 | 187,143 |
| Taxes and dues | 149,017 | 146,946 |
| Advertising expense | 1,088,882 | 1,153,182 |
| Promotional expense | 698,107 | 833,284 |
| Direct R&D expense | 402,195 | 351,848 |
| Direct service costs | 707,473 | 823,952 |
| Bad debt expense | 15,111 | 28,387 |
| Other | 786,573 | 808,118 |
| Subtotal | 11,681,654 | 11,913,088 |
| Discontinued operations | 5,417 | 165,588 |
| Total | 11,687,071 | 12,078,676 |

28. Financial Income

Financial income for the years ended December 31, 2015 and 2014, consists of:

| <i>(in millions of Korean won)</i> | 2015 | 2014 |
|------------------------------------|----------------|----------------|
| Continuing operations: | | |
| Interest income | 93,412 | 94,223 |
| Foreign exchange gain | 445,432 | 304,908 |
| Gain on derivatives | 3,636 | 17,330 |
| Other | 106 | 199 |
| Subtotal | 542,586 | 416,660 |
| Discontinued operations | - | 6,502 |
| Total | 542,586 | 423,162 |

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29. Financial Expenses

Financial expenses for the years ended December 31, 2015 and 2014, consist of:

| <i>(in millions of Korean won)</i> | 2015 | 2014 |
|---------------------------------------|----------------|----------------|
| Continuing operations: | | |
| Interest expense | 452,192 | 420,389 |
| Foreign exchange loss | 420,208 | 285,482 |
| Loss on derivatives | 2,030 | 22,567 |
| Loss on disposal of trade receivables | 22,370 | 21,331 |
| Other | 6,284 | 2,687 |
| Subtotal | 903,084 | 752,456 |
| Discontinued operations | - | 44,297 |
| Total | 903,084 | 796,753 |

30. Other Non-operating Income

Other non-operating income for the years ended December 31, 2015 and 2014, consists of:

| <i>(in millions of Korean won)</i> | 2015 | 2014 |
|--|------------------|------------------|
| Continuing operations: | | |
| Dividend income | 815 | 293 |
| Exchange differences | 1,655,962 | 1,212,054 |
| Gain on derivatives | 78,376 | 34,750 |
| Gain on disposal of property, plant and equipment | 19,619 | 27,925 |
| Gain on disposal of intangible assets | 273 | 15,367 |
| Gain on disposal of available-for-sale financial assets | 8,217 | 1,555 |
| Gain on disposal of investments in associates and joint ventures | 21,685 | 386 |
| Gain on transfer of business | 37,441 | - |
| Other | 59,244 | 86,222 |
| Subtotal | 1,881,632 | 1,378,552 |
| Discontinued operations | 2,059 | 20,405 |
| Total | 1,883,691 | 1,398,957 |

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31. Other Non-operating Expenses

Other non-operating expenses for the years ended December 31, 2015 and 2014, consist of:

| (in millions of Korean won) | 2015 | 2014 |
|---|------------------|------------------|
| Continuing operations: | | |
| Exchange differences | 2,103,721 | 1,672,704 |
| Loss on derivatives | 29,862 | 17,780 |
| Loss on disposal of property, plant and equipment | 33,369 | 36,994 |
| Loss on disposal of intangible assets | 27,131 | 19,950 |
| Impairment loss on available-for-sale financial assets | 3,776 | 1,114 |
| Loss on disposal of available-for-sale financial assets | - | 2 |
| Other | 281,951 | 208,918 |
| Subtotal | 2,479,810 | 1,957,462 |
| Discontinued operations | 2,100 | 172,740 |
| Total | 2,481,910 | 2,130,202 |

32. Earnings per Share

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

(a) Basic earnings per common share is as follows:

| | 2015 | 2014 |
|--|-------------|-------------|
| Profit(loss) attributable to common shares ¹ (in millions of won) | 111,748 | 360,468 |
| Continuing operations | 115,216 | 520,418 |
| Discontinued operations | (3,468) | (159,950) |
| Weighted average number of common shares outstanding (unit: shares) ² | 162,884,643 | 162,884,645 |
| Basic earnings(loss) per common share (in won) | 686 | 2,213 |
| Continuing operations | 707 | 3,195 |
| Discontinued operations | (21) | (982) |

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(b) Basic earnings per preferred share is as follows:

| | <u>2015</u> | <u>2014</u> |
|---|-------------|-------------|
| Profit(loss) attributable to preferred shares ¹ (in millions of won) | 12,646 | 38,882 |
| Continuing operations | 13,012 | 55,753 |
| Discontinued operations | (366) | (16,871) |
| Weighted average number of preferred shares outstanding (unit: shares) ² | 17,181,302 | 17,181,302 |
| Basic earnings(loss) per preferred share (in won) | 736 | 2,263 |
| Continuing operations | 757 | 3,245 |
| Discontinued operations | (21) | (982) |

¹ Profit attributable to common and preferred shares is as follows:

| <i>(in millions of Korean won)</i> | <u>2015</u> | <u>2014</u> |
|---|-------------|-------------|
| Continuing operations: | | |
| Profit for the year (A) | 128,228 | 576,171 |
| Common share dividends (B) | 65,154 | 65,154 |
| Preferred share dividends (C) | 7,731 | 7,731 |
| Undistributed profit(D=A-B-C) | 55,343 | 503,286 |
| Undistributed profit available for common shares (E) | 50,062 | 455,264 |
| Undistributed profit available for preferred shares (F) | 5,281 | 48,022 |
| Profit attributable to common shares (G=B+E) | 115,216 | 520,418 |
| Profit attributable to preferred shares (H=C+F) | 13,012 | 55,753 |
| Discontinued operations: | | |
| Loss for the year (I) | (3,834) | (176,821) |
| Common share dividends (J) | - | - |
| Preferred share dividends (K) | - | - |
| Undistributed loss (L=I-J-K) | (3,834) | (176,821) |
| Undistributed loss available for common shares (M) | (3,468) | (159,950) |
| Undistributed loss available for preferred shares (N) | (366) | (16,871) |
| Loss attributable to common shares (O=J+M) | (3,468) | (159,950) |
| Loss attributable to preferred shares (P=K+N) | (366) | (16,871) |

² Weighted average numbers of shares are calculated as follows:

| | <u>2015</u> | <u>2014</u> |
|--|-------------|-------------|
| Common shares issued | 163,647,814 | 163,647,814 |
| Common treasury shares | (763,171) | (763,170) |
| Common shares outstanding | 162,884,643 | 162,884,644 |
| Weighted average number of common shares outstanding | 162,884,643 | 162,884,645 |
| Preferred shares issued | 17,185,992 | 17,185,992 |
| Preferred treasury shares | (4,690) | (4,690) |
| Preferred shares outstanding | 17,181,302 | 17,181,302 |
| Weighted average number of preferred shares outstanding | 17,181,302 | 17,181,302 |

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33. Information on Cash Flow

Cash flows from operating activities are prepared using the indirect method. Details of cash generated from operations for the years ended December 31, 2015 and 2014, are as follows:

