



LG CORP.

**SEPARATE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED
DECEMBER 31, 2015 AND 2014**

ATTACHMENT: INDEPENDENT AUDITOR'S REPORT

LG CORP.

Independent Auditor's Report

English Translation of Independent Auditor's Report Originally Issued in Korean on March 10, 2016.

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

Report on the Separate Financial Statements

We have audited the accompanying separate financial statements of LG Corp. (the "Company"), which comprise the separate statement of financial position as of December 31, 2015 and 2014, and the related separate statement of income, statement of comprehensive income, separate statement of changes in shareholders' equity and separate statement of cash flows, all expressed in Korean won, for the years ended December 31, 2015 and 2014, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Separate Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the separate financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2015 and 2014, and its financial performance and its cash flows for the years ended December 31, 2015 and 2014, in accordance with K-IFRS.

Deloitte.

Deloitte Anjin LLC

March 10, 2016

Notice to Readers

This report is effective as of March 10, 2016, the auditor's report date. Certain subsequent events or circumstances may have occurred between the auditor's report date and the time the auditor's report is read. Such events or circumstances could significantly affect the separate financial statements and may result in modifications to the auditor's report.

LG CORP. (the “Company”)

**SEPARATE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED
DECEMBER 31, 2015 AND 2014**

The accompanying separate financial statements, including all footnote disclosures, were prepared by, and are the responsibility of, the Company.

Hyun-Hwoi Ha

President and Chief Operating Officer

LG Corp.

LG CORP.
SEPARATE STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2015 AND 2014

	Korean won	
	December 31, 2015	December 31, 2014
	(In millions)	
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash and cash equivalents (Notes 5, 6 and 26)	₩ 63,609	₩ 151,998
Financial institution deposits (Notes 5, 23 and 26)	230,500	80,000
Other receivables, net (Notes 5, 7, 22 and 26)	35,128	19,041
Other current assets (Note 8)	4,112	3,761
Total current assets	333,349	254,800
NON-CURRENT ASSETS:		
Available-for-sale (“AFS”) financial assets (Notes 5 and 26)	80,482	89,567
Other non-current receivables, net (Notes 5, 7, 23 and 26)	474	465
Investments in subsidiaries (Note 11)	1,163,917	1,094,994
Investments in associates and joint ventures (Note 11)	5,987,734	5,958,336
Other non-current assets (Note 8)	2,856	2,417
Property, plant and equipment, net (Notes 9 and 24)	27,559	22,300
Investment property, net (Notes 9 and 24)	598,508	618,266
Intangible assets (Note 10)	13,886	12,657
Total non-current assets	7,875,416	7,799,002
TOTAL ASSETS	₩ 8,208,765	₩ 8,053,802

(Continued)

LG CORP.
SEPARATE STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2015 AND 2014 (CONTINUED)

	Korean won	
	December 31, 2015	December 31, 2014
	(In millions)	
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>		
CURRENT LIABILITIES:		
Other current payables (Notes 5, 22 and 26)	₩ 99,026	₩ 99,526
Current tax liabilities	29,271	28,900
Other current liabilities (Notes 13 and 22)	6,522	6,568
Total current liabilities	134,819	134,994
NON-CURRENT LIABILITIES:		
Other non-current payables (Notes 5, 22 and 26)	4,142	3,871
Net defined benefit liability (Notes 12 and 22)	8,442	9,102
Deferred tax liability (Note 20)	124,775	130,484
Other non-current liabilities (Note 13)	6,152	6,424
Total non-current liabilities	143,511	149,881
TOTAL LIABILITIES	278,330	284,875
<u>SHAREHOLDERS' EQUITY</u>		
Issued capital (Note 14)	879,359	879,359
Capital surplus (Note 15)	2,409,002	2,409,002
Other capital items (Note 14)	(2,385)	(2,385)
Accumulated other comprehensive income (Note 16)	23,538	30,727
Retained earnings (Note 17)	4,620,921	4,452,224
TOTAL EQUITY	7,930,435	7,768,927
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	₩ 8,208,765	₩ 8,053,802

(Concluded)

See notes

LG CORP.
SEPARATE STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2015 AND 2014

	Korean won	
	Year ended December 31, 2015	Year ended December 31, 2014
	(In millions)	
Operating income:		
Dividend income (Notes 4, 18 and 22)	₩ 214,434	₩ 209,394
Royalty revenue (Notes 4, 18 and 22)	256,839	264,859
Rental revenue (Notes 4, 18 and 22)	102,844	101,491
	<u>574,117</u>	<u>575,744</u>
Operating expenses:		
Employee benefit (Notes 18 and 22)	32,059	26,102
Depreciation (Notes 9 and 18)	16,580	16,323
Other operating expenses (Notes 18 and 22)	130,656	116,273
	<u>179,295</u>	<u>158,698</u>
Net operating income	394,822	417,046
Non-operating income and expenses:		
Financial income (Note 19)	7,816	6,831
Financial expenses (Note 19)	793	2,549
Other non-operating income	102	8
Other non-operating expenses	1,385	1,017
Profit before income tax expense	<u>400,562</u>	<u>420,319</u>
Income tax expense (Note 20)	<u>54,647</u>	<u>59,708</u>
Profit for the year	<u>₩ 345,915</u>	<u>₩ 360,611</u>
Earnings per share (in Korean won):		
Common stock basic/diluted (Note 21)	₩ 1,967	₩ 2,051
Pre-1996 Commercial Law Amendment preferred stock basic/diluted (Note 21)	2,017	2,101

See notes

LG CORP.
SEPARATE STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2015 AND 2014

	Korean won			
	Year ended		Year ended	
	December 31, 2015		December 31, 2014	
	(In millions)			
Profit for the year	₩	345,915	₩	360,611
Other comprehensive income (loss):				
Items that may be reclassified subsequently to profit or loss				
Net gain (loss) on AFS financial assets		(7,189)		(4,206)
Items that will not be reclassified subsequently to profit or loss				
Remeasurement on the net defined benefit liability		(1,281)		(1,394)
Total comprehensive income for the year	₩	337,445	₩	355,011

See notes

LG CORP.
SEPARATE STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2015 AND 2014

	Korean won											
	Issued capital		Capital surplus		Other capital items		Accumulated other comprehensive income (loss)		Retained earnings		Total	
	(In millions)											
Balance at January 1, 2014	₩	879,359	₩	2,409,002	₩	(2,385)	₩	34,933	₩	4,268,944	₩	7,589,853
Annual dividends										(175,937)		(175,937)
Profit for the year										360,611		360,611
Remeasurement on the net defined benefit liability										(1,394)		(1,394)
Net gain (loss) on AFS financial assets								(4,206)				(4,206)
Balance at December 31, 2014	₩	879,359	₩	2,409,002	₩	(2,385)	₩	30,727	₩	4,452,224	₩	7,768,927
Balance at January 1, 2015	₩	879,359	₩	2,409,002	₩	(2,385)	₩	30,727	₩	4,452,224	₩	7,768,927
Annual dividends										(175,937)		(175,937)
Profit for the year										345,915		345,915
Remeasurement on the net defined benefit liability										(1,281)		(1,281)
Net gain (loss) on AFS financial assets								(7,189)				(7,189)
Balance at December 31, 2015	₩	879,359	₩	2,409,002	₩	(2,385)	₩	23,538	₩	4,620,921	₩	7,930,435

See notes

LG CORP.
SEPARATE STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2015 AND 2014

	Korean won	
	Year ended	Year ended
	December 31, 2015	December 31, 2014
	(In millions)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Profit for the year	₩ 345,915	₩ 360,611
Additions of expenses not involving cash outflows:		
Depreciation	16,580	16,323
Amortization of intangible assets	1,193	896
Retirement benefits	2,941	3,214
Interest expenses	402	443
Income tax expense	54,647	59,708
Impairment loss on intangible assets	73	-
Loss on foreign currency translation	1	5
Loss on disposals of property, plant and equipment	-	666
Other selling and administration expenses	238	199
	76,075	81,454
Deduction of incomes not involving cash inflows:		
Interest income	5,842	6,411
Dividend income	214,434	209,394
Other operating income	402	443
Gain on disposals of property, plant and equipment	6	-
Gain on foreign currency translation	1,497	32
	(222,181)	(216,280)
Movements in working capital:		
Other receivables	4,545	1,697
Other current assets	(351)	(3,654)
Other non-current receivables	20	-
Other non-current assets	(1,542)	(707)
Other payables	(796)	4,525
Other current liabilities	87	(457)
Net defined benefit liability	(5,360)	(4,239)
	(3,397)	(2,835)

(Continued)

LG CORP.
SEPARATE STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2015 AND 2014

	Korean won	
	Year ended	Year ended
	December 31, 2015	December 31, 2014
	(In millions)	
Interest income received	₩ 5,356	₩ 7,209
Dividend income received	214,434	209,394
Income taxes paid	(57,281)	(60,647)
Net cash provided by operating activities	358,921	378,906
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash inflows from investing activities:		
Decrease in financial institution deposits	220,000	250,000
Decrease in deposits	100	-
Disposals of property, plant and equipment	12	21
	220,112	250,021
Cash outflows from investing activities:		
Increase in financial institution deposits	370,500	190,000
Increase in short-term loans	18,868	7,412
Increase in deposits	153	514
Acquisitions of AFS financial assets	400	-
Acquisitions of investments in associates	29,398	121,286
Acquisitions of investments in subsidiaries	68,923	162,158
Acquisitions of property, plant and equipment	1,183	2,202
Acquisitions of intangible assets	1,151	1,031
Acquisitions of investment properties	903	2,379
	(491,479)	(486,982)
Net cash used in investing activities	(271,367)	(236,961)

(Continued)

LG CORP.
SEPARATE STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2015 AND 2014 (CONTINUED)

	Korean won	
	Year ended December 31, 2015	Year ended December 31, 2014
	(In millions)	
CASH FLOWS FROM FINANCING ACTIVITIES:		
Cash inflows from financing activities:		
Proceeds from short-term borrowings	₩ -	₩ 11,028
	-	11,028
Cash outflows for financing activities:		
Payments of dividends	175,943	175,926
Redemptions of short-term borrowings	-	11,028
	(175,943)	(186,954)
Net cash used in financing activities	(175,943)	(175,926)
NET INCREASE IN CASH AND CASH EQUIVALENTS	(88,389)	(33,981)
CASH AND CASH EQUIVALENTS, AT THE BEGINNING OF YEAR	151,998	185,979
CASH AND CASH EQUIVALENTS, AT THE END OF YEAR	₩ 63,609	₩ 151,998

(Concluded)

See notes

LG CORP.
NOTES TO SEPARATE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2015 AND 2014

1. GENERAL:

LG Corp. (the “Company”) is an investment holding company, which was formed to meet the changes in domestic and international business environments and become a global competitor through an effective management, specializing its business sector. On March 1, 2003, it acquired LGEI (LG Electronics Inc.), an investment company, and the real estate lease and investment business company, Serveone Co., Ltd.

The Company has been listed on the Korea Exchange stock market since February 1970. After numerous paid-up capital increases, spin-offs and mergers, the Company has outstanding capital stock of ₩879,359 million, including preferred stocks of ₩16,573 million as of December 31, 2015.

As of December 31, 2015, the Company’s related parties and major shareholders are as follows:

Name of shareholder	Number of shares	Percentage of shares (%) (*)
Ku, Bon Mu	19,458,169	11.06
Ku, Bon Jun	13,317,448	7.57
Ku, Gwang Mo	10,409,715	5.92
Ku, Bon Shik	7,728,601	4.39
Kim, Young Shik	7,423,100	4.22
Ku, Bon Neung and others	21,008,196	11.95
LG Yonam Education Foundation	3,675,742	2.09
LG Yonam Foundation	572,525	0.33
Others	92,278,312	52.47
Total	175,871,808	100.00

(*) Includes preferred stocks

2. STANDARDS AFFECTING PRESENTATION AND DISCLOSURE AND SIGNIFICANT ACCOUNTING POLICIES:

The separate financial statements have been confirmed by the Board of Directors in a meeting held on February 4, 2016.

