

LG Electronics Inc.
Separate Interim Financial Statements
September 30, 2018 and 2017

LG Electronics Inc.

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September 30, 2018 and 2017

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Report on Review of Interim Financial Statements

(English Translation of a Report Originally Issued in Korean)

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

Reviewed Financial Statements

We have reviewed the accompanying separate interim financial statements of LG Electronics Inc. (referred to as the “Company”). These financial statements consist of the separate interim statement of financial position of the Company as of September 30, 2018, and the related separate interim statements of profit or loss and comprehensive income for the three-month and nine-month periods ended September 30, 2018 and 2017, and separate interim statements of changes in equity and cash flows for the nine-month periods ended September 30, 2018 and 2017, and a summary of significant accounting policies and other explanatory notes, expressed in Korean won.

Management’s Responsibility for the Financial Statements

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

Auditor’s Responsibility

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

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

Conclusion

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

Other Matters

We have audited the separate statement of financial position of the Company as of December 31, 2017, and the related separate statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, in accordance with Korean Standards on Auditing. We expressed an unqualified opinion on those financial statements, not presented herein, in our audit report dated March 8, 2018. The separate statement of financial position as of December 31, 2017, presented herein for comparative purposes, is consistent, in all material respects, with the above audited statement of financial position as of December 31, 2017.

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

November 14, 2018
Seoul, Korea

This report is effective as of November 14, 2018, the review report date. Certain subsequent events or circumstances, which may occur between the review report date and the time of reading this report, could have a material impact on the accompanying separate interim financial statements and notes thereto. Accordingly, the readers of the review report should understand that there is a possibility that the above review report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

LG Electronics Inc.
Separate Interim Statements of Financial Position
September 30, 2018 and December 31, 2017

<i>(in millions of Korean won)</i>	Notes	September 30, 2018 (Unaudited)	December 31, 2017
Assets			
Current assets			
Cash and cash equivalents	4,30	1,585,946	1,586,258
Deposits held by financial institutions	4,30	80,500	80,500
Trade receivables	4,5,30	4,741,285	5,612,250
Other receivables	4,5,30	407,941	472,794
Other financial assets	4,6,30	37	-
Inventories	7	1,522,942	1,343,666
Current income tax assets		5,065	1,455
Contract assets	8	467,389	-
Other current assets		411,307	412,902
Assets held for sale	31	6,062	6,070
		<u>9,228,474</u>	<u>9,515,895</u>
Non-current assets			
Deposits held by financial institutions	4,30	1,929	1,785
Other receivables	4,5,30	280,378	292,123
Other financial assets	4,6,30	41,286	33,945
Property, plant and equipment	9	7,160,611	7,142,306
Intangible assets	9	1,607,714	1,474,201
Deferred income tax assets		734,386	973,957
Investments in subsidiaries, associates and joint ventures	10	9,134,348	8,066,087
Investment properties		94,326	95,307
Contract assets	8	70,841	-
Other non-current assets		528,788	564,175
		<u>19,654,607</u>	<u>18,643,886</u>
Total assets		<u>28,883,081</u>	<u>28,159,781</u>
Liabilities			
Current liabilities			
Trade payables	4,30	5,664,535	6,126,168
Borrowings	4,11,30	956,706	767,666
Other payables	4,30	2,045,493	2,351,601
Other financial liabilities	4,6,30	5,910	6,985
Provisions	13	322,377	316,235
Contract liabilities	8	438,759	-
Other current liabilities		1,301,233	1,907,269
Liabilities held for sale	31	1,140	-
		<u>10,736,153</u>	<u>11,475,924</u>
Non-current liabilities			
Borrowings	4,11,30	7,141,911	6,674,174
Other payables	4,30	12,859	215
Other financial liabilities	4,6,30	63,683	69,892
Net defined benefit liabilities	12	453,086	220,610
Provisions	13	120,323	91,763
Contract liabilities	8	970	-
Other non-current liabilities		84,826	82,346
		<u>7,877,658</u>	<u>7,139,000</u>
Total liabilities		<u>18,613,811</u>	<u>18,614,924</u>
Equity			
Paid-in capital:	14		
Share capital		904,169	904,169
Share premium		3,088,179	3,088,179
Retained earnings	15	6,345,709	5,602,967
Accumulated other comprehensive income (loss)	16	(35,968)	(17,639)
Other components of equity	17	(32,819)	(32,819)
Total equity		<u>10,269,270</u>	<u>9,544,857</u>
Total liabilities and equity		<u>28,883,081</u>	<u>28,159,781</u>

LG Electronics Inc.

Separate Interim Statements of Profit or Loss

Three-Month and Nine-Month Periods Ended September 30, 2018 and 2017

<i>(in millions of Korean won, except per share amounts)</i>	Notes	Period Ended September 30			
		2018 (Unaudited)		2017 (Unaudited)	
		Three months	Nine months	Three months	Nine months
Net sales	18	7,732,482	23,510,188	8,228,178	23,932,230
Cost of sales	19	5,990,965	18,078,397	6,592,185	18,729,662
Gross profit		1,741,517	5,431,791	1,635,993	5,202,568
Selling and marketing expenses	19,20	713,341	2,119,449	708,916	2,055,725
Administrative expenses	19,20	143,060	409,069	155,256	431,009
Research and development expenses	19,20	485,359	1,397,788	493,557	1,482,565
Service costs	19,20	149,041	393,630	155,006	410,797
Operating profit		250,716	1,111,855	123,258	822,472
Financial income	21	45,200	156,172	69,443	176,092
Financial expenses	22	108,309	308,037	106,934	332,141
Other non-operating income	23	120,338	678,828	294,072	878,082
Other non-operating expenses	24	124,933	517,797	213,955	551,216
Profit before income tax		183,012	1,121,021	165,884	993,289
Income tax expense		13,169	273,300	58,480	239,688
Profit for the period		169,843	847,721	107,404	753,601
Earnings per share during the period (in Korean won):	25				
Earnings per ordinary share		942	4,704	596	4,182
Earnings per preferred share		955	4,742	608	4,219

LG Electronics Inc.
Separate Interim Statements of Comprehensive Income
Three-Month and Nine-Month Periods Ended September 30, 2018 and 2017

<i>(in millions of Korean won)</i>	Notes	Period Ended September 30			
		2018 (Unaudited)		2017 (Unaudited)	
		Three months	Nine months	Three months	Nine months
Profit for the period		169,843	847,721	107,404	753,601
Other comprehensive income (loss), net of tax					
<i>Items that will not be reclassified subsequently to profit or loss:</i>					
Remeasurements of the net defined benefit liability	12	(39,149)	(43,924)	20,900	28,221
Financial assets at fair value through other comprehensive income	6	110	1,569	-	-
<i>Items that will be reclassified subsequently to profit or loss:</i>					
Cash flow hedges	30	(594)	(11,609)	11,130	18,905
Available-for-sale financial assets	6	-	-	97	(265)
Other comprehensive income (loss) for the period, net of tax		(39,633)	(53,964)	32,127	46,861
Total comprehensive income for the period, net of tax		130,210	793,757	139,531	800,462

LG Electronics Inc.
Separate Interim Statements of Changes in Equity
Nine-Month Periods Ended September 30, 2018 and 2017

<i>(in millions of Korean won)</i>	Notes	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Other Components of Equity	Total
Balance at January 1, 2017		3,992,348	4,851,573	(45,650)	(32,819)	8,765,452
Total comprehensive income (loss):						
Profit for the period		-	753,601	-	-	753,601
Remeasurements of the net defined benefit liability	12	-	28,221	-	-	28,221
Cash flow hedges	30	-	-	18,905	-	18,905
Available-for-sale financial assets	6	-	-	(265)	-	(265)
Total comprehensive income		-	781,822	18,640	-	800,462
Transactions with owners:						
Dividends	15	-	(72,885)	-	-	(72,885)
Total transactions with owners		-	(72,885)	-	-	(72,885)
Balance at September 30, 2017 (Unaudited)		3,992,348	5,560,510	(27,010)	(32,819)	9,493,029
Balance at January 1, 2018		3,992,348	5,602,967	(17,639)	(32,819)	9,544,857
Changes in accounting policy		-	11,830	(8,289)	-	3,541
Restated total equity		3,992,348	5,614,797	(25,928)	(32,819)	9,548,398
Total comprehensive income (loss):						
Profit for the period		-	847,721	-	-	847,721
Remeasurements of the net defined benefit liability	12	-	(43,924)	-	-	(43,924)
Financial assets at fair value through other comprehensive income	6	-	-	1,569	-	1,569
Cash flow hedges	30	-	-	(11,609)	-	(11,609)
Total comprehensive income (loss)		-	803,797	(10,040)	-	793,757
Transactions with owners:						
Dividends	15	-	(72,885)	-	-	(72,885)
Total transactions with owners		-	(72,885)	-	-	(72,885)
Balance at September 30, 2018 (Unaudited)		3,992,348	6,345,709	(35,968)	(32,819)	10,269,270

LG Electronics Inc.

Separate Interim Statements of Cash Flows

Nine-Month Periods Ended September 30, 2018 and 2017

<i>(in millions of Korean won)</i>	Notes	Nine-month Period Ended September 30	
		2018 (Unaudited)	2017 (Unaudited)
Cash flows from operating activities			
Cash generated from operations	26	1,400,174	611,342
Interest received		16,654	8,973
Interest paid		(176,657)	(163,999)
Dividends received		188,532	416,394
Income tax paid		(6,735)	(67,550)
Net cash inflow from operating activities		1,421,968	805,160
Cash flows from investing activities			
Decrease in other receivables		54,141	64,650
Proceeds from redemption and disposal of other financial assets		842	5,989
Proceeds from disposal of property, plant and equipment		32,834	142,554
Proceeds from disposal of intangible assets		1,920	1,515
Proceeds from withdrawal and disposal of investments in subsidiaries, associates and joint ventures		1,544	19,033
Proceeds from disposal of assets held for sale		3,840	12,710
Transfer of business	26	46,130	13,942
Increase in deposits held by financial institutions		(144)	(1,220)
Increase in other receivables		(38,790)	(52,147)
Acquisition of other financial assets		(8,128)	(2,963)
Acquisition of property, plant and equipment		(632,865)	(825,668)
Acquisition of intangible assets		(363,597)	(392,191)
Acquisition of investments in subsidiaries, associates and joint ventures		(1,067,084)	(28,804)
Net cash outflow from investing activities		(1,969,357)	(1,042,600)
Cash flows from financing activities			
Proceeds from borrowings		1,192,214	1,206,564
Repayments of borrowings		(571,082)	(630,535)
Dividends paid		(72,885)	(72,885)
Net cash inflow from financing activities		548,247	503,144
Effects of exchange rate changes on cash and cash equivalents		(1,170)	-
Net increase (decrease) in cash and cash equivalents		(312)	265,704
Cash and cash equivalents at the beginning of the period		1,586,258	1,181,725
Cash and cash equivalents at the end of the period		1,585,946	1,447,429

LG Electronics Inc.

Notes to the Separate Interim Financial Statements

September 30, 2018 and 2017 (Unaudited), and December 31, 2017

1. General Information

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

As of September 30, 2018, LG Corp. owns 33.7% of the Company’s total shares, excluding preferred shares, while financial institutions, foreign investors and others own the rest.

The Company operates following major business segments: Home Appliance & Air Solution segment manufactures and sells refrigerators, washing machines, vacuum cleaners, and residential and commercial air conditioners; Home Entertainment segment manufactures and sells TVs, monitors, and digital media products; Mobile Communications segment manufactures and sells mobile communications equipment; Vehicle Components segment designs and manufactures automobile parts; and Business-to-Business segment manufactures and sells information displays, solar modules and others. As of September 30, 2018, the Company operates manufacturing facilities mainly in Changwon, Pyeongtaek, Gumi and Incheon in the Republic of Korea.

2. Significant Accounting Policies

Basis of Preparation

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

The financial statements of the Company are the separate financial statements prepared in accordance with Korean IFRS 1027 ‘*Separate Financial Statements*’. The separate interim financial statements for the nine-month period ended September 30, 2018, have been prepared in accordance with Korean IFRS 1034 ‘*Interim Financial Reporting*’. These separate interim financial statements have been prepared in accordance with Korean IFRS which is effective as of September 30, 2018.

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Changes in Accounting Policies and Disclosures

(a) New and amended standards and interpretations effective for the financial year beginning January 1, 2018.

- Enactment of Korean IFRS 1109 *Financial Instruments*

The Company has applied Korean IFRS 1109 *Financial Instruments* on January 1, 2018, the date of initial application. In accordance with the transitional provisions in Korean IFRS 1109, comparative figures have not been restated, and recognized the cumulative impact of initially applying the changes in a classification of financial instruments as an adjustment to equity as of January 1, 2018. Further details on the impact of the application of the standard are as follows:

Classification and Measurement of Financial Instruments

On the date of initial application of Korean IFRS 1109, January 1, 2018, the Company's management has assessed which business models apply to the financial assets held by the Company and has classified its financial assets into the appropriate Korean IFRS 1109 categories. The main effects resulting from this reclassification are as follows:

- *Reclassification from available-for-sale financial assets to financial assets at fair value through profit or loss*

At the date of initial application, investments amounting to ₩10,399 million that do not meet the definition of equity instruments in Korean IFRS 1032, were reclassified from available-for-sale financial assets to financial assets at fair value through profit or loss. For the nine-month period ended September 30, 2018, changes in fair value of these financial assets amounting to ₩2,002 million were recognized as expenses along with related deferred income tax assets of ₩550 million.

- *Reclassification from available-for-sale financial assets to financial assets at fair value through other comprehensive income*

The Company elected to present subsequent changes in the fair value of all its equity investments previously classified as available-for-sale financial assets, not held for trading, in other comprehensive income. As a result, assets with a fair value of ₩21,684 million were reclassified from available-for-sale financial assets to financial assets at fair value through other comprehensive income. At the date of initial application, related accumulated other comprehensive loss of ₩8,289 million is not reclassified to profit or loss even though these assets are disposed of. Due to this change, other non-operating expenses was ₩1,273 million lower (tax impact of ₩350 million) for the nine-month period ended September 30, 2018 than if recognized under previous standard.

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- *Reclassifications of financial instruments on adoption of Korean IFRS 1109*

On the date of initial application, January 1, 2018, the financial assets of the Company with any reclassifications noted, are as follows:

<i>(in millions of Korean won)</i>	Measurement category		Carrying amount	
	Korean IFRS 1039	Korean IFRS 1109	Korean IFRS 1039	Korean IFRS 1109
Cash and cash equivalents	Loans and receivables	Amortized costs	1,586,258	1,586,258
Deposits held by financial institutions	Loans and receivables	Amortized costs	82,285	82,285
Trade receivables	Loans and receivables	Amortized costs	5,612,250	5,612,250
Other receivables	Loans and receivables	Amortized costs	764,917	764,917
Other financial assets	Available-for-sale financial assets	Fair value through other comprehensive income	32,083	21,684
Other financial assets	Available-for-sale financial assets	Fair value through profit or loss	-	10,399
Total financial assets excluding derivatives			8,077,793	8,077,793

Impairment of Financial Assets

The Company recognizes impairment losses based on the expected credit loss model for the following financial assets:

- debt investments measured at amortized cost,
- debt investments measured at fair value through other comprehensive income,
- lease receivables, and
- financial guarantee contracts.

