

LG Electronics Inc.

**Separate Interim Financial Statements
March 31, 2017 and 2016**

LG Electronics Inc.

Index

March 31, 2017 and 2016

	Page(s)
Report on Review of Interim Financial Statements	1 - 2
Separate Interim Financial Statements	
Separate Interim Statements of Financial Position	3
Separate Interim Statements of Profit or Loss	4
Separate Interim Statements of Comprehensive Income.....	5
Separate Interim Statements of Changes in Equity	6
Separate Interim Statements of Cash Flows.....	7
Notes to the Separate Interim Financial Statements	8 – 58

Report on Review of Separate Interim Financial Statements

(English Translation of a Report Originally Issued in Korean)

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

Reviewed Financial Statements

We have reviewed the accompanying separate interim financial statements of LG Electronics Inc. (referred to as the "Company"). These financial statements consist of the separate interim statement of financial position of the Company as of March 31, 2017, and the related separate interim statements of profit or loss, comprehensive income, changes in equity and cash flows for the three-month periods ended March 31, 2017 and 2016, and a summary of significant accounting policies and other explanatory notes, expressed in Korean won.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

Conclusion

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

Other matters

We have audited the separate statement of financial position of the Company as of December 31, 2016, and the related separate statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, in accordance with Korean Standards on Auditing. We expressed an unqualified opinion on those financial statements, not presented herein, in our audit report dated March 9, 2017. The separate statement of financial position as of December 31, 2016, presented herein for comparative purposes, is consistent, in all material respects, with the above audited statement of financial position as of December 31, 2016.

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

Seoul, Korea

May 12, 2017

This report is effective as of May 12, 2017, the review report date. Certain subsequent events or circumstances, which may occur between the review report date and the time of reading this report, could have a material impact on the accompanying separate interim financial statements and notes thereto. Accordingly, the readers of the review report should understand that there is a possibility that the above review report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

LG Electronics Inc.

Separate Interim Statements of Financial Position

March 31, 2017 and December 31, 2016

<i>(in millions of Korean won)</i>	Note	March 31, 2017 (Unaudited)	December 31, 2016
Assets			
Current assets			
Cash and cash equivalents	4,29	1,165,571	1,181,725
Deposits held by financial institutions	4,29	80,500	80,500
Trade receivables	4,5,29	5,459,534	4,985,573
Loans and other receivables	4,5,29	515,627	492,178
Other financial assets	4,6,29	12,418	30,093
Inventories	7	1,445,639	1,186,521
Current income tax assets		1,796	1,518
Other current assets		431,245	344,551
Assets held for sale	30	4,599	8,906
		<u>9,116,929</u>	<u>8,311,565</u>
Non-current assets			
Deposits held by financial institutions	4,29	2,290	1,159
Loans and other receivables	4,5,29	298,235	306,113
Other financial assets	4,6,29	31,756	48,672
Property, plant and equipment	8	7,181,656	7,164,642
Intangible assets	8	1,276,628	1,234,531
Deferred income tax assets		823,386	884,654
Investments in subsidiaries, associates and joint ventures	9	8,003,830	7,995,665
Investment properties		96,288	96,615
Other non-current assets		529,335	555,459
		<u>18,243,404</u>	<u>18,287,510</u>
Total assets		<u>27,360,333</u>	<u>26,599,075</u>
Liabilities			
Current liabilities			
Trade payables	4,29	6,294,623	5,516,849
Borrowings	4,10,29	652,775	661,148
Other payables	4,29	1,969,898	2,080,451
Other financial liabilities	4,6,29	7,269	8,665
Provisions	12	1,054,608	392,948
Other current liabilities		1,718,088	1,883,065
		<u>11,697,261</u>	<u>10,543,126</u>
Non-current liabilities			
Borrowings	4,10,29	6,043,856	5,970,172
Other payables	4,29	370	5,552
Other financial liabilities	4,6,29	74,016	75,736
Net defined benefit liability	11	397,500	345,368
Provisions	12	58,872	811,036
Other non-current liabilities		84,759	82,633
		<u>6,659,373</u>	<u>7,290,497</u>
Total liabilities		<u>18,356,634</u>	<u>17,833,623</u>
Equity			
Paid-in capital:	13		
Share capital		904,169	904,169
Share premium		3,088,179	3,088,179
Retained earnings	14	5,084,196	4,851,573
Accumulated other comprehensive income	15	(40,026)	(45,650)
Other components of equity	16	(32,819)	(32,819)
		<u>9,003,699</u>	<u>8,765,452</u>
Total equity		<u>9,003,699</u>	<u>8,765,452</u>
Total liabilities and equity		<u>27,360,333</u>	<u>26,599,075</u>

LG Electronics Inc.**Separate Interim Statements of Profit or Loss****Three-Month Periods Ended March 31, 2017 and 2016**

	Note	Three-Month Period Ended March 31	
		2017 (Unaudited)	2016 (Unaudited)
<i>(in millions of Korean won, except per share amounts)</i>			
Net sales	17	7,704,231	7,172,793
Cost of sales	18	6,034,974	5,658,277
Gross profit		1,669,257	1,514,516
Selling and marketing expenses	18,19	628,667	604,268
Administrative expenses	18,19	141,447	148,667
Research and development expenses	18,19	472,272	552,129
Service costs	18,19	129,577	128,214
Operating income		297,294	81,238
Financial income	20	53,490	58,523
Financial expenses	21	139,230	125,368
Other non-operating income	22	387,826	482,058
Other non-operating expenses	23	231,548	466,839
Profit before income tax		367,832	29,612
Income tax expense		69,632	432
Profit for the period		298,200	29,180
Earnings per share during the period (in won)	24		
Earnings per ordinary share		1,655	161
Earnings per preferred share		1,667	173

LG Electronics Inc.
Separate Interim Statements of Comprehensive Income
Three-Month Periods Ended March 31, 2017 and 2016

<i>(in millions of Korean won)</i>	Note	Three-Month Period Ended March 31	
		2017 (Unaudited)	2016 (Unaudited)
Profit for the period		298,200	29,180
Other comprehensive income(loss), net of tax			
<i>Items that will not be reclassified subsequently to profit or loss:</i>			
Remeasurements of the net defined benefit liability	11	7,308	(60,163)
<i>Items that will be reclassified subsequently to profit or loss:</i>			
Cash flow hedges	29	6,098	(23,002)
Available-for-sale financial assets	6	(474)	(26)
Other comprehensive income(loss) for the period, net of tax		12,932	(83,191)
Total comprehensive income (loss) for the period, net of tax		311,132	(54,011)

LG Electronics Inc.

Separate Interim Statements of Cash Flows

Three-Month Periods Ended March 31, 2017 and 2016

<i>(in millions of Korean won)</i>	Note	Three-Month Period Ended March 31	
		2017 (Unaudited)	2016 (Unaudited)
Cash flows from operating activities			
Cash generated from operations	25	293,901	530,584
Interest received		2,601	3,022
Interest paid		(54,107)	(55,519)
Dividends received		23,957	3,786
Income tax paid		(12,770)	(10,517)
Net cash inflow from operating activities		253,582	471,356
Cash flows from investing activities			
Decrease in loans and other receivables		43,195	23,003
Proceeds from redemption and disposal of other financial assets		1,205	-
Proceeds from disposal of property, plant and equipment		5,663	3,138
Proceeds from disposal of intangible assets		107	-
Proceeds from disposal of investments in subsidiaries, associates and joint ventures		6,533	6,225
Proceeds from disposal of assets held for sale		12,710	-
Increase in deposits held by financial institutions		(1,131)	(1,095)
Increase in loans and other receivables		(28,205)	(10,411)
Acquisition of other financial assets		(1,200)	(2,400)
Acquisition of property, plant and equipment		(274,712)	(161,386)
Acquisition of intangible assets		(126,028)	(102,562)
Acquisition of investments in subsidiaries, associates and joint ventures		(13,019)	(11,440)
Net cash outflow from investing activities		(374,882)	(256,928)
Cash flows from financing activities			
Proceeds from borrowings		395,146	448,098
Repayments of borrowings		(290,000)	(60,017)
Net cash inflow from financing activities		105,146	388,081
Net increase (decrease) in cash and cash equivalents		(16,154)	602,509
Cash and cash equivalents at the beginning of the period		1,181,725	678,221
Cash and cash equivalents at the end of the period		1,165,571	1,280,730

LG Electronics Inc.
Notes to the Separate Interim Financial Statements
March 31, 2017 and 2016 (Unaudited), and December 31, 2016

1. General Information

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

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

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

2. Significant Accounting Policies

Basis of Preparation

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

The financial statements of the Company are the separate financial statements prepared in accordance with Korean IFRS 1027 '*Separate Financial Statements*'. The separate interim financial statements for the three-month period ended March 31, 2017, have been prepared in accordance with Korean IFRS 1034 '*Interim Financial Reporting*'. These separate interim financial statements have been prepared in accordance with Korean IFRS which is effective as of March 31, 2017.

Changes in Accounting Policies and Disclosures

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

i) The new and amended standards and interpretations adopted by the Company from the financial year 2017:

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

LG Electronics Inc.
Notes to the Separate Interim Financial Statements
March 31, 2017 and 2016 (Unaudited), and December 31, 2016

Amendments to Korean IFRS 1007 *Statement of Cash flows* require to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The disclosures required by this amendment are provided in Note 25(b) "changes in liabilities from financing activities".

- Amendments to Korean IFRS 1012, '*Income Tax*'

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

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

- Korean IFRS 1109, '*Financial Instruments*'

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

The standard requires retrospective application with some exceptions. Firstly, an entity is not required to restate prior period in relation to classification and measurement (including impairment) of financial instruments. Secondly, an entity is required to apply the hedge accounting requirements of this Standard prospectively except the accounting for time value of options and other exceptions.

Korean IFRS 1109 requires all financial assets to be classified and measured on the basis of the entity's business model for managing financial assets and the contractual cash flow characteristics of the financial assets. A new impairment model, an expected credit loss model, is introduced and any subsequent changes in expected credit losses will be recognized in profit or loss. Also, hedge accounting rules are amended to extend the hedging relationship, which consists only of eligible hedging instruments and hedged items, qualifies for hedge accounting.

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

The Company performed an impact assessment to identify potential financial effects of applying

LG Electronics Inc.
Notes to the Separate Interim Financial Statements
March 31, 2017 and 2016 (Unaudited), and December 31, 2016

Korean IFRS 1109. The assessment was performed based on retainable information as of March 31, 2017. The Company plans to perform more detailed analysis on financial effects based on additional information in the future; therefore, the results of the assessment may change due to additional information that the Company may obtain after the assessment.

Classification and Measurement of Financial Assets

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

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

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

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

According to Korean IFRS 1109, a debt instrument is measured at amortized cost if: a) the objective of the business model is to hold the financial asset for the collection of the contractual cash flows, and b) the contractual cash flows under the instrument solely represent payments of principal and interest. As of March 31, 2017, the Company measured loans and receivables of \ 7,521,757 million at amortized costs. Based on results from the impact assessment of Korean IFRS 1109, the application of the new standard does not have a material impact on the Company's separate financial statements. This is because the Company holds the majority of financial assets measured at amortized cost that meets the both criteria: a) the contractual terms of the financial assets that the Company holds give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding on a specified date, and b) the Company holds the financial assets in order to collect contractual cash flow.