The Company has adopted the Korean International Financial Reporting Standards (“K-IFRSs”) from January 1, 2010, which is determined as the transition date of the Company to K-IFRS. Also, these are the separate financial statements of the Company in accordance with K-IFRS 1027 (Separate Financial Statements), those presented by a parent, an investor with joint control of, or significant influence over, an investee, in which the investments are accounted for at cost or in accordance with K-IFRS 1109 (Financial Instruments).

The significant accounting policies under K-IFRS followed by the Company in the preparation of separate financial statements are summarized below. Unless stated otherwise, these accounting policies have been applied consistently to the separate financial statements for the current period and the comparative period.

(1) Amendments to K-IFRSs and new interpretations that are mandatorily effective for the current year

1) Newly adopted and revised standards, their interpretations and thereby changes in accounting policies being effective for the financial year beginning on January 1, 2015, are as follows:

Amendments to K-IFRS 1019 – *Employee Benefits (Revised)*

The amendments permit the Company to recognize amount of contributions as a reduction in the service cost, in which the related service is rendered if the amount of the contributions is independent of the number of years of service. The application of these amendments has no significant impact on the disclosure in the Company's separate financial statements.

Annual Improvements to K-IFRS 2010-2012 Cycle

The amendments to K-IFRS 1102 (i) change the definitions of 'vesting condition' and 'market condition'; and (ii) add definitions for 'performance condition' and 'service condition', which were previously included within the definition of 'vesting condition'. The amendments to K-IFRS 1103 *Business Combinations* clarify the classification and measurement of the contingent consideration in business combination. The amendments to K-IFRS 1108 clarify that a reconciliation of the total of the reportable segments' assets should only be provided if the segment assets are regularly provided to the chief operating decision maker. The application of these amendments has no significant impact on the disclosure in the Company's separate financial statements.

Annual Improvements to K-IFRS 2011-2013 Cycle

The amendments to K-IFRS 1103 clarify that it excludes the accounting for the formation of a joint arrangement in the financial statement of the joint arrangement itself from the scope of K-IFRS 1103 'Business Combination.' The amendments to K-IFRS 1113 'Fair Value Measurements' and K-IFRS 1040 'Investment Properties' exist. The application of these amendments has no significant impact on the disclosure in the Company's separate financial statements.

2) Details of K-IFRS that have been issued at the end of the reporting period, but are not yet effective, and have not been applied yet are as follows:

Amendments to K-IFRS 1001 – *Presentation of Financial Statements (Revised)*

The amendments to K-IFRS 1001 clarify the concept of applying materiality in practice and restrict an entity reducing the understandability of its financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or functions. The amendments to K-IFRS 1001 are effective for annual periods beginning on or after January 1, 2016.

Amendments to K-IFRS 1016 – *Property, Plant and Equipment (Revised)*

The amendments to K-IFRS 1016 prohibit the Company from using a revenue-based depreciation method for items of property, plant and equipment. The amendments are effective for the annual periods beginning on or after January 1, 2016.

Amendments to K-IFRS 1027 – *Separate Financial Statements (Revised)*

The following amendments discuss accounting for investment in subsidiaries, related parties and joint ventures at cost basis and allow the selection of the application of K-IFRS 1039 *Financial Instruments: Recognition and Measurement* or the application of equity method accounting under K-IFRS 1028 *Investment in Associates and Joint Ventures*. The amendments are effective for the annual periods beginning on or after January 1, 2016.

Amendments to K-IFRS 1038 – *Intangible Assets (Revised)*.

The amendments to K-IFRS 1038 do not allow presumption that revenue is an appropriate basis for the amortization of intangible assets, which the presumption can only be limited when the intangible asset expressed as a measure of revenue or when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated. The amendments apply prospectively for annual periods beginning on or after January 1, 2016.

Amendments to K-IFRS 1109 – *Financial Instruments (Enactment)*

The amendments to K-IFRS 1109 contain the requirements for the classification and measurement of financial assets and financial liabilities based on a business model, whose objective is achieved both by collecting contractual cash flows and selling financial assets and based on the contractual terms that give rise on specified dates to cash flows, impairment methodology based on the expected credit losses and broadened types of instruments that qualify as hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting and the change of the hedge effectiveness test. The amendments are effective for annual periods beginning on or after January 1, 2018.

Amendments to K-IFRS 1111 – *Accounting for Acquisitions of Interests in Joint Operations (Revised)*

The amendments to K-IFRS 1111 provide guidance on how to account for the acquisition of a joint operation that constitutes a business as defined in K-IFRS 1103 *Business Combinations*. A joint operator is also required to disclose the relevant information required by K-IFRS 1103 and other standards for business combinations. The amendments to K-IFRS 1111 are effective for the annual periods beginning on or after January 1, 2016.

Amendments to K-IFRS 1115 – *Revenue from Contracts with Customers (Enactment)*

The core principle under K-IFRS 1115 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendments introduces a five-step approach to revenue recognition and measurement: 1) identify the contract with a customer, 2) identify the performance obligations in the contract, 3) determine the transaction price, 4) allocate the transaction price to the performance obligations in the contract, and 5) recognize revenue when (or as) the entity satisfies a performance obligation. This standard will supersede K-IFRS 1011 - Construction Contracts, K-IFRS 1018 - Revenue, K-IFRS 2113 - Customer Loyalty Programmes, K-IFRS 2115 - Agreements for the Construction of Real Estate, K-IFRS 2118 - Transfers of Assets from Customers, and K-IFRS 2031 - Revenue-Barter Transactions Involving Advertising Services. The amendments are effective for annual periods beginning on or after January 1, 2018.

Annual Improvements to K-IFRS 2012-2014 Cycle

The Annual Improvements include amendments to a number of K-IFRSs. The amendments introduce specific guidance in K-IFRS 1105 Non-Current Assets Held for Sale and Discontinued Operations for when an entity reclassifies an asset (or disposal group) from held for sale to held for distribution to owners (or vice versa), such a change is considered as a continuation of the original plan of disposal not as a change to a plan of sale. Other amendments in the Annual Improvements include K-IFRS 1107 Financial Instruments: Disclosures, K-IFRS 1019 Employee Benefits, and K-IFRS 1034 Interim Financial Reporting.

The Company does not anticipate that the application of these new and revised K-IFRSs that have been issued, but not effective, will have any impact on the Company's separate financial statements.

(2) Basis of preparing separate financial statements

1) Basis of measurement

The separate financial statements have been prepared on the historical cost basis, except otherwise stated below, such as financial instruments.

2) Functional and reporting currency

The separate financial statement of the Company are presented in the currency of the primary economic environment in which the entity operates (its functional currency). The Company's functional currency and the reporting currency for the separate financial statements is Korean won.

(3) Foreign currency translation

Transactions that occur in currencies other than the Company's functional currency will be recorded at a translated amount using the exchange rate on the day of the transaction. At the end of reporting period, all monetary assets and

liabilities will be translated using the exchange rate at the end of reporting date. Meanwhile, non-monetary assets and liabilities measured at fair value will be retranslated using the exchange rate on the day of fair value evaluation, whereas non-monetary assets and liabilities measured at historical cost will not be translated.

Exchange differences are recognized in profit or loss in the period in which they arise, except for:

- Exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings; and
- Exchange differences on transactions entered into in order to hedge certain foreign currency risks.

(4) Cash and cash equivalents

Cash and cash equivalents include cash, savings and checking accounts and highly liquid short-term investments (maturities of three months or less from acquisition). Bank overdraft is accounted for as short-term borrowings.

(5) Financial assets

All financial assets are recognized and derecognized on trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the time frame established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at FVTPL, which are initially measured at fair value.

Financial assets are classified into the following specified categories: 'financial assets at FVTPL,' 'held-to-maturity investments,' 'AFS financial assets' and 'loans and receivables.' The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

1) Effective interest method

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. Income is recognized on an effective interest basis for debt instruments other than those financial assets classified as FVTPL.

2) Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is contingent consideration that may be paid by an acquirer as part of business combination to which K-IFRS 1103 applies.

A financial asset is classified as held for trading, if:

- it has been acquired principally for the purpose of selling it in the near term;
- on initial recognition, it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading or contingent consideration that may be paid by an acquirer as part of a business combination may be designated as at FVTPL upon initial recognition, if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise;
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed, and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and K-IFRS 1039 *Financial Instruments*:

Recognition and Measurement permit the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss.

3) Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed-maturity dates that the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are measured at amortized cost using the effective interest method, less any impairment, with revenue recognized on an effective yield basis.

4) Financial assets AFS

Non-derivatives financial assets that are not classified as at held to maturity; held for trading; designated as at FVTPL; or loans and receivables are classified as at financial assets AFS. Financial assets can be designated as sale on initial recognition. Financial assets AFS are initially recognized at fair value, plus directly related transaction costs. They are subsequently measured at fair value. Unquoted equity investments whose fair value cannot be measured reliably are carried at cost. Gains and losses arising from changes in fair value are recognized in other comprehensive income and accumulated in the investments revaluation reserve, with the exception of impairment losses, interest calculated using the effective interest method, and foreign exchange gains and losses on monetary assets, which are recognized in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss. Dividends on AFS equity instruments are recognized in profit or loss when the Company's right to receive the dividends is established.

The fair value of AFS monetary financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate prevailing at the end of the reporting period. The foreign exchange gains and losses that are recognized in profit or loss are determined based on the amortized cost of the monetary asset. Other foreign exchange gains and losses are recognized in other comprehensive income.

5) Loans and receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables.' Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

6) Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period.

Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that have occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For listed and unlisted equity investments classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, including redeemable notes classified as AFS and finance lease receivables, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty,
- default or delinquency in interest or principal payments,
- it becoming probable that the borrower will enter bankruptcy or financial reorganization, or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired

individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

With respect to AFS equity securities, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income.

In respect of AFS equity securities, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income. In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

7) Derecognition of financial assets

The Company derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire or when it transfers the financial asset and, substantially, all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

(6) Property, plant and equipment

Property, plant and equipment are stated at cost, less subsequent accumulated depreciation and accumulated impairment losses. The cost of an item of property, plant and equipment is directly attributable to its purchase or construction, which includes any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. It also includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Subsequent costs are recognized in the carrying amount of an asset or as an asset if it is probable that future economic benefits associated with the assets will flow to the Company and the cost of an asset can be measured reliably. Routine maintenance and repairs are expensed as incurred.

The Company does not depreciate land and some tangible assets, and depreciation is computed using the straight-

line method based on the estimated useful lives of the assets as follows:

	<u>Estimated useful lives (years)</u>
Buildings	25–50
Structures	25
Furniture, fixtures and vehicles	6–12

The Company reviews the depreciation method; the estimated useful lives; and residual values of property, plant and equipment at the end of each annual reporting period. If expectations differ from previous estimates, the changes are accounted for as a change in accounting estimate.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized.

(7) Investment property

Investment property held to earn rentals and/or for capital appreciation (including property under construction for such purposes) is measured initially at its cost, including transaction costs. Subsequent to initial recognition, investment property is measured at cost, less accumulated depreciation and accumulated impairment losses.

Subsequent costs are recognized in the carrying amount of an asset or as an asset if it is probable that future economic benefits associated with the assets will flow into the Company and the cost of an asset can be measured reliably. Routine maintenance and repairs are expensed as incurred.

Among the investment properties, land is not depreciated. However, investment properties other than land are depreciated over their useful lives of 25–50 years using the straight-line method.

The depreciation method, residual value and useful lives of investment properties are reassessed or reviewed at the end of each annual reporting period, and any changes in them are treated as change in accounting estimates.

(8) Intangible assets

1) Intangible assets acquired separately

Intangible assets acquired separately are carried at cost, less accumulated amortization and accumulated impairment losses. Intangible assets comprise of intellectual property, other intangible assets and construction in progress. They are amortized using the straight-line method over 5 to 10 years, with no residual value. For facility rights that the Company has, there is no foreseeable limit to its use, and thus, it is deemed to have indefinite useful life and is not amortized. Intangible assets with indefinite useful lives are tested for impairment at least annually and whenever there is an indication that the asset may be impaired.

In relation to intangible assets with definite useful lives, the estimated useful life and amortization method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for as change in accounting estimates.