The Company applies the simplified approach from initial recognition to measure the loss allowance at an amount equal to lifetime expected credit losses for trade receivables, contract assets and lease receivables.

Hedge Accounting

The Company's cross-currency swap contracts and interest rate swap contracts as of January 1, 2018, qualified as cash flow hedges under Korean IFRS 1109. The Company's risk management strategies and hedge documentation are aligned with the requirements of Korean IFRS 1109 and are thus treated as continuing hedging relationships.

- Enactment of Korean IFRS 1115 Revenue from Contracts with Customers

The Company has elected to apply Korean IFRS 1115 *Revenue from Contracts with Customers* on January 1, 2018, the date of initial application. In accordance with the transition provisions in

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Korean IFRS 1115, comparative figures have not been restated. The Company recognized the cumulative effects of initially applying the revenue standard as an adjustment to retained earnings as of January 1, 2018. Further details on the impact of the application of the standard on January 1, 2018, are as follows:

The statement of financial position at the date of initial application (January 1, 2018):

<i>(in millions of Korean won)</i>	December 31, 2017 (before adjustments)	K-IFRS 1115 Adjustments	January 1, 2018 (after adjustments)
Current assets			
Trade receivables	5,612,250	(184,779)	5,427,471
Other receivables	472,794	(920)	471,874
Contract assets	-	330,713	330,713
Current assets without financial effect	3,430,851	-	3,430,851
Total current assets	9,515,895	145,014	9,660,909
Non-current assets			
Contract assets	-	3,541	3,541
Non-current assets without financial effect	18,643,886	-	18,643,886
Total non-current assets	18,643,886	3,541	18,647,427
Total assets	28,159,781	148,555	28,308,336
Current liabilities			
Provisions	316,235	(370)	315,865
Contract liabilities	-	432,725	432,725
Other liabilities	1,907,269	(287,341)	1,619,928
Current liabilities without financial effect	9,252,420	-	9,252,420
Total current liabilities	11,475,924	145,014	11,620,938
Non-current liabilities			
Contract liabilities	-	1,182	1,182
Other liabilities	82,346	(1,182)	81,164
Non-current liabilities without financial effect	7,056,654	-	7,056,654
Total non-current liabilities	7,139,000	-	7,139,000
Total liabilities	18,614,924	145,014	18,759,938
Equity			
Retained earnings	5,602,967	3,541	5,606,508
Equity without financial effect	3,941,890	-	3,941,890
Total equity	9,544,857	3,541	9,548,398

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¹ Accounting for returns and refunds

Under the previous standard, when the customer has a right to return the product within a given period, the Company previously recognized a provision for returns which was measured on a net basis at the gross profit on the sale. Under Korean IFRS 1115, if the customer returns a product, a gross contract liability (refund liability) for the expected refunds to customers is recognized. At the same time, a right to recover the product from the customer where the customer exercises his right of return is recognized as contract asset. Due to this change in policy, the Company reclassified ₩370 million from sales return provisions to contract liabilities of ₩1,020 million and contract assets of ₩650 million at the date of initial application.

² Accounting for variable consideration

Under the previous standard, the Company previously estimated an amount of promotional incentive and reversed sales and trade receivables. Instead, with the implementation of Korean IFRS 1115, the Company will reverse sales and recognize a refund liability. Due to this change in policy, the Company reclassified the amounts of ₩144,364 million, which was previously deducted from trade receivables, to contract liabilities at the date of initial application.

³ Accounting for costs to fulfil a contract

The Company's Vehicle Components segment supplies the automobile parts to car makers through development and mass production process under the contracts with such customers. If the costs incurred in fulfilling those contracts are directly related to the contracts, generate or enhance resources of the entity that will be used in satisfying performance obligations in the future, are expected to be recovered, and are not within the scope of another standard, it is recognized as an asset. Recognized assets are amortized on a systematic basis consistent with the way in which the related goods or services are provided. Due to this change in policy, the Company reclassified from retained earnings to contract assets of ₩3,541 million at the date of initial application.

⁴ Presentation of contract assets and contract liabilities

At the date of initial application, the Company has also changed the presentation of accounts in the separate statements of financial position to reflect the terminology of Korean IFRS 1115. Based on the detailed analysis, trade receivables of ₩329,143 million and other receivables of ₩920 million were reclassified to contract assets. Other liabilities of ₩288,523 million were reclassified to contract liabilities.

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Financial statement line items affected by the adoption of the new standard in the current period are as follows:

Interim statement of financial position

<i>(in millions of Korean won)</i>	Reported amount	Adjustments	Amount before application of Korean IFRS 1115
Current assets			
Trade receivables	4,741,285	329,189	5,070,474
Other receivables	407,941	47	407,988
Contract assets	467,389	(467,389)	-
Other financial assets	411,307	56,420	467,727
Current assets without financial effect	3,200,552	-	3,200,552
Total current assets	9,228,474	(81,733)	9,146,741
Non-current assets			
Contract assets	70,841	(70,841)	-
Deferred income tax assets	734,386	2,894	737,280
Non-current assets without financial effect	18,849,380	-	18,849,380
Total non-current assets	19,654,607	(67,947)	19,586,660
Total assets	28,883,081	(149,680)	28,733,401
Current liabilities			
Provisions	322,377	462	322,839
Contract liabilities	438,759	(438,759)	-
Other liabilities	1,301,233	300,144	1,601,377
Current liabilities without financial effect	8,673,784	-	8,673,784
Total current liabilities	10,736,153	(138,153)	10,598,000
Non-current liabilities			
Contract liabilities	970	(970)	-
Other liabilities	84,826	970	85,796
Non-current liabilities without financial effect	7,791,862	-	7,791,862
Total non-current liabilities	7,877,658	-	7,877,658
Total liabilities	18,613,811	(138,153)	18,475,658
Equity			
Retained earnings	6,345,709	(11,527)	6,334,182
Equity without financial effect	3,923,561	-	3,923,561
Total equity	10,269,270	(11,527)	10,257,743

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Interim statement of profit or loss

<i>(in millions of Korean won)</i>	Reported amount	Adjustments	Amount before application of Korean IFRS 1115
Net sales	23,510,188	-	23,510,188
Cost of sales	18,078,397	11,269	18,089,666
Selling and administrative expenses, and others	4,319,936	617	4,320,553
Finance income (expenses), net	(151,865)	-	(151,865)
Other non-operating income (expenses), net	161,031	1,006	162,037
Income tax expense	273,300	(2,894)	270,406
Profit for the period	847,721	(7,986)	839,735

Interim statement of cash flows

After applying Korean IFRS 1115, cash flows from operating, investing and financing activities are identical to those under the previous standard.

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

Amendments to Korean IFRS 1102 clarify that accounting for a modification to the terms and conditions and fair value measurement of a cash-settled share-based payment are in the same way as an equity-settled share-based payment when it changes the classification of the transaction from cash-settled to equity-settled. The amendment does not have a significant impact on the separate interim financial statements.

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

According to the enactment, the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the entity shall determine a date of the transaction for each payment or receipt of advance consideration. The enactment does not have a significant impact on the separate interim financial statements.

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

Korean IFRS 1040 clarifies that a transfer to, or from, investment property, including property under construction, can only be made if there has been a change in use that is supported by evidence, and provides a list of circumstances as examples. The amendment does not have a significant impact on the separate interim financial statements.

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(b) New, enacted and amended standards issued, but not effective for September 30, 2018, and not early adopted by the Company

- Enactment of Korean IFRS 1116 *Leases*

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

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

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

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

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

Lessee accounting

A lessee shall apply this standard to its leases either:

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

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

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of equity, as appropriate) at the date of initial application.

The Company performed an impact assessment to identify potential financial effects of applying Korean IFRS 1116. The Company is analyzing the financial effects based on available information as of September 30, 2018, to identify effects on separate financial statements; however, it is difficult to provide reasonable estimates of financial effects until the analysis is complete.

The total minimum lease payment expected to be paid by the Company in relation to operating leases before discounted to their present value is ₩154,559 million. And, for a contract that is, or contains, a lease, the Company plans to account for each lease component within the contract as a lease separately from non-lease components of the contract.

Lessor accounting

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

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

As of September 30, 2018, the total minimum lease payment to be received by the Company in relation to the sub-lease contracts is ₩20,552 million, and the Company is analyzing the effects on separate financial statements including classification of the sublease as an operating lease or a finance lease. However, it is difficult to provide reasonable estimates of financial effects until the analysis is complete.

Application of Accounting Policies

Significant accounting policies and method of computation used in the preparation of the condensed separate interim financial statements are consistent with those of the separate financial statements for the year ended December 31, 2017, except for the changes due to the application of amendment and enactments of standards described in Note 2 and the ones described below.

Income Tax Expense

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

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Financial Assets

From January 1, 2018, the Company has applied Korean IFRS 1109 *Financial Instruments*.

(a) Classification

From January 1, 2018, the Company classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and
- those to be measured at amortized cost

The classification depends on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

For financial assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in debt instruments, this will depend on the business model in which the investment is held. The Company reclassifies debt investments when and only when its business model for managing those assets changes.

For investments in equity instruments that are not held for trading, this will depend on whether the Company has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income. Changes in fair value of the investments in equity instruments that are not accounted for as other comprehensive income are recognized in profit or loss.

(b) Measurement

At initial recognition, the Company measures a financial asset, in the case of a financial asset not at fair value through profit or loss, at its fair value plus transaction costs that are directly attributable to the acquisition of the financial asset or the issuance of the financial liabilities. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Hybrid contracts with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Company's business model for managing the asset and the contractual cash flow characteristics of the financial asset. The Company classifies its debt instruments into one of the following three measurement categories:

- Amortized cost: Assets that are held for collection of contractual cash flows where those

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cash flows represent solely payments of principal and interest are measured at amortized cost. A gain or loss on a debt investment that is subsequently measured at amortized cost and is not part of a hedging relationship is recognized in profit or loss when the asset is derecognized or impaired. Interest income from these financial assets is included in 'Financial income' using the effective interest rate method.

- Fair value through other comprehensive income: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through other comprehensive income. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment loss (and reversal of impairment loss), interest income and foreign exchange gains and losses. When the financial asset is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss. Interest income from these financial assets is included in 'Financial income' using the effective interest rate method. Foreign exchange gains and losses are presented in 'Other non-operating income or expenses' and impairment loss in 'Other non-operating expenses'.
- Fair value through profit or loss: Assets that do not meet the criteria for amortized cost or fair value through other comprehensive income are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented net in the separate statement of profit or loss within 'Other non-operating income or expenses' in the period in which it arises.

Equity instruments

The Company subsequently measures all equity investments at fair value. Where the Company's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognized in profit or loss as 'Other non-operating income' when the Company's right to receive payments is established.

Changes in the fair value of financial assets at fair value through profit or loss are recognized in 'Other non-operating income or expenses' in the separate statement of profit or loss as applicable. Impairment loss (and reversal of impairment loss) on equity investments measured at fair value through other comprehensive income are not reported separately from other changes in fair value.

(c) Impairment

The Company assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortized cost and fair value through other comprehensive income. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables, contract assets and lease receivables, the Company applies

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the simplified approach, which requires expected lifetime losses to be recognized from initial recognition of the receivables.

Revenue Recognition

From January 1, 2018, the Company has applied Korean IFRS 1115 *Revenue from Contracts with Customers*.

(a) Identify performance obligation

The Company sells home appliances, mobile communications equipment, TVs, monitors, automobile parts, information displays and others. If the contract with a customer includes any separate services in addition to sales of goods, the Company identifies performance obligations of the services to be rendered from such sales contracts.

The Company determines standard warranty coverage periods per product and country, considering warranty periods required by law and others when entering into contracts with customers for the sales of products. If the Company provides an extended warranty beyond the standard warranty coverage periods or a customer has the option to purchase an additional warranty separately, the Company identifies the warranty as a separate performance obligation and recognizes revenue.

(b) A performance obligation satisfied at a point in time

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

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

For royalty contracts, if there are no other goods or services provided to customer in the contracts other than obligations to provide license, the nature of the contracts are provision of right to use the Company's intellectual property that exist at the time of transfer. This means that the customer can direct the use of and obtain substantially all of the remaining benefits from the license at the point in time at which the license transfers. The Company determined the royalty income as a performance obligation satisfied at a point in time.

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(c) A performance obligation satisfied over time

The Company builds and sells customized equipment and design plan for a customer. The revenue is recognized over time by measuring progress only if the Company's performance does not create an asset with an alternative use to the Company and the Company has an enforceable right to payment for performance completed to date. The Company performed an analysis on those contracts and determined the Company has an enforceable right to payment for performance completed to date; therefore, the revenue is recognized over time using input methods by measuring the percentage of completion.

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

The Company receives licensing fees for the trademark held by the Company from subsidiaries and associates. The Company continues to develop the trademark's value and performs marketing activities through various media such as TV, internet, exhibitions, road shows and others. The nature of the Company's promise in granting a license is a promise to provide a right to access the Company's intellectual property over a license period; therefore, the Company determined the promised license is a performance obligation that is satisfied over time.

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

(d) Variable consideration

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

(e) Allocating the transaction price

The transaction price in an arrangement must be allocated to each separate performance obligation based on the relative stand-alone selling prices of the goods or services being provided to a customer. The Company determines the stand-alone selling price for each separate performance obligation by using an 'adjusted market assessment approach'. In limited circumstances, the Company plans to use an 'expected cost plus a margin approach' to estimate expected cost plus a reasonable margin.

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(f) Returns

A gross contract liability (refund liability) for the expected returns to customers is recognized as adjustment to revenue, and the Company has a right to recover the product from the customer when the customer exercises his right of return and recognizes an asset and a corresponding adjustment to cost of sales. A right to recover the products is measured at former carrying amount of the product less the costs to recover the products.

(g) Significant financing component

In general, the period between the transfer of the promised goods or services to the customer and payment by the customer is less than one year. In this case, the Company uses the practical expedient in which the Company does not adjust the promised amount of consideration for the effects of a significant financing component.

