

LG Display Co., Ltd.  
Form 20-F  
April 27, 2018  
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**As filed with the Securities and Exchange Commission on April 27, 2018**

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

**FORM 20-F**

**(Mark One)**

**REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

**OR**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934**

**For the fiscal year ended December 31, 2017**

**OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934**

**OR**

**SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**Date of event requiring this shell company report \_\_\_\_\_**

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission file number 1-32238**

**LG Display Co., Ltd.**

**(Exact name of Registrant as specified in its charter)**

**LG Display Co., Ltd.**

**(Translation of Registrant's name into English)**

**The Republic of Korea**

**(Jurisdiction of incorporation or organization)**

**LG Twin Towers, 128 Yeoui-daero, Yeongdeungpo-gu, Seoul 07336, Republic of Korea**

**(Address of principal executive offices)**

**Daniel Kim**

**LG Twin Towers, 128 Yeoui-daero, Yeongdeungpo-gu, Seoul 07336, Republic of Korea**

**Telephone No.: +82-2-3777-1010**

**Facsimile No.: +82-2-3777-0785**

**(Name, telephone, e-mail and/or facsimile number and address of company contact person)**

**Securities registered or to be registered pursuant to Section 12(b) of the Act.**

**Title of each class  
American Depositary Shares, each representing  
one-half**

**Name of each exchange on which registered  
New York Stock Exchange**

**of one share of Common Stock**

**Common Stock, par value ₩5,000 per share**

**New York Stock Exchange\***

**\* Not for trading, but only in connection with the registration of the American Depositary Shares. Securities registered or to be registered pursuant to Section 12(g) of the Act.**

**None**

**Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.**

**None**

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

**357,815,700 shares of common stock, par value ₩5,000 per share**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. **Yes No**

Note: Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934. **Yes No**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. **Yes No**

Indicate by check mark whether the registrant has submitted electronically and posted on its Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). **Yes No**

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or an emerging growth company. See the definitions of large accelerated filer, accelerated filer and emerging growth company in Rule 12b-2 of the Exchange Act.

Large accelerated filer      Accelerated filer      Non-accelerated filer      Emerging growth company  
If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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The term new or revised financial accounting standard refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP

International Financial Reporting  
Standards as issued by the International  
Accounting Standards Board

Other

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.    Item 17    Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).    Yes    No

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**PRESENTATION OF FINANCIAL AND OTHER INFORMATION**

In this annual report, the terms we, us, our and LG Display refer to LG Display Co., Ltd. and, unless otherwise indicated or required by context, our consolidated subsidiaries. Notwithstanding the foregoing, in the context of any legal proceedings or governmental investigations, LG Display refers to LG Display Co., Ltd. and does not include any of its subsidiaries, or any other entities or persons.

The financial statements included in this annual report are prepared in accordance with International Financial Reporting Standards, or IFRS, as issued by the International Accounting Standards Board, or IASB. As such, we make an explicit and unreserved statement of compliance with IFRS, as issued by the IASB, with respect to our consolidated financial statements as of December 31, 2016 and 2017 and for each of the years ended in the three-year period ended December 31, 2017 included in this annual report.

Unless expressly stated otherwise, all financial data included in this annual report are presented on a consolidated basis.

All references to Korean Won, ~~Won~~ or W in this annual report are to the currency of the Republic of Korea, all references to U.S. dollars or US\$ are to the currency of the United States, all references to Japanese Yen, Yen or ¥ are to the currency of Japan, all references to RMB or Chinese Renminbi are to the currency of the People's Republic of China, all references to NT\$ are to the currency of Taiwan, all references to Euro or € are to the official currency of the European Economic and Monetary Union, all references to PLN are to the currency of the Republic of Poland, all references to R\$ are to the currency of Brazil, all references to SG\$ are to the currency of Singapore, and all references to VND are to the currency of Vietnam.

Any discrepancies in any table between the totals and the sums of the amounts listed are due to rounding.

For your convenience, this annual report contains translations of Won amounts into U.S. dollars at the noon buying rate in New York City for cable transfers in Korean Won as certified by the Federal Reserve Bank of New York for customs purposes in effect on December 31, 2017, which was ₩1,067.42 = US\$1.00.



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**FORWARD-LOOKING STATEMENTS**

We have made forward-looking statements in this annual report. Our forward-looking statements contain information regarding, among other things, our financial condition, future plans and business strategy. Words such as “contemplate,” “seek to,” “anticipate,” “believe,” “estimate,” “expect,” “intend,” “plan” and similar expressions, as they relate to us, are used to identify a number of these forward-looking statements. These forward-looking statements reflect management’s present expectations and projections about future events and are not a guarantee of future performance. Although we believe that these expectations and projections are reasonable, such forward-looking statements are inherently subject to risks, uncertainties and assumptions about us, including, among other things:

the cyclical nature of our industry;

our dependence on introducing new products on a timely basis;

our dependence on growth in the demand for our products;

our ability to compete effectively;

our dependence on a select group of key customers;

our ability to successfully manage our capacity expansion and allocation in response to changing industry and market conditions;

our dependence on key personnel;

general economic and political conditions, including those related to the display panel industry;

possible disruptions in commercial activities caused by events such as natural disasters, terrorist activity and armed conflict;

fluctuations in foreign currency exchange rates; and

those other risks identified in the “Risk Factors” section of this annual report.

Except as required by law, we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the events discussed in the forward-looking statements in this annual report might not occur and our

actual results could differ materially from those anticipated in these forward-looking statements.

All subsequent forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section.

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**PART I**

**Item 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS**

Not applicable.

**Item 2. OFFER STATISTICS AND EXPECTED TIMETABLE**

Not applicable.

**Item 3. KEY INFORMATION**

**Item 3.A. Selected Financial Data**

The selected consolidated financial data set forth below as of and for the years ended December 31, 2013, 2014, 2015, 2016 and 2017 have been derived from our consolidated financial statements and the related notes, which have been prepared under IFRS as issued by the IASB. Our audited consolidated financial statements as of December 31, 2016 and 2017 and for each of the years in the three-year period ended December 31, 2017 and the related notes are included in this annual report.

The information set forth below is not necessarily indicative of the results of future operations and should be read in conjunction with Item 5. Operating and Financial Review and Prospects and our consolidated financial statements and related notes included in this annual report.

In addition to preparing financial statements in accordance with IFRS as issued by the IASB included in this annual report, we also prepare financial statements in accordance with Korean International Financial Reporting Standards, or K-IFRS, as adopted by the Korean Accounting Standards Board, or KASB, which we are required to file with the Financial Services Commission and the Korea Exchange under the Financial Investment Services and Capital Markets Act of Korea. See Item 10.B. Memorandum and Articles of Association Business Report. English translations of such financial statements are furnished to the SEC on Form 6-K, which are not incorporated by reference to this or any of our previous annual reports on Form 20-F. The operating profit or loss presented in the consolidated statements of comprehensive income or loss prepared in accordance with K-IFRS for the years ended December 31, 2016 and 2017 included in the Form 6-K furnished to the SEC on February 28, 2018 is a profit of ₩1,311 billion and ₩2,462 billion, respectively. For further information, please see the Form 6-K furnished to the SEC on February 28, 2018, which is not incorporated by reference to this annual report.

Pursuant to the IFRS as issued by IASB, we are not required to separately present operating profit or loss in our consolidated statements of comprehensive income or loss prepared in accordance with IFRS. Therefore, the financial statements included in this annual report, which are prepared in accordance with IFRS as issued by IASB, do not present operating profit or loss as a separate line item.

**Consolidated statements of comprehensive income data**

|   | 2013  | 2014     | Year ended December 31, |          |          | 2017 <sup>(1)</sup>                              |          |
|---|---|----------|-------------------------|----------|----------|--|----------|
|   |   |          | 2015                    | 2016     | 2017     | (in millions of US\$, except for per share data) |          |
|   | (in billions of Won, except for per share data) |          |                         |          |          |  |          |
| Revenue                                 | ₩ 27,033  | ₩ 26,456 | ₩ 28,384                | ₩ 26,504 | ₩ 27,790 | US\$   | 26,035   |
| Cost of sales                           | (23,525)  | (22,667) | (24,070)                | (22,754) | (22,425) |  | (21,009) |
| Gross profit                            | 3,508   | 3,789    | 4,314                   | 3,750    | 5,366    |  | 5,027    |
| Selling expenses                        | (732)   | (747)    | (878)                   | (695)    | (994)    |  | (931)    |
| Administrative expenses                 | (518)   | (520)    | (593)                   | (610)    | (696)    |  | (652)    |
| Research and development expenses       | (1,096)   | (1,164)  | (1,218)                 | (1,134)  | (1,213)  |  | (1,136)  |
| Profit before income tax                | 830   | 1,242    | 1,434                   | 1,316    | 2,333    |  | 2,186    |
| Income tax expense                      | (411)   | (325)    | (411)                   | (385)    | (396)    |  | (371)    |
| Profit for the year                     | 419   | 917      | 1,023                   | 931      | 1,937    |  | 1,815    |
| Total comprehensive income for the year | 397   | 843      | 1,003                   | 953      | 1,700    |  | 1,593    |
| Basic earnings per share (Won, US\$)    | ₩ 1,191   | ₩ 2,527  | ₩ 2,701                 | ₩ 2,534  | ₩ 5,038  | US\$   | 4.72     |
| Diluted earnings per share (Won, US\$)  | ₩ 1,191   | ₩ 2,527  | ₩ 2,701                 | ₩ 2,534  | ₩ 5,038  | US\$   | 4.72     |

**Table of Contents****Consolidated statements of financial position data**

|  | 2013                 | 2014   | As of December 31, |                       |         | 2017       | 2017 <sup>(1)</sup> |
|--|----------------------|--------|--------------------|-----------------------|---------|------------|---------------------|
|  |                      |        | 2015               | 2016                  |         |            |                     |
|  | (in billions of Won) |        |                    | (in millions of US\$) |         |            |                     |
| Cash and cash equivalents                | ₩ 1,022              | ₩ 890  | ₩ 752              | ₩ 1,559               | ₩ 2,603 | US\$ 2,439 |                     |
| Deposits in banks                        | 1,302                | 1,526  | 1,772              | 1,164                 | 758     | 710        |                     |
| Trade accounts and notes receivable, net | 3,129                | 3,444  | 4,098              | 4,958                 | 4,325   | 4,052      |                     |
| Inventories                              | 1,933                | 2,754  | 2,352              | 2,288                 | 2,350   | 2,202      |                     |
| Total current assets                     | 7,732                | 9,241  | 9,532              | 10,484                | 10,474  | 9,813      |                     |
| Property, plant and equipment, net       | 11,808               | 11,403 | 10,546             | 12,031                | 16,202  | 15,179     |                     |
| Total assets                             | 21,715               | 22,967 | 22,577             | 24,884                | 29,160  | 27,318     |                     |
| Trade accounts and notes payable         | 3,000                | 3,392  | 2,765              | 2,877                 | 2,875   | 2,693      |                     |
| Current financial liabilities            | 908                  | 968    | 1,416              | 668                   | 1,453   | 1,361      |                     |
| Other accounts payable                   | 1,454                | 1,508  | 1,500              | 2,450                 | 3,170   | 2,970      |                     |
| Total current liabilities                | 6,789                | 7,550  | 6,607              | 7,058                 | 8,979   | 8,412      |                     |
| Non-current financial liabilities        | 2,995                | 3,279  | 2,808              | 4,111                 | 4,150   | 3,888      |                     |
| Long-term advance received               | 427                  |        |                    |                       | 830     | 778        |                     |
| Total liabilities                        | 10,918               | 11,184 | 9,872              | 11,422                | 14,718  | 13,282     |                     |
| Share capital and share premium          | 4,040                | 4,040  | 4,040              | 4,040                 | 4,040   | 3,785      |                     |
| Retained earnings                        | 6,663                | 7,455  | 8,159              | 9,004                 | 10,622  | 9,951      |                     |
| Total equity                             | 10,797               | 11,783 | 12,705             | 13,462                | 14,982  | 14,036     |                     |

**Other financial data**

|  | 2013  | 2014    | Year ended December 31, |  |         | 2017       | 2017 <sup>(1)</sup> |
|--|---|---------|-------------------------|--|---------|------------|---------------------|
|  |   |         | 2015                    | 2016   |         |            |                     |
|  | (in billions of Won, except for percentages and per share data) |         |                         | (in millions of US\$, except for percentages and per share data) |         |            |                     |
| Gross margin <sup>(2)</sup>                  | 13.0%   | 14.3%   | 15.2%                   | 14.1%  | 19.3%   | 19.3%      |                     |
| Net margin <sup>(3)</sup>                    | 1.5%  | 3.5%    | 3.6%                    | 3.5%   | 7.0%    | 7.0%       |                     |
| EBITDA <sup>(4)</sup>                        | ₩ 4,784   | ₩ 4,795 | ₩ 4,880                 | ₩ 4,410  | ₩ 5,579 | US\$ 5,227 |                     |
| Capital expenditures                         | 3,473   | 2,983   | 2,365                   | 3,736  | 6,592   | 6,176      |                     |
| Depreciation and amortization <sup>(5)</sup> | 3,834   | 3,492   | 3,376                   | 3,022  | 3,215   | 3,012      |                     |
| Net cash provided by operating activities    | 3,585   | 2,865   | 2,727                   | 3,641  | 6,764   | 6,338      |                     |
|  | (4,504)   | (3,451) | (2,732)                 | (3,189)  | (6,481) | (6,073)    |                     |

|   |       |       |       |       |       |      |      |
|---|-------|-------|-------|-------|-------|------|------|
| Net cash used in investing activities                   |       |       |       |       |       |      |      |
| Net cash provided by (used in) financing activities     | (391) | 405   | (174) | 308   | 862   |      | 808  |
| Dividends declared per share (Won, US\$) <sup>(6)</sup> |       | ₩ 500 | ₩ 500 | ₩ 500 | ₩ 500 | US\$ | 0.47 |

- (1) For convenience, the Korean Won amounts are expressed in U.S. dollars at the rate of ₩1,067.42 to US\$1.00, the noon buying rate in effect on December 31, 2017 as certified by the Federal Reserve Bank of New York for customs purposes. This translation should not be construed as a representation that the Korean Won amounts represent, have been or could be converted to U.S. dollars at that rate or any other rate.
- (2) Gross margin represents gross profit divided by revenue.
- (3) Net margin represents profit (loss) for the year divided by revenue.
- (4) EBITDA is defined as profit (loss) for the year excluding interest expense, income tax expense, depreciation and amortization of intangible assets and interest income. EBITDA is a key financial measure used by our senior management to internally evaluate the performance of our business and for other required or discretionary purposes. Specifically, our significant capital assets are in different stages of depreciation, and because we do not have separate operating divisions, our senior management uses EBITDA internally to measure the performance of these assets on a comparable basis. We also believe that the presentation of EBITDA will enhance an investor's understanding of our operating performance as we believe it is commonly reported and widely used by analysts and investors in our industry. It also provides useful information for comparison on a more comparable basis of our operating performance and those of our competitors, who follow different accounting policies. For example, depreciation on most of our equipment is made based on a four-year useful life while most of our competitors use different depreciation schedules from our own. EBITDA is not a measure determined in accordance with IFRS. EBITDA should not be considered as an alternative to gross profit, cash flows from operating activities or profit (loss) for the year, as determined in accordance with IFRS. Our calculation of EBITDA may not be comparable to similarly titled measures reported by other companies. A reconciliation of profit (loss) for the year to EBITDA is as follows:

|                                   | Year ended December 31, |                |                |                |                | 2017 <sup>(1)</sup>   |              |
|-----------------------------------|-------------------------|----------------|----------------|----------------|----------------|-----------------------|--------------|
|                                   | 2013                    | 2014           | 2015           | 2016           | 2017           | (in millions of US\$) |              |
|                                   | (in billions of Won)    |                |                |                |                |                       |              |
| <b>Profit for the year</b>        | ₩ 419                   | ₩ 917          | ₩ 1,023        | ₩ 931          | ₩ 1,937        | US\$                  | 1,815        |
| Interest income                   | (39)                    | (49)           | (57)           | (42)           | (60)           |                       | (56)         |
| Interest expense                  | 159                     | 110            | 128            | 115            | 91             |                       | 85           |
| Income tax expense                | 411                     | 325            | 411            | 385            | 396            |                       | 371          |
| Depreciation                      | 3,598                   | 3,222          | 2,969          | 2,643          | 2,792          |                       | 2,616        |
| Amortization of intangible assets | 236                     | 270            | 406            | 378            | 423            |                       | 396          |
| <b>EBITDA</b>                     | <b>₩ 4,784</b>          | <b>₩ 4,795</b> | <b>₩ 4,880</b> | <b>₩ 4,410</b> | <b>₩ 5,579</b> | <b>US\$</b>           | <b>5,227</b> |

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(5) Includes amortization of intangible assets.

(6) Dividends declared per share represent cash dividends declared for the year divided by outstanding shares of common stock as of December 31.

**Operating data**

|  | 2013           | Year ended December 31, |                |                |                | 2017 |
|--|----------------|-------------------------|----------------|----------------|----------------|------|
|  |                | 2014                    | 2015           | 2016           | (in thousands) |      |
| Number of panels sold by product category:   |                |                         |                |                |                |      |
| Televisions                                  | 53,797         | 51,358                  | 55,319         | 52,916         | 52,108         |      |
| Notebook computers <sup>(1)</sup>            | 55,559         | 50,175                  | 45,509         | 39,672         | 26,999         |      |
| Desktop monitors <sup>(2)</sup>              | 49,986         | 43,848                  | 41,912         | 40,001         | 37,000         |      |
| Tablet computers                             | 63,840         | 50,995                  | 31,476         | 24,957         | 26,255         |      |
| Mobile and other applications <sup>(3)</sup> | 162,011        | 216,479                 | 216,565        | 173,166        | 146,162        |      |
| <b>Total</b>                                 | <b>385,193</b> | <b>412,855</b>          | <b>390,781</b> | <b>330,712</b> | <b>288,524</b> |      |

(1) Includes semi-finished products manufactured by our former joint venture company LUCOM Display Technology (Kunshan) Ltd. through June 2014 when we disposed of our entire investment in such company.

(2) Includes desktop monitors manufactured and sold by our joint venture company L&T Display Technology (Fujian) Limited.

(3) Includes, among others, panels for mobile devices, including smartphones and other types of mobile phones, and industrial and other applications, including entertainment systems, automotive displays, portable navigation devices and medical diagnostic equipment.

|  | 2013            | 2014            | Year ended December 31, |                 |                 | 2017 <sup>(4)</sup> |               |
|--|-----------------|-----------------|-------------------------|-----------------|-----------------|---------------------|---------------|
|  |                 |                 | 2015                    | 2016            | 2017            |                     |               |
| Revenue by product category:                 |                 |                 |                         |                 |                 |                     |               |
| Televisions                                  | ₩ 11,795        | ₩ 10,540        | ₩ 10,854                | ₩ 10,133        | ₩ 11,718        | US\$                | 10,978        |
| Notebook computers <sup>(1)</sup>            | 2,819           | 2,669           | 2,509                   | 2,384           | 2,244           |                     | 2,102         |
| Desktop monitors <sup>(2)</sup>              | 5,256           | 4,660           | 4,553                   | 4,035           | 4,393           |                     | 4,116         |
| Tablet computers                             | 3,575           | 3,542           | 2,510                   | 2,696           | 2,370           |                     | 2,220         |
| Mobile and other applications <sup>(3)</sup> | 3,537           | 5,005           | 7,919                   | 7,216           | 7,020           |                     | 6,577         |
| <b>Total sales of goods</b>                  | <b>₩ 26,982</b> | <b>₩ 26,416</b> | <b>₩ 28,345</b>         | <b>₩ 26,464</b> | <b>₩ 27,745</b> | <b>US\$</b>         | <b>25,993</b> |
| Royalties                                    | 19              | 15              | 19                      | 17              | 20              |                     | 19            |
| Others                                       | 32              | 25              | 20                      | 23              | 25              |                     | 23            |
| <b>Revenue</b>                               | <b>₩ 27,033</b> | <b>₩ 26,456</b> | <b>₩ 28,384</b>         | <b>₩ 26,504</b> | <b>₩ 27,790</b> | <b>US\$</b>         | <b>26,035</b> |

- (1) Includes semi-finished products manufactured by our former joint venture company LUCOM Display Technology (Kunshan) Ltd. through June 2014 when we disposed of our entire investment in such company.
- (2) Includes desktop monitors manufactured and sold by our joint venture company L&T Display Technology (Fujian) Limited.
- (3) Includes, among others, panels for mobile devices, including smartphones and other types of mobile phones, and industrial and other applications, including entertainment systems, automotive displays, portable navigation devices and medical diagnostic equipment.
- (4) For convenience, the Korean Won amounts are expressed in U.S. dollars at the rate of ₩1,067.42 to US\$1.00, the noon buying rate in effect on December 31, 2017 as certified by the Federal Reserve Bank of New York for customs purposes. This translation should not be construed as a representation that the Korean Won amounts represent, have been or could be converted to U.S. dollars at that rate or any other rate.

### **Exchange Rates**

The table below sets forth, for the periods and dates indicated, information concerning the noon buying rate for Korean Won, expressed in Korean Won per one U.S. dollar. The noon buying rate is the rate in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York. Unless otherwise stated, translations of Korean Won amounts into U.S. dollars in this annual report were made at the noon buying rate in effect on December 31, 2017, which was ₩1,067.42 to US\$1.00. We do not intend to imply that the Korean Won or U.S. dollar amounts referred to herein could have been or could be converted into U.S. dollars or Korean Won, as the case may be, at any particular rate, or at all. On April 20, 2018, the noon buying rate was ₩1,071.0 = US\$1.00.



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Fluctuation in the exchange rate between the Korean Won and the U.S. dollar will affect the amount of U.S. dollars received in respect of cash dividends or other distributions paid in Korean Won by us on, and the Korean Won proceeds received from any sales of, our common stock.

| Year ended December 31,  | At End of Period | Average Rate <sup>(1)</sup><br>(Korean Won per US\$1.00) | High      | Low       |
|--------------------------|------------------|--|-----------|-----------|
| 2013                     | ₩ 1,055.3        | ₩ 1,094.7  | ₩ 1,161.3 | ₩ 1,050.1 |
| 2014                     | 1,090.9          | 1,052.3  | 1,117.7   | 1,008.9   |
| 2015                     | 1,169.3          | 1,133.7  | 1,196.4   | 1,063.0   |
| 2016                     | 1,203.7          | 1,160.5  | 1,242.6   | 1,090.0   |
| 2017                     | 1,067.4          | 1,121.1  | 1,207.2   | 1,067.4   |
| October                  | 1,115.7          | 1,130.9  | 1,146.2   | 1,115.7   |
| November                 | 1,084.8          | 1,099.8  | 1,120.0   | 1,079.3   |
| December                 | 1,067.4          | 1,082.9  | 1,094.6   | 1,067.4   |
| 2018 (through April 20)  | 1,071.0          | 1,070.0  | 1,093.0   | 1,054.6   |
| January                  | 1,068.3          | 1,065.6  | 1,073.6   | 1,057.6   |
| February                 | 1,082.1          | 1,078.5  | 1,093.0   | 1,065.3   |
| March                    | 1,061.0          | 1,069.9  | 1,081.3   | 1,060.3   |
| April (through April 20) | 1,071.0          | 1,065.2  | 1,071.6   | 1,054.6   |

(1) The average rate for each full year is calculated as the average of the noon buying rates on the last business day of each month during the relevant year. The average rate for a full month (or portion thereof) is calculated as the average of the noon buying rates on each business day during the relevant month (or portion thereof).

**Item 3.B. Capitalization and Indebtedness**

Not applicable.

**Item 3.C. Reasons for the Offer and Use of Proceeds**

Not applicable.

**Item 3.D. Risk Factors**

You should carefully consider the risks described below.

**Risks Relating to Our Industry**

*Our industry is subject to cyclical fluctuations, including recurring periods of capacity increases, that may adversely affect our results of operations.*

Display panel manufacturers are vulnerable to cyclical market conditions. Intense competition and expectations of growth in demand across the industry may cause display panel manufacturers to make additional investments in manufacturing capacity on similar schedules, resulting in a surge in capacity when production is ramped up at new fabrication facilities. During such surges in capacity growth, as evidenced by past experiences, customers can exert strong downward pricing pressure, resulting in sharp declines in average selling prices and significant fluctuations in the panel manufacturers' gross margins. Conversely, demand surges and fluctuations in the supply chain can lead to price increases.

From time to time, we have been affected by overcapacity in the industry relative to the general demand for display panels which, together with uncertainties in the current global economic environment, has contributed to a general decline in the average selling prices of a number of our display panel products. Our average revenue per square meter of net display area, which is derived by dividing our total revenue by total square meters of net display area shipped, decreased by 10.1% from ₩717,470 in 2015 to ₩645,222 in 2016, which was largely driven by a surge in supply capacity in the industry contributing to downward pricing pressure, but increased by 3.5% to ₩667,726 (US\$626) in 2017, primarily reflecting an increase in the proportion of higher margin products utilizing more advanced technologies in our overall product mix, coupled with the effects of a temporary surge in market demand for large-sized panels in the first half of 2017.

We attempt to counteract, at least in part, the effects of overcapacity in the industry by increasing the proportion of high margin, differentiated specialty products based on newer technologies in our product mix, which are relatively less affected by the industry-wide overcapacity problems affecting display panel products using older technologies, while also engaging in cost reduction efforts.

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While we believe that overcapacity and other cyclical issues in the industry are best addressed by increasing the proportion of high margin, differentiated specialty products based on newer technologies in our product mix that are tailored to our customers' evolving needs, we also address overcapacity issues by, in the short-term, adjusting the utilization rates of our existing fabrication facilities based on our assessment of industry inventory levels and demand for our products and, in the mid- to long-term, by fine-tuning our investment strategies relating to product development and capacity growth in light of our assessment of future market conditions.

However, we cannot provide any assurance that an increase in demand, which helped to mitigate the impact of industry-wide overcapacity in the past, can be sustained in future periods. We will therefore continue to closely monitor the overcapacity issues in the industry and respond accordingly. However, construction of new fabrication facilities and other capacity expansion projects in the display panel industry are undertaken with a multiple-year time horizon based on expectations of future market trends. Therefore, even if overcapacity issues persist in the industry, there may be continued capacity expansion in the near future due to pre-committed capacity expansion projects in the industry that were undertaken in past years. Any significant industry-wide capacity increases that are not accompanied by a sufficient increase in demand could further drive down the average selling price of our panels, which would negatively affect our gross margin. Any decline in prices may be further compounded by a seasonal weakening in demand growth for end products such as personal computer products, consumer electronics products and mobile and other application products. Furthermore, once the differentiated products that had a positive impact on our performance mature in their technology cycle, if we are not able to develop and commercialize newer products to offset the price erosion of such maturing products in a timely manner, our ability to counter the impact of cyclical market conditions on our gross margins would be further limited. We cannot provide assurance that any future downturns resulting from any large increases in capacity or other factors affecting the industry would not have a material adverse effect on our business, financial condition and results of operations.

### ***A global economic downturn may result in reduced demand for our products and adversely affect our profitability.***

In recent years, difficulties affecting the global financial sectors, adverse conditions and volatility in the worldwide credit and financial markets, fluctuations in oil and commodity prices and the general weakness of the global economy have increased the uncertainty of global economic prospects in general and have adversely affected the global and Korean economies. Global economic downturns in the past have adversely affected demand for consumer products manufactured by our customers in Korea and overseas, including televisions, notebook computers, desktop monitors, tablet computers and mobile and other application products utilizing display panels, which in turn led them to reduce or plan reductions of their production.

While global economic conditions have generally stabilized and improved in recent years, the overall prospects for the global economy remain uncertain. We cannot provide any assurance that demand for our products can be sustained at current levels in future periods or that the demand for our products will not decrease again in the future due to such economic downturns which may adversely affect our profitability. We may decide to adjust our production levels in the future subject to market demand for our products, the production outlook of the global display panel industry, in particular, the display panel industry, and global economic conditions in general. Any decline in demand for display panel products may adversely affect our business, results of operations and/or financial condition.

### ***Our industry continues to experience steady declines in the average selling prices of display panels irrespective of cyclical fluctuations in the industry, and our margins would be adversely impacted if prices decrease faster than we are able to reduce our costs.***

The average selling prices of display panels have declined in general and are expected to continually decline with time irrespective of industry-wide cyclical fluctuations as a result of, among other factors, technological advancements and

cost reductions. Although we may be able to take advantage of the higher selling prices typically associated with new products and technologies when they are first introduced in the market, such prices decline over time, and in certain cases, very rapidly, as a result of market competition or otherwise. If we are unable to effectively anticipate and counter the price erosion that accompanies our products, or if the average selling prices of our display panels decrease faster than the speed at which we are able to reduce our manufacturing costs, our gross margin would decrease and our results of operations and financial condition may be materially and adversely affected.

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***We operate in a highly competitive environment and we may not be able to sustain our current market position.***

The display panel industry is highly competitive. We have experienced pressure on the prices and margins of our major products due largely to additional capacity from panel makers in Korea, Taiwan, China and Japan. Our main competitors in the industry include Samsung Display, Innolux, AU Optronics, BOE, China Star Optoelectronics Technology, CEC Panda, HKC, JDI and Sharp.

Some of our competitors may currently, or at some point in the future, have greater financial, sales and marketing, manufacturing, research and development or technological resources than we do. In addition, our competitors may be able to manufacture panels on a larger scale or with greater cost efficiencies than we do and we anticipate increases in production capacity in the future by other display panel manufacturers using similar display panel technologies as us. Any price erosion resulting from strong global competition or additional industry capacity may materially adversely affect our financial condition and results of operations.

In addition, consolidation within the industry in which we operate may result in increased competition as the entities emerging from such consolidation may have greater financial, manufacturing, research and development and other resources than we do, especially if such mergers or consolidations result in vertical integration and operational efficiencies. For example, in August 2016, Foxconn Technology Group, an integrated electronics contract manufacturer for end-brands, acquired a majority stake in our competitor, Sharp. Increased competition resulting from such mergers or consolidations may lead to decreased margins, which may have a material adverse effect on our financial condition and results of operations.

We and our competitors each seek to establish our own products and technologies as the industry standards. For example, in the large-sized television panel market, we currently manufacture primarily 32-inch, 43-inch, 49-inch, 55-inch and 65-inch television panels and utilize white RGB, or WRGB, technology for our organic light-emitting diode, or OLED, television panels. Other display panel manufacturers produce competing large-sized television panels in slightly different dimensions and utilize competing display panel technologies. If our competitors' panels or the technologies they adopt become the market standard, we may lose market share and may not realize the expected return on our investments in the technologies we utilize in our display panels, which may have a material adverse effect on our financial condition and results of operations.

Our ability to compete successfully also depends on factors both within and outside our control, including product pricing, performance and reliability, our relationship with customers, successful and timely investment and product development, success or failure of our end-brand customers in marketing their brands and products, component and raw material supply costs, and general economic and industry conditions. We cannot provide assurance that we will be able to maintain a competitive advantage with respect to all these factors and, as a result, we may be unable to sustain our current market position.

***Our operating results fluctuate from period to period, so you should not rely on period-to-period comparisons to predict our future performance.***

Our industry is affected by market conditions that are often outside the control of manufacturers. Our results of operations may fluctuate significantly from period to period due to a number of factors, including seasonal variations in consumer demand, capacity ramp-up by competitors, industry-wide technological changes, the loss of a key customer and the postponement, rescheduling or cancellation of large orders by a key customer, any of which may or may not reflect a continued trend from one period to the next. As a result of these factors and other risks discussed in this section, you should not rely on period-to-period comparisons to predict our future performance.

**Risks Relating to Our Company**

*Our financial condition may be adversely affected if we cannot introduce new products to adapt to rapidly evolving customer needs on a timely basis.*

Our success will depend greatly on our ability to respond quickly to rapidly evolving customer requirements and to develop and efficiently manufacture new and differentiated products in anticipation of future demand. A failure or delay on our part to develop and efficiently manufacture products of such quality and technical specifications that meet our customers' evolving needs may adversely affect our business.

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Close cooperation with our customers to gain insights into their product needs and to understand general trends in the end-product market is a key component of our strategy to produce successful products. In addition, when developing new products, we often work closely with equipment suppliers to design equipment that will make our production processes for such new products more efficient. If we are unable to work together with our customers and equipment suppliers, or to sufficiently understand their respective needs and capabilities or general market trends, we may not be able to introduce or efficiently manufacture new products in a timely manner, which may have a material adverse effect on our financial situation.

In addition, product differentiation, especially the ability to develop and market differentiated specialty products that command higher premiums in a timely manner, has become a key competitive strategy in the display panel market. This is in part due to trends in consumer electronics and other markets, such as televisions, tablet computers and mobile devices, where the growth in demand is led by end products employing newer technologies with specifications tailored to deliver enhanced performance, convenience and user experience in a cost-efficient and timely manner. Accordingly, we have focused our efforts on developing and marketing differentiated specialty products, including our ultra-large and ultra-thin OLED television and public display panels, OLED television panels with built-in sound systems, dual-sided and vertical tiling OLED display panels, flexible OLED smartphone and smartwatch panels, display panels utilizing ultra-high definition, or Ultra HD, technologies, and Advanced High-Performance In-Place Switching, or AH-IPS, panels for tablet computers, mobile devices, notebook computers and desktop monitors. We have also focused our efforts on cost reductions in the production process, in particular of panels with newer technologies, such as OLED, in order to improve or maintain our profit margins while offering competitive prices to our customers.

We have developed differentiated sales and marketing strategies to promote our panels for differentiated specialty products as part of our strategy to grow our operations to meet increasing demand for new applications in consumer electronics and other markets. However, we cannot provide assurance that the differentiated products we develop and market will be responsive to our end customers' needs nor that our products will be successfully incorporated into end products or new applications that lead market growth in consumer electronics or other markets.