2) Derecognition of intangible assets

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from its use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss when the asset is derecognized.

(9) Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise, they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever, there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value, less costs to sell and value in use. If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount and the reduced amount is recognized in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or the cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

(10) Investment in subsidiaries, associates and joint ventures

In accordance with K-IFRS 1027, the Company's separate financial statements are financial statements that were prepared by the parent, or the investor with joint control of, or significant influence over, an investee, and where this parent, or investor, accounts for the investments at cost. The Company chose the cost method based on K-IFRS 1027 to report investments in subsidiaries, associates and joint ventures. Dividends obtained from subsidiaries, associates and joint ventures are recognized in profit or loss when the right to receive dividends is confirmed.

(11) Financial liabilities and equity instruments

1) Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

2) Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognized when the proceeds are received, net of direct issue costs.

3) Financial liabilities

Financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial liabilities are added to, or deducted from, the fair value of the financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial liabilities at FVTPL are recognized immediately in profit or loss.

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

4) Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is contingent consideration that may be paid by an acquirer as part of a business combination to which K-IFRS 1103 applies, or held for trading, or it is

designated as at FVTPL.

A financial liability is classified as held for trading, if:

- it has been acquired principally for the purpose of repurchasing it in the near term,
- on initial recognition, it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking, or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration that may be paid by an acquirer as part of a business combination may be designated as at FVTPL upon initial recognition, if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise;
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed, and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and K-IFRS 1039 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss.

5) Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

6) Financial guarantee contract liabilities

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instruments.

Financial guarantee contract liabilities are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

- the amount of the obligation under the contract, as determined in accordance with K-IFRS 1037 *Provisions, Contingent Liabilities and Contingent Assets*; and
- the amount initially recognized less, cumulative amortization recognized in accordance with the K-IFRS 1018 *Revenue*.

7) Derecognition of financial liabilities

The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, canceled or they expire.

(12) Lease

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

1) The Company as lessor

Amounts due from lessees under finance leases are recognized as receivables at the amount of the Company's net investment in the leases. Finance lease interest income is allocated to accounting periods so as to reflect an effective interest rate on the Company's net investment outstanding in respect of the leases. Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

2) The Company as lessee

Assets held under finance leases are initially recognized as assets and liabilities of the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. The financial charge, except in case that it is capitalized as part of the cost of that asset according to the Company's accounting for borrowing costs (see Note 2.(13)), is immediately expensed in the period in which it is incurred. Contingent rents are charged as expenses in the periods in which they are incurred.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rents for operating lease are charged as expenses in the periods in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expenses on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(13) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings, pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. When floating interest rate borrowing is used for acquisition of qualifying asset and effective cash flow hedging of interest risks have been made, effective portion of gain and loss from valuation of derivatives is deferred to equity and reflected in profit and loss when qualifying assets have an effect in the profit and loss of a specific period. When fixed-interest rate borrowing is used for acquisition of qualifying asset and effective fair value hedging of interest risks has been made, the capitalized borrowing costs bear the hedging interest rate. All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

(14) Employee benefits

Defined benefit plan

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at the end of each reporting period. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the separate statement of financial position, with a charge or credit recognized in other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss. Past service cost is recognized in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are composed of service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements), net interest expense (income), and remeasurement.

The Company presents the service cost and net interest expense (income) components in profit or loss, and the remeasurement component in other comprehensive income. Curtailment gains and losses are accounted for as past service costs.

The retirement benefit obligation recognized in the separate statement of financial position represents the actual deficit or surplus in the Company's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

(15) Provisions

A provision is recognized when the Company has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material). The discount rate used is a pretax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized in profit or loss as borrowing cost.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

At the end of each reporting period, the remaining provision balance is reviewed and assessed to determine if the current best estimate is being recognized. If the existence of an obligation to transfer economic benefit is no longer probable, the related provision is reversed during the period.

(16) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, net of value-added tax ("VAT"), returns, rebates and discounts. The Company recognizes revenue when it is reliably measurable and the inflows of future economic benefits are likely. For each type of sales, the Company recognizes revenue as follows:

1) Dividend income

Dividends are recognized as revenue when the right to dividends is determined.

2) Royalty revenue

Income from use of trademark rights is recognized on an accrual basis to reflect related contracts' economic substance.

3) Rental revenue

The Company recognizes revenue for real estate rent income according to passage of time.

4) Interest income

Interest income is recognized through passage of time by the effective interest rate method. When receivables are impaired, the book value of the receivable is reduced to collectible amount (future cash inflows discounted by initial effective interest rate of the financial asset) and increasing amount due to passage of time is recognized as interest income. Initial effective interest rate is used when recognizing interest income from such receivables.

(17) Income tax

Income tax expense consists of current tax and deferred tax.

1) Current tax payable

The current tax is computed based on the taxable profit for the year. The taxable profit differs from the profit for the period as reported in the separate statement of comprehensive income because it excludes items of income or expenses that are taxable or deductible in other years, and it further excludes items that are never taxable or deductible. The Company's liability for current tax expense is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

2) Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the separate financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset if, and only if, the Company has a legally enforceable right to set off current tax assets against current tax liabilities, and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities, which intend either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

For the purpose of measuring deferred tax liabilities and deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model, whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale.

3) Recognition of current tax payable and deferred tax

Current and deferred taxes are recognized in profit or loss, except for those related to items other than profit or loss, such as other comprehensive income (loss) or items recognized directly in equity (current taxes and deferred taxes are both recognized in items other than profit or loss) of same or different accounting periods or items arising from initial accounting treatments of a business combination. For business combinations, income tax effects are considered when measuring goodwill or determining Company's shares in fair value of acquiree's identifiable assets, liabilities and contingent liabilities that exceed cost of business combination.

(18) Treasury stock

When the Company repurchases its equity instruments (treasury stock), the incremental costs that increase in relation to capital transactions, net of tax effect, are deducted from the shareholders' equity and recognized as other capital items deducted from the total equity in the separate statement of financial position. In addition, profits or losses from purchase, sale or retirement of treasury stocks are directly recognized in shareholders' equity and not in current profit or loss.

(19) Fair Value

Fair value is 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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these separate financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of K-IFRS 1102, *Share-Based Payment*, leasing transactions that are within the scope of K-IFRS 1017 *Leases*, and measurements that have some similarities to fair value, but are not fair value, such as net realizable value in K-IFRS 1002, *Inventories*, or value in use in K-IFRS 1036, *Impairment of Assets*.

In addition, for financial reporting purposes, fair value measurements are categorized into Levels 1, 2 or 3, based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

3. SIGNIFICANT CONSIDERATION AND MAJOR SOURCES OF ESTIMATION UNCERTAINTIES:

In the application of the Company accounting policies, which are described in Note 2, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

4. SEGMENT INFORMATION:

The Company has only one operating segment in accordance with K-IFRS 1108, *Operating Segments*, from entire Company's perspective. Operating segment information for year ended December 31, 2015 and 2014, are as follows:

1) Operating income information (Unit: Korean won in millions)

Sectors	Year ended December 31, 2015	Year ended December 31, 2014
Dividend income	₩ 214,434	₩ 209,394
Royalty revenue	256,839	264,859
Rent revenue	102,844	101,491
Total	₩ 574,117	₩ 575,744

2) Regional information

The Company's operating income is all derived from domestic business, and all of its non-current assets are located in South Korea.

3) Major client information

Operating income from major clients that covers more than 10% of operation income for year ended December 31, 2015 and 2014, is ₩309,659 million and ₩309,396 million, respectively.

5. CLASSIFICATION OF FINANCIAL INSTRUMENTS AND FAIR VALUE:

Carrying amount and fair value of financial assets and liabilities as of December 31, 2015 and 2014, are as follows (Unit: Korean won in millions):

1) Financial assets

Financial assets	Account	December 31, 2015		December 31, 2014	
		Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents	Cash and cash equivalents	₩ 63,609	₩ 63,609	₩ 151,998	₩ 151,998
AFS financial assets	Marketable equity securities	31,748	31,748	41,272	41,272
	Unmarketable equity securities (*)	48,734	48,734	48,295	48,295
	Subtotal	80,482	80,482	89,567	89,567
Loans and receivables	Financial institution deposits	230,500	230,500	80,000	80,000
	Loans	27,683	27,683	7,420	7,420
	Other account receivables	6,018	6,018	10,732	10,732
	Accrued income	1,274	1,274	789	789
	Deposits	627	627	565	565
	Subtotal	266,102	266,102	99,506	99,506
	Total	₩ 410,193	₩ 410,193	₩ 341,071	₩ 341,071

(*) The unlisted stocks that are AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost.

2) Financial liabilities

Financial liabilities	Account	December 31, 2015		December 31, 2014	
		Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities measured at amortized cost	Other accounts payables	₩ 41,094	₩ 41,094	₩ 38,497	₩ 38,497
	Accrued expenses	507	507	406	406
	Accrued dividends	312	312	318	318
	Deposits received	61,255	61,255	64,176	64,176
Total		₩ 103,168	₩ 103,168	₩ 103,397	₩ 103,397

6. CASH AND CASH EQUIVALENTS:

Cash and cash equivalents in the separate statement of cash flows are equivalent to cash and cash equivalents in the separate statement of financial position. Details of cash and cash equivalents as of December 31, 2015 and 2014, are as follows (Unit: Korean won in millions):

Description	December 31, 2015		December 31, 2014	
Cash on hand	₩	8	₩	8
Bank deposits		30,001		80,010
Other cash equivalents		33,600		71,980
Total	₩	63,609	₩	151,998

7. ACCOUNT AND OTHER RECEIVABLES:

As of December 31, 2015 and 2014, account receivables and other receivables are not impaired or overdue. Details are as follows (Unit: Korean won in millions):

Description	December 31, 2015		December 31, 2014	
	Current	Non-current	Current	Non-current
Loans	₩ 27,683	₩ -	₩ 7,420	₩ -
Account receivables	6,018	-	10,732	-
Accrued income	1,274	-	789	-
Deposits	153	474	100	465
Total	₩ 35,128	₩ 474	₩ 19,041	₩ 465

8. OTHER ASSETS:

Details of other assets as of December 31, 2015 and 2014, are as follows (Unit: Korean won in millions):

Description	December 31, 2015		December 31, 2014	
	Current	Non-current	Current	Non-current
Advanced payments	₩ -	₩ 2,856	₩ -	₩ 2,417
Prepaid expenses	4,112	-	3,761	-
Total	₩ 4,112	₩ 2,856	₩ 3,761	₩ 2,417

9. PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY:

(1) Changes in acquisition cost of property, plant and equipment and investment property for the year ended December 31, 2015 and 2014, are as follows (Unit: Korean won in millions):

Year ended December 31, 2015										
Description	Property, plant and equipment						Investment property			
	Land	Buildings	Structures	Vehicles	Furniture and fixtures	Construction in progress	Land	Buildings	Structures	Total
Beginning balance	₩5,054	₩ 11,065	₩ 233	₩ 8,589	₩ 6,179	₩ -	₩245,970	₩456,760	₩ 8,928	₩ 742,778
Acquisition	-	47	-	225	714	200	-	903	-	2,089
Disposals	-	-	-	(130)	-	-	-	-	-	(130)
Transfers in	1,155	6,095	144	-	-	-	-	-	-	7,394
Transfers out	-	-	-	-	-	-	(1,155)	(6,095)	(144)	(7,394)
Ending balance	₩6,209	₩ 17,207	₩ 377	₩ 8,684	₩ 6,893	₩ 200	₩244,815	₩451,568	₩ 8,784	₩ 744,737

Year ended December 31, 2014										
Description	Property, plant and equipment						Investment property			
	Land	Buildings	Structures	Vehicles	Furniture and fixtures		Land	Buildings	Structures	Total
Beginning balance	₩4,874	₩ 10,765	₩ 229	₩ 7,042	₩ 5,656		₩246,150	₩454,505	₩ 8,932	₩ 738,153
Acquisition	-	138	-	1,582	526		-	2,417	-	4,663
Disposals	-	-	-	(35)	(3)		-	-	-	(38)
Transfers in	180	162	4	-	-		-	-	-	346
Transfers out	-	-	-	-	-		(180)	(162)	(4)	(346)
Ending balance	₩ 5,054	₩ 11,065	₩ 233	₩ 8,589	₩ 6,179		₩245,970	₩456,760	₩ 8,928	₩ 742,778