According to Korean IFRS 1109, a debt instrument is measured at fair value through other comprehensive income if the objective of the business model is achieved both by collecting

LG Electronics Inc.
Notes to the Separate Interim Financial Statements
March 31, 2017 and 2016 (Unaudited), and December 31, 2016

contractual cash flows and selling financial assets; and the contractual cash flows represents solely payments of principal and interest on a specific date under contract terms. As of March 31, 2017, the Company does not hold debt instruments classified as financial assets available-for-sale. Therefore, based on the results from the impact assessment of Korean IFRS 1109, the Company expects application of Korean IFRS 1109 will not have a material impact on the accompanying separate financial statements.

According to Korean IFRS 1109, the Company can make an irrevocable election at initial recognition to classify the equity instruments that are not held for trading instruments as assets measured at fair value through other comprehensive income. All subsequent changes in fair value of the instruments are recognized in other comprehensive income and not recycled to profit or loss. As of March 31, 2017, the Company holds equity instruments of ₩31,752 million classified as financial assets available-for-sale, however, there is no unrealized gain or loss recycled to profit or loss for the three-month period ended March 31, 2017. Based on results from the impact assessment of Korean IFRS 1109, the Company plans to designate equity instruments, which are classified in financial assets available-for-sale for long-term investment purpose, as instruments measured at fair value through other comprehensive income. Therefore, the Company expects these financial assets will not have a material impact on the accompanying separate financial statements.

Classification and Measurement of Financial Liabilities

Korean IFRS 1109 requires the amount of the change in the liability's fair value attributable to changes in the credit risk of that financial liability to be recognized in other comprehensive income, unless this treatment of the credit risk component creates or enlarges an accounting mismatch. Amounts presented in other comprehensive income are not subsequently recycled to profit or loss. Based on the results from the impact assessment of Korean IFRS 1109, the Company does not hold financial liabilities designated at fair value through profit or loss as of March 31, 2017. Therefore, the Company expects the application of Korean IFRS 1109 will not have a material impact on the accompanying separate financial statements.

Impairment: Debt investment and Contract Assets

Korean IFRS 1109 sets out a new forward looking 'expected credit loss' impairment model which replaces the incurred loss model under Korean IFRS 1039 that impairs assets if there is an objective evidence and applies to:

- Debt investments measured at amortized cost
- Debt investments measured at fair value through other comprehensive income,
- Lease receivables
- Contract assets
- Loan commitments, and
- Financial guarantee contracts.

LG Electronics Inc.
Notes to the Separate Interim Financial Statements
March 31, 2017 and 2016 (Unaudited), and December 31, 2016

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

As of March 31, 2017, the Company owns financial instrument at amortized cost of ₩7,521,757 million (loans and receivables). And, the Company recognized loss allowance of ₩39,678 million for these financial assets.

The Company performed an impact assessment with an assumption of using the practical expedient that the Company measures the loss allowance at an amount equal to lifetime expected credit losses at initial recognition for trade receivables and contract assets that do not contain a significant financing component. As the results of the impact assessment, the Company expects the application of Korean IFRS 1109 will not have a material impact on the accompanying separate financial statements.

Hedge Accounting

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

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

- Korean IFRS 1115, '*Revenue from Contracts with Customers*'

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

LG Electronics Inc.
Notes to the Separate Interim Financial Statements
March 31, 2017 and 2016 (Unaudited), and December 31, 2016

retrospectively to prior reporting period for uncompleted contracts upon implementation date and apply the practical expedient with no restatement for completed contracts and other.

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

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

As of March 31, 2017, for the preparation of implementing Korean IFRS 1115, the Company formed a task force team consisting of members from accounting FD, information strategy FD and other practical departments, if necessary. The Company performed an impact assessment to identify potential financial effects of applying Korean IFRS 1115. The assessment was performed based on retainable information as of March 31, 2017. The results of the assessment as of March 31, 2017 may change due to additional information that the Company may obtain after the assessment.

Identification of performance obligation

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

The Company expects that identifying performance obligation will not have a material impact on the accompanying separate financial statements because the Company recognizes revenue from service, of which contracts are generally separated, apart from sales of goods or products as of March 31, 2017.

Variable consideration

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

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

LG Electronics Inc.
Notes to the Separate Interim Financial Statements
March 31, 2017 and 2016 (Unaudited), and December 31, 2016

According to current Korean IFRS, the Company estimates an amount of promotional incentive and reverses sales and trade receivables. Instead, with implementation of Korean IFRS 1115, the Company will reverse sales but recognize a refund liability. The Company recognizes an amount of gross profit for products the Company expects to be returned as a return provision according to current Korean IFRS. While, with the implementation of Korean IFRS 1115, the Company will recognize expected amount of return as the refund liability and cost of sales as assets. Based on the result from the impact assessment as of March 31, 2017, the Company expects the application of Korean IFRS 1115 will not have a material impact on revenue while both assets and liabilities are expected to be increased at the same time.

Costs to fulfil a contract

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

Based on the result from the impact assessment as of March 31, 2017, the Company expects the application of Korean IFRS 1115 will result in an increase in assets and equity because the costs to fulfil a contract such as past research and development expenses will be recognized as assets.

Warranties

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

Based on the results from the impact assessment as of March 31, 2017, the Company will not have a material impact because extended warranties beyond standard terms have been recognized as separate revenue from service which is distinct from standard term of warranties.

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

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

LG Electronics Inc.
Notes to the Separate Interim Financial Statements
March 31, 2017 and 2016 (Unaudited), and December 31, 2016

Application of Accounting Policies

Significant accounting policies and method of computation used in the preparation of the condensed separate interim financial statements are consistent with those of the separate financial statements for the year ended December 31, 2016, except for the changes due to the application of amendment and enactments of standards described in Note 2 and the one described below.

Income Tax Expense

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

3. Critical Accounting Estimates and Judgements.

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

(a) Revenue Recognition

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

(b) Impairment of Goodwill

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

(c) Income Taxes

The Company recognizes assets and liabilities for anticipated tax audit issues based on the best estimates of whether additional taxes will be due. Income tax expense in each interim period is recognized based on the best estimate of the weighted average annual income tax rate expected for the full financial year as explained in Note 2. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and

LG Electronics Inc.
Notes to the Separate Interim Financial Statements
March 31, 2017 and 2016 (Unaudited), and December 31, 2016

deferred income tax assets and liabilities in the period in which such determination is made.

(d) Fair Value of Financial Instruments

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Company uses its 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 Company recognizes provisions for product warranties and sales returns based on their historical data.

(f) Net Defined Benefit Liabilities

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

4. Financial Instruments by Category

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

<i>(in millions of Korean won)</i>	March 31, 2017					
	Financial assets at fair value through profit or loss	Loans and receivables	Available-for-sale financial assets	Held-to-maturity financial assets	Other	Total
Cash and cash equivalents	-	1,165,571	-	-	-	1,165,571
Deposits held by financial institutions	-	82,790	-	-	-	82,790
Trade receivables	-	5,459,534	-	-	-	5,459,534
Loans and other receivables	-	813,862	-	-	-	813,862
Other financial assets	-	-	31,752	-	12,422	44,174
Total	-	7,521,757	31,752	-	12,422	7,565,931

LG Electronics Inc.
Notes to the Separate Interim Financial Statements
March 31, 2017 and 2016 (Unaudited), and December 31, 2016

March 31, 2017

<i>(in millions of Korean won)</i>	Financial liabilities at fair value through profit or loss	Financial liabilities carried at amortized cost	Other	Total
Trade payables	-	6,294,623	-	6,294,623
Borrowings	-	6,696,631	-	6,696,631
Other payables	-	1,970,268	-	1,970,268
Other financial liabilities	-	-	81,285	81,285
Total	-	14,961,522	81,285	15,042,807

December 31, 2016

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

December 31, 2016

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

LG Electronics Inc.
Notes to the Separate Interim Financial Statements
March 31, 2017 and 2016 (Unaudited), and December 31, 2016

(b) Net gains or losses on each category of financial instruments for the three-month periods ended March 31, 2017 and 2016, are as follows:

<i>(in millions of Korean won)</i>	2017					Total
	Financial assets at fair value through profit or loss	Loans and receivables	Available-for-sale financial assets	Held-to-maturity financial assets	Other	
Interest income	-	4,348	-	-	-	4,348
Exchange differences	-	(351,576)	-	-	-	(351,576)
Bad debt expense	-	(1,322)	-	-	-	(1,322)
Loss on disposal of trade receivables	-	(805)	-	-	-	(805)
Gain on disposal of available-for-sale financial assets	-	-	5,409	-	-	5,409
Impairment loss on available-for-sale financial assets	-	-	(250)	-	-	(250)
Dividend income	-	-	228	-	-	228
Loss on valuation of available-for-sale financial assets, net of tax (through other comprehensive loss)	-	-	(474)	-	-	(474)
Gain on derivatives, net of tax (through other comprehensive income)	-	-	-	-	621	621
Others	-	2,135	-	-	-	2,135

<i>(in millions of Korean won)</i>	2017			Total
	Financial liabilities at fair value through profit or loss	Financial liabilities carried at amortized cost	Other	
Interest expenses	-	(44,571)	(4,644)	(49,215)
Exchange differences	-	368,654	(40,725)	327,929
Gain on derivatives, net of tax (through other comprehensive loss)	-	-	5,477	5,477
Others	-	-	404	404

LG Electronics Inc.
Notes to the Separate Interim Financial Statements
March 31, 2017 and 2016 (Unaudited), and December 31, 2016

<i>(in millions of Korean won)</i>	2016					
	Financial assets at fair value through profit or loss	Loans and receivables	Available-for-sale financial assets	Held-to-maturity financial assets	Other	Total
Interest income	-	4,962	-	-	-	4,962
Exchange differences	-	(50,493)	-	-	-	(50,493)
Bad debt expense	-	9,619	-	-	-	9,619
Loss on disposal of trade receivables	-	(1,260)	-	-	-	(1,260)
Dividend income	-	-	254	-	-	254
Loss on valuation of available-for-sale financial assets, net of tax (through other comprehensive loss)	-	-	(26)	-	-	(26)
Loss on derivatives, net of tax (through other comprehensive income)	-	-	-	-	(1,827)	(1,827)
Others	-	4,866	-	-	-	4,866

<i>(in millions of Korean won)</i>	2016			
	Financial liabilities at fair value through profit or loss	Financial liabilities carried at amortized cost	Other	Total
Interest expenses	-	(53,815)	(5,660)	(59,475)
Exchange differences	-	70,564	(5,280)	65,284
Loss on derivatives, net of tax (through other comprehensive loss)	-	-	(21,175)	(21,175)
Others	-	-	371	371

5. Trade Receivables and Other Receivables

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

<i>(in millions of Korean won)</i>	March 31, 2017			December 31, 2016		
	Original amount	Allowance for doubtful accounts	Carrying amount	Original amount	Allowance for doubtful accounts	Carrying amount
Trade receivables	5,490,357	(30,823)	5,459,534	5,014,606	(29,033)	4,985,573
Other receivables						
Current	524,473	(8,846)	515,627	501,493	(9,315)	492,178
Non-current	298,244	(9)	298,235	306,121	(8)	306,113

LG Electronics Inc.
Notes to the Separate Interim Financial Statements
March 31, 2017 and 2016 (Unaudited), and December 31, 2016

(b) Movements in allowance for doubtful accounts for the three-month periods ended March 31, 2017 and 2016, are as follows:

<i>(in millions of Korean won)</i>	2017			At Mar. 31
	At Jan. 1	Addition (Reversal)	Write-off and other	
Trade receivables	29,033	1,790	-	30,823
Other receivables				
Current	9,315	(469)	-	8,846
Non-current	8	1	-	9