***Problems with product quality, including defects, in our products could result in a decrease in customers and sales, unexpected expenses and loss of market share.***

Our products are manufactured using advanced, and often new, technology and must meet stringent quality requirements. Products manufactured using advanced and new technology, such as ours, may contain undetected errors or defects, especially when first introduced. For example, our latest display panels may contain defects that are not detected until after they are shipped or installed because we cannot test for all possible scenarios. Such defects could cause us to incur significant re-designing costs, divert the attention of our technology personnel from product development efforts and significantly affect our customer relations and business reputation. In addition, future product failures could cause us to incur substantial expense to repair or replace defective products. We recognize a provision for warranty obligations based on the estimated costs that we expect to incur under our basic limited warranty for our products, which covers defective products and is normally valid for eighteen months from the date of purchase. The warranty provision is largely based on historical and anticipated rates of warranty claims, and therefore we cannot provide assurance that the provision would be sufficient to cover any surge in future warranty expenses that significantly exceed historical and anticipated rates of warranty claims. In addition, if we deliver products with errors or defects, or if there is a perception that our products contain errors or defects, our credibility and the market acceptance and sales of our products could be harmed. Widespread product failures may damage our market reputation and reduce our market share and cause our sales to decline.

***We sell our products to a select group of key customers, including our largest shareholder, and any significant decrease in their order levels will negatively affect our financial condition and results of operations.***

A substantial portion of our sales is attributable to a limited group of end-brand customers and their designated system integrators. Sales attributed to our end-brand customers are for their end-brand products and do not include sales to these customers for their system integration activities for other end-brand products, if any. Our top ten end-brand customers, including LG Electronics Inc., our largest shareholder, together accounted for approximately 82% of our sales in each of 2015 and 2016 and 81% in 2017.



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We benefit from the strong collaborative relationships we maintain with our end-brand customers by participating in the development of their products and gaining insights about levels of future demand for our products and other industry trends. Customers look to us for a dependable supply of quality products, even during downturns in the industry, and we benefit from the brand recognition of our customers' end products. The loss of these end-brand customers, as a result of their entering into strategic supplier arrangements with our competitors or otherwise, would thus result not only in reduced sales, but also in the loss of these benefits. We cannot provide assurance that a select group of key end-brand customers, including our largest shareholder, will continue to place orders with us in the future at the same levels as in prior periods, or at all.

We engage in related party transactions with LG Electronics and its affiliates:

Sales to LG Electronics – sales to LG Electronics and its subsidiaries, which include sales to LG Electronics both as an end-brand customer and a system integrator, amounted to 23.5%, 21.9% and 23.4% of our sales in 2015, 2016 and 2017, respectively.

Sales to LG International – sales to LG International Corp., our affiliated trading company, and its subsidiaries amounted to 3.5%, 2.3% and 2.6% of our sales in 2015, 2016 and 2017, respectively.

We expect that we will continue to be dependent upon LG Electronics and its affiliates for a significant portion of our revenue for the foreseeable future. See Item 7.B. Related Party Transactions for a description of these related party transactions with LG Electronics and its affiliates. Our results of operations and financial condition could therefore be affected by the overall performance of LG Electronics and its affiliates.

***Any material deterioration in the financial condition of our key end-brand customers, their system integrators or our affiliated trading company will have an adverse effect on our results of operations.***

Our top ten end-brand customers together accounted for approximately 82% of our sales in each of 2015 and 2016 and 81% in 2017. Although we negotiate directly with our end-brand customers concerning the price and quantity of the sales, for some sales transactions we invoice the end-brand customers' designated system integrators. In addition, a portion of our sales to end-brand customers and their system integrators located in certain regions are sold through our affiliated trading company, LG International and its subsidiaries. Our credit policy typically requires payment within 30 to 90 days, and payments on the vast majority of our sales have typically been collected within 60 days. Although we have not experienced any material problems relating to customer payments to date, as a result of our significant dependence on a concentrated group of end-brand customers and their designated system integrators, as well as the sales we make to our affiliated trading company and its subsidiaries, we are exposed to credit risks associated with these entities.

***Consolidation and other changes at our end-brand customers could cause sales of our products to decline.***

Mergers, acquisitions, divestments or consolidations involving our end-brand customers can present risks to our business, as management at the new entity may change the way they do business, including their transactions with us, or may decide not to use us as one of their suppliers of display panels. In addition, we cannot provide assurance that a combined entity resulting from a merger, acquisition or consolidation or a newly formed entity resulting from a divestment will continue to purchase display panels from us at the same level, if at all, as each entity purchased in the aggregate when they were separate companies or that a divested company will purchase panels from us at the same level, if at all, as prior to the divestment.

***Our results of operations depend on our ability to keep pace with changes in technology.***

Advances in technology typically lead to rapid declines in sales volumes for products made with older technologies and may lead to these products becoming less competitive in the marketplace, or even obsolete. As a result, we will likely be required to make significant expenditures to develop or acquire new process and product technologies, along with corresponding manufacturing capabilities. For example, the expanding mobile display market for smart devices such as smartphones and smartwatches has resulted in increased demand for display panels using new energy-efficient technologies that provide for greater resolutions, wider viewing angles, high light transmittance and stability of images even when used on a touchscreen device. We have introduced mobile display products based on AH-IPS, which have helped us quickly secure a leading role in this market.

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While thin-film transistor liquid crystal display, or TFT-LCD, technology undergoes continued innovation, we and our competitors are also developing new display technologies that depart from TFT-LCD technology, such as OLED technology. In particular, we and some of our competitors have already commenced mass production of OLED products. We began production of OLED panels for televisions on our E3 production lines in January 2013 and commenced mass production of OLED panels for smartphones on our E2 production lines and OLED panels for televisions on our E4 production lines in December 2013 and December 2014, respectively. In August 2017, we began production of plastic OLED panels for mobile and other applications on our newly constructed E5 production line.

With the addition of 77-inch OLED televisions to the line-up of available products in the first quarter of 2016, following the prior launch of 55-inch and 65-inch OLED televisions, we are deploying greater resources into large-sized OLED panel fabrication capabilities in order to maintain our competitive edge in the large-sized OLED television panel market. We are also deploying greater resources into small- and medium-sized OLED panels for various applications in order to expand our market presence. Our ability to develop differentiated products with new display technologies and utilize advanced manufacturing processes to increase production yields while lowering production cost will be critical to our sustained competitiveness. However, we cannot provide assurance that we will be able to continue to successfully develop new products or manufacturing processes through our research and development efforts or through obtaining technology licenses, or that we will keep pace with technological changes in the marketplace.

***Our revenue depends on continuing demand for televisions, notebook computers, desktop monitors, tablet computers and mobile and other application products with panels of the type we produce. Our sales may not grow at the rate we expect if consumers do not purchase these products.***

Currently, our total sales are derived principally from customers who use our products in televisions, notebook computers, desktop monitors, tablet computers and mobile and other application products with display devices. In particular, a substantial percentage of our sales is derived from end-brand customers, or their designated system integrators, who use our panels in their televisions, which accounted for 38.2%, 38.2% and 42.2% of our total revenue in 2015, 2016 and 2017, respectively. A substantial portion of our sales is also derived from end-brand customers, or their designated system integrators, who use our panels in their notebook computers, which accounted for 8.8%, 9.0% and 8.1% of our total revenue in 2015, 2016 and 2017, respectively, those who use our panels in their desktop monitors, which accounted for 16.0%, 15.2% and 15.8% of our total revenue in 2015, 2016 and 2017, respectively, those who use our panels in their tablet computers, which accounted for 8.8%, 10.2% and 8.5% of our total revenue in 2015, 2016 and 2017, respectively, and those who use our panels in their mobile and other applications, which accounted for 27.9%, 27.2% and 25.3% of our total revenue in 2015, 2016 and 2017, respectively. Although the degree to which our total sales are dependent on sales of television panels has fluctuated in recent years, television panels remain our largest product category in terms of revenue and we will therefore continue to be dependent on continuing demand from the television industry. In addition, we will continue to be dependent on continuing demand from the personal computer industry, the tablet computer industry and the mobile device industry for a substantial portion of our sales. Any downturn in any of those industries in which our customers operate would result in reduced demand for our products, which may in turn result in reduced revenue, lower average selling prices and/or reduced margins.

***The emergence of OLED technology as an alternative to panels with TFT-LCD technology may erode sales of our TFT-LCD panels, which may have a material adverse effect on our financial condition and results of operations.***

While our revenue and sales volume is predominantly derived from the sale of display panels with TFT-LCD technology, new display technologies, such as OLED technology, are at various stages of development and production by us and other display panel makers. OLED technology is widely seen in the display industry as a successor

technology to TFT-LCD technology and is gaining wider market acceptance for use in display panels for televisions, smartphones and tablet computers, and industrial and other applications, including public displays, entertainment systems, automotive displays, portable navigation devices and medical diagnostic equipment. We have recognized the importance and potential of OLED technology and have in recent years engaged in research and development and invested in production facilities to develop and commercialize OLED panels for small-, medium- and large-sized products. We began production of OLED panels for televisions on our E3 production lines in January 2013 and commenced mass production of OLED panels for smartphones on our E2 production lines and OLED panels for televisions on our E4 production lines in December 2013 and December 2014, respectively. In August 2017, we began production of plastic OLED panels for mobile and other applications on our newly constructed E5 production line.

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Our early efforts in developing and commercializing OLED technology were recognized by the Society for Information Display, a display panel industry group, when we were awarded the Silver Award for Display Application of the Year for our circular plastic OLED panels for smartphones and Silver Award for the Display of the Year for our 65-inch Ultra HD curved OLED panels for televisions in June 2015. We were also awarded a Best of CES Award by the Consumer Electronics Association in January 2016 and a Best in Show Award by the Society for Information Display in May 2016 for our 77-inch OLED television panels and a Best Product in EISA Award by the European Imaging and Sound Association in September 2016 for our 65-inch OLED television panels. In May 2017, we were once again awarded the Display of the Year Award by the Society for Information Display for our 65-inch wallpaper OLED television panels. While we aim to maintain our early competitive edge in the market for OLED panels, the market for OLED panels is in the early stages of development and we expect competition will intensify.

As OLED panels continue to gain market acceptance as an alternative to TFT-LCD panels, if we are unable to continue to develop and commercialize OLED technology in a commercially viable and timely manner to offset declining sales of our TFT-LCD panels, or if customers prefer panels developed and manufactured by our competitors utilizing competing types of OLED technologies, this would have a material adverse effect on our financial condition and results of operations. See also [We operate in a highly competitive environment and we may not be able to sustain our current market position.](#) [above.](#)

***We will have significant capital requirements in connection with our business strategy and if capital resources are not available we may not be able to implement our strategy and future plans.***

In connection with our strategy to further enhance the diversity and capacity of our display panel production, we estimate that we will continue to incur significant capital expenditures for the enhancement of existing production facilities, including the construction of additional, and the conversion of existing, production lines, and the construction of new production facilities. Our significant recent and pending capital expenditures include the following:

In response to and in anticipation of growing demand in the China market, in July 2017, we announced our plan to establish a joint venture with the government of Guangzhou to construct a next generation large-sized OLED production line, which is expected to commence production in the second half of 2019, at our GP fabrication facility in Guangzhou, China, and we plan to invest approximately ₩1.8 trillion to acquire a 70% ownership interest in such joint venture.

In anticipation of growing demand for OLED panels, in July 2015 and July 2016, we announced plans for our new E5 and E6 production lines, respectively. Also in July 2015, we entered into a memorandum of understanding with Gumi City and North Gyeongsang Province for their administrative assistance in connection with our investment in our new E5 production line. We have commenced mass production of plastic OLED panels on our new E5 production line beginning in August 2017 and expect to commence mass production on our new E6 production line in the second half of 2018.

In addition, in November 2015, we announced plans for the construction of our next generation P10 fabrication facility in Paju, Korea. We expect construction to be completed at the new Paju fabrication facility in the second half of 2018.

In July 2017, we announced plans to make investments in an aggregate amount of ₩7.8 trillion in a next generation large-size OLED production line and a next generation plastic OLED production line in Paju, Korea.

In April 2016, we entered into a memorandum of understanding with the City of Haiphong in Vietnam for their administrative assistance in connection with our planned ₩120 billion investment to build our new module assembly facility in Haiphong, which commenced production in July 2017.

In April 2016, we entered into another memorandum of understanding with Gumi City and North Gyeongsang Province for their administrative assistance in connection with our additional ₩450 billion investment in connection with our sixth-generation flexible OLED panel fabrication facilities as well as our new fifth-generation OLED light panel fabrication facility.

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In 2017, our total capital expenditure on a cash out basis amounted to ₩6.6 trillion. We currently expect that, in 2018, our total capital expenditures on a cash out basis will be higher than in 2017, primarily to fund the expansion of our panel production capacities for large-sized and small- and medium-sized OLED panels, including in connection with the construction of a next generation large-sized OLED production line at our GP fabrication facility in Guangzhou, China through our joint venture with the government of Guangzhou, and the construction of our P10 fabrication facility, a next generation large-size OLED production line and a next generation plastic OLED production line in Paju, Korea, while maintaining and making improvements to our existing facilities. This amount is subject to periodic assessment, and we cannot provide any assurance that this amount may not change materially after assessment.

These capital expenditures will be made well in advance of any additional sales that will be generated from these expenditures. However, in the event of adverse market conditions, or if our actual expenditures far exceed our planned expenditures, our external financing activities combined with our internal sources of liquidity may not be sufficient to carry out our current and future operational plans, and we may decide not to expand the capacity of certain of our facilities or construct new production facilities as scheduled or at all. Our ability to obtain additional financing will depend upon a number of factors outside our control, including general economic, financial, competitive, regulatory and other considerations.

In the past, difficulties affecting the global financial sectors, adverse conditions and volatility in the worldwide credit and financial markets, fluctuations in oil and commodity prices and the general weakness of the global economy have increased the uncertainty of global economic prospects in general and have adversely affected the global and Korean economies. Because we rely on financing both within and outside of Korea from time to time, difficulties affecting the global and Korean economies, including any increase in market volatility and their lingering effects, could adversely affect our ability to obtain sufficient financing on commercially reasonable terms. The failure to obtain sufficient financing on commercially reasonable terms to complete our expansion plans could delay or impair our ability to pursue our business strategy, which could materially and adversely affect our business and results of operations.

***Our manufacturing processes are complex and periodic improvements to increase efficiency can expose us to potential disruptions in operations.***

The manufacturing processes for TFT-LCD, OLED and other display products are highly complex, requiring sophisticated and costly equipment that is periodically modified and upgraded to improve manufacturing yields and product performance, and reduce unit manufacturing costs. These updates expose us to the risk that from time to time production difficulties will arise that could cause delivery delays, reduced output or both. We cannot provide assurance that we will not experience manufacturing problems in achieving acceptable output, product delivery delays or both as a result of, among other factors, construction delays, difficulties in upgrading or modifying existing production lines or building new plants, difficulties in modifying existing or adopting new manufacturing line technologies or processes or delays in equipment deliveries, any of which could constrain our capacity and adversely affect our results of operations.

***We may be unable to successfully execute our growth strategy or manage and sustain our growth on a timely basis, if at all, and, as a result, our business may be harmed.***

We have experienced, and expect to continue to experience, rapid growth in the scope and complexity of our operations due to the building of new fabrication facilities and the expansion and conversion of existing fabrication facilities to meet the evolving and anticipated demands of our customers. For example, we converted existing production lines and established our AP3 production lines and commenced mass production of low temperature polycrystalline silicon, or LTPS, based displays for mobile devices in February 2014 and invested in additional production lines and established our E4 production lines and commenced mass production of OLED panels for

televisions in December 2014. In addition, we established our E5 production lines and commenced mass production of flexible OLED panels for mobile and other applications in August 2017. See Item 4.D. Property, Plants and Equipment Current Facilities. With respect to our overseas facilities in recent years, we commenced mass production at our module production plant at our GP fabrication facility in Guangzhou, China in September 2014. In response to and in anticipation of growing demand in the China market, in July 2017, we announced our plan to establish a joint venture with the government of Guangzhou to construct a next generation large-sized OLED production line, which is expected to commence production in the second half of 2019, at our GP fabrication facility in Guangzhou, China, and we plan to invest approximately ₩1.8 trillion to acquire a 70% ownership interest in such joint venture. See also We will have significant capital requirements in connection with our business strategy and if capital resources are not available we may not be able to implement our strategy and future plans. above.



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Sustained growth in the scope and complexity of our operations may strain our managerial, financial, manufacturing and other resources. We may experience manufacturing difficulties in starting new production lines, upgrading existing facilities or building new plants as a result of cost overruns, construction delays or shortages of, or quality problems with, materials, labor or equipment, any of which could result in a loss of future revenue. We may also incur opportunity costs if we misjudge the anticipated demand for certain display panel products and allocate our limited resources in increasing production capacity for such display panel products at the cost of maintaining existing or increasing production capacity of other display panel products that turn out to be more popular. In addition, failure to keep up with our competitors in future investments in next-generation panel fabrication facilities or in the upgrading of manufacturing capacity of existing facilities would impair our ability to effectively compete within the display panel industry. Failure to obtain intended economic benefits from expansion projects could adversely affect our business, financial condition and results of operations.

***If we cannot maintain high capacity utilization rates, our profitability will be adversely affected.***

The production of display panels entails high fixed costs resulting from considerable expenditures for the construction of complex fabrication and assembly facilities and the purchase of costly equipment. We aim to maintain high capacity utilization rates so that we can allocate these fixed costs over a greater number of panels produced and realize a higher gross margin. However, due to any number of reasons, including fluctuating demand for our products or overcapacity in the display industry, we may need to reduce production, resulting in lower-than-optimal capacity utilization rates. As such, we cannot provide assurance that we will be able to sustain our capacity utilization rates in the future nor can we provide assurance that we will not reduce our utilization rates in the future as market and industry conditions change.

***Limited availability of raw materials, components and manufacturing equipment could materially and adversely affect our business, results of operations or financial condition.***

Our production operations depend on obtaining adequate supplies of quality raw materials and components on a timely basis. As a result, it is important for us to control our raw material and component costs and reduce the effects of fluctuations in price and availability. In general, we source most of our raw materials as well as key components, such as glass substrates, driver integrated circuits and polarizers used in both our TFT-LCD and OLED products, backlight units and liquid crystal materials used in our TFT-LCD products and hole transport materials and emission materials used in our OLED products, from two or more suppliers for each key component. However, we may establish a working relationship with a single supplier if we believe it is advantageous to do so due to performance, quality, support, delivery, capacity, price or other considerations. We may experience shortages in the supply of these key components, as well as other components or raw materials, as a result of, among other things, anticipated capacity expansion in the display industry or our dependence on a limited number of suppliers. Our results of operations would be adversely affected if we were unable to obtain adequate supplies of high-quality raw materials or components in a timely manner or make alternative arrangements for such supplies in a timely manner.

Furthermore, we may be limited in our ability to pass on increases in the cost of raw materials and components to our customers. We do not typically enter into binding long-term contracts with our customers, and even in those cases where we do enter into long-term agreements with certain of our major end-brand customers, the price terms are contained in the purchase orders which are generally placed by them one month in advance of delivery. Except under certain special circumstances, the price terms in the purchase orders are not subject to change. Prices for our products are generally determined through negotiations with our customers, based generally on the complexity of the product specifications and the labor and technology involved in the design or production processes. However, if we become subject to any significant increase in the cost of raw materials or components that were not anticipated when negotiating the price terms after the purchase orders have been placed, we may be unable to pass on such cost

increases to our customers.

We have purchased, and expect to purchase, a substantial portion of our equipment from a limited number of qualified foreign and local suppliers. From time to time, increased demand for new equipment may cause lead times to extend beyond those normally required by the equipment vendors. The unavailability of equipment, delays in the delivery of equipment, or the delivery of equipment that does not meet our specifications, could delay implementation of our expansion plans and impair our ability to meet customer orders. This could result in a loss of revenue and cause financial stress on our operations.

***Earthquakes, tsunamis, floods and other natural calamities could materially adversely affect our business, results of operations or financial condition.***

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If earthquakes, tsunamis, floods or any other natural calamities were to occur in the future in any area where any of our assets, suppliers or customers are located, our business, results of operations or financial condition could be adversely affected. A number of suppliers of our raw materials, components and manufacturing equipment, as well as customers of our products, are located in countries which have suffered natural calamities such as earthquakes and tsunamis in the recent past, such as Japan and Taiwan. Any occurrence of such natural calamities in Japan or any other countries where our suppliers are located may lead to shortages or delays in the supply of raw materials, components or manufacturing equipment. In addition, natural calamities in areas where our customers are located, including Japan, may cause disruptions in their businesses, which in turn could adversely impact their demand for our products.

***Purchase orders from our customers, which are placed generally one month in advance of delivery, vary in volume from period to period, and we operate with a modest inventory, which may make it difficult for us to efficiently allocate capacity on a timely basis in response to changes in demand.***

Our major customers and their designated system integrators provide us with three- to six-month rolling forecasts of their product requirements. However, firm orders are not placed until one month before delivery when negotiations on purchase prices are also finalized. Firm orders may be less than anticipated based on these three- to six-month forecasts. Due to the cyclical nature of the display industry, purchase order levels from our customers have varied from period to period. Although we typically operate with a two- to four-week inventory, it may be difficult for us to adjust production costs or to allocate production capacity in a timely manner to compensate for any such volatility in order volumes. Our inability to respond quickly to changes in overall demand for display products as well as changes in product mix and specifications may result in lost revenue, which would adversely affect our results of operations.

***We may experience losses on inventories.***

Frequent new product introductions in the computer and consumer electronics industries can result in a decline in the average selling prices of our display panels and the obsolescence of our existing display panel inventory. This can result in a decrease in the stated value of our panel inventory, which we value at the lower of cost or market value.

We manage our inventory based on our customers' and our own forecasts and typically operate with a two- to four-week inventory. Although adjustments are regularly made based on market conditions, we typically deliver our goods to the customers one month after a firm order has been placed. While we maintain open channels of communication with our major customers to avoid unexpected decreases in firm orders or subsequent changes to placed orders, and try to minimize our inventory levels, such actions by our customers may have an adverse effect on our inventory management.

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***Sanctions or judgments against us and other TFT-LCD panel producers for possible anti-competitive activities may have a direct and indirect material impact on our operations.***

In December 2006, LG Display received notices of investigation by the U.S. Department of Justice, the European Commission, the Korea Fair Trade Commission and the Japan Fair Trade Commission with respect to possible anti-competitive activities in the TFT-LCD industry. Subsequently, the Competition Bureau of Canada, the Secretariat of Economic Law of Brazil, the Taiwan Fair Trade Commission and the Federal Competition Commission of Mexico announced investigations regarding the same.

In November 2008, LG Display executed an agreement with the U.S. Department of Justice whereby LG Display and LG Display America pleaded guilty to a Sherman Antitrust Act violation and agreed to pay a single total fine of US\$400 million. In December 2008, the U.S. District Court for the Northern District of California accepted the terms of the plea agreement and entered a judgment against LG Display and LG Display America and ordered the payment of US\$400 million, which has since been paid. The agreement resolved all federal criminal charges against LG Display and LG Display America in the United States in connection with this matter, provided that LG Display continues to cooperate with the U.S. Department of Justice in connection with the ongoing proceedings.

In December 2010, the European Commission issued a decision finding that LG Display engaged in anti-competitive activities in the TFT-LCD industry in violation of European Union competition laws, and imposed a fine of 215 million. In February 2011, LG Display filed with the European Union General Court an application for partial annulment and reduction of the fine imposed by the European Commission. In November 2011, LG Display received a request for information from the European Commission relating to certain alleged anti-competitive activities in the TFT-LCD industry and has responded to the request. In February 2014, the European Union General Court reduced the fine to 210 million and LG Display paid the fine in full in April 2014. In May 2014, LG Display filed an appeal with the European Court of Justice requesting annulment of the European Union General Court's judgment and further reduction of the fine imposed by the European Commission's decision, and in April 2015 the European Court of Justice upheld the decision of the European Union General Court.

In November 2009, the Taiwan Fair Trade Commission terminated its investigation without any finding of violations or levying of fines. Also, in February 2012, the Competition Bureau of Canada terminated its investigation without any finding of violations or levying of fines. In August 2014, the Japan Fair Trade Commission terminated its investigation without any finding of violations or levying of fines. In August 2014, LG Display executed a settlement agreement with the Brazilian Administrative Council for Economic Defense (CADE), for R\$33.9 million, which resolved all administrative charges against LG Display provided that it continues to cooperate with the ongoing investigation.

In December 2011, the Korea Fair Trade Commission imposed a fine of ₩31.4 billion after finding that LG Display and certain of its subsidiaries engaged in anti-competitive activities in violation of Korean fair trade laws. In December 2011, LG Display filed an appeal of the decision with the Seoul High Court. In February 2014, the Seoul High Court annulled the decision of the Korea Fair Trade Commission. In March 2014, the Korea Fair Trade Commission filed an appeal of the Seoul High Court decision with the Supreme Court of Korea. In June 2014, the Supreme Court of Korea upheld the lower court's decision.

After the commencement of the U.S. Department of Justice investigation, a number of class action complaints were filed against LG Display, LG Display America and other TFT-LCD panel manufacturers in the United States and Canada alleging violation of respective antitrust laws and related laws. In a series of decisions in 2007 and 2008, the class action lawsuits in the United States were transferred to the Northern District of California for pretrial proceedings, which we refer to as the MDL Proceedings. In March 2010, the federal district court granted the class

certification motion filed by the indirect purchaser plaintiffs, and granted in part and denied in part the class certification motion filed by the direct purchaser plaintiffs. In January 2011, 78 entities (including groups of affiliated entities) submitted requests for exclusion from the direct purchaser class. In April 2012, ten entities (including groups of affiliated companies) submitted requests for exclusion from the indirect purchaser class. In addition, since 2010, the attorneys general of Arkansas, California, Florida, Illinois, Michigan, Mississippi, Missouri, New York, Oklahoma, Oregon, South Carolina, Washington, West Virginia and Wisconsin filed complaints against LG Display, alleging similar antitrust violations as alleged in the MDL Proceedings.

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In June 2011, LG Display reached a settlement with the direct purchaser class, which the federal district court approved in December 2011. In July 2012, LG Display reached a settlement with the indirect purchaser class plaintiffs and with the state attorneys general of Arkansas, California, Florida, Michigan, Missouri, New York, West Virginia and Wisconsin, which was approved by the federal district court in April 2013 and, in the case of the state attorneys general actions, by their respective state governments. LG Display has since reached settlement with each of the attorneys general that had filed action.

In addition, in relation to the MDL Proceedings, in 2009, ATS Claim, LLC (assignee of Ricoh Electronics, Inc.), AT&T Corp. and its affiliates, Motorola Mobility, Inc. ( Motorola ), and Electrograph Technologies Corp. and its subsidiary filed separate claims in the United States, and all of the actions were subsequently consolidated into the MDL Proceedings. In 2010, TracFone Wireless Inc., Best Buy Co., Inc. and its affiliates, Target Corp., Sears, Roebuck and Co., Kmart Corp., Old Comp Inc., Good Guys, Inc., RadioShack Corp., Newegg Inc., Costco Wholesale Corp., Sony Electronics, Inc. and its affiliate, SB Liquidation Trust and the trustee of the Circuit City Stores, Inc. Liquidation Trust filed separate claims in the United States. In 2011, the AASI Creditor Liquidating Trust on behalf of All American Semiconductor Inc., CompuCom Systems, Inc., Interbond Corporation of America, Jaco Electronics, Inc., Office Depot, Inc., P.C. Richard & Son Long Island Corporation, MARTA Cooperative of America, Inc., ABC Appliance, Inc., Schultze Agency Services, LLC on behalf of Tweeter Opco, LLC and its affiliate, T-Mobile U.S.A., Inc., Tech Data Corporation and its affiliate filed similar claims in the United States. In 2012, ViewSonic Corp., NECO Alliance LLC, Rockwell Automation LLC, Proview Technology Inc. and its affiliates filed similar claims. In November 2013, Acer America Corporation and its affiliates filed similar claims in the United States. The cases were transferred to the MDL Proceedings for pretrial proceedings. In December 2012, Sony Europe Limited and its affiliate filed similar claims in the High Court of Justice in the United Kingdom. In July 2015, LG Display was dismissed from the Motorola case and as of April 25, 2018, LG Display has reached settlement with each of the other plaintiffs mentioned above.

A number of claims alleging damages were filed against LG Display and other entities in the United Kingdom as follow-on claims from the above-described European Commission's decision in December 2010, comprising claims by iiyama (UK) Limited and its affiliates ( iiyama ) in December 2014, and Argos Limited and others ( Argos ), Granville Technology Group and others ( Granville ) and Ingram Micro and others ( Ingram ), each in December 2016. As of April 25, 2018, we are contesting the jurisdiction of the United Kingdom courts to hear claims by iiyama and are vigorously defending ourselves against claims by Granville. We have reached a settlement in principle with Argos in December 2017, and Ingram discontinued its claims against LG Display in June 2017.

In 2007, class action complaints were filed against LG Display and other TFT-LCD manufacturers in the Canadian provinces of British Columbia, Ontario and Quebec. In November 2016, LG Display reached settlement with the provinces of British Columbia, Ontario and Quebec. In March 2017, the Ontario Superior Court of Justice approved the settlement and dismissed LG Display from the Ontario class action. In April 2017, the Superior Court of Quebec approved the settlement and dismissed LG Display from the Quebec class action. In May 2017, the Supreme Court of British Columbia approved the settlement and dismissed LG Display from the British Columbia class action.

In December 2013, a class action complaint was filed by Hatzlacha, a consumer organization, on behalf of Israeli consumers against LG Display and other defendants in the Central District in Israel. In July 2017, the Supreme Court of Israel ruled in favor of the defendants to affirm the District Court's decision to revoke the leave to serve the class action on the defendants outside the jurisdiction of Israel. In August 2017, Hatzlacha filed a number of motions to uphold service in the Central District in Israel under different legal grounds, which are currently being contested by the defendants.

In each of the foregoing matters that are ongoing, we are continually evaluating the merits of the respective claims and vigorously defending ourselves. Irrespective of the validity or the successful assertion of the claims described above, we may incur significant costs with respect to litigating or settling any or all of the asserted claims. See Item 8.A. Consolidated Statements and Other Financial Information Legal Proceedings Antitrust and Others for a description of these matters. While we continue to vigorously defend the various proceedings described above, it is possible that one or more proceedings may result in cash outflow to settle or resolve these claims. We have recognized provisions with respect to those legal claims in which our management has concluded that there is a present or constructive obligation arising from a past event, it is more likely than not that an outflow of resources will result to settle the obligation, and a reliable estimate can be made of the amount of the obligation. However, the actual outcomes may be different from those estimated as of December 31, 2017 and may have an adverse effect on our operating results or financial condition.

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***We need to observe certain financial and other covenants under the terms of our debt obligations, the failure to comply with which would put us in default under such debt obligations.***

We are subject to financial and other covenants, including maintenance of credit ratings and debt-to-equity ratios, under certain of our debt obligations. The documentation for such debt also contains negative pledge provisions limiting our ability to provide liens on our assets as well as cross-default and cross-acceleration clauses, which give related creditors the right to accelerate the amounts due under such debt if an event of default or acceleration has occurred with respect to our existing or future indebtedness, or if any material part of our indebtedness or indebtedness of our subsidiaries is capable of being declared payable before the stated maturity date. In addition, such covenants restrict our ability to raise future debt financing.

If we breach the financial or other covenants contained in the documentation governing our debt obligations, our financial condition will be adversely affected to the extent we are not able to cure such breaches, obtain a waiver from the relevant lenders or debtholders or repay the relevant debt.

***Our results of operations are subject to exchange rate fluctuations.***

There has been considerable volatility in foreign exchange rates in recent years, including rates between the Korean Won and the U.S. dollar and between the Korean Won and the Japanese Yen. To the extent that we incur costs in one currency and make sales in another, our profit margins may be affected by changes in the exchange rates between the two currencies.

Our sales of display panels are denominated mainly in U.S. dollars, whereas our purchases of raw materials are denominated mainly in U.S. dollars and Japanese Yen. Our expenditures on capital equipment are denominated principally in Korean Won. In 2017, 94.7% of our sales were denominated in U.S. dollars. During the same period, 85.6% of our purchases of raw materials and components were denominated in U.S. dollars and 10.7% in Japanese Yen. In addition, 74.6% of our equipment purchases and construction costs were denominated in Korean Won, 16.2% in Chinese Renminbi and 9.1% in U.S. dollars.

Accordingly, fluctuations in exchange rates, in particular between the U.S. dollar and the Korean Won as well as between the Japanese Yen and the Korean Won, affect our pre-tax income, and in recent years, the value of the Won relative to the U.S. dollar and Japanese Yen has fluctuated widely. See Item 3.A. Selected Financial Data Exchange Rates. Although a depreciation of the Korean Won against the U.S. dollar increases the Korean Won value of our export sales and enhances the price-competitiveness of our products in foreign markets in U.S. dollar terms, it also increases the cost of imported raw materials and components in Korean Won terms and our cost in Korean Won of servicing our U.S. dollar denominated debt. A depreciation of the Korean Won against the Japanese Yen increases the Korean Won cost of our Japanese Yen denominated purchases of raw materials and components and, to the extent we have any debt denominated in Japanese Yen, our cost in Korean Won of servicing such debt, but has relatively little impact on our sales as most of our sales are denominated in U.S. dollars. In addition, continued exchange rate volatility may also result in foreign exchange losses for us. Although a depreciation of the Korean Won against the U.S. dollar, in general, has a net positive impact on our results of operations that more than offsets the net negative impact caused by a depreciation of the Korean Won against the Japanese Yen, we cannot provide assurance that the exchange rate of the Korean Won against foreign currencies will not be subject to significant fluctuations, or that the impact of such fluctuations will not adversely affect the results of our operations.