(2) Changes in accumulated depreciation for the year ended December 31, 2015 and 2014, are as follows (Unit: Korean won in millions):

Year ended December 31, 2015								
Description	Property, plant and equipment					Investment property		
	Buildings	Structures	Vehicles	Furniture and fixtures		Buildings	Structures	Total
Beginning balance	₩ 2,795	₩ 93	₩ 2,884	₩ 3,048		₩ 90,489	₩ 2,904	₩ 102,213
Disposals	-	-	(123)	-		-	-	(123)
Transfers in	1,359	57	-	-		-	-	1,416
Transfers out	-	-	-	-		(1,359)	(57)	(1,416)
Depreciation	515	14	684	685		14,370	312	16,580
Ending balance	₩ 4,669	₩ 164	₩ 3,445	₩ 3,733		₩ 103,500	₩ 3,159	₩ 118,670

Year ended December 31, 2014								
Description	Property, plant and equipment					Investment property		
	Buildings	Structures	Vehicles	Furniture and fixtures		Buildings	Structures	Total
Beginning balance	₩ 2,441	₩ 83	₩ 2,296	₩ 2,443		₩ 76,050	₩ 2,588	₩ 85,901
Disposals	-	-	(10)	(1)		-	-	(11)
Transfers in	29	1	-	-		-	-	30
Transfers out	-	-	-	-		(29)	(1)	(30)
Depreciation	325	9	598	606		14,468	317	16,323
Ending balance	₩ 2,795	₩ 93	₩ 2,884	₩ 3,048		₩ 90,489	₩ 2,904	₩ 102,213

(3) Details of valuation with fair value of investment property as of December 31, 2015, are as follows (Unit: Korean won in millions):

Description	Date of revaluation	Land	Buildings and structures	Total
Book value of investment property:				
Book value (*1)		₩ 247,991	₩ 365,879	₩ 613,870
Result of valuation:				
Twin tower (*2)	2012-03-16	456,800	343,200	800,000

Gasandong building (*3)	2009-04-21	50,966	110,104	161,070
Gwanghwamun building	2010-09-30	145,452	84,548	230,000
Buho building	2013-06-04	16,513	1,238	17,751
Total		₩ 669,731	₩ 539,090	₩ 1,208,821

(*1) It includes the valuation amounts related to its own use (carrying value: ₩15,362 million).

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

(*3) According to the Industrial Collaboration and Establishment of Facilities law, the Company can sell partial or entire land only if the Company obtains either approval from, or sells off, some or entire land to Korea Industrial Complex Corporation.

Fair value assessment was performed by an independent third party, Nara Appraisal Co., Ltd., & Daeil Appraisal Board. The fair value of investment property is classified as Level 3, based on the input variables that are used in the valuation method.

The valuation method for measurement of fair value is the method of discounted cash flow, so the fair value of investment property is measured by the discounted present value that the net cash flow from the investment property is discounted by the discount rate of risk adjustment by reflecting the cost in relation to rental promotion, such as estimated success rate of rental market, vacant period, rental rate, free rental period and other costs that the lessee does not pay. Main input variables that are significant for measuring the fair value, but not observable are estimated success rate of rental market, vacant rate, free rental period and discount rate of risk adjustment.

10. INTANGIBLE ASSETS:

(1) Composition of the Company's intangible assets as of December 31, 2015 and 2014, is as follows (Unit: Korean won in millions):

Description	December 31, 2015			December 31, 2014			
	Intellectual property rights	Membership	Other	Intellectual property rights	Membership	Other	Construction in progress
Acquisition cost	₩ 12,348	₩ 6,983	₩ 5,577	₩ 11,244	₩ 6,848	₩ 4,322	₩ 71
Accumulated depreciation	(7,721)	-	(2,635)	(7,108)	-	(2,054)	-
Accumulated impairment	-	(666)	-	-	(666)	-	-
Carrying amounts	₩ 4,627	₩ 6,317	₩ 2,942	₩ 4,136	₩ 6,182	₩ 2,268	₩ 71

(2) Changes in intangible assets for the year ended December 31, 2015 and 2014, are as follows (Unit: Korean won in millions)

Description	Year ended December 31, 2015				
	Intellectual property rights	Membership	Other	Construction in progress	Total
Beginning balance	₩ 4,136	₩ 6,182	₩ 2,268	₩ 71	₩ 12,657
Acquisition	-	64	1,254	-	1,318
Transfers in (out)	1,104	71	-	(71)	1,104
Amortization	(613)	-	(580)	-	(1,193)
Ending balance	₩ 4,627	₩ 6,317	₩ 2,942	₩ -	₩ 13,886

Description	Year ended December 31, 2014				
	Intellectual property rights	Membership	Other	Construction in progress	Total
Beginning balance	₩ 3,223	₩ 6,754	₩ 1,388	₩ -	₩ 11,365
Acquisition	-	94	1,275	71	1,440
Transfers in (out)	1,414	-	-	-	1,414
Impairment	-	(666)	-	-	(666)

Amortization		(501)	-	(395)	-	(896)
Ending balance	₩	4,136	₩	6,182	₩	2,268
					₩	71
					₩	12,657

11. INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES:

(1) Composition of the Company's investments in subsidiaries as of December 31, 2015 and 2014, is as follows
(Unit: Korean won in millions):

December 31, 2015						
Companies	Location of incorporation	Major operation	Closing date	Percentage of ownership (%)	Percentage of ownership (common stock) (%)	Book value
LG Siltron Inc.	South Korea	Manufacturing	12-31	51.00	51.00	₩ 239,575
LG CNS Co., Ltd.	South Korea	Services	12-31	84.97	84.97	330,533
Serveone Co., Ltd.	South Korea	Renting	12-31	100.00	100.00	250,054
Lusem Co., Ltd.	South Korea	Manufacturing	12-31	64.81	64.81	29,375
LG Sports Ltd.	South Korea	Services	12-31	100.00	100.00	106,097
LG Management Development Institute	South Korea	Research and development	12-31	100.00	100.00	17,203
LG Solar Energy Inc. (*1)	South Korea	Sunlight Generation	12-31	-	-	-
LG Holdings Japan Co., Ltd. (*2)	Japan	Renting	12-31	100.00	100.00	191,080
Total						₩ 1,163,917

(*1) LG Solar Energy Inc. was acquired by Serveone Co., Ltd. for the year ended December 31, 2015.

(*2) The Company took part in paid-up capital increase for the year ended December 31, 2015.

December 31, 2014						
Companies	Location of incorporation	Major operation	Closing date	Percentage of ownership (%)	Percentage of ownership (common stock) (%)	Book value
LG Siltron Inc.	South Korea	Manufacturing	12-31	51.00	51.00	₩ 239,575
LG CNS Co., Ltd.	South Korea	Services	12-31	84.97	84.97	330,533
Serveone Co., Ltd.	South Korea	Renting	12-31	100.00	100.00	223,424
Lusem Co., Ltd.	South Korea	Manufacturing	12-31	64.81	64.81	29,375
LG Sports Ltd.	South Korea	Services	12-31	100.00	100.00	106,097
LG Management Development Institute	South Korea	Research and development	12-31	100.00	100.00	17,203
LG Solar Energy Inc.	South Korea	Sunlight Generation	12-31	100.00	100.00	26,630
LG Holdings Japan Co., Ltd.	Japan	Renting	12-31	100.00	100.00	122,157
Total						₩ 1,094,994

(2) Composition of the Company's investments in associates and joint ventures as of December 31, 2015 and 2014, is as follows (Unit: Korean won in millions):

December 31, 2015						
Companies	Location of incorporation	Major operation	Closing date	Percentage of ownership (%)	Percentage of ownership (common stock) (%)	Book value
LG Electronics Inc.	South Korea	Manufacturing	12-31	30.47	33.67	₩ 2,804,603
LG Chem Ltd.	South Korea	Manufacturing	12-31	30.07	33.53	1,277,994
LG Hausys, Ltd.	South Korea	Manufacturing	12-31	30.07	33.53	183,828
LG Household & Health Care Ltd.	South Korea	Manufacturing	12-31	30.00	34.03	141,608
LG Life Science Co., Ltd.	South Korea	Manufacturing	12-31	30.00	30.43	83,295
LG Uplus Corp.	South Korea	Telecommunications	12-31	36.05	36.05	1,162,048
GIIR Corporation	South Korea	Hoardings	12-31	35.00	35.00	39,496
LG Hitachi Co., Ltd.	South Korea	Services	12-31	49.00	49.00	14,023
LG MMA Corp. (*1)	South Korea	Manufacturing	12-31	50.00	50.00	115,350
LG Fuel Cell System Inc. (*2)	America	Research and Experimental Development	12-31	13.65	13.65	20,486
Silicon Works Co., Ltd. (*3)	South Korea	Manufacturing	12-31	33.08	33.08	145,003
Total						₩ 5,987,734

December 31, 2014						
Companies	Location of incorporation	Major operation	Closing date	Percentage of ownership (%)	Percentage of ownership (common stock) (%)	Book value
LG Electronics Inc.	South Korea	Manufacturing	12-31	30.47	33.67	₩ 2,804,603
LG Chem Ltd.	South Korea	Manufacturing	12-31	30.07	33.53	1,277,994
LG Hausys, Ltd.	South Korea	Manufacturing	12-31	30.07	33.53	183,828
LG Household & Health Care Ltd.	South Korea	Manufacturing	12-31	30.00	34.03	141,608
LG Life Science Co., Ltd.	South Korea	Manufacturing	12-31	30.00	30.43	83,295
LG Uplus Corp.	South Korea	Telecommunications	12-31	36.05	36.05	1,162,048
GIIR Corporation	South Korea	Hoardings	12-31	35.00	35.00	39,496
LG Hitachi Co., Ltd.	South Korea	Services	12-31	49.00	49.00	14,023
LG MMA Corp. (*1)	South Korea	Manufacturing	12-31	50.00	50.00	115,350
LG Fuel Cell System Inc. (*2)	America	Research and Experimental Development	12-31	13.65	13.65	20,486
Silicon Works Co., Ltd. (*3)	South Korea	Manufacturing	12-31	28.22	28.22	115,605
Total						₩ 5,958,336

(*1) It is a joint venture.

(*2) Notwithstanding that the ownership is less than 20%, it has been classified as associates since the Company has authority to appoint director, etc.

(*3) The Company acquired additional ownership by acquiring additional shares for the year ended December 31, 2015.

12. RETIREMENT BENEFIT PLAN:

The Company operates a defined benefit plan for employees, and according to the plan, the employees will be paid his or her average salary amount of the final three months multiplied by the number of years vested, adjusted for payment rate and other. The actuarial evaluation of plan assets and the defined benefit liability is performed by Aon Hewitt that is reputable actuary using the projected unit credit method.

- (1) As of December 31, 2015 and 2014, amounts recognized in the separate statement of financial position related to retirement benefit obligation are as follows (Unit: Korean won in millions):

Description	December 31, 2015	December 31, 2014
Present value of defined benefit obligation	₩ 41,833	₩ 41,178
Fair value of plan assets	(33,391)	(32,076)
Net defined benefit liability	₩ 8,442	₩ 9,102

- (2) Changes in defined benefit obligation for the year ended December 31, 2015 and 2014, are as follows (Unit: Korean won in millions):

Description	Year ended December 31, 2015	Year ended December 31, 2014
Beginning balance	₩ 41,178	₩ 33,609
Current service cost	2,707	2,877
Past service costs	-	70
Interest cost	1,041	1,034
Remeasurement on the net defined benefit liability	1,698	1,842
Benefits paid	(1,871)	(229)
Other	(2,920)	1,975
Ending balance	₩ 41,833	₩ 41,178

- (3) Income and loss related to defined benefit plan for the year ended December 31, 2015 and 2014, are as follows (Unit: Korean won in millions):

Description	Year ended December 31, 2015	Year ended December 31, 2014
Service cost	₩ 2,707	₩ 2,947
Current service cost	2,707	2,877
Past service costs	-	70
Net interest on the net defined benefit Liability (asset)	234	267
Interest cost on defined benefit obligation	1,041	1,034
Comprising interest on plan assets	(807)	(767)
Operational management fee on plan assets	68	54
Total	₩ 3,009	₩ 3,268

- (4) Changes in plan asset for the year ended December 31, 2015 and 2014, are as follows (Unit: Korean won in millions):

Description	Year ended December 31, 2015	Year ended December 31, 2014
Beginning balance	₩ 32,076	₩ 25,375
Comprising interest on plan assets	807	767
Remeasurement-return on plan assets	8	3
Benefits paid	(1,832)	(215)

Contributions from the employer	2,400	6,200
Operational management fee on plan assets	(68)	(54)
Ending balance	₩ 33,391	₩ 32,076

(5) All of the plan assets are mainly invested in financial instruments that guarantee principal and interest rate as of December 31, 2015 and 2014.