(a) Cash generated from operations

| <i>(in millions of Korean won)</i> | 2015 | 2014 |
|---|--------------------|--------------------|
| Profit for the year | 249,143 | 501,357 |
| Adjustments: | | |
| Interest expense, net | 358,780 | 326,166 |
| Foreign exchange loss, net | 105,921 | 147,632 |
| Gain on derivatives, net | (50,120) | (11,733) |
| Depreciation | 1,514,019 | 1,518,038 |
| Amortization | 418,702 | 423,060 |
| Loss on disposal of property, plant and equipment, intangible assets, net | 40,608 | 13,652 |
| Provisions for severance benefits | 383,128 | 367,282 |
| Provisions | 1,205,578 | 1,213,063 |
| Income tax expense | 340,154 | 539,761 |
| Gain from equity method | (359,510) | (304,419) |
| Other | 306,248 | 328,165 |
| Discontinued operations | (2,094) | 160,767 |
| | <u>4,261,414</u> | <u>4,721,434</u> |
| Changes in operating assets and liabilities: | | |
| Decrease (Increase) in trade receivables | 313,632 | (919,008) |
| Increase in loans and other receivables | (21,068) | (23,253) |
| Decrease (Increase) in inventories | 461,595 | (1,231,319) |
| Decrease (Increase) in other assets | 10,006 | (10,369) |
| Increase (Decrease) in trade payables | (405,586) | 1,283,600 |
| Increase in other payables | 37,198 | 217,497 |
| Decrease in provisions | (1,188,774) | (1,138,072) |
| Increase (Decrease) in other liabilities | 185,134 | (128,197) |
| Payment of defined benefit liability | (50,139) | (43,390) |
| Deposit in plan assets, net | (505,329) | (327,028) |
| | <u>(1,163,331)</u> | <u>(2,319,539)</u> |
| Cash generated from operations | <u>3,347,226</u> | <u>2,903,252</u> |

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(b) Significant Non-cash transactions

| <i>(in millions of Korean won)</i> | 2015 | 2014 |
|---|-------------|-------------|
| Reclassification of construction-in-progress of property, plant and equipment | 1,243,849 | 1,134,747 |
| Reclassification of intangible assets in progress | 291,488 | 243,961 |
| Reclassification of other assets to intangible assets | 99,287 | 90,526 |
| Reclassification of current maturities of borrowings and debentures | 1,418,380 | 1,580,162 |
| Other payables to acquire property, plant and equipment | 206,763 | 201,283 |
| Other payables to acquire intangible assets | 44,528 | 93,495 |
| Conversion of convertible bonds | - | 273,795 |

(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 |

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

- i) The Group transferred LG INNOTEK (FUZHOU), 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 other assets | 11,568 |

- 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

34. Contingencies

(a) At the end of the reporting period, certain property, plant and equipment including land, buildings and machinery are pledged as collateral for financial transactions (Note 11).

(b) At the end of the reporting period, the Parent Company and domestic subsidiaries are provided with guarantees of ₩155,194 million (2014: ₩258,145 million) from Seoul Guarantee

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Insurance and others relating to the performance guarantees. The Parent Company is provided with guarantee of principal USD 200 million (2014: 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 related parties amounts to USD 24 million (2014: USD 16 million). The Parent Company is providing Hana Bank with a payment guarantee for customers of up to ₩66,000 million (2014: ₩126,000 million).

(d) In December 2012, the European Commission imposed a penalty on the Parent Company for 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 524,748 thousand from HSBC and others for the above.

In addition, the Parent Company is under investigation and has been named as defendants 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 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.

As of the reporting date, 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, the Parent Company 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.

35. 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 ₩175,500 million (2014: ₩195,500 million).

In addition, LG Innotek Co., Ltd. has overdraft facility agreements with various banks, including

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Shinhan Bank, with a limit of ₩32,000 million (2014: ₩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 ₩224,663 million (2014: ₩204,565 million).

Other overseas subsidiaries have overdraft facility agreements with a limit of ₩1,339,424 million (2014: ₩1,228,307 million) with Citibank and others.

(b) At the end of the reporting period, the Parent Company has sales agreements for export trade receivables with Shinhan Bank and 24 other banks amounting to ₩2,872,042 million (2014: ₩3,340,546 million). The Parent Company has sales agreements for domestic receivables with BTMU amounting to ₩300,000 million.

In addition, LG Innotek Co., Ltd. has trade receivables transfer agreements with Hana Bank and others amounting to ₩308,616 million (2014: ₩350,618 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 284 million (2014: USD 280 million), and has sales agreements for trade receivables with a limit of 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 (2014: ₩26,500 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 eight other banks for up to ₩1,320,000 million (2014: ₩840,000 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, provided payment guarantees to financial institutions, including Woori Bank, amounting to ₩165,032 million (2014: ₩165,595 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 ₩56,000 million limit (2014: ₩90,000 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 ₩40,000 million (2014: ₩34,000 million).

In addition, other subsidiaries have commercial paper agreements with Shinhan Bank and others for ₩40,000 million (2014: ₩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 Hana Bank of up to ₩4,620,485 million (2014: ₩3,731,230 million).

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(f) Contractual commitments for the acquisition of assets

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

| <i>(in millions of Korean won)</i> | December 31, 2015 | December 31, 2014 |
|------------------------------------|--------------------------|--------------------------|
| Property, plant and equipment | 670,641 | 469,417 |
| Intangible assets | 4,028 | 5,012 |
| Total | 674,669 | 474,429 |

(g) Operating lease commitments – the Group as lessee

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

| <i>(in millions of Korean won)</i> | December 31, 2015 | | | |
|------------------------------------|---------------------------------|--|-------------------------|---------------------------------|
| | No later than 1 year | Later than 1 year and no later than 5 years | Over 5 years | Total lease payments |
| Land | 791 | 1,603 | 1,681 | 4,075 |
| Buildings | 216,112 | 342,203 | 42,493 | 600,808 |
| Vehicles | 36,123 | 39,063 | - | 75,186 |
| Equipment and others | 19,082 | 16,603 | - | 35,685 |
| Total | 272,108 | 399,472 | 44,174 | 715,754 |

Lease payment under operating lease recognized in the consolidated statement of income for the year ended December 31, 2015, is ₩333,619 million (2014: ₩309,063 million).

As of December 31, 2015, total future minimum sublease receipts under non-cancellable sublease agreements for some buildings amount to ₩15,857 million, and lease income related to the sublease for the year ended December 31, 2015, amounts to ₩10,131 million (2014: ₩8,425 million).

(h) Operating lease commitments – the Group as lessor

- i) The Group has 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> | December 31, 2015 | | | |
|------------------------------------|---------------------------------|--|-------------------------|---------------------------------|
| | No later than 1 year | Later than 1 year and no later than 5 years | Over 5 years | Total lease payments |
| Healthcare rental | 100,502 | 148,415 | - | 248,917 |
| Real estate rental | 3,938 | 3,169 | 768 | 7,875 |
| Total | 104,440 | 151,584 | 768 | 256,792 |

- ii) The Group recognized ₩99,981 million (2014: ₩90,235 million) in lease income for the year ended December 31, 2015.

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

| <i>(in millions of Korean won)</i> | December 31, 2015 | December 31, 2014 |
|------------------------------------|--------------------------|--------------------------|
| Acquisition cost | 238,757 | 84,573 |
| Accumulated depreciation | (60,920) | (39,223) |
| Accumulated impairment | (827) | (782) |
| Net book amount | 177,010 | 44,568 |

iv) Changes in net book amount of assets subject to operating lease for the years ended December 31, 2015 and 2014, are as follows:

| <i>(in millions of Korean won)</i> | 2015 | 2014 |
|------------------------------------|----------------|---------------|
| At January 1 | 44,568 | 47,752 |
| Acquisition | 34,945 | 18,909 |
| Transfer | 119,320 | 507 |
| Disposal | (3,996) | (5,276) |
| Depreciation | (17,760) | (16,651) |
| Impairment | (67) | (673) |
| At December 31 | 177,010 | 44,568 |

(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 ₩5,273 million, and the present value of the finance lease liabilities amounts to ₩3,130 million.