<i>(in millions of Korean won)</i>	2016			At Mar. 31
	At Jan. 1	Addition (Reversal)	Write-off and other	
Trade receivables	101,442	(10,218)	10	91,234
Other receivables				
Current	7,693	602	-	8,295
Non-current	13	(3)	-	10

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

<i>(in millions of Korean won)</i>	March 31, 2017				December 31, 2016			
	Trade receivables	Other receivables		Total	Trade receivables	Other receivables		Total
	Current	Non-current			Current	Non-current		
Receivables not past due	5,172,310	378,269	287,797	5,838,376	4,651,879	358,689	296,845	5,307,413
Past due but not impaired								
Up to 6 months	163,323	26,769	10,446	200,538	186,612	21,471	9,274	217,357
7 to 12 months	5,859	19,150	1	25,010	17,541	35,291	2	52,834
Over 1 year	138,565	88,865	-	227,430	147,937	75,796	-	223,733
Subtotal	307,747	134,784	10,447	452,978	352,090	132,558	9,276	493,924
Impaired	10,300	11,420	-	21,720	10,637	10,246	-	20,883
Total	5,490,357	524,473	298,244	6,313,074	5,014,606	501,493	306,121	5,822,220

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

LG Electronics Inc.
Notes to the Separate Interim Financial Statements
March 31, 2017 and 2016 (Unaudited), and December 31, 2016

6. Other Financial Assets and Liabilities

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

<i>(in millions of Korean won)</i>	March 31, 2017	December 31, 2016
Other financial assets		
Derivatives	12,422	46,184
Available-for-sale financial assets	31,752	32,581
Total	44,174	78,765
Current	12,418	30,093
Non-current	31,756	48,672

<i>(in millions of Korean won)</i>	March 31, 2017	December 31, 2016
Other financial liabilities		
Derivatives	72,038	73,226
Financial guarantee liability	9,247	11,175
Total	81,285	84,401
Current	7,269	8,665
Non-current	74,016	75,736

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

<i>(in millions of Korean won)</i>	March 31, 2017		December 31, 2016	
	Assets	Liabilities	Assets	Liabilities
Current				
Currency swap	12,418	-	30,093	-
Non-current				
Currency swap	-	7,502	16,091	-
Interest rate swap	4	64,536	-	73,226
Subtotal	4	72,038	16,091	73,226
Total	12,422	72,038	46,184	73,226

The details of major derivative contracts at the end of the reporting period are presented in Note 29.

(c) Available-for-sale financial assets

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

<i>(in millions of Korean won)</i>	2017					
	At Jan. 1	Acquisition	Disposals	Valuation (OCI)	Impairment	At Mar. 31
Listed equity securities	14,835	-	-	(626)	-	14,209
Unlisted equity securities	17,746	1,200	(1,153)	-	(250)	17,543
Total	32,581	1,200	(1,153)	(626)	(250)	31,752

LG Electronics Inc.
Notes to the Separate Interim Financial Statements
March 31, 2017 and 2016 (Unaudited), and December 31, 2016

<i>(in millions of Korean won)</i>	2016					
	At Jan. 1	Acquisition	Disposals	Valuation (OCI)	Impairment	At Mar. 31
Listed equity securities	15,323	-	-	(33)	-	15,290
Unlisted equity securities	18,523	3,233	-	-	-	21,756
Total	33,846	3,233	-	(33)	-	37,046

ii) There is no available-for-sale financial assets held for sale as of March 31, 2017.

7. Inventories

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

<i>(in millions of Korean won)</i>	March 31, 2017			December 31, 2016		
	Cost	Valuation allowance	Carrying amount	Cost	Valuation allowance	Carrying amount
Finished products and merchandise	631,806	(41,548)	590,258	529,151	(36,966)	492,185
Work-in-process	120,403	(1,593)	118,810	69,039	(2,097)	66,942
Raw materials and supplies	652,309	(84,041)	568,268	562,348	(81,985)	480,363
Other	197,721	(29,418)	168,303	179,067	(32,036)	147,031
Total	1,602,239	(156,600)	1,445,639	1,339,605	(153,084)	1,186,521

8. Property, Plant and Equipment, and Intangible Assets

(a) Changes in property, plant and equipment for the three-month periods ended March 31, 2017 and 2016, are as follows:

<i>(in millions of Korean won)</i>	March 31, 2017	December 31, 2016
At January 1	7,164,642	6,450,406
Acquisitions	170,185	139,833
Reclassification to assets held for sale	(55)	-
Disposals and others	(4,522)	(3,024)
Depreciation	(143,095)	(147,482)
Impairment	(5,499)	(12,671)
At March 31	7,181,656	6,427,062

LG Electronics Inc.
Notes to the Separate Interim Financial Statements
March 31, 2017 and 2016 (Unaudited), and December 31, 2016

(b) Line items including depreciation in the separate interim statements of profit or loss for the three-month periods ended March 31, 2017 and 2016, are as follows:

<i>(in millions of Korean won)</i>	2017	2016
Cost of sales	108,438	112,789
Selling and marketing expenses	2,913	2,155
Administrative expenses	6,196	11,309
Research and development expenses	22,859	18,587
Service costs	1,365	1,324
Other non-operating expenses	1,324	1,318
Total	143,095	147,482

(c) Changes in intangible assets for the three-month periods ended March 31, 2017 and 2016, are as follows:

<i>(in millions of Korean won)</i>	2017	2016
At January 1	1,234,531	1,154,910
Acquisitions	39,238	30,672
Acquisitions through internal development	104,905	56,436
Reclassification to assets held for sale	(5)	-
Disposals and others	(8,364)	(3,222)
Amortization	(93,658)	(91,558)
Impairment	(19)	(666)
At March 31	1,276,628	1,146,572

(d) Line items including amortization of intangible assets for the three-month periods ended March 31, 2017 and 2016, are as follows:

<i>(in millions of Korean won)</i>	2017	2016
Cost of sales	53,382	51,510
Selling and marketing expenses	4,572	3,856
Administrative expenses	18,408	18,613
Research and development expenses	16,924	17,207
Service costs	372	372
Total	93,658	91,558

LG Electronics Inc.
Notes to the Separate Interim Financial Statements
March 31, 2017 and 2016 (Unaudited), and December 31, 2016

9. Investments in Subsidiaries, Associates and Joint Ventures

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

<i>(in millions of Korean won)</i>	Location	Closing month	Percentage of ownership at March 31, 2017 (%)	Carrying amount	
				March 31, 2017	December 31, 2016
Subsidiaries					
LG Electronics U.S.A., Inc.(LGEUS)	USA	December	100.0	955,542	955,542
LG Innotek Co., Ltd.	Korea	December	40.8	541,538	541,538
LG Electronics India Pvt. Ltd.(LGEIL)	India	March	100.0	311,746	311,746
LG Electronics do Brasil Ltda.(LGEBR)	Brazil	December	100.0	270,631	270,631
LG Electronics Mlawa Sp. z o.o.(LGEMA)	Poland	December	100.0	214,091	214,091
LG Electronics Tianjin Appliances Co., Ltd.(LGETA)	China	December	70.0	161,331	161,331
LG Electronics European Holdings B.V.(LGEEH)	Netherlands	December	100.0	148,551	148,551
Hiplaza Co., Ltd.	Korea	December	100.0	136,459	136,459
Taizhou LG Electronics Refrigeration Co., Ltd.(LGETR)	China	December	88.4	97,608	97,608
P.T. LG Electronics Indonesia(LGEIN)	Indonesia	December	100.0	94,118	94,118
LG Electronics Vietnam Haiphong Co., Ltd (LGEVH)	Vietnam	December	100.0	84,784	84,784
LG Electronics Panama, S.A.(LGEPS)	Panama	December	100.0	79,222	79,222
LG Electronics Wroclaw Sp.z o.o (LGEWR)	Poland	December	100.0	70,014	70,014
LG Electronics Mexico S.A. DE C.V.(LGEMS)	Mexico	December	100.0	68,721	68,721
LG Electronics Shenyang Inc.(LGESY)	China	December	56.3	64,079	66,415
Hi Entech Co., Ltd.	Korea	December	100.0	63,118	63,118
LG Electronics Thailand Co., Ltd.(LGETH)	Thailand	December	100.0	55,578	55,578
LG Electronics Australia Pty, Ltd.(LGEAP)	Australia	December	100.0	50,664	50,664
Inspur LG Digital Mobile Communications Co., Ltd.(LGEYT)	China	December	60.5	48,624	48,624
LG Electronics RUS, LLC(LGERA)	Russia	December	100.0	43,645	43,645
LG Electronics Huizhou Ltd.(LGEHZ)	China	December	45.0	41,984	41,984
LG Electronics Nanjing New Technology co.,LTD(LGENT)	China	December	45.0	38,744	38,744
LG Electronics S.A. (Pty) Ltd.(LGESA)	Republic of South Africa	December	100.0	32,112	32,112
NanJing LG-Panda Appliances Co., Ltd.(LGEPN)	China	December	50.0	26,614	26,614
LG Electronics Colombia Ltda.(LGECEB)	Colombia	December	60.7	25,215	25,215
LG Electronics Peru S.A.(LGEPR)	Peru	December	100.0	25,043	25,043
LG Electronics Overseas Trading FZE(LGEOT)	United Arab Emirates	December	100.0	22,538	22,538
Qingdao LG Inspur Digital Communication Co., Ltd.(LGEQD)	China	December	60.0	22,142	22,142
LG Electronics Air-Conditioning(Shandong Co., Ltd.(LGEQA)	China	December	100.0	20,615	20,615
LG Electronics Egypt S.A.E(LGEEG)	Egypt	December	100.0	20,323	20,323

LG Electronics Inc.
Notes to the Separate Interim Financial Statements
March 31, 2017 and 2016 (Unaudited), and December 31, 2016

<i>(in millions of Korean won)</i>	Location	Closing month	Percentage of ownership at March 31, 2017 (%)	Carrying amount	
				March 31, 2017	December 31, 2016
LG Soft India Private Limited.(LGSi)	India	March	100.0	20,105	20,105
LGE Alliance Fund	Korea	December	96.2	6,200	7,910
V-ENS (M) Sdn. Bhd.	Malaysia	December	100.0	1,856	1,904
Others				225,293	225,763
Associates					
LG Display Co., Ltd.	Korea	December	37.9	3,480,623	3,480,623
Ericsson-LG Co., Ltd.	Korea	December	25.0	51,098	51,098
Hitachi-LG Data Storage Inc.(HLDS)	Japan	December	49.0	120,668	120,668
LG Fuel Cell Systems Inc.	USA	December	32.2	69,375	69,375
Kiwigrd GmbH ^{1,2}	Germany	December	17.6	13,019	-
Korea Information Certificate Authority Inc. ²	Korea	December	6.5	2,088	2,378
Joint ventures					
LG Holdings (HK) Ltd.	China	December	49.0	129,386	129,386
Arcelik-LG Klima Sanayi ve Ticaret A.S.(LGEAT)	Turkey	December	50.0	40,844	40,844
EIC PROPERTIES PTE LTD.	Singapore	December	38.2	7,881	7,881
Total				8,003,830	7,995,665

¹ The Company acquired the entity during the three-month period ended March 31, 2017.

² Classified as an associate although the percentage of ownership is less than 20% because the Company can exercise a significant influence in the Board of Directors of the investee.