***Our business relies on our patent rights which may be narrowed in scope or found to be invalid or otherwise unenforceable.***



Our success will depend, to a significant extent, on our ability to obtain and enforce our patent rights both in Korea and worldwide. The coverage claimed in a patent application can be significantly reduced before a patent is issued, either in Korea or abroad. Consequently, we cannot provide assurance that any of our pending or future patent applications will result in the issuance of patents. Patents issued to us may be subjected to further proceedings limiting their scope and may not provide significant proprietary protection or competitive advantage. Our patents also may be challenged, circumvented, invalidated or deemed unenforceable. In addition, because patent applications in certain countries generally are not published until more than 18 months after they are first filed, and because publication of discoveries in scientific or patent literature often lags behind actual discoveries, we cannot be certain that we were, or any of our licensors was, the first creator of inventions covered by pending patent applications, that we or any of our licensors will be entitled to any rights in purported inventions claimed in pending or future patent applications, or that we were, or any of our licensors was, the first to file patent applications on such inventions.

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Furthermore, pending patent applications or patents already issued to us or our licensors may become subject to dispute, and any dispute could be resolved against us. For example, we may become involved in re-examination, reissue or interference proceedings and the result of these proceedings could be the invalidation or substantial narrowing of our patent claims. We also could be subject to court proceedings that could find our patents invalid or unenforceable or could substantially narrow the scope of our patent claims. In addition, depending on the jurisdiction, statutory differences in patentable subject matter may limit the protection we can obtain on some of our inventions.

### ***Failure to protect our intellectual property rights could impair our competitiveness and harm our business and future prospects.***

We believe that developing new products and technologies that can be differentiated from those of our competitors is critical to the success of our business. We take active measures to obtain international protection of our intellectual property by obtaining patents and undertaking monitoring activities in our major markets. However, we cannot assure you that the measures we are taking will effectively deter competitors from improper use of our proprietary technologies. Our competitors may misappropriate our intellectual property, disputes as to ownership of intellectual property may arise and our intellectual property may otherwise become known or independently developed by our competitors.

Any failure to protect our intellectual property could impair our competitiveness and harm our business and future prospects.

### ***Our rapid introduction of new technologies and products may increase the likelihood that third parties will assert claims that our products infringe upon their proprietary rights.***

The rapid technological changes that characterize our industry require that we quickly implement new processes and components with respect to our products. Often with respect to recently developed processes and components, a degree of uncertainty exists as to who may rightfully claim ownership rights in such processes and components. Uncertainty of this type increases the risk that claims alleging that such components or processes infringe upon third party rights may be brought against us. Although we take and will continue to take steps to ensure that our new products do not infringe upon third party rights, if our products or manufacturing processes are found to infringe upon third party rights, we may be subject to significant liabilities and be required to change our manufacturing processes or be prohibited from manufacturing certain products, which could have a material adverse effect on our operations and financial condition.

We may be required to defend against charges of infringement of patent or other proprietary rights of third parties. Although patent and other intellectual property disputes in our industry have often been settled through licensing or similar arrangements, such defense could require us to incur substantial expense and to divert significant resources of our technical and management personnel, and could result in our loss of rights to develop or make certain products or require us to pay monetary damages or royalties to license proprietary rights from third parties. Furthermore, we cannot be certain that the necessary licenses would be available to us on acceptable terms, if at all. Accordingly, an adverse determination in a judicial or administrative proceeding or failure to obtain necessary licenses could prevent us from manufacturing and selling certain of our products. Any such litigation, whether successful or unsuccessful, could result in substantial costs to us and diversions of our resources, either of which could adversely affect our business.

In December 2013, Delaware Display Group LLC and Innovative Display Technologies LLC filed a patent infringement action against LG Display and LG Display America in the U.S. District Court for the District of Delaware. In December 2015, Delaware Display Group LLC and Innovative Display Technologies LLC filed a new

patent infringement action against LG Display and LG Display America in the U.S. District Court for the District of Delaware with respect to three patents that were dismissed without prejudice from the aforementioned patent infringement action. Since May 3, 2016, the December 2015 action has remained stayed. In August 2016, Innovative Display Technologies LLC filed a new patent infringement action against LG Display and LG Display America in the U.S. District Court for the Eastern District of Texas with respect to two new patents. In April 2017, the parties filed a stipulation of dismissal of the cases and amicably settled all claims asserted in these actions.

In March 2014, Surpass Tech Innovation LLC filed a patent infringement action against LG Display and LG Display America in the U.S. District Court for the District of Delaware. In April 2017, the case was terminated pursuant to a stipulation of dismissal filed by the parties.

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In November 2016, Vesper Technology Research LLC filed a patent infringement action against LG Display and LG Display America in the U.S. District Court for the Eastern District of Texas. In March 2017, the case was terminated pursuant to a stipulation of filed by the parties.

***We rely on technology provided by third parties and our business will suffer if we are unable to renew our licensing arrangements with them.***

From time to time, we have obtained licenses for patent, copyright, trademark and other intellectual property rights to process and device technologies used in the production of our display panels. We have entered into key licensing arrangements with third parties, for which we have made, and continue to make, periodic license fee payments. In addition, we also have cross-license agreements with certain other third parties. These agreements terminate upon the expiration of the respective terms of the patents. See Item 5.C. Research and Development, Patents and Licenses, etc. Intellectual Property License Agreements.

If we are unable to renew our technology licensing arrangements on acceptable terms, we may lose the legal protection to use certain of the processes we employ to manufacture our products and be prohibited from using those processes, which may prevent us from manufacturing and selling certain of our products, including our key products. In addition, we could be at a disadvantage if our competitors obtain licenses for protected technologies on more favorable terms than we do.

In the future, we may also need to obtain additional patent licenses for new or existing technologies. We cannot provide assurance that these license agreements can be obtained or renewed on acceptable terms or at all, and if not, our business and operating results could be adversely affected.

***We rely upon trade secrets and other unpatented proprietary know-how to maintain our competitive position in the display panel industry and any loss of our rights to, or unauthorized disclosure of, our trade secrets or other unpatented proprietary know-how could negatively affect our business.***

We also rely upon trade secrets, unpatented proprietary know-how and information, as well as continuing technological innovation in our business. The information we rely upon includes price forecasts, core technology and key customer information. We enter into confidentiality agreements with each of our employees and consultants upon the commencement of an employment or consulting relationship. These agreements generally provide that all inventions, ideas, discoveries, improvements and copyrightable material made or conceived by the individual arising out of the employment or consulting relationship and all confidential information developed or made known to the individual during the term of the relationship is our exclusive property. We cannot provide assurance that these types of agreements will be fully enforceable, or that they will not be breached. We also cannot be certain that we will have adequate remedies for any such breach. The disclosure of our trade secrets or other know-how as a result of such a breach could adversely affect our business. Also, our competitors may come to know about or determine our trade secrets and other proprietary information through a variety of methods. Disputes may arise concerning the ownership of intellectual property or the applicability or enforceability of our confidentiality agreements, and there can be no assurance that any such disputes would be resolved in our favor. Furthermore, others may acquire or independently develop similar technology, or if patents are not issued with respect to technologies arising from our research, we may not be able to maintain information pertinent to such research as proprietary technology or trade secrets and that could have an adverse effect on our competitive position within the display panel industry.

***We rely on key researchers and engineers, senior management and production facility operators, and the loss of the services of any such personnel or the inability to attract and retain them may negatively affect our business.***

Our success depends to a significant extent upon the continued service of our research and development and engineering personnel, and on our ability to continue to attract, retain and motivate qualified researchers and engineers, especially during periods of rapid growth. In particular, our focus on leading the market in introducing new products and advanced manufacturing processes has meant that we must aggressively recruit research and development personnel and engineers with expertise in cutting-edge technologies.

We also depend on the services of experienced key senior management, and if we lose their services, it would be difficult to find and integrate replacement personnel in a timely manner, if at all. We also employ highly skilled line operators at our various production facilities.

The loss of the services of any of our key research and development and engineering personnel, senior management or skilled operators without adequate replacement, or the inability to attract new qualified personnel, would have a material adverse effect on our operations.

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***The interests of LG Electronics, our largest shareholder, and any directors or officers nominated by it, may differ from or conflict with those of us or our other shareholders.***

When exercising its rights as our largest shareholder, LG Electronics may take into account not only our interests but also its interests and the interests of its affiliates. LG Electronics' interests may at times conflict with ours in a number of areas relating to our business, including potential acquisitions of businesses or properties, incurrence of indebtedness, financial commitments, sales and marketing functions, indemnity arrangements, service arrangements and the exercise by LG Electronics of significant influence over our management and affairs. See Item 6.A. Directors and Senior Management for a description of the composition of our current board of directors and senior management.

***Labor unrest may disrupt our operations.***

As of December 31, 2017, approximately 62.9% of our total employees, including those of our subsidiaries, were union members, and production employees accounted for substantially all of these members. We have a collective bargaining arrangement with our labor union, which is negotiated once a year. Any deterioration in our relationship with our employees or labor unrest resulting in a work stoppage or strike may have a material adverse effect on our financial condition and results of operations.

***We are subject to strict safety and environmental regulations and we may be subject to fines or restrictions that could cause our operations to be interrupted.***

Our manufacturing processes involve hazardous materials and generate chemical waste, waste water and other industrial waste at various stages in the manufacturing process, and we are subject to a variety of laws and regulations relating to the use, storage, discharge and disposal of such chemical by-products and waste substances. We have enacted safety measures, engaged in employee education on handling such materials and installed various types of safety and anti-pollution equipment, consistent with industry standards, for the treatment of chemical waste and equipment for the recycling of treated waste water at our various facilities. See Item 4.B. Business Overview Environmental Matters for a description of the anti-pollution equipment that we have installed in our various facilities. However, we cannot provide assurance that our protocols will always be followed and safety or environmental related claims will not be brought against us or that the local or national governments will not take steps toward adopting more stringent safety or environmental standards. For example, in February 2015, we were issued a corrective order and assessed a fine of ₩276 million for violating the Occupational Health and Safety Act in connection with an accidental exposure of nitrogen gas at one of our production facilities in Paju, Korea in January 2015. Further, in connection with such incident, in January 2016, the Goyang Branch Court of the Uijeongbu District Court imposed a fine of ₩10 million on us and a suspended sentence on five of our employees involved in the incident, citing violations of the Occupational Health and Safety Act. The parties appealed the decision to the Uijeongbu District Court and following the denial of their appeals, the parties decided not to further appeal the decision of the Goyang Branch Court.

Any failure on our part to comply with any present or future safety and environmental regulations could result in the assessment of damages or imposition of fines against us, suspension of production or a cessation of operations. In addition, safety and environmental regulations could require us to acquire costly equipment or to incur other significant compliance expenses that may materially and negatively affect our financial condition and results of operations.

**Risks Relating to our American Depositary Shares, or ADSs, or our Common Stock**

***Future sales of shares of our common stock in the public market may depress our stock price and make it difficult for you to recover the full value of your investment in our common stock or our ADSs.***

We cannot predict the effect, if any, that market sales of shares of our common stock or the availability of our common stock for sale will have on the market price of our common stock prevailing from time to time. Our largest shareholder, LG Electronics, currently owns 37.9% of our voting stock. There is no assurance that LG Electronics will not sell all or a part of its ownership interest in us.

Any future sales by LG Electronics or any future issuance by us of a significant number of shares of our common stock in the public market, or the perception that any of these events may occur, could cause the market price of our common stock to decrease or to be lower than it might be in the absence of these events or perceptions.

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***Our public shareholders may have more difficulty protecting their interests than they would as shareholders of a U.S. corporation.***

Our corporate affairs are governed by our articles of incorporation and by the laws governing Korean corporations. The rights and responsibilities of our shareholders and members of our board of directors under Korean law may be different from those that apply to shareholders and directors of a U.S. corporation. For example, minority shareholder rights afforded under Korean law often require the minority shareholder to meet minimum shareholding requirements in order to exercise certain rights. In the case of public companies, a shareholder must own, individually or collectively with other shareholders, at least 0.01% of our common stock for at least six consecutive months in order to file a derivative suit on our behalf. While the facts and circumstances of each case will differ, the duty of care required of a director under Korean law may not be the same as the fiduciary duty of a director of a U.S. corporation. Therefore, holders of our common stock or our ADSs may have more difficulty protecting their interests against actions of our management, members of our board of directors or controlling shareholders than they would as shareholders of a U.S. corporation.

***You may be limited in your ability to deposit or withdraw the common stock underlying the ADSs, which may adversely affect the value of your investment.***

Under the terms of our deposit agreement, holders of common stock may deposit such common stock with the depository's custodian in Korea and obtain ADSs, and holders of ADSs may surrender ADSs to the depository and receive common stock. However, to the extent that a deposit of common stock exceeds the difference between:

the aggregate number of shares of common stock we have consented to allow to be deposited for the issuance of ADSs (including deposits in connection with offerings of ADSs and stock dividends or other distributions relating to ADSs); and

the number of shares of common stock on deposit with the custodian for the benefit of the depository at the time of such proposed deposit,

such common stock will not be accepted for deposit unless (1) our consent, subject to governmental authorization, with respect to such deposit has been obtained or (2) such consent is no longer required under Korean laws and regulations.

Under the terms of the deposit agreement, no consent is required if the shares of common stock are obtained through a dividend, free distribution, rights offering or reclassification of such stock. The current limit on the number of shares that may be deposited into our ADR facility is 68,095,700 as of April 25, 2018. The number of shares issued or sold in any subsequent offering by us or our major shareholders, subject to government authorization, raises the limit on the number of shares that may be deposited into the ADR facility, except to the extent such deposit is prohibited by applicable laws or violates our articles of incorporation, or we decide with the ADR depository to limit the number of shares of common stock so offered that would be eligible for deposit under the deposit agreement in order to maintain liquidity for the shares in Korea as may be requested by the relevant Korean authorities. We might not consent to the deposit of any additional shares of common stock. As a result, if a holder surrenders ADSs and withdraws common stock, it may not be able to deposit the common stock again to obtain ADSs.

***Holders of ADSs will not have preemptive rights in some circumstances.***



The Korean Commercial Code of 1962, as amended, and our articles of incorporation require us, with some exceptions, to offer shareholders the right to subscribe for new shares of our common stock in proportion to their existing shareholding ratio whenever new shares are issued, except under certain circumstances as provided in our articles of incorporation. Accordingly, if we issue new shares to non-shareholders based on such exception, a holder of our ADSs may experience dilution in its holdings. Furthermore, if we offer any right to subscribe for additional shares of our common stock or any rights of any other nature to existing shareholders subject to their preemptive rights, the depository, after consultation with us, may make the rights available to holders of our ADSs or use reasonable efforts to dispose of the rights on behalf of such holders and make the net proceeds available to such holders. The depository, however, is not required to make available to holders any rights to purchase any additional shares of our common stock unless it deems that doing so is lawful and feasible and

a registration statement filed by us under the U.S. Securities Act of 1933, as amended, is in effect with respect to those shares; or

the offering and sale of those shares is exempt from or is not subject to the registration requirements of the Securities Act.

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We are under no obligation to file any registration statement with the SEC or to endeavor to cause such a registration statement to be declared effective. Moreover, we may not be able to establish an exemption from registration under the Securities Act. Accordingly, a holder of our ADSs may be unable to participate in our rights offerings and may experience dilution in its holdings. If a registration statement is required for a holder of our ADSs to exercise preemptive rights but is not filed by us or is not declared effective, the holder will not be able to exercise its preemptive rights for additional ADSs and it will suffer dilution of its equity interest in us. If the depositary is unable to sell rights that are not exercised or not distributed or if the sale is not lawful or feasible, it will allow the rights to lapse, in which case the holder will receive no value for these rights.

***Holders of ADSs will not be able to exercise dissent and appraisal rights unless they have withdrawn the underlying shares of our common stock and become our direct shareholders.***

In some limited circumstances, including the transfer of the whole or any significant part of our business and our merger or consolidation with another company, dissenting shareholders have the right to require us to purchase their shares under Korean law. However, a holder of our ADSs will not be able to exercise such dissent and appraisal rights if the depositary refuses to do so on their behalf. Our deposit agreement does not require the depositary to take any action in respect of exercising dissent and appraisal rights. In such a situation, holders of our ADSs must initiate the withdrawal of the underlying common stock from the ADS facility (and incur charges relating to that withdrawal) by the day immediately following the date of public disclosure of our board of directors' resolution of a merger or other events triggering appraisal rights and become our direct shareholder prior to the record date of the shareholders meeting at which the relevant transaction is to be approved, in order to exercise dissent and appraisal rights.

***Dividend payments and the amount you may realize upon a sale of our common stock or ADSs that you hold will be affected by fluctuations in the exchange rate between the U.S. dollar and the Korean Won.***

Cash dividends, if any, in respect of the shares represented by our ADSs will be paid to the depositary in Korean Won and then converted by the depositary into U.S. dollars, subject to certain conditions. Accordingly, fluctuations in the exchange rate between the Korean Won and the U.S. dollar will affect, among other things, the amounts a holder will receive from the depositary in respect of dividends, the U.S. dollar value of the proceeds that a holder would receive upon sale in Korea of the shares of our common stock obtained upon surrender of ADSs and the secondary market price of ADSs. Such fluctuations will also affect the U.S. dollar value of dividends and sales proceeds received by holders of our common stock.

## **Risks Relating to Korea**

***If economic conditions in Korea deteriorate, our current business and future growth could be materially and adversely affected.***

We are incorporated in Korea, and a substantial portion of our operations and assets are located in Korea. As a result, we are subject to political, economic, legal and regulatory risks specific to Korea. The economic indicators in Korea in recent years have shown mixed signs, and future growth of the Korean economy is subject to many factors beyond our control, including developments in the global economy.

In recent years, adverse conditions and volatility in the worldwide financial markets, fluctuations in oil and commodity prices and the general weakness of the global economy have contributed to the uncertainty of global economic prospects in general and have adversely affected, and may continue to adversely affect, the Korean economy. The value of the Won relative to major foreign currencies has fluctuated significantly and, as a result of adverse global and Korean economic conditions, there has been volatility in the stock prices of Korean companies in

recent years. Future declines in the Korea Composite Stock Price Index (the KOSPI ) and large amounts of sales of Korean securities by foreign investors and subsequent repatriation of the proceeds of such sales may adversely affect the value of the Won, the foreign currency reserves held by financial institutions in Korea and the ability of Korean companies to raise capital. Any future deterioration of the Korean or global economy could adversely affect our business, financial condition and results of operations.

Developments that could have an adverse impact on Korea's economy include:

declines in consumer confidence and a slowdown in consumer spending in the Korean or global economy;

deterioration in economic or diplomatic relations between Korea and its trading partners or allies, including deterioration resulting from territorial or trade disputes or disagreements in foreign policy (such as the controversy between Korea and China regarding the deployment of a Terminal High Altitude Area Defense system in Korea by the United States commencing in March 2017 and the economic and other retaliatory measures imposed by China against Korea during the remainder of 2017;

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adverse conditions in the economies of countries and regions that are important export markets for Korea, such as China, the United States, Europe and Japan, or in emerging market economies in Asia or elsewhere, as well as increased uncertainties in the wake of Brexit;

adverse changes or volatility in foreign currency reserve levels, commodity prices (including oil prices), exchange rates (including fluctuation of the U.S. dollar, the Euro or the Japanese Yen exchange rates or revaluation of the Chinese Renminbi and the overall impact of Brexit on the value of the Korean Won), interest rates, inflation rates or stock markets;

increased sovereign default risk in select countries and the resulting adverse effects on the global financial markets;

investigations of large Korean business groups and their senior management for possible misconduct;

a continuing rise in the level of household debt and increasing delinquencies and credit defaults by retail and small- and medium-sized enterprise borrowers in Korea;

the economic impact of any pending or future free trade agreements or changes in existing free trade agreements;

social and labor unrest;

decreases in the market prices of Korean real estate;

a decrease in tax revenue or a substantial increase in the Korean government's expenditures for fiscal stimulus measures, unemployment compensation and other economic and social programs that would lead to an increased Korean government budget deficit;

financial problems or lack of progress in the restructuring of Korean business groups, other large troubled companies, their suppliers or the financial sector;

loss of investor confidence arising from corporate accounting irregularities or corporate governance issues at certain Korean companies;

increases in social expenditures to support an aging population in Korea or decreases in economic productivity due to the declining population size in Korea;

geo-political uncertainty and the risk of further attacks by terrorist groups around the world;

the occurrence of severe health epidemics in Korea or other parts of the world (such as the Middle East Respiratory Syndrome outbreak in Korea in 2015);

natural or man-made disasters that have a significant adverse economic or other impact on Korea or its major trading partners;

political uncertainty or increasing strife among or within political parties in Korea;

hostilities or political or social tensions involving oil producing countries in the Middle East and North Africa and any material disruption in the global supply of oil or sudden increase in the price of oil;

increased reliance on exports to service foreign currency debts, which could cause friction with Korea's trading partners;

the continued growth of the Chinese economy, to the extent its benefits (such as increased exports to China) are outweighed by its costs (such as competition in export markets or for foreign investment and the relocation of manufacturing bases from Korea to China);

political or social tensions involving Russia and any resulting adverse effects on the global supply of oil or the global financial markets; and

an increase in the level of tensions or an outbreak of hostilities between North Korea and Korea or the United States.

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***Escalations in tensions with North Korea could have an adverse effect on us and the market value of our common stock and ADSs.***

Relations between Korea and North Korea have been tense throughout Korea's modern history. The level of tension between the two Koreas has fluctuated and may increase abruptly as a result of current and future events. In particular, there have been heightened security concerns in recent years stemming from North Korea's nuclear weapon and ballistic missile programs as well as its hostile military actions against Korea. Some of the significant incidents in recent years include the following:

North Korea renounced its obligations under the Nuclear Non-Proliferation Treaty in January 2003 and conducted six rounds of nuclear tests since October 2006, including claimed detonations of hydrogen bombs, which are more powerful than plutonium bombs, and warheads that can be mounted on ballistic missiles. Over the years, North Korea has also conducted a series of ballistic missile tests, including missiles launched from submarines and intercontinental ballistic missiles that it claims can reach the United States mainland. In response, the Korean government has repeatedly condemned the provocations and flagrant violations of relevant United Nations Security Council resolutions. In February 2016, the Korean government also closed the inter-Korea Gaesong Industrial Complex in response to North Korea's fourth nuclear test in January 2016. Internationally, the United Nations Security Council has passed a series of resolutions condemning North Korea's actions and significantly expanding the scope of sanctions applicable to North Korea, most recently in December 2017 in response to North Korea's intercontinental ballistic missile test in November 2017. Over the years, the United States and the European Union have also expanded their sanctions applicable to North Korea.

In August 2015, two Korean soldiers were injured in a landmine explosion near the Korean demilitarized zone. Claiming the landmines were set by North Koreans, the Korean army re-initiated its propaganda program toward North Korea utilizing loudspeakers near the demilitarized zone. In retaliation, the North Korean army fired artillery rounds on the loudspeakers, resulting in the highest level of military readiness for both Koreas.

In March 2010, a Korean naval vessel was destroyed by an underwater explosion, killing many of the crewmen on board. The Korean government formally accused North Korea of causing the sinking, while North Korea denied responsibility. Moreover, in November 2010, North Korea fired more than one hundred artillery shells that hit Korea's Yeonpyeong Island near the Northern Limit Line, which acts as the de facto maritime boundary between Korea and North Korea on the west coast of the Korean peninsula, causing casualties and significant property damage. The Korean government condemned North Korea for the attack and vowed stern retaliation should there be further provocation.

North Korea's economy also faces severe challenges, which may further aggravate social and political pressures within North Korea. Although a bilateral summit between the two Koreas was held in April 2018, and there has been an announcement in March 2018 of a potential summit between the United States and North Korea, there can be no assurance that the level of tensions affecting the Korean peninsula will not escalate in the future. Any further increase in tensions, which may occur, for example, if North Korea experiences a leadership crisis, high-level contacts between Korea and North Korea break down or further military hostilities occur, could have a material adverse effect on the Korean economy and on our business, financial condition and results of operations and the market value of our common stock and ADSs.

***If the Korean government deems that emergency circumstances are likely to occur, it may restrict holders of our ADSs and the depositary from converting and remitting dividends and other amounts in U.S. dollars.***

Under the Korean Foreign Exchange Transaction Law, if the Korean government deems that certain emergency circumstances, including sudden fluctuations in interest rates or exchange rates, extreme difficulty in stabilizing the balance of payments or substantial disturbance in the Korean financial and capital markets, are likely to occur, it may impose any necessary restrictions as requiring Korean or foreign investors to obtain prior approval from the Minister of Strategy and Finance for the acquisition of Korean securities or the repatriation of interest, dividends or sales proceeds arising from disposition of such securities or other transactions involving foreign exchange. See Item 10.D. Exchange Controls.

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**Table of Contents****Item 4. INFORMATION ON THE COMPANY****Item 4.A. History and Development of the Company**

We are a leading innovator of TFT-LCD, OLED and other display panel technologies. We manufacture display panels in a broad range of sizes and specifications primarily for use in televisions, notebook computers, desktop monitors, tablet computers and various other applications, including mobile devices.

The origin of our display business, which first started with TFT-LCD panels, can be traced to the TFT-LCD research that began in 1987 at the Goldstar R&D Center, which was then part of LG Electronics Inc. TFT-LCD research continued at the Anyang R&D Center, a research and development center established by LG Electronics in 1990 in Anyang, Korea, which was subsequently moved to our Paju Display Cluster in 2008, and which today continues to lead our technology innovation efforts. In 1993, the TFT-LCD business division was launched within LG Electronics, and in September 1995 mass production of TFT-LCD panels began at P1, its first fabrication facility, producing mainly TFT-LCD panels for notebook computers and other applications. In December 1997, LG Semicon Inc., a subsidiary of LG Electronics, began mass production at P2, producing mainly TFT-LCD panels for notebook computers.

We were incorporated in 1985 under the laws of the Republic of Korea under the original name of Goldstar Software Co., Ltd., a subsidiary of LG Electronics whose main business was the development and marketing of software, which changed its name to LG Software, Ltd. in January 1995 and subsequently to LG Soft, Ltd. in January 1997. At the end of 1998, LG Electronics and LG Semicon transferred their respective TFT-LCD-related businesses to LG Soft, which, as part of the business transfer, changed its name to LG LCD Co., Ltd.

In July 1999, LG Electronics entered into a joint venture agreement with Koninklijke Philips Electronics N.V., pursuant to which Philips Electronics acquired a 50% interest in LG LCD. In connection with this transaction, LG LCD transferred its existing software-related business to LG Electronics in order to focus solely on the TFT-LCD business. The joint venture, which was renamed LG.Philips LCD Co., Ltd., was officially launched in August 1999. In July 2004, we completed our initial public offering and listed shares of our common stock on the Korea Exchange under the identifying code 034220 and our ADSs on the New York Stock Exchange under the symbol LPL. Prior to the listings, LG Electronics and Philips Electronics terminated the joint venture agreement and entered into a shareholders agreement to reflect new arrangements between them as controlling shareholders. The shareholders agreement automatically terminated upon Philips Electronics sale of all of its remaining ownership interest in us in March 2009. Effective March 3, 2008, we changed our name from LG.Philips LCD Co., Ltd. to LG Display Co., Ltd. in order to reflect the expansion of our business scope and shift in business model, fully expressing our commitment to the future.

We launched our OLED Business Unit in June 2008 in anticipation of future growth of the OLED business. The origin of our OLED business began with our acquisition of LG Electronics active matrix OLED, or AMOLED, business in January 2008 by way of taking over its inventory, intellectual property rights and employees related to the AMOLED business. In 2012, partly in recognition of the growing importance of OLED to the future of our business, especially in connection with large-sized products, we restructured our internal organization relating to our OLED business, breaking up the OLED Business Unit and transferring our mobile-related business (including OLED products for mobile and other applications) to the newly created IT/Mobile Business Division and transferring our OLED television panel business to the Television Business Division. We were the first in the world to commence mass production of 55-inch OLED television panels in 2013. In December 2014, we established a separate OLED Business Division to strengthen our OLED business and solidify our competitive advantages. In December 2015, in order to achieve synergies and further strengthen our OLED business, we acquired LG Chem's OLED light business



by way of assuming the inventory, intellectual property rights and employees related to the OLED light business. In December 2016, partly in an effort to expand our OLED business across our display panel applications (including small- and medium-sized products), we restructured our internal organization by product type, and integrated the capabilities of our OLED business into the Television Business Division (which also encompassed the OLED light business), the IT Business Division and the Mobile Business Division. In December 2017, our OLED light business was transferred from the Television Business Division to the IT Business Division. Our principal executive offices are located at LG Twin Towers, 128 Yeoui-daero, Yeongdeungpo-gu, Seoul 07336 and our telephone number is +82-2-3777-1010.

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We have continued to develop our manufacturing process technologies and expand our production facilities. Each successive generation of our fabrication facilities has been designed to process increasingly larger-size glass substrates, which allows us to cut a larger number of panels, sometimes with larger sizes, from each glass substrate. The ability to process larger glass substrates allows us to produce a larger variety of display sizes to accommodate evolving business and consumer demands. For example, in order to respond to business and consumer demands for large-sized panels for televisions, in September 2014, we commenced mass production at our GP fabrication facility in Guangzhou, China, which is optimized to large-sized full high definition, or Full HD, and Ultra HD TFT-LCD panels for televisions. In addition, due to the large number of fabrication facilities we operate, we have the flexibility to make strategic decisions based on market demand to convert existing production lines housed within a fabrication facility to manufacture display panels based on newer technologies. For example, we established our AP3 production lines by converting a set of existing production lines in our P61 fabrication facility, which originally produced a-Si based display panels, to produce LTPS based display panels for mobile devices and commenced mass production in February 2014.

We work closely with the local authorities where our fabrication facilities are located, and we have signed a number of memoranda of understandings, the latest one having been signed in April 2016, with Gumi City and North Gyeongsang Province for their administrative assistance in connection with our investment at our Gumi Display Cluster in our E5 plastic OLED panel fabrication production line as well as our new fifth-generation OLED light panel fabrication facility. In August 2017, we began production of plastic OLED panels for mobile and other applications on our newly constructed E5 production line and expect to commence similar productions on our new E6 production line in the second half of 2018, subject to market conditions and any changes in our investment timetable.

With respect to our ongoing expansion and conversion projects, in November 2015, we announced plans for the construction of our next generation P10 fabrication facility in Paju, Korea, which we expect to complete in the second half of 2018. In July 2017, we announced plans to make investments in an aggregate amount of ₩7.8 trillion in a next generation large-size OLED production line and a next generation plastic OLED production line in Paju, Korea. In addition, we have commenced mass production of plastic OLED panels on our new E5 production line beginning in August 2017 and expect to commence mass production on our new E6 production line in the second half of 2018. In April 2016, we entered into a memorandum of understanding with the City of Haiphong in Vietnam for their administrative assistance in connection with our planned ₩120 billion investment to build our new module assembly facility in Haiphong, which facility commenced production in July 2017. In response to and in anticipation of growing demand in the China market, in July 2017, we announced our plan to establish a joint venture with the government of Guangzhou to construct a next generation large-sized OLED production line, which is expected to commence production in the second half of 2019, at our GP fabrication facility in Guangzhou, China, and we plan to invest approximately ₩1.8 trillion to acquire a 70% ownership interest in such joint venture. Each of our on-going expansion projects are subject to market conditions and any changes in our investment timetable. See Item 4.D. Property, Plants and Equipment Capital Expenditures.

With respect to our assembly facilities, from 1995 to early 2003, we assembled all panels in our Gumi assembly facility adjacent to our P1 facility. In May 2003, we commenced operations at a new assembly facility in Nanjing, China, which we built and have since expanded, in order to better serve the needs of our global customers with manufacturing facilities in China. In January 2006, we commenced operations at a new assembly facility in Paju, Korea. In February 2007, we commenced mass production at our module production plant in Wroclaw, Poland. In December 2007, we commenced mass production at our module production plant in Guangzhou, China.

For a description of cash outflows relating to our capital expenditures in the past three fiscal years, see Item 5.A. Operating Results Overview Manufacturing Productivity and Costs.

**Item 4.B. *Business Overview***  
**Overview**

We manufacture TFT-LCD and OLED technology-based display panels in a broad range of sizes and specifications primarily for use in televisions, notebook computers, desktop monitors, tablet computers and mobile devices, including smartphones, and we are one of the world's leading suppliers of Ultra HD television panels. We also manufacture display panels for industrial and other applications, including entertainment systems, automotive displays, portable navigation devices and medical diagnostic equipment. In 2017, we sold a total of 142.2 million display panels that are nine inches or larger. According to IHS Technology, we had a global market share for display panels of nine inches or larger of approximately 28% based on sales revenue in 2017.

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We currently operate fabrication facilities, which include separately designated sets of fabrication production lines housed in certain facilities, located in our Display Clusters in Gumi and Paju, Korea and in Guangzhou, China. We also currently operate module facilities located in China (Nanjing, Guangzhou and Yantai), Korea (Gumi and Paju) and Poland (Wroclaw). For a full description of our current facilities, see Item 4.D. Property, Plants and Equipment Current Facilities.

We seek to build our market position based on collaborative relationships with our customers and suppliers, a focus on high-end differentiated specialty display products and manufacturing productivity. Our end-brand customers include many of the world's leading manufacturers of televisions, notebook computers, desktop monitors, tablet computers and mobile phones such as LG Electronics. For a description of our sales to LG Electronics, our largest shareholder, see Item 7.B. Related Party Transactions.