As of December 31, 2015, future minimum lease payments under the finance lease agreement are as follows:

| <i>(in millions of Korean won)</i> | December 31, 2015 | | December 31, 2014 | |
|------------------------------------|-------------------------------|-------------------------------------|-------------------------------|-------------------------------------|
| | Minimum lease payments | PV of minimum lease payments | Minimum lease payments | PV of minimum lease payments |
| Within 1 year | 1,663 | 1,551 | 1,686 | 1,605 |
| 1 to 5 years | 1,682 | 1,579 | 1,741 | 1,640 |
| Total | 3,345 | 3,130 | 3,427 | 3,245 |

(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 |

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36. Related Party

(a) The major related parties of the Group are as follows:

| Classification | Name | | Note |
|-------------------------------------|--|--|------|
| | December 31, 2015 | December 31, 2014 | |
| Significantly influencing the Group | LG Corp. | LG Corp. | - |
| Associates | LG Display Co., Ltd. and its subs. | LG Display Co., Ltd. and its subs. | - |
| | LG Display Co., Ltd. | LG Display Co., Ltd. | - |
| | LG Display Germany GmbH | LG Display Germany GmbH | - |
| | LG Display Shanghai Co., Ltd. | LG Display Shanghai Co., Ltd. | - |
| | LG Display Yantai Co., Ltd. | LG Display Yantai Co., Ltd. | - |
| | LG. Display America, Inc. | LG. Display America, Inc. | - |
| | LG Display Japan Co., Ltd. | LG Display Japan Co., Ltd. | - |
| | LG Display Taiwan Co., Ltd. | LG Display Taiwan Co., Ltd. | - |
| | LG Display Nanjing Co., Ltd. | LG Display Nanjing Co., Ltd. | - |
| | LG Display Poland Sp. z o.o. | LG Display Poland Sp. z o.o. | - |
| | LG Display Guangzhou Co., Ltd. | LG Display Guangzhou Co., Ltd. | - |
| | LG Display Shenzhen Co., Ltd. | LG Display Shenzhen Co., Ltd. | - |
| | LG Display Singapore Pte. Ltd. | LG Display Singapore Pte. Ltd. | - |
| | LG Display U.S.A., Inc | LG Display U.S.A., Inc | - |
| | - | L&T Display Technology (Xiamen) Limited | - |
| | L&T Display Technology (Fujian) Limited | L&T Display Technology (Fujian) Limited | - |
| | Nanumnuri Co., Ltd. | Nanumnuri Co., Ltd. | - |
| | LG Display (China) Co., Ltd. | LG Display (China) Co., Ltd. | - |
| | Unified Innovative Technology, LLC | Unified Innovative Technology, LLC | - |
| | LG Display Guangzhou Trading Co., Ltd | - | - |
| | Global OLED Technology, LLC | - | - |
| | MMT(Money Market Trust) | MMT(Money Market Trust) | - |
| | Ericsson-LG Co., Ltd. and its subs. | Ericsson-LG Co., Ltd. and its subs. | - |
| | Ericsson-LG Co., Ltd. | Ericsson-LG Co., Ltd. | - |
| | LN Srithai Comm Co., Ltd. | LN Srithai Comm Co., Ltd. | - |
| | Novera Optics Inc. | Novera Optics Inc. | - |
| | Ericsson-LG Enterprise Co., Ltd. | Ericsson-LG Enterprise Co., Ltd. | - |
| | Hitachi LG Data Storage Inc.(HLDS) and its subs. | Hitachi LG Data Storage Inc.(HLDS) and its subs. | - |
| | Hitachi-LG Data Storage Inc.(HLDS) | Hitachi-LG Data Storage Inc.(HLDS) | - |
| | Hitachi-LG Data Storage Korea, | Hitachi-LG Data Storage Korea, | - |

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| Classification | Name | | Note |
|-----------------------|--|--|-----------------------|
| | December 31, 2015 | December 31, 2014 | |
| | Inc. | Inc. | |
| | Hitachi-LG Data Storage(Huizhou), Ltd. | Hitachi-LG Data Storage(Huizhou), Ltd. | - |
| | Hitachi Electronic Products (Malaysia) Sdn. Bhd. | Hitachi Electronic Products (Malaysia) Sdn. Bhd. | - |
| | LG Fuel Cell Systems Inc., and its subs. | LG Fuel Cell Systems Inc., and subs | - |
| | LG Fuel Cell Systems Inc. | LG Fuel Cell Systems Inc. | - |
| | LG Fuel Cell Systems Korea Inc. | LG Fuel Cell Systems Korea Inc. | - |
| | Korea Information Certificate Authority Inc. | Korea Information Certificate Authority Inc. | - |
| | - | Global OLED Technology, LLC | - |
| | SKT Vietnam PTE., Ltd. | SKT Vietnam PTE., Ltd. | - |
| | One-Red, LLC | One-Red, LLC | - |
| | Hi Logistics (China) Co., Ltd. | - | |
| Joint ventures | Arcelik-LG Klima Sanayi ve Ticaret A.S.(LGEAT) | Arcelik-LG Klima Sanayi ve Ticaret A.S.(LGEAT) | - |
| | LG Holdings(HK) Ltd. and its subs. | LG Holdings(HK) Ltd. and its subs. | - |
| | LG Holdings(HK) Ltd. | LG Holdings(HK) Ltd. | - |
| | Beijing LG Building Development Company | Beijing LG Building Development Company | - |
| | EIC PROPERTIES PTE LTD. | EIC PROPERTIES PTE LTD. | - |
| | LG-MRI LLC | LG-MRI LLC | - |
| Other related parties | LG CNS Co., Ltd. and its subs. | LG CNS Co., Ltd. and its subs. | LG Corp.'s subsidiary |
| | LG CNS Co., Ltd. | LG CNS Co., Ltd. | - |
| | LG N-Sys Inc. | LG N-Sys Inc. | - |
| | BNE PARTNERS, Inc. | BNE PARTNERS, Inc. | - |
| | Ucess Partners Co.,Ltd. | Ucess Partners Co.,Ltd. | - |
| | KOREA ELECOM Ltd. | KOREA ELECOM Ltd. | - |
| | Ever On Co., Ltd. | Ever On Co., Ltd. | - |
| | LG CNS Philippines Inc. | LG CNS Philippines Inc. | - |
| | LG CNS China Inc. | LG CNS China Inc. | - |
| | LG CNS Europe B.V. | LG CNS Europe B.V. | - |
| | - | LG CNS Japan Co., Ltd. | - |
| | LG CNS America Inc. | LG CNS America Inc. | - |
| | LG CNS India Pvt. Ltd. | LG CNS India Pvt. Ltd. | - |
| | PT. LG CNS Indonesia | PT. LG CNS Indonesia | - |
| | Entrue Brasil Servicos de T.I. Ltda. | Entrue Brasil Servicos de T.I. Ltda. | - |
| | LG CNS Shenyang Inc. | LG CNS Shenyang Inc. | - |
| | - | LG CNS Tianjin Inc. | - |