(b) Changes in investments in subsidiaries, associates and joint ventures for the three-month periods ended March 31, 2017 and 2016, are as follows:

<i>(in millions of Korean won)</i>	2017	2016
At January 1	7,995,665	7,963,467
Acquisitions	13,019	56,227
Disposal	(2,470)	(1,054)
Impairment	(2,384)	(42,762)
At March 31	8,003,830	7,975,878

LG Electronics Inc.
Notes to the Separate Interim Financial Statements
March 31, 2017 and 2016 (Unaudited), and December 31, 2016

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

March 31, 2017					
	Type	Shares held (Unit: shares)	Price per share (Unit: won)	Fair value (in millions of Korean won)	Book value
LG Display Co., Ltd.	Associate	135,625,000	30,250	4,102,656	3,480,623
LG Innotek Co., Ltd.	Subsidiary	9,653,181	136,500	1,317,659	541,538
Korea Information Certificate Authority Inc.	Associate	2,010,247	6,950	13,971	2,088
December 31, 2016					
	Type	Shares held (Unit: shares)	Price per share (Unit: won)	Fair value (in millions of Korean won)	Book value
LG Display Co., Ltd.	Associate	135,625,000	31,450	4,265,406	3,480,623
LG Innotek Co., Ltd.	Subsidiary	9,653,181	88,400	853,341	541,538
Korea Information Certificate Authority Inc.	Associate	2,289,708	5,660	12,960	2,378

10. Borrowings

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

<i>(in millions of Korean won)</i>	March 31, 2017	December 31, 2016
Current		
Current portion of long-term borrowings	-	190,000
Current portion of debentures	652,775	471,148
Subtotal	652,775	661,148
Non-current		
Long-term borrowings	1,870,000	1,690,000
Debentures	4,173,856	4,280,172
Subtotal	6,043,856	5,970,172
Total	6,696,631	6,631,320

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

<i>(in millions of Korean won)</i>	Latest maturity date	Annual interest rate at March 31, 2017 (%)	March 31, 2017	December 31, 2016
Long-term borrowings in local currency				
Korea Development Bank and others ¹	2030.7.7	2.21~3.00	1,870,000	1,880,000
Local currency loans				
Public, non-guaranteed bonds	2030.2.2	1.48~4.44	3,480,000	3,580,000
Private, non-guaranteed bonds	2028.11.18	3.11~3.96	800,000	700,000

LG Electronics Inc.
Notes to the Separate Interim Financial Statements
March 31, 2017 and 2016 (Unaudited), and December 31, 2016

Foreign currency loans				
Private, non-guaranteed bonds ²	2022.2.2	1.88~2.45	334,830	241,700
Private, guaranteed bonds ²	2019.1.31	3ML+1.60	223,220	241,700
Less: discount on debentures			(11,419)	(12,080)
Total			6,696,631	6,631,320

¹ The Company entered into interest rate swap contracts to hedge cash flow risk related to floating interest rates fluctuation (Note 29).

² The Company entered into cross-currency swap contracts to hedge cash flow risk related to floating interest rate and foreign exchange rate of the debenture (Note 29).

11. Post-employment Benefits

Defined Benefit Plan

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

<i>(in millions of Korean won)</i>	March 31, 2017	December 31, 2016
Present value of funded obligations	2,289,112	2,265,932
Fair value of plan assets	(1,891,612)	(1,920,564)
Net defined benefit liabilities	397,500	345,368

(b) The amounts recognized in the separate interim statements of profit or loss for the three-month periods ended March 31, 2017 and 2016, are as follows:

<i>(in millions of Korean won)</i>	2017	2016
Current service cost	67,482	72,716
Net interest cost	2,340	3,853
Operating management cost	478	438
Total	70,300	77,007

(c) Line items in which expenses are included for the three-month periods ended March 31, 2017 and 2016, are as follows:

<i>(in millions of Korean won)</i>	2017	2016
Manufacturing costs	36,100	38,354
Selling and marketing expenses	8,908	9,635
Administrative expenses	4,343	4,311
Research and development expenses	20,070	23,702
Service costs	879	1,005
Total	70,300	77,007

LG Electronics Inc.
Notes to the Separate Interim Financial Statements
March 31, 2017 and 2016 (Unaudited), and December 31, 2016

(d) Changes in the present value of defined benefit obligations for the three-month periods ended March 31, 2017 and 2016, are as follows:

<i>(in millions of Korean won)</i>	2017	2016
At January 1	2,265,932	2,236,821
Current service cost	67,482	72,716
Interest expense	14,978	14,633
Remeasurements for:		
- Actuarial loss (gain) arising from changes in financial assumptions	(13,975)	77,126
Benefits paid	(45,305)	(35,122)
At March 31	2,289,112	2,366,174

(e) Changes in the fair value of plan assets for the three-month periods ended March 31, 2017 and 2016, are as follows:

<i>(in millions of Korean won)</i>	2017	2016
At January 1	1,920,564	1,661,805
Interest income	12,638	10,780
Remeasurements of plan assets	(4,334)	(2,243)
Benefits paid	(36,778)	(24,362)
Operating management cost	(478)	(438)
At March 31	1,891,612	1,645,542

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

	March 31, 2017	December 31, 2016
Discount rate	2.8%	2.7%
Expected salary growth rate	5.0%	5.0%

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

<i>(in millions of Korean won)</i>	1%p increase	1%p decrease
Discount rate	(196,525)	227,544
Expected salary growth rate	219,930	(194,255)

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

Defined Contribution Plan

Recognized expense related to the defined contribution plan for the three-month period ended

LG Electronics Inc.
Notes to the Separate Interim Financial Statements
March 31, 2017 and 2016 (Unaudited), and December 31, 2016

March 31, 2017, amounts to \ 1,988 million (March 31, 2016: \ 1,367 million).

12. Provisions

(a) Changes in provisions for the three-month periods ended March 31, 2017 and 2016, are as follows:

	2017				
<i>(in millions of Korean won)</i>	Warranty	Sales returns	Restoration	Litigation and others	Total
At January 1	397,950	272	14,185	791,577	1,203,984
Additions	88,793	8,125	35	(32,927)	64,026
Utilizations	(138,240)	(7,868)	(63)	(8,359)	(154,530)
At March 31	348,503	529	14,157	750,291	1,113,480
Current	338,562	529	4,674	710,843	1,054,608
Non-current	9,941	-	9,483	39,448	58,872

	2016				
<i>(in millions of Korean won)</i>	Warranty	Sales returns	Restoration	Litigation and others	Total
At January 1	183,481	838	5,760	833,635	1,023,714
Additions	70,325	5,148	82	29,718	105,273
Utilizations	(74,253)	(5,488)	(105)	(40,363)	(120,209)
At March 31	179,553	498	5,737	822,990	1,008,778
Current	171,176	498	242	-	171,916
Non-current	8,377	-	5,495	822,990	836,862

13. Paid-in Capital

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

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

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

LG Electronics Inc.
Notes to the Separate Interim Financial Statements
March 31, 2017 and 2016 (Unaudited), and December 31, 2016

preferred shares.

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

14. Retained Earnings

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

<i>(in millions of Korean won)</i>	March 31, 2017	December 31, 2016
Legal reserve ¹	175,054	167,766
Discretionary reserve	4,603,535	4,805,354
Retained earnings before appropriation (undisposed accumulated deficit) ²	305,607	(121,547)
Total	5,084,196	4,851,573

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

² Dividend for the year ended December 31, 2016, of ~~₩~~72,885 million was approved at the annual general meeting held on March 17, 2017 and paid in April 2017 (2016 payments: ~~₩~~72,885 million).

15. Accumulated Other Comprehensive Income

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

<i>(in millions of Korean won)</i>	March 31, 2017	December 31, 2016
Cash flow hedge	(50,125)	(56,223)
Available-for-sale financial assets	10,099	10,573
Total	(40,026)	(45,650)

LG Electronics Inc.
Notes to the Separate Interim Financial Statements
March 31, 2017 and 2016 (Unaudited), and December 31, 2016

16. Other Components of Equity

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

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

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

17. Net Sales

Details of net sales for the three-month periods ended March 31, 2017 and 2016, are as follows:

<i>(in millions of Korean won)</i>	2017	2016
Sales of goods	7,528,681	7,002,899
Rendering of services	104,242	80,858
Royalty income	71,308	89,036
Total	7,704,231	7,172,793

18. Expenses by Nature

Expenses that are recorded by nature for the three-month periods ended March 31, 2017 and 2016, consist of:

<i>(in millions of Korean won)</i>	2017	2016
Changes in finished goods and work-in-process	(149,058)	(215,086)
Raw materials and merchandise used	4,929,995	4,609,452
Employee benefit expense	954,285	971,283
Depreciation and amortization	235,756	238,116
Advertising expense	114,674	133,181
Promotion expense	71,773	66,891
Transportation expense	130,030	125,147
Commission expense	366,738	351,063
Other expenses	752,744	811,508
Total¹	7,406,937	7,091,555

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

LG Electronics Inc.
Notes to the Separate Interim Financial Statements
March 31, 2017 and 2016 (Unaudited), and December 31, 2016

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

Details of general operating expenses for the three-month periods ended March 31, 2017 and 2016, are as follows:

<i>(in millions of Korean won)</i>	2017	2016
Salaries	360,582	389,707
Post-employment benefits	35,213	41,674
Employee benefits	60,220	58,554
Freight expense	127,659	123,348
Rental expense	41,701	42,968
Commission expense	255,156	237,091
Depreciation	33,660	33,769
Amortization	40,276	40,048
Taxes and dues	2,212	2,702
Advertising expense	114,674	133,181
Promotional expense	71,773	66,891
R&D costs	59,023	114,321
Service costs	85,966	85,122
Bad debts expense	1,790	(10,218)
Other	82,058	74,120
Total	1,371,963	1,433,278

20. Financial Income

Financial income for the three-month periods ended March 31, 2017 and 2016, consists of:

<i>(in millions of Korean won)</i>	2017	2016
Interest income	4,348	4,962
Exchange differences	44,033	47,843
Other	5,109	5,718
Total	53,490	58,523

LG Electronics Inc.
Notes to the Separate Interim Financial Statements
March 31, 2017 and 2016 (Unaudited), and December 31, 2016

21. Financial Expenses

Financial expenses for the three-month periods ended March 31, 2017 and 2016, consist of:

<i>(in millions of Korean won)</i>	2017	2016
Interest expense	49,215	59,475
Exchange differences	86,640	64,152
Loss on disposal of trade receivables	805	1,260
Other	2,570	481
Total	139,230	125,368

22. Other Non-operating Income

Other non-operating income for the three-month periods ended March 31, 2017 and 2016, consists of:

<i>(in millions of Korean won)</i>	2017	2016
Dividend income	94,475	75,266
Exchange differences	217,919	400,356
Gain on disposal of property, plant and equipment	2,958	396
Gain on disposal of assets held for sale	3,804	-
Gain on disposal of available-for-sale financial assets	5,409	-
Gain on disposal of investments in subsidiaries, associates and joint ventures	4,016	2,333
Other	59,245	3,707
Total	387,826	482,058

23. Other Non-operating Expenses

Other non-operating expenses for the three-month periods ended March 31, 2017 and 2016, consist of:

<i>(in millions of Korean won)</i>	2017	2016
Exchange differences	198,959	369,256
Loss on disposal of property, plant and equipment	1,463	1,000
Impairment loss on property, plant and equipment	5,499	12,671
Loss on disposal of intangible assets	8,257	3,222
Impairment loss on available-for-sale financial assets	250	-
Impairment loss on investments in subsidiaries, associates and joint ventures	2,384	42,762
Other	14,736	37,928
Total	231,548	466,839