At the direction of our end-brand customers, we typically ship our display panels to their original equipment manufacturers, known as system integrators, who use our display panels in products they assemble on a contract basis for our end-brand customers. Our sales are conducted through our multi-channel sales and distribution network, including direct sales to end-brand customers and their system integrators, sales through our overseas subsidiaries and sales through our affiliated trading company, LG International, and its subsidiaries. For a description of our sales arrangements with LG International, see Item 7.B. Related Party Transactions.

Our sales were ₩28,384 billion in 2015, ₩26,504 billion in 2016 and ₩27,790 billion in 2017 (US\$26,035 million) in 2017.

## **Technology Description**

### ***TFT-LCD Technology***

A TFT-LCD panel consists of two thin glass substrates and polarizer films between which a layer of liquid crystals is deposited and behind which a light source called a backlight unit is mounted. The frontplane glass substrate is fitted with a color filter, while the backplane glass substrate, also called a TFT array, has many thin film transistors, or TFT, formed on its surface. The liquid crystals are normally aligned to allow the polarized light from the backlight unit to pass through the two glass panels. When voltage is applied to the transistors on the TFT array, the liquid crystals change their alignment and alter the amount of light that passes through them. Meanwhile, the color filter on the frontplane glass substrate gives each pixel its own color. The combination of these pixels in different colors and levels of brightness forms the image on the panel.

The process for manufacturing a TFT-LCD panel consists of four steps:

*TFT array process* involves fabricating a large number of thin film transistors on the backplane glass substrate. The number of transistors corresponds to the number of pixels on the screen. The process is similar to the process for manufacturing semiconductor chips, except that transistors are fabricated on large glass substrates instead of silicon wafers. Unlike in the semiconductor industry, however, the number of transistors per glass substrate is not a primary driver of the manufacturing costs for TFT-LCDs. Once the TFT array process on glass substrates is completed, the substrates are cut into panel-sized pieces;

*Color filter process* involves fabricating a large number of color regions on the frontplane glass substrate that will overlay the TFT array prior to the cell process. The colored dots of red, green and blue combine to form various colors. The process is similar to the TFT array process but involves depositing colored dyes instead of transistors;

*Cell process* involves joining together the backplane glass substrate that is arrayed with transistors and the frontplane glass substrate that is patterned with a color filter. The space between the two glass substrates is filled with liquid crystal materials. The resulting panel is called a cell; and

*Module assembly process* involves connecting additional components, such as driver integrated circuits and backlight units, to the cell.

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The TFT array, color filter and cell processes are capital-intensive and require highly automated production equipment and are the primary determinants of fixed manufacturing cost. In contrast, the module assembly process involves semi-automated production equipment and manual labor to assemble the various components. Materials are the primary drivers of variable manufacturing cost.

***IPS Technology***

In-Plane Switching, or IPS, is a liquid crystal switching technology that was developed to address commonly faced problems with TFT-LCD panels that utilized other liquid crystal technologies, namely narrow viewing angles, inconsistent picture uniformity and slow response times. Unlike other liquid crystal technologies where the liquid crystals are aligned vertically or at an angle in relation to the glass substrate, with IPS technology, the liquid crystals are aligned horizontally in parallel to the glass substrate, which allows for wider viewing angles, greater picture uniformity and faster response times. Our TFT-LCD display panels, including our TFT-LCD television panels, utilize IPS technology.

Advanced High Performance IPS, or AH-IPS, is an IPS technology that integrates ultra-fine pitch technology and high transmittance technology, which allows for ultra-high resolution imagery, increased luminance and greater energy efficiency. For example, in April 2014, we produced a 5.5-inch quad high definition ( Quad HD ) smartphone panel, which has four times the resolution (538 pixels-per-inch) of a conventional HD panel. In February 2017, we also introduced a 5.7-inch Quad HD smartphone panel with an upgraded resolution of 564 pixels per inch. AH-IPS is currently utilized in our smartphone panels and other mobile display products, as well as certain of our panels for notebook computers, tablet computers and desktop monitors.

***OLED Technology***

An OLED panel consists of a thin film of organic material encased between anode and cathode electrodes. When a current is applied, light is emitted directly from the organic material. Because a separate backlight is not needed, OLED panels can be lighter and thinner compared to TFT-LCD panels, which require a separate backlight. In addition, images projected on OLED panels have higher contrast ratios and more realistic color reproduction compared to images projected on TFT-LCD panels.

We utilize different types of sub-pixel and backplane technologies in our OLED panels. Under the RGB sub-pixel structure, a combination of red, green and blue sub-pixels without color filters or white sub-pixels are used to produce a range of colors. While we, along with most of our competitors, utilize RGB sub-pixel technology for small- and medium-sized products, there are various technical challenges in scaling RGB sub-pixel technology for large-sized products, such as television panels. For our large-sized OLED panels, we have overcome these challenges by opting to utilize our WRGB sub-pixel structure, whereby red, green and blue color filters are placed over white OLED sub-pixels to produce a range of colors and began production of OLED television panels on our E3 production lines in January 2013 and mass production of OLED television panels on our E4 production lines in December 2014. As for backplane technology, our large-sized OLED products are produced using oxide TFT backplane technology as compared to our smaller-sized OLED products which utilize LTPS backplane technology, as described in greater detail below.

***Backplane Technology******Oxide TFT***

We use oxide TFT technology to produce backplanes for use in our large-sized OLED panels, such as the panels used in OLED television products. The traditional amorphous silicon-based TFT, or a-Si TFT, backplane technology has certain limitations that render it unsuitable for producing backplanes for use in large-sized OLED panels with high resolutions and fast refresh rates. For example, in larger and higher-resolution display panels, a-Si TFT backplanes consume increased rates of power and experience a decrease in the rate at which each transistor is able to switch between images, or the rate of mobility.

As an alternative to a-Si TFT backplane technology, we have successfully adopted a metal oxide-based TFT, or simply oxide TFT, backplane technology. In place of the amorphous silicon-based semiconductors used in a-Si TFT backplanes, oxide TFT backplanes utilize metal oxide-based semiconductors, which consume less energy, have a higher rate of mobility and allow for construction of display panels with narrower bezels as compared to display panels with traditional a-Si TFT backplanes.

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We were the first company in the display industry to successfully adopt oxide TFT technology in large-sized OLED products, which has been a key factor in reducing the costs of manufacturing large-sized OLED panels in large quantities. Because the manufacturing process of oxide TFT-based OLED panels is similar to the process used to manufacture TFT-LCD panels, we are able to use our existing TFT-based production lines with relatively little modification to mass produce large-sized OLED panels.

### *LTPS*

LTPS backplanes have superior current-driving capacity and produce brighter images, while consuming less energy compared to a-Si TFT or oxide TFT backplanes, due to their higher mobility rates. However, due to a complex manufacturing process, LTPS backplanes have relatively higher production costs compared to a-Si TFT or oxide TFT backplanes, making it uneconomical to use in the production of large-sized panels. As a result, we generally utilize LTPS backplanes in the production of smaller-sized panels, particularly in TFT-LCD and OLED smartphone panels.

## **Products**

We manufacture display panels of various specifications that are integrated by our customers into principally the following products:

Televisions, which utilize large-sized display panels ranging from 18.5 inches to 105 inches in size, including Ultra HD television panels, which have four times the number of pixels compared to conventional HD television panels;

Notebook computers, which utilize display panels ranging from 10.1 inches to 21.5 inches in size;

Desktop monitors, which utilize large-sized display panels ranging from 14 inches to 37.5 inches in size;

Tablet computers, which utilize display panels ranging from 7 inches to 12.9 inches in size; and

Mobile and other applications, which utilize a wide array of display panel sizes, including smartphones and other types of mobile phones and industrial and other applications, including entertainment systems, automotive displays, portable navigation devices and medical diagnostic equipment.

Unless otherwise specified, when we refer to panels in this annual report, we mean assembled cells with added components, such as driver integrated circuits and backlight units.

We design and manufacture our panels to meet the various size and performance specifications of our customers, including specifications relating to thinness, weight, resolution, color quality, power consumption, response times and viewing angles. The specifications vary from product to product. For television panels, a premium is placed on faster response times, wider viewing angles, higher resolution and greater color fidelity. Notebook computer panels require an emphasis on thinness, light weight and power efficiency, while desktop monitor panels demand a greater focus on brightness, color brilliance and wide viewing angles. For mobile panels, particularly smartphones, an emphasis is



placed on brightness and power efficiency.

In addition to manufacturing and selling display panels, we also manufacture and sell desktop monitors through our joint venture companies. See Joint Ventures.

### ***Televisions***

Our television display panels range from 18.5 inches to 105 inches in size. We began mass production of television display panels in 2001. Our sales of display panels for televisions were ₩10,854 billion, or 38.2% of our total revenue, in 2015, ₩10,133 billion, or 38.2% of our total revenue, in 2016 and ₩11,718 billion (US\$10,978 million), or 42.2% of our total revenue, in 2017 and constituted our largest product category in each of the past three years. In 2017, our principal products in this category in terms of sales revenue consisted of 32-inch, 43-inch, 49-inch, 55-inch and 65-inch display panels.

Brand manufacturers of televisions and their distribution channels prefer long-term arrangements with a limited number of display panel suppliers that can offer a full product line, and we believe that we are well positioned to meet their requirements with our strengths in technology, manufacturing scale and efficiency as well as the breadth of our product portfolio.

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**Table of Contents*****Notebook Computers***

Our display panels for notebook computers range from 10.1 inches to 21.5 inches in size in a variety of display formats and constituted our fifth largest product category in terms of sales revenue in 2017. Revenue from sales of our display panels for notebook computers was ₩2,509 billion, or 8.8% of our total revenue, in 2015, ₩2,384 billion, or 9.0% of our total revenue, in 2016 and ₩2,244 billion (US\$2,102 million), or 8.1% of our total revenue, in 2017. In 2017, our principal products in terms of sales revenue in this category were 12.3-inch, 13.3-inch, 14.0-inch, 15.4-inch and 15.6-inch display panels.

Consumer demand for notebook computers has steadily declined in recent years due in part from competition from tablet computers and smartphones that are more economical and convenient to use compared to notebook computers while offering similar levels of computing functionality.

***Desktop Monitors***

Our desktop monitor display panels range from 14 inches to 37.5 inches in size in a variety of display resolutions and formats. Revenue from sales of our display panels for desktop monitors was ₩4,553 billion, or 16.0% of our total revenue, in 2015, ₩4,035 billion, or 15.2% of our total revenue, in 2016 and ₩4,393 billion (US\$4,116 million), or 15.8% of our total revenue, in 2017 and constituted our third largest product category in each of the past three years.

In 2017, our principal products in terms of sales revenue in this category were 21.5-inch, 23-inch, 23.8-inch and 27-inch display panels.

***Tablet Computers***

Our tablet computer display panels range from 7 inches to 12.9 inches in size in a variety of display formats and constituted our fourth largest product category in 2017. Revenue from sales of our display panels for tablet computers was ₩2,510 billion, or 8.8% of our total revenue, in 2015, ₩2,696 billion, or 10.2% of our total revenue, in 2016 and ₩2,370 billion (US\$2,220 million), or 8.5% of our total revenue, in 2017.

After experiencing steady growth in consumer demand for tablet computers since they were first introduced, consumer demand has generally plateaued in recent years. In 2017, our principal products in terms of sales revenue in this category were 7.85-inch, 9.7-inch, 10.5-inch and 12.9-inch display panels.

***Mobile and Other Applications***

Our product portfolio also includes panels for mobile and other applications, which utilize a wide array of display panel sizes, including smartphones and other types of mobile phones and industrial and other applications, including entertainment systems, automotive displays, portable navigation devices and medical diagnostic equipment. Display panels that are nine inches and smaller are referred to as small- and medium-sized panels.

While this was our fastest growing category of products in terms of revenue growth in recent years, driven largely by an increase in demand for increasingly larger-sized smartphone panels, consumer demand has plateaued in recent years. Revenue from sales of our display panels for mobile and other applications was ₩7,919 billion, or 27.9% of our total revenue, in 2015, ₩7,216 billion, or 27.2% of our total revenue, in 2016 and ₩7,020 billion (US\$6,577 million), or 25.3% of our total revenue, in 2017. In 2017, sales of panels for smartphones continued to constitute a significant majority in terms of both sales revenue and sales volume in the mobile and other applications category.

Some of the panels we produce for industrial products, such as medical diagnostic equipment, are highly specialized niche products manufactured to the specifications of our clients, while others, such as industrial controllers, may be manufactured by slightly modifying a standard product design for our other products, such as desktop monitors. Display panels for these other applications broaden our sales base and product mix. They are also often a good channel through which we can commercialize a particular technology that we have developed. We generally determine the production level and specification of our display panels for mobile and other applications by assessing various business opportunities as they arise.

**Table of Contents****Sales and Marketing*****Customer Profile***

Our display panels are included primarily in televisions, notebook computers, desktop monitors, tablet computers and mobile and other applications sold by our global end-brand customers, including LG Electronics. LG Electronics is our largest shareholder, and the terms of our sales to LG Electronics are negotiated based on then-prevailing market prices as adjusted for LG Electronics requirements, including volume and specifications. See Item 7.B. Related Party Transactions for further description of our sales to LG Electronics.

We negotiate directly with our end-brand customers concerning the terms and conditions of the sales, but typically ship our display panels to designated system integrators at the direction of these end-brand customers. Sales data to end-brand customers include direct sales to these end-brand customers as well as sales to their designated system integrators, including through our affiliated trading company, LG International, and its subsidiaries, as further discussed below under Sales.

A substantial portion of our sales is attributable to a limited number of our end-brand customers. Our top ten end-brand customers together accounted for approximately 82% of our sales in each of 2015 and 2016 and 81% in 2017. Of our top ten end-brand customers, two of them accounted for more than 10% of our sales on an individual basis for each of the past three years. For example, sales to LG Electronics, including as a system integrator, amounted to 23.5%, 21.9% and 23.4% of our sales in 2015, 2016 and 2017 respectively.

In addition to our top ten end-brand customers, we sell our display panels to a variety of other manufacturers of computers and electronic products. Sales to these other manufacturers constituted approximately 18% of our sales in each of 2015 and 2016 and 20% in 2017, respectively.

The following table sets forth for the years indicated the geographic breakdown of our sales by the region where purchase orders originate, without regard to the location of end-brand customers. The figures below therefore reflect orders from our end-brand customers, their system integrators and our affiliated trading company, LG International, and its subsidiaries:

|                        | 2015  |        | 2016     |        | 2017     |                      | 2017 |        |
|------------------------|---|--------|----------|--------|----------|----------------------|------|--------|
|                        | Sales   | %      | Sales    | %      | Sales    | Sales <sup>(3)</sup> | %    |        |
|                        | (in billions of Won and millions of US\$, except for percentages) |        |          |        |          |                      |      |        |
| Korea                  | ₩ 2,218   | 7.8%   | ₩ 1,825  | 6.9%   | ₩ 1,996  | US\$ 1,870           |      | 7.2%   |
| China                  | 19,375  | 68.3   | 18,368   | 69.3   | 18,091   | 16,948               |      | 65.1   |
| Europe                 | 2,204   | 7.8    | 2,109    | 8.0    | 2,595    | 2,431                |      | 9.3    |
| Asia (excluding China) | 2,012   | 7.1    | 1,729    | 6.5    | 2,250    | 2,108                |      | 8.1    |
| United States          | 1,981   | 7.0    | 2,053    | 7.7    | 2,725    | 2,553                |      | 9.8    |
| Others <sup>(1)</sup>  | 594   | 2.0    | 420      | 1.6    | 134      | 126                  |      | 0.5    |
| Total <sup>(2)</sup>   | ₩ 28,384  | 100.0% | ₩ 26,504 | 100.0% | ₩ 27,790 | US\$ 26,036          |      | 100.0% |

- (1) Includes Oceania, Africa and the Middle East.
- (2) Figures provided in this table include our revenue attributable to royalty and others.
- (3) For convenience, the Korean Won amounts are expressed in U.S. dollars at the rate of ₩1,067.42 to US\$1.00, the noon buying rate in effect on December 31, 2017 as certified by the Federal Reserve Bank of New York for customs purposes. This translation should not be construed as a representation that the Korean Won amounts represent, have been or could be converted to U.S. dollars at that rate or any other rate.

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### ***Sales***

Our sales and marketing departments seek to maintain and strengthen relationships with our current customers in existing markets as well as expand our business in new markets and with new customers. We currently have wholly-owned sales subsidiaries in the United States, Japan, Germany, Taiwan, China and Singapore. As of December 31, 2017, our sales and marketing force employed a total of 1,545 employees in regional offices in these countries and in our head office in Korea.

The focus of our sales activities is on strengthening our relationships with large end-brand customers, with whom we maintain strong collaborative relationships. Customers look to us for a reliable supply of a wide range of display products. We believe our reliability and scale as a supplier helps support our customers' product positions. We view our relationships with our end-brand customers as important to their product development strategies, and we collaborate with our end-brand customers in the design and development stages of their new products. In addition, our sales teams coordinate closely with our end-brand customers' designated system integrators to ensure timely delivery. For each key customer, we appoint an account manager who is primarily responsible for our relationship with that specific customer, complemented by a product development team consisting of engineers who participate in meetings with that customer to understand the customer's specific needs.

We do not typically enter into binding long-term contracts with our customers. However, we have in place long-term supply and purchase agreements with certain major end-brand customers, whereby we and our end-brand customers agree on general volume parameters and, in some cases, product specifications and delivery terms. These agreements serve as an indication of the size and key components of a customer's order, and neither party is committed to supply or purchase any products until a firm purchase order is issued.

Our sales are conducted through our multi-channel sales and distribution network, including direct sales to end-brand customers and their system integrators, sales through our overseas subsidiaries and sales through our affiliated trading company, LG International, and its subsidiaries. Our sales subsidiaries procure purchase orders from, and distribute our products to, system integrators and end-brand customers located in their region. In regions where we do not have a sales subsidiary, or where doing so is consistent with local market practices, we sell our products to LG International and its subsidiaries. These subsidiaries of LG International process orders from and distribute products to customers located in their region. Sales to LG International and its subsidiaries amounted to 2.6% in 2017. See Item 7.B. Related Party Transactions for further discussion of these sales arrangements.

Our end-brand customers or their system integrators generally place purchase orders with us one month prior to delivery based on our non-binding supply and purchase agreements with them. Generally, the head office of an end-brand customer provides us with three- to six-month forecasts, which, together with our own forecasts, enable us to plan our production schedule in advance. Our customers usually issue monthly purchase orders containing prices we have negotiated with the end-brand customer one month prior to delivery, at which point the customer becomes committed to the order at the volumes and prices indicated in the purchase orders. Under certain special circumstances, however, a negotiated price may be subject to change during the one-month period prior to delivery.

Prices for our products are generally determined based on negotiations with our end-brand customers. Pricing of our display panel products is generally market-driven, based on the complexity of the product specifications and the labor and technology involved in the design or production processes.

We generally provide a limited warranty to our end-brand customers, including the provision of replacement parts and warranty services for our products. Costs incurred under our warranty liabilities consist primarily of repairs. We set aside a warranty reserve based on our historical experience and future expectations as to the rate and cost of claims

under our warranties.

Our credit policy typically requires payment within 30 to 90 days, and payments on the vast majority of our sales have typically been collected within 60 days. Where system integrators located in certain regions are invoiced directly, we have established certain measures, such as factoring arrangements and accounts receivable insurance programs, to protect us from excessive exposure to credit risks. To date we have not experienced any material problems relating to customer payments.

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### **Competition**

The display panel industry is highly competitive. Due to the capital intensive nature of the display panel industry and the high production volumes required to achieve economies of scale, the international market for display devices is characterized by significant barriers to entry, but the competition among the relatively small number of major producers is intense. In the case of TFT-LCD panel manufacturers, currently almost all of them are located in Asia, and we compete principally with manufacturers from Korea, Taiwan, China and Japan.

The principal elements of competition for customers in the display panel market include:

product portfolio range and availability;

product specifications and performance;

price;

capacity allocation and reliability;

customer service, including product design support; and

logistics support and proximity of regional stocking facilities.

Our principal competitors are:

Samsung Display in Korea;

Innolux and AU Optronics in Taiwan;

JDI and Sharp in Japan; and

BOE, China Star Optoelectronics, CEC Panda and HKC in China.

According to IHS Technology, in 2017, Korean display panel manufacturers had a market share of 43% of the 9-inch or larger panel market based on revenue, Taiwanese manufacturers had 28%, Chinese manufacturers had 23% and Japanese manufacturers had 7%. Our market share of the 9-inch or larger panel market based on revenue was approximately 29%.

### **Components, Raw Materials and Suppliers**



Components and raw materials accounted for 65.5% of our cost of sales in 2015, 66.4% in 2016 and 64.6% in 2017. The key components and raw materials of our display products include glass substrates, driver integrated circuits and polarizers used in both our TFT-LCD and OLED products, backlight units and liquid crystal materials used in our TFT-LCD products, and hole transport materials and emission materials used in our OLED products. We source these components and raw materials from outside sources, although, unlike many other display panel manufacturers, we produce a substantial portion of the color filters we use. With respect to glass substrates, Paju Electric Glass Co., Ltd., a joint venture company of which we and Nippon Electric Glass Co., Ltd. own 40% and 60%, respectively, provides us with a stable supply at competitive prices.

We generally negotiate non-binding master supply agreements with our suppliers several times a year, but pricing terms are negotiated on a quarterly basis, or if necessary, on a monthly basis. Firm purchase orders are issued generally six weeks prior to the scheduled delivery, except in the case of purchase orders for driver integrated circuits, which are issued generally six to ten weeks prior to the scheduled delivery. We purchase our components and raw materials based on forecasts from our end-brand customers as well as our own assessments of our end-brand customers' needs.

In order to reduce our component and raw material costs and our dependence on any one supplier, we generally develop compatible components and raw materials and purchase our components and raw materials from more than one source. However, we source certain key components and raw materials from a limited group of suppliers in order to ensure timely supply and consistent quality. Also, in order to facilitate implementation of our cost reduction strategies, we continually review for potential cost savings in sourcing our components and raw materials from suppliers based in Korea and those based abroad, including competitiveness of the prices offered by such suppliers and any potential for reduction in logistics and transportation costs. We perform periodic evaluations of our component and raw material suppliers based on a number of factors, including the quality and price of the components, delivery and response time, the quality of the services and the financial health of the suppliers. We reassess our supplier pool accordingly.

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We maintain a strategic relationship with many of our material suppliers, and from time to time, we make equity investments in our material suppliers as part of our efforts to secure a stable supply of key components and raw materials.

We generally maintain a component and raw material inventory sufficient for approximately 10 days, or 20 days for driver integrated circuits, as a safeguard against potential disruptions in supply.

In addition to components and raw materials, the manufacturing of our products requires significant quantities of electricity and water. In order to obtain and maintain reliable electric power and water supplies, we have our own back-up power generation facilities and water storage tanks as well as easy access to nearby water sources. To date we have not experienced any material problems with our electricity and water supplies.

## **Equipment, Suppliers and Third Party Processors**

We depend on a limited number of equipment manufacturers for equipment tailored to specific requirements. Since our manufacturing processes depend on the quality and technological capacity of our equipment, we work closely with the equipment manufacturers in the design process to ensure that the equipment meets our specifications. The principal types of equipment we use to manufacture display panels include deposition equipment, steppers, developers and coaters.

We purchase equipment from a small number of qualified vendors to ensure consistent quality, timely delivery and performance. We maintain strategic relationships with many equipment manufacturers as part of our efforts to ensure quality while reducing costs.

Historically, we have relied on a small number of overseas vendors for equipment purchases, but in recent years, we have diversified and localized our equipment purchases by shifting some of our purchases to local vendors. In 2017, approximately 69% of our equipment for our facilities in Korea was purchased from local vendors on an invoiced basis. We plan to maintain this localization effort as part of our sourcing diversification and cost reduction strategy. A large majority of the equipment purchased from overseas vendors are from Japanese vendors. From time to time, we use the services of LG International's subsidiary in Japan for logistics in connection with the procurement of equipment from Japan. See Item 7.B. Related Party Transactions.

Our engineers begin discussions with equipment manufacturers far in advance of the planned installation of equipment in a new fabrication facility, and we typically execute a letter of intent with the vendors in advance of our planned installation to ensure timely delivery of main equipment with long-term delivery schedules. Engineers from our vendors typically accompany the new equipment to our fabrication facilities to assist in the installation process to ensure proper operation. In addition, we outsource certain manufacturing processes to third party processors from time to time to supplement our processing capacity, and in certain cases, we maintain strategic relationships with such third party processors. For example, we have invested, and currently hold a 17.0% equity interest, in Avatec Co., Ltd., a third party processor that etches glass substrates.

## **Quality Control**

We believe that our advanced production capabilities and our reputation for high quality and reliable products have been important factors in attracting and retaining key customers. We have implemented quality inspection and testing procedures at all of our fabrication facilities and assembly facilities. Our quality control procedures are carried out at three stages of the manufacturing process:

incoming quality control with respect to components and raw materials;

in-process quality control, which is conducted at a series of control points in the manufacturing process; and

outgoing quality control, which focuses on packaging, delivery and post-delivery services to customers.

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With respect to incoming quality control, we perform quality control procedures for the raw materials and components that we purchase. These procedures include testing samples of large batches, obtaining vendor testing reports and testing to ensure compatibility with other components and raw materials, as well as vendor qualification and vendor rating. Our in-process quality control includes various programs designed to detect, as well as prevent, quality deviations, reduce manufacturing costs, ensure on-time delivery, increase in-process yields and improve field reliability of our products. We perform outgoing quality control based on burn-in testing and final visual inspection of our products and accelerated life testing of samples. We inspect and test our completed display panels to ensure that they meet our high production standards. We also provide post-delivery services to our customers, and maintain warranty exchange inventories in regional hubs to meet our customers' needs.

Our quality assurance team works to ensure effective and consistent application of our quality control procedures, which include six-sigma quality control procedures, and to introduce new methodologies that could further enhance our quality control procedures. Our quality assurance programs have received accredited ISO/TS 16949 certifications. The ISO/TS certification process involves subjecting our manufacturing processes and quality management systems to reviews and observation for various fixed periods. ISO/TS certification is required by certain European countries and the United States in connection with sales of industrial products in those countries, and provides independent verification to our customers regarding the quality control measures employed in our manufacturing and assembly processes.

**Insurance**

We currently have property insurance coverage, including business interruption coverage, for our production facilities in Gumi and Paju, Korea, for up to ₩2.7 trillion in the aggregate, and for our GP fabrication facility located in Guangzhou China for up to RMB 12.2 billion in the aggregate. We also have insurance coverage for work-related injuries to our employees, accidents during overseas business travel, damage during construction, damage to products and equipment during shipment, damage to equipment during installation at our fabrication facilities, automobile accidents, bodily injury and property damage from gas accidents, as well as mandatory unemployment insurance for our workers and director and officer liability insurance. In addition, we maintain general and product liability, employment practice liability, aviation product liability and world-wide cargo insurance. Our dormitories in Gumi and Paju, Korea, have fire insurance coverage for up to approximately ₩500 billion in the aggregate. Our subsidiaries also have insurance coverage for damage to office fixtures and equipment and life and disability insurance for their employees. All of our overseas manufacturing subsidiaries also carry property insurance, business interruption insurance and commercial general liability insurance.

**Environmental Matters**

Our production processes generate various forms of chemical and other industrial waste, waste water and greenhouse gas emissions at various stages in the manufacturing process. We have installed various types of anti-pollution equipment for the treatment and recycling of such waste products and aggressively engage in greenhouse gas emission reduction and energy conservation efforts.

As a member of the World Display device Industry Cooperation Committee, or WDICC, a TFT-LCD industry organization focusing on environmental issues, we have voluntarily agreed to reduce emission of greenhouse gases, such as nitrogen trifluoride, or NF<sub>3</sub>, and sulfur hexafluoride, or SF<sub>6</sub>, gases, by developing and adopting cost-effective abatement technologies and systems and increasing the number of abatement systems installed in our facilities. We installed NF<sub>3</sub> abatement systems at all of our production lines when the production facilities were being constructed. In addition, we have voluntarily installed SF<sub>6</sub> abatement systems in P61 and P7, and we have voluntarily developed processes that utilize substitute gases with lower global warming potential than SF<sub>6</sub> and have applied such processes

in P62, P8 and P9.

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In the case of the European Union's Restriction of Hazardous Substances (RoHS) Directive 2011/65/EU, with the adoption of Directive (EU) 2015/863 in 2016, four additional substances (four phthalate substances) will be added to the six already restricted substances and the additional restrictions are scheduled to come into effect on July 22, 2019. In order to address the latent risk elements of the four phthalate substances scheduled to be restricted in 2019 and to establish a more stable management system, we implemented in 2016 a preemptive response process with respect to such four phthalate substances. In implementing this process, we collaborated with external agencies to ascertain regulatory trends and establish our response strategy, and we formulated and applied effective management measures through the collaborative efforts of our development, procurement and quality teams. Beryllium (Be) was not designated internationally as a mandatorily restricted substance but has continued to be the subject of discussion for restriction, and certain of our customers have designated it as a restricted substance not to be used in products. Accordingly, we have completed verification of the parts used in products for customers who have banned the use of beryllium. We have also conducted verification of the parts used in products for all customers who are expected to implement a ban and we have established a beryllium verification process for parts in development. Through such efforts, we have established a voluntary hazardous substance response process that can be expanded to products for all customers, not only those who have requested a response. For the more efficient operation of our waste water treatment equipment, we have also entered into an agreement with HiEntech, a wholly owned subsidiary of LG Electronics, for the operation of our water treatment system.

Operations at our manufacturing plants are subject to regulation and periodic scheduled and unscheduled on-site inspections by the Korean Ministry of Environment and local environmental protection authorities. We believe that we have adopted adequate anti-pollution measures for the effective maintenance of environmental protection standards consistent with local industry practice, and that we are in compliance in all material respects with the applicable environmental laws and regulations in Korea, including the Framework Act on Low Carbon, Green Growth, the Korean government, under which we are required to submit periodic greenhouse gas emission and energy usage statements, performance reports and greenhouse gas emission and energy usage reduction plans to the Korean government. Expenditures related to such compliance may be substantial and are generally included in capital expenditures. As required by Korean law, we employ licensed environmental specialists for each environmental area, including air quality, water quality, toxic materials and radiation.

We have been certified by the Korean Ministry of Environment as a Green Company, with respect to our environmental record for our P1 through P62 facilities and our module production plant in Gumi. In addition, we have received ISO 14001 and ISO 50001 certifications from the International Organization for Standardization with respect to our energy management systems for our P1 through P9 facilities and our Gumi and Paju module production plants. Our module production plants in Nanjing, Yantai and Guangzhou, China have also received ISO 14001 certification. Our GP1 fabrication facility was the first plant in China to receive the Green Plant designation under China's Green China Policy. Our GP1 fabrication facility has also received ISO 14001 and OHSAS 18001 certifications. Furthermore, in recognition of our continued water conservation activities (reuse system investments, etc.) and greenhouse gas emission reduction activities (process gas and energy reduction, etc.), we attained the highest level, Leadership A, and received the grand prize award at the CDP Water Korea Best Awards in 2016 from the Carbon Disclosure Project, which was presided over by the Carbon Disclosure Project Korea Committee. We also attained a Leadership A in the climate change information technology sector and received a Carbon Management Honors award in both 2016 and 2017. In 2017, in recognition of efficient control, management and operating systems implemented in our manufacturing facilities, we received the top-level certification, Level 1, under the Factory Energy Management System evaluation presided by the Korea Energy Agency.

**Joint Ventures**

We consider joint ventures an important part of our business, both operationally and strategically. We have used joint ventures to enter into new geographic markets, in particular China, to gain new customers and/or strengthen positions with existing customers and to procure certain components and raw materials. When entering new geographic markets where we do not have substantial local experience and infrastructure, teaming up with a local partner can reduce capital investment by leveraging the pre-existing infrastructure of local partners. In addition, local partners in these markets can provide knowledge and insight into local customs and practices and access to local suppliers of raw materials and components. All of these advantages can reduce the risk, and thereby enhance the prospects for the success, of an entry into a new geographic market. If the partner of the joint venture already has an established customer base, it can also be an effective means to acquire such new customers. Joint venture arrangements also allow us to access technology we would otherwise have to develop independently, thereby reducing the time and cost of development. They can also provide the opportunity to create synergies and applications of technology that would not otherwise be possible.

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From time to time, we have pursued a number of joint venture initiatives. For example, in September 2012, we entered into a joint venture agreement with Guangzhou GET Technologies Development Co., Ltd., or GET Tech, and Shenzhen SKYWORTH-RGB Electronic Co., Ltd., or Skyworth, establishing LG Display (China) Co., Ltd., which owns and operates our GP fabrication facility in Guangzhou, China. See Item 4.D. Property, Plants and Equipment Current Facilities. We acquired a 70.0% equity interest in LG Display (China) and invested a total of approximately US\$927 million over a period of two years from the date of incorporation of LG Display (China). Each of GET Tech and Skyworth owns a 20.0% and 10.0% equity interest in LG Display (China), respectively. In addition, we plan to establish a joint venture with the government of Guangzhou to construct a next generation large-sized OLED production line, which is expected to commence production in the second half of 2019, at our GP fabrication facility in Guangzhou, China, and we plan invest approximately ₩1.8 trillion to acquire a 70% ownership interest in such joint venture.

We intend to continue to seek strategic acquisition and joint venture opportunities and conduct feasibility studies with respect to establishing new manufacturing subsidiaries in strategic locations to deepen our market penetration, achieve economies of scale, increase our customer base, expand our geographical reach and reduce costs.