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| Classification | Name | | Note |
|----------------|---|---|--------------------------|
| | December 31, 2015 | December 31, 2014 | |
| | SBI-LG Systems Co., Ltd. | SBI-LG Systems Co., Ltd. | - |
| | LG CNS Colombia S.A.S | LG CNS Colombia S.A.S | - |
| | UCESS PHILLIPPINES, INC. | UCESS PHILLIPPINES, INC. | - |
| | Oneseen Skytech Co., Ltd. | Oneseen Skytech Co., Ltd. | - |
| | LG CNS MALAYSIA SDN BHD | LG CNS MALAYSIA SDN BHD | - |
| | LG CNS Saudi Arabia LLC | LG CNS Saudi Arabia LLC | - |
| | TXCNS Healthcare, LLC | TXCNS Healthcare, LLC | - |
| | LG CNS GB Ltd. | LG CNS GB Ltd. | - |
| | LG CNS Japan Co., Ltd. | LG CNS Smart Green Co.,Ltd. | - |
| | LLC LG CNS RUS | LLC LG CNS RUS | - |
| | Collain Healthcare, LLC | Collain Healthcare, LLC | - |
| | LG CNS Chile Ltda. | LG CNS Chile Ltda. | - |
| | LG CNS UZBEKISTAN, LLC | - | - |
| | SERVEONE Co., Ltd. and its subs. | SERVEONE Co., Ltd. and subs. | LG Corp.'s subsidiary |
| | SERVEONE Co., Ltd. | SERVEONE Co., Ltd. | - |
| | Konjiam Yewon | Konjiam Yewon | - |
| | - | LG-TOYO Engineering | - |
| | Serveone(Nanjing).Co., Ltd | Serveone(Nanjing).Co., Ltd | - |
| | Serveone Construction (Nanjing) Co., Ltd. | Serveone Construction (Nanjing) Co., Ltd. | - |
| | Serveone Guangzhou Co., Ltd | Serveone Guangzhou Co., Ltd | - |
| | SERVEONE VIETNAM Co.,Ltd | SERVEONE VIETNAM Co.,Ltd | - |
| | - | Gumiochang Photovoltaic Co., Ltd | - |
| | LG Siltron Incorporated and its subs. | LG Siltron Incorporated and its subs. | LG Corp.'s subsidiary |
| | LG Siltron Incorporated | LG Siltron Incorporated | - |
| | LG Siltron America, Inc. | LG Siltron America, Inc. | - |
| | LG Siltron Japan Inc. | LG Siltron Japan Inc. | - |
| | LUSEM CO., LTD. | LUSEM CO., LTD. | LG Corp.'s subsidiary |
| | LG Management Development Institute | LG Management Development Institute | LG Corp.'s subsidiary |
| | LG SPORTS Ltd. | LG SPORTS Ltd. | LG Corp.'s subsidiary |
| | - | LG Solar Energy Inc. | LG Corp.'s subsidiary |
| | LG Holdings Japan Co., Ltd. | LG Holdings Japan Co., Ltd. | LG Corp.'s subsidiary |
| | LG MMA Ltd. | LG MMA Ltd. | LG Corp.'s joint venture |

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(b) Major transactions for the years ended December 31, 2015 and 2014, and balances of receivables and payables from transaction with related parties as of December 31, 2015 and 2014, are as follows:

i) Major income and expense transactions with related parties

(in millions of Korean won)

| | | 2015 | | | | | |
|-------------------------------------|--|---------------------|---------------|------------------|----------------------|----------------|------------------|
| | | Income transactions | | | Expense transactions | | |
| Classification | Name | Sales | Others | Total | Purchases | Others | Total |
| Significantly influencing the Group | LG Corp. | 1,004 | - | 1,004 | - | 148,503 | 148,503 |
| Associates | LG Display Co., Ltd. and its subsidiaries | 958,195 | 54,050 | 1,012,245 | 5,480,016 | 13,260 | 5,493,276 |
| | Ericsson-LG Co., Ltd. and its subsidiaries | 9,617 | - | 9,617 | 5,161 | - | 5,161 |
| | Hitachi LG Data Storage Inc. and its subsidiaries. | 13,128 | - | 13,128 | 123,816 | 146 | 123,962 |
| | LG Fuel Cell Systems Inc. and its subsidiaries | 135 | 217 | 352 | - | - | - |
| | Korea Information Certificate Authority Inc. | - | - | - | - | 1 | 1 |
| | Hi Logistics (China) Co., Ltd. | 30 | - | 30 | - | 9,936 | 9,936 |
| | Subtotal | 981,105 | 54,267 | 1,035,372 | 5,608,993 | 23,343 | 5,632,336 |
| Joint ventures | Arcelik-LG Klima Sanayi ve Ticaret A.S. | 58,665 | - | 58,665 | 54,779 | 20 | 54,799 |
| | LG HOLDINGS (HK) LIMITED and its subsidiaries | - | - | - | - | 3,090 | 3,090 |
| | EIC PROPERTIES PTE LTD. | - | - | - | - | 839 | 839 |
| | Subtotal | 58,665 | - | 58,665 | 54,779 | 3,949 | 58,728 |
| Other related parties | SERVEONE Co., Ltd. and its subsidiaries | 49,544 | - | 49,544 | 1,083,339 | 179,136 | 1,262,475 |
| | LG Siltron Incorporated and its subsidiaries | 7,441 | - | 7,441 | 6 | - | 6 |
| | LG CNS Co., Ltd. and its subsidiaries | 63,629 | - | 63,629 | 144,555 | 510,962 | 655,517 |
| | LG SPORTS Ltd. | 30 | - | 30 | - | 11,156 | 11,156 |
| | LG Management Development Institute | 175 | - | 175 | 167 | 29,862 | 30,029 |
| | LUSEM CO., LTD. | 48,692 | - | 48,692 | 6,948 | 339 | 7,287 |
| | LG MMA Ltd. | 694 | - | 694 | 165 | 1 | 166 |
| | LG Holdings Japan Co., Ltd. | 17 | - | 17 | - | 3,225 | 3,225 |
| | Subtotal | 170,222 | - | 170,222 | 1,235,180 | 734,681 | 1,969,861 |
| | Total | 1,210,996 | 54,267 | 1,265,263 | 6,898,952 | 910,476 | 7,809,428 |

(in millions of Korean won)

| | | 2014 | | | | | |
|-------------------------------------|----------|---------------------|--------|-------|----------------------|---------|---------|
| | | Income transactions | | | Expense transactions | | |
| Classification | Name | Sales | Others | Total | Purchases | Others | Total |
| Significantly influencing the Group | LG Corp. | 558 | - | 558 | - | 155,309 | 155,309 |

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| | | 2014 | | | | | |
|-----------------------|--|---------------------|----------|------------------|----------------------|----------------|------------------|
| Classification | Name | Income transactions | | | Expense transactions | | |
| | | Sales | Others | Total | Purchases | Others | Total |
| Associates | LG Display Co., Ltd. and its subsidiaries | 1,025,880 | - | 1,025,880 | 6,590,945 | 14,330 | 6,605,275 |
| | Ericsson-LG Co., Ltd. and its subsidiaries | 9,409 | - | 9,409 | 5,543 | - | 5,543 |
| | Hitachi LG Data Storage Inc. and its subsidiaries. | 58,157 | - | 58,157 | 504,059 | - | 504,059 |
| | LG Fuel Cell Systems Inc. and its subsidiaries | 43 | - | 43 | - | - | - |
| | Korea Information Certificate Authority Inc. | - | - | - | - | 21 | 21 |
| | Subtotal | 1,093,489 | - | 1,093,489 | 7,100,547 | 14,351 | 7,114,898 |
| Joint ventures | Arcelik-LG Klima Sanayi ve Ticaret A.S. | 59,017 | - | 59,017 | 92,231 | - | 92,231 |
| | LG HOLDINGS (HK) LIMITED and its subsidiaries | - | - | - | - | 2,961 | 2,961 |
| | EIC PROPERTIES PTE LTD. | - | - | - | - | 868 | 868 |
| | Subtotal | 59,017 | - | 59,017 | 92,231 | 3,829 | 96,060 |
| Other related parties | SERVEONE Co., Ltd. and its subsidiaries | 20,266 | - | 20,266 | 1,092,032 | 170,470 | 1,262,502 |
| | LG Siltron Incorporated and its subsidiaries | 4,744 | - | 4,744 | 873 | 830 | 1,703 |
| | LG CNS Co., Ltd. and its subsidiaries | 30,989 | - | 30,989 | 119,700 | 585,284 | 704,984 |
| | LG SPORTS Ltd. | 423 | - | 423 | - | 12,214 | 12,214 |
| | LG Management Development Institute | 20 | - | 20 | 412 | 27,852 | 28,264 |
| | LUSEM CO., LTD. | 54,031 | - | 54,031 | 25,019 | 633 | 25,652 |
| | LG MMA Ltd. | 1,449 | - | 1,449 | 170 | - | 170 |
| | LG Holdings Japan Co., Ltd. | 14 | - | 14 | - | 2,260 | 2,260 |
| | Subtotal | 111,936 | - | 111,936 | 1,238,206 | 799,543 | 2,037,749 |
| | Total | 1,265,000 | - | 1,265,000 | 8,430,984 | 973,032 | 9,404,016 |