LG Electronics Inc.
Notes to the Separate Interim Financial Statements
March 31, 2017 and 2016 (Unaudited), and December 31, 2016

24. Earnings per Share

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

- (a) Basic earnings per ordinary share for the three-month periods ended March 31, 2017 and 2016, is as follows::

	<u>2017</u>	<u>2016</u>
Profit attributable to ordinary shares (in millions of won)	269,553	26,201
Weighted average number of ordinary shares outstanding (unit: shares)	162,884,643	162,884,643
Basic earnings per ordinary share (in Korean won)	1,655	161

- (b) Basic earnings per preferred share for the three-month periods ended March 31, 2017 and 2016, is as follows:

	<u>2017</u>	<u>2016</u>
Profit attributable to preferred shares (in millions of won)	28,647	2,979
Weighted average number of preferred shares outstanding (unit: shares)	17,181,302	17,181,302
Basic earnings per preferred share (in Korean won)	1,667	173

25. Cash Flow Information

Cash flows from operating activities are presented using the indirect method. Details of cash generated from operations for the three-month periods ended March 31, 2017 and 2016, are as follows:

- (a) Cash generated from operations

<i>(in millions of Korean won)</i>	<u>2017</u>	<u>2016</u>
Profit for the period	298,200	29,180
Adjustments:		
Interest expense, net	44,867	54,513
Exchange differences, net	(12,452)	(23,830)
Depreciation	143,095	147,482
Amortization	93,658	91,558
Loss on disposal of property, plant and equipment and intangible assets, net	6,762	3,826
Provisions for severance benefits	70,300	77,007
Provisions	64,026	105,273
Dividend income	(94,475)	(75,266)
Income tax expense	69,632	432
Gain on disposal of investments in	(4,016)	(2,333)

LG Electronics Inc.
Notes to the Separate Interim Financial Statements
March 31, 2017 and 2016 (Unaudited), and December 31, 2016

<i>(in millions of Korean won)</i>	2017	2016
subsidiaries, associates and joint ventures		
Impairment loss on investments in subsidiaries, associates and joint ventures	2,384	42,762
Other	29,428	41,380
	<u>413,209</u>	<u>462,804</u>
Changes in operating assets and liabilities:		
Decrease (increase) in trade receivables	(591,478)	132,443
Decrease in loans and other receivables	30,018	136,853
Increase in inventories	(279,521)	(415,385)
Increase in other assets	(85,675)	(187,831)
Increase in trade payables	878,228	498,654
Increase (decrease) in other payables	(34,092)	25,796
Decrease in provisions	(154,530)	(120,209)
Decrease in other liabilities	(164,105)	(12,862)
Payment of defined benefit liability	(8,527)	(10,760)
Deposit in plan assets, net	(7,826)	(8,099)
	<u>(417,508)</u>	<u>38,600</u>
Cash generated from operations	<u>293,901</u>	<u>530,584</u>

(b) Changes in liabilities from financing activities

<i>(in millions of Korean won)</i>	At Jan. 1, 2017	Net cash flow from financing activities	Non-cash transactions		At Mar. 31, 2017
			Exchange differences	Amortization	
Long-term borrowings	1,880,000	(10,000)	-	-	1,870,000
Debentures	4,751,320	115,146	(40,726)	891	4,826,631
Total	<u>6,631,320</u>	<u>105,146</u>	<u>(40,726)</u>	<u>891</u>	<u>6,696,631</u>

(c) Significant non-cash transactions

<i>(in millions of Korean won)</i>	2017	2016
Reclassification of construction-in-progress to property, plant and equipment	138,235	18,461
Reclassification of construction-in-progress to intangible assets	66,647	31,935
Reclassification of other assets to intangible assets	27,662	25,583
Reclassification of current portion of borrowings and debentures	299,867	479,873
Reclassification of current portion of provisions	710,843	-
Other payables to acquire property, plant and equipment	21,005	41,349
Other payables to acquire intangible assets	5,979	3,491

LG Electronics Inc.
Notes to the Separate Interim Financial Statements
March 31, 2017 and 2016 (Unaudited), and December 31, 2016

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

- Transfer of CCTV and home security product business

1) On December 9, 2016, assets and workforce of CCTV and home security product business were transferred to LG INNOTEK CO., LTD.

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

<i>(in millions of Korean won)</i>	Amount
Total consideration	
Cash and cash equivalents	985
Other receivables	313
Assets of the transferred business:	
Inventories	1,136
Property, plant and equipment and intangible assets	1,154
Other assets	50
Liabilities of the transferred business:	
Net defined benefit liabilities	1,042

26. Contingencies

(a) As of March 31, 2017, the Company is provided with performance guarantees of ₩149,042 million (December 31, 2016: ₩124,076 million) from Seoul Guarantee Insurance and one other financial institution relating to the performance guarantees. The Company is provided with guarantee of principal US\$ 200 million (December 31, 2016: US\$ 200 million) and interests from Shinhan Bank for the guaranteed private placement bond.

(b) As of March 31, 2017, the financial guarantees provided by the Company to related parties amount to ₩4,562,726 million (December 31, 2016: ₩5,027,123 million) on the indebtedness of its subsidiaries. Details are as follows:

<i>(in millions of Korean won)</i>	Beneficiary	March 31, 2017	December 31, 2016
LG Electronics European Shared Service Center B.V.(LGESC)	Citibank and others	834,129	890,245
LG Electronics U.S.A., Inc.(LGEUS)	JP Morgan and others	564,849	611,612
LG Electronics do Brasil Ltda.(LGEBR)	Citibank and others	544,657	544,517
LG Electronics Ticaret A.S.(LGETK)	HSBC and others	404,959	505,191
LG Electronics Vietnam Haiphong Co., Ltd.(LGEVH)	VIETIN and others	401,182	426,178
LG Electronics (China) Co., Ltd.(LGECH)	Citibank and others	263,154	283,498
LG Electronics Peru S.A.(LGEPR)	Nova scotia and others	201,052	211,703
LG Electronics Inc Chile Ltda.(LGECL)	Nova scotia and others	160,051	172,587
LG Electronics India Pvt. Ltd.(LGEIL)	Citibank and others	88,289	137,456
LG Electronics RUS, LLC(LGERA)	Citibank and others	84,484	136,660

LG Electronics Inc.
Notes to the Separate Interim Financial Statements
March 31, 2017 and 2016 (Unaudited), and December 31, 2016

<i>(in millions of Korean won)</i>	Beneficiary	March 31, 2017	December 31, 2016
LG Electronics Argentina S.A.(LGEAR)	Citibank and others	123,640	130,472
LG Electronics Colombia Ltda.(LGECEB)	Citibank and others	120,121	128,623
LG-Shaker Co., Ltd.(LGESR)	BSF and others	96,047	103,983
LG Electronics Morocco S.A.R.L(LGEMC)	Citibank and others	85,632	92,900
LG Electronics Algeria SARL(LGEAS)	Societe Generale and others	106,970	116,027
LG Electronics Almaty Kazakhstan(LGEAK)	Citibank and others	84,313	90,651
LG Electronics Thailand Co., Ltd.(LGETH)	MIZUHO and others	64,623	69,831
LG Electronics Egypt S.A.E(LGEEG)	HSBC and others	61,386	66,468
LG Electronics Philippines Inc.(LGEPH)	ANZ and others	49,890	54,624
LG Electronics Monterrey Mexico S.A.de C.V.(LGEMM)	Citibank	33,483	36,255
Others	Citibank and others	189,815	217,642
Total		4,562,726	5,027,123

(c) As of March 31, 2017, The Company is providing KEB Hana Bank with a payment guarantee for buyers up to ₩46,000 million (December 31, 2016: ₩46,000 million)

(d) In December 2012, the European Commission imposed a penalty on the Company for anti-competitive activities among CRT (Cathode Ray Tube) manufacturers as a result of an investigation. The Company recognized such penalty amounting to EUR 491,567 thousand as expected loss. However, the 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 Company is provided with a performance guarantee of EUR 546,868 thousand from HSBC and others for the above.

In addition, the Company is under investigation and has been named as a defendant in class actions in the United States, Europe and others in connection with the alleged anti-competitive activities among CRT manufacturers. There are also a number of other legal actions, disputes, and investigations arising from the normal course of business that remain pending at the end of the reporting period. The ultimate effect of those lawsuits on the financial position of the Company as of the statement of financial position date cannot be presently determined.

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

LG Electronics Inc.
Notes to the Separate Interim Financial Statements
March 31, 2017 and 2016 (Unaudited), and December 31, 2016

27. Commitments

(a) At the end of the reporting period, the Company has overdraft facility agreements with various banks, including Shinhan Bank, with a limit of ₩162,000 million (December 31, 2016: ₩165,500 million).

(b) At the end of the reporting period, the Company has sales agreements for export trade receivables with KEB Hana Bank and 19 other banks amounting to ₩2,218,807 million (December 31, 2016: ₩2,535,433 million) and has sales agreements for domestic trade receivables with BTMU amounting to ₩500,000 million (December 31, 2016: ₩500,000 million).

(c) At the end of the reporting period, the Company has corporate electronic settlement services contracts and vendor prepayment services contracts with Shinhan Bank and seven other banks for up to ₩1,153,000 million (December 31, 2016: ₩1,150,000 million) which guarantee the payment of trade payables in case the suppliers sell their trade receivables.

(d) At the end of the reporting period, the Company has other trade financing agreements and loan commitments with financial institutions, including Shinhan Bank, of up to ₩511,610 million (December 31, 2016: ₩820,850 million).

(e) 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>	March 31, 2017	December 31, 2016
Property, plant and equipment	312,005	335,455
Intangible assets	12,649	13,278
Total	324,654	348,733

(f) Operating lease commitments – the Company as a lessee

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

<i>(in millions of Korean won)</i>	March 31, 2017			Total lease payments
	Within 1 year	1 to 5 years	Over 5 years	
Buildings and offices	74,573	55,208	4,779	134,560
Vehicles	6,379	6,220	-	12,599
Equipment	13,330	10,159	-	23,489
Total	94,282	71,587	4,779	170,648

ii) Lease payment under operating lease recognized in the separate interim statement of profit or loss for the three-month period ended March 31, 2017, is ₩29,638 million (2016: ₩28,956 million).

iii) As of March 31, 2017, total future minimum sublease receipts under non-cancellable sublease agreements for some buildings amount to ₩28,529 million and lease income

LG Electronics Inc.
Notes to the Separate Interim Financial Statements
March 31, 2017 and 2016 (Unaudited), and December 31, 2016

recognized related to the subleases for the three-month period ended March 31, 2017, amounts to ₩3,572 million (2016: ₩3,653 million).

(g) Operating lease commitments – the Company as a lessor

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

<i>(in millions of Korean won)</i>	March 31, 2017			Total lease payments
	Within 1 year	1 to 5 years	Over 5 years	
Healthcare rental	139,724	223,793	-	363,517
Real estate rental	1,964	1	-	1,965
Total	141,688	223,794	-	365,482

- ii) The Company recognized ₩33,118 million (2016: ₩26,954 million) in lease income for the three-month period ended March 31, 2017.