(6) Actuarial assumptions used as of December 31, 2015 and 2014, are as follows:

Description	December 31, 2015	December 31, 2014
Discount rate (%)	2.27	2.58
Expected rate of salary increase (%)	7.52	7.94

(7) The sensitivity analysis of the defined benefit obligation as of December 31, 2015 and 2014, are as follows (Unit: Korean won in millions):

Description	Year ended December 31, 2015		
	Center scenario	+ 1%	- 1%
Change in discount rate	₩ 41,833	₩ 40,268	₩ 43,580
Change in rate of salary increase	41,833	43,478	40,324

(*) The above sensitivity is estimated based on the assumption that all the assumptions will not change, except discount rate and rate of salary increase.

Description	Year ended December 31, 2014		
	Center scenario	+ 1%	- 1%
Change in discount rate	₩ 41,178	₩ 39,782	₩ 42,714
Change in rate of salary increase	41,178	42,624	39,832

(*) The above sensitivity is estimated based on the assumption that all the assumptions will not change, except discount rate and rate of salary increase.

(8) Remeasurement related to net defined benefit liability for the year ended December 31, 2015 and 2014, are as follows (Unit: Korean won in millions):

Description	Year ended December 31, 2015	Year ended December 31, 2014
Actuarial gains arising from changes in demographic assumptions	₩ 562	₩ 147
Actuarial gains (losses) arising from changes in financial assumptions	(28)	1,115
Actuarial gains arising from experience	1,770	505
Return on plan assets, excluding amounts included in interest income	(8)	(3)
Actuarial gains (losses) arising from transfer in/out adjustment	(606)	75
Total	₩ 1,690	₩ 1,839

Meanwhile, the Company deducted ₩409 million arising from income tax effect for actuarial gain (loss) during the current period.

(9) Estimated contribution that will be paid in the next fiscal year is as follows (Unit: Korean won in millions):

	2016
Estimated contributions to plan assets (*)	₩ 3,313

(*) The above estimation is measured assuming that 100% of defined benefit liability may be contributed.

13. OTHER LIABILITIES:

Other liabilities as of December 31, 2015 and 2014, are as follows (Unit: Korean won in millions):

Description	December 31, 2015		December 31, 2014	
	Current	Non-current	Current	Non-current
Advances from lease	₩ -	₩ 6,152	₩ 132	₩ 6,424
VAT withheld	6,048	-	6,000	-
Withholdings	474	-	436	-
Total	₩ 6,522	₩ 6,152	₩ 6,568	₩ 6,424

14. ISSUED CAPITAL:

Details of issued capital as of December 31, 2015, are as follows (Unit: Korean won in millions):

Type of stock	Number of authorized shares	Number of issued shares	Number of shares owned by related party	Par value (in Korean won)	Amount of issued capital
Common stock	700,000,000	172,557,131	83,593,496	₩ 5,000	₩ 862,786
Preferred stock (*)	-	3,314,677	-	5,000	16,573

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

The Company has 93,789 shares of common stock and 6,810 shares of preferred stock as of December 31, 2015 and 2014, respectively. The carrying amounts of common stock and preferred stock are ₩2,334 million and ₩51 million, respectively.

15. CAPITAL SURPLUS:

Composition of the Company's capital surplus as of December 31, 2015 and 2014, is as follows (Unit: Korean won in millions):

Description	December 31, 2015	December 31, 2014
Paid-up capital in excess of par value	₩ 898,266	₩ 898,266
Assets revaluations reserves	338,100	338,100
Other capital surplus	1,172,636	1,172,636
Total	₩ 2,409,002	₩ 2,409,002

16. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS):

Composition of accumulated other comprehensive income (loss) as of December 31, 2015 and 2014, is as follows (Unit: Korean won in millions):

Description	December 31, 2015	December 31, 2014
Gain on valuation of AFS financial assets	₩ 23,538	₩ 30,727

17. RETAINED EARNINGS:

(1) Composition of retained earnings as of December 31, 2015 and 2014, are as follows (Unit: Korean won in millions):

Description	December 31, 2015	December 31, 2014
Retained earnings restricted to appropriation (*)	₩ 233,547	₩ 215,953
Retained earnings subject to appropriation	4,387,374	4,236,271
Total	₩ 4,620,921	₩ 4,452,224

(*) As it is classified as legal reserve according to commercial law, appropriation is restricted, except for transferring to capital stock or using to reduce accumulated deficit.

(2) Changes in retained earnings for the year ended December 31, 2015 and 2014, are as follows (Unit: Korean won in millions):

Description	Year ended December 31, 2015	Year ended December 31, 2014
Beginning balance	₩ 4,452,224	₩ 4,268,943
Profit for the year	345,915	360,611
Dividends	(175,937)	(175,937)
Remeasurement on the net defined benefit liability	(1,281)	(1,393)
Ending balance	₩ 4,620,921	₩ 4,452,224

(3) Separate statement of appropriation of retained earnings for the year ended December 31, 2015 and 2014, are as follows (Unit: Korean won in millions):

	Korean won	
	Year ended December 31, 2015	Year ended December 31, 2014
UNAPPROPRIATED RETAINED EARNINGS:		
Unappropriated retained earnings carried over from prior year	₩ -	₩ -
Profit for the year	345,915	360,611
Actuarial gains and losses on defined benefit plans	(1,281)	(1,393)
	344,634	359,218
APPROPRIATION:		
Legal reserve	22,867	17,594
Dividends	228,668	175,937
Other reserve	93,099	165,687
	344,634	359,218
UNAPPROPRIATED RETAINED EARNINGS CARRIED FORWARD TO SUBSEQUENT YEAR	₩ -	₩ -

- (4) The amount of dividends and dividends per share for the year ended December 31, 2015 and 2014, is as follows
(Unit: Korean won in millions):

December 31, 2015					
Type of stock	Number of issued shares	Number of treasury stocks	Number of stocks eligible for dividend	Dividend per share (Korean won)	Total dividend
Common stock	172,557,131	93,789	172,463,342	₩ 1,000	₩ 172,464
Preferred stock	3,314,677	6,810	3,307,867	1,050	3,473

December 31, 2014					
Type of stock	Number of issued shares	Number of treasury stocks	Number of stocks eligible for dividend	Dividend per share (Korean won)	Total dividend
Common stock	172,557,131	93,789	172,463,342	₩ 1,000	₩ 172,464
Preferred stock	3,314,677	6,810	3,307,867	1,050	3,473

18. OPERATING INCOME:

Operating income for the year ended December 31, 2015 and 2014, is as follows (Unit: Korean won in millions):

	Year ended December 31, 2015	Year ended December 31, 2014
Operating income:		
Dividends income	₩ 214,434	₩ 209,394
Royalties revenue	256,839	264,859
Rental revenue	102,844	101,491
	<u>574,117</u>	<u>575,744</u>
Operating expenses:		
Employee benefit:		
Salaries and wages	26,319	20,357
Severance benefits	2,941	3,214
Welfare	2,799	2,531
	<u>32,059</u>	<u>26,102</u>
Depreciation:	<u>16,580</u>	<u>16,323</u>
Other operating expenses:		
Amortization of intangible assets	1,193	896
Taxes and dues	4,420	4,177
Advertising expenses	72,572	64,286
Training expenses	929	890
Commission	38,965	36,440
Insurance premium	348	338
Operating lease expense	941	692
Other selling and administrative expenses	11,288	8,554
	<u>130,656</u>	<u>116,273</u>
Net operating income	<u>₩ 394,822</u>	<u>₩ 417,046</u>

19. FINANCIAL INCOME AND FINANCIAL EXPENSES:

- (1) Financial income consists of interest income. The details for the year ended December 31, 2015 and 2014, are as follows (Unit: Korean won in millions):

Description	Year ended December 31, 2015	Year ended December 31, 2014
Interest income	₩ 5,842	₩ 6,411
Gain on financial warranty	181	388
Gain on foreign currency transaction and translation	1,793	32
Total	₩ 7,816	₩ 6,831

- (2) Financial expenses for the year ended December 31, 2015 and 2014, are as follows (Unit: Korean won in millions):

Description	Year ended December 31, 2015	Year ended December 31, 2014
Interest expense	₩ 402	₩ 443
Loss on foreign currency transaction and translation	391	2,106
Total	₩ 793	₩ 2,549

- (3) Net gain (loss) from financial instruments for the year ended December 31, 2015 and 2014, is as follows (Unit: Korean won in millions):

Description	Year ended December 31, 2015	Year ended December 31, 2014
Financial assets:		
AFS financial assets (*1)	₩ (6,158)	₩ (3,312)
Loans and receivables (*2)	7,073	4,336
Subtotal	915	1,024
Financial liabilities:		
Financial liabilities measured at amortized cost	(402)	(443)
Subtotal	(402)	(443)
Total	₩ 513	₩ 581

(*1) It includes dividend income and valuation gain or loss recognized in other comprehensive income.

(*2) It includes net income (loss) incurred from cash and cash equivalents and financial institution deposits.

20. INCOME TAX:

- (1) Composition of income tax expense for the year ended December 31, 2015 and 2014, is as follows (Unit: Korean won in millions):

Description	Year ended December 31, 2015	Year ended December 31, 2014
Current income tax payable	₩ 57,652	₩ 61,822
Changes in deferred tax assets:	(3,005)	(2,114)
Beginning deferred tax assets due to temporary differences	(130,484)	(134,386)
Ending deferred tax assets due to temporary differences	(124,775)	(130,484)
Deferred taxes directly reflected in equity	2,704	1,788
Income tax expense	₩ 54,647	₩ 59,708

- (2) A reconciliation between accounting income before income tax and income tax expense of the Company for the year ended December 31, 2015 and 2014, is as follows (Unit: Korean won in millions):

Description	Year ended December 31, 2015	Year ended December 31, 2014
Income before income tax expense	₩ 400,562	₩ 420,319
Tax expense calculated on book income	96,474	101,255
Adjustments:		
Non-taxable income	(42,608)	(42,106)
Non-deductible expenses	981	748
Others (differences due to the tax rates, etc.)	(200)	(189)
Income tax expense	₩ 54,647	₩ 59,708

- (3) Income tax directly reflected in equity for the year ended December 31, 2015 and 2014, is as follows (Unit: Korean won in millions):

Description	Year ended December 31, 2015	Year ended December 31, 2014
Revaluation of AFS financial assets	₩ 2,295	₩ 1,343
Remeasurement of defined benefit obligation	409	445
Total deferred tax directly reflected in equity	₩ 2,704	₩ 1,788

- (4) Changes in deferred tax assets (liabilities) for the year ended December 31, 2015 and 2014, are as follows (Unit: Korean won in millions):

Description	Year ended December 31, 2015			
	Beginning balance	Reflected in income (loss)	Reflected in equity	Ending balance
Temporary differences:				
Investments in subsidiaries and associates	₩ (130,855)	₩ -	₩ -	₩ (130,855)
Property, plant and equipment	9,936	1,158	-	11,094
Intangible assets	211	(10)	-	201
AFS financial assets	(4,772)	-	2,295	(2,477)
Provisions	1,203	(404)	409	1,208
Other financial liabilities	1,430	416	-	1,846
Others	(7,637)	1,845	-	(5,792)
Deferred tax assets (liabilities)	₩ (130,484)	₩ 3,005	₩ 2,704	₩ (124,775)

Description	Year ended December 31, 2014			
	Beginning balance	Reflected in income (loss)	Reflected in equity	Ending balance
Temporary differences:				
Investments in subsidiaries and associates	₩ (130,855)	₩ -	₩ -	₩ (130,855)
Property, plant and equipment	8,794	1,142	-	9,936
Intangible assets	60	151	-	211
AFS financial assets	(6,115)	-	1,343	(4,772)
Provisions	893	(135)	445	1,203
Other financial liabilities	1,592	(162)	-	1,430
Others	(8,755)	1,118	-	(7,637)
Deferred tax assets (liabilities)	₩ (134,386)	₩ 2,114	₩ 1,788	₩ (130,484)

- (5) There is no balance of deferred tax asset (liability) relevant to assets held for sale as of December 31, 2015.