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

(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 |

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| | | December 31, 2015 | | | | | | | |
|-----------------------|--|-------------------|--------|-------------------|---------|----------------|------------|----------------|-----------|
| Classification | Name | Receivables | | | | Payables | | | |
| | | Trade receivables | Loans | Other receivables | Total | Trade payables | Borrowings | Other payables | Total |
| | LG Fuel Cell Systems Inc. and its subs. | - | 14,111 | 224 | 14,335 | - | - | - | - |
| | Hi Logistics (China) Co., Ltd. | - | - | 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. | 6,227 | - | 1,734 | 7,961 | 2,497 | - | 2 | 2,499 |
| | LG HOLDINGS (HK) LIMITED and its subs. | - | - | - | - | - | - | 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 | 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 |
| | LG CNS Co., Ltd. and its subsidiaries | 7,744 | - | 755 | 8,499 | 21,493 | - | 200,068 | 221,561 |
| | LG SPORTS Ltd. | - | - | - | - | - | - | 176 | 176 |
| | LG Management Development Institute | - | - | 17,864 | 17,864 | 8 | - | 1,094 | 1,102 |
| | LUSEM CO., LTD. | 6,055 | - | - | 6,055 | 364 | - | 2 | 366 |
| | 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 |

(in millions of Korean won)

| | | December 31, 2014 | | | | | | | |
|-------------------------------------|---|-------------------|-------|-------------------|---------|----------------|------------|----------------|---------|
| Classification | Name | Receivables | | | | Payables | | | |
| | | Trade receivables | Loans | Other receivables | Total | Trade payables | Borrowings | Other payables | Total |
| Significantly influencing the Group | LG Corp. | - | - | 22,882 | 22,882 | - | - | 5,208 | 5,208 |
| Associates | LG Display Co., Ltd. and its subsidiaries | 163,868 | - | 68,333 | 232,201 | 797,656 | - | 29,527 | 827,183 |
| | Ericsson-LG Co., Ltd. and its subsidiaries | 267 | - | 64 | 331 | 678 | - | 150 | 828 |
| | Hitachi LG Data Storage Inc. and its subsidiaries | 26 | - | 257 | 283 | 40,174 | - | 61 | 40,235 |
| | Subtotal | 164,161 | - | 68,654 | 232,815 | 838,508 | - | 29,738 | 868,246 |
| Joint ventures | Arcelik-LG Klima Sanayi ve Ticaret A.S. | 7,607 | - | - | 7,607 | 970 | - | - | 970 |
| | LG HOLDINGS (HK) LIMITED and its subs. | - | - | - | - | - | - | 1,486 | 1,486 |
| | EIC PROPERTIES PTE LTD. | - | - | - | - | - | - | 75 | 75 |

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| | | December 31, 2014 | | | | | | | |
|-----------------------|--|-------------------|-------|-------------------|---------|----------------|------------|----------------|-----------|
| Classification | Name | Receivables | | | | Payables | | | |
| | | Trade receivables | Loans | Other receivables | Total | Trade payables | Borrowings | Other payables | Total |
| | Subtotal | 7,607 | - | - | 7,607 | 970 | - | 1,561 | 2,531 |
| Other related parties | SERVEONE Co., Ltd. and its subsidiaries | 2,632 | - | 60,722 | 63,354 | 234,069 | - | 51,934 | 286,003 |
| | LG Siltron Incorporated and its subsidiaries | 836 | - | - | 836 | 28 | - | 1,540 | 1,568 |
| | LG CNS Co., Ltd. and its subsidiaries | 2,357 | - | 521 | 2,878 | 33,430 | - | 326,691 | 360,121 |
| | LG SPORTS Ltd. | 2 | - | - | 2 | - | - | 231 | 231 |
| | LG Management Development Institute | - | - | 17,864 | 17,864 | 11 | - | 2,658 | 2,669 |
| | LUSEM CO., LTD. | 8,108 | - | - | 8,108 | 2,031 | - | 10 | 2,041 |
| | LG MMA Ltd. | 164 | - | - | 164 | 121 | - | 3 | 124 |
| | LG Holdings Japan Co., Ltd. | - | - | 3,506 | 3,506 | - | - | - | - |
| | Subtotal | 14,099 | - | 82,613 | 96,712 | 269,690 | - | 383,067 | 652,757 |
| | Total | 185,867 | - | 174,149 | 360,016 | 1,109,168 | - | 419,574 | 1,528,742 |

iii) Significant capital transactions with related parties and others for the years ended December 31, 2015 and 2014

(in millions of Korean won)

| | | 2015 | | | | | |
|----------------|--|-----------------|-----------------------------|----------------------------|------------|---------------------------------|-----------|
| Classification | Name | Dividend income | Cash investment (reduction) | Financing loan transaction | | Financing borrowing transaction | |
| | | | | Loan | Collection | Borrowing | Repayment |
| | LG Display Co., Ltd. | 67,813 | - | - | - | - | - |
| | Ericsson-LG Co., Ltd. | 3,250 | - | - | - | - | - |
| Associates | Korea Information Certificate Authority Inc. | 60 | - | - | - | - | - |
| | LG Fuel Cell Systems Inc. and its subsidiaries | - | - | 14,111 | - | - | - |
| | Totals | 71,123 | - | 14,111 | - | - | - |

(in millions of Korean won)

| | | 2014 | | | | | |
|----------------|--|-----------------|-----------------------------|----------------------------|------------|---------------------------------|-----------|
| Classification | Name | Dividend income | Cash investment (reduction) | Financing loan transaction | | Financing borrowing transaction | |
| | | | | Loan | Collection | Borrowing | Repayment |
| | Ericsson-LG Co., Ltd. | 17,000 | - | - | - | - | - |
| | Korea Information Certificate Authority Inc. | 60 | - | - | - | - | - |
| Associates | LG Fuel Cell Systems Inc. and its subsidiaries | - | 7,267 | - | - | - | - |
| | Subtotal | 17,060 | 7,267 | - | - | - | - |

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| <i>(in millions of Korean won)</i> | | 2014 | | | | | |
|------------------------------------|-------------------------|-----------------|-----------------------------|----------------------------|------------|---------------------------------|-----------|
| | | Dividend income | Cash investment (reduction) | Financing loan transaction | | Financing borrowing transaction | |
| Classification | Name | | | Loan | Collection | Borrowing | Repayment |
| Joint venture | LG Fund for Enterprises | 6 | (680) | - | - | - | - |
| Totals | | 17,066 | 6,587 | - | - | - | - |

- (c) Key management compensation costs of the Group for the years ended December 31, 2015 and 2014, consist of:

| <i>(in millions of Korean won)</i> | 2015 | 2014 |
|------------------------------------|---------------|---------------|
| Wages and salaries | 19,515 | 13,329 |
| Post-employment benefits | 6,626 | 4,742 |
| Other long-term benefits | 109 | 58 |
| Total | 26,250 | 18,129 |

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

- (d) There is no payment guarantee provided by the Group for the funding sources of the related parties as of December 31, 2015.
- (e) There is no collateral provided by the Group for the funding sources of the related parties as of December 31, 2015.
- (f) The Group has not recognized any bad debt expense or allowance for trade receivables from related parties for the years ended December 31, 2015 and 2014.