(h) Trademark license commitments

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

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

LG Electronics Inc.
Notes to the Separate Interim Financial Statements
March 31, 2017 and 2016 (Unaudited), and December 31, 2016

28. Related Party

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

i) Major income and expense transactions with related parties

(in millions of Korean won)

		2017					
		Income transactions			Expense transactions		
Classification	Name	Sales	Others	Total	Purchases	Others	Total
Significantly influencing the Company	LG Corp.	315	-	315	1	34,787	34,788
Subsidiaries	LG Innotek Co., Ltd.	13,789	-	13,789	193,846	2,451	196,297
	Hiplaza Co., Ltd.	331,352	-	331,352	11	3,029	3,040
	LG Electronics Philippines Inc.	15,998	-	15,998	-	206	206
	LG Electronics Vietnam Haiphong Co., Ltd.	296,758	5,625	302,383	9,424	2,564	11,988
	LG Electronics (Kunshan) Co.,Ltd.	110,981	84	111,065	3,335	834	4,169
	LG Electronics Nanjing New Technology co.,LTD	85,025	85	85,110	190,107	255	190,362
	Qingdao LG Inspur Digital Communication Co., Ltd.	139,495	548	140,043	34,025	2,245	36,270
	Inspur LG Digital Mobile Communications Co., Ltd.	323,983	241	324,224	37,219	6,966	44,185
	LG Electronics Deutschland GmbH	53,692	-	53,692	8,615	8,935	17,550
	LG Electronics Mlawa Sp. z o.o	82,684	4,403	87,087	174	1,042	1,216
	LG Electronics Egypt S.A.E	53,438	662	54,100	-	33	33
	LG Electronics Australia Pty, Ltd.	91,661	-	91,661	5	553	558
	LG Electronics Japan, Inc.	113,208	-	113,208	1,424	5,665	7,089
	LG Electronics Gulf FZE	164,789	-	164,789	-	490	490
	LG Electronics (Levant) Jordan	100,406	-	100,406	288	1,267	1,555
	LG Electronics Canada, Inc.	127,404	-	127,404	47	1,153	1,200
	LG Electronics Mobilecomm U.S.A., Inc.	736,967	4	736,971	-	2,486	2,486
	LG Electronics Mexico S.A. DE C.V.	47,069	-	47,069	57	153	210
	LG Electronics U.S.A., Inc.	789,247	422	789,669	1,259	29,567	30,826
	LG Electronics RUS, LLC	64,761	1,157	65,918	3	262	265
	LG Electronics Colombia Ltda.	27,241	-	27,241	-	156	156
	LG Electronics do Brasil Ltda.	244,769	2,183	246,952	840	434	1,274
	Others	999,649	21,411	1,021,060	102,321	108,170	210,491
	Subtotal	5,014,366	36,825	5,051,191	583,000	178,916	761,916
Associates	LG Display Co., Ltd. and its subsidiaries	419,448	-	419,448	475,326	1,595	476,921

LG Electronics Inc.
Notes to the Separate Interim Financial Statements
March 31, 2017 and 2016 (Unaudited), and December 31, 2016

(in millions of Korean won)

		2017					
		Income transactions			Expense transactions		
Classification	Name	Sales	Others	Total	Purchases	Others	Total
	Ericsson-LG Co., Ltd. and its subsidiaries	1,914	-	1,914	1,123	-	1,123
	Hitachi-LG Data Storage Inc.(HLDS) and its subsidiaries	486	-	486	5,655	72	5,727
	LG Fuel Cell Systems Inc. and its subsidiaries	340	-	340	-	-	-
	Subtotal	422,188	-	422,188	482,104	1,667	483,771
Joint venture	LG-MRI LLC	70	-	70	-	-	-
Other related parties	LG CNS Co., Ltd. and its subsidiaries	19,168	-	19,168	19,942	57,000	76,942
	SERVEONE Co., Ltd. and its subsidiaries	4,606	-	4,606	165,355	53,545	218,900
	LG Siltron Incorporated and its subsidiaries	-	-	-	19	-	19
	LUSEM CO., LTD.	1	-	1	394	-	394
	LG Management Development Institute	-	-	-	2	5,219	5,221
	LG SPORTS Ltd.	-	-	-	-	1,223	1,223
	LG MMA Ltd.	299	-	299	-	-	-
	Subtotal	24,074	-	24,074	185,712	116,987	302,699
Others ¹	LG Chem Ltd. and its subsidiaries	129,055	-	129,055	168,677	862	169,539
	LG INTERNATIONAL CORP and its subsidiaries	57,140	-	57,140	414,324	149,448	563,772
	LG Uplus Corp and its subsidiaries	227,457	-	227,457	680	265	945
	LG HAUSYS,LTD. and its subsidiaries	5,247	-	5,247	4,016	247	4,263
	Silicon Works Co., Ltd	1,342	-	1,342	1,479	-	1,479
	LG HOUSEHOLD & HEALTH CARE LTD and its subsidiaries	571	-	571	59	5	64
	G R Inc. and its subsidiaries	103	-	103	22	31,912	31,934
	Subtotal	420,915	-	420,915	589,257	182,739	771,996
	Total	5,881,928	36,825	5,918,753	1,840,074	515,096	2,355,170

LG Electronics Inc.
Notes to the Separate Interim Financial Statements
March 31, 2017 and 2016 (Unaudited), and December 31, 2016

		2016					
		Income transactions			Expense transactions		
Classification	Name	Sales	Others	Total	Purchases	Others	Total
Significantly influencing the Company	LG Corp.	233	-	233	-	33,915	33,915
Subsidiaries	LG Innotek Co., Ltd.	8,712	-	8,712	254,491	4,343	258,834
	Hiplaza Co., Ltd.	276,213	-	276,213	54	2,686	2,740
	LG Electronics Philippines Inc.	21,099	-	21,099	-	495	495
	LG Electronics Mobilecomm U.S.A., Inc.	711,784	-	711,784	325	639	964
	LG Electronics Egypt S.A.E	68,470	71	68,541	-	169	169
	LG Electronics U.S.A., Inc.	770,206	-	770,206	1,254	16,900	18,154
	LG Electronics do Brasil Ltda.	124,383	-	124,383	2,298	386	2,684
	LG Electronics Vietnam Haiphong Co., Ltd.	187,828	695	188,523	5,788	550	6,338
	Inspur LG Digital Mobile Communications Co., Ltd.	395,561	-	395,561	5,621	7,937	13,558
	LG Electronics Australia Pty, Ltd.	75,847	-	75,847	151	251	402
	LG Electronics Gulf FZE	200,652	-	200,652	-	183	183
	LG Electronics RUS, LLC	77,744	6	77,750	1,069	213	1,282
	LG Electronics Colombia Ltda.	17,818	-	17,818	-	236	236
	LG Electronics (Kunshan) Co.,Ltd.	136,830	-	136,830	5,258	-	5,258
	LG Electronics Mexico S.A. DE C.V.	108,349	-	108,349	-	174	174
	LG Electronics (Levant) Jordan	120,899	-	120,899	248	2,338	2,586
	LG Electronics Deutschland GmbH	54,186	-	54,186	407	4,403	4,810
	LG Electronics Canada, Inc.	84,494	-	84,494	-	255	255
	LG Electronics Japan, Inc.	54,014	-	54,014	1,685	5,200	6,885
	LG Electronics Nanjing New Technology co.,LTD	108,430	1	108,431	205,238	94	205,332
	Qingdao LG Inspur Digital Communication Co., Ltd.	108,719	-	108,719	39,377	904	40,281
	LG Electronics Mlawa Sp. z o.o	52,478	-	52,478	410	327	737
	Others	1,221,645	865	1,222,510	112,838	89,596	202,434
	Subtotal	4,986,361	1,638	4,987,999	636,512	138,279	774,791
Associates	LG Display Co., Ltd. and its subsidiaries	172,168	-	172,168	458,206	10,055	468,261
	Ericsson-LG Co., Ltd. and its subsidiaries	2,051	-	2,051	1,239	-	1,239
	Hitachi-LG Data Storage Inc.(HLDS) and its subsidiaries	347	-	347	10	-	10
	LG Fuel Cell Systems Inc. and its subsidiaries	38	-	38	-	-	-
	Subtotal	174,604	-	174,604	459,455	10,055	469,510

LG Electronics Inc.
Notes to the Separate Interim Financial Statements
March 31, 2017 and 2016 (Unaudited), and December 31, 2016

(in millions of Korean won)

		2016					
		Income transactions			Expense transactions		
Classification	Name	Sales	Others	Total	Purchases	Others	Total
Other related parties	LG CNS Co., Ltd. and its subsidiaries	11,448	-	11,448	32,494	51,561	84,055
	SERVEONE Co., Ltd. and its subsidiaries	1,804	-	1,804	205,554	22,439	227,993
	LG Siltron Incorporated and its subsidiaries	-	-	-	6	-	6
	LUSEM CO., LTD.	1	-	1	654	20	674
	LG Management Development Institute	17	-	17	-	5,383	5,383
	LG SPORTS Ltd.	-	-	-	-	905	905
	Subtotal		13,270	-	13,270	238,708	80,308
Others ¹	LG Chem Ltd. and its subsidiaries	64,863	-	64,863	80,660	974	81,634
	LG INTERNATIONAL CORP and its subsidiaries	27,780	-	27,780	542,018	139,034	681,052
	LG Uplus Corp and its subsidiaries	169,126	-	169,126	211	2,459	2,670
	LG HAUSYS,LTD. and its subsidiaries	7,122	-	7,122	4,234	-	4,234
	Silicon Works Co., Ltd	116	-	116	382	-	382
	LG HOUSEHOLD & HEALTH CARE LTD and its subsidiaries	400	-	400	58	20	78
	LG LIFE SCIENCES, LTD.	958	-	958	-	-	-
	G R Inc. and its subsidiaries	2	-	2	4	22,642	22,646
	LG Hitachi Ltd.	12	-	12	-	-	-
Subtotal		270,379	-	270,379	627,567	165,129	792,696
Total		5,444,847	1,638	5,446,485	1,962,242	427,686	2,389,928

¹ Although the entities are not the related parties of the Company in accordance with Korean IFRS 1024, the entities belong to a large enterprise group in accordance with the Monopoly Regulation and Fair Trade Act.