3. Critical Accounting Estimates and Judgements.

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

(a) Revenue Recognition

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

(b) Impairment of Goodwill

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

(c) Income Taxes

The Company recognizes assets and liabilities for anticipated tax audit issues based on the best estimates of whether additional taxes will be due. Income tax expense in each interim period is recognized based on the best estimate of the weighted average annual income tax rate expected

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for the full financial year as explained in Note 2. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

(d) Fair Value of Financial Instruments

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

(e) Provisions

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

(f) Net Defined Benefit Liabilities

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

4. Financial Instruments by Category

(a) Categorizations of financial instruments as of September 30, 2018 and December 31, 2017, are as follows:

<i>(in millions of Korean won)</i>	September 30, 2018				
	Financial assets at amortized cost	Financial assets at fair value through other comprehensive income	Financial assets at fair value through profit or loss	Other	Total
Cash and cash equivalents	1,585,946	-	-	-	1,585,946
Deposits held by financial institutions	82,429	-	-	-	82,429
Trade receivables	4,718,078	23,207	-	-	4,741,285
Other receivables	688,319	-	-	-	688,319
Other financial assets	-	28,984	10,964	1,375	41,323
Total	7,074,772	52,191	10,964	1,375	7,139,302

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<i>(in millions of Korean won)</i>	September 30, 2018			
	Financial liabilities at amortized cost	Financial liabilities at fair value through profit or loss	Other	Total
Trade payables	5,664,535	-	-	5,664,535
Borrowings	8,098,617	-	-	8,098,617
Other payables	2,058,352	-	-	2,058,352
Other financial liabilities	-	2,449	67,144	69,593
Liabilities held for sale	856	-	-	856
Total	15,822,360	2,449	67,144	15,891,953

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

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

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(b) Net gains or losses on each category of financial instruments for the nine-month periods ended September 30, 2018 and 2017, are as follows:

<i>(in millions of Korean won)</i>	2018				
	Financial assets at amortized cost	Financial assets at fair value through other comprehensive income	Financial assets at fair value through profit or loss	Other	Total
Interest income	21,413	-	-	-	21,413
Exchange differences	183,835	-	-	-	183,835
Bad debts expense	(12,069)	-	-	-	(12,069)
Loss on disposal of trade receivables	(1,508)	(1,905)	-	-	(3,413)
Dividend income	-	192	-	-	192
Loss on valuation of financial assets at fair value through profit or loss	-	-	(2,002)	-	(2,002)
Fair value gain, net of tax (through other comprehensive income)	-	1,569	-	-	1,569
Loss on derivatives, net of tax (through other comprehensive loss)	-	-	-	104	104
Others	(6,493)	-	-	-	(6,493)

<i>(in millions of Korean won)</i>	2018			
	Financial liabilities at amortized cost	Financial liabilities at fair value through profit or loss	Other	Total
Interest expense	(170,578)	-	(8,157)	(178,735)
Exchange differences	(204,682)	-	29,682	(175,000)
Gain on derivatives (through profit or loss)	-	264	-	264
Loss on derivatives, net of tax (through other comprehensive loss)	-	-	(11,713)	(11,713)
Others	-	-	638	638

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<i>(in millions of Korean won)</i>	2017					
	Financial assets at fair value through profit or loss	Loans and receivables	Available-for-sale financial assets	Held-to-maturity financial assets	Other	Total
Interest income	-	14,887	-	-	-	14,887
Exchange differences	-	(154,091)	-	-	-	(154,091)
Bad debts expense	-	3,522	-	-	-	3,522
Loss on disposal of trade receivables	-	(2,475)	-	-	-	(2,475)
Gain on disposal of available-for-sale financial assets	-	-	5,398	-	-	5,398
Impairment loss on available-for-sale financial assets	-	-	(250)	-	-	(250)
Dividend income	-	-	228	-	-	228
Loss on valuation of available-for-sale financial assets, net of tax (through other comprehensive loss)	-	-	(265)	-	-	(265)
Gain on derivatives, net of tax (through other comprehensive income)	-	-	-	-	2,076	2,076
Others	-	1,927	-	-	-	1,927

<i>(in millions of Korean won)</i>	2017			
	Financial liabilities at fair value through profit or loss	Financial liabilities carried at amortized cost	Other	Total
Interest expenses	-	(139,513)	(12,830)	(152,343)
Exchange difference	-	230,040	(44,334)	185,706
Gain on derivatives, net of tax (through other comprehensive loss)	-	-	16,829	16,829
Others	-	(554)	2,121	1,567

5. Trade Receivables and Other Receivables

(a) Trade receivables and other receivables, net of allowance for doubtful accounts, as of September 30, 2018 and December 31, 2017, are as follows:

<i>(in millions of Korean won)</i>	September 30, 2018			December 31, 2017		
	Original amount	Allowance for doubtful accounts	Carrying amount	Original amount	Allowance for doubtful accounts	Carrying amount
Trade receivables	4,776,882	(35,597)	4,741,285	5,634,969	(22,719)	5,612,250
Other receivables						
Current	414,335	(6,394)	407,941	479,488	(6,694)	472,794
Non-current	280,388	(10)	280,378	292,634	(511)	292,123

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- (b) Movements in allowance for doubtful accounts for the nine-month periods ended September 30, 2018 and 2017, are as follows:

<i>(in millions of Korean won)</i>	2018			
	At Jan. 1 ¹	Addition (Reversal)	Write-off and other	At Sep. 30
Trade receivables	22,716	12,870	11	35,597
Other receivables				
Current	6,694	(300)	-	6,394
Non-current	511	(501)	-	10

<i>(in millions of Korean won)</i>	2017			
	At Jan. 1	Addition (Reversal)	Write-off and other	At Sep. 30
Trade receivables	29,033	(3,565)	-	25,468
Other receivables				
Current	9,315	(630)	-	8,685
Non-current	8	673	-	681

¹ Allowance for doubtful accounts as of January 1, 2018 amounting to ₩3 million was reclassified from trade receivables to contract assets upon adoption of Korean IFRS 1115.

- (c) The aging analysis of trade receivables and other receivables as of September 30, 2018 and December 31, 2017, is as follows:

<i>(in millions of Korean won)</i>	September 30, 2018				December 31, 2017			
	Trade receivables	Other receivables		Total	Trade receivables	Other receivables		Total
		Current	Non-current			Current	Non-current	
Receivables not past due	4,437,277	246,748	276,756	4,960,781	5,351,238	353,236	282,949	5,987,423
Past due but not impaired								
Up to 6 months	224,375	23,626	3,007	251,008	236,993	14,325	9,188	260,506
7 to 12 months	88,671	23,227	125	112,023	14,090	18,324	497	32,911
Over 1 year	14,998	113,404	500	128,902	21,779	85,977	-	107,756
Subtotal	328,044	160,257	3,632	491,933	272,862	118,626	9,685	401,173
Impaired	11,561	7,330	-	18,891	10,869	7,626	-	18,495
Total	4,776,882	414,335	280,388	5,471,605	5,634,969	479,488	292,634	6,407,091

- (d) There are no transferred financial assets that are not derecognized in their entirety, nor any associated liabilities recognized at the end of the reporting period.

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6. Other Financial Assets and Liabilities

(a) Details of other financial assets and liabilities as of September 30, 2018 and December 31, 2017, are as follows:

<i>(in millions of Korean won)</i>	September 30, 2018	December 31, 2017
Other financial assets		
Derivatives	1,375	1,862
Financial assets at fair value through other comprehensive income	28,984	-
Financial assets at fair value through profit or loss	10,964	-
Available-for-sale financial assets	-	32,083
Total	41,323	33,945
Current	37	-
Non-current	41,286	33,945

<i>(in millions of Korean won)</i>	September 30, 2018	December 31, 2017
Other financial liabilities		
Derivatives	55,427	68,589
Financial guarantee liability	14,166	8,288
Total	69,593	76,877
Current	5,910	6,985
Non-current	63,683	69,892

(b) Details of derivatives as of September 30, 2018 and December 31, 2017, are as follows:

<i>(in millions of Korean won)</i>	September 30, 2018		December 31, 2017	
	Assets	Liabilities	Assets	Liabilities
Current				
Currency swap	37	-	-	-
Non-current				
Currency swap	190	16,280	-	32,921
Interest rate swap	1,148	36,698	1,862	35,668
Share purchase contract	-	2,449	-	-
Subtotal	1,338	55,427	1,862	68,589
Total	1,375	55,427	1,862	68,589

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

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(c) Financial assets at fair value through other comprehensive income and available-for-sale financial assets

i) Changes in carrying amount of financial assets at fair value through other comprehensive income for the nine-month period ended September 30, 2018, are as follows:

<i>(in millions of Korean won)</i>	2018					At Sep. 30
	At Jan. 1	Acquisition	Disposals	Valuation (OCI)		
Listed equity securities	13,842	-	-	3,437		17,279
Unlisted equity securities	7,842	5,561	-	(1,698)		11,705
Total	21,684	5,561	-	1,739		28,984

ii) Changes in carrying amount of available-for-sale financial assets for the nine-month period ended September 30, 2017, are as follows:

<i>(in millions of Korean won)</i>	2017					
	At Jan. 1	Acquisition	Disposals	Valuation (OCI)	Impairment	At Sep. 30
Listed equity securities	14,835	-	-	(349)	-	14,486
Unlisted equity securities	17,746	2,963	(1,291)	-	(250)	19,168
Total	32,581	2,963	(1,291)	(349)	(250)	33,654

(d) Changes in carrying amount of financial assets at fair value through profit or loss for the nine-month period ended September 30, 2018, are as follows:

<i>(in millions of Korean won)</i>	2018				
	At Jan. 1	Acquisition	Disposals	Valuation	At Sep. 30
Unlisted equity securities	10,399	2,567	-	(2,002)	10,964

7. Inventories

Inventories as of September 30, 2018 and December 31, 2017, consist of:

<i>(in millions of Korean won)</i>	September 30, 2018			December 31, 2017		
	Cost	Valuation allowance	Carrying amount	Cost	Valuation allowance	Carrying amount
Finished products and merchandise	561,371	(39,107)	522,264	676,318	(38,688)	637,630
Work-in-process	149,130	(696)	148,434	86,835	(1,741)	85,094
Raw materials and supplies	754,046	(29,112)	724,934	555,770	(63,000)	492,770
Other	144,793	(17,483)	127,310	148,126	(19,954)	128,172
Total	1,609,340	(86,398)	1,522,942	1,467,049	(123,383)	1,343,666

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8. Contract Assets and Contract Liabilities

(a) Contract assets as of September 30, 2018 and January 1, 2018, are as follows:

<i>(in millions of Korean won)</i>	September 30, 2018	January 1, 2018
Due from customers	466,495	329,146
(Less: allowance for doubtful accounts)	(2)	(3)
Right to recover returned products	849	650
Costs to fulfil contracts and others	70,888	4,461
Total	538,230	334,254
Current	467,389	330,713
Non-current	70,841	3,541

(b) Contract liabilities as of September 30, 2018 and January 1, 2018, are as follows:

<i>(in millions of Korean won)</i>	September 30, 2018	January 1, 2018
Expected promotional incentives for customers	137,304	144,364
Expected returns from customers	1,311	1,020
Customer loyalty program	49,392	37,755
Rendering of warranty services	77	148
Due to customers and others	251,645	250,620
Total	439,729	433,907
Current	438,759	432,725
Non-current	970	1,182

(c) Revenue recognized in relation to contract liabilities for the nine-month period ended September 30, 2018, is as follows:

<i>(in millions of Korean won)</i>	September 30, 2018
Revenue recognized that was included in the contract liability amount at the beginning of the period:	
Due to customers and others	229,961
Customer loyalty program	2,896
Rendering of warranty services	37
Total	232,894
Revenue recognized from performance obligations satisfied in previous periods	794

(d) Unsatisfied long-term contracts

At the end of the reporting period, the total amount of transaction price allocated to the unsatisfied or partially unsatisfied performance obligations is ₩826,238 million where they are expected to be satisfied by 2020, at the latest. Also as a practical expedient, the Company excluded performance obligation which is part of a contract that has an original expected duration of one year or less.

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- (e) For the nine-month period ended September 30, 2018, the Company recognized a reversal of impairment loss amounting to ₩1 million in relation to due from customers and a depreciation and other loss of ₩2,157 million in relation to costs to fulfil a contract.

9. Property, Plant and Equipment, and Intangible Assets

- (a) Changes in property, plant and equipment for the nine-month periods ended September 30, 2018 and 2017, are as follows:

<i>(in millions of Korean won)</i>	2018	2017
At January 1	7,142,306	7,164,642
Acquisitions	551,420	730,004
Reclassification to assets held for sale	(3,629)	(368,735)
Disposals and others	(33,589)	(98,764)
Decrease due to transfer of business	(9)	(833)
Depreciation	(494,688)	(455,549)
Impairment	(1,200)	(70,007)
At September 30	7,160,611	6,900,758

- (b) Line items including depreciation for the nine-month periods ended September 30, 2018 and 2017, are as follows:

<i>(in millions of Korean won)</i>	2018	2017
Cost of sales	418,129	361,158
Selling and marketing expenses	7,629	7,393
Administrative expenses	11,385	15,114
Research and development expenses	48,771	64,473
Service costs	4,056	3,947
Other non-operating expenses	4,718	3,464
Total	494,688	455,549

- (c) Changes in intangible assets for the nine-month periods ended September 30, 2018 and 2017, are as follows:

<i>(in millions of Korean won)</i>	2018	2017
At January 1	1,474,201	1,234,531
Acquisitions	122,505	136,826
Acquisitions through internal development	321,002	340,921
Reclassification to assets held for sale	(183)	-
Disposals and others	(34,186)	(24,805)
Decrease due to transfer of business	-	(566)
Amortization	(252,019)	(281,414)
Impairment	(23,606)	(2,291)
At September 30	1,607,714	1,403,202

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(d) Line items including amortization of intangible assets for the nine-month periods ended September 30, 2018 and 2017, are as follows:

<i>(in millions of Korean won)</i>	2018	2017
Cost of sales	143,145	161,017
Selling and marketing expenses	11,671	13,036
Administrative expenses	45,441	54,380
Research and development expenses	51,154	52,008
Service costs	608	973
Total	252,019	281,414

10. Investments in Subsidiaries, Associates and Joint Ventures

(a) Investments in subsidiaries, associates and joint ventures as of September 30, 2018 and December 31, 2017, are as follows:

<i>(in millions of Korean won)</i>	Location	Closing month	Percentage of ownership at September 30, 2018 (%)	Carrying amount	
				September 30, 2018	December 31, 2017
Subsidiaries					
ZKW Holding GmbH (ZKW) ¹	Austria	December	70.0	943,468	-
LG Electronics U.S.A., Inc.(LGEUS)	USA	December	100.0	955,542	955,542
LG Innotek Co., Ltd.	Korea	December	40.8	541,538	541,538
LG Electronics India Pvt. Ltd.(LGEIL)	India	March	100.0	311,746	311,746
LG Electronics do Brasil Ltda.(LGEBR)	Brazil	December	100.0	270,631	270,631
LG Electronics Mlawa Sp. z.O.O.(LGEMA)	Poland	December	100.0	214,091	214,091
LG Electronics Tianjin Appliances Co., Ltd.(LGETA)	China	December	70.0	161,331	161,331
LG Electronics European Holdings B.V.(LGEEH)	Netherlands	December	100.0	148,551	148,551
Hiplaza Co., Ltd.	Korea	December	100.0	136,459	136,459
LG Electronics Egypt S.A.E(LGEEG)	Egypt	December	100.0	110,245	110,245
Taizhou LG Electronics Refrigeration Co., Ltd.(LGETR)	China	December	88.4	97,608	97,608
P.T. LG Electronics Indonesia(LGEIN)	Indonesia	December	100.0	94,118	94,118
LG Electronics Vietnam Haiphong Co., Ltd.(LGEVH)	Vietnam	December	100.0	84,784	84,784
LG Electronics Panama, S.A.(LGEPS)	Panama	December	100.0	79,222	79,222
LG Electronics Wroclaw Sp. z.O.O.(LGEWR)	Poland	December	100.0	70,014	70,014
LG Electronics Mexico S.A. DE C.V.(LGEMS)	Mexico	December	100.0	68,721	68,721
LG Electronics Shenyang Inc.(LGESY)	China	December	56.3	63,840	63,840
Hi Entech Co., Ltd.	Korea	December	100.0	63,118	63,118
LG Electronics Thailand Co., Ltd.(LGETH)	Thailand	December	100.0	55,578	55,578
LG Electronics Australia Pty, Ltd.(LGEAP)	Australia	December	100.0	50,664	50,664
Inspur LG Digital Mobile Communications Co., Ltd.(LGEYT)	China	December	60.5	48,624	48,624
LG Electronics RUS, LLC(LGERA)	Russia	December	100.0	43,645	43,645