- (6) As of December 31, 2015, temporary differences not recognized as deferred tax assets (liabilities) related to investment asset and equity interest are as follows (Unit: Korean won in millions):

Description	December 31, 2015	
Investments in subsidiaries	₩	(586,739)
Investments in associates and joint ventures		1,348,729
Total	₩	761,990

21. EARNINGS PER SHARE:

- (1) Net income per share for the year ended December 31, 2015 and 2014, is as follows:

	2015	2014
Basic earnings per share of common share	₩ 1,967	₩ 2,015
Basic earnings per share of Pre-1996 Commercial Law Amendment preferred share (*)	2,017	2,101

(*) Basic earnings per share is calculated for preferred share, which K-IFRS 1033 *Earnings per share* clarify as common share, such as having no priority rights for dividend of profit and distribution of residual property.

- (2) Net income and weighted-average number of shares used to calculate earnings per share of common share for the year ended December 31, 2015 and 2014, are as follows (Unit: Korean won in millions):

Description	Year ended December 31, 2015	Year ended December 31, 2014
Profit for the year attributable to owners of the Company	₩ 345,915	₩ 360,611
Less dividends for Pre-1996 Commercial Law Amendment preferred share and preferred stock portion of residual profit	(6,672)	(6,949)
Net income used to calculate basic earnings per share of common share	339,243	353,662
Weighted-average number of common shares	172,463,342 shares	172,463,342 shares

- (3) Net income and weighted-average number of shares used to calculate earnings per share of Pre-1996 Commercial Law Amendment preferred share for the year ended December 31, 2015 and 2014, are as follows (Unit: Korean won in millions):

Description	Year ended December 31, 2015	Year ended December 31, 2014
Dividends for preferred share and preferred stock portion of residual profit	₩ 6,672	₩ 6,949
Net income used to calculate basic earnings per share of preferred share	6,672	6,949
Weighted-average number of preferred shares	3,307,867 shares	3,307,867 shares

- (4) As there are no potential common shares of the Company, diluted earnings per share of common shares and preferred shares are equal to basic earnings per share.

22. RELATED-PARTY TRANSACTIONS:

(1) Details of related parties as of December 31, 2015 and 2014, are as follows:

December 31, 2015			
Companies with direct ownership	Companies with direct ownership's subsidiaries (domestic) (*1)	Companies with direct ownership's subsidiaries (overseas) (*1)	Companies with direct ownership's associates
Subsidiaries:			
LG Siltron Inc.		LG Siltron America, Inc. and another	
LG CNS Co., Ltd.	LG N-Sys Inc. BNE Partners, Inc. Ucess Partners Co., Ltd. Korea Elecom Co., Ltd EverOn Co., Ltd Oneseen Skytech	LG CNS China, Inc. and 19 others	Korea Smart Card Co., Ltd. Korea Smart Card CS Partners Co., Ltd. High End Co.,Ltd T-money America, INC. T MONEY MALAYSIA SDN BHD Ulaanbaatar Smart card Co, LLC Songdo U-Life LLC. U Life Solutions Songdo International Sports Club LLC. Recaudo Bogota S.A.S. Petro Cornergy Co., Ltd. Hellas SmarTicket Societe Anonyme Sejong Green Power Co.,Ltd Ulleungdo Natural Energy Independent Island Co.,Ltd Dongnam Solar Energy Co., Ltd.
Serveone Co., Ltd.	Konjiam Yewon Co., Ltd.	Serveone (Nanjing) Co., Ltd. and three others	Serveone Cenyar Services Co.(*2)
Lusem Co., Ltd.			.
LG Management Development Institute			
LG Sports Ltd.			
LG Holdings Japan Co., Ltd.			Combustion Synthesis Co.,LTD.
Associates:			
LG Electronics Inc.	Hi Plaza Inc. Innovation Investment Hi-M Solutech Co., Ltd. HITeleservice Co., Ltd. New Growth Venture Fund New Growth Venture Fund II Ace R&D Co.,Ltd Hientech Co., Ltd. LG-Hitachi Water Solutions Co., Ltd. LG innotek Co., Ltd. Innowith Hanuri LG innotek Alliance Fund	LG Electronics Mexico S.A. DE C.V. and others	
LG Chem Ltd.	Haengboknuri Co., Ltd.	LG Chem America, Inc. and others	
LG Hausys, Ltd.	LG Hausys ENG., Ltd.	LG Hausys America, Inc. and	

December 31, 2015

Companies with direct ownership	Companies with direct ownership's subsidiaries (domestic) (*1)	Companies with direct ownership's subsidiaries (overseas) (*1) others	Companies with direct ownership's associates
LG Uplus Corp.	LG Hausys Interpane CS Leader Ain Teleservice CS One Partner MEDIA LOG Co., Ltd. With U Co., Ltd.	DACOM America Inc.	
LG Household & Health Care Ltd.	Coca-Cola Beverage Co. Hankook Beverage Co., Ltd. The FaceShop Co., Ltd. HTB Co., Ltd. Future Co., Ltd CNP COSMETICS Co., Ltd. K&I Co.,Ltd Balkeunnuri Co., Ltd. Zenisce Co., Ltd.	Beijing LG Household Chemical Co., Ltd. and others	
LG Life Science Co., Ltd.	Sarangnuri	LG Life Sciences India Pvt., Ltd. and others	
GIIR Corporation	HS Ad Co., Ltd. L. Best	GIIR America Inc. and others	
LG Hitachi Co., Ltd.			
LG Fuel Cell Systems Inc.	LG Fuel Cell Systems (Korea) Inc.		
Silicon Works Co., Ltd.		Silicon Works Inc	
Joint ventures:			
LG MMA Corp.			

(*1): Joint ventures of associates are excluded.

(*2): Joint venture of Serveone Co., Ltd.

December 31, 2014

Companies with direct ownership	Companies with direct ownership's subsidiaries (domestic) (*1)	Companies with direct ownership's subsidiaries (overseas) (*1)	Companies with direct ownership's associates
Subsidiaries:			
LG Siltron Inc.		LG Siltron America, Inc. and another	
LG CNS Co., Ltd.	LG N-Sys Inc. BNE Partners, Inc. Ucess Partners Co., Ltd. Korea Elecom Co., Ltd EverOn Co., Ltd Oneseen Skytech	LG CNS China, Inc. and 20 others	Korea Smart Card Co., Ltd. Korea Smart Card CS Partners Co., Ltd. T-money America, INC. T MONEY MALAYSIA SDN BHD Songdo U-Life LLC. U Life Solutions Songdo International Sports Club LLC. Recaudo Bogota S.A.S. Petro Cornergy Co., Ltd.
Serveone Co., Ltd.	Konjiam Yewon Co., Ltd.	Serveone (Nanjing) Co., Ltd. and three others	Dongnam Solar Energy Co., Ltd.

December 31, 2014

Companies with direct ownership	Companies with direct ownership's subsidiaries (domestic) (*1)	Companies with direct ownership's subsidiaries (overseas) (*1)	Companies with direct ownership's associates
	LG-TOYO Engineering Co., Ltd. Gumi Ochang Sunlight Solar Co., Ltd.		Serveone Cenyar Services Co.(*2)
Lusem Co., Ltd. LG Management Development Institute LG Sports Ltd. LG Solar Energy Inc. LG Holdings Japan Co., Ltd.			Zephyr Logic, Inc.
Associates:			Combustion Synthesis Co.,LTD.
LG Electronics Inc.	Hi Plaza Inc.	LG Electronics Mexico S.A. DE C.V. and others	
	Innovation Investment Hi Logistics Hi-M Solutech Co., Ltd. HITeleservice Co., Ltd. New Growth Venture Fund New Growth Venture Fund II Hientech Co., Ltd. Ace R&A Co., Ltd. LG-Hitachi Water Solutions Co., Ltd. LG innotek Co., Ltd. Innowith Hanuri LG innotek Alliance Fund		
LG Chem Ltd.	Haengboknuri Co., Ltd.	Tianjin LG DAGU Chemical Co., Ltd. and others	
LG Hausys, Ltd.	LG Hausys ENG., Ltd.	LG Hausys America, Inc. and others	
LG Uplus Corp.	LG Hausys Interpane CS Leader Ain Teleservice CS One Partner MEDIA LOG Co., Ltd. With U Co., Ltd.	DACOM America Inc.	
LG Household & Health Care Ltd.	Coca-Cola Beverage Co. Hankook Beverage Co., Ltd. The FaceShop Co., Ltd. HTB Co., Ltd. Future Co., Ltd CNP COSMETICS Co., Ltd.	Beijing LG Household Chemical Co., Ltd. and others	
LG Life Science Co., Ltd.		LG Life Sciences India Pvt., Ltd. and others	
GIIR Corporation	HS Ad Co., Ltd. L. Best	GIIR America Inc. and others	
LG Hitachi Co., Ltd. LG Fuel Cell Systems Inc. Silicon Works Co., Ltd.	LG Fuel Cell Systems (Korea) Inc.	Silicon Works Inc	
Joint ventures:			
LG MMA Corp.			

(*1): Joint ventures of associates are excluded.

(*2): Joint venture of Serveone Co., Ltd.

(2) Major transactions with the related parties for the year ended December 31, 2015 and 2014, are as follows:

(Unit: Korean won in millions):

		Year ended December 31, 2015			
		Revenue and others	Purchase raw material	Acquisition of property, plant and equipment	Other purchase
Subsidiaries:					
LG CNS Co., Ltd.	₩	24,215	₩ -	₩ 16	₩ 3,961
LG N-Sys Inc.		1,649	-	-	121
BNE Partners, Inc.		-	-	-	46
LG Siltron Inc.		1,554	-	-	-
Serveone Co., Ltd.		27,520	-	1,468	28,264
LG-TOYO Engineering Co., Ltd.		1,072	-	-	-
Lusem Co., Ltd.		700	-	-	-
LG Sports Ltd.		85	-	-	4,030
LG Management Development Institute		2,026	-	-	5,069
LG Solar Energy Inc.		3	-	-	-
LG Holdings Japan Co., Ltd.		197	-	-	-
Associates and subsidiaries:					
LG Electronics Inc. (*1)		170,541	-	4	1,000
LG Chem Ltd.		139,118	-	-	12
LG Hausys, Ltd.		11,005	-	-	-
LG Household & Health Care Ltd. (*1)		36,110	-	-	-
LG Life Science Co., Ltd.		5,428	-	-	-
LG Uplus Corp.		52,167	-	-	151
GHR Corporation (*1)		2,360	-	-	26,676
Slicon Works Co., Ltd.		2,754	-	-	-
LG Hitachi Co., Ltd.		83	-	-	-
LG Fuel Cell Systems Inc. (*1)		1,351	-	-	-
Joint ventures:					
LG MMA Corp.		16,027	-	-	-
Total	₩	495,965	₩ -	₩ 1,488	₩ 69,330
		Year ended December 31, 2014			
		Revenue and others	Purchase raw material	Acquisition of property, plant and equipment	Other purchase
Subsidiaries:					
LG CNS Co., Ltd.	₩	24,738	₩ -	₩ 1,377	₩ 2,320
LG N-Sys Inc.		1,608	-	74	94
BNE Partners, Inc.		-	-	-	45
LG Siltron Inc.		1,586	-	-	-
Serveone Co., Ltd.		34,039	-	2,754	25,989
LG-TOYO Engineering Co., Ltd.		51	-	-	-
Lusem Co., Ltd.		700	-	-	-
LG Sports Ltd.		78	-	-	2,530

LG Management Development Institute	1,997	-	-	6,822
LG Solar Energy Inc.	6	-	-	-
LG Holdings Japan Co., Ltd.	399	-	-	-
Associates and subsidiaries:				
LG Electronics Inc. (*1)	166,328	-	-	558
LG Chem Ltd.	143,068	-	-	12
LG Hausys, Ltd	11,181	-	-	-
LG Household & Health Care Ltd. (*1)	33,589	-	-	-
LG Life Science Co., Ltd.	5,313	-	-	-
LG Uplus Corp.	52,190	-	-	157
GIIR Corporation (*1)	2,337	-	-	22,733
Slicon Works Co., Ltd.	2,754	-	-	-
LG Hitachi Co., Ltd.	94	-	-	-
LG Fuel Cell Systems Inc. (*1)	29	-	-	-
Joint ventures:				
LG MMA Corp.	20,182	-	-	-
Total	₩ 499,513	₩ -	₩ 4,205	₩ 61,260

(*1) It includes transactions with an associates' subsidiary.