37. 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

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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 15, 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 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 December 31, 2015 and 2014, if the foreign exchange rate of the Korean won fluctuated for monetary assets and liabilities denominated in major foreign currency other than functional currency by 10% while other variables were fixed, the effects on income(loss) before tax would be as follows:

| <i>(in millions of Korean won)</i> | December 31, 2015 | | December 31, 2014 | |
|------------------------------------|--------------------------|---------------------|--------------------------|---------------------|
| | 10% increase | 10% decrease | 10% increase | 10% decrease |
| USD/KRW | 19,679 | (19,679) | (88,337) | 88,337 |
| EUR/KRW | 49,706 | (49,706) | 50,124 | (50,124) |

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.

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The Group carries minimizing borrowings from others and optimizing own 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 and deposits with variable interest rates.

As of December 31, 2015 and 2014, if interest rates fluctuate by 100bp without other variables changing, the effects on income and expenses related to borrowings and financial deposits with variable interest rates for the twelve-month periods are as follows:

| <i>(in millions of Korean won)</i> | December 31, 2015 | | December 31, 2014 | |
|------------------------------------|-------------------|--------------|-------------------|--------------|
| | 1%p increase | 1%p decrease | 1%p increase | 1%p decrease |
| Interest income | 25,793 | (25,793) | 20,468 | (20,468) |
| Interest expense | 4,296 | (4,296) | 6,674 | (6,674) |

iii) Details of derivatives contracts are as follows:

Derivatives subject to hedge accounting

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

| December 31, 2015 | Contractor | Contracted amount <i>(in millions)</i> | Contracted currency rate | Interest rate <i>(received)</i> | Interest rate <i>(paid)</i> | Starting date | Expiration date |
|-------------------|------------------------|---|--------------------------|------------------------------------|--------------------------------|---------------|-----------------|
| USD/KRW CRS | Shinhan Bank | USD200 | USD/KRW 1,113.6 | 3ML+160bp | 3.22% | 2013.07.31 | 2019.01.31 |
| | BNP PARIBAS and others | USD200 | USD/KRW 1,052.1 | 3ML+130bp | 3.42% | 2013.12.19 | 2017.06.19 |
| CHF/KRW CRS | BNP PARIBAS and others | CHF215 | CHF/KRW 1,213.6 | 2.00% | 3.64% ~ 3.74% | 2012.07.02 | 2016.12.02 |
| USD/BRL CRS | Standard Chartered | USD27 | USD/BRL 3.9000 | 1.77% | 13.10% | 2015.09.15 | 2016.03.15 |
| | | USD50 | USD/BRL 3.9100 | 1.77% | 13.40% | 2015.09.18 | 2016.03.21 |
| | | USD27 | USD/BRL 4.0595 | 1.35% | 12.65% | 2015.09.23 | 2016.03.23 |
| | | USD25 | USD/BRL 3.9195 | 1.00% | 12.19% | 2015.10.27 | 2016.03.30 |
| | CITIBANK | USD33 | USD/BRL 3.7616 | 1.50% | 13.00% | 2015.10.14 | 2016.03.30 |
| | | USD25 | USD/BRL 3.7485 | 1.00% | 12.03% | 2015.11.24 | 2016.06.21 |
| | | USD35 | USD/BRL 3.7240 | 1.29% | 12.35% | 2015.11.25 | 2016.03.14 |

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The Group entered into the interest rate swap contracts to hedge cash flow risks related to the floating interest rates.

| December 31, 2015 | Contractor | Contracted amount (in millions of Korean won) | Interest rate (received) | Interest rate (paid) | Contract date | Expiration date |
|------------------------|---------------|---|-----------------------------|-------------------------|------------------|--------------------|
| | Hana Bank | 200,000 | 3M CD+98bp | 4.53% | 2014.01.03 | 2024.01.03 |
| | Kookmin Bank | 200,000 | 3M CD+114bp | 4.52% | 2014.04.30 | 2029.04.30 |
| KRW interest rate swap | Kookmin Bank | 190,000 | 3M CD+91bp | 3.15% | 2015.01.28 | 2027.01.28 |
| | Woori Bank | 390,000 | 3M CD+82bp | 3.07% | 2015.04.15 | 2030.04.15 |
| | Nonghyup Bank | 190,000 | 3M CD+105bp | 3.39% | 2015.07.07 | 2030.07.07 |

At the end of the reporting period, the swap contracts are evaluated at fair value and the gain on valuation of the effective portion amounting to ₩78,729 million in 2015 (2014: loss on valuation amounting to ₩62,319 million) after applying the tax effect, is recognized in other comprehensive income(loss). The Group has reclassified ₩98,577 million to income from equity in 2015 (2014: ₩24,208 million to loss from equity). Therefore, other comprehensive loss from cash flow hedges amounts to ₩19,848 million in 2015 (2014: other comprehensive loss of ₩38,111 million) after applying the tax effect.

Derivatives not subject to hedge accounting

The Group entered into the currency forward contracts to hedge against possible future changes in foreign exchange rates. The subsidiaries' currency forward contracts as of December 31, 2015, and related profit or loss for the year ended December 31, 2015, are as follows:

| <i>(in millions of Korean won)</i> | Purchase | Sale | Gain on valuation | Gain on transaction |
|------------------------------------|----------|---------|----------------------|------------------------|
| Currency forward | 570,443 | 560,362 | 16,194 | 33,926 |

iv) Price risk

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

The listed securities owned by the Group are traded in the public 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.

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| <i>(in millions of Korean won)</i> | December 31, 2015 | | December 31, 2014 | |
|------------------------------------|-------------------|--------------|-------------------|--------------|
| | 30% increase | 30% decrease | 30% increase | 30% decrease |
| KOSDAQ | 3,673 | (3,673) | 3,001 | (3,001) |
| NASDAQ | - | - | 742 | (742) |

The valuation and the reclassified amounts of the available-for-sale financial assets related to the market risk above are presented in Note 8.

(b) Credit risk

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

In regard to trade 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 trade 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 managements based on credit valuation criteria for trade receivables without insurance coverage or collateral.