**Subsidiaries**

The following table sets forth summary information for our subsidiaries as of December 31, 2017:

| Subsidiary                     | Main Activities | Jurisdiction of Organization | Date of Organization | Total Equity Investment | Percentage of Our Ownership Interest |                                |      |
|--------------------------------|-----------------|------------------------------|----------------------|-------------------------|--------------------------------------|--------------------------------|------|
|                                |                 |                              |                      |                         | Percentage of Our Ownership Interest | Percentage of Our Voting Power |      |
| LG Display Taiwan Co., Ltd.    | Sales           | Taiwan                       | April 1999           | NT\$                    | 115,500,000                          | 100%                           | 100% |
| LG Display America, Inc.       | Sales           | U.S.A.                       | September 1999       | US\$                    | 411,000,000                          | 100%                           | 100% |
| LG Display Japan Co., Ltd.     | Sales           | Japan                        | October 1999         | ¥                       | 95,000,000                           | 100%                           | 100% |
| LG Display Germany GmbH        | Sales           | Germany                      | November 1999        |                         | 960,000                              | 100%                           | 100% |
| LG Display Nanjing Co., Ltd.   | Manufacturing   | China                        | July 2002            | RMB                     | 3,019,662,545                        | 100%                           | 100% |
| LG Display Shanghai Co., Ltd.  | Sales           | China                        | January 2003         | RMB                     | 4,138,650                            | 100%                           | 100% |
| LG Display Poland Sp. zo.o.    | Manufacturing   | Poland                       | September 2005       | PLN                     | 511,071,000                          | 100%                           | 100% |
| LG Display Guangzhou Co., Ltd. | Manufacturing   | China                        | June 2006            | RMB                     | 1,654,693,079                        | 100%                           | 100% |
| LG Display Shenzhen Co., Ltd.  | Sales           | China                        | August 2007          | RMB                     | 3,775,250                            | 100%                           | 100% |
| LG Display Singapore Pte. Ltd. | Sales           | Singapore                    | January 2009         | SG\$                    | 1,400,000                            | 100%                           | 100% |
|                                | Manufacturing   | China                        | April 2010           | RMB                     | 1,007,720,600                        | 100%                           | 100% |



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|  |                                |         |                |      |                   |      |      |  |
|--|--------------------------------|---------|----------------|------|-------------------|------|------|--|
| LG Display Yantai Co., Ltd.            | and sales                      |         |                |      |                   |      |      |  |
| L&T Display Technology (Fujian) Ltd.   | Manufacturing                  | China   | January 2010   | RMB  | 59,197,026        | 51%  | 51%  |  |
| Nanumnuri Co., Ltd.                    | Workplace services             | Korea   | March 2012     | ₩    | 800,000,000       | 100% | 100% |  |
| LG Display (China) Co., Ltd.           | Manufacturing                  | China   | December 2012  | RMB  | 5,763,206,733     | 70%  | 70%  |  |
| Unified Innovative Technology, LLC     | Managing intellectual property | U.S.A.  | March 2014     | US\$ | 9,000,000         | 100% | 100% |  |
| Global OLED Technology LLC             | Managing intellectual property | U.S.A.  | December 2009  | US\$ | 138,010,000       | 100% | 100% |  |
| LG Display Guangzhou Trading Co., Ltd. | Sales                          | China   | April 2015     | RMB  | 1,223,960         | 100% | 100% |  |
| LG Display Vietnam Haiphong Co., Ltd.  | Manufacturing                  | Vietnam | May 2016       | VND  | 2,187,870,000,000 | 100% | 100% |  |
| Suzhou Lehui Display Co., Ltd.         | Manufacturing                  | China   | July 2016      | RMB  | 636,973,641       | 100% | 100% |  |
| Money Market Trust                     | Money market trust             | Korea   | Not applicable | ₩    | 61,470,000,000    | 100% |      |  |

N.B. See Note 1(b) of the notes to our financial statements for changes to our subsidiaries during the year ended December 31, 2017.

**Table of Contents****Item 4.C. Organizational Structure**

These matters are discussed under Item 4.B. where relevant.

**Item 4.D. Property, Plants and Equipment****Current Facilities**

The following table sets forth the size, location and primary use of our fabrication facilities.

| Fabrication Facility   | Generation | Mass Production Commencement | Location         | Gross Floor Area   |                  | Primary Types of Panels Produced  |
|------------------------|------------|------------------------------|------------------|--------------------|------------------|---|
|                        |            |                              |                  | (in square meters) | (in square feet) |   |
| P2 <sup>(2)</sup>      | 3.5        | December 1997                | Gumi, Korea      | 71,149             | 762,000          | Automotive  |
| P3 <sup>(3)</sup>      | 4          | April 2000                   | Gumi, Korea      | 71,149             | 762,000          | Mobile, Automotive  |
| P4 <sup>(4)</sup>      | 5          | March 2002                   | Gumi, Korea      | 93,277             | 1,005,000        | Mobile, Notebook Computer, Desktop Monitor, Tablet Computer, Automotive |
| P5 <sup>(5)</sup>      | 5          | May 2003                     | Gumi, Korea      | 93,277             | 1,005,000        | Mobile, Notebook Computer, Automotive, Industrial                       |
| P61 <sup>(6)</sup>     | 6          | August 2004                  | Gumi, Korea      | 288,602            | 3,100,000        | Mobile, Desktop Monitor, Tablet Computer, Automotive                    |
| P62                    | 6          | April 2009                   | Gumi, Korea      | 101,607            | 1,090,000        | Notebook Computer, Desktop Monitor, Television                          |
| P7                     | 7          | January 2006                 | Paju, Korea      | 312,048            | 3,350,000        | Television, Desktop Monitor   |
| P8 <sup>(7)</sup>      | 8          | March 2009                   | Paju, Korea      | 542,795            | 5,850,000        | Television, Desktop Monitor   |
| P9 <sup>(8)</sup>      | 8          | June 2012                    | Paju, Korea      | 455,439            | 4,900,000        | Desktop Monitor, Notebook Computer, Tablet Computer                     |
| GP <sup>(9)</sup>      | 8          | September 2014               | Guangzhou, China | 245,159            | 2,630,000        | Television  |
| Ochang <sup>(10)</sup> | 2          | January 2012                 | Ochang, Korea    | 7,129              | 76,000           | OLED General Lighting, Automotive                                       |
| E5                     | 6          | August 2017                  | Gumi, Korea      | 10,579             | 113,000          | Mobile and other applications   |

(1) Based on internal reference to evolutions in facility design, material flows and input substrate sizes. There are several definitions of generations in the display industry. There has been no consensus in the display industry on a uniform definition. References to generations made in this annual report are based on our current definition of generations as indicated in the table below.

| Substrate Sizes (in millimeters) | Gen 2     | Gen 3     | Gen 4     | Gen 5         | Gen 6         | Gen 7         | Gen 8         |
|----------------------------------|-----------|-----------|-----------|---------------|---------------|---------------|---------------|
|                                  | 370 x 470 | 550 x 650 | 680 x 880 | 1,000 x 1,200 | 1,500 x 1,800 | 1,870 x 2,200 | 2,200 x 2,500 |
|                                  |           | 590 x 670 | 730 x 920 | 1,100 x 1,250 | 1,500 x 1,850 | 1,950 x 2,250 |               |
|                                  |           | 600 x 720 |           | 1,100 x 1,300 |               |               |               |
|                                  |           | 620 x 750 |           | 1,200 x 1,300 |               |               |               |

- (2) We ceased production and closed P2 fabrication facility in June 2017.
- (3) We ceased production and closed P3 fabrication facility in February 2018.
- (4) We ceased production and closed P4 fabrication facility in October 2017.
- (5) Gross floor area of P5 fabrication facility includes gross floor area of OLED light production lines.
- (6) Gross floor area of P61 fabrication facility includes gross floor area of AP3 production line. We ceased production and closed P61 in June 2016 except for AP3 production line.
- (7) Gross floor area of P8 fabrication facility includes gross floor area of AP2, E2 and E3 production lines.
- (8) Gross floor area of P9 fabrication facility includes gross floor area of E4 production lines.
- (9) Gross floor area of GP fabrication facility includes gross floor area of extended facility.
- (10) Gross floor area of OLED light production facilities which we lease from LG Chem. We acquired the OLED light business from LG Chem in December 2015.

For input substrate size, initial design capacity and year-end input capacity as a result of ramp-up for each of our fabrication facilities, please see Item 5.A. Operating Results Overview Manufacturing Productivity and Costs.

Housed within certain fabrication facilities, we also operate separately designated fabrication production lines. The following table sets forth the location and primary use of our separately designated production lines.

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| Production Lines | Mass Production           |               | Location | Primary Types of Panels Produced |
|------------------|---------------------------|---------------|----------|----------------------------------|
|                  | Generation <sup>(1)</sup> | Commencement  |          |                                  |
| AP2              | 4                         | July 2010     | P8       | LTPS backplanes for mobile       |
| AP3              | 6                         | February 2014 | P61      | LTPS backplanes for mobile       |
| E2               | 4                         | December 2013 | P8       | OLED mobile                      |
| E3               | 8                         | January 2013  | P8       | OLED television                  |
| E4               | 8                         | December 2014 | P9       | OLED television                  |

(1) Based on internal reference to evolutions in facility design, material flows and input substrate sizes. We also currently operate module assembly facilities located in China (Nanjing, Guangzhou and Yantai), Korea (Gumi and Paju) and Poland (Wroclaw). In addition, we operate a research and development facility in Paju, Korea, which we refer to as the R&D Center. We opened the R&D Center in April 2012 to consolidate our research and development efforts for next-generation display technologies. The following table sets forth the size of our R&D Center and module assembly facilities.

| Facility                    | Gross Floor Area<br>(in square meters) | Mass Production Commencement          |
|-----------------------------|--|---------------------------------------|
| R&D Center                  | 71,696                                 | Not applicable (opened in April 2012) |
| Gumi assembly facility      | 301,779                                | January 1995                          |
| Nanjing assembly facility   | 150,760                                | May 2003                              |
| Paju assembly facility      | 226,758                                | January 2006                          |
| Wroclaw assembly facility   | 106,929                                | February 2007                         |
| Guangzhou assembly facility | 139,095                                | December 2007                         |
| Yantai assembly facility    | 81,256                                 | May 2010                              |

**Capital Expenditures**

We are currently constructing our P10 fabrication facility, a next generation fabrication facility, in Paju, Korea, which is expected to be completed in the second quarter of 2018. We have completed the installation of our new E5 production line at our Gumi Display Cluster, on which we have commenced mass production of plastic OLED panels beginning in August 2017. Furthermore, in July 2017, we announced plans to make investments in an aggregate amount of ₩7.8 trillion in a next generation large-size OLED production line and a next generation plastic OLED production line in Paju, Korea. In April 2016, we commenced construction on a new module assembly facility in Haiphong, Vietnam, which was completed in July 2017. In addition, in July 2016, we announced plans to invest ₩2.0 trillion to install our new E6 production line at our P9 fabrication facility in Paju, Korea. We expect to commence mass production of flexible OLED panels on our new E6 production line in the second half of 2018. Each of our expansion and conversion projects is subject to market conditions and any changes in our investment timetable.

We currently expect that, in 2018, our total capital expenditures on a cash out basis will be higher than in 2017, primarily to fund the expansion of our panel production capacities for large-sized and small- and medium-sized OLED panels, including the construction of a next generation large-sized OLED production line at our GP fabrication facility in Guangzhou, China through our joint venture with the government of Guangzhou, and the construction of our P10 fabrication facility, a next generation large-size OLED production line and a next generation plastic OLED production line in Paju, Korea, while maintaining and making improvements to our existing facilities. This amount is subject to periodic assessment, and we cannot provide any assurance that this amount may not change materially after assessment. We may undertake further expansion projects in the future with respect to our existing facilities as our

overall business strategy may require.

**Item 4A. UNRESOLVED STAFF COMMENTS**

We do not have any unresolved comments from the SEC staff regarding our periodic reports under the Exchange Act.

**Item 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS**

**Item 5.A. *Operating Results*  
Overview**

Our results of operations are affected principally by overall market conditions, our manufacturing productivity and costs, and our product mix.

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**Table of Contents*****Market Conditions***

The display industry in which we operate is affected by market conditions that are often outside the control of individual manufacturers. Our results of operations might fluctuate significantly from period to period due to market factors, such as seasonal variations in demand, surges in production capacity by competitors and changes in technology. Over the past decade, the display industry has grown significantly as a result of cost reductions and product improvements that stimulated demand for TFT-LCD and OLED panels. With respect to the TFT-LCD industry, the industry grew from 586 million units in 2004 to 2,739 million units in 2017 and market revenue grew from US\$49 billion to US\$101 billion during the same period according to IHS Technology.

While TFT-LCD panels still predominantly constitute the display industry, the industry in recent years has witnessed the introduction of display panels based on new technologies, such as OLED technology, that have begun to compete with TFT-LCD panels. In particular, we and some of our competitors have already commenced mass production of OLED panels. Currently, small-sized panels for use in mobile devices such as smartphones make up the bulk of the OLED panel market, accounting for almost 94% of industry revenue from global sales of OLED panels in 2017. These small-sized OLED panels compete with more advanced TFT-LCD products such as our AH-IPS products. However, as of 2017, the OLED market was relatively small compared to the TFT-LCD market. According to IHS Technology, 430 million OLED panel units that are less than nine inches were sold in 2017, with market revenue of approximately US\$21 billion in that same year. We believe, however, that the market may change rapidly as a growing array of OLED panels for various applications are introduced to the market and advances in the related technology and manufacturing processes enable mass production in a cost-efficient manner. In December 2014, we commenced mass production of 55-inch, 65-inch and 77-inch Ultra HD OLED television panels on our E4 production lines. In addition, in August 2017, we began production of plastic OLED panels for smartphones on our newly constructed E5 production line.

While the display industry has grown rapidly, it has also experienced business cycles with significant and rapid price declines from time to time. Historically, display panel manufacturers have increased display area fabrication capacity rapidly. Capacity expansion occurs especially rapidly when several manufacturers ramp-up new factories at the same time. During such surges in the rate of supply growth, our customers are able to exert downward pricing pressure, leading to sharp declines in average selling prices and significant fluctuations in our gross margin. In addition, regardless of relative capacity expansion, we expect average selling prices of our existing products will decline as the cost of manufacturing declines due to technology advances and component cost reductions. Conversely, constraints in the industry supply chain or increased demand for new technology products have led to increased prices for display panels in some past periods.

According to IHS Technology, the display industry for panels that are nine inches or larger contracted in 2016 compared to 2015, with total market revenue decreasing from US\$64 billion in 2015 to US\$60 billion in 2016. The average selling price of those panels decreased during the same period by 4.4% from approximately US\$91 in 2015 to US\$87 in 2016. In 2017, the display industry for panels that are nine inches or larger expanded, with total market revenue increasing to US\$67 billion. IHS Technology estimates that the average selling price of those panels has increased during the same period by approximately 10% to approximately US\$96 in 2017.

We strive to mitigate the effect of industry cyclicity and the resulting price fluctuations by planning capacity expansions and capacity allocations, or shifting our product mix, to capture premium prices in specific emerging product categories. As part of our strategy, we have been proceeding with the construction of new fabrication facilities and additional investments to upgrade and convert existing facilities and production lines to produce differentiated specialty display panels based on newer technologies that command higher premiums. See Item 4.D. Property, Plants and Equipment Capital Expenditures.

In addition, we are vigorously pursuing our strategy to develop differentiated specialty products and technologies that better address our customers' needs, thereby delivering greater value to our customers. In many cases, these efforts go hand-in-hand with our efforts to develop products based on new technologies that allow us to realize greater premiums. For example, we have allocated greater amounts of our resources to the development and production of OLED panels, public display panels, display panels utilizing AH-IPS technology for various tablet computers, smartphones, notebook computers, desktop monitors and other applications and flexible OLED technology for smartphones and smartwatches. In particular, we are deploying greater resources into large-sized OLED television panels in order to maintain our early competitive edge in such market, and into small- and medium-sized OLED panels for various applications in order to expand our market presence.

Another key aspect of our strategy is to foster close cooperation with our customers and build on our strategic relationships with many of our key suppliers. Success of a new product depends on, among other things, working closely with our customers to gain insights into their product needs and to understand general trends in the market. At the same time, we often work with our equipment suppliers to design equipment that can enhance the efficiency of our production processes for such new products.

**Table of Contents****Manufacturing Productivity and Costs**

We seek to continually enhance our manufacturing productivity and thereby reduce the cost of producing each panel. We have significantly expanded our production capacity by investing in fabrication facilities that can process increasingly larger-size glass substrates. The following table shows the input substrate size, initial design capacity and year-end input capacity as a result of ramp-up for each of our fabrication facilities as of the dates indicated:

| Facility              | Initial  |   | Year-end Input Capacity <sup>(1)</sup> |         |         |
|-----------------------|--|---|--|---------|---------|
|                       | Primary Input Substrates Size (in millimeters) | Design Capacity (in input substrates per month) | Year-end Input Capacity <sup>(1)</sup> |         |         |
|                       |  |   | 2015                                   | 2016    | 2017    |
|                       |  |   | (in input substrates per month)        |         |         |
| P2 <sup>(2)</sup>     | 590x670  | 60,000  | 76,000                                 | 38,000  | 42,000  |
| P3 <sup>(3)</sup>     | 680x880  | 60,000  | 67,000                                 | 32,000  | 37,000  |
| P4 <sup>(4)</sup>     | 1,000x1,200                                    | 60,000  | 98,000                                 | 92,000  | 27,000  |
| P5                    | 1,100x1,250                                    | 60,000  | 126,000                                | 82,000  | 69,000  |
| P61 <sup>(5)</sup>    | 1,500x1,850                                    | 90,000  | 93,000                                 | 75,000  | 36,000  |
| P62                   | 1,500x1,850                                    | 60,000  | 46,000                                 | 50,000  | 49,000  |
| P7                    | 1,950x2,250                                    | 90,000  | 227,000                                | 229,000 | 230,000 |
| P8 <sup>(6)</sup>     | 2,200x2,500                                    |   |  |         |         |
|                       |  | 339,000   | 384,000                                | 362,000 | 359,000 |
|                       | 730x920  |   |  |         |         |
| P9                    | 2,200x2,500                                    | 60,000  | 50,000                                 | 60,000  | 68,000  |
| GP <sup>(7)</sup>     | 2,200 x 2,500                                  | 60,000  | 96,000                                 | 151,000 | 211,000 |
| Ochang <sup>(8)</sup> | 370 x 470                                      | 4,000   | 1,000                                  | 2,500   | 3,000   |
| E5 <sup>(9)</sup>     | 1,500x925                                      | 16,265  | N/A                                    | N/A     | 6,289   |

N/A = Not applicable.

(1) Year-end input capacity is the total input substrates for the month that had the highest monthly input substrates during the fiscal year.

(2) We ceased production and closed P2 fabrication facility in June 2017.

(3) We ceased production and closed P3 fabrication facility in February 2018.

(4) We ceased production and closed P2 fabrication facility in October 2017.

(5) Includes input capacity of AP3 production line. We otherwise ceased production and closed P61 in June 2016 except for AP3 production line.

(6) Includes input capacity of AP2, E2, E3 and E4 production lines.

(7) Includes input capacity of extended GP1 production line from 2016.

(8) Year-end input capacity for 2015 represents the total input substrates after our acquisition of the OLED light business from LG Chem in December 2015.

(9) Commenced operation in August 2017.

Our cash outflows for capital expenditures amounted to ₩2,365 billion in 2015, ₩3,736 billion in 2016 and ₩6,592 billion (US\$6,176 million) in 2017. Such capital expenditures relate mainly to continued investments in our



GP fabrication facility and E4 production line in 2015, continued investments in our GP fabrication facility, the construction of our P10 fabrication facility in Paju, Korea and investments in our E5 and E6 production lines in 2016 and 2017, as well as investments in a next generation large-size OLED production line and a next generation plastic OLED production line in Paju, Korea in 2017. Capital expenditures were also incurred for the acquisition of new equipment during the same period. Our depreciation expense as a percentage of revenue decreased from 10.5% in 2015 to 10.0% in 2016 and remained stable at 10.0% in 2017. The decrease in 2016 compared to 2015 was primarily due to the end of the estimated useful life of certain machinery and equipment assets in our P9 fabrication facility. We currently expect that, in 2018, our total capital expenditures on a cash out basis will be higher than in 2017, primarily to fund the expansion of our panel production capacities for large-sized and small- and medium-sized OLED panels, including the construction of a next generation large-sized OLED production line in Guangzhou, China through our joint venture with the government of Guangzhou, as well as our continued investment in a next generation large-size OLED production line and a next generation plastic OLED production line in Paju, Korea, while maintaining and making improvements to our existing facilities. This amount is subject to periodic assessment, and we cannot provide any assurance that this amount may not change materially after assessment.

Since inception we have designed our fabrication facilities in-house and co-developed most equipment sets with our suppliers. These efforts have enabled us to gain valuable experience in designing and operating next-generation fabrication facilities capable of processing increasingly larger-size glass substrates. We have been able to leverage this experience to achieve and maintain high production output and yields at our fabrication facilities, thereby lowering costs. In addition, in recent years, we have substituted a portion of our equipment purchased from overseas vendors with purchases from local vendors to diversify our supply source and reduce costs. For example, in 2017, we purchased approximately 69% of our equipment for our facilities in Korea from local suppliers on an invoiced basis. We also fabricate certain components internally, such as color filters, which are one of the industry's higher-cost components.

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We also continue to make various process improvements at our fabrication facilities, including enhancing the performance of process equipment, efficiency of material flows and quality of process and product designs. For example, we have reduced the number of mask steps in the TFT process from four to three with respect to certain models, thereby enabling us to process a higher number of substrates in a given period of time. Such process improvements result in increased unit output of our fabrication facilities without significant capital investment, thus enabling us to reduce fixed costs on a per panel basis. In addition, in commencing mass production of large-sized OLED products, we have made modifications to certain of our existing TFT-LCD production lines to convert them into OLED panel production lines. Because our large-sized OLED panels employ oxide TFT backplane technology, which can be produced using manufacturing processes similar to the processes used to manufacture TFT-LCD panels, relatively little modification has been necessary, thereby reducing the costs of additional investments needed for the conversion of our production lines.

Raw materials comprise the largest component of our costs. We monitor the prices at which we can procure raw materials from suppliers and to the extent overseas suppliers are able to provide raw materials at competitive prices, we have diversified our supplier base by procuring raw materials from such overseas suppliers. We have also been able to leverage our scale and leading industry position to obtain competitive prices from our suppliers. Certain strategic decisions, such as fabricating our own color filters, one of the higher cost components, have also been important drivers of our cost control.

The size of our operations has also expanded considerably from 2002 to date, enabling us to benefit from economies of scale. As a result of the above factors, our cost of sales per square meter of net display area, which is derived by dividing total costs of sales by total square meters of net display area shipped, decreased by 9.0% from ₩608,415 in 2015 to ₩553,935 in 2016 and further decreased by 2.7% to ₩538,806 (US\$505) in 2017.

***Product Mix***

Our product mix reflects our strategic capacity allocation among various product markets, and is continually reviewed and adjusted based on the demand for, and our assessment of the profitability of, display panels in different markets and size categories. In recent years, we believe market demand has been shaped by a shift toward larger-sized panels, especially in the television and desktop panel markets, and a shift toward differentiated specialty products based on newer technologies, especially in the display panel markets for Ultra HD televisions, ultra-thin notebooks, tablet computers and smartphones. In response to such market trends, we have increased our production capacity and sales of larger-sized panels, as well as developing and commercializing differentiated specialty products for a variety of applications. For example, with respect to our television display panel product portfolio, the proportion of sales of our 55-inch and 65-inch television panels in our product mix increased between 2015 and 2017. In addition, with respect to our desktop monitor products, we have expanded our product portfolio to offer panels with Full HD resolution ranging from 21.5 inches to 37.5 inches in a variety of screen aspect ratios, including 21:9 screen aspect ratio for ultra-widescreen monitors, in order to capture the market for large-size desktop monitors. At the same time, in response to increasing market demand for differentiated specialty products, we have developed and commercialized, for example, tablet computer panels utilizing AH-IPS technology with increasingly higher resolution and other features, smartphone and smartwatch panels utilizing flexible OLED technology and large-sized television panels utilizing our Ultra HD and OLED technologies.

The following table sets forth our revenue by product category for the years indicated and revenue in each product category as a percentage of our total revenue:

|  | Year ended December 31,   |        |          |        |          |                      |        |
|--|---|--------|----------|--------|----------|----------------------|--------|
|  | 2015  |        | 2016     |        | 2017     |                      |        |
|  | Sales   | %      | Sales    | %      | Sales    | Sales <sup>(3)</sup> | %      |
| Panels for:                                  | (in billions of Won and millions of US\$, except for percentages) |        |          |        |          |                      |        |
| Televisions                                  | ₩ 10,854  | 38.2%  | ₩ 10,133 | 38.2%  | ₩ 11,718 | US\$ 10,978          | 42.2%  |
| Notebook computers                           | 2,509   | 8.8    | 2,384    | 9.0    | 2,244    | 2,102                | 8.1    |
| Desktop monitors <sup>(1)</sup>              | 4,553   | 16.0   | 4,035    | 15.2   | 4,393    | 4,116                | 15.8   |
| Tablet computers                             | 2,510   | 8.8    | 2,696    | 10.2   | 2,370    | 2,220                | 8.5    |
| Mobile and other applications <sup>(2)</sup> | 7,919   | 27.9   | 7,216    | 27.2   | 7,020    | 6,577                | 25.3   |
| Sales of goods                               | ₩ 28,345  | 99.9%  | ₩ 26,464 | 99.8%  | ₩ 27,745 | US\$ 25,993          | 99.8%  |
| Royalties and others                         | 39  | 0.1    | 40       | 0.2    | 45       | 42                   | 0.2    |
| Revenue                                      | ₩ 28,384  | 100.0% | ₩ 26,504 | 100.0% | ₩ 27,790 | US\$ 26,035          | 100.0% |

(1) Includes desktop monitors manufactured and sold by our joint venture company L&T Display Technology (Fujian) Limited.

(2) Includes, among others, panels for mobile devices, including smartphones and other types of mobile phones, and industrial and other applications, including entertainment systems, automotive displays, portable navigation devices and medical diagnostic equipment.

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(3) For convenience, the Korean Won amounts are expressed in U.S. dollars at the rate of ₩1,067.42 to US\$1.00, the noon buying rate in effect on December 31, 2017 as certified by the Federal Reserve Bank of New York for customs purposes. This translation should not be construed as a representation that the Korean Won amounts represent, have been or could be converted to U.S. dollars at that rate or any other rate.

The following table sets forth our sales volume by product category for the years indicated and as a percentage of our total panels sold:

| Panels for                                   | Year ended December 31,                       |        |                     |        |                     |        |
|--|---|--------|---------------------|--------|---------------------|--------|
|  | 2015  |        | 2016                |        | 2017                |        |
|  | Number of<br>Panels                           | %      | Number of<br>Panels | %      | Number of<br>Panels | %      |
|  | <b>(in thousands, except for percentages)</b> |        |                     |        |                     |        |
| Televisions                                  | 55,319  | 14.2%  | 52,916              | 16.0%  | 52,108              | 18.1%  |
| Notebook computers                           | 45,509  | 11.6   | 39,672              | 12.0   | 26,999              | 9.4    |
| Desktop monitors <sup>(1)</sup>              | 41,912  | 10.7   | 40,001              | 12.1   | 37,000              | 12.8   |
| Tablet computers                             | 31,476  | 8.1    | 24,957              | 7.5    | 26,255              | 9.1    |
| Mobile and other applications <sup>(2)</sup> | 216,565                                       | 55.4   | 173,166             | 52.4   | 146,162             | 50.7   |
| Total  | 390,781                                       | 100.0% | 330,712             | 100.0% | 288,524             | 100.0% |

(1) Includes desktop monitors manufactured and sold by our joint venture company L&T Display Technology (Fujian) Limited.

(2) Includes, among others, panels for mobile devices, including smartphones and other types of mobile phones, and industrial and other applications, including entertainment systems, automotive displays, portable navigation devices and medical diagnostic equipment.

**Average Selling Prices**

Our product mix has an impact on our average selling prices. In addition to business cycles, industry-wide supply and demand balances and other market- or industry-wide variables, our product cost and price vary with the product display area, as well as the technology and specification of such product. Therefore, the average selling price of our products can vary over time as a result of business cycles and the choices we make in capacity allocation for specific products. The overall average selling price of our display panels can fluctuate significantly. Our average selling price per panel, which is derived by dividing total sales of goods by the total number of panels sold, increased by 10.3% from ₩72,534 in 2015 to ₩80,021 in 2016 and further increased by 20.2% to ₩96,162 (US\$90) in 2017. In 2016 compared to 2015, our average selling price increased primarily due to a general increase in the selling prices of primarily small- and medium-sized higher-end products sold during the same period, which was primarily attributable to an increase in demand for higher-end products from our customers. In 2017 compared to 2016, our average selling price further increased primarily due to an increase in the average selling price for large-sized panels, which was mainly attributable to a continued increase in demand for higher-end products from our customers.

The following table sets forth our average selling price per panel by markets for the years indicated:

|  | Average Selling Price <sup>(3)</sup> |           |                     |          |
|--|--------------------------------------|-----------|---------------------|----------|
|  | Year ended December 31,              |           |                     |          |
|  | 2015                                 | 2016      | 2017 <sup>(4)</sup> |          |
| Televisions                                  | ₩ 196,207                            | ₩ 191,492 | ₩ 224,879           | US\$ 211 |
| Notebook computers                           | 55,132                               | 60,093    | 83,114              | 78       |
| Desktop monitors <sup>(1)</sup>              | 108,632                              | 100,872   | 118,730             | 111      |
| Tablet computers                             | 79,743                               | 108,026   | 90,269              | 85       |
| Mobile and other applications <sup>(2)</sup> | 36,566                               | 41,671    | 48,029              | 45       |
| All panels                                   | 72,534                               | 80,021    | 96,162              | 90       |

- (1) Includes desktop monitors manufactured and sold by our joint venture company L&T Display Technology (Fujian) Limited.
- (2) Includes, among others, panels for mobile devices, including smartphones and other types of mobile phones, and industrial and other applications, including entertainment systems, automotive displays, portable navigation devices and medical diagnostic equipment.
- (3) Average selling price for each market represents revenue per market divided by unit sales per market.
- (4) For convenience, the Korean Won amounts are expressed in U.S. dollars at the rate of ₩1,067.42 to US\$1.00, the noon buying rate in effect on December 31, 2017 as certified by the Federal Reserve Bank of New York for customs purposes. This translation should not be construed as a representation that the Korean Won amounts represent, have been or could be converted to U.S. dollars at that rate or any other rate.

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Our average revenue per square meter of net display area, which is derived by dividing our total revenue by total square meters of net display area shipped, decreased by 10.1% from ₩717,470 per square meter of net display area in 2015 to ₩645,222 in 2016. In 2017, our average revenue per square meter of net display area shipped increased by 3.5% to ₩667,726 (US\$626).

**Critical Accounting Policies**

We have prepared our consolidated financial statements in accordance with IFRS as issued by the IASB. These accounting principles require us to make certain estimates and judgments that affect the reported amounts in our consolidated financial statements. Our estimates and judgments are based on historical experience, forecasted future events and various other assumptions that we believe to be reasonable under the circumstances. Estimates and judgments may differ under different assumptions or conditions. We evaluate our estimates and judgments on an ongoing basis. We believe the critical accounting policies discussed below are the most important to the portrayal of our financial condition and results of operations. Each of them is dependent on projections of future market conditions and they require us to make the most difficult, subjective or complex judgments. For a further description of the significant accounting policies and methods used in the preparation of our consolidated financial statements and new standards and amendments not yet adopted, see Note 3 of the notes to our financial statements.

***Inventories***

We state our inventory at the lower of cost and net realizable value. We make adjustments to reduce the cost of inventory to its net realizable value, if required, for estimated excess, obsolescence or impaired balances. Factors influencing these adjustments include changes in demand, technological changes, product life cycle, component cost trends, product pricing, and physical deterioration. Revisions to these adjustments would be required if these factors differ from our estimates. If future demand or market conditions for our products are less favorable than forecasted, we may be required to recognize additional write-downs, which would negatively affect our results of operations in the period in which the write-downs are recognized. The write-downs of inventories decreased by 43.9% from ₩364 billion as of December 31, 2015 to ₩204 billion as of December 31, 2016 and remained relatively constant at ₩206 billion (US\$194 million) as of December 31, 2017. The decrease as of December 31, 2016 compared to as of December 31, 2015 was due to the disposal in 2016 of inventories for which devaluations were reflected in the prior year. The amount of any such adjustment is recognized as cost of sales in the period for which the assessment relates.

***Income Taxes***

We have significant deferred income tax assets that may be used to offset taxable income in future periods. Our ability to utilize deferred income tax assets is dependent on our ability to generate future taxable income sufficient to utilize these deferred income tax assets before their expiration. Changes in estimates of our ability to realize our deferred tax assets are generally recognized in earnings as a component of our income tax (benefit) expense. At each reporting date, we review our deferred tax assets for recoverability considering historical profitability, projected future taxable income, the expected timing of reversals of existing temporary differences and expiration of unused tax losses and tax credits. If we are unable to generate sufficient future taxable income, or if we are unable to identify suitable tax planning strategies, the deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized. An increase in unrecognized deferred tax assets would result in an increase in our effective tax rate and could materially adversely impact our operating results. Conversely, if conditions improve and we determine that previously unrecognized deferred tax assets should be recognized because of changes in estimates of future taxable income or other conditions that affect our expected recovery of deferred tax assets, this would result in an increase in reported earnings in such period. In 2016, we did not recognize ₩73 billion of deferred tax assets comprising tax credit carryforwards as it was no longer probable that such deferred tax assets would be utilized due to

changes in estimates of future taxable income. In 2017, we reversed ₩12 billion (US\$11 million) of such previously unrecognized tax credit carryforwards as it became probable that sufficient taxable profit would be available in light of improved market conditions. See Note 23 of the notes to our financial statements. If the unrecognized deferred tax assets are recognized as deferred tax assets in a future period, the effective tax rate for the period could decrease. In estimating projected future taxable income, we considered a variety of factors, including recent overcapacity issues in the display industry and the industry-wide response to scale back capacity expansion plans and adjust utilization rates, as well as trends in demand for display products.