(3) Outstanding receivables and payables from transactions with related parties as of December 31, 2015 and 2014, are as follows (Unit: Korean won in millions):

	December 31, 2015		
	Account receivables and others	Loans	Account payables and others
Subsidiaries:			
LG CNS Co., Ltd.	₩ -	₩ -	₩ 5,230
LG N-Sys Inc.	43	-	38
LG Siltron Inc.	-	-	6
Serveone Co., Ltd.	3,494	-	6,049
LG-TOYO Engineering Co., Ltd.	-	-	-
LG Sports Ltd.	2	-	-
LG Management Development Institute	5	-	2,414
LG Solar Energy Inc.	4	-	-
LG Holdings Japan Co., Ltd.	-	-	-
Associates and subsidiaries:			
LG Electronics Inc. (*1)	593	-	30,360
LG Chem Ltd.	-	-	11,463
LG Hausys, Ltd.	-	-	60
LG Household & Health Care Ltd. (*1)	1,059	-	5,341
LG Life Science Co., Ltd.	48	-	2,737
LG Uplus Corp	-	-	5,902
GIIR Corporation (*1)	469	-	16,069
LG Hitachi Co., Ltd.	-	-	3

LG Fuel Cell Systems Inc.	234	27,683	-
Joint ventures:			
LG MMA Corp.	44	-	-
Total	₩ 5,995	₩ 27,683	₩ 85,672

	December 31, 2014		
	Account receivables and others	Loans	Account payables and others
Subsidiaries:			
LG CNS Co., Ltd.	₩ 362	₩ -	₩ 5,592
LG N-Sys Inc.	38	-	-
LG Siltron Inc.	-	-	161
Serveone Co., Ltd.	3,492	-	7,114
LG-TOYO Engineering Co., Ltd.	11	-	-
LG Sports Ltd.	2,874	-	-
LG Management Development Institute	2	-	2,726
LG Solar Energy Inc.	-	-	-
LG Holdings Japan Co., Ltd.	392	-	-
Associates and subsidiaries:			
LG Electronics Inc. (*1)	5,208	-	22,882
LG Chem Ltd.	7	-	8,167
LG Hausys, Ltd.	344	-	38
LG Household & Health Care Ltd. (*1)	578	-	5,341
LG Life Science Co., Ltd	18	-	2,737
LG Uplus Corp)	-	-	6,598
GHIR Corporation (*1)	439	-	23,712
LG Hitachi Co., Ltd.	-	-	10
LG Fuel Cell Systems Inc.	29	7,420	-
Joint ventures:			
LG MMA Corp.	-	-	67
Total	₩ 13,794	₩ 7,420	₩ 85,145

(*1) It includes transactions with an associates' subsidiary.

(4) Fund transactions with the related parties for the year ended December 31, 2015 and 2014, are as follows (Unit: Korean won in millions):

Description	Year ended December 31, 2015					
	Payment in cash (reduction of capital)	Sale of portion	Loan		Borrowings	
			Loan	Payback	Borrowings	Repayment
Subsidiaries:						
LG Holdings Japan Co., Ltd.	₩ 68,923	₩ -	₩ -	₩ -	₩ -	₩ -
Associates:						
LG Fuel Cell Systems Inc.	-	-	18,868	-	-	-
Silicon Works	15,344	-	-	-	-	-

Co., Ltd.						
Total	₩	84,267	₩	-	₩	18,868

Year ended December 31, 2014

Description	Payment in cash (reduction of capital)	Sale of portion	Loan		Borrowings	
			Loan	Payback	Borrowing s	Repayment
Subsidiaries:						
LG Holdings Japan Co., Ltd.	₩ 122,147	₩ -	₩ -	₩ -	₩ -	₩ -
LG Sports Ltd.	440,000	-	-	-	-	-
Associates:						
LG Fuel Cell Systems Inc.	5,681	-	7,412	-	-	-
Total	₩ 167,828	₩ -	₩ 7,412	₩ -	₩ -	₩ -

- (5) The compensation and benefits for the Company's key managements (registered executives, including non-permanent and non-registered executives) who have significant control and responsibility on planning, operating and controlling the activities of the Company for the year ended December 31, 2015 and 2014, are as follows (Unit: Korean won in millions):

Description	Year ended December 31, 2015	Year ended December 31, 2014
Short-term employee benefits	₩ 17,419	₩ 12,089
Severance benefits	2,327	2,407
Total	₩ 19,746	₩ 14,496

23. FUNDING ARRANGEMENTS AND PLEDGING:

- (1) The Company has bank overdraft agreement limited to ₩5,000 million with Woori Bank, and general loan agreement limited to ₩95,000 million with Kookmin Bank and two others.
- (2) Restricted financial assets as of December 31, 2015 and 2014, are as follows (Unit: Korean won in millions):

Account	December 31, 2015	December 31, 2014	Detail
Financial institution deposits	₩ 500	₩ -	Chungcheongbuk-do Province creative financial fund
Long-term deposits	6	6	Deposit for the checking accounts
Total	₩ 506	₩ 6	

- (3) Details of pledging as of December 31, 2015, are as follows:

Recipients	Details of pledging
Woori Bank and other	Two blank bills (secured for leasehold deposits)

24. OPERATING LEASE CONTRACTS:

(1) The Company as lessee

- 1) The Company entered into operating lease contracts for vehicles and office equipment. Payment schedule related to the major operating lease contracts as of December 31, 2015 and 2014, is as follows (Unit: Korean won in millions):

Contents	December 31, 2015			
	Less than one year		Total	
Vehicles	₩	513	₩	513
Furniture and fixtures		61		61
Property		44		44
Total	₩	618	₩	618

Contents	December 31, 2014			
	Less than one year		Total	
Vehicles	₩	470	₩	470
Furniture and fixtures		62		62
Property		155		155
Total	₩	687	₩	687

- 2) The Company recognized rental expenses related to operating lease contracts for the year ended December 31, 2015 and 2014, in the amount of ₩941 million and ₩692 million, respectively.

(2) The Company as lessor

- 1) The Company has real estate lease contracts and the major operating lease contracts as of December 31, 2015 and 2014, as follows (Unit: Korean won in millions):

Contract	December 31, 2015				
	Less than one year		More than five years		Total
		1 year–5 years			
Building lease contract (Twin)	₩	14,920	₩	-	₩ 14,920
Building lease contract (Gasan)		16,727		117,571	190,236
Building lease contract (Kwanghwamoon)		5,590		-	5,590
Building lease contract (Buho)		177		-	177
Total	₩	37,414	₩	117,571	₩ 210,923

Contract	December 31, 2014				
	Less than one year		More than five years		Total
		1 year–5 years			
Building lease contract (Twin)	₩	14,865	₩	-	₩ 14,865
Building lease contract (Gasan)		16,907		131,272	204,134
Building lease contract (Kwanghwamoon)		6,045		-	6,045
Building lease contract (Buho)		79		-	79
Total	₩	37,896	₩	131,272	₩ 225,123

- 2) The Company recognized rental revenue related to operating lease contracts for the year ended December 31, 2015 and 2014, in the amount of ₩102,844 million and ₩101,491 million, respectively.

25. PENDING LITIGATIONS:

Pending litigations as of December 31, 2015, are two cases the Company sued (the amount of lawsuit ₩3,000 million) and three cases the Company is sued (the amount of lawsuit, including trademark infringement and damages-related litigation).

26. RISK MANAGEMENT:

(1) Capital risk management

The Company performs capital management to maintain the ability to continuously provide profits to shareholders and interested parties and to maintain optimum capital structure to reduce capital expenses. In order to maintain such optimum structure, the Company may adjust dividend payments, redeem paid-up capital to shareholders, issue stocks to reduce liability or sell assets.

The Company's capital structure consists of net liability, which is borrowings, less cash and cash equivalents and equity. The overall capital risk management policy of the Company is unchanged from prior period. In addition, items managed as capital by the Company as of December 31, 2015 and 2014, are as follows (Unit: Korean won in millions):

	December 31, 2015	December 31, 2014
	₩	₩
Total borrowings	-	-
Less cash and cash equivalents	63,609	151,998
Borrowings, net	(63,609)	(151,998)
Total equity	7,930,435	7,768,927
Debt ratio (*)	-	-

(*) The Company does not calculate equity to net borrowings ratio because borrowings, net is negative number.

(2) Financial risk management

The Company is exposed to various financial risks, such as market (foreign exchange and price), credit and liquidity, related to financial instruments. The purpose of risk management of the Company is to identify the potential risks to financial performance, and reduce, eliminate and evade those risks to a degree acceptable to the Company. The Company makes use of derivative financial instruments to hedge certain risks, such as foreign exchange and interest rate risks.

1) Price risk

The Company is exposed to price risks from AFS equity instruments. As of December 31, 2015, fair value of AFS equity instruments is ₩31,748 million, and when all the other variables are constant and when the price of equity instrument changes by 10%, the effect after tax to equity will be ₩2,406 million.

2) Credit risk

Credit risk refers to risk of financial losses to the Company when the counterpart defaults on the obligations of the contract. Credit risk arises from cash and cash equivalents, derivatives and bank and financial institution deposits, as well as credit risks of customers, including receivables and firm commitments. As for banks and financial institutions, the Company is making transactions with reputable financial institutions; therefore, the credit risk from them is limited. For ordinary transactions, customer's financial status, credit history and other factors are considered to evaluate their credit status. The Company does not have policies to manage credit limits of each customer.

As of December 31, 2015, the maximum exposure of credit risk from loans and receivables is similar to their carrying amount.

3) Liquidity risk

The Company establishes short-term and long-term fund management plans. The Company analyzes and reviews actual cash outflows and its budget to correspond the maturity of financial liabilities to that of financial assets. Management of the Company believes that financial liability may be redeemed by cash flow arising from operating activities and financial assets.

Maturity analysis of non-derivative financial liabilities according to its remaining maturity as of December 31, 2015, is as follows (Unit: Korean won in millions):

Description	Within a year	1 year–5 years	Over five years	Total
Non-interest financial instrument	₩ 99,026	₩ 101	₩ 10,193	₩ 109,320

Maturity analysis above is based on the book value and the earliest maturity date by which the payments should be made.

4) Foreign currency risk

The Company undertakes transactions denominated in foreign currencies; consequently, exposures to exchange-rate fluctuations arise. The carrying amounts of the Company's foreign currency-denominated monetary assets and monetary liabilities at the end of the reporting period are as follows (Unit: Korean won in millions):

Currency	Assets	Liabilities
USD	₩ 27,917	₩ -
JPY	4	-
HKD	469	-
Total	₩ 28,390	₩ -

The Company regularly measures currency risk deprived from fluctuations of exchange rate.

Details of the Company's sensitivity to a 10% increase and decrease in Korean won against the relevant foreign currencies are as follows (Unit: Korean won in millions):

Currency	10% increase	10% decrease
USD	₩ 2,116	₩ (2,116)
JPY	-	-
HKD	36	(36)
Total	₩ 2,152	₩ (2,152)

(3) Estimation of fair value

The fair values of financial instruments (i.e., financial assets held for trading and financial assets AFS) traded on active markets are determined with reference to quoted market prices. The Company uses the current bid price as the quoted market price for its financial assets.