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

| <i>(in millions of Korean won)</i> | December 31, 2015 | December 31, 2014 |
|--|-------------------|-------------------|
| Trade receivables with insurance or collateral | | |
| Excellent | 1,289,399 | 1,684,391 |
| Good | 819,223 | 1,077,174 |
| Fair | 1,828,147 | 1,697,433 |
| Poor ¹ | 1,040,630 | 1,103,277 |
| Subtotal | 4,977,399 | 5,562,275 |
| Trade receivables without insurance or collateral | | |
| Tier 1 | 767,073 | 731,982 |
| Tier 2 | 153,195 | 167,938 |
| Tier 3 | 141,671 | 600,520 |
| Subtotal | 1,061,939 | 1,500,440 |
| Total | 6,039,338 | 7,062,715 |

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

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

| Category | Atradius | Euler | Coface | K-SURE |
|-----------|----------|-------|--------|--------|
| Excellent | 1~28 | 1~3 | 8~10 | A~B |
| Good | 29~40 | 4~5 | 7 | C |
| Fair | 41~72 | 6~7 | 3~6 | D~E |
| Poor | 73~ | 8~10 | 0~2 | F~R |

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

Tier 1 – National or local government, domestic credit rating agency AA- ~ AAA+

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

Tier 3 – Small debtors without credit history

The credit rating of cash equivalents and financial deposits estimated by the Group using external credit rating criteria as of December 31, 2015 and 2014, is as follows:

| Category | December 31, 2015 | December 31, 2014 |
|-----------------|--------------------------|--------------------------|
| Excellent | 2,378,545 | 2,012,767 |
| Good | 167,316 | 325,706 |
| Others | 303,200 | 62,636 |
| Total | 2,849,061 | 2,401,109 |

Excellent: Equal to or more than A-(Global credit rating agency such as S&P), AAA(Domestic credit rating agency such as Korea investors service)

Good: Equal to or more than BBB-(Global credit rating agency such as S&P), AA(Domestic credit rating agency)

Others: Financial deposit without credit rating

(c) Liquidity risk

The Group forecasts its cash flow and liquidity status and sets action plans on a regular base 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 from Korea Investors Service, Korea Ratings and NICE Information Service, BBB from Standard & Poors, and Baa3 from Moody's as of December 31, 2015, respectively.

i) Cash flow information on maturity of borrowings is as follows:

| <i>(in millions of Korean won)</i> | December 31, 2015 | | | | |
|------------------------------------|--------------------------|-------------------------|-----------------------------------|-----------------------------------|---------------------|
| | Total | Less than 1 year | Between 1 year and 2 years | Between 2 year and 5 years | Over 5 years |
| Trade payables | 6,086,975 | 6,086,975 | - | - | - |
| Borrowings | 10,155,880 | 2,639,708 | 1,412,465 | 2,858,592 | 3,245,115 |
| Other payables | 2,855,010 | 2,847,145 | 6,403 | 1,262 | 200 |
| Other financial liabilities | 3,368 | 3,368 | - | - | - |
| Total | 19,101,233 | 11,577,196 | 1,418,868 | 2,859,854 | 3,245,315 |

The above cash flows are calculated at nominal value based on the earliest maturity dates

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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 ₩3,368 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 December 31, 2015, are as follows:

| <i>(in millions of Korean won)</i> | December 31, 2015 | | | | |
|------------------------------------|--------------------------|-------------------------|---------------------|---------------------|---------------------|
| | Total | Less than 1 year | 1 to 2 years | 2 to 5 years | Over 5 years |
| Financial guarantee contracts | 94,568 | 94,568 | - | - | - |

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

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 optimize the capital structure.

Debt-to-equity ratio and net borrowing ratio are as follows:

| <i>(in millions of Korean won, except for ratios)</i> | December 31, 2015 | December 31, 2014 |
|--|--------------------------|--------------------------|
| Liability (A) | 23,330,409 | 24,077,323 |
| Equity (B) | 12,983,487 | 12,991,097 |
| Cash and cash equivalents and current financial deposits (C) | 2,710,156 | 2,244,406 |
| Borrowings (D) | 8,827,250 | 9,002,431 |
| Liability-to-equity ratio (A/B) | 179.7% | 185.3% |
| Net borrowings ratio (D-C)/B | 47.1% | 52.0% |

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Fair Value Estimation

(a) The book values and fair values of the Group's financial assets and liabilities are as follows:

| <i>(in millions of Korean won)</i> | December 31, 2015 | | December 31, 2014 | |
|---|-------------------|------------|-------------------|------------|
| | Book amount | Fair value | Book amount | Fair value |
| Current financial asset items | | | | |
| [Assets at fair value] | | | | |
| Financial assets at fair value through profit or loss | | | | |
| Other financial assets | 13,806 | 13,806 | 5,654 | 5,654 |
| Derivatives for hedging purposes | | | | |
| Other financial assets | 4,347 | 4,347 | 5,515 | 5,515 |
| [Assets at amortized cost] | | | | |
| Loans and other receivables | | | | |
| Cash and cash equivalents | 2,710,156 | 1 | 2,244,406 | 1 |
| Financial deposits | 87,454 | 1 | 67,700 | 1 |
| Trade receivables | 7,093,352 | 1 | 7,683,915 | 1 |
| Other receivables | 654,141 | 1 | 633,219 | 1 |
| Held-to-maturity financial assets | | | | |
| Other financial assets | 2,521 | 1 | 24 | 1 |
| Non-current financial asset items | | | | |
| [Assets at fair value] | | | | |
| Derivatives for hedging purposes | | | | |
| Other financial assets | 30,287 | 30,287 | 5,252 | 5,252 |
| Available-for-sale financial assets | | | | |
| Other financial assets | 16,531 | 16,531 | 14,529 | 14,529 |
| [Assets at amortized cost] | | | | |
| Loans and other receivables | | | | |
| Financial deposits | 69,970 | 69,970 | 94,323 | 94,323 |
| Other receivables | 506,788 | 497,253 | 548,564 | 535,896 |
| Held-to-maturity financial assets | | | | |
| Other financial assets | 117 | 1 | 2,638 | 1 |
| [Assets at cost] | | | | |
| Available-for-sale financial assets | | | | |
| Other financial assets | 37,875 | 2 | 34,356 | 2 |
| Total | 11,227,345 | | 11,340,095 | |

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| <i>(in millions of Korean won)</i> | December 31, 2015 | | December 31, 2014 | |
|--|-------------------|--------------|-------------------|--------------|
| | Book amount | Fair value | Book amount | Fair value |
| Current financial liability items | | | | |
| [Liabilities at fair value] | | | | |
| Financial liabilities at fair value through profit or loss | | | | |
| Other financial liabilities | 3,368 | 3,368 | 3,409 | 3,409 |
| Derivatives for hedging purposes | | | | |
| Other financial liabilities | 10,184 | 10,184 | 3,013 | 3,013 |
| [Liabilities at amortized cost] | | | | |
| Trade payables | 6,086,975 | ¹ | 6,741,710 | ¹ |
| Borrowings | 2,326,128 | ¹ | 2,575,550 | ¹ |
| Other payables | 2,847,145 | ¹ | 3,020,870 | ¹ |
| [Other liabilities] | | | | |
| Other financial liabilities | 271 | ³ | 106 | ³ |
| Non-current financial liability items | | | | |
| [Liabilities at fair value] | | | | |
| Derivatives for hedging purposes | | | | |
| Other financial liabilities | 69,618 | 69,618 | 62,160 | 62,160 |
| [Liabilities at amortized cost] | | | | |
| Borrowings | 6,501,122 | 7,064,295 | 6,426,881 | 6,783,359 |
| Other payables | 6,590 | 6,656 | 14,320 | 14,458 |
| [Other liabilities] | | | | |
| Other financial liabilities | 308 | ³ | 414 | ³ |
| Total | 17,851,709 | | 18,848,433 | |

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

² Unlisted equity securities are calculated at cost because the variability in the range of the estimated future cash flows is significant and the probabilities of the various estimates within the range cannot be reasonably assessed.