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**Table of Contents*****Provisions Warranty Obligations***

We recognize a provision for warranty obligations based on the estimated costs that we expect to incur under our basic limited warranty for our products. This warranty covers defective products and is normally valid for eighteen months from the date of purchase. These liabilities are accrued when product revenue are recognized. Warranty costs primarily include raw materials and labor costs. Factors that affect our warranty liability include historical and anticipated rates of warranty claims on repairs, calculated based on our sales volume and cost per claim to satisfy our warranty obligation. There were no changes in assumptions or methods used which had a significant impact on the amount of warranty obligations from 2015 to 2017. As these factors are impacted by actual experience and future expectations, we periodically assess the adequacy of our recorded warranty liabilities and adjust the amounts as necessary. We recognized warranty obligations amounting to ₩56 billion, ₩62 billion and ₩102 billion (US\$96 million) as of December 31, 2015, 2016 and 2017, respectively. Warranty expenses increased from ₩147 billion in 2015 to ₩167 billion in 2016 and further increased to ₩251 billion (US\$236 million) in 2017. The increases in 2016 compared to 2015 and in 2017 compared to 2016 were both attributable primarily to higher quality expectations for panel products.

***Long-Lived Assets: Useful Lives, Valuation and Impairment***

Property, plant and equipment are recorded at cost less accumulated depreciation over the estimated useful lives of the individual assets, with depreciation calculated on a straight line basis. The determination of an asset's useful life and salvage value requires judgment based on our historical and anticipated use of the asset. Since 1999, all new machinery is being depreciated on a straight-line basis over four or five years. For goodwill and other intangible assets that have indefinite useful lives or that are not yet available for use, as the case may be, the recoverable amount is estimated each year at the same time irrespective of whether there is any indication of impairment.

We review the carrying amounts of long-lived assets or cash-generating units at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the recoverable amount of the relevant asset or cash generating unit is estimated. If circumstances require that a long-lived asset or cash-generating unit be tested for possible impairment, and the carrying value of such long-lived asset or cash-generating unit is considered impaired after such test, an impairment charge is recorded for the amount by which the carrying value of the long-lived asset or cash-generating unit exceeds its estimated recovery value. The recoverable amount of a long-lived asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. Fair value is determined by employing a variety of valuation techniques as necessary, including discounted cash flow models, quoted market values and third-party independent appraisals. The determination of the value in use and the fair value requires our judgments and assumptions about future operations. The determination of an asset's useful life, and the potential impairment of our long-lived assets could have a material effect on our results of operations. We recognized impairment losses of ₩3.3 billion in 2015, ₩1.7 billion in 2016 and ₩1.8 billion (US\$1.7 million) in 2017.

***Employee Benefits***

Our accounting for employee benefits, which mainly consists of our defined benefit plan, involves judgments about uncertain events including, but not limited to, discount rates, life expectancy and future pay inflation. The discount rates are determined by reference to the yield at the reporting date on high quality corporate bonds that have maturity dates approximating the terms of our benefits obligations and that are denominated in the same currency in which the benefits are expected to be paid. Due to changing market and economic conditions, the underlying key assumptions may differ from actual developments and may lead to significant changes in our defined benefit plan. We immediately recognize all actuarial gains and losses arising from defined benefit plans in retained earnings.



***Provisions    Legal Proceedings***

We are involved from time to time in certain routine legal proceedings and governmental investigations incidental to our business. See Item 8.A. Consolidated Statements and Other Financial Information Legal Proceedings. We recognize provisions for claims, assessments, litigation, fines, and penalties and other sources when there is a present or constructive obligation arising from a past event, it is more likely than not that an outflow of our resources will result to settle the obligation, and a reliable estimate can be made of the amount of the obligation. In determining whether a provision should be recognized, we evaluate, among other factors, whether it is more likely than not that our defense to a claim will be successful and if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. We estimate the amount of loss, considering factors such as the nature of the litigation, claim, or assessment, the progress of the case and the opinions or views of legal counsel and other advisers. These estimates have been based on our assessment of the facts and circumstances at each reporting date and are subject to change based upon new information and intervening events. Revisions to estimates may significantly impact future net income. We recognized provisions for litigation and claims amounting to ₩61 billion, nil and less than ₩0.1 billion in the statements of financial position as of December 31, 2015, 2016 and 2017, respectively. Legal costs incurred in connection with loss contingencies are expensed as incurred.

**Table of Contents****Operating Results**

The following presents our consolidated results of operation information and as a percentage of our revenue for the years indicated:

|  | 2015  |        | 2016     |        | 2017     |             | 2017 <sup>(1)</sup> |        |
|--|---|--------|----------|--------|----------|-------------|---------------------|--------|
|  | ₩   | %      | ₩        | %      | ₩        | US\$        |                     | %      |
|  | <b>Year ended December 31,</b>  |        |          |        |          |             |                     |        |
|  | <b>(in billions of Won and in millions of US\$, except for percentages)</b> |        |          |        |          |             |                     |        |
| Revenue  | ₩ 28,384  | 100.0% | ₩ 26,504 | 100.0% | ₩ 27,790 | US\$ 26,035 |                     | 100.0% |
| Cost of sales                                    | (24,070)  | 84.8   | (22,754) | 85.9   | (22,425) | (21,009)    |                     | 80.7   |
| Gross profit                                     | 4,314   | 15.2   | 3,750    | 14.1   | 5,366    | 5,027       |                     | 19.3   |
| Selling expenses                                 | (878)   | 3.1    | (695)    | 2.6    | (994)    | (931)       |                     | 3.6    |
| Administrative expenses                          | (593)   | 2.1    | (610)    | 2.3    | (696)    | (652)       |                     | 2.5    |
| Research and development expenses <sup>(2)</sup> | (1,218)   | 4.3    | (1,134)  | 4.3    | (1,213)  | (1,136)     |                     | 4.4    |
| Other income                                     | 1,274   | 4.5    | 1,592    | 6.0    | 1,082    | 1,014       |                     | 3.9    |
| Other expenses                                   | (1,327)   | 4.7    | (1,468)  | 5.5    | (1,230)  | (1,152)     |                     | 4.4    |
| Finance income                                   | 159   | 0.6    | 140      | 0.5    | 279      | 261         |                     | 1.0    |
| Finance costs                                    | (316)   | 1.1    | (266)    | 1.0    | (269)    | (252)       |                     | 1.0    |
| Equity income on investments, net                | 19  | 0.1    | 7        | 0.0    | 10       | 9           |                     | 0.0    |
| Profit before income tax                         | 1,434   | 5.1    | 1,316    | 5.0    | 2,333    | 2,186       |                     | 8.4    |
| Income tax expense                               | (411)   | 1.4    | (385)    | 1.5    | (396)    | (371)       |                     | 1.4    |
| Profit for the year                              | 1,023   | 3.6    | 931      | 3.5    | 1,937    | 1,815       |                     | 7.0    |

(1) For convenience, the Korean Won amounts are expressed in U.S. dollars at the rate of ₩1,067.42 to US\$1.00, the noon buying rate in effect on December 31, 2017 as certified by the Federal Reserve Bank of New York for customs purposes. This translation should not be construed as a representation that the Korean Won amounts represent, have been or could be converted to U.S. dollars at that rate or any other rate.

**Comparison of 2017 to 2016****Revenue**

Our revenue increased by 4.9% from ₩26,504 billion in 2016 to ₩27,790 billion (US\$26,035 million) in 2017. The increase in revenue resulted from increases in revenue derived from sales of panels for televisions and for desktop monitors, which were in turn due to an increase in their average selling prices, offset in part by a decrease in revenue derived from sales of panels for notebook computers, tablet computers and mobile and other applications. In particular:

The number of units sold of our large-sized television panels, comprising 42-inch and larger panels, which category includes four of our five top selling television panels in 2017 in terms of sales volume, namely 43-inch, 49-inch, 55-inch and 65-inch panels, increased by 3.1% from approximately 41.7 million panels in 2016 to approximately 43.0 million panels in 2017. The average selling price for

those panels also increased, together resulting in a significant increase in revenue derived from those panels. The increase in revenue derived from our large-sized television panels more than offset a decrease in revenue derived from our small- and medium-sized television panels during the same period, which was due to a decrease in the number of those panels sold, resulting in an overall increase in revenue from television panels.

Demand for our 15.6-inch or smaller notebook computer panels, which category includes three of our top selling notebook computer panels in terms of sales volume, namely 13.3-inch, 15.4-inch and 15.6-inch panels, fell in 2017 compared to 2016, resulting in a significant decrease in the number of those panels sold by 32.0% from approximately 38.7 million panels in 2016 to approximately 26.3 million panels in 2017. The decrease in the number of those panels sold more than offset a significant increase in the average selling price of those panels during the same period, resulting in a decrease in revenue derived from those panels.

The number of units sold of our large-sized desktop monitor panels, comprising 21.5-inch and larger panels, which category includes four of our five top selling desktop monitor panels in terms of sales volume, namely 21.5-inch, 23-inch, 23.8-inch and 27-inch panels, decreased by 2.4% from approximately 33.0 million panels in 2016 to 32.2 million panels in 2017. However, the decrease in the number of those panels sold was more than offset by an increase in the average selling price of those panels during the same period, resulting in an overall increase in revenue derived from those panels. The increase in revenue derived from our large-sized desktop monitor panels more than offset a decrease in revenue derived from our small- and medium-sized desktop monitor panels over the same period, which was due to a significant decrease in the sales volume of those panels, resulting in an overall increase in revenue from desktop monitor panels.

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Demand for our tablet computer panels smaller than 10 inches fell in 2017 compared to 2016, leading to a decrease in the number of those panels sold by 8.9% from approximately 24.8 million panels in 2016 to approximately 22.6 million panels in 2017. Furthermore, we experienced a significant decline in the average selling price of those panels during the same period, resulting in a significant decrease in revenue derived from those panels. The decrease in revenue derived from our tablet computer panels smaller than 10 inches more than offset a significant increase in revenue derived from our 10-inch or larger tablet computer panels over the same period, which was due to a significant increase in the sales volume of those panels as well as an increase in their average selling price, resulting in an overall decrease in revenue from tablet computer panels.

In our mobile and other applications category, we experienced a continued decrease in demand for larger smartphone panels in 2017 compared to 2016. For example, the number of units sold of panels in this category that are between four inches and seven inches, which category includes all of our larger smartphone panels and accounts for more than 80% of our sales volume and amount in this category in 2017, decreased by 22.0% from approximately 158.6 million panels in 2016 to approximately 123.7 million panels in 2017. The decrease in the number of those panels sold more than offset an increase in the average selling price of those panels during the same period, resulting in a decrease in revenue derived from those panels.

Revenue attributable to sales of panels for televisions increased by 15.6% from approximately ₩10,133 billion in 2016 to approximately ₩11,718 billion (US\$10,978 million) in 2017, resulting from an increase in the average selling price of panels in this category in 2017 compared to 2016, partially offset by a small decrease in the number of units sold in this category during the same period. The average selling price of panels for televisions increased by 17.4% from approximately ₩191,492 in 2016 to approximately ₩224,879 (US\$211) in 2017, whereas the total unit sales of panels in this category decreased by 1.5% from approximately 52.9 million panels in 2016 to approximately 52.1 million panels in 2017. The increase in the average selling price of television panels was mainly due to a shift in our product mix toward larger television panels and panels that are equipped with newer technologies, such as OLED and Ultra HD, which tend to command a higher price premium. The decrease in the number of television panels sold reflected a decrease in the sales volume of our television panels that are less than 42 inches in size. Notwithstanding the overall decrease in sales volume of our television panels, the sales volume of our 42-inch or larger television panels increased over the same period, in particular panels incorporating differentiated specialty features, highlighting a general migration in demand from our small-sized to large-sized television panels.

Revenue attributable to sales of panels for notebook computers decreased by 5.9% from approximately ₩2,384 billion in 2016 to approximately ₩2,244 billion (US\$2,102 million) in 2017, resulting from a decrease in the number of units sold in this category in 2017 compared to 2016, partially offset by an increase in the average selling price of panels in this category in 2017 compared to 2016. The total unit sales of panels for notebook computers decreased by 32.0% from approximately 39.7 million panels in 2016 to approximately 27.0 million panels in 2017, whereas the average selling price of panels in this category increased by 38.3% from approximately ₩60,093 in 2016 to approximately ₩83,114 (US\$78) in 2017. The decrease in revenue attributable to sales of panels for notebook computers primarily reflected a decline in consumer demand for notebook computers, which in turn resulted in a similar decline in market demand for panels for notebook computers. The effect of such decrease was partially offset by the increase in the average selling price of panels in this category, which was attributable to the continued increase in the proportion of panels with differentiated specialty features that command higher selling prices, such as touch screen and AH-IPS, in our product mix for panels for notebook computers.

Revenue attributable to sales of panels for desktop monitors increased by 8.9% from approximately ₩4,035 billion in 2016 to approximately ₩4,393 billion (US\$4,116 million) in 2017, resulting from an increase in the average selling

price of panels in this category in 2017 compared to 2016, partially offset by a decrease in the number of units sold in this category in 2017 compared to 2016. The average selling price of panels for desktop monitors increased by 17.7% from approximately ₩100,872 in 2016 to approximately ₩118,730 (US\$111) in 2017, whereas the total unit sales of panels for desktop monitors decreased by 7.5% from approximately 40.0 million panels in 2016 to approximately 37.0 million panels in 2017. The increase in the average selling price of our desktop monitor panels primarily resulted from an increase in the proportion of larger panels with differentiated specialty features, such as ultra-slim bezel borderless designs and Full HD resolution, that command higher selling prices in our product mix for desktop panels. The effect of such increase was partially offset by the decrease in sales volume of desktop panels mainly due to the continued decrease in demand for desktop monitors generally in light of increased competition among other consumer computer screen.

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Revenue attributable to sales of panels for tablet computers decreased by 12.1% from approximately ₩2,696 billion in 2016 to approximately ₩2,370 billion (US\$2,220 million) in 2017, resulting from a decrease in the average selling price of panels in this category in 2017 compared to 2016, partially offset by an increase in the number of units sold of panels in this category in 2017 compared to 2016. The average selling price of panels for tablet computers decreased by 16.4% from approximately ₩108,026 in 2016 to approximately ₩90,269 (US\$85) in 2017, whereas the total unit sales of panels in this category increased by 5.2% from approximately 25.0 million panels in 2016 to approximately 26.3 million panels in 2017. The decrease in the average selling price of panels in this category was mainly due to increased downward pricing pressure resulting from capacity expansion and increased competition by our competitors coupled with inventory adjustments by our customers, particularly in respect of panels smaller than 10 inches. The increase in the sales volume of panels for tablet computers was attributable to a significant increase in the sales volume of 10-inch or larger panels from 0.1 million panels in 2016 to 3.6 million panels in 2017, which in turn was primarily due to an increase in consumer demand for, and the introduction of new models of, larger tablet computers in the market.

Revenue attributable to sales of panels for mobile and other applications decreased by 2.7% from approximately ₩7,216 billion in 2016 to approximately ₩7,020 billion (US\$6,577 million) in 2017, resulting from a decrease in the number of units sold in this category in 2017 compared to 2016, partially offset by an increase in the average selling price of panels in this category in 2017 compared to 2016. The total unit sales of panels for mobile and other applications decreased by 15.6% from approximately 173.2 million in 2016 to 146.2 million in 2017, whereas the average selling price of panels in this category increased by 15.3% from approximately ₩41,671 in 2016 to approximately ₩48,029 (US\$45) in 2017. The decrease in the sales volume of panels for mobile and other applications primarily resulted from our shift in strategy to focus on higher-end products and more efficient manufacturing processes and reduce the production output of lower-end products. The increase in the average selling price of panels in this category was attributable to the further increase in the proportion of panels with differentiated specialty features and larger panels in our product mix for panels in this category.

In addition, our revenue attributable to royalty and others increased by 12.5% from approximately ₩40 billion in 2016 to approximately ₩45 billion (US\$42 million) in 2017. The increase was due to an increase in royalties from ₩17 billion in 2016 to ₩20 billion (US\$19 million) in 2017, as well as an increase in other revenue, consisting primarily of sales of raw materials on-sold to our customers for module assembly purposes and sales of components to third party warranty service providers, from ₩23 billion in 2016 to ₩25 billion (US\$23 million) in 2017.

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**Table of Contents*****Cost of Sales***

Cost of sales decreased by 1.4% from ₩22,754 billion in 2016 to ₩22,425 billion (US\$21,009 million) in 2017. The decrease in our cost of sales in 2017 compared to 2016 was attributable primarily to decreases in raw materials and component costs mainly related to selling fewer panel units overall in 2017 compared to 2016, partially offset by the increased share of high-end products in our product mix which contributed to the increase in costs on a per unit basis during the same period. In addition, change in inventories due in part to the weakening of the U.S. Dollar, in which 85.6% of our raw materials and component part purchases were denominated in 2017, against the Korean Won in 2017 compared to 2016 contributed to the decrease in cost of sales in 2017 compared to 2016.

As a percentage of our total cost of sales, raw materials and component costs decreased from 66.4% in 2016 to 64.6% in 2017, while labor costs, overhead costs and depreciation and amortization costs increased from 10.1%, 11.3% and 12.5%, respectively, in 2016 to 10.9%, 12.1% and 13.7%, respectively, in 2017.

As a percentage of revenue, cost of sales decreased from 85.9% in 2016 to 80.7% in 2017. The decrease in our cost of sales as a percentage of revenue in 2017 compared to 2016 was attributable mainly to the continued increase in the proportion of high margin products with differentiated specialty features, which tend to command higher premiums, in our product mix during the same period.

Cost of sales per square meter of net display area, which is derived by dividing total cost of sales by total square meters of net display area shipped, decreased by 2.7% from ₩553,935 in 2016 to ₩538,806 (US\$505) in 2017. Cost of sales per panel sold, which is derived by dividing total cost of sales by total number of panels sold, increased by 13.0% from ₩68,803 in 2016 to ₩77,723 (US\$73) in 2017 due in part to increases in the proportion within each of our product categories of larger panel units with differentiated specialty features, which generally have higher cost of sales per panel relative to other panel units within each product category, sold in our product mix during the same period.

***Gross Profit and Gross Margin***

As a result of the cumulative effect of the reasons explained above, our gross profit increased by 43.1% from ₩3,750 billion in 2016 to ₩5,366 billion (US\$5,027 million) in 2017, and our gross margin increased from 14.1% in 2016 to 19.3% in 2017. The continued shift in our product mix toward higher-end products in 2017 resulted in increases in both the average selling price and cost of sales per panel sold in 2017 compared to 2016, but the increase in the average selling price per panel sold outpaced the increase in cost of sales per panel sold, because the higher-end products in our product mix tend to command higher premiums and we were able to partially offset the increase in per unit costs by continuing to improve the efficiency of our production processes.

***Selling and Administrative Expenses***

Selling and administrative expenses increased by 29.6% from ₩1,305 billion in 2016 to ₩1,691 billion (US\$1,584 million) in 2017. As a percentage of revenue, our selling and administrative expenses increased from 4.9% in 2016 to 6.1% in 2017. The increase in selling and administrative expenses in 2017 compared to 2016 was attributable primarily to increases in:

advertising expenses, resulting from an increase in our marketing activities in 2017, primarily in North America, in an effort to further expand the market for OLED panels; and

warranty expenses, resulting from higher quality expectations for panel products.



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The following are the major components of our selling and administrative expenses for each of the years in the two-year period ended December 31, 2017:

|  | Year ended December 31, |                |
|--|-------------------------|----------------|
|  | 2016                    | 2017           |
|  | (in billions of Won)    |                |
| Salaries                                 | ₩ 277                   | ₩ 327          |
| Expenses related to defined benefit plan | 29                      | 27             |
| Other employee benefits                  | 90                      | 95             |
| Shipping costs                           | 191                     | 215            |
| Fees and commissions                     | 193                     | 197            |
| Depreciation                             | 129                     | 139            |
| Taxes and dues                           | 31                      | 46             |
| Advertising                              | 68                      | 236            |
| Warranty expenses                        | 167                     | 251            |
| Rent                                     | 26                      | 27             |
| Insurance                                | 12                      | 12             |
| Travel                                   | 23                      | 28             |
| Training                                 | 14                      | 16             |
| Others                                   | 56                      | 73             |
| <b>Total</b>                             | <b>₩ 1,305</b>          | <b>₩ 1,691</b> |

**Research and Development Expenses**

Research and development expenses increased by 7.0% from ₩1,134 billion in 2016 to ₩1,213 billion (US\$1,136 million) in 2017. As a percentage of revenue, our research and development expenses increased slightly from 4.3% in 2016 to 4.4% in 2017. The increase in research and development expenses in 2017 compared to 2016 was attributable to increases in research and development activities related to OLED and next generation technologies and products and in the average number of research and development employees over the same period.

**Other Income (Expense), Net**

Other income includes primarily foreign currency gains from operating activities and gain on disposal of property, plant and equipment, and other expenses include primarily foreign currency losses from operating activities and loss on disposal of property, plant and equipment. In 2017, we recorded total net other expense of ₩149 billion (US\$140 million) compared to total net other income of ₩124 billion in 2016. The change was primarily due to a net foreign currency gain of ₩123 billion in 2016 compared to a net foreign currency loss of ₩220 billion (US\$206 million) in 2017, reflecting the weakening of the U.S. Dollar against the Korean Won in 2017 compared to 2016, offset in part by a more than ten-fold increase in net gain on disposal of property, plant and equipment from ₩7 billion in 2016 to ₩81 billion in 2017, which was due mainly to the gain we recognized from the sale of equipment following the closure of our P4 manufacturing facility. See Note 21 of the notes to our financial statements.

**Finance Income (Costs), Net**

Finance income recognized in profit or loss includes primarily interest income and foreign currency gains. Finance cost recognized in profit or loss includes primarily interest expense and foreign currency loss. We recorded total net finance income of ₩10 billion (US\$9 million) in 2017 compared to total net finance cost of ₩127 billion in 2016.

Our finance income increased by 99.3% from ₩140 billion in 2016 to ₩279 billion (US\$261 million) in 2017, attributable primarily to an increase in foreign currency gain by 157.3% from ₩82 billion in 2016 to ₩211 billion (US\$198 million) in 2017 and an increase in interest income by 42.9% from ₩42 billion in 2016 to ₩60 billion (US\$56 million) in 2017. The increase in foreign currency gain in 2017 compared to 2016 was due to an increase in the range of fluctuation in value of the Korean Won relative to the U.S. dollar over the same period. The increase in interest income resulted primarily from an increase in our average amounts of interest-earning financial assets outstanding as well as the applicable interest rates on such financial assets in 2017 compared to 2016.

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Our finance costs increased slightly by 1.1% from ₩266 billion in 2016 to ₩269 billion (US\$252 million) in 2017 mainly due to a seven-fold increase in loss on disposal of investments in equity accounted investees from ₩6 billion in 2016 to ₩42 billion (US\$39 million) in 2017, partially offset by a decrease in interest expense by 20.9% from ₩115 billion in 2016 to ₩91 billion (US\$85 million) in 2017. The increase in loss on disposal of investments in equity accounted investees in 2017 compared to 2016 was primarily due to the losses we recognized in connection with the sale of our 46% equity interest in New Optics Co., Ltd. and our 23% equity interest in Narenanotech Corporation, each in 2017. The decrease in interest expense in 2017 compared to 2016 resulted primarily from an increase in the proportion of interest payments relating to our facility loans, which interest payments may be capitalized and recognized as part of our construction-in-progress assets.

***Income Tax Expense***

Our income tax expense increased by 2.9% from ₩385 billion in 2016 to ₩396 billion (US\$371 million) in 2017, primarily due to a 77.3% increase in profit before income tax from ₩1,316 billion in 2016 to ₩2,333 billion (US\$2,186 million) in 2017. Our effective tax rate decreased from 29.2% in 2016 to 17.0% in 2017 primarily due to a decrease in unrecognized deferred tax assets (which accounted for a 6.0% point decrease in effective tax rate as compared to 2016), which reflected changes in estimates of our future taxable income, and a decrease in income tax rate using the statutory tax rate of each country in which we pay income tax (which accounted for a 5.0% point decrease in effective tax rate as compared to 2016), which was primarily attributable to a decrease in the proportion of profit before income tax from our consolidated subsidiaries in the United States, Japan and Germany, which have relatively high statutory income tax rates. In addition, a change in the applicable tax rate used in estimating our deferred tax expense accounted for a 3.1% point decrease in effective tax rate as compared to 2016. See Note 23 of the notes to our financial statements.

***Profit for the Year***

As a result of the cumulative effect of the reasons explained above, our profit for the year increased significantly by 107.8% from ₩931 billion in 2016 to ₩1,937 billion in 2017.

**Comparison of 2016 to 2015*****Revenue***

Our revenue decreased by 6.6% from ₩28,384 billion in 2015 to ₩26,504 billion in 2016. The decrease in revenue resulted from decreases in revenue from sales of panels for televisions, for mobile and other applications, for desktop monitors and for notebook computers, which were in turn mainly due to decreases in the number of panels sold for televisions and for mobile and other applications, a decrease in the average selling price of panels for desktop monitors and a decrease in the number of panels sold for notebook computers, offset in part by an increase in revenue derived from sales of panels for tablet computers. In particular:

The number of units sold of our large-sized television panels, comprising 42-inch and larger panels, which category includes three of our four top selling television panels in 2016 in terms of sales volume, namely 43-inch, 49-inch and 55-inch panels, increased by 7.2% from approximately 38.9 million panels in 2015 to approximately 41.7 million panels in 2016. However, the increase in the number of those panels sold was more than offset by a decrease in the average selling price of those panels during the same period, resulting in a decrease in revenue derived from those panels. Furthermore, we experienced a decrease in revenue

derived from our small- and medium-sized television panels over the same period, which was due to decreases in both the sales volume and average selling price of those panels, resulting in an overall decrease in revenue from television panels.

Demand for our 15.6-inch or smaller notebook computer panels, which category includes three of our top selling notebook computer panels in terms of sales volume, namely 13.3-inch, 14-inch and 15.6-inch panels, fell in 2016 compared to 2015, resulting in a decrease in the number of those panels sold by 12.0% from approximately 44.0 million panels in 2015 to approximately 38.7 million panels in 2016. The decrease in the number of those panels sold more than offset an increase in the average selling price of those panels during the same period, resulting in a decrease in revenue derived from those panels.

The number of units sold of our large-sized desktop monitor panels, comprising 21.5-inch and larger panels, which category includes four of our five top selling desktop monitor panels in terms of sales volume, namely 21.5-inch, 23-inch, 23.8-inch and 27-inch panels, increased by 1.9% from approximately 32.4 million panels in 2015 to approximately 33.0 million panels in 2016. However, the increase in the number of those panels sold was more than offset by a decrease in the average selling price of those panels during the same period, resulting in a decrease in revenue derived from those panels. Furthermore, we experienced a decrease in revenue derived from our small- and medium-sized desktop monitor panels over the same period, which was due to decreases in both the sales volume and average selling price of those panels, resulting in an overall decrease in revenue from desktop monitor panels.

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Demand for our tablet computer panels smaller than 10 inches fell in 2016 compared to 2015, leading to a decrease in the number of those panels sold by 19.0% from approximately 30.6 million panels in 2015 to approximately 24.8 million panels in 2016. The decrease in the number of those panels sold was more than offset by a significant increase in the average selling price of those panels during the same period, resulting in an increase in revenue derived from those panels.

In our mobile and other applications category, we experienced a decrease in demand for larger smartphone panels in 2016 compared to 2015. For example, the number of units sold of panels in this category that are between 4.2 inches and 6.1 inches, which category includes all of our larger smartphone panels and accounts for more than 80% of our sales volume and amount in this category in 2016, decreased by 19.7% from approximately 180.0 million panels in 2015 to approximately 144.6 million panels in 2016. The decrease in the number of those panels sold more than offset an increase in the average selling price of those panels during the same period, resulting in a decrease in revenue derived from those panels.

Revenue attributable to sales of panels for televisions decreased by 6.6% from approximately ₩10,854 billion in 2015 to approximately ₩10,133 billion in 2016, resulting from decreases in both the number of units sold and average selling price of panels in this category in 2016 compared to 2015. The total unit sales of panels for televisions decreased by 4.3% from approximately 55.3 million panels in 2015 to approximately 52.9 million panels in 2016, and the average selling price of panels in this category decreased by 2.4% from approximately ₩196,207 in 2015 to approximately ₩191,492 in 2016. The decrease in revenue attributable to sales of panels for televisions primarily reflected a decrease in the sales volume of our television panels that are less than 42-inches in size. Notwithstanding the overall decrease in sales volume of our television panels, the sales volume of our television panels that are 42-inches in size or larger increased over the same period, in particular panels incorporating differentiated specialty features, highlighting a general migration in demand from our small-sized to large-sized television panels. The average selling price of television panels also decreased over the same period, mainly due to an increase in the proportion of our television panels sold in open cell form without backlight units, which generally have lower selling prices compared to television panels in module form with backlight units, and increased downward pricing pressure resulting from capacity expansion and increased competition by our competitors in 2016 compared to 2015.

Revenue attributable to sales of panels for notebook computers decreased by 5.0% from approximately ₩2,509 billion in 2015 to approximately ₩2,384 billion in 2016, resulting from a decrease in the number of units sold in this category in 2016 compared to 2015, partially offset by an increase in the average selling price of panels in this category in 2016 compared to 2015. The total unit sales of panels for notebook computers decreased by 12.7% from approximately 45.5 million panels in 2015 to approximately 39.7 million panels in 2016, whereas the average selling price of panels in this category increased by 9.0% from approximately ₩55,132 in 2015 to approximately ₩60,093 in 2016. The decrease in revenue attributable to sales of panels for notebook computers primarily reflected a decline in consumer demand for notebook computers, which in turn resulted in a similar decline in market demand for panels for notebook computers, partially offset by the increase in the average selling price of panels in this category, which was attributable to an increase in the proportion of panels with differentiated specialty features that command higher selling prices, such as touch screen and AH-IPS, in our product mix for panels for notebook computers.

Revenue attributable to sales of panels for desktop monitors decreased by 11.4% from approximately ₩4,553 billion in 2015 to approximately ₩4,035 billion in 2016, resulting from decreases in both the average selling price and number of units sold of panels in this category in 2016 compared to 2015. The average selling price of panels for desktop monitors decreased by 7.1% from approximately ₩108,632 in 2015 to approximately ₩100,872 in 2016, and the total unit sales of panels in this category decreased by 4.5% from approximately 41.9 million panels in 2015 to approximately 40.0 million panels in 2016. The decrease in revenue attributable to sales of panels for desktop monitors primarily resulted from a general decrease in demand for desktop monitors in light of increased competition

among other consumer computer screen devices.

Revenue attributable to sales of panels for tablet computers increased by 7.4% from approximately ₩2,510 billion in 2015 to approximately ₩2,696 billion in 2016, resulting from an increase in the average selling price of panels for tablet computers in 2016 compared to 2015, partially offset by a decrease in the number of units sold in this category in 2016 compared to 2015. The average selling price of panels for tablet computers increased by 35.5% from approximately ₩79,743 in 2015 to approximately ₩108,026 in 2016, whereas the total unit sales of panels in this category decreased by 20.6% from approximately 31.5 million panels in 2015 to approximately 25.0 million panels in 2016. The increase in the average selling price of panels in this category was attributable to an increase in the proportion of panels with differentiated specialty features that command higher selling prices, such as AH-IPS, in our product mix for panels for tablet computers. The decrease in the sales volume of panels for tablet computers was attributable to a maturing of the consumer market and plateauing of demand for tablet computers in general.

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Revenue attributable to sales of panels for mobile and other applications decreased by 8.9% from approximately ₩7,919 billion in 2015 to approximately ₩7,216 billion in 2016, resulting from a decrease in the number of units sold in this category in 2016 compared to 2015, partially offset by an increase in the average selling price of panels in this category in 2016 compared to 2015. The total unit sales of panels for mobile and other applications decreased by 20.0% from approximately 216.6 million in 2015 to approximately 173.2 million in 2016, whereas the average selling price of panels in this category increased by 14.0% from approximately ₩36,566 in 2015 to approximately ₩41,671 in 2016. The decrease in the sales volume of panels for mobile and other applications primarily resulted from a general decrease in consumer demand for smartwatch and larger smartphone products, which in turn resulted in a similar decrease in market demand for panels for smartwatches and larger smartphones. The increase in the average selling price of panels in this category was attributable to an increase in the proportion of panels with differentiated specialty features and larger panels for automotive display and other applications in our product mix for panels in this category.

In addition, our revenue attributable to royalty and others increased by 2.6% from approximately ₩39 billion in 2015 to approximately ₩40 billion in 2016. The increase was due to an increase in other revenue, consisting primarily of sales of raw materials on-sold to our customers for module assembly purposes and sales of components to third party warranty service providers, from ₩20 billion in 2015 to ₩23 billion in 2016, partially offset by a decrease in royalties from ₩19 billion in 2015 to ₩17 billion in 2016.

**Cost of Sales**

Cost of sales decreased by 5.5% from ₩24,070 billion in 2015 to ₩22,754 billion in 2016. The decrease in our cost of sales in 2016 compared to 2015 was attributable primarily to decreases in raw materials and component costs related to selling fewer panel units overall in 2016 compared to 2015, which were offset in part by the increased share of high-end products in our product mix which contributed to the increase in costs on a per unit basis during the same period. In addition, a decrease in depreciation costs, resulting mainly from the end of estimated useful life of certain machinery and equipment assets in our P9 fabrication facilities in 2016, contributed to the decrease in cost of sales in 2016 compared to 2015.