The fair values of financial instruments not traded on an active market (i.e., over-the-counter derivatives) are determined using a valuation technique. The Company uses various valuation techniques using assumptions based on current market conditions. The fair values of long-term liabilities and financial liabilities available for settlement are determined using prices from observable current market transactions and dealer quotes for similar instruments. Where such prices are not available, a discounted cash flow analysis or other valuation technique is performed to measure their fair values.

The fair values of loans and receivables are approximated as their carrying value, less impairment loss. The Company estimates the fair values of financial liabilities as the present value of future contractual cash flows discounted based on current market rates applied to similar financial instruments.

Financial instruments that are measured subsequent to initial recognition at fair value are classified into Levels 1 to 3, based on the degree to which the fair value is observable, as described below.

- Level 1: Fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3: Fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

1) Financial instruments that are measured subsequent to initial recognition at fair value by fair value hierarchy levels as of December 31, 2015 and 2014, are as follows (Unit: Korean won in millions):

Description	December 31, 2015			
	Level 1	Level 2	Level 3	Total
AFS financial assets	₩ 31,748	₩ -	₩ 48,191	₩ 79,939

Description	December 31, 2014			
	Level 1	Level 2	Level 3	Total
AFS financial assets	₩ 41,272	₩ -	₩ 48,151	₩ 89,423

There were no significant transfers between Levels 1 and 2 as of December 31, 2015 and 2014.

2) The fair value hierarchy of financial instruments with fair value cannot be reliably measured at fair value in the statement of financial position as of December 31, 2015 and 2014, is as follows (Unit: Korean won in millions):

Description	December 31, 2015									
	Fair value							Book value		
	Level 1		Level 2		Level 3		Total			
Loans and receivables:										
Financial institution deposits	₩	-	₩	-	₩	230,500	₩	230,500	₩	230,500
Loans (*)		-		-		27,683		27,683		27,683
Other account receivables (*)		-		-		6,018		6,018		6,018
Accrued income (*)		-		-		1,274		1,274		1,274
Deposits (*)		-		-		627		627		627
Total		-		-		266,102		266,102		266,102
Financial liabilities measured at amortized cost:										
Other accounts payables (*)		-		-		41,094		41,094		41,094
Accrued expenses (*)		-		-		507		507		507
Accrued dividends (*)		-		-		312		312		312
Deposits received		-		61,255		-		61,255		61,255
Total	₩	-	₩	61,255	₩	41,913	₩	103,168	₩	103,168

Description	December 31, 2014									
	Fair value							Book value		
	Level 1		Level 2		Level 3		Total			
Loans and receivables:										
Financial institution deposits	₩	-	₩	-	₩	80,000	₩	80,000	₩	80,000
Loans (*)		-		-		7,420		7,420		7,420

Other account receivables (*)	-	-	10,732	10,732	10,732
Accrued income (*)	-	-	789	789	789
Deposits (*)	-	-	565	565	565
Total	-	-	99,506	99,506	99,506
Financial liabilities measured at amortized cost:					
Other accounts payables (*)	-	-	38,497	38,497	38,497
Accrued expenses (*)	-	-	406	406	406
Accrued dividends (*)	-	-	318	318	318
Deposits received	-	64,176	-	64,176	64,176
Total	₩	-	₩ 64,176	₩ 39,221	₩ 103,397

(*) Short-term receivables and short-term payment obligations denominated in Level 3 are measured at original amount since the discount effect is not significant.

3) Changes in Level 3 financial assets for the year ended December 31, 2015 and 2014, are as follows (Unit: Korean won in millions):

Description	Year ended December 31, 2015						Ending unrealized gain
	Beginning balance	Net income (loss)	Comprehensive income	Purchases	Disposals	Ending balance	
AFS financial assets	₩ 48,151	₩ -	₩ 40	₩ -	₩ -	₩ 48,191	₩ 11,718

Description	Year ended December 31, 2014						Ending unrealized gain
	Beginning balance	Net income (loss)	Comprehensive loss	Purchases	Disposals	Ending balance	
AFS financial assets	₩ 49,628	₩ -	₩ (1,477)	₩ -	₩ -	₩ 48,151	₩ 11,678

The amount recognized as comprehensive income (loss) is relevant to non-listed shares as of December 31, 2014, and recognized as changes of valuation gain (loss) (see Note 16) on AFS financial assets.

4) A description of the valuation techniques and the inputs used in the fair value measurement of financial instruments classified as Level 3 is as follows:

The fair value of non-listed shares, and then measured using a discounted cash flow model that is not based on observable market prices or rates, will be used to estimate the future cash flows, such as sales growth, pretax operating profit margin and the weighted-average cost of capital. Capital Asset Pricing Model (CAPM) was used to calculate the weighted-average cost of capital. The key assumptions of estimation listed above are determined to have a significant impact on the fair value of non-listed shares, and the Company has classified the fair value hierarchy system on Level 3 of the fair value measurement of non-listed shares.

5) There is no change in the valuation technique used in the fair value measurement of financial instruments classified as Level 3.

6) Relationship between unobservable inputs to fair value and information on fair value hierarchy Level 3 applying significant unobservable inputs are as follows (Unit: Korean won in millions):

Description	Fair value	Valuation technique	Unobservable input(s)	Range (%)	Relationship of unobservable inputs to fair value
Financial assets					
AFS financial assets	₩ 48,191	Discounted cash flow method	Growth rate	0	Increase (decrease) in the growth rate used would result in increase (decrease) of fair value

Discount rate	7.83 – 9.89	Increase (decrease) in the discount rate used would result in decrease (increase) of fair value
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7) A description of the valuation processes in the fair value measurement for Level 3 that the Company is carrying out is as follows:

The Company measures fair value of assets and liabilities for financial reporting purposes and reports the result of fair value measurements to chief finance officer directly.

Undesirable inputs that are used to estimate Level 3 fair value measurement are derived in a manner that is described below.

- Pretax profit margin and sales growth rate, which are used to measure the fair value of non-listed shares, are estimated based on the average value of pretax operating margin and sales growth rate of comparable-listed companies.

- Weighted-average cost of capital discount rate that is used to measure the fair value of non-listed shares is estimated by the weighted-average, after-tax, outside capital cost; capital cost estimates of the share value beta reflected for the purpose of the issuer of the shares; and capital structure based on the equity beta of comparable public companies has been derived based on the CAPM.

8) Impact on net income and other comprehensive income due to changes in fair value measured Level 3 financial instruments' associated significant unobservable inputs are as follows (Unit: Korean won in millions):

Description	Unobservable input(s)	Changes of reasonably possible unobservable input	Net income		Other comprehensive income	
			Favorable change	Unfavorable change	Favorable change	Unfavorable change
AFS financial assets	Growth rate	+/-1%	-	-	₩ 3,329	₩ (2,611)
	Discount rate	+/-1%	-	-	4,549	(3,562)

Meanwhile, the Company has judged that unobservable changes of inputs to reflect alternative assumptions would not change fair value measurement significantly.

9) There is no significant change of business and economic environment affecting the fair value of the financial assets and liabilities during the current year.

Internal Accounting Control System (IACS) Review Report

English Translation of a Report Originally Issued in Korean on March 10, 2016

To the Representative Director of
LG Corp.:

We have reviewed the accompanying Report on the Management's Assessment of IACS (the "Management's Report") of LG Corp. (the "Company") as of December 31, 2015. The Management's Report and the design and operation of IACS are the responsibility of the Company's management. Our responsibility is to review the Management's Report and issue a review report based on our procedures. The Company's management stated in the accompanying Management's Report that "based on the assessment of the IACS as of December 31, 2015, the Company's IACS has been appropriately designed and is operating effectively as of December 31, 2015, in all material respects, in accordance with the IACS Framework established by the Korea Listed Companies Association."

We conducted our review in accordance with the IACS Review Standards established by the Korean Institute of Certified Public Accountants. Those standards require that we plan and perform a review, objective of which is to obtain a lower level of assurance than an audit, of the Management's Report, in all material respects. A review includes obtaining an understanding of a company's IACS and making inquiries regarding the Management's Report and, when deemed necessary, performing a limited inspection of underlying documents and other limited procedures.

The Company's IACS represents internal accounting policies and a system to manage and operate such policies to provide reasonable assurance regarding the reliability of financial statements prepared, in accordance with accounting principles generally accepted in the Republic of Korea, for the purpose of preparing and disclosing reliable accounting information. Because of its inherent limitations, IACS may not prevent or detect a material misstatement of the financial statements. Also, projections of any evaluation of effectiveness of IACS to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on our review, nothing has come to our attention that causes us to believe that the Management's Report referred to above is not fairly stated, in all material respects, in accordance with the IACS Framework established by the Korea Listed Companies Association.

Our review is based on the Company's IACS as of December 31, 2015, and we did not review its IACS subsequent to December 31, 2015. This report has been prepared pursuant to the Acts on External Audit of Stock Companies in the Republic of Korea and may not be appropriate for other purposes or for other users.



March 10, 2016

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Report on the Operations of the Internal Accounting Control System (“IACS”)

To the Board of Directors and the Audit Committee of LG Corp.:

I, as the Internal Accounting Control Officer (“IACO”) of LG Corp. (the “Company”), assessed the status of the design and operations of the Company’s Internal Accounting Control System (“IACS”) for the year ended December 31, 2015.

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

Based on the assessment on the operations of the IACS, the Company’s IACS has been effectively designed and is operating as of December 31, 2015, in all material respects, in accordance with the IACS standards.

February 4, 2016

Disclosure on Execution of External Audit

We attach required disclosure on the execution of external audit performed in accordance with **Article 7-2 of the Act on External Audit of Stock Companies.**

1. Company and Reporting Period subject to External Audit

Company	LG Corp.			
Reporting Period	2015/01/01	From	2015/12/31	To

2. Number of Participants and Details on the Hours Executed in Audit

(Unit: Number of Participant, Hour Executed)

Participant(s) Number and Hour(s)		Engagement Quality Reviewer(s) (Including QRM, etc.)	Audit Professional(s)			IT Specialist(s), Tax Specialist(s), Valuation Specialist(s)	Total
			Engagement Partner(s)	KICPA (Registered)	KICPA (Non- Registered)		
Number of Participant(s)		1	1	10	2	-	14
Hours Executed	Quarterly Review, six- month Review	27	123	1,596	664	-	2,410
	Audit	15	67	861	358	-	1,301
	Total	42	190	2,451	1,022	-	3,711

3. Key Disclosure on Execution of External Audit

Title	Detail			
Audit Planning	Dates Performed	April 2015 – September 2015	3	Days

Stage	Main Planning Work Performed				Understanding the Company and business environments, composing the audit member, identifying and evaluating significant risk of material misstatements, deciding the nature/timing/extent of an audit, reviewing the application of professionals and determining the materiality in the application of an audit				
Fieldwork Performed	Dates Performed				Number of Participant(s)				Main Fieldwork Performed
					On-Site		Off-Site		
			Days		Number of Participant(s)		Number of Participant(s)		
	2015/12/07– 2015/12/09		3		3		2	Interim audit (understanding the transaction type of each process, control testing)	
	2016/01/12– 2016/01/29		12		4		2	External audit (substantive procedure for the material account balances and transactions, consolidation audit)	
Physical Counts - Inventory (Observation)	Time (When Performed)	-				-	Day(s)		
	Place (Where Performed)	-							
	Inventory subjected to Counts	-							
Physical Counts - Financial Instruments (Observation)	Time (When Performed)	2016/01/04			1	Day(s)			
	Place (Where Performed)	LG Corp. headquarters							
	Financial Instruments	Cash, investment securities, memberships, and others							

	Subjected to Counts					
External Confirmation	Bank Confirmation	O	Accounts Receivable/Payable Confirmation	O	Legal Confirmation	O
	Other Confirmation	N/A				
Communications with Those Charged with Governance	Number of Communications	5	Time(s) Performed			
	Time (When Performed)	2015/05/07, 2015/08/13, 2015/11/05, 2016/02/04, and 2016/02/24				