LG Electronics Inc.
Notes to the Separate Interim Financial Statements
March 31, 2017 and 2016 (Unaudited), and December 31, 2016

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

(in millions of Korean won)

		March 31, 2017							
Classification	Name	Receivables				Payables			
		Trade receivables	Loans	Other receivables	Total	Trade payables	Borrowings	Other payables	Total
Significantly influencing the LG Corp. Company		35	-	27,999	28,034	-	-	22,802	22,802
Subsidiaries	LG Innotek Co., Ltd.	58,007	-	4,071	62,078	201,079	-	5,585	206,664
	Hiplaza Co., Ltd.	147,208	-	18,650	165,858	-	-	7,527	7,527
	LG Electronics Vietnam Haiphong Co., Ltd.	299,400	-	960	300,360	161,402	-	911	162,313
	LG Electronics (Kunshan) Co.,Ltd.	100,824	-	18	100,842	56,794	-	308	57,102
	LG Electronics Nanjing New Technology co.,LTD	23,619	-	241	23,860	200,655	-	168	200,823
	Qingdao LG Inspur Digital Communication Co., Ltd.	64,739	-	206	64,945	168,439	-	-	168,439
	Inspur LG Digital Mobile Communications Co., Ltd.	150,874	-	207	151,081	390,126	-	476	390,602
	LG Electronics Deutschland GmbH	67,544	-	11,002	78,546	-	-	1,338	1,338
	LG Electronics Mlawa Sp. z o.o	28,926	-	-	28,926	649,833	-	502	650,335
	LG Electronics Egypt S.A.E	239,659	-	78,747	318,406	19,965	-	8	19,973
	LG Electronics Japan, Inc.	87,259	-	-	87,259	-	-	2,356	2,356
	LG Electronics Gulf FZE	129,194	-	-	129,194	-	-	284	284
	LG Electronics (Levant) Jordan	69,248	-	-	69,248	-	-	404	404
	LG Electronics Canada, Inc.	51,178	-	-	51,178	-	-	401	401
	LG Electronics Mobilecomm U.S.A., Inc.	451,870	-	-	451,870	-	-	12,885	12,885
	LG Electronics Mexico S.A. DE C.V.	92,436	-	-	92,436	-	-	84	84
	LG Electronics U.S.A., Inc.	264,910	-	4	264,914	-	-	10,003	10,003
	LG Electronics Colombia Ltda.	84,512	-	-	84,512	-	-	105	105
	LG Electronics Philippines Inc.	59,606	-	2	59,608	-	-	84	84
	LG Electronics Australia Pty, Ltd.	34,844	-	-	34,844	-	-	149	149
	LG Electronics RUS, LLC	48,223	-	8,461	56,684	1,063	-	85	1,148
	LG Electronics do Brasil Ltda.	291,041	-	22,660	313,701	800	-	312	1,112
	Others	1,059,832	-	69,975	1,129,807	767,323	-	69,735	837,058
	Subtotal	3,904,953	-	215,204	4,120,157	2,617,479	-	113,710	2,731,189
Associates	LG Display Co., Ltd. and its subsidiaries	350,066	-	67,813	417,879	493,651	-	91,336	584,987
	Ericsson-LG Co., Ltd. and its subsidiaries	44	-	212	256	1,121	-	-	1,121
	Hitachi-LG Data Storage Inc.(HLDS) and its subsidiaries	-	-	-	-	6,752	-	476	7,228
	Korea Information Certificate Authority Inc.	-	-	100	100	-	-	-	-
	Subtotal	350,110	-	68,125	418,235	501,524	-	91,812	593,336

LG Electronics Inc.
Notes to the Separate Interim Financial Statements
March 31, 2017 and 2016 (Unaudited), and December 31, 2016

(in millions of Korean won)

		March 31, 2017							
		Receivables				Payables			
Classification	Name	Trade receivables	Loans	Other receivables	Total	Trade payables	Borrowings	Other payables	Total
Joint venture	Arcelik-LG Klima Sanayi ve Ticaret A.S.(LGEAT)	-	-	-	-	7,284	-	-	7,284
	LG-MRI LLC	62	-	-	62	-	-	-	-
	Subtotal	62	-	-	62	7,284	-	-	7,284
Other related parties	LG CNS Co., Ltd. and its subsidiaries	25,365	-	-	25,365	1,892	-	81,417	83,309
	SERVEONE Co., Ltd. and its subsidiaries	14,347	-	54,199	68,546	143,876	-	149,323	293,199
	LUSEM CO., LTD.	-	-	-	-	267	-	26	293
	LG Management Development Institute	-	-	15,660	15,660	-	-	713	713
	LG SPORTS Ltd.	-	-	-	-	-	-	625	625
	LG MMA Ltd.	357	-	-	357	-	-	-	-
	Subtotal	40,069	-	69,859	109,928	146,035	-	232,104	378,139
Others ¹	LG Chem Ltd. and its subsidiaries	195,388	-	1,224	196,612	218,917	-	5,775	224,692
	LG INTERNATIONAL CORP and its subsidiaries	31,709	-	1,534	33,243	176,681	-	98,833	275,514
	LG Uplus Corp and its subsidiaries	166,854	-	2,001	168,855	-	-	150	150
	LG HAUSYS,LTD. and its associates/subsidiaries	5,806	-	623	6,429	4,673	-	2,316	6,989
	Silicon Works Co., Ltd	12	-	-	12	1,479	-	-	1,479
	LG HOUSEHOLD & HEALTH CARE LTD and its subsidiaries	1,005	-	-	1,005	52	-	1,108	1,160
	G R Inc. and its subsidiaries	157	-	-	157	-	-	112,109	112,109
	Subtotal	400,931	-	5,382	406,313	401,802	-	220,291	622,093
Total	4,696,160	-	386,569	5,082,729	3,674,124	-	680,719	4,354,843	

(in millions of Korean won)

		December 31, 2016							
		Receivables				Payables			
Classification	Name	Trade receivables	Loans	Other receivables	Total	Trade payables	Borrowings	Other payables	Total
Significantly influencing the LG Corp. Company		745	-	27,706	28,451	-	-	-	-
Subsidiaries	LG Innotek Co., Ltd.	139,457	-	6,541	145,998	200,056	-	9,063	209,119
	Hiplaza Co., Ltd.	110,446	-	19,281	129,727	-	-	7,240	7,240
	LG Electronics Philippines Inc.	67,066	-	3	67,069	-	-	62	62
	LG Electronics Mobilecomm U.S.A., Inc.	324,799	-	-	324,799	-	-	39,152	39,152
	LG Electronics Egypt S.A.E	243,230	-	79,399	322,629	15,692	-	37	15,729
	LG Electronics Australia Pty, Ltd.	95,585	-	-	95,585	-	-	10,710	10,710
	LG Electronics U.S.A., Inc.	296,145	-	-	296,145	-	-	23,006	23,006
	LG Electronics do Brasil Ltda.	241,705	-	24,536	266,241	839	-	942	1,781

LG Electronics Inc.
Notes to the Separate Interim Financial Statements
March 31, 2017 and 2016 (Unaudited), and December 31, 2016

(in millions of Korean won)

		December 31, 2016							
Classification	Name	Receivables				Payables			
		Trade receivables	Loans	Other receivables	Total	Trade payables	Borrowings	Other payables	Total
	LG Electronics Vietnam Haiphong Co., Ltd.	352,021	-	2,197	354,218	130,138	-	961	131,099
	Inspur LG Digital Mobile Communications Co., Ltd.	128,037	-	4	128,041	408,187	-	1,093	409,280
	LG Electronics Gulf FZE	137,992	-	-	137,992	-	-	79	79
	LG Electronics RUS, LLC	100,719	-	13,773	114,492	969	-	145	1,114
	LG Electronics Colombia Ltda.	65,570	-	62	65,632	-	-	111	111
	LG Electronics (Kunshan) Co.,Ltd.	120,088	-	-	120,088	40,645	-	304	40,949
	LG Electronics Mexico S.A. DE C.V.	74,896	-	-	74,896	300	-	98	398
	LG Electronics (Levant) Jordan	70,831	-	1	70,832	-	-	3,346	3,346
	LG Electronics Deutschland GmbH	55,816	-	6,350	62,166	-	-	3,375	3,375
	LG Electronics Canada, Inc.	22,729	-	-	22,729	-	-	7,080	7,080
	LG Electronics Japan, Inc.	121,762	-	-	121,762	-	-	3,493	3,493
	LG Electronics Nanjing New Technology co.,LTD	46,629	-	215	46,844	192,212	-	23	192,235
	Qingdao LG Inspur Digital Communication Co., Ltd.	72,278	-	47	72,325	171,963	-	4	171,967
	LG Electronics Mlawa Sp. z o.o	42,164	-	-	42,164	735,091	-	310	735,401
	Others	893,357	-	74,547	967,904	684,676	-	77,820	762,496
	Subtotal	3,823,322	-	226,956	4,050,278	2,580,768	-	188,454	2,769,222
Associates	LG Display Co., Ltd. and its subsidiaries	242,382	-	19,939	262,321	355,274	-	74,923	430,197
	Ericsson-LG Co., Ltd. and its subsidiaries	235	-	529	764	706	-	-	706
	Hitachi-LG Data Storage Inc.(HLDS) and its subsidiaries	-	-	-	-	-	-	340	340
	LG Fuel Cell Systems Inc. and its subsidiaries	245	-	-	245	-	-	-	-
	Subtotal	242,862	-	20,468	263,330	355,980	-	75,263	431,243
Joint venture	LG-MRI LLC	341	-	-	341	179	-	-	179
Other related parties	LG CNS Co., Ltd. and its subsidiaries	10,259	-	180	10,439	14	-	111,971	111,985
	SERVEONE Co., Ltd. and its subsidiaries	22,028	-	54,227	76,255	115,678	-	189,420	305,098
	LG Siltron Incorporated and its subsidiaries	138	-	-	138	-	-	30	30
	LUSEM CO., LTD.	-	-	-	-	299	-	21	320
	LG Management Development Institute	-	-	15,671	15,671	-	-	1,391	1,391
	LG MMA Ltd.	286	-	-	286	-	-	-	-
	Subtotal	32,711	-	70,078	102,789	115,991	-	302,833	418,824
Others ¹	LG Chem Ltd. and its subsidiaries	70,959	-	32,433	103,392	185,414	-	6,116	191,530
	LG INTERNATIONAL CORP and its subsidiaries	44,559	-	15,098	59,657	53,254	-	95,620	148,874
	LG Uplus Corp and its	55,266	-	1,389	56,655	-	-	218	218

LG Electronics Inc.
Notes to the Separate Interim Financial Statements
March 31, 2017 and 2016 (Unaudited), and December 31, 2016

(in millions of Korean won)

		December 31, 2016							
Classification	Name	Receivables				Payables			
		Trade receivables	Loans	Other receivables	Total	Trade payables	Borrowings	Other payables	Total
	subsidiaries								
	LG HAUSYS,LTD. and its associates/subsidiaries	5,181	-	494	5,675	2,301	-	3,134	5,435
	Silicon Works Co., Ltd	1,302	-	9	1,311	470	-	328	798
	LG HOUSEHOLD & HEALTH CARE LTD and its subsidiaries	1,309	-	-	1,309	-	-	867	867
	LG LIFE SCIENCES, LTD	1,107	-	-	1,107	-	-	-	-
	G R Inc. and its subsidiaries	139	-	-	139	22,868	-	130,540	153,408
	Subtotal	179,822	-	49,423	229,245	264,307	-	236,823	501,130
	Total	4,279,803	-	394,631	4,674,434	3,317,225	-	803,373	4,120,598

¹ Although the entities are not the related parties of the Company in accordance with Korean IFRS 1024, the entities belong to a large enterprise group in accordance with the Monopoly Regulation and Fair Trade Act.

iii) Significant capital transactions with related parties and others for the three-month periods ended March 31, 2017 and 2016, are as follows:

(in millions of Korean won)

		2017						
Classification	Name	Dividend income	Dividend paid	Cash distribution (reduction)	Financing loan transactions		Financing borrowing transactions	
					Loans	Collections	Borrowings	Repayments
Significantly influencing the Company	LG Corp.	-	22,038	-	-	-	-	-
Subsidiaries	LG Innotek Co., Ltd.	2,413	-	-	-	-	-	-
	LG Soft India Private Limited.	23,921	-	-	-	-	-	-
	Subtotal	26,334	-	-	-	-	-	-
Associates	LG Display Co., Ltd.	67,813	-	-	-	-	-	-
	Korea Information Certificate Authority Inc.	100	-	-	-	-	-	-
	Subtotal	67,913	-	-	-	-	-	-
	Total	94,247	22,038	-	-	-	-	-

LG Electronics Inc.
Notes to the Separate Interim Financial Statements
March 31, 2017 and 2016 (Unaudited), and December 31, 2016

(in millions of Korean won)

Classification	Name	Dividend income	Dividend paid	Cash distribution (reduction)	2016			
					Financing loan transactions		Financing borrowing transactions	
					Loans	Collections	Borrowings	Repayments
Significantly influencing the Company	LG Corp.	-	22,038	-	-	-	-	-
Subsidiaries	LG Electronics Ukraine Inc.(LGEUR) ¹	-	-	44,787	-	-	-	-
	LG Innotek Co., Ltd.	3,379	-	-	-	-	-	-
	Subtotal	3,379	-	44,787	-	-	-	-
Associates	LG Display Co., Ltd.	67,813	-	-	-	-	-	-
	Ericsson-LG Co., Ltd.	3,750	-	-	-	-	-	-
	Korea Information Certificate Authority Inc.	70	-	-	-	-	-	-
	Subtotal	71,633	-	-	-	-	-	-
Total	75,012	22,038	44,787	-	-	-	-	

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

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

(in millions of Korean won)	2017	2016
Wages and salaries	6,946	6,309
Post-employment benefits	1,197	1,363
Other long-term benefits	34	39
Total	8,177	7,711

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

- (c) The payment guarantees for the financial support of related parties at the end of the reporting period are presented in Note 26.
- (d) There is no collateral provided by the Company for the financial support of related parties at the end of the reporting period.
- (e) The Company has not recognized any bad debt expense or allowance for trade receivables from related parties at the end of the reporting period.