As a percentage of our total cost of sales, raw materials and component costs, labor costs and overhead costs increased from 65.5%, 9.6% and 11.9%, respectively, in 2015 to 66.4%, 10.1% and 12.5%, respectively, in 2016, while depreciation and amortization costs decreased from 12.0% in 2015 to 11.3% in 2016.

As a percentage of revenue, cost of sales increased from 84.8% in 2015 to 85.9% in 2016. The increase in our cost of sales as a percentage of revenue in 2016 compared to 2015 was attributable mainly to an increased share of high-end products in our product mix during the same period.

Cost of sales per square meter of net display area, which is derived by dividing total cost of sales by total square meters of net display area shipped, decreased by 9.0% from ₩608,415 per square meter of net display area in 2015 to ₩553,935 (US\$460) in 2016. Cost of sales per panel sold, which is derived by dividing total cost of sales by total number of panels sold, increased by 11.7% from ₩61,593 in 2015 to ₩68,803 in 2016 due in part to increases in the proportion within each of our product categories of larger panel units with differentiated specialty features, which generally have higher cost of sales per panel relative to other panel units within each product category, sold in our product mix during the same period.

**Gross Profit and Gross Margin**

As a result of the cumulative effect of the reasons explained above, our gross profit decreased by 13.1% from ₩4,314 billion in 2015 to ₩3,750 billion in 2016, and our gross margin declined from 15.2% in 2015 to 14.1% in 2016. The continued shift in our product mix toward higher-end products in 2016 resulted in increases in both the average selling price and cost of sales per panel sold in 2016 compared to 2015, but the increase in cost of sales per panel sold outpaced the increase in average selling price due in part to a general decrease in market demand and competitive pricing pressure.

### ***Selling and Administrative Expenses***

Selling and administrative expenses decreased by 11.4% from ₩1,471 billion in 2015 to ₩1,305 billion in 2016. As a percentage of revenue, our selling and administrative expenses decreased from 5.2% in 2015 to 4.9% in 2016. The decrease in selling and administrative expenses in 2016 compared to 2015 was attributable primarily to a decrease in advertising expense, resulting from a decrease in our marketing activities in 2016 after we had concluded a large-scale marketing effort in 2015 to expand the market for OLED panels in North America and Europe.

Such decrease was offset in part by an increase in warranty expenses in 2016 compared to 2015 resulting primarily from higher quality expectations for panel products.



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The following are the major components of our selling and administrative expenses for each of the years in the two-year period ended December 31, 2016:

|  | <b>Year ended December 31,</b> |                |
|--|--------------------------------|----------------|
|  | <b>2015</b>                    | <b>2016</b>    |
|  | <b>(in billions of Won)</b>    |                |
| Salaries                                 | ₩ 268                          | ₩ 277          |
| Expenses related to defined benefit plan | 27                             | 29             |
| Other employee benefits                  | 88                             | 90             |
| Shipping costs                           | 200                            | 191            |
| Fees and commissions                     | 191                            | 193            |
| Depreciation                             | 119                            | 129            |
| Taxes and dues                           | 31                             | 31             |
| Advertising                              | 266                            | 68             |
| Warranty expenses                        | 147                            | 167            |
| Rent                                     | 24                             | 26             |
| Insurance                                | 11                             | 12             |
| Travel                                   | 24                             | 23             |
| Training                                 | 16                             | 14             |
| Others                                   | 59                             | 56             |
| <b>Total</b>                             | <b>₩ 1,471</b>                 | <b>₩ 1,305</b> |

**Research and Development Expenses**

Research and development expenses decreased by 6.9% from ₩1,218 billion in 2015 to ₩1,134 billion in 2016. As a percentage of revenue, our research and development expenses remained stable at 4.3% in each of 2015 and 2016. The decrease in research and development expenses in 2016 compared to 2015 was attributable to decreases in research and development activities related to OLED and next generation technologies and products and in the average number of research and development employees over the same period.

**Other Income (Expense), Net**

Other income includes primarily foreign currency gains from operating activities, and other expenses include primarily foreign currency losses from operating activities. In 2016, we recorded total net other income of ₩124 billion compared to total net other expense of ₩53 billion in 2015. The change was primarily due to a decrease in expenses related to legal proceedings or claims and others from ₩128 billion in 2015 to ₩16 billion in 2016, as well as an increase in net foreign currency gain from ₩43 billion in 2015 to ₩123 billion in 2016. See Item 8.A. Consolidated Statements and Other Financial Information Legal Proceedings for a discussion of our legal proceedings and associated settlement payments, and Note 25 of the notes to our financial statements.

**Finance Income (Costs), Net**

Finance income recognized in profit or loss includes primarily interest income and foreign currency gains. Finance cost recognized in profit or loss includes primarily interest expense and foreign currency loss. Our total net finance costs decreased by 19.1% from ₩157 billion in 2015 to ₩127 billion in 2016.

Our finance income decreased by 11.9% from ₩159 billion in 2015 to ₩140 billion in 2016, attributable primarily to a decrease in interest income by 26.3% from ₩57 billion in 2015 to ₩42 billion in 2016 and a decrease in gain on disposal of investments in equity accounted investees by 52.2% from ₩23 billion in 2015 to ₩11 billion in 2016. The decrease in interest income resulted primarily from a decrease in the average interest rates applicable to our financial assets, as well as a decrease in our average amounts of financial assets outstanding, in 2016 compared to 2015. We recognized a gain on disposal of investments in equity accounted investees in 2016 in connection with our disposal in July 2016 of a 51% equity interest in Suzhou Raken Technology Co., Ltd. ( Suzhou Raken ) through an exchange of equity interests with AmTRAN Technology Co., Ltd by which we concurrently acquired a 100% equity interest in Suzhou Lehui Display Co., Ltd., which was spun-off from Suzhou Raken, and we recognized differences between book value and fair value of investments in Suzhou Raken.

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Our finance costs decreased by 15.8% from ₩316 billion in 2015 to ₩266 billion in 2016 mainly due to a decrease in foreign currency loss by 15.4% from ₩156 billion in 2015 to ₩132 billion in 2016 and a decrease in loss on impairment of investments by 77.8% from ₩27 billion in 2015 to ₩6 billion in 2016, as well as a decrease in interest expense by 10.2% from ₩128 billion in 2015 to ₩115 billion in 2016. The decrease in foreign currency loss in 2016 compared to 2015 resulted primarily from a decrease in the range of fluctuation in value of the Korean Won relative to the U.S. dollar on the applicable

foreign currency remeasurement and transaction dates. We recorded an impairment loss in 2016 in connection with a decrease in the carrying value of our investment in WooRee E&L Co., Ltd. The decrease in interest expense in 2016 compared to 2015 resulted primarily from a decrease in the average interest rates applicable to our financial liabilities during such period.

***Income Tax Expense***

Our income tax expense decreased by 6.3% from ₩411 billion in 2015 to ₩385 billion in 2016, due to an 8.2% decrease in profit before income tax from ₩1,434 billion in 2015 to ₩1,316 billion in 2016. Our effective tax rate increased from 28.6% in 2015 to 29.2% in 2016 primarily due to an increase in unrecognized deferred tax assets (which accounted for a 4.8% point increase in effective tax rate as compared to 2015) due to changes in estimates of future taxable income, the effect of which was offset in part by an increase in tax credits largely due to an increase in capital expenditures eligible for tax credits (which accounted for a 3.3% point decrease in effective tax rate as compared to 2015) during the same period. See Note 23 of the notes to our financial statements. As of December 31, 2016, unused tax credit carryforwards of ₩108 billion were not recognized as deferred tax assets because we did not believe realization of such amounts would be probable. As of December 31, 2015, unused tax credit carryforwards of ₩79 billion were not recognized.

***Profit for the Year***

As a result of the cumulative effect of the reasons explained above, our profit for the year decreased by 8.9% from ₩1,023 billion in 2015 to ₩931 billion in 2016.

***Item 5.B. Liquidity and Capital Resources***

Our principal sources of liquidity have been net cash flows generated from our operating activities and debt financing activities. We had cash and cash equivalents of ₩752 billion, ₩1,559 billion and ₩2,603 billion (US\$2,439 million) as of December 31, 2015, 2016 and 2017, respectively. We also had short-term deposits in banks of ₩1,772 billion, ₩1,164 billion and ₩758 billion (US\$710 million), respectively, as of December 31, 2015, 2016 and 2017. Our primary use of cash has been to fund capital expenditures related to the expansion and improvement of our production capacity with respect to existing and newly developed products, including the construction and ramping-up of new, or in certain cases, expansion or conversion of existing, fabrication facilities and production lines and the acquisition of new equipment. We also use cash flows from operations for our working capital requirements and servicing our debt payments. We expect our cash requirements for 2018 to be primarily for capital expenditures and repayment of maturing debt.

As of December 31, 2015, we had current assets of ₩9,532 billion and current liabilities of ₩6,607 billion, resulting in working capital of ₩2,925 billion. As of December 31, 2016, we had current assets of ₩10,484 billion and current liabilities of ₩7,058 billion, resulting in working capital of ₩3,426 billion. As of December 31, 2017, we had current assets of ₩10,474 billion (US\$9,812 million) and current liabilities of ₩8,979 billion (US\$8,412 million), resulting

in working capital of ₩1,495 billion (US\$1,401 million). The increase in working capital as of December 31, 2016 compared to December 31, 2015 was primarily attributable to an ₩860 billion increase in trade accounts and notes receivable as of December 31, 2016 compared to December 31, 2015 mainly as a result of a ₩291 billion decrease during such period in trade accounts and notes receivable which were sold to financial institutions but remained current and outstanding as well as an increase in sales during the fourth quarter of 2016 compared to the fourth quarter of 2015, and a ₩748 billion decrease in current financial liabilities as of December 31, 2016 compared to December 31, 2015 mainly as a result of our repayment during 2016 of ₩1,416 billion of current portion of long-term debt outstanding as of December 31, 2015, offset in part by a ₩1,000 billion increase in other accounts payable as of December 31, 2016 compared to December 31, 2015 mainly as a result of our investments in our GP fabrication facility, the construction of our P10 fabrication facility in Paju, Korea and investments in our E5 production line. The decrease in working capital as of December 31, 2017 compared to December 31, 2016 was primarily attributable to a ₩785 billion increase in current financial liabilities mainly due to the increase in our current portion of long-term debt outstanding as of December 31, 2017 compared to December 31, 2016, as well as a ₩720 billion increase in other accounts payable mainly as a result of construction costs incurred in connection with our ongoing investments in a next generation large-size OLED production line and a next generation plastic OLED production line in Paju, Korea.

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Our management constantly monitors our working capital, and we have historically been able to satisfy our cash requirements from cash flows from operations and debt financing. We believe that we have sufficient working capital for our present requirements. In 2017, we issued domestic debentures in the aggregate principal amount of ₩500 billion (US\$468 million) and we entered into a number of facility loan agreements, from which we have drawn down the full aggregate principal amount of ₩630 billion (US\$590 million) and US\$495 million (₩528 billion) as of December 31, 2017 in long-term loans, primarily to fund our capital expenditures and refinance our existing borrowings maturing in 2017. We have pledged property, plant and equipment and other assets in the amount of RMB 1,853 million (₩303 billion) as security in connection with our facility loan agreements.

Our ability to satisfy our cash requirements from cash flows from operations and financing activities will be affected by our ability to maintain and improve our margins and, in the case of external financing, market conditions, which in turn may be affected by several factors outside of our control. Therefore, we re-evaluate our capital requirements regularly in light of our cash flows from operations, the progress of our expansion plans and market conditions. To the extent that we do not generate sufficient cash flows from our operations to meet our capital requirements, we may rely on other financing activities, such as external long-term borrowings and securities offerings, including the issuance of equity, equity-linked and other debt securities.

Our net cash provided by operating activities amounted to ₩2,727 billion in 2015, ₩3,641 billion in 2016 and ₩6,764 billion (US\$6,337 million) in 2017. The increase in net cash provided by operating activities in 2016 compared to 2015 was mainly due to (i) a decrease in cash paid for purchases of components and raw materials resulting from an increase in accounts payable for such purchases and (ii) an increase in cash inflow from accounts receivable resulting from a significant decrease of offset with advances received from customers. The increase in net cash provided by operating activities in 2017 compared to 2016 was mainly due to (i) an increase in cash collected from our customers as a result of an increase in our sales in 2017 compared to 2016, (ii) an increase in cash inflow from trade accounts and notes receivable primarily resulting from the effects of the timing of trade accounts receivable collections prior to the year-end and appreciation of the Korean Won against the U.S. dollar at the end of 2017 compared to the end of 2016, and (iii) long-term advances received in 2017 pursuant to long-term supply agreements compared to no such advances received in 2016.

The cyclical market conditions that are characteristic of our industry, as well as the regular ramp-up of our new fabrication facilities and production lines and our cost reduction measures, contribute to the fluctuations in our inventory levels from period to period. In 2016, our inventory levels decreased by 2.7% from year-end 2015. In 2017, our inventory levels increased by 2.8% from year-end 2016.

Inventories consisted of the following for the dates indicated:

|                 | As of December 31,                        |               |               |                     |
|-----------------|---|---------------|---------------|---------------------|
|                 | 2015                                      | 2016          | 2017          | 2017 <sup>(1)</sup> |
|                 | (in billions of Won and millions of US\$) |               |               |                     |
| Finished goods  | ₩ 911                                     | ₩ 931         | ₩ 966         | US\$ 905            |
| Work in process | 720                                       | 686           | 749           | 702                 |
| Raw materials   | 389                                       | 355           | 345           | 323                 |
| Supplies        | 331                                       | 316           | 291           | 273                 |
| <b>Total</b>    | <b>₩2,351</b>                             | <b>₩2,288</b> | <b>₩2,351</b> | <b>US\$ 2,203</b>   |

(1) For convenience, the Korean Won amounts are expressed in U.S. dollars at the rate of ₩1,067.42 to US\$1.00, the noon buying rate in effect on December 31, 2017 as certified by the Federal Reserve Bank of New York for customs purposes. This translation should not be construed as a representation that the Korean Won amounts represent, have been or could be converted to U.S. dollars at that rate or any other rate.

Our net cash used in investing activities amounted to ₩2,732 billion in 2015, ₩3,189 billion in 2016 and ₩6,481 billion (US\$6,072 million) in 2017. Net cash used in investing activities primarily reflected the substantial capital expenditures we have made in connection with the expansion and improvement of our production capacity in recent years, mainly relating to construction of our new, or in certain cases, expansion or conversion of existing, fabrication and module assembly facilities and acquisition of new equipment. These cash outflows from capital expenditures amounted to ₩2,365 billion, ₩3,736 billion and ₩6,592 billion (US\$6,176 million) in 2015, 2016 and 2017, respectively. We intend to fund our capital requirements associated with our expansion and construction projects with cash flows from operations and financing activities, such as external long-term borrowings and bond issuances.

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We currently expect that, in 2018, our total capital expenditures on a cash out basis will be higher than in 2017, primarily to fund the expansion of our panel production capacities for large-sized and small- and medium-sized OLED panels, including the construction of a next generation large-sized OLED production line in Guangzhou, China through our joint venture with the government of Guangzhou, as well as a next generation large-size OLED production line and a next generation plastic OLED production line in Paju, Korea, while maintaining and making improvements to our existing facilities. However, our overall expenditure levels and our allocation among projects are subject to many uncertainties. We review the amount of our capital expenditures and may make adjustments from time to time based on cash flows from operations, the progress of our expansion plans and market conditions.

Our net cash used in financing activities amounted to ₩174 billion in 2015 and net cash provided by financing activities amounted to ₩308 billion in 2016. In 2017, net cash provided by financing activities amounted to ₩862 billion (US\$808 million). The net cash used in financing activities in 2015 reflects primarily the repayment of short-term borrowings as well as the payment of dividends. The net cash provided by financing activities in 2016 reflects primarily the increase in long-term borrowings compared to 2015. The net cash provided by financing activities in 2017 reflects primarily the net proceeds from long-term debt as well as a decrease in repayment of current portion of long-term debt and debentures compared to 2016.

At our shareholders meeting on March 13, 2015, we declared a cash dividend of ₩179 billion to our shareholders of record as of December 31, 2014 and distributed the cash dividend to such shareholders on April 8, 2015. On March 11, 2016, we declared a cash dividend of ₩179 billion to our shareholders of record as of December 31, 2015 and distributed the cash dividend to such shareholders on April 8, 2016. On March 23, 2017, we declared a cash dividend of ₩179 billion to our shareholders of record as of December 31, 2016 and distributed the cash dividend to such shareholders on April 13, 2017. On March 15, 2018, we declared a cash dividend of ₩179 billion to our shareholders of record as of December 31, 2017 and distributed the cash dividend to such shareholders on April 12, 2018.

We had a total of nil, ₩113 billion and nil of short-term borrowings outstanding as of December 31, 2015, 2016 and 2017, respectively. For further information regarding these short-term borrowings, please see Note 11 of the notes to our financial statements.

As of December 31, 2017, we maintained accounts receivable sales negotiating facilities with several banks for up to an aggregate amount of US\$1,743 million at the parent company level in connection with our export sales transaction with our subsidiaries. In addition, we and our subsidiaries have also entered into various other accounts receivable sales negotiating facilities in Korean Won and foreign currencies for up to aggregate amounts of ₩90 billion and US\$2,401 million, respectively. For further information regarding these facilities, please see Note 15 of the notes to our financial statements.

As of December 31, 2017, we had outstanding long-term debt including current portion and discounts on debentures in the amount of ₩5,607 billion (US\$5,253 million), consisting of ₩2,015 billion of Korean Won denominated debentures, US\$1,500 million of U.S. dollar denominated long-term loans, RMB3,263 million of RMB denominated long-term loans, ₩200 billion of Korean Won denominated commercial paper, and ₩1,252 billion of Korean Won denominated long-term loans.

The terms of some of our long-term debt contain provisions that would trigger a requirement for early payment. The principal and interest under these obligations may be accelerated if there is a default, including defaults triggered by failure to comply with financial covenants and cross defaults triggered under our other debt obligations. We believe we were in compliance with the covenants under our debt obligations at December 31, 2017. For further information about our short- and long-term debt obligations as of December 31, 2017, see Note 11 of the notes to our financial

statements.

On December 19, 2016, we entered into an agreement to guarantee the payment obligations of our subsidiary LG Display Vietnam Haiphong Co., Ltd. in the amount of US\$100 million under a credit facility LG Display Vietnam Haiphong Co., Ltd. ( LGD Vietnam ) entered into with BNP Paribas, Singapore Branch and other lenders. On March 7, 2017, we entered into another agreement to guarantee LGD Vietnam s payment obligations in the amount of US\$400 million (₩427 billion) under a credit facility entered into with the Sumitomo Mitsui Banking Corporation and other lenders.



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Set forth below are the aggregate amounts, as of December 31, 2017, of our future contractual financing and licensing obligations under our existing debt and other contractual arrangements:

| Contractual Obligations   | Total              | Payments Due by Period |                    |                  |                         |
|---|--------------------|------------------------|--------------------|------------------|-------------------------|
|   |                    | Less than<br>1 year    | 1-3 years          | 3-5 years        | More<br>than<br>5 years |
|   |                    | (in millions of Won)   |                    |                  |                         |
| Long-Term Debt, including current portion   | ₩ 5,607,357        | ₩ 1,453,167            | ₩ 3,077,603        | ₩ 883,734        | ₩ 192,853               |
| Fixed License Payment   | 85,420             | 28,473                 | 56,947             |                  |                         |
| Long-Term Other Payables  | 2                  |                        | 2                  |                  |                         |
| <b>Total</b>  | <b>₩ 5,692,779</b> | <b>₩ 1,478,040</b>     | <b>₩ 3,134,552</b> | <b>₩ 883,734</b> | <b>₩ 192,853</b>        |
| Estimates of interest payment based on contractual interest rates effective as of December 31, 2017 | ₩ 289,529          | ₩ 131,480              | ₩ 123,596          | ₩ 31,602         | ₩ 2,851                 |

In addition to fixed license payments listed above that we are obligated to make under certain technology license agreements, we also have continuing obligations to make cash royalty payments under our technology license agreements, the amount of which are generally determined based on a percentage of sales of our display products.

Expenses relating to our license fees and royalty payments under existing license agreements were ₩88 billion in 2015, ₩94 billion in 2016 and ₩107 billion (US\$100 million) in 2017, representing 5.7% of our research and development related expenditures in 2015, 6.6% in 2016 and 5.6% in 2017. We expect to make additional license fee payments as we enter into new technology license agreements from time to time with third parties.

**Taxation**

In 2017, the statutory corporate income tax rate applicable to us was 11.0% (including local income surtax) for the first ₩200 million of our taxable income, 22.0% (including local income surtax) for our taxable income between ₩200 million and ₩20 billion and 24.2% (including local income surtax) for our taxable income in excess of ₩20 billion. The effective tax rate applicable to us may further increase in 2018 pursuant to the Korean government's announcement in December 2017 to raise the corporate income tax rate applicable to companies whose taxable income exceeds ₩300 billion from 22% to 25%, excluding local municipal taxes. However, such announcement by the Korean government did not change the minimum corporate income tax rate applicable to us.

**Tax Credits**

We are entitled to a number of tax credits relating to certain investments in technology and human resources development. For example, under the Special Tax Treatment Control Law, we are entitled to a tax credit of up to 4% for our capital investments made outside certain areas of Seoul on or before December 31, 2017, provided that the number of our employees does not decrease compared to the previous year.

Tax credits not utilized in the fiscal year during which the relevant investment was made may be carried forward over the next five years in the case of capital investments and five years in the case of investments relating to technology

and human resources development. As of December 31, 2017, we had available deferred tax assets related to these credits of ₩269 billion (US\$252 million), which may be utilized against future income tax liabilities through 2022. In addition, we also had unused tax credit carryforwards of ₩150 billion (US\$141 million) as of December 31, 2017 for which no deferred tax asset was recognized.

**Item 5.C. *Research and Development, Patents and Licenses, etc.***

**Research and Development**

The display panel industry is subject to rapid technological changes. We believe that effective research and development is essential to maintaining our position as one of the industry's leading technology innovators. Our research and development related expenditures amounted to ₩1,547 billion in 2015, ₩1,423 billion in 2016 and ₩1,912 billion (US\$1,791 million) in 2017, representing 5.4% of our revenue in 2015, 5.4% in 2016 and 6.9% in 2017.

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To meet the demands of the future trends, we have formulated a long-term research and development strategy aimed at enhancing the process, device and design aspects of the existing products and diversifying the use of display panels as new opportunities arise with the development of communication systems and information technology. The following are examples of products and technologies that have been developed through our research and development activities in recent years:

In 2015, we developed the world's first Ultra HD OLED television panels, including 65-inch and 77-inch panels that feature High Dynamic Range functionality with perfect black and improved luminance. In addition, we unveiled a 55-inch wallpaper OLED television panel which was slim and light enough to attach to the wall simply by using magnets or wires. We were able to achieve this width using an innovative production method whereby the electric circuits are installed in a separate process. In the commercial space, we developed the world's first 55-inch double-sided OLED panel for commercial use, which shows different images on each side while achieving a width of only 5.3 mm, as well as a 139-inch Vertical Tiling OLED display that is made of eight 65-inch OLED panels connected together in a double-sided S-curved pattern. We also successfully commenced mass production of in-TOUCH panels for notebook computers. With respect to smartphones, we developed the world's first 5.5-inch Quad HD in-TOUCH panel and the world's first 5.7-inch free-form Quad HD panel.

In 2016, we developed wallpaper-thin 65-inch OLED television panel with a thickness of 2.57mm. In addition, we unveiled a 65-inch Ultra HD OLED television panel with speakers integrated into the display, and we developed a 65-inch ultra-slim OLED television panel that applies High Dynamic Range technology to achieve 800 nit peak luminance and improved display quality. We also developed a 55-inch Full HD transparent OLED television panel, with a transparency level of 40%. In the case of LCD panels, we developed the world's first 86-inch ultra-stretch format LCD television panel with a 58:9 screen aspect ratio. With respect to monitors, we successfully developed the world's first in-TOUCH monitor panel as well as the world's largest, at the time, 21:9 screen aspect ratio IPS curved monitor utilizing Ultra Wide Quad HD technology. With respect to smartphones, we introduced our Always-On Display technology which enables the display of 24-hour information such as date, day, time, and battery status even when the screen is off, and reduces unnecessary power waste. We also unveiled the world's first 12.3-inch transparent OLED display and 6.13-inch mirror display for Glass OLED.

In 2017, we unveiled the world's first 77-inch flexible and transparent Ultra HD OLED display panel with a transparency level of 40% and a radius curvature of 80mm. We also developed the world's first Crystal Sound OLED television product, which achieves a new platform concept through the development of OLED panel products with integrated speakers. In addition, we developed the world's first 88-inch ultra-stretch LCD panel for commercial use. In the case of monitors, we produced the world's first 31.5 inch Ultra HD LCD panel with 8K resolution. With respect to smartphones, we released a 5.7-inch Quad HD-plus full vision LCD display and a 6-inch Quad HD plastic OLED panel for smartphone products. With respect to automotive displays, we successfully developed and commenced production of in-TOUCH LCD panels.

As the product life cycle of display panels using certain of the existing TFT-LCD technology is approaching maturity, we plan to further focus on OLED and other newer display technologies, while also exploring new growth

opportunities in the application of display panels, such as in tablet computers, smartphones, smartwatches, public displays and automotive displays.

In order to maintain our position as one of the industry's technology leaders, we believe it is important not only to increase direct spending on research and development, but also to manage our research and development capability effectively in order to successfully implement our long-term strategy. In connection with our efforts to enhance our research and development capability with respect to next-generation display technologies, we opened the R&D Center in Paju, Korea in April 2012. In addition, we have further expanded our research and development resources by allocating some of our research and development personnel to the newly-opened LG Science Park, which is located in western Seoul and commenced its operations in December 2017. LG Science Park accommodates researchers from various LG Group-affiliated companies with expertise in a broad range of disciplines, including electronics, chemistry, nanotechnology, display, fabrication, life sciences and new materials, to focus on developing and testing innovative new technologies.

We complement our in-house research and development capability with collaborations with universities and other third parties. For example, we provide project-based funding to both domestic and overseas universities as a means to recruit promising engineering students and to research and develop new technologies. In April 2016, we entered into an agreement with Pohang University of Science and Technology, or POSTECH, to establish the LGD-POSTECH Cooperation Center within the university's Research Institute of Electrical Circuit, Algorithm and Advanced Materials to conduct research into display panel technologies, including OLED technology. We also enter into joint research and development agreements from time to time with third parties for the development of technologies in specific fields. In addition, we belong to several display industry consortia, and we receive annual government funding to support our research and development efforts. As of December 31, 2017, we employed over 4,800 engineers, researchers, designers, technicians and support personnel in connection with our research and development activities.

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While we primarily rely on our own capacity for the development of new technologies in the display panel design and manufacturing process, we rely on third parties for certain key technologies to enhance our technology leadership, as further described in **Intellectual Property** below.

## **Intellectual Property**

### *Overview*

Our business has benefited from our patent portfolio, which includes patents for display technologies, manufacturing processes, products and applications related to the production of TFT-LCD and OLED panels. We hold a large number of patents in Korea and in other countries, including in the United States, China, Japan, Germany, France, Great Britain, Taiwan, India and Vietnam. These patents will expire at various dates upon the expiration of their respective terms ranging from 2018 to 2036. In March 2014, we formed Unified Innovative Technology, LLC in the United States, a limited liability company solely owned by us for the purpose of patent portfolio management.

As part of our ongoing efforts to prevent infringements on our intellectual property rights and to keep abreast of critical technology developments by our competitors, we closely monitor patent applications in Korea and various other countries in which we sold our products. We intend to continue to file patent applications, where appropriate, to protect our proprietary technologies. We also enter into confidentiality agreements with each of our employees and consultants upon the commencement of an employment or consulting relationship. These agreements generally provide that all inventions, ideas, discoveries, improvements and copyrightable material made or conceived by the individual arising out of the employment or consulting relationship and all confidential information developed or made known to the individual during the term of the relationship are our exclusive property. In addition, we have increased our efforts to safeguard our proprietary information by engaging in in-house information protection awareness activities with our employees.

### *License Agreements*

We enter into license or cross-license agreements from time to time with third parties with respect to various device and process technologies to complement our in-house research and development. We engage in regular discussions with third parties to identify potential areas for additional licensing of key technologies.

Expenses relating to our license fees and royalty payments under existing license agreements were ₩88 billion in 2015, ₩94 billion in 2016 and ₩107 billion (US\$100 million) in 2017, representing 5.7%, 6.6% and 5.6% of our research and development related expenditures in 2015, 2016 and 2017, respectively. We recognized royalty income in the amount of ₩19 billion in 2015, ₩14 billion in 2016 and ₩17 billion (US\$16 million) in 2017. The following are examples of license agreements we have entered into:

We have a license agreement with each of Columbia University, Penn State University, Honeywell International, Honeywell Intellectual Properties, Plasma Physics Corporation and Fergason Patent Properties. Each license agreement provides for a non-exclusive license under certain patents relating to TFT-LCD technologies.

We entered into a license agreement with Semiconductor Energy Laboratory which provides for a non-exclusive license under certain patents relating to TFT-LCD and AMOLED technologies.

We entered into a cross-license agreement with each of Hitachi, HannStar and Hydis for a non-exclusive license under certain patents relating to display technologies.

We entered into separate cross-license agreements with each of NEC and AU Optronics in connection with the settlement of certain patent infringement lawsuits. Under the agreements, each party grants the other party a license under certain patents relating to TFT-LCD technologies.

We are licensed to use certain patents for our TFT-LCD products pursuant to a cross-license agreement between Philips Electronics and Toshiba Corporation.

In addition to the above, we have also entered into license or cross-license agreements with other third parties in the course of our business operations in connection with certain patents, which such third parties own or control.

As well as licensing key technologies from third parties, we aim to benefit from our own patents and other intellectual property rights by granting licenses to third parties from time to time in return for royalty payments. We have also entered into certain patent purchase and license agreements with third parties, where we receive a portion of the license payments.

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**Item 5.D. *Trend Information***

These matters are discussed under Item 5.A. and Item 5.B. above where relevant.

**Item 5.E. *Off-Balance Sheet Arrangements***

For a discussion of our off-balance sheet arrangements, please see Factoring and securitization of accounts receivable , Letters of credit and Payment guarantees in Note 14 of the notes to our financial statements.

**Item 5.F. *Tabular Disclosure of Contractual Obligations***

Presented in Item 5.B. above.

**Item 5.G. *Safe Harbor***

See Forward-Looking Statements.

**Item 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES**

**Item 6.A. *Directors and Senior Management***

**Board of Directors**

Our board of directors has the ultimate responsibility for the management of our business affairs. Our articles of incorporation provide for a board consisting of between five and seven directors, more than half of whom must be outside directors. Our shareholders elect all directors at a general meeting of shareholders. Under the Korean Commercial Code, a representative director of a company established in Korea is authorized to represent and act on behalf of such company and has the power to bind such company. Sang Beom Han is currently our sole representative director.

The term of office for our directors shall not exceed the closing of the annual general meeting of shareholders convened in respect of the last fiscal year within three years after they take office. Our board must meet at least once every quarter, and may meet as often as the chairman of the board of directors or the person designated by the regulation of the board of directors deem necessary or advisable.

The tables below set forth information regarding our current directors and executive officers. The business address of all of the directors and executive officers is LG Twin Towers, 128 Yeoui-daero, Yeongdeungpo-gu, Seoul 07336, Korea.

***Our Outside Directors***

Our current outside directors are set out in the table below. Each of our outside directors meets the applicable independence standards set forth under the rules of the Korean Commercial Code and also meets the applicable independence criteria set forth under Rule 10A-3 of the Exchange Act.

| <b>Name</b>    | <b>Date of Birth</b> | <b>Position</b> | <b>First Elected/<br/>Appointed</b> | <b>Term Expires</b> | <b>Principal Occupation Outside of LG Display</b>                         |
|----------------|----------------------|-----------------|-------------------------------------|---------------------|---|
| Joon Park      | October 30, 1954     | Director        | March 2013                          | March 2019          | Professor, School of Law, Seoul National University                       |
| Sung Sik Hwang | July 24, 1956        | Director        | January 2015                        | March 2021          | Professor, Business Administration, Gachon University                     |
| Kun Tai Han    | October 30, 1956     | Director        | March 2016                          | March 2019          | Chief Executive Officer, Hans Consulting                                  |
| Byoung Ho Lee  | July 6, 1964         | Director        | March 2018                          | March 2021          | Professor, Electrical and Computer Engineering, Seoul National University |



**Table of Contents*****Our Non-Outside Directors***

Our current non-outside directors are set out in the table below:

| <b>Name</b>   | <b>Date of Birth</b> | <b>Position</b>  | <b>First Elected/<br/>Appointed</b> | <b>Term Expires</b> | <b>Principal Occupation<br/>Outside of LG Display</b> |
|---------------|----------------------|--|-------------------------------------|---------------------|---|
| Sang Beom Han | June 18, 1955        | Chairman of the Board,<br>Representative Director, Vice Chairman and Chief Executive Officer | March 2012                          | March 2021          |   |
| Sang Don Kim  | October 20, 1962     | Director, Executive Vice President and Chief Financial Officer                               | March 2014                          | March 2019          |   |
| Hyun Hwoi Ha  | December 18, 1956    | Director   | March 2017                          | March 2020          | Vice Chairman, LG Corp.                               |

***Our Non-Director Executive Officers***

Our current non-director executive officers are set out in the table below:

| <b>Name</b>     | <b>Date of Birth</b> | <b>Position</b>  | <b>First Elected/<br/>Appointed</b> | <b>Business Group/Unit</b> |
|-----------------|----------------------|--|-------------------------------------|----------------------------|
| Yong Kee Hwang  | January 8, 1958      | President and Head of TV Business Unit                           | January 2018                        | TV Business Unit           |
| Yu Seoung Yin   | June 20, 1956        | Executive Vice President and Head of China Operations Group Unit | January 2008                        |                            |
| Soo Youle Cha   | October 21, 1957     | Executive Vice President in TV Business Unit                     | January 2014                        | TV Business Unit           |
| Bang Soo Lee    | November 19, 1958    | Executive Vice President and Head of Business Support Group      | January 2016                        |                            |
| Sang Mun Shin   | July 26, 1959        | Executive Vice President and Chief Production Officer            | January 2017                        | CPO                        |
| Hyung Seok Choi | October 27, 1961     | Executive Vice President and Head of Mobile Business Unit        | January 2017                        | Mobile Business Unit       |

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|                |                   |   |              |                      |
|----------------|-------------------|---|--------------|----------------------|
| In Byeong Kang | May 11, 1963      | Executive Vice President and Chief Technology Officer           | January 2018 | CTO                  |
| Yong Min Ha    | December 10, 1966 | Executive Vice President and Head of Mobile Development Group 2 | January 2018 | Mobile Business Unit |

We and our subsidiaries do not have any service contracts with our directors providing for benefits upon termination of their employment with us or our subsidiaries.