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<i>(in millions of Korean won)</i>	Location	Closing month	Percentage of ownership at September 30, 2018 (%)	Carrying amount	
				September 30, 2018	December 31, 2017
LG Electronics Huizhou Ltd.(LGEHZ)	China	December	45.0	41,984	41,984
LG Electronics Nanjing New Technology co.,LTD(LGENT)	China	December	45.0	38,744	38,744
Mommert Gewerbeimmobilien Verwaltungs GmbH (MGIV) ¹	Austria	December	70.0	35,640	-
LG Electronics S.A. (Pty) Ltd.(LGESA)	Republic of South Africa	December	100.0	32,112	32,112
NanJing LG-Panda Appliances Co., Ltd.(LGEPN)	China	December	50.0	26,614	26,614
LG Electronics Colombia Ltda.(LGECEB)	Colombia	December	60.7	25,215	25,215
LG Electronics Peru S.A.(LGEPR)	Peru	December	100.0	25,043	25,043
LG Electronics Overseas Trading FZE(LGEOT)	United Arab Emirates	December	100.0	22,538	22,538
Qingdao LG Inspur Digital Communication Co., Ltd.(LGEQD)	China	December	60.0	22,142	22,142
LG Electronics Air-Conditioning(Shandong) Co., Ltd.(LGEQA)	China	December	100.0	20,615	20,615
LG Soft India Private Limited.(LGSi)	India	March	100.0	20,105	20,105
LGE Alliance Fund II ²	Korea	December	98.7	1,314	2,850
LG Electronics Fund I LLC ¹	USA	December	100.0	466	-
Others				232,624	232,624
Associates					
LG Display Co., Ltd.	Korea	December	37.9	3,480,623	3,480,623
Hitachi-LG Data Storage Inc.(HLDS)	Japan	December	49.0	131,378	131,378
LG Fuel Cell Systems Inc. ¹	USA	December	33.5	83,953	76,775
Robostar Co.,Ltd. ¹	Korea	December	30.0	82,045	-
Ericsson-LG Co., Ltd.	Korea	December	25.0	38,834	38,834
Kiwigrd GmbH ³	Germany	December	16.3	13,019	13,019
ROBOTIS Co., Ltd. ³	Korea	December	10.1	9,000	9,000
Korea Information Certificate Authority Inc. ³	Korea	December	6.5	2,088	2,088
Acryl Inc. ^{1,3}	Korea	December	8.2	1,000	-
SKT Vietnam PTE., Ltd.	Singapore	December	25.4	-	-
Joint ventures					
LG Holdings (HK) Ltd.	China	December	49.0	84,989	84,989
Arcelik-LG Klima Sanayi ve Ticaret A.S.(LGEAT)	Turkey	December	50.0	40,844	40,844
EIC PROPERTIES PTE LTD.	Singapore	December	38.2	7,881	7,881
Total				9,134,348	8,066,087

¹ It was newly or additionally acquired during the nine-month period ended September 30, 2018.

² Conducted capital reduction with consideration during the nine-month period ended September 30, 2018.

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

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(b) Changes in investments in subsidiaries, associates and joint ventures for the nine-month periods ended September 30, 2018 and 2017, are as follows:

<i>(in millions of Korean won)</i>	2018	2017
At January 1	8,066,087	7,995,665
Acquisitions	1,069,797	118,726
Disposal and others	(1,536)	(14,734)
Impairment	-	(2,384)
At September 30	9,134,348	8,097,273

(c) Details of marketable investments in subsidiaries and associates as of September 30, 2018 and December 31, 2017, are as follows:

September 30, 2018					
	Type	Shares held (Unit: shares)	Price per share (Unit: Korean won)	Fair value (in millions of Korean won)	Book amount
LG Display Co., Ltd.	Associate	135,625,000	19,100	2,590,438	3,480,623
LG Innotek Co., Ltd.	Subsidiary	9,653,181	130,500	1,259,740	541,538
Korea Information Certificate Authority Inc.	Associate	2,010,247	4,850	9,750	2,088
Robostar Co.,Ltd.	Associate	2,927,735	32,000	93,688	82,045
December 31, 2017					
	Type	Shares held (Unit: shares)	Price per share (Unit: Korean won)	Fair value (in millions of Korean won)	Book amount
LG Display Co., Ltd.	Associate	135,625,000	29,900	4,055,188	3,480,623
LG Innotek Co., Ltd.	Subsidiary	9,653,181	144,000	1,390,058	541,538
Korea Information Certificate Authority Inc.	Associate	2,010,247	5,670	11,398	2,088

11. Borrowings

(a) The carrying amounts of borrowings as of September 30, 2018 and December 31, 2017, are as follows:

<i>(in millions of Korean won)</i>	September 30, 2018	December 31, 2017
Current		
Short-term borrowings	-	127,925
Current portion of long-term borrowings	15,000	-
Current portion of debentures	941,706	639,741
Subtotal	956,706	767,666
Non-current		
Long-term borrowings	2,606,997	2,177,140
Debentures	4,534,914	4,497,034
Subtotal	7,141,911	6,674,174
Total	8,098,617	7,441,840

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(b) Details of borrowings as of September 30, 2018 and December 31, 2017, are as follows:

<i>(in millions of Korean won)</i>	Latest maturity date	Annual interest rate at September 30, 2018 (%)	Carrying amount	
			September 30, 2018	December 31, 2017
Short-term borrowings in foreign currency				
LG Electronics European Shared Service Center B.V. (LGESC)	2018. 9.20	-	-	127,925
Long-term borrowings in local currency				
Korea Development Bank and others	2030. 8.1	2.21 ~ 3.50	2,270,000	2,070,000
Long-term borrowings in foreign currency				
Export-Import Bank of Korea and others	2030. 8. 1	2.50 ~ 4.00	351,997	107,140
Local currency notes				
Public, non-guaranteed bonds	2033. 5.28	1.48 ~ 4.44	3,920,000	3,710,000
Private, non-guaranteed bonds	2038. 4. 3	3.26 ~ 4.21	850,000	850,000
Foreign currency notes				
Private, non-guaranteed bonds	2028. 6. 8	3.04 ~ 4.01	367,191	246,422
Private, guaranteed bonds	2023. 2.24	0.39 ~ 4.00	351,997	342,205
Less: discount on debentures			(12,568)	(11,852)
Total			8,098,617	7,441,840

The Company entered into an interest rate swap and cross-currency swap contracts to hedge cash flow risk related to floating interest rate and foreign exchange rate of some portion of borrowings (Note 30).

12. Post-employment Benefits

Defined Benefit Plan

(a) The amounts of net defined benefit liabilities as of September 30, 2018 and December 31, 2017, are as follows:

<i>(in millions of Korean won)</i>	September 30, 2018	December 31, 2017
Present value of funded obligations	2,511,495	2,378,703
Fair value of plan assets	(2,058,409)	(2,158,093)
Net defined benefit liabilities	453,086	220,610

(b) The amounts recognized in the separate interim statements of profit or loss for the nine-month periods ended September 30, 2018 and 2017, are as follows:

<i>(in millions of Korean won)</i>	2018	2017
Current service cost	195,644	202,445
Past service cost	(3,689)	-
Net interest cost	5,015	7,020
Operating management cost	1,565	1,416
Total	198,535	210,881

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(c) Line items in which expenses are included for the nine-month periods ended September 30, 2018 and 2017, are as follows:

<i>(in millions of Korean won)</i>	2018	2017
Cost of sales	104,859	107,730
Selling and marketing expenses	25,071	26,726
Administrative expenses	13,830	13,508
Research and development expenses	52,332	60,295
Service costs	2,443	2,622
Total	198,535	210,881

(d) Movements in the present value of defined benefit obligations for the nine-month periods ended September 30, 2018 and 2017, are as follows:

<i>(in millions of Korean won)</i>	2018	2017
At January 1	2,378,703	2,265,932
Current service cost	195,644	202,445
Past service cost	(3,689)	-
Interest expense	52,587	44,934
Remeasurements for:		
- Actuarial gain arising from changes in financial assumptions	42,028	(50,324)
Benefits paid	(114,382)	(94,392)
Decrease due to plan curtailments and others	(38,066)	-
Reclassification to liabilities held for sale	(1,330)	-
At September 30	2,511,495	2,368,595

(e) Movements in the fair value of plan assets for the nine-month periods ended September 30, 2018 and 2017, are as follows:

<i>(in millions of Korean won)</i>	2018	2017
At January 1	2,158,093	1,920,564
Interest income	47,572	37,914
Remeasurements of plan assets	(18,557)	(13,092)
Benefits paid	(90,807)	(73,359)
Operating management cost	(1,565)	(1,416)
Decrease due to plan curtailments and others	(35,147)	-
Reclassification to liabilities held for sale	(1,180)	-
At September 30	2,058,409	1,870,611

(f) The significant actuarial assumptions used as of September 30, 2018 and December 31, 2017, are as follows:

	September 30, 2018	December 31, 2017
Discount rate	2.9%	3.1%
Expected salary growth rate	5.0%	5.0%

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(g) The sensitivity analysis of the defined benefit obligation to changes in principal assumptions as of September 30, 2018, is as follows:

<i>(in millions of Korean won)</i>	1%p increase	1%p decrease
Discount rate	(205,992)	237,334
Expected salary growth rate	230,794	(204,672)

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

Defined Contribution Plan

The expense recognized in the nine-month period ended September 30, 2018 in relation to the defined contribution plan was ₩6,809 million (September 30, 2017: ₩5,182 million).

13. Provisions

Changes in provisions for the nine-month periods ended September 30, 2018 and 2017, are as follows:

<i>(in millions of Korean won)</i>	2018			
	Warranty	Restoration	Litigation and others	Total
At January 1¹	325,984	12,517	69,127	407,628
Additions	263,865	409	26,762	291,036
Utilizations	(240,532)	(2,229)	(13,203)	(255,964)
At September 30	349,317	10,697	82,686	442,700
Current	322,297	80	-	322,377
Non-current	27,020	10,617	82,686	120,323

<i>(in millions of Korean won)</i>	2017				
	Warranty	Sales returns	Restoration	Litigation and others	Total
At January 1	397,950	272	14,185	791,577	1,203,984
Additions	271,960	31,791	1,170	81,944	386,865
Utilizations	(353,461)	(31,566)	(2,599)	(803,817)	(1,191,443)
At September 30	316,449	497	12,756	69,704	399,406
Current	302,546	497	2,033	3,481	308,557
Non-current	13,903	-	10,723	66,223	90,849

¹ Sales return provision as of January 1, 2018 amounting to ₩370 million was reclassified to contract liabilities upon adoption of Korean IFRS 1115.

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14. Paid-in Capital

(a) As of September 30, 2018 and December 31, 2017, the number of shares authorized is 600 million.

	Par value per share	September 30, 2018		December 31, 2017	
		Number of shares issued	Amount (in millions of Korean won)	Number of shares issued	Amount (in millions of Korean won)
Ordinary shares	5,000	163,647,814	818,239	163,647,814	818,239
Preferred shares	5,000	17,185,992	85,930	17,185,992	85,930
Total		180,833,806	904,169	180,833,806	904,169

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

(b) Share premium balance as of September 30, 2018, is ₩3,088,179 million. The share premium of ₩1,876,153 million was recognized, which is ₩2,815,707 million of the carrying amount of net assets acquired from the entity split-off back on April 1, 2002, less the Company's capital of ₩783,961 million and less the Company's capital adjustment of ₩155,593 million. In addition, the amount of ₩331,766 million paid in excess of par value due to issuance of ordinary shares (merged with LG IBMPC Co., Ltd.) and the exercise of conversion right and warrants in 2005 and 2006 are included. The excess in paid-in capital amounting to ₩880,260 million over the par value was recognized as the share premium due to the issuance of ordinary shares in 2011.

15. Retained Earnings

Retained earnings as of September 30, 2018 and December 31, 2017, consist of:

(in millions of Korean won)	September 30, 2018	December 31, 2017
Legal reserve ¹	182,345	175,054
Discretionary reserve	5,347,638	4,603,535
Retained earnings before appropriation ²	815,726	824,378
Total	6,345,709	5,602,967

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

² Dividend for the year ended December 31, 2017, of ₩72,885 million was approved at the annual general meeting held on March 16, 2018 and paid in April 2018 (2017 payments: ₩72,885 million).

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16. Accumulated Other Comprehensive Income (Loss)

Accumulated other comprehensive income (loss) as of September 30, 2018 and December 31, 2017, consist of:

<i>(in millions of Korean won)</i>	September 30, 2018	December 31, 2017
Cash flow hedge	(38,641)	(27,032)
Financial assets at fair value through other comprehensive income	2,673	-
Available-for-sale financial assets	-	9,393
Total	(35,968)	(17,639)

17. Other Components of Equity

Other components of equity as of September 30, 2018 and December 31, 2017, consist of:

<i>(in millions of Korean won)</i>	September 30, 2018	December 31, 2017
Treasury shares ¹	(44,893)	(44,893)
Consideration for conversion rights	9,891	9,891
Gain on disposal of treasury shares	2,183	2,183
Total	(32,819)	(32,819)

¹ At the end of the reporting period, the Company has treasury shares consisting of 763,172 ordinary shares (December 31, 2017: 763,172 shares) and 4,692 preferred shares (December 31, 2017: 4,690 shares). The Company intends to either grant these treasury shares to employees and directors as compensation, or to sell them in the future.

18. Net Sales

(a) Details of net sales for the three-month and nine-month periods ended September 30, 2018 and 2017, are as follows:

<i>(in millions of Korean won)</i>	2018		2017	
	Three months	Nine months	Three months	Nine months
Revenue from contracts with customers:				
Sales of goods	7,470,994	22,737,825	7,744,172	23,079,350
Rendering of services	111,816	348,320	124,050	345,422
Royalty income	65,927	199,397	359,956	507,458
Sub-total	7,648,737	23,285,542	8,228,178	23,932,230
Revenue from other sources:				
Rental income and others ¹	83,745	224,646	-	-
Total	7,732,482	23,510,188	8,228,178	23,932,230

¹ Revenue from other sources for the nine-month period ended September 30, 2017 is included in sales of goods and rendering of services by applying Korean IFRS 1018.