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. The Group measures fair value using valuation techniques that 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:

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- 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 used for financial assets held by the Group is the current bid price. 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 judgments based on current market conditions. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific 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 discounted cash flow method.

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ii) Financial instruments measured at fair value

Fair value hierarchy classifications of the financial assets and financial liabilities that are measured at fair value are as follows:

| <i>(in millions of Korean won)</i> | December 31, 2015 | | | Total |
|--|-------------------|---------|---------|--------|
| | Level 1 | Level 2 | Level 3 | |
| 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 |

| <i>(in millions of Korean won)</i> | December 31, 2014 | | | Total |
|--|-------------------|---------|---------|--------|
| | Level 1 | Level 2 | Level 3 | |
| Assets | | | | |
| Other financial assets | | | | |
| Available-for-sale financial assets | | | | |
| - Marketable equity securities | 13,107 | - | - | 13,107 |
| - Debt securities | - | - | 1,422 | 1,422 |
| Financial assets at fair value through profit or loss | - | 5,654 | - | 5,654 |
| Derivatives for hedging purposes | - | 10,767 | - | 10,767 |
| Liabilities | | | | |
| Other financial liabilities | | | | |
| Financial liabilities at fair value through profit or loss | - | 3,409 | - | 3,409 |
| Derivatives for hedging purposes | - | 65,173 | - | 65,173 |

The above fair value amounts are recurring fair value measurements.

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

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

Valuation technique and inputs for fair value measurements categorized within level 2 are as follows:

| <i>(in millions of Korean won)</i> | Fair value | | Valuation techniques | Inputs |
|--|-------------------|-------------------|----------------------|---------------------------------|
| | December 31, 2015 | December 31, 2014 | | |
| Assets | | | | |
| Other financial assets | | | | |
| Financial assets at fair value through profit or loss | 13,806 | 5,654 | Discounted cash flow | Discount rate and exchange rate |
| Derivatives for hedging purposes | 34,634 | 10,767 | Discounted cash flow | Discount rate and exchange rate |
| Liabilities | | | | |
| Other financial liabilities | | | | |
| Financial liabilities at fair value through profit or loss | 3,368 | 3,409 | Discounted cash flow | Discount rate and exchange rate |
| Derivatives for hedging purposes | 79,802 | 65,173 | 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 years ended December 31, 2015 and 2014, are as follows:

| <i>(in millions of Korean won)</i> | 2015 | 2014 |
|---|-------|-------|
| At January 1 | 1,422 | 1,840 |
| Total gain(loss) for the year | | |
| Gain(loss) included in profit for the year ¹ | 81 | (116) |
| Gain(loss) included in other comprehensive income | (14) | 21 |
| Purchase, issue, sales and settlement | | |
| Purchase | - | - |
| Sale | (287) | (323) |
| At December 31 | 1,202 | 1,422 |

¹ Gain and loss included in profit for the year are interest income amounting to ₩81 million (2014: interest income ₩184 million and impairment loss ₩300 million).

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Valuation technique, inputs, and range of significant but unobservable inputs of financial instruments that are measured at fair value and categorized within level 3 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 |
|-------------------------------------|-------------------|-------------------|----------------------|---------------|-------------------------------------|--|
| | December 31, 2015 | December 31, 2014 | | | | |
| Other financial assets | | | | | | |
| Available-for-sale financial assets | | | | | | |
| - Debt securities | 1,202 | 1,422 | Discounted cash flow | Discount rate | Discount rate (credit spread) | 5.3%~7.0% |

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 are as follows:

| <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 | - | - | 6,656 | 6,656 |

| <i>(in millions of Korean won)</i> | December 31, 2014 | | | |
|------------------------------------|-------------------|---------|-----------|-----------|
| | Level 1 | Level 2 | Level 3 | Total |
| Assets | | | | |
| Non-current financial deposits | - | - | 94,323 | 94,323 |
| Non-current other receivables | - | - | 535,896 | 535,896 |
| Liabilities | | | | |
| Non-current borrowings | - | - | 6,783,359 | 6,783,359 |
| Non-current other payables | - | - | 14,458 | 14,458 |

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

As of December 31, 2015, 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

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are as follows:

| (in millions of Korean won) | December 31, 2015 | | December 31, 2014 | | 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 | 69,970 | 69,970 | 94,323 | 94,323 | Discounted cash flow | Discount rate and exchange rate | Discount rate | 0.1% ~ 4.1% |
| Non-current other receivables | 506,788 | 497,253 | 548,564 | 535,896 | Discounted cash flow | Discount rate and exchange rate | Discount rate | 2.9% ~ 3.8% |
| Liabilities | | | | | | | | |
| Non-current borrowings | 6,501,122 | 7,064,295 | 6,426,881 | 6,783,359 | Discounted cash flow | Discount rate and exchange rate | Discount rate | 1.8% ~ 3.6% |
| Non-current other payables | 6,590 | 6,656 | 14,320 | 14,458 | Discounted cash flow | Discount rate and exchange rate | Discount rate | 3.8% ~ 4.4% |

38. 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:

| (in millions of Korean won) | Amount |
|--|--------------|
| Consideration ¹ | |
| Cash and cash equivalents | 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 |

¹ Considerations during the measurement period

The acquisition-related cost amounting to ₩147 million was recognized as an expense in the

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period in which they were incurred and the above fair value of trade receivables is the same as the contractual amounts in gross.

- (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.

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 | 6,934 |
| Contingent consideration ² | 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 Consideration transferred during the measurement period.

² 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.

The acquisition-related cost amounting to ₩214 million was recognized as an expense in the period in which they were 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 | 4,200 |
| Other payables | 9,800 |
| Recognized amounts of identifiable assets acquired | |
| Non-current assets | |
| Property, plant and equipment | 8,505 |

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| <i>(in millions of Korean won)</i> | Amount |
|--------------------------------------|---------------|
| Intangible assets | 1,228 |
| Total identifiable net assets | 9,733 |
| Goodwill | 4,267 |

39. Assets and Liabilities Held for sale

(a) Details of assets classified as held for sale are follows:

| <i>(in millions of Korean won)</i> | December 31, 2015 | December 31, 2014 |
|---|--------------------------|--------------------------|
| Assets classified as held for sale | | |
| Investment in associates and joint ventures | 3,619 | - |
| Total | 3,619 | - |

In accordance with the resolution of the Board of Directors dated October 28, 2015, the Group decided to dispose 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 the first half of 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.

40. 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 year from discontinued operations for the years ended December 31, 2015 and 2014, consists of:

| <i>(in millions of Korean won)</i> | 2015 | 2014 |
|------------------------------------|-------------|-------------|
| Net sales | 27,884 | 1,015,307 |
| Operating loss | (4,510) | (40,453) |
| Loss for the year before tax | (4,551) | (230,583) |
| Income tax expense(benefit) | (723) | (53,431) |
| Loss for the year, net of tax | (3,828) | (177,152) |

For the years ended December 31, 2015 and 2014, a gain on disposal of property, plant and equipment of ₩63 million and an impairment loss of ₩139,523 million, respectively, is recognized based on the recoverable amount of assets due to the discontinued operations of PDP modules and PDP TV.

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(b) Cash generated from discontinued operations

| <i>(in millions of Korean won)</i> | 2015 | 2014 |
|--|-------------|-------------|
| Net cash flows from operating activities | 25,556 | 105,989 |
| Net cash flows from investing activities | 68 | 553 |
| Net cash flow from discontinued operations | 25,624 | 106,542 |

41. Approval of the Consolidated Financial Statements

The issuance of the December 31, 2015 consolidated financial statements of the Group was approved by the Board of Directors on January 29, 2016.