*Sang Beom Han* has served as chairman of the board of directors since March 2017, vice chairman since January 2016, representative director since March 2012 and chief executive officer since December 2011. Mr. Han also served as head of the TV Business Division, the Panel Center and as vice-president for our P5 facility and the Manufacturing Technology Center since joining LG Display in December 2001. Prior to joining LG Display, Mr. Han served as vice president of Hynix Semiconductor Inc. Mr. Han holds a Ph.D. degree in material science from Stevens Institute of Technology.

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*Sang Don Kim* has served as director since March 2014 and senior vice president and chief financial officer since January 2014. In January 2018, Mr. Kim became an executive vice president. Prior to joining LG Display, he served as senior vice president and chief financial officer of Serveone. Mr. Kim holds a bachelor's degree in business administration from Yonsei University and a master's degree in business administration from the University of Washington.

*Hyun Hwoi Ha* has served as director since March 2017. Mr. Ha is currently the vice chairman of LG Corp. He also served as president and head of the home entertainment business division of LG Electronics. Mr. Ha holds a bachelor's degree in history from Pusan National University and a master's degree in business administration from Waseda University.

*Joon Park* has served as outside director since March 2013. Mr. Park is currently a professor of the School of Law at Seoul National University. Mr. Park previously practiced law at a Korean law firm. Mr. Park holds a bachelor's degree in law from Seoul National University.

*Sung Sik Hwang* has served as outside director since January 2015. Mr. Hwang is currently a professor of Business Administration at Gachon University. Mr. Hwang previously served as president of Samchully Co., Ltd., vice-president of Kyobo Life Insurance Co., Ltd. and vice-president of Samil PricewaterhouseCoopers. Mr. Hwang holds bachelor's and master's degrees in business administration from Seoul National University and a Ph.D. from Korea Advanced Institute of Science and Technology.

*Kun Tai Han* has served as outside director since March 2016. Mr. Han is currently the chief executive officer of Hans Consulting. Previously, Mr. Han served as the chief executive officer of Korea Leadership Center Co., Ltd. Mr. Han holds a bachelor's degree in textile engineering from Seoul National University, a master's degree in business administration from the Helsinki School of Economics and Business Administration and a Ph.D. in Polymer Engineering from the University of Akron.

*Byoung Ho Lee* has served as outside director since March 2018. Mr. Lee is currently a professor of Electrical and Computer Engineering at Seoul National University. Mr. Lee holds bachelor's and master's degrees in electrical engineering from Seoul National University, and a Ph.D. in electrical engineering and computer sciences from the University of California, Berkeley.

*Yong Kee Hwang* has served as president since January 2018 and as head of our TV Business Unit since May 2012. Mr. Hwang previously served as chief technology officer. Mr. Hwang holds a bachelor's degree in mechanical design engineering from Pusan University.

*Yu Seoung Yin* has served as executive vice president since January 2008 and head of the China Operation Group since December 2013. Mr. Yin also served as head of our IT/Mobile Business Division and China Center. Prior to joining LG Display, Mr. Yin served as executive vice president of the Chairman's Office at LG Holdings. Mr. Yin holds a bachelor's degree in mass communication from Chung-Ang University.

*Soo Youle Cha* has served as executive vice president since January 2014 and is in our TV Business Unit. Mr. Cha previously served as head of our OLED Panel Group. Mr. Cha holds a bachelor's degree in electronic engineering from Sogang University.

*Bang Soo Lee* has served as executive vice president since January 2016 and as head of our Business Support Group since January 2010. Mr. Lee previously served as head of our General Affairs & Public Relations Division. Mr. Lee holds a bachelor's degree in business administration from Hanyang University.

*Sang Mun Shin* has served as executive vice president since January 2017 and as Chief Production Officer since December 2016. Mr. Shin previously served as head of our Production Technology Center and as head of our Module1 Center. Mr. Shin holds a bachelor's and a master's degrees in electronics from Kyungpook National University.

*Hyung Seok Choi* has served as executive vice president since January 2017 and as head of our Mobile Business Unit since December 2016. Mr. Choi previously served as head of our Advanced Panel Business Unit and as head of our TV Sales/Marketing Group. Mr. Choi holds a bachelor's degree in English literature from Korea University and a master's degree in business administration from Georgetown University.

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*In Byeong Kang* has served as executive vice president since January 2018 and chief technology officer since December 2014. Mr. Kang previously served as head of the Television Development Center. Mr. Kang holds bachelor's and master's degrees in electronic engineering from Hanyang University, and a Ph.D. degree in electronic engineering from University of South Australia.

*Yong Min Ha* has served as executive vice president since January 2018 and as head of our Mobile Development Group 2 since December 2016. Mr. Ha previously served as head of Advanced Panel development group. Mr. Ha holds a bachelor's degree in electronic engineering from Seoul National University, and a master's degree and a Ph.D. degree in electronic engineering from Korea Advanced Institute of Science and Technology.

**Item 6.B. Compensation**

The aggregate remuneration and benefits-in-kind we paid in 2017 to our executive officers and our directors was ₩8.2 billion (US\$7.7 million). This included ₩1,436 million (US\$1.3 million) in salary and ₩878 million (US\$0.8 million) in bonus paid to Sang Beom Han, our chief executive officer, and ₩417 million (US\$0.4 million) in salary and ₩174 million (US\$0.2 million) in bonus paid to Sang Don Kim, our chief financial officer. In addition, as of December 31, 2017, our accrued severance and retirement benefits to those officers and directors amounted to ₩14.6 billion (US\$13.7 million).

Our articles of incorporation provide for a stock option plan to aid retention of executives and key staff and to provide an incentive to meet strategic objectives. All of the stock options we have previously granted have expired and none are currently outstanding. In addition, remuneration for our directors is determined by shareholder resolution, and severance payments to our directors are made in accordance with our regulations on severance payments adopted by our shareholders. We also maintain a cash-based incentive plan for our executive officers and other key managerial employees adopted by our board of directors. Incentive payments are determined based on various long-term performance criteria and paid annually, subject to our cash resources and performance in such year. In addition, our executive officers and other key managerial employees are also eligible for bonuses payable under our employee profit sharing plan if certain performance criteria are met.

We carry liability insurance for the benefit of our directors and officers against certain liabilities incurred by them in their official capacities. This insurance covers our directors and officers, as well as those of our subsidiaries, against certain claims, damages, judgments and settlements, including related legal costs, arising from a covered individual's actual or alleged breaches of duty, neglect or other errors, arising in connection with such individual's performance of his or her official duties. The insurance protection also extends to claims, damages, judgments and settlements, including related legal costs, arising out of shareholders' derivative actions or otherwise relating to our securities. Policy exclusions include, but are not limited to, claims relating to fraud, willful misconduct or criminal acts, as well as the payment of punitive damages. In 2017, we paid a premium of approximately US\$1.4 million in respect of this insurance policy.

**Item 6.C. Board Practices**

See Item 6.A. Directors and Senior Management above for information concerning the terms of office and contractual employment arrangements with our directors and executive officers.

**Committees of the Board of Directors**

We currently have three committees that serve under our board of directors:

Audit Committee;

Outside Director Nomination Committee; and

Management Committee

Under our articles of incorporation, our board of directors may establish other committees if they deem them necessary. Our board of directors appoint each member of these committees except that candidates for the Audit Committee will first be elected by our shareholders at the general meeting of shareholders.

***Audit Committee***

Under Korean law and our articles of incorporation, we are required to have an Audit Committee. Our Audit Committee is currently comprised of three outside directors: Sung Sik Hwang, Joon Park and Kun Tai Han. The chairman is Sung Sik Hwang. Members of the Audit Committee are elected by our shareholders at the annual general meeting of shareholders and all members must meet the applicable independence criteria set forth under the rules and regulations of the Sarbanes-Oxley Act of 2002 and the Korean Commercial Code. The committee reviews all audit and compliance-related matters and makes recommendations to our board of directors. The Audit Committee's primary responsibilities include the following:

engaging or dismissing independent auditors;

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approving independent audit fees;

approving audit and non-audit services;

reviewing annual and interim financial statements;

reviewing audit results and reports, including management comments and recommendations;

reviewing our system of controls and policies, including those covering conflicts of interest and business ethics;

assessing compliance with disclosure and filing obligations;

considering significant changes in accounting practices; and

examining improprieties or suspected improprieties.

In addition, in connection with general meetings of shareholders, the committee examines the agenda for, and financial statements and other reports to be submitted by, the board of directors at each general meeting of shareholders. Our external auditor reports directly to the Audit Committee. Our external auditor is invited to attend meetings of this committee when needed or when matters pertaining to the audit are discussed.

The committee holds regular meetings at least once each quarter, and more frequently as needed.

***Outside Director Nomination Committee***

Under Korean law and our articles of incorporation, we are required to have an Outside Director Nomination Committee for the nomination of outside directors. Our Outside Director Nomination Committee is currently comprised of two outside directors, Joon Park and Kun Tai Han, and one non-outside director, Hyun Hwoi Ha. The Outside Director Nomination Committee reviews the qualifications of potential candidates for outside directors and proposes nominees to serve on our board of directors.

The committee holds meetings as necessary for the nomination of outside directors.

***Management Committee***

The Management Committee was created at our annual general meeting of shareholders in March 2012. The Management Committee is comprised of two non-outside directors, Sang Beom Han and Sang Don Kim. The chairman is Sang Beom Han. The committee's primary responsibilities include making recommendations regarding matters relating to our operation and other matters delegated to the committee by our board of directors.

The committee holds meetings from time to time as needed.

**Item 6.D. Employees**

As of December 31, 2017, we had 53,891 employees, including 20,782 employees in our overseas subsidiaries. The following table provides a breakdown of our employees by function as of December 31, 2015, 2016 and 2017:

| <b>Employees<sup>(1)</sup></b> | <b>As of December 31,</b> |               |               |
|--------------------------------|---------------------------|---------------|---------------|
|                                | <b>2015</b>               | <b>2016</b>   | <b>2017</b>   |
| Production                     | 38,663                    | 38,502        | 42,895        |
| Technical <sup>(2)</sup>       | 8,007                     | 8,039         | 8,459         |
| Sales & Marketing              | 1,527                     | 1,545         | 1,545         |
| Management & Administration    | 1,008                     | 1,008         | 992           |
| <b>Total</b>                   | <b>49,205</b>             | <b>49,094</b> | <b>53,891</b> |

(1) Includes employees of our subsidiaries.

(2) Includes research and development and engineering personnel.



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To recruit promising engineering students at leading Korean universities, we work with these universities on research projects where these students can gain exposure to our research and development efforts. We also provide on-the-job training for our new employees and develop training programs to identify and promote new leaders.

As of December 31, 2017, approximately 62.9% of our employees, including those of our subsidiaries, were union members, and production employees accounted for substantially all of these members. We have a collective bargaining arrangement with our labor union, which is negotiated once a year. We consider our relationship with our employees to be good.

The salaries of our employees are reviewed annually. Salaries are adjusted based on individual and team performance, industry standards and inflation. As an incentive, discretionary bonuses may be paid based on the performance of individuals, and a portion of our profits may be paid to our employees under our profit sharing plan if certain performance criteria are achieved. We also provide a wide range of benefits to our employees including medical insurance, employment insurance, workers compensation, free medical examinations, child tuition and education fee reimbursements and low-cost housing for certain employees.

Under the Guarantee of Workers' Retirement Benefits Act, employees with one year or more of service are entitled to receive, upon termination of their employment, a lump-sum severance payment based on the length of their service and their average wage during the last three months of employment. As of December 31, 2017, our recognized liabilities for defined benefit obligations amounted to ₩95 billion (US\$89 million). See Note 12 of the notes to our financial statements for a discussion on the method of calculating our recognized liabilities for defined benefit obligations.

As of December 31, 2017, our employee stock ownership association owned approximately 0.0001% of our common stock.

### **Item 6.E. *Share Ownership*** ***Common Stock***

The persons who are currently our executive officers held, as a group, 69,930 shares of our common stock as of April 25, 2018, the most recent date for which this information is available. Our executive officers acquired our shares of common stock through our employee stock ownership association and pursuant to open market purchases on the Korea Exchange. Due to Korean law restrictions, our chief executive officer and chief financial officer do not participate in the employee stock ownership association. Each of our directors and executive officers beneficially owns less than one percent of our common stock on an individual basis.

Starting in 2013, where bonus and incentive payments exceed certain thresholds, our executive officers and certain other key managerial employees are required to use a certain percentage of their bonus and incentive payments to purchase our shares of common stock, which are then required to be held until their resignation or termination.

In addition, our articles of incorporation provide for a stock option plan to aid retention of executives and key staff and to provide an incentive to meet strategic objectives. All of the stock options we have previously granted have expired and none are currently outstanding.

**Item 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS****Item 7.A. Major Shareholders**

The following table sets forth information regarding beneficial ownership of our common stock by each person or entity known to us as of April 25, 2018 to own beneficially more than 5% of our outstanding shares:

| <b>Beneficial Owner</b>  | <b>Number of Shares of<br/>Common Stock</b> | <b>Percentage</b> |
|--------------------------|---|-------------------|
| LG Electronics           | 135,625,000                                 | 37.9%             |
| National Pension Service | 31,075,124                                  | 8.7%              |

Other than as set forth above, no other person or entity known by us to be acting in concert, directly or indirectly, jointly or severally, owned more than 5% or more of our outstanding common stock or exercised control or could exercise control over us as of April 25, 2018. None of our major shareholders identified above has voting rights different from those of our other shareholders.

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We engage from time to time in a variety of transactions with related parties, including the sale of our products to, and the purchase of raw materials and components from, such related parties. See Notes 8 and 28 of the notes to our financial statements. We have conducted our transactions with related parties based on arm's length negotiations taking into account such considerations as we would in comparable transactions with a non-related party.

From time to time, we provide payment guarantees for the benefit of certain of our subsidiaries. For a discussion of such payment guarantee obligations, please see Item 5.B. Liquidity and Capital Resources.

**Transactions with Companies in the LG Group*****Sales to LG Electronics***

We sell display panels, primarily large-sized panels for televisions, notebook computers and desktop monitors and small-sized panels for tablet computers and mobile and other applications, to LG Electronics and its subsidiaries on a regular basis, as both an end-brand customer and as a system integrator for use in products they assemble on a contract basis for other end-brand customers. Pricing and other principal terms of the sales to LG Electronics are negotiated based on then-prevailing market terms and prices as adjusted for LG Electronics' requirements such as volume and product specifications and our internal projections regarding market trends, which are the same considerations that we take into account when negotiating pricing and principal terms of sales to our non-affiliated end-brand customers.

Sales to LG Electronics and its subsidiaries, which include sales to LG Electronics as an end-brand customer and system integrator, amounted to ₩6,512 billion (US\$6,101 million), or 23.4% of our sales, in 2017.

***Sales to LG International***

We sell our products to certain subsidiaries of LG International, our affiliated trading company, in regions where doing so is consistent with local market practices. These subsidiaries of LG International process orders from and distribute products to customers located in their region.

Sales to LG International and its subsidiaries amounted to ₩734 billion (US\$688 million), or 2.6% of our sales, in 2017. We sell our products to these subsidiaries of LG International at such prices and on terms determined based on then-prevailing market terms and prices as adjusted for LG International's requirements such as volume and our internal projections regarding market trends.

***Purchases from LG Electronics***

We purchase equipment, printed circuit boards, photo masks, raw materials, components and certain services, such as waste water management and transportation, warehousing and other related logistics services, from LG Electronics and its subsidiaries. Our purchases from LG Electronics and its subsidiaries amounted to ₩1,694 billion (US\$1,587 million), or 7.8% of our total purchases, in 2017.

***Purchases from LG International***

We procure a portion of our production materials, supplies and services, from LG International and its subsidiaries. We use LG International and its subsidiaries in order to take advantage of their relationships with vendors, experience in negotiations and logistics as well as their ability to obtain volume discounts. Purchase prices we pay to these subsidiaries of LG International and other terms of our transactions with them are negotiated based on then-prevailing

market terms and prices as adjusted for our requirements such as volume and specifications and our internal projections regarding market trends. We expect to continue to utilize LG International's overseas subsidiaries for the procurement of a portion of our production materials, supplies and services.

Our purchases, including purchases of materials, supplies and services, from LG International and its subsidiaries, amounted to ₩1,640 billion (US\$1,536 million), or 7.5% of our total purchases, in 2017.

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### ***Other Purchases***

Under a master purchase agreement, we procure, on an as-needed basis, certain of the raw materials, components and other materials necessary for our production process from other companies in the LG Group. Our purchases of raw materials, such as polarizers, from LG Chem, an affiliate of LG Corp., amounted to ₩1,337 billion (US\$1,253 million), or 6.1% of our total purchases, in 2017.

Our total purchases, including purchases of materials, supplies and services, from companies in the LG Group, excluding LG Electronics, LG International and LG Chem and their respective subsidiaries, amounted to ₩3,216 billion (US\$3,013 million), or 14.8% of our total purchases, in 2017.

### ***Intellectual Property Related Agreements with LG Corp. and LG Electronics***

We have entered into successive trademark license agreements with LG Corp., the holding company of the LG Group, for use of the LG name. Under the terms of the current agreement, we are required to make monthly payments to LG Corp. in the aggregate amount per year of 0.2% of our sales after deducting advertising expenses. As of April 25, 2018, we have made all monthly payments required to be made to LG Corp. in accordance with the terms of the current agreement.

In addition, we benefit from certain licenses extended to us from license or cross-license agreements between LG Electronics and third parties. Under the terms of the joint venture agreement establishing LG.Philips LCD Co., Ltd., LG Electronics had assigned most of its patents relating to the development, manufacture and sale of TFT-LCD products to us and we had agreed to maintain joint ownership of those patents that were not assigned to us. Pursuant to a grantback agreement entered into with LG Electronics in July 2004, in the event of any intellectual property dispute between LG Electronics and a third party relating to those patents jointly owned by LG Electronics and us, we intend to allow LG Electronics to assert ownership in those patents for all non-TFT-LCD applications and to license or grant other rights in such patents for use by the licensee in non-TFT-LCD applications in order to settle such disputes.

### **Transactions with Directors and Officers**

Certain of our directors and executive officers also serve as executive officers of companies with which we do business. None of our directors or executive officers has or had any interest in any of our business transactions that are or were unusual in their nature or conditions or significant to our business.

### **Item 7.C. *Interests of Experts and Counsel***

Not applicable.

## **Item 8. FINANCIAL INFORMATION**

### **Item 8.A. *Consolidated Statements and Other Financial Information***

See Item 18. Financial Statements and pages F-1 through F-104.

### **Legal Proceedings**

We are involved from time to time in certain routine legal actions incidental to our business. However, except for the ongoing proceedings described below, we are not currently involved in any material litigation or other proceedings the outcome of which we believe might, individually or taken as a whole, have a material adverse effect on our results of operations or financial condition. In addition, except as described below, we are not aware of any other material pending or threatened litigation against us.

***Intellectual Property***

In December 2013, Delaware Display Group LLC and Innovative Display Technologies LLC filed a patent infringement action against LG Display and LG Display America in the U.S. District Court for the District of Delaware. In December 2015, Delaware Display Group LLC and Innovative Display Technologies LLC filed a new patent infringement action against LG Display and LG Display America in the U.S. District Court for the District of Delaware with respect to three patents that were dismissed without prejudice from the aforementioned patent infringement action. Since May 3, 2016, the December 2015 action has remained stayed. In August 2016, Innovative Display Technologies LLC filed a new patent infringement action against LG Display and LG Display America in the U.S. District Court for the Eastern District of Texas with respect to two new patents. In April 2017, the parties filed a stipulation of dismissal of the cases and amicably settled all claims asserted in these actions.

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In March 2014, Surpass Tech Innovation LLC filed a patent infringement action against LG Display and LG Display America in the U.S. District Court for the District of Delaware. In April 2017, the case was terminated pursuant to a stipulation of dismissal filed by the parties.

In November 2016, Vesper Technology Research LLC filed a patent infringement action against LG Display and LG Display America in the U.S. District Court for the Eastern District of Texas. In March 2017, the case was terminated pursuant to a stipulation of filed by the parties.

***Antitrust and Others***

In December 2006, LG Display received notices of investigation by the U.S. Department of Justice, the European Commission, the Korea Fair Trade Commission and the Japan Fair Trade Commission with respect to possible anti-competitive activities in the TFT-LCD industry. Subsequently, the Competition Bureau of Canada, the Secretariat of Economic Law of Brazil, the Taiwan Fair Trade Commission and the Federal Competition Commission of Mexico announced investigations regarding the same.

In November 2008, LG Display executed an agreement with the U.S. Department of Justice whereby LG Display and LG Display America pleaded guilty to a Sherman Antitrust Act violation and agreed to pay a single total fine of US\$400 million. In December 2008, the U.S. District Court for the Northern District of California accepted the terms of the plea agreement and entered a judgment against LG Display and LG Display America and ordered the payment of US\$400 million, which has since been paid. The agreement resolved all federal criminal charges against LG Display and LG Display America in the United States in connection with this matter, provided that LG Display continues to cooperate with the U.S. Department of Justice in connection with the ongoing proceedings.

In December 2010, the European Commission issued a decision finding that LG Display engaged in anti-competitive activities in the TFT-LCD industry in violation of European Union competition laws, and imposed a fine of 215 million. In February 2011, LG Display filed with the European Union General Court an application for partial annulment and reduction of the fine imposed by the European Commission. In November 2011, LG Display received a request for information from the European Commission relating to certain alleged anti-competitive activities in the TFT-LCD industry and has responded to the request. In February 2014, the European Union General Court reduced the fine to 210 million and LG Display paid the fine in full in April 2014. In May 2014, LG Display filed an appeal with the European Court of Justice requesting annulment of the European Union General Court's judgment and further reduction of the fine imposed by the European Commission's decision, and in April 2015 the European Court of Justice upheld the decision of the European Union General Court.

In November 2009, the Taiwan Fair Trade Commission terminated its investigation without any finding of violations or levying of fines. Also, in February 2012, the Competition Bureau of Canada terminated its investigation without any finding of violations or levying of fines. In August 2014, the Japan Fair Trade Commission terminated its investigation without any finding of violations or levying of fines. In August 2014, LG Display executed a settlement agreement with the Brazilian Administrative Council for Economic Defense (CADE), for R\$33.9 million, which resolved all administrative charges against LG Display provided that it continues to cooperate with the ongoing investigation.

In December 2011, the Korea Fair Trade Commission imposed a fine of ₩31.4 billion after finding that LG Display and certain of its subsidiaries engaged in anti-competitive activities in violation of Korean fair trade laws. In December 2011, LG Display filed an appeal of the decision with the Seoul High Court. In February 2014, the Seoul High Court annulled the decision of the Korea Fair Trade Commission. In March 2014, the Korea Fair Trade Commission filed an appeal of the Seoul High Court decision with the Supreme Court of Korea. In June 2014, the

Supreme Court of Korea upheld the lower court's decision.

After the commencement of the U.S. Department of Justice investigation, a number of class action complaints were filed against LG Display, LG Display America and other TFT-LCD panel manufacturers in the United States and Canada alleging violation of respective antitrust laws and related laws. In a series of decisions in 2007 and 2008, the class action lawsuits in the United States were transferred to the Northern District of California for pretrial proceedings, which we refer to as the MDL Proceedings. In March 2010, the federal district court granted the class certification motion filed by the indirect purchaser plaintiffs, and granted in part and denied in part the class certification motion filed by the direct purchaser plaintiffs. In January 2011, 78 entities (including groups of affiliated entities) submitted requests for exclusion from the direct purchaser class. In April 2012, ten entities (including groups of affiliated companies) submitted requests for exclusion from the indirect purchaser class. In addition, since 2010, the attorneys general of Arkansas, California, Florida, Illinois, Michigan, Mississippi, Missouri, New York, Oklahoma, Oregon, South Carolina, Washington, West Virginia and Wisconsin filed complaints against LG Display, alleging similar antitrust violations as alleged in the MDL Proceedings.



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In June 2011, LG Display reached a settlement with the direct purchaser class, which the federal district court approved in December 2011. In July 2012, LG Display reached a settlement with the indirect purchaser class plaintiffs and with the state attorneys general of Arkansas, California, Florida, Michigan, Missouri, New York, West Virginia and Wisconsin, which was approved by the federal district court in April 2013 and, in the case of the state attorneys general actions, by their respective state governments. LG Display has since reached settlement with each of the attorneys general that had filed action.

In addition, in relation to the MDL Proceedings, in 2009, ATS Claim, LLC (assignee of Ricoh Electronics, Inc.), AT&T Corp. and its affiliates, Motorola, and Electrograph Technologies Corp. and its subsidiary filed separate claims in the United States, and all of the actions were subsequently consolidated into the MDL Proceedings. In 2010, TracFone Wireless Inc., Best Buy Co., Inc. and its affiliates, Target Corp., Sears, Roebuck and Co., Kmart Corp., Old Comp Inc., Good Guys, Inc., RadioShack Corp., Newegg Inc., Costco Wholesale Corp., Sony Electronics, Inc. and its affiliate, SB Liquidation Trust and the trustee of the Circuit City Stores, Inc. Liquidation Trust filed separate claims in the United States. In 2011, the AASI Creditor Liquidating Trust on behalf of All American Semiconductor Inc., CompuCom Systems, Inc., Interbond Corporation of America, Jaco Electronics, Inc., Office Depot, Inc., P.C. Richard & Son Long Island Corporation, MARTA Cooperative of America, Inc., ABC Appliance, Inc., Schultze Agency Services, LLC on behalf of Tweeter Opco, LLC and its affiliate, T-Mobile U.S.A., Inc., Tech Data Corporation and its affiliate filed similar claims in the United States. In 2012, ViewSonic Corp., NECO Alliance LLC, Rockwell Automation LLC, Proview Technology Inc. and its affiliates filed similar claims. In November 2013, Acer America Corporation and its affiliates filed similar claims in the United States. The cases were transferred to the MDL Proceedings for pretrial proceedings. In December 2012, Sony Europe Limited and its affiliate filed similar claims in the High Court of Justice in the United Kingdom. In July 2015, LG Display was dismissed from the Motorola case and as of April 27, 2017, LG Display has reached settlement with each of the other plaintiffs mentioned above.

A number of claims alleging damages were filed against LG Display and other entities in the United Kingdom as follow-on claims from the above-described European Commission's decision in December 2010, comprising claims by iiyama (UK) Limited and its affiliates ( iiyama ) in December 2014, and Argos Limited and others ( Argos ), Granville Technology Group and others ( Granville ) and Ingram Micro and others ( Ingram ), each in December 2016. As of April 25, 2018, we are contesting the jurisdiction of the United Kingdom courts to hear claims by iiyama and are vigorously defending ourselves against claims by Granville. We have reached a settlement in principle with Argos in December 2017, and Ingram discontinued its claims against LG Display in June 2017.

In 2007, class action complaints were filed against LG Display and other TFT-LCD manufacturers in the Canadian provinces of British Columbia, Ontario and Quebec. In November 2016, LG Display reached settlement with the provinces of British Columbia, Ontario and Quebec. In March 2017, the Ontario Superior Court of Justice approved the settlement and dismissed LG Display from the Ontario class action. In April 2017, the Superior Court of Quebec approved the settlement and dismissed LG Display from the Quebec class action. In May 2017, the Supreme Court of British Columbia approved the settlement and dismissed LG Display from the British Columbia class action.

In December 2013, a class action complaint was filed by Hatzlacha, a consumer organization, on behalf of Israeli consumers against LG Display and other defendants in the Central District in Israel. In July 2017, the Supreme Court of Israel ruled in favor of the defendants to affirm the District Court's decision to revoke the leave to serve the class action on the defendants outside the jurisdiction of Israel. In August 2017, Hatzlacha filed a number of motions to uphold service in the Central District in Israel under different legal grounds, which are currently being contested by the defendants.

In August 2014, Shenzhenshi Shihang Trading Company Limited filed a complaint against LG Display in the High Court of the Hong Kong Special Administrative Region Court of First Instance alleging breach of contract. As of

April 25, 2018, LG Display has not received service of Shenzhenshi Shihang Trading Company Limited's complaint.

In September 2016, a class action civil lawsuit was filed against us, LG Display America, Inc. and others in the U.S. District Court for the Northern District of California, alleging participation in an agreement with other companies not to solicit one another's employees. In January 2017, LG Display filed a motion to dismiss. In April 2017, the court granted the motion to dismiss.

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In each of the foregoing matters that are ongoing, we are continually evaluating the merits of the respective claims and vigorously defending ourselves. Irrespective of the validity or the successful assertion of the claims described above, we may incur significant costs with respect to litigating or settling any or all of the asserted claims. While we continue to vigorously defend the various proceedings described above, it is possible that one or more proceedings may result in cash outflow to settle or resolve these claims. We have recognized provisions with respect to those legal claims in which our management has concluded that there is a present or constructive obligation arising from a past event, it is more likely than not that an outflow of resources will result to settle the obligation, and a reliable estimate can be made of the amount of the obligation. However, the actual outcomes may be different from those estimated as of December 31, 2017 and may have an adverse effect on our operating results or financial condition.

**Dividends**

Annual dividends must be approved by the shareholders at the annual general meeting of shareholders and interim dividends must be approved by the board of directors. Cash dividends may be paid out of retained earnings that have not been appropriated to statutory reserves.

At our annual general meeting of shareholders that was held on March 13, 2015, we declared a cash dividend of ₩500 per share of common stock, amounting to a total cash dividend of ₩179 billion, to our shareholders of record as of December 31, 2014 and distributed the cash dividends to such shareholders on April 8, 2015. On March 11, 2016, we declared a cash dividend of ₩500 per share of common stock, amounting to a total cash dividend of ₩179 billion, to our shareholders of record as of December 31, 2015 and distributed the cash dividends to such shareholders on April 8, 2016. On March 23, 2017, we declared a cash dividend of ₩500 per share of common stock, amounting to a total cash dividend of ₩179 billion, to our shareholders of record as of December 31, 2016 and distributed the cash dividends to such shareholders on April 13, 2017. On March 15, 2018, we declared a cash dividend of ₩500 per share of common stock, amounting to a total cash dividend of ₩179 billion to our shareholders of record as of December 31, 2017 and distributed the cash dividends to such shareholders on April 13, 2018.

**Item 8.B. Significant Changes**

Except as disclosed elsewhere in this annual report, we have not experienced any significant changes since the date of our audited consolidated financial statements included in this annual report.

**Item 9. THE OFFER AND LISTING****Item 9.A. Offer and Listing Details.****Market Price Information**

The principal trading market for our common stock is the Korea Exchange. Our common stock, which is in registered form and has a par value of ₩5,000 per share of common stock, has been listed on the Korea Exchange since July 23, 2004 under the identifying code 034220. As of December 31, 2017, 357,815,700 shares of common stock were outstanding. Our common stock is also listed on the New York Stock Exchange in the form of ADSs. The ADSs have been issued by Citibank as ADS depository and have been listed on the New York Stock Exchange under the symbol LPL since July 22, 2004. One ADS represents one-half of one share of common stock. As of December 31, 2017, 24,581,448 ADSs were outstanding.

The table below sets forth, for the periods indicated, the high and low closing prices and the average daily volume of trading activity on the Korea Exchange for our common stock, and their high and low closing prices and the average daily volume of trading activity on the New York Stock Exchange for our ADSs:

|             | Korea Exchange                    |        |   | New York Stock Exchange |       |   |
|-------------|-----------------------------------|--------|---|-------------------------|-------|---|
|             | Closing Price Per<br>Common Stock |        | Average Daily<br>Trading Volume<br>(in thousands of shares) | Closing Price Per ADS   |       | Average Daily<br>Trading Volume<br>(in thousands of ADRs) |
|             | High                              | Low    |   | High                    | Low   |   |
| <b>2013</b> | 33,050                            | 22,300 | 2,087   | 14.93                   | 10.54 | 609   |
| <b>2014</b> | 35,850                            | 23,100 | 1,398   | 17.36                   | 10.77 | 390   |
| <b>2015</b> | 36,900                            | 20,600 | 1,644   | 17.08                   | 8.64  | 568   |
| <b>2016</b> |                                   |        |   |                         |       |   |

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|                                 |        |        |       |       |       |     |
|---------------------------------|--------|--------|-------|-------|-------|-----|
| <b>First