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(b) Details of revenue from contracts with customers for the nine-month period ended September 30, 2018, are as follows:

<i>(in millions of Korean won)</i>	2018							Total
	H&A	HE	MC	VC	B2B	Other segments	Inter-segment transactions	
Revenue from contracts with customers:								
External sales	8,426,207	4,970,228	4,674,077	1,894,101	1,102,459	2,218,470	-	23,285,542
Internal sales	27,411	-	-	-	-	128,947	(156,358)	-
	<u>8,453,618</u>	<u>4,970,228</u>	<u>4,674,077</u>	<u>1,894,101</u>	<u>1,102,459</u>	<u>2,347,417</u>	<u>(156,358)</u>	<u>23,285,542</u>
By type of products:								
Refrigerators/washing machine/air conditioners and others	6,959,941	-	-	-	-	-	(8,239)	6,951,702
TV/monitor/PC and others	-	4,510,784	-	-	-	-	-	4,510,784
Mobile communications	-	-	4,600,499	-	-	-	-	4,600,499
In-vehicle infotainment	-	-	-	1,446,076	-	-	-	1,446,076
Information display	-	-	-	-	459,538	-	-	459,538
Others	1,493,677	459,444	73,578	448,025	642,921	2,347,417	(148,119)	5,316,943
Domestic / Export:								
Domestic	4,847,192	1,408,379	972,695	348,623	237,307	1,447,226	(156,358)	9,105,064
Export	3,606,426	3,561,849	3,701,382	1,545,478	865,152	900,191	-	14,180,478
Timing of transfer:								
Transferred at a point in time	8,157,479	4,812,531	4,634,514	1,875,161	1,086,223	84,086	(53,201)	20,596,793
Transferred over time	296,139	157,697	39,563	18,940	16,236	2,263,331	(103,157)	2,688,749

(c) Changes in the estimates of total contract revenue and total contract costs

Due to the factors causing the changes in the costs of VC and other segments in 2018, the estimated total revenue and total costs for contracts in progress have changed. Details of changes in estimated total contract revenue and costs and the impact on profit or loss for the nine-month period ended September 30, 2018 and the succeeding period are as follows:

<i>(in millions of Korean won)</i>	Changes in estimated total contract revenue	Changes in estimated total contract cost	Impact on profit (loss) for the period	Impact on profit (loss) for the succeeding period
VC	(1,669)	(3,649)	2,035	(55)
Other segments	123,553	100,541	10,864	12,148
Total	<u>121,884</u>	<u>96,892</u>	<u>12,899</u>	<u>12,093</u>

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19. Expenses by Nature

Expenses that are recorded by nature for the three-month and nine-month periods ended September 30, 2018 and 2017, consist of:

<i>(in millions of Korean won)</i>	2018		2017	
	Three months	Nine months	Three months	Nine months
Changes in finished goods and work-in-process	181,715	(53,628)	(46,057)	(165,716)
Raw materials and merchandise used	4,429,281	14,106,272	4,993,577	14,686,701
Employee benefit expense	893,934	2,839,794	992,967	2,929,831
Depreciation and amortization	249,709	742,970	248,891	734,480
Advertising expense	161,973	474,310	140,046	431,116
Promotion expense	70,431	226,446	84,413	221,663
Freight expense	145,614	413,590	151,172	417,984
Commission expense	408,012	1,205,287	419,603	1,190,465
Other expenses	941,097	2,443,292	1,120,308	2,663,234
Total¹	7,481,766	22,398,333	8,104,920	23,109,758

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

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

Details of general operating expenses for the three-month and nine-month periods ended September 30, 2018 and 2017, are as follows:

<i>(in millions of Korean won)</i>	2018		2017	
	Three months	Nine months	Three months	Nine months
Salaries	362,405	1,049,701	362,549	1,088,598
Post-employment benefits	31,665	99,255	36,648	107,150
Employee benefits	58,848	178,120	62,331	180,800
Freight expense	143,695	408,231	149,320	411,860
Rental expense	26,807	86,493	42,567	127,998
Commission expense	291,246	850,394	298,340	838,375
Depreciation	26,127	72,822	26,985	91,908
Amortization	36,294	108,874	40,488	120,397
Taxes and dues	8,360	14,605	26,430	31,115
Advertising expense	161,973	474,310	140,046	431,116
Promotional expense	70,431	226,446	84,413	221,663
R&D costs	98,779	261,703	69,318	227,634
Direct service costs	101,680	260,927	110,831	281,378
Bad debts expense	3,875	12,869	(11,082)	(3,565)
Other	68,616	215,186	73,551	223,669
Total	1,490,801	4,319,936	1,512,735	4,380,096

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21. Financial Income

Financial income for the three-month and nine-month periods ended September 30, 2018 and 2017, consists of:

<i>(in millions of Korean won)</i>	2018		2017	
	Three months	Nine months	Three months	Nine months
Interest income	8,377	21,413	5,812	14,887
Exchange differences	34,516	129,697	60,646	148,939
Other	2,307	5,062	2,985	12,266
Total	45,200	156,172	69,443	176,092

22. Financial Expenses

Financial expenses for the three-month and nine-month periods ended September 30, 2018 and 2017, consist of:

<i>(in millions of Korean won)</i>	2018		2017	
	Three months	Nine months	Three months	Nine months
Interest expense	63,206	178,735	52,008	152,343
Exchange differences	40,215	114,972	50,388	168,551
Loss on disposal of trade receivables	961	3,413	1,020	2,475
Other	3,927	10,917	3,518	8,772
Total	108,309	308,037	106,934	332,141

23. Other Non-operating Income

Other non-operating income for the three-month and nine-month periods ended September 30, 2018 and 2017, consists of:

<i>(in millions of Korean won)</i>	2018		2017	
	Three months	Nine months	Three months	Nine months
Dividend income	-	188,532	167,979	430,180
Exchange differences	78,003	433,784	116,137	398,088
Gain on disposal of property, plant and equipment	2,596	11,359	3,696	8,087
Gain on disposal of assets held for sale	-	1,446	-	3,804
Gain on disposal of available-for-sale financial assets	-	-	-	5,398
Gain on disposal of investments in subsidiaries, associates and joint ventures	8	8	237	4,253
Gain on transfer of business	38,789	38,789	-	4,882
Gain on derivatives	264	264	-	-
Other	678	4,646	6,023	23,390
Total	120,338	678,828	294,072	878,082

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24. Other Non-operating Expenses

Other non-operating expenses for the three-month and nine-month periods ended September 30, 2018 and 2017, consist of:

<i>(in millions of Korean won)</i>	2018		2017	
	Three months	Nine months	Three months	Nine months
Exchange differences	77,031	427,732	112,558	346,861
Loss on disposal of property, plant and equipment	5,554	13,351	5,980	10,545
Impairment loss on property, plant and equipment	31	1,200	56,476	70,007
Loss on disposal of intangible assets	8,463	23,082	8,916	23,301
Impairment loss on intangible assets	21,606	23,606	2,260	2,291
Loss on valuation of financial assets at fair value through profit or loss	2,002	2,002	-	-
Impairment loss on available-for-sale financial assets	-	-	-	250
Impairment loss on investments in subsidiaries, associates and joint ventures	-	-	-	2,384
Other	10,246	26,824	27,765	95,577
Total	124,933	517,797	213,955	551,216

25. Earnings per Share

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

(a) Basic earnings per ordinary share for the three-month and nine-month periods ended September 30, 2018 and 2017, is as follows:

	2018		2017	
	Three months	Nine months	Three months	Nine months
Profit attributable to ordinary shares <i>(in millions of Korean won)</i>	153,442	766,251	96,961	681,112
Weighted average number of ordinary shares outstanding <i>(unit: shares)</i>	162,884,642	162,884,642	162,884,642	162,884,642
Basic earnings per ordinary share <i>(in Korean won)</i>	942	4,704	596	4,182

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(b) Basic earnings per preferred share for the three-month and nine-month periods ended September 30, 2018 and 2017, is as follows:

	2018		2017	
	Three months	Nine months	Three months	Nine months
Profit attributable to preferred shares (in millions of Korean won)	16,401	81,470	10,443	72,489
Weighted average number of preferred shares outstanding (unit: shares)	17,181,300	17,181,300	17,181,300	17,181,300
Basic earnings per preferred share (in Korean won)	955	4,742	608	4,219

26. Cash Flow Information

Cash flows from operating activities are presented using the indirect method. Details of cash generated from operations for the nine-month periods ended September 30, 2018 and 2017, are as follows:

(a) Cash generated from operations

<i>(in millions of Korean won)</i>	2018	2017
Profit for the period	847,721	753,601
Adjustments:		
Interest expense, net	157,322	137,456
Exchange differences, net	14,994	(11,108)
Depreciation	494,688	455,549
Amortization	252,019	281,414
Loss on disposal of property, plant and equipment and intangible assets, net	25,074	25,759
Provisions for severance benefits	198,535	210,881
Provisions	291,036	386,865
Dividend income	(188,532)	(430,180)
Income tax expense	273,300	239,688
Gain on disposal of investments in subsidiaries, associates and joint ventures	(8)	(4,253)
Impairment loss on investments in subsidiaries, associates and joint ventures	-	2,384
Other	19,730	89,484
	1,538,158	1,383,939
Changes in operating assets and liabilities:		
Decrease (increase) in trade receivables	639,703	(834,731)
Decrease in other receivables	68,161	51,700
Increase in inventories	(168,843)	(248,411)
Increase in contract assets	(203,671)	-
Increase in other assets	(101,148)	(72,227)
Increase (decrease) in trade payables	(432,835)	568,846
Increase (decrease) in other payables	(223,119)	255,868
Decrease in provisions	(270,398)	(1,191,443)

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<i>(in millions of Korean won)</i>	2018	2017
Increase in contract liabilities	6,421	-
Decrease in other liabilities	(246,032)	(11,361)
Payment of defined benefit liability	(26,494)	(21,033)
Deposit in plan assets, net	(27,450)	(23,406)
	(985,705)	(1,526,198)
Cash generated from operations	1,400,174	611,342

(b) Changes in liabilities from financing activities

2018					
Non-cash transactions					
<i>(in millions of Korean won)</i>	At Jan. 1	Net cash flow from financing activities	Exchange differences	Amortization	At Sep. 30
Short-term borrowings	127,925	(127,925)	-	-	-
Long-term borrowings	2,177,140	435,383	9,474	-	2,621,997
Debentures	5,136,775	313,674	23,665	2,506	5,476,620
Total	7,441,840	621,132	33,139	2,506	8,098,617

2017					
Non-cash transactions					
<i>(in millions of Korean won)</i>	At Jan. 1	Net cash flow from financing activities	Exchange differences	Amortization	At Sep. 30
Short-term borrowings	-	135,549	(462)	-	135,087
Long-term borrowings	1,880,000	174,862	138	-	2,055,000
Debentures	4,751,320	265,618	(42,928)	2,680	4,976,690
Total	6,631,320	576,029	(43,252)	2,680	7,166,777

(c) Significant non-cash transactions

<i>(in millions of Korean won)</i>	2018	2017
Reclassification of construction-in-progress to property, plant and equipment	367,974	914,796
Reclassification of construction-in-progress to intangible assets	170,859	158,686
Reclassification of current portion of borrowings and debentures	747,135	439,746
Debt for equity swaps of trade receivables from subsidiaries	-	89,922
Other payables to acquire property, plant and equipment	49,826	22,503
Other payables to acquire intangible assets	5,994	6,721

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

– Transfer of OLED T-Con Chip design business

- 1) On July 1, 2018, OLED T-Con Chip design business was transferred to Silicon Works Co., Ltd.
- 2) Total consideration received and assets and liabilities of the transferred business are as follows:

<i>(in millions of Korean won)</i>	Amount
Total consideration	
Cash and cash equivalents	46,130
Assets of the transferred business:	
Trade receivables	7,880
Inventories	2,508
Property, plant and equipment	9
Liabilities of the transferred business:	
Trade payables	2,592
Contract liabilities	452
Other liabilities	12

– Transfer of set-top box business

- 1) On May 17, 2017, set-top box product business of Home Entertainment segment was transferred to Technicolor SA.
- 2) Total consideration received and assets of the transferred business are as follows:

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

27. Contingencies

(a) At the end of the reporting period, the Company is provided with performance guarantees of ₩194,141 million (December 31, 2017: ₩191,608 million) from Seoul Guarantee Insurance and one other financial institution relating to the performance guarantees. The Company is also provided with guarantee of principal USD 200 million, EUR 100 million (December 31, 2017: USD 200 million and EUR 100 million) and interests from Shinhan Bank for the guaranteed private placement bonds.

(b) At the end of the reporting period, the financial guarantees provided by the Company to related parties amount to ₩3,856,057 million (December 31, 2017: ₩3,997,783 million) on the

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indebtedness of its subsidiaries. Details are as follows:

<i>(in millions of Korean won)</i>	Beneficiary	September 30, 2018	December 31, 2017
LG Electronics European Shared Service Center B.V.(LGESC)	Citibank and others	829,649	766,832
LG Electronics U.S.A., Inc.(LGEUS)	Citibank and others	529,748	301,162
LG Electronics do Brasil Ltda.(LGEBR)	SC and others	464,525	466,970
LG Electronics Vietnam Haiphong Co., Ltd.(LGEVH)	HSBC and others	338,423	368,074
LG Electronics Ticaret A.S.(LGETK)	Citibank and others	232,313	392,537
LG Electronics Peru S.A.(LGEPR)	Scotiabank and others	192,750	188,121
LG Electronics (China) Co., Ltd.(LGECH)	Citibank and others	183,083	257,264
LG Electronics Argentina S.A.(LGEAR)	BBVA and others	144,651	117,854
LG Electronics Inc Chile Ltda.(LGECL)	Scotiabank and others	131,690	160,487
LG Electronics Colombia Ltda.(LGECEB)	Citibank and others	107,207	104,310
LG Electronics Algeria SARL(LGEAS)	Societe Generale and others	105,887	99,622
LG Electronics Egypt S.A.E(LGEEG)	Credit Agricole and others	95,619	92,432
LG Electronics Morocco S.A.R.L.(LGEMC)	Citibank and others	91,099	87,949
LG Electronics RUS, LLC(LGERA)	Citibank and others	78,448	80,056
LG Electronics Almaty Kazakhstan(LGEAK)	Citibank	71,213	73,430
LG Electronics India Pvt. Ltd.(LGEIL)	Citibank and others	50,678	99,568
LG Electronics Philippines Inc.(LGEPH)	ANZ and others	44,174	47,892
LG Electronics Italia S.P.A.(LGEIS)	Intesa	25,891	25,585
LG Electronics Thailand Co., Ltd.(LGETH)	Citibank	25,684	56,847
LG Electronics Australia Pty, Ltd.(LGEAP)	Citibank	23,672	24,603
Others	Citibank and others	89,653	186,188
Total		3,856,057	3,997,783

(c) At the end of the reporting period, the Company is providing KEB Hana Bank with a subrogation payment obligation for customers up to ₩46,000 million (December 31, 2017: ₩46,000 million)

(d) There are a number of other legal actions, disputes, and investigations arising from the normal course of business that remain pending at the end of the reporting period. The ultimate effect of those lawsuits on the financial position of the Company as of the statement of financial position date cannot be presently determined. Management does not expect the outcome of the litigations will have a material effect on the Company's financial position.