LG Electronics Inc.
Notes to the Separate Interim Financial Statements
March 31, 2017 and 2016 (Unaudited), and December 31, 2016

29. Risk Management

Financial Risk Management

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

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

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

The carrying amount, and profit or loss of each category of financial instruments and the details of borrowings related to the financial risk management are presented in Note 4 and Note 10, respectively.

(a) Market risk

i) Foreign exchange risk

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

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

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

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

<i>(in millions of Korean won)</i>	March 31, 2017		December 31, 2016	
	10% increase	10% decrease	10% increase	10% decrease
USD/KRW	10,963	(10,963)	7,908	(7,908)
EUR/KRW	33,874	(33,874)	27,491	(27,491)

LG Electronics Inc.
Notes to the Separate Interim Financial Statements
March 31, 2017 and 2016 (Unaudited), and December 31, 2016

ii) Interest rate risk

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

The Company minimizes its borrowings from others and optimizes its deposits. The Company periodically establishes the plan for reaction by the monitoring trends of internal and external interest rates and minimizes the risk of net interest expense by properly operating short-term borrowings with variable interest rates and deposits

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

<i>(in millions of Korean won)</i>	2017		2016	
	1%p increase	1%p decrease	1%p increase	1%p decrease
Interest income	2,914	(2,914)	3,202	(3,202)
Interest expense	-	-	-	-

There are no borrowings with variable interest rates and related interest expenses exposed to interest rate risk as of March 31, 2017 and 2016.

iii) Details of derivatives contracts are as follows:

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

March 31, 2017	Contractor	Contracted amount (in millions)	Contracted currency rate	Interest rate (received) (%)	Interest rate (paid) (%)	Start date	Expiration date
USD/KRW CRS	Shinhan Bank and others	USD 500	1,052.1 ~ 1,155.2	1ML+0.90 ~ 3ML+1.60	2.17 ~ 3.42	2013. 7.31~ 2017. 2. 2	2017. 6.19 ~ 2022. 2. 2
KRW Interest rate swap	Woori bank and others	KRW 1,270,000	-	3M CD+0.82 ~ 3M CD+1.14	2.75 ~ 4.53	2014. 1. 3 ~ 2017. 1.16	2024. 1. 3 ~ 2030. 7. 7

At the end of the reporting period, the swap contracts are evaluated at fair value and the loss on valuation of the effective portion amounting to ₩28,292 million for the three-month period ended March 31, 2017 (2016: loss on valuation amounting to ₩31,295 million) after applying the tax effect, is recognized in other comprehensive income (loss). The Company reclassified ₩34,390 million to loss from equity for the three-month period ended March 31, 2017 (2016: ₩8,293 million to loss from equity). Therefore, other comprehensive loss from cash flow hedges amounts to the gain on valuation amounting to ₩6,098 million for the three-month period ended March 31, 2017 (2016: other comprehensive loss of ₩23,002 million) after applying the tax effect.

LG Electronics Inc.
Notes to the Separate Interim Financial Statements
March 31, 2017 and 2016 (Unaudited), and December 31, 2016

iv) Price risk

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

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

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

<i>(in millions of Korean won)</i>	March 31, 2017		December 31, 2016	
	30% increase	30% decrease	30% increase	30% decrease
KOSDAQ	3,350	(3,350)	3,575	(3,575)

The changes in carrying amounts of the available-for-sale financial assets related to the market risk above are presented in Note 6.

(b) Credit risk

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

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

At the end of reporting period, trade receivable balance of the Company, excluding the trade receivables from the subsidiaries, is ₩1,585,404 million (December 31, 2016: ₩1,191,284 million) and its risk is managed appropriately within insurer's credit limit of ₩2,865,713 million (December 31, 2016: ₩2,900,469 million). Therefore, the Company determined that credit risk exposed to the Company is limited.

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

(c) Liquidity risk

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

LG Electronics Inc.
Notes to the Separate Interim Financial Statements
March 31, 2017 and 2016 (Unaudited), and December 31, 2016

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

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

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

<i>(in millions of Korean won)</i>	Total	Within 1 year	1 to 2 years	3 to 5 years	Over 5 years
Trade payables	6,294,623	6,294,623	-	-	-
Borrowings	7,850,591	846,144	980,930	2,701,007	3,322,510
Other payables	1,970,268	1,969,898	370	-	-
Total	16,115,482	9,110,665	981,300	2,701,007	3,322,510

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

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

<i>(in millions of Korean won)</i>	Total	Within 1 year	1 to 2 years	3 to 5 years	Over 5 years
Financial guarantee contracts	4,608,726	4,258,611	147,013	203,102	-

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

Capital Risk Management

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

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

<i>(in millions of Korean won, except for ratios)</i>	March 31, 2017	December 31, 2016
Liability (A)	18,356,634	17,833,623
Equity (B)	9,003,699	8,765,452
Cash and cash equivalents (C)	1,165,571	1,181,725

LG Electronics Inc.
Notes to the Separate Interim Financial Statements
March 31, 2017 and 2016 (Unaudited), and December 31, 2016

<i>(in millions of Korean won, except for ratios)</i>	March 31, 2017	December 31, 2016
Borrowings (D)	6,696,631	6,631,320
Debt-to-equity ratio (A/B)	203.9%	203.5%
Net borrowings ratio ((D-C)/B)	61.4%	62.2%

Fair Value Estimation

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

<i>(in millions of Korean won)</i>	March 31, 2017			
	Current		Non-current	
	Book amount	Fair value	Book amount	Fair value
Assets at fair value				
Derivatives for hedging purposes				
Other financial assets	12,418	12,418	4	4
Available-for-sale financial assets				
Other financial assets	-	-	14,209	14,209
Assets at amortized cost				
Loans and other receivables				
Cash and cash equivalents	1,165,571	1	-	-
Deposits held by financial institutions	80,500	1	2,290	2,290
Trade receivables	5,459,534	1	-	-
Other receivables	515,627	1	298,235	292,740
Assets at cost				
Available-for-sale financial assets				
Other financial assets	-	-	17,543	2
Total	7,233,650		332,281	

<i>(in millions of Korean won)</i>	March 31, 2017			
	Current		Non-current	
	Book amount	Fair value	Book amount	Fair value
Liabilities at fair value				
Derivatives for hedging purposes				
Other financial liabilities	-	-	72,038	72,038
Liabilities at amortized cost				
Trade payables	6,294,623	1	-	-
Borrowings	652,775	1	6,043,856	6,112,651
Other payables	1,969,898	1	370	360
Other liabilities				
Other financial liabilities	7,269	3	1,978	3
Total	8,924,565		6,118,242	

LG Electronics Inc.
Notes to the Separate Interim Financial Statements
March 31, 2017 and 2016 (Unaudited), and December 31, 2016

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

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

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

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

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

LG Electronics Inc.
Notes to the Separate Interim Financial Statements
March 31, 2017 and 2016 (Unaudited), and December 31, 2016

(b) Fair value measurements of assets and liabilities

i) Fair value hierarchy and measurement method

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

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

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

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

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

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

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Company uses various valuation techniques that the company develops or figures that external valuation agencies provide, and makes judgements based on current market conditions. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to measure the fair value of an instrument are observable, the instrument is included in 'level 2'.

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

LG Electronics Inc.
Notes to the Separate Interim Financial Statements
March 31, 2017 and 2016 (Unaudited), and December 31, 2016

ii) Financial instruments measured at fair value

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

<i>(in millions of Korean won)</i>	March 31, 2017			
	Level 1	Level 2	Level 3	Total
Assets				
Other financial assets				
Available-for-sale financial assets				
- Marketable equity securities	14,209	-	-	14,209
Derivatives for hedging purposes	-	12,422	-	12,422
Liabilities				
Other financial liabilities				
Derivatives for hedging purposes	-	72,038	-	72,038

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

The above fair value amounts are recurring fair value measurements.

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

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

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

<i>(in millions of Korean won)</i>	Fair value		Valuation techniques	Inputs
	March 31, 2017	December 31, 2016		
Assets				
Other financial assets				
Derivatives for hedging purposes	12,422	46,184	Discounted cash flow	Discount rate and exchange rate

LG Electronics Inc.
Notes to the Separate Interim Financial Statements
March 31, 2017 and 2016 (Unaudited), and December 31, 2016

Liabilities

Other financial liabilities

Derivatives for hedging purposes	72,038	73,226	Discounted cash flow	Discount rate and exchange rate
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- Fair value measurements categorized within 'level 3'

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

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

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

<i>(in millions of Korean won)</i>	March 31, 2017			
	Level 1	Level 2	Level 3	Total
Assets				
Non-current deposits held by financial institutions	-	-	2,290	2,290
Non-current other receivables	-	-	292,740	292,740
Liabilities				
Non-current borrowings	-	-	6,112,651	6,112,651
Non-current other payables	-	-	360	360

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

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

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

LG Electronics Inc.
Notes to the Separate Interim Financial Statements
March 31, 2017 and 2016 (Unaudited), and December 31, 2016

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

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

<i>(in millions of Korean won)</i>	March 31, 2017		December 31, 2016		Valuation techniques	Inputs	Significant but unobservable inputs	Range of significant but unobservable inputs
	Carrying amount	Fair value	Carrying amount	Fair value				
Assets								
Non-current deposits held by financial institutions	2,290	2,290	1,159	1,159	Discounted cash flow	Discount rate	Discount rate	0.1%
Non-current other receivables	298,235	292,740	306,113	296,919	Discounted cash flow	Discount rate and exchange rate	Discount rate	3.3%~3.6%
Liabilities								
Non-current borrowings	6,043,856	6,112,651	5,970,172	6,062,632	Discounted cash flow	Discount rate and exchange rate	Discount rate	1.8%~3.4%
Non-current other payables	370	360	5,552	4,705	Discounted cash flow	Discount rate	Discount rate	1.8%

30. Assets Classified as Held for Sale

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

<i>(in millions of Korean won)</i>	March 31, 2017	December 31, 2016
Assets classified as held for sale		
Trade receivables ¹	4,464	-
Inventories ¹	75	-
Property, plant and equipment and intangible assets ¹	60	-
Investment property ²	-	8,906

¹The Company plans to transfer certain assets and personnel from Home Entertainment segment to an entity in France within the first half of the year, 2017, for the improvement of business structure.

²The Company entered into a sales contract on December 2, 2016, and the investment property was sold in January 2017.

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