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28. Commitments

(a) At the end of the reporting period, the Company has overdraft facility agreements with various banks, including Shinhan Bank, with a limit of ₩165,500 million (December 31, 2017: ₩165,500 million).

(b) At the end of the reporting period, the Company has sales agreements for export trade receivables with KEB Hana Bank and 19 other banks amounting to ₩1,917,182 million (December 31, 2017: ₩1,915,663 million) and has sales agreements for domestic trade receivables with BTMU amounting to ₩500,000 million (December 31, 2017: ₩500,000 million).

(c) At the end of the reporting period, the Company has corporate electronic settlement services contracts and vendor prepayment services contracts with Shinhan Bank and seven other banks for up to ₩1,160,000 million (December 31, 2017: ₩1,160,000 million) in connection with the payment of trade payables.

(d) At the end of the reporting period, the Company has other trade financing agreements and loan commitments with financial institutions, including Shinhan Bank, of up to ₩455,635 million (December 31, 2017: ₩453,570 million).

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

(f) Contractual commitments for the acquisition of assets

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

<i>(in millions of Korean won)</i>	September 30, 2018	December 31, 2017
Property, plant and equipment	128,457	122,189
Intangible assets	16,564	18,703
Investments in subsidiaries, associates and joint ventures	13,151	-
Total	158,172	140,892

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

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

<i>(in millions of Korean won)</i>	September 30, 2018			Total lease payments
	Within 1 year	1 to 5 years	Over 5 years	
Buildings and offices	56,201	53,240	6,473	115,914
Vehicles	5,609	3,929	-	9,538
Equipment and others	16,584	12,523	-	29,107
Total	78,394	69,692	6,473	154,559

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ii) Under the above operating lease agreement, lease expense recognized in the separate interim statement of profit or loss for the nine-month period ended September 30, 2018, is ₩82,817 million (September 30, 2017: ₩92,335 million).

iii) As of September 30, 2018, total future minimum sublease receipts under non-cancellable sublease agreements for some buildings amount to ₩20,552 million and lease income recognized under the sublease agreements for the nine-month period ended September 30, 2018, amounts to ₩9,522 million (September 30, 2017: ₩10,762 million).

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

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

<i>(in millions of Korean won)</i>	September 30, 2018			Total lease payments
	Within 1 year	1 to 5 years	Over 5 years	
Healthcare rental	362,709	677,283	-	1,039,992
Real estate rental	748	2,765	-	3,513
Total	363,457	680,048	-	1,043,505

ii) The Company recognized ₩205,756 million (September 30, 2017: ₩111,790 million) of lease income for the nine-month period ended September 30, 2018.

(i) Trademark license commitments

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

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

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29. Related Party

(a) Major transactions for the nine-month periods ended September 30, 2018 and 2017, and balances of receivables and payables from transaction with related parties as of September 30, 2018 and December 31, 2017, are as follows:

i) Major income and expense transactions with related parties

(in millions of Korean won)

Classification	Name	2018					
		Income transactions			Expense transactions		
		Sales	Others	Total	Purchases	Others	Total
Significantly influencing the Company	LG Corp.	1,879	-	1,879	-	105,394	105,394
Subsidiaries	LG Innotek Co., Ltd.	205,160	18,148	223,308	351,382	10,180	361,562
	Hiplaza Co., Ltd.	1,515,850	6,520	1,522,370	20	26,456	26,476
	LG Electronics U.S.A., Inc.	2,531,008	7,238	2,538,246	1,527	48,155	49,682
	LG Electronics Mobilecomm U.S.A., Inc.	968,652	31	968,683	104	4,354	4,458
	Inspur LG Digital Mobile Communications Co., Ltd.	752,592	857	753,449	173,494	18,653	192,147
	LG Electronics Vietnam Haiphong Co., Ltd.	905,802	611	906,413	36,141	13,615	49,756
	LG Electronics do Brasil Ltda.	341,348	97	341,445	811	1,956	2,767
	LG Electronics Gulf FZE	251,828	237	252,065	2	879	881
	LG Electronics Canada, Inc.	282,883	11	282,894	62	1,448	1,510
	Qingdao LG Inspur Digital Communication Co., Ltd.	277,711	525	278,236	153,398	4,379	157,777
	LG Electronics (Kunshan) Co.,Ltd.	286,315	-	286,315	5,138	632	5,770
	LG Electronics Australia Pty, Ltd.	248,733	8	248,741	38	2,792	2,830
	LG Electronics RUS, LLC	216,776	302	217,078	273	476	749
	LG Electronics India Pvt. Ltd.	234,393	21,216	255,609	4,086	1,187	5,273
	LG Electronics (Levant) Jordan	175,132	225	175,357	623	1,961	2,584
	LG Electronics Deutschland GmbH	323,151	25,655	348,806	2,035	35,870	37,905
	LG Electronics Japan, Inc.	291,291	56	291,347	3,532	16,751	20,283
	LG Electronics Mlawa Sp. z.O.O.	252,590	28	252,618	1,311	3,826	5,137
	LG Electronics Egypt S.A.E	93,445	3,619	97,064	-	327	327
	LG Electronics Nanjing New Technology co.,LTD	159,614	19	159,633	310,556	1,053	311,609
	LG Electronics United Kingdom Ltd.	115,260	726	115,986	12	5,851	5,863
	LG Electronics Thailand Co., Ltd.	94,093	469	94,562	33,403	4,181	37,584
	LG Electronics Inc Chile	69,935	178	70,113	-	227	227

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		2018					
		Income transactions			Expense transactions		
Classification	Name	Sales	Others	Total	Purchases	Others	Total
	Ltda.						
	LG Electronics Colombia Ltda.	73,465	92	73,557	15	401	416
	Others	3,438,475	34,092	3,472,567	426,150	324,644	750,794
	Subtotal	14,105,502	120,960	14,226,462	1,504,113	530,254	2,034,367
Associates	LG Display Co., Ltd. and its subsidiaries	839,106	25,908	865,014	915,764	9,150	924,914
	Ericsson-LG Co., Ltd. and its subsidiaries	1,417	45	1,462	2,552	-	2,552
	Hitachi-LG Data Storage Inc.(HLDS) and its subsidiaries	563	-	563	30,001	254	30,255
	LG Fuel Cell Systems Inc. and its subsidiaries	2,502	-	2,502	-	-	-
	Korea Information Certificate Authority Inc	-	-	-	-	2	2
	Subtotal	843,588	25,953	869,541	948,317	9,406	957,723
Joint ventures	Arcelik-LG Klima Sanayi ve Ticaret A.S.(LGEAT)	-	-	-	46,230	-	46,230
	LG-MRI LLC	1,489	-	1,489	838	-	838
	Subtotal	1,489	-	1,489	47,068	-	47,068
Other related parties	LG CNS Co., Ltd. and its subsidiaries	84,692	71	84,763	89,659	232,594	322,253
	SERVEONE Co., Ltd. and its subsidiaries	25,988	7,576	33,564	422,072	253,201	675,273
	LB Lusem CO., LTD. ²	-	-	-	205	1	206
	LG Management Development Institute	-	-	-	82	18,970	19,052
	LG SPORTS Ltd.	2	19	21	-	9,334	9,334
	Subtotal	110,682	7,666	118,348	512,018	514,100	1,026,118
Others ¹	LG Chem Ltd. and its subsidiaries and joint ventures	1,089,186	10,949	1,100,135	565,767	650	566,417
	LG INTERNATIONAL CORP and its subsidiaries	64,389	1,371	65,760	513,000	551,886	1,064,886
	LG Uplus Corp and its subsidiaries	446,539	86	446,625	1,316	3,759	5,075
	LG HAUSYS,LTD. and its subsidiaries and associates	9,263	263	9,526	4,801	6	4,807
	Silicon Works Co., Ltd	1,701	47,450	49,151	5,412	-	5,412
	LG HOUSEHOLD & HEALTH CARE LTD and its subsidiaries	3,778	5	3,783	151	285	436
	G II R Inc. and its subsidiaries	2,259	12	2,271	125	149,346	149,471
	Subtotal	1,617,115	60,136	1,677,251	1,090,572	705,932	1,796,504
	Total	16,680,255	214,715	16,894,970	4,102,088	1,865,086	5,967,174

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		2017					
		Income transactions			Expense transactions		
Classification	Name	Sales	Others	Total	Purchases	Others	Total
Significantly influencing the Company	LG Corp.	1,429	13	1,442	2	109,875	109,877
Subsidiaries	LG Innotek Co., Ltd.	464,727	-	464,727	454,895	6,872	461,767
	Hiplaza Co., Ltd.	1,149,662	-	1,149,662	40	14,462	14,502
	LG Electronics U.S.A., Inc.	3,032,452	-	3,032,452	4,308	93,618	97,926
	LG Electronics Mobilecomm U.S.A., Inc.	1,624,685	-	1,624,685	-	5,421	5,421
	Inspur LG Digital Mobile Communications Co., Ltd.	987,220	3,031	990,251	119,230	17,149	136,379
	LG Electronics Vietnam Haiphong Co., Ltd.	912,282	405	912,687	25,022	11,513	36,535
	LG Electronics do Brasil Ltda.	594,359	-	594,359	3,347	1,255	4,602
	LG Electronics Gulf FZE	445,264	-	445,264	-	1,189	1,189
	LG Electronics Canada, Inc.	387,489	-	387,489	47	3,492	3,539
	Qingdao LG Inspur Digital Communication Co., Ltd.	348,038	537	348,575	62,834	4,892	67,726
	LG Electronics (Kunshan) Co.,Ltd.	317,006	7	317,013	10,029	2,756	12,785
	LG Electronics Australia Pty, Ltd.	268,699	-	268,699	7	1,658	1,665
	LG Electronics RUS, LLC	248,837	185	249,022	3	1,154	1,157
	LG Electronics India Pvt. Ltd.	246,549	89	246,638	1,857	901	2,758
	LG Electronics (Levant) Jordan	264,956	-	264,956	815	3,835	4,650
	LG Electronics Deutschland GmbH	242,654	-	242,654	1,065	26,108	27,173
	LG Electronics Japan, Inc.	238,353	-	238,353	4,301	18,149	22,450
	LG Electronics Mlawa Sp. z.O.O.	218,642	170	218,812	1,043	3,994	5,037
	LG Electronics Egypt S.A.E	195,380	194	195,574	-	208	208
	LG Electronics Nanjing New Technology co.,LTD	175,751	68	175,819	361,089	1,091	362,180
	LG Electronics United Kingdom Ltd.	92,161	-	92,161	865	6,028	6,893
	LG Electronics Thailand Co., Ltd.	90,876	506	91,382	32,897	385	33,282
	LG Electronics Inc Chile Ltda.	68,794	-	68,794	-	376	376
	LG Electronics Colombia Ltda.	74,453	-	74,453	116	742	858
	Others	2,974,676	659	2,975,335	320,875	282,912	603,787
	Subtotal	15,663,965	5,851	15,669,816	1,404,685	510,160	1,914,845
Associates	LG Display Co., Ltd. and its subsidiaries	919,523	-	919,523	1,166,738	12,464	1,179,202
	Ericsson-LG Co., Ltd. and its subsidiaries	5,793	-	5,793	2,965	-	2,965

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		2017					
		Income transactions			Expense transactions		
Classification	Name	Sales	Others	Total	Purchases	Others	Total
	Hitachi-LG Data Storage Inc.(HLDS) and its subsidiaries	553	-	553	13,082	695	13,777
	LG Fuel Cell Systems Inc. and its subsidiaries	2,187	-	2,187	-	-	-
	Korea Information Certificate Authority Inc	-	-	-	-	14	14
	Subtotal	928,056	-	928,056	1,182,785	13,173	1,195,958
Joint ventures	LG-MRI LLC	360	-	360	-	-	-
	Subtotal	360	-	360	-	-	-
Other related parties	LG CNS Co., Ltd. and its subsidiaries	52,345	-	52,345	76,916	225,204	302,120
	SERVEONE Co., Ltd. and its subsidiaries	60,562	-	60,562	479,116	189,878	668,994
	LUSEM CO., LTD. ²	2	-	2	1,346	23	1,369
	LG Management Development Institute	35	-	35	138	18,239	18,377
	LG SPORTS Ltd.	19	-	19	-	9,690	9,690
	LG MMA Ltd.	1,229	-	1,229	-	-	-
	Subtotal	114,192	-	114,192	557,516	443,034	1,000,550
Others ¹	LG Chem Ltd. and its subsidiaries and joint ventures	415,915	2,065	417,980	517,922	2,234	520,156
	LG INTERNATIONAL CORP and its subsidiaries	100,596	-	100,596	1,183,620	526,994	1,710,614
	LG Uplus Corp and its subsidiaries	554,586	-	554,586	1,187	3,263	4,450
	LG HAUSYS,LTD. and its subsidiaries and associates	26,579	-	26,579	9,904	250	10,154
	Silicon Works Co., Ltd	2,645	-	2,645	7,067	-	7,067
	LG HOUSEHOLD & HEALTH CARE LTD and its subsidiaries	3,377	-	3,377	182	44	226
	G I I R Inc. and its subsidiaries	544	-	544	3,737	147,173	150,910
	SK Siltron Co., Ltd. and its subsidiaries ²	3,169	-	3,169	28	-	28
	Subtotal	1,107,411	2,065	1,109,476	1,723,647	679,958	2,403,605
	Total	17,815,413	7,929	17,823,342	4,868,635	1,756,200	6,624,835

¹ Although the entities are not the related parties of the Company in accordance with Korean IFRS 1024, the entity belongs to the Large Enterprise Group to which the Company also belongs in accordance with the Monopoly Regulation and Fair Trade Act.

² All shares of LUSEM CO., LTD. were sold to LB SEMICON CO., LTD. on February 27, 2018, and the name of LUSEM CO., LTD. was changed to LB Lusem CO., LTD. on March 15, 2018.

³ All shares of LG Siltron Incorporated were sold to SK Holdings Co., Ltd. on August 17, 2017, and the name of LG Siltron Incorporated was changed to SK Siltron Co., Ltd.

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

(in millions of Korean won)

		September 30, 2018							
		Receivables				Payables			
Classification	Name	Trade receivables	Loans	Other receivables	Total	Trade payables	Borrowings	Other payables	Total
Significantly influencing the Company	LG Corp.	42	-	25,161	25,203	-	-	3,219	3,219
Subsidiaries	LG Innotek Co., Ltd.	171,729	-	13,942	185,671	85,403	-	33,678	119,081
	Hiplaza Co., Ltd.	187,550	-	21,031	208,581	-	-	6,778	6,778
	LG Electronics U.S.A., Inc.	603,862	-	1,592	605,454	-	-	231,616	231,616
	LG Electronics Mobilecomm U.S.A., Inc.	-	-	-	-	-	-	-	-
	Inspur LG Digital Mobile Communications Co., Ltd.	91,249	-	92	91,341	337,197	-	520	337,717
	LG Electronics Vietnam Haiphong Co., Ltd.	231,114	-	250	231,364	193,736	-	1,352	195,088
	LG Electronics do Brasil Ltda.	56,830	-	40,904	97,734	313	-	435	748
	LG Electronics Gulf FZE	8,402	-	-	8,402	-	-	26	26
	LG Electronics Canada, Inc.	56,493	-	-	56,493	-	-	250	250
	Qingdao LG Inspur Digital Communication Co., Ltd.	42,610	-	-	42,610	161,553	-	-	161,553
	LG Electronics (Kunshan) Co., Ltd.	71,458	-	1,476	72,934	94,100	-	142	94,242
	LG Electronics Australia Pty, Ltd.	39,888	-	-	39,888	-	-	287	287
	LG Electronics RUS, LLC	84,146	-	9,846	93,992	148	-	111	259
	LG Electronics India Pvt. Ltd.	56,590	-	9,456	66,046	129	-	404	533
	LG Electronics (Levant) Jordan	27,712	-	225	27,937	-	-	165	165
	LG Electronics Deutschland GmbH	144,340	-	6,202	150,542	-	-	4,495	4,495
	LG Electronics Japan, Inc.	49,499	-	-	49,499	-	-	2,299	2,299
	LG Electronics Mlawa Sp. z.O.O.	59,892	-	-	59,892	454,779	-	433	455,212
	LG Electronics Egypt S.A.E	37,796	-	80,315	118,111	1,559	-	20	1,579
	LG Electronics Nanjing New Technology co.,LTD	15,475	-	131	15,606	158,144	-	8	158,152
	LG Electronics United Kingdom Ltd.	54,795	-	214	55,009	-	-	1,452	1,452
	LG Electronics Thailand Co., Ltd.	20,130	-	370	20,500	160,621	-	2,908	163,529
	LG Electronics Inc Chile Ltda.	93,847	-	-	93,847	-	-	34	34
	LG Electronics Colombia	95,020	-	-	95,020	-	-	107	107

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		September 30, 2018							
		Receivables				Payables			
Classification	Name	Trade receivables	Loans	Other receivables	Total	Trade payables	Borrowings	Other payables	Total
	Ltda.								
	Others	1,193,586	-	53,436	1,247,022	838,902	-	63,310	902,212
	Subtotal	3,494,013	-	239,482	3,733,495	2,486,584	-	350,830	2,837,414
Associates	LG Display Co., Ltd. and its subsidiaries	162,909	-	209,510	372,419	173,175	-	55,475	228,650
	Ericsson-LG Co., Ltd. and its subsidiaries	12	-	3	15	806	-	-	806
	Hitachi-LG Data Storage Inc.(HLDS) and its subsidiaries	175	-	-	175	13,276	-	334	13,610
	LG Fuel Cell Systems Inc. and its subsidiaries	744	-	163	907	-	-	1	1
	Subtotal	163,840	-	209,676	373,516	187,257	-	55,810	243,067
Joint ventures	Arcelik-LG Klima Sanayi ve Ticaret A.S.(LGEAT)	-	-	-	-	3,797	-	-	3,797
	LG-MRI LLC	1,429	-	-	1,429	344	-	-	344
	Subtotal	1,429	-	-	1,429	4,141	-	-	4,141
Other related parties	LG CNS Co., Ltd. and its subsidiaries	40,963	-	1,981	42,944	2,023	-	71,902	73,925
	SERVEONE Co., Ltd. and its subsidiaries	7,560	-	59,591	67,151	209,822	-	68,107	277,929
	LG Management Development Institute	-	-	15,660	15,660	-	-	1,458	1,458
	LG SPORTS Ltd.	-	-	-	-	-	-	697	697
	Subtotal	48,523	-	77,232	125,755	211,845	-	142,164	354,009
Others ¹	LG Chem Ltd. and its subsidiaries and joint ventures	361,414	-	236,189	597,603	127,317	-	107,161	234,478
	LG INTERNATIONAL CORP and its subsidiaries	16,872	-	4,004	20,876	407,442	-	130,805	538,247
	LG Uplus Corp and its subsidiaries	41,933	-	108	42,041	-	-	142	142
	LG HAUSYS,LTD. and its subsidiaries and associates	9,782	-	3,000	12,782	376	-	591	967
	Silicon Works Co., Ltd	74	-	-	74	1,625	-	771	2,396
	LG HOUSEHOLD & HEALTH CARE LTD and its subsidiaries	27	-	1,426	1,453	-	-	602	602
	GIIR Inc. and its subsidiaries	241	-	-	241	-	-	139,104	139,104
	Subtotal	430,343	-	244,727	675,070	536,760	-	379,176	915,936
	Total	4,138,190	-	796,278	4,934,468	3,426,587	-	931,199	4,357,786

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		December 31, 2017							
		Receivables				Payables			
Classification	Name	Trade receivables	Loans	Other receivables	Total	Trade payables	Borrowings	Other payables	Total
Significantly influencing the Company	LG Corp.	39	-	23,325	23,364	-	-	9,272	9,272
Subsidiaries	LG Innotek Co., Ltd.	380,623	-	2,368	382,991	149,835	-	38,605	188,440
	Hiplaza Co., Ltd.	155,550	-	11,732	167,282	-	-	9,750	9,750
	LG Electronics U.S.A., Inc.	500,636	-	-	500,636	-	-	11,237	11,237
	LG Electronics Mobilecomm U.S.A., Inc.	267,876	-	-	267,876	-	-	28,559	28,559
	Inspur LG Digital Mobile Communications Co., Ltd.	115,718	-	-	115,718	295,003	-	1,960	296,963
	LG Electronics Vietnam Haiphong Co., Ltd.	151,420	-	1,283	152,703	170,225	-	1,894	172,119
	LG Electronics do Brasil Ltda.	244,857	-	38,524	283,381	386	-	331	717
	LG Electronics Gulf FZE	126,018	-	-	126,018	-	-	16	16
	LG Electronics Canada, Inc.	42,105	-	-	42,105	-	-	37	37
	Qingdao LG Inspur Digital Communication Co., Ltd.	31,377	-	-	31,377	98,183	-	-	98,183
	LG Electronics (Kunshan) Co.,Ltd.	82,536	-	-	82,536	27,360	-	10,693	38,053
	LG Electronics Australia Pty, Ltd.	58,662	-	-	58,662	-	-	609	609
	LG Electronics RUS, LLC	44,353	-	12,087	56,440	475	-	301	776
	LG Electronics India Pvt. Ltd.	21,776	-	7,318	29,094	1,059	-	212	1,271
	LG Electronics (Levant) Jordan	68,467	-	9	68,476	-	-	626	626
	LG Electronics Deutschland GmbH	117,195	-	14,331	131,526	-	-	10,456	10,456
	LG Electronics Japan, Inc.	76,677	-	-	76,677	-	-	2,591	2,591
	LG Electronics Mlawa Sp. z.O.O.	33,601	-	2	33,603	662,898	-	775	663,673
	LG Electronics Egypt S.A.E	55,145	-	66,906	122,051	11,029	-	5	11,034
	LG Electronics Nanjing New Technology co.,LTD	28,956	-	167	29,123	151,227	-	-	151,227
	LG Electronics United Kingdom Ltd.	66,926	-	1,418	68,344	-	-	877	877
	LG Electronics Thailand Co., Ltd.	17,688	-	322	18,010	229,286	-	54	229,340
	LG Electronics Inc Chile Ltda.	67,959	-	65	68,024	-	-	23	23
	LG Electronics Colombia Ltda.	70,282	-	66	70,348	-	-	142	142
	Others	894,634	-	70,247	964,881	617,624	127,925	84,195	829,744

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		December 31, 2017							
Classification	Name	Receivables				Payables			
		Trade receivables	Loans	Other receivables	Total	Trade payables	Borrowings	Other payables	Total
	Subtotal	3,721,037	-	226,845	3,947,882	2,414,590	127,925	203,948	2,746,463
Associates	LG Display Co., Ltd. and its subsidiaries	387,785	-	9,980	397,765	538,254	-	86,253	624,507
	Ericsson-LG Co., Ltd. and its subsidiaries	316	-	202	518	1,302	-	-	1,302
	Hitachi-LG Data Storage Inc.(HLDS) and its subsidiaries	33	-	1,531	1,564	6,106	-	237	6,343
	LG Fuel Cell Systems Inc. and its subsidiaries	1,201	-	-	1,201	-	-	5	5
	Korea Information Certificate Authority Inc.	-	-	-	-	-	-	7	7
	Subtotal	389,335	-	11,713	401,048	545,662	-	86,502	632,164
Joint ventures	Arcelik-LG Klima Sanayi ve Ticaret A.S.(LGEAT)	-	-	-	-	1,692	-	-	1,692
	LG-MRI LLC	248	-	-	248	-	-	-	-
	Subtotal	248	-	-	248	1,692	-	-	1,692
Other related parties	LG CNS Co., Ltd. and its subsidiaries	20,662	-	2,202	22,864	2,498	-	117,524	120,022
	SERVEONE Co., Ltd. and its subsidiaries	73,380	-	58,704	132,084	116,305	-	158,893	275,198
	LUSEM CO., LTD. ²	-	-	-	-	244	-	46	290
	LG Management Development Institute	-	-	15,660	15,660	-	-	1,272	1,272
	LG SPORTS Ltd.	-	-	-	-	-	-	1,952	1,952
	LG MMA Ltd.	256	-	-	256	-	-	-	-
	Subtotal	94,298	-	76,566	170,864	119,047	-	279,687	398,734
Others ¹	LG Chem Ltd. and its subsidiaries and joint ventures	274,747	-	7,272	282,019	261,385	-	88,240	349,625
	LG INTERNATIONAL CORP and its subsidiaries	20,900	-	18,834	39,734	392,637	-	116,795	509,432
	LG Uplus Corp and its subsidiaries	46,992	-	458	47,450	-	-	855	855
	LG HAUSYS,LTD. and its subsidiaries and associates	18,164	-	169	18,333	2,547	-	3,187	5,734
	Silicon Works Co., Ltd	2,489	-	-	2,489	2,178	-	756	2,934
	LG HOUSEHOLD & HEALTH CARE LTD and its subsidiaries	2,048	-	-	2,048	-	-	1,258	1,258
	GIIR Inc. and its subsidiaries	339	-	-	339	-	-	219,536	219,536
	Subtotal	365,679	-	26,733	392,412	658,747	-	430,627	1,089,374
	Total	4,570,636	-	365,182	4,935,818	3,739,738	127,925	1,010,036	4,877,699

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¹ Although the entities are not the related parties of the Company in accordance with Korean IFRS 1024, the entity belongs to the Large Enterprise Group to which the Company also belongs in accordance with the Monopoly Regulation and Fair Trade Act.

² All shares of LUSEM CO., LTD. were sold to LB SEMICON CO., LTD. on February 27, 2018, and the name of LUSEM CO., LTD. was changed to LB Lusem CO., LTD. on March 15, 2018.

iii) Significant capital transactions with related parties and others for the nine-month periods ended September 30, 2018 and 2017, are as follows:

(in millions of Korean won)

Classification	Name	Dividend income	Dividend paid	Cash distribution (reduction)	2018			
					Financing loan transactions		Financing borrowing transactions	
					Loans	Collections	Borrowings	Repayments
Significantly influencing the Company	LG Corp.	-	22,038	-	-	-	-	-
Subsidiaries	LG Innotek Co., Ltd.	2,414	-	-	-	-	-	-
	LG Electronics RUS, LLC	63,354	-	-	-	-	-	-
	LG Electronics Nanjing New Technology co.,LTD	10,391	-	-	-	-	-	-
	LG Electronics (Hangzhou) Co., Ltd.	473	-	-	-	-	-	-
	NanJing LG-Panda Appliances Co., Ltd.	7,087	-	-	-	-	-	-
	LG Electronics Huizhou Ltd.	3,051	-	-	-	-	-	-
	Inspur LG Digital Mobile Communications Co., Ltd.	25,764	-	-	-	-	-	-
	Qingdao LG Inspur Digital Communication Co., Ltd.	7,893	-	-	-	-	-	-
	LGE Alliance Fund II	-	-	(1,536)	-	-	-	-
	Subtotal	120,427	-	(1,536)	-	-	-	-
Associates	LG Display Co., Ltd.	67,813	-	-	-	-	-	-
	Korea Information Certificate Authority Inc.	100	-	-	-	-	-	-
	LG Fuel Cell Systems Inc.	-	-	7,178	-	-	-	-
	Subtotal	67,913	-	7,178	-	-	-	-
	Total	188,340	22,038	5,642	-	-	-	-

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Classification	Name	2017						
		Dividend income	Dividend paid	Cash distribution (reduction)	Financing loan transactions		Financing borrowing transactions	
					Loans	Collections	Borrowings	Repayments
Significantly influencing the Company	LG Corp.	-	22,038	-	-	-	-	-
Subsidiaries	LG Electronics Egypt S.A.E ¹	-	-	89,922	-	-	-	-
	LG Innotek Co., Ltd.	2,413	-	-	-	-	-	-
	LG Soft India Private Limited.	23,921	-	-	-	-	-	-
	LG Electronics RUS, LLC	62,944	-	-	-	-	-	-
	LG Electronics Nanjing New Technology co.,LTD	8,127	-	-	-	-	-	-
	LG Electronics (Hangzhou) Co., Ltd.	252	-	-	-	-	-	-
	P.T. LG Electronics Indonesia	75,560	-	-	-	-	-	-
	NanJing LG-Panda Appliances Co., Ltd.	6,174	-	-	-	-	-	-
	LG Electronics Tianjin Appliances Co., Ltd.	11,032	-	-	-	-	-	-
	LG Electronics Huizhou Ltd.	3,622	-	-	-	-	-	-
	LG Electronics India Pvt. Ltd.	145,581	-	-	-	-	-	-
	Inspur LG Digital Mobile Communications Co., Ltd.	22,398	-	-	-	-	-	-
	LG Electronics European Shared Service Center B.V.	-	-	-	-	-	135,549	-
	Subtotal	362,024	-	89,922	-	-	135,549	-
Associates	LG Display Co., Ltd.	67,813	-	-	-	-	-	-
	Korea Information Certificate Authority Inc.	114	-	-	-	-	-	-
	LG Fuel Cell Systems Inc.	-	-	13,660	-	-	-	-
	Tianjin Lijie cartridge heater Co., Ltd.	-	-	20	-	-	-	-
	LG Electronics Finland Lab Oy	-	-	2,105	-	-	-	-
	Ericsson-LG Co., Ltd. and its subsidiaries	-	-	(12,500)	-	-	-	-
	Subtotal	67,927	-	3,285	-	-	-	-
	Total	429,951	22,038	93,207	-	-	135,549	-

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- (b) The compensation paid or payable to key management personnel for the nine-month periods ended September 30, 2018 and 2017, consists of:

<i>(in millions of Korean won)</i>	2018	2017
Salaries and other short-term benefits	16,175	13,193
Post-employment benefits	2,833	3,529
Other long-term benefits	84	102
Total	19,092	16,824

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

- (c) The payment guarantees for the financial support of related parties at the end of the reporting period are presented in Note 27.
- (d) There is no collateral provided by the Company for the financial support of related parties at the end of the reporting period.
- (e) The Company has not recognized any bad debt expense or allowance for trade receivables from related parties at the end of the reporting period.

30. Risk Management

Financial Risk Management

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

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

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

The carrying amount, and profit or loss of each category of financial instruments and the details of borrowings related to the financial risk management are presented in Note 4 and Note 11, respectively.

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(a) Market risk

i) Foreign exchange risk

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

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

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

As of September 30, 2018 and December 31, 2017, if the foreign exchange rate of the Korean won fluctuated for monetary assets and liabilities denominated in major foreign currency other than functional currency by 10% while other variables were fixed, the effects on income (loss) before tax would be as follows:

<i>(in millions of Korean won)</i>	September 30, 2018		December 31, 2017	
	10% increase	10% decrease	10% increase	10% decrease
USD/KRW	22,165	(22,165)	56,741	(56,741)
EUR/KRW	14,041	(14,041)	(486)	486

ii) Interest rate risk

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

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

If interest rates fluctuate by 1%p without other variables changing, the effects on income and expenses related to borrowings and deposits held by financial institutions with variable interest rates for the nine-month periods ended September 30, 2018 and 2017, are as follows:

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<i>(in millions of Korean won)</i>	2018		2017	
	1%p increase	1%p decrease	1%p increase	1%p decrease
Interest income	11,895	(11,895)	10,856	(10,856)
Interest expense	-	-	1,013	(1,013)

iii) Details of derivative contracts are as follows:

Hedging purposes

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

Details of hedging instruments are as follows:

	Contractor	Contracted amount <i>(in millions)</i>	Contracted currency rate	Interest rate (paid) (%)	Starting date	Expiration date	Book amount <i>(in millions of Korean won)</i>	
							Assets	Liabilities
USD/KRW CRS	Shinhan Bank and others	USD 730	1,067.9 ~ 1,155.2	2.17 ~ 3.64	2013. 7.31 ~ 2018. 6. 8	2019. 1.31 ~ 2028. 6. 8	227	16,280
Interest rate swap	Woori Bank and others	KRW 1,270,000 / EUR 100	-	1.00 ~ 4.53	2014. 1. 3 ~ 2017. 8.24	2023. 2.24 ~ 2030. 7. 7	1,148	36,698

Interest rates received for the above swap contracts are equal to annual interest rates of borrowings (Note 11).

Details of hedged items are as follows:

<i>(in millions of Korean won)</i>	Hedged items	Book amount	Changes in fair value (net of tax)	Accumulated other comprehensive loss
USD/KRW CRS	Borrowings	810,254	(12,887)	(14,573)
Interest rate swap	Borrowings	1,398,468	8,891	(24,068)

The results of hedge accounting are as follows:

<i>(in millions of Korean won)</i>	Changes in fair value of derivatives (net of tax)	Line items in profit or loss	Reclassified to profit or loss (net of tax)	Other comprehensive income (loss) (net of tax)
USD/KRW CRS	12,887	Interest expense and exchange differences	(22,805)	(9,918)
Interest rate swap	(8,891)	Interest expense	7,200	(1,691)

Trading purposes

The Company entered into a contract to additionally purchase shares of Robostar Co.,Ltd. in December 2019 at the average price of immediate four months with a 25% mark up. In relation to this share purchase contract, the Company recognized derivative liabilities amounting to ₩2,713 million at the time of acquisition of Robostar Co.,Ltd. and recognized gain on valuation

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of derivatives amounting to ₩264 million during the nine-month period ended September 30, 2018.

iv) Price risk

The Company is exposed to price risk through equity securities owned by the Company classified as financial assets at fair value through other comprehensive income and available-for-sale financial assets.

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

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

<i>(in millions of Korean won)</i>	September 30, 2018		December 31, 2017	
	30% increase	30% decrease	30% increase	30% decrease
KOSDAQ	3,671	(3,671)	3,095	(3,095)

The valuation and the reclassification of the financial assets at fair value through other comprehensive income and available-for-sale financial assets related to the market risk above are presented in Note 6.

(b) Credit risk

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

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

At the end of reporting period, trade receivable balance of the Company, excluding the trade receivables from the subsidiaries, is ₩1,282,869 million (December 31, 2017: ₩1,913,932 million) and its risk is managed appropriately within insurer's credit limit of ₩3,242,187 million (December 31, 2017: ₩3,174,486 million). Therefore, the Company determined that credit risk exposed to the Company is limited.

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

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(c) Liquidity risk

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

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

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

- i) Cash flow information on maturity of financial liabilities as of September 30, 2018, are as follows:

<i>(in millions of Korean won)</i>	Total	Within 1 year	1 to 2 years	3 to 5 years	Over 5 years
Trade payables	5,664,535	5,664,535	-	-	-
Borrowings	9,525,276	1,197,941	836,362	3,039,916	4,451,057
Other payables	2,058,352	2,045,493	12,028	831	-
Other liabilities	13,151	-	13,151	-	-
Liabilities held for sale	856	856	-	-	-
Total	17,262,170	8,908,825	861,541	3,040,747	4,451,057

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

- ii) At the end of the reporting period, the maturity analysis of financial guarantee contracts provided by the Company to subsidiaries and third party companies is as follows:

<i>(in millions of Korean won)</i>	Total	Within 1 year	1 to 2 years	3 to 5 years	Over 5 years
Financial guarantee contracts	3,902,058	3,346,084	157,933	136,556	261,485

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

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Capital Risk Management

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

Debt-to-equity ratio and net borrowing ratio as of September 30, 2018 and December 31, 2017, are as follows:

<i>(in millions of Korean won, except for ratios)</i>	September 30, 2018	December 31, 2017
Liability (A)	18,613,811	18,614,924
Equity (B)	10,269,270	9,544,857
Cash and cash equivalents (C)	1,585,946	1,586,258
Borrowings (D)	8,098,617	7,441,840
Debt-to-equity ratio (A/B)	181.3%	195.0%
Net borrowings ratio ((D-C)/B)	63.4%	61.3%

Fair Value Estimation

(a) The book amount and fair value of the Company's financial assets and liabilities as of September 30, 2018 and December 31, 2017, are as follows:

<i>(in millions of Korean won)</i>	September 30, 2018			
	Current		Non-current	
	Book amount	Fair value	Book amount	Fair value
Assets at fair value				
Financial assets at fair value through profit or loss				
Other financial assets	-	-	10,964	1
Financial assets at fair value through other comprehensive income				
Trade receivables	23,207	1	-	-
Other financial assets				
Listed equity securities	-	-	17,279	17,279
Unlisted equity securities	-	-	11,705	1
Derivatives for hedging purposes				
Other financial assets	37	37	1,338	1,338
Assets at amortized cost				
Financial assets at amortized cost				
Cash and cash equivalents	1,585,946	1	-	-
Deposits held by financial institutions	80,500	1	1,929	1,929
Trade receivables	4,718,078	1	-	-
Other receivables	407,941	1	280,378	267,763
Total	6,815,709		323,593	

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<i>(in millions of Korean won)</i>	September 30, 2018			
	Current		Non-current	
	Book amount	Fair value	Book amount	Fair value
Liabilities at fair value				
Financial liabilities at fair value through profit or loss				
Other financial liabilities	-	-	2,449	2,449
Derivatives for hedging purposes				
Other financial liabilities	-	-	52,978	52,978
Liabilities at amortized cost				
Financial liabilities at amortized cost				
Trade payables	5,664,535	1	-	-
Borrowings	956,706	1	7,141,911	7,213,844
Other payables	2,045,493	1	12,859	12,477
Liabilities held for sale	856	1	-	-
Other liabilities				
Other financial liabilities	5,910	2	8,256	2
Total	8,673,500		7,218,453	

<i>(in millions of Korean won)</i>	December 31, 2017			
	Current		Non-current	
	Book amount	Fair value	Book amount	Fair value
Assets at fair value				
Derivatives for hedging purposes				
Other financial assets	-	-	1,862	1,862
Available-for-sale financial assets				
Other financial assets	-	-	13,842	13,842
Assets at amortized cost				
Loans and other receivables				
Cash and cash equivalents	1,586,258	1	-	-
Deposits held by financial institutions	80,500	1	1,785	1,785
Trade receivables	5,612,250	1	-	-
Other receivables	472,794	1	292,123	278,305
Assets at cost				
Available-for-sale financial assets				
Other financial assets	-	-	18,241	3
Total	7,751,802		327,853	

<i>(in millions of Korean won)</i>	December 31, 2017			
	Current		Non-current	
	Book amount	Fair value	Book amount	Fair value
Liabilities at fair value				
Derivatives for hedging purposes				
Other financial liabilities	-	-	68,589	68,589
Liabilities at amortized cost				

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<i>(in millions of Korean won)</i>	December 31, 2017			
	Current		Non-current	
	Book amount	Fair value	Book amount	Fair value
Trade payables	6,126,168	1	-	-
Borrowings	767,666	1	6,674,174	6,637,249
Other payables	2,351,601	1	215	208
Other liabilities				
Other financial liabilities	6,985	4	1,303	4
Total	9,252,420		6,744,281	

¹ Excluded from disclosures such as fair value hierarchy and measurement method as the carrying amount is the reasonable approximate of fair value.

² Measured at the higher of the amount of the loss allowance determined in accordance with Korean IFRS 1109 *Financial Instruments*, and the amount initially recognized less cumulative amount of income recognized in accordance with Korean IFRS 1115 *Revenue from Contracts with Customers*.

³ Unlisted equity securities are calculated at cost because the variability in the range of the estimated future cash flows is significant and the probabilities of the various estimates within the range cannot be reasonably assessed.

⁴ Measured at the higher of the amount determined in accordance with Korean IFRS 1037 *Provisions, Contingent Liabilities and Contingent Assets*, and the amount initially recognized less cumulative amortization recognized in accordance with Korean IFRS 1018 *Revenue*.

(b) Fair value measurements of assets and liabilities

i) Fair value hierarchy and measurement method

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

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

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

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

- Level 3: When financial instruments are measured by using a discounted cash flow, if one

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or more of the significant inputs are unobservable market data, the instrument is included in 'level 3'. There are no assets or liabilities categorized within 'level 3'.

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

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

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

ii) Financial instruments measured at fair value

Fair value hierarchy classifications of the financial assets and financial liabilities that are measured at fair value as of September 30, 2018 and December 31, 2017, are as follows:

<i>(in millions of Korean won)</i>	September 30, 2018			
	Level 1	Level 2	Level 3	Total
Assets				
Other financial assets				
Financial assets at fair value through other comprehensive income				
- Listed equity securities	17,279	-	-	17,279
Derivatives for hedging purposes	-	1,375	-	1,375
Liabilities				
Other financial liabilities				
Financial liabilities at fair value through profit or loss	-	2,449	-	2,449
Derivatives for hedging purposes	-	52,978	-	52,978

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

The above fair value amounts are recurring fair value measurements.

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

Valuation technique and inputs for fair value measurements categorized within 'level 2' as of September 30, 2018 and December 31, 2017, are as follows:

<i>(in millions of Korean won)</i>	Fair value		Valuation techniques	Inputs
	September 30, 2018	December 31, 2017		
Assets				
Other financial assets				
Derivatives for hedging purposes	1,375	1,862	Discounted cash flow	Discount rate and exchange rate

<i>(in millions of Korean won)</i>	Fair value		Valuation techniques	Inputs
	September 30, 2018	December 31, 2017		
Liabilities				
Other financial liabilities				
Financial liabilities at fair value through profit or loss	2,449	-	Discounted cash flow	Discount rate and share price
Derivatives for hedging purposes	52,978	68,589	Discounted cash flow	Discount rate and exchange rate

- Fair value measurements categorized within 'level 3'

At the end of the reporting period, no financial instruments measured at fair value are categorized within 'level 3'.

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

Financial instruments not measured at fair value but for which the fair value is disclosed as of September 30, 2018 and December 31, 2017, are as follows:

<i>(in millions of Korean won)</i>	September 30, 2018			
	Level 1	Level 2	Level 3	Total
Assets				
Non-current deposits held by financial institutions	-	-	1,929	1,929
Non-current other receivables	-	-	267,763	267,763
Liabilities				
Non-current borrowings	-	-	7,213,844	7,213,844
Non-current other payables	-	-	12,477	12,477

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

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

At the end of the reporting period, there are no financial instruments that are not measured at fair value but for which the fair value is disclosed and categorized within 'level 2'.

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

Valuation technique, inputs and unobservable inputs of financial instruments that are not measured at fair value but for which the fair value is disclosed and categorized within 'level 3' as of September 30, 2018 and December 31, 2017, are as of follows:

<i>(in millions of Korean won)</i>	September 30, 2018		December 31, 2017		Valuation techniques	Inputs	Significant but unobservable inputs	Range of significant but unobservable inputs
	Carrying amount	Fair value	Carrying amount	Fair value				
Assets								
Non-current deposits held by financial institutions	1,929	1,929	1,785	1,785	Discounted cash flow	Discount rate	Discount rate	0.1%
Non-current other receivables	280,378	267,763	292,123	278,305	Discounted cash flow	Discount rate and exchange rate	Discount rate	3.4% ~ 3.9%

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<i>(in millions of Korean won)</i>	September 30, 2018		December 31, 2017		Valuation techniques	Inputs	Significant but unobservable inputs	Range of significant but unobservable inputs
	Carrying amount	Fair value	Carrying amount	Fair value				
Liabilities								
Non-current borrowings	7,141,911	7,213,844	6,674,174	6,637,249	Discounted cash flow	Discount rate and exchange rate	Discount rate	2.1% ~ 4.0%
Non-current other payables	12,859	12,477	215	208	Discounted cash flow	Discount rate	Discount rate	2.2% ~ 2.7%

31. Assets and Liabilities Classified as Held for Sale

- (a) Details of assets and liabilities classified as held for sale as of September 30, 2018 and December 31, 2017, are as follows:

<i>(in millions of Korean won)</i>	September 30, 2018	December 31, 2017
Assets held for sale		
Inventories	2,175	-
Property, plant and equipment	3,629	6,070
Intangible assets	183	-
Other assets	75	-
Total	6,062	6,070
Liabilities held for sale		
Other payables	856	-
Provisions	80	-
Other liabilities	54	-
Defined benefit obligations	150	-
Total	1,140	-

At the end of the reporting period, sales procedure of the assets and liabilities is in progress, and the sale is expected to be completed by 2018.

- (b) Assets held for sale were measured at fair value less costs to sell before the reclassification, however, in relation to this no impairment loss was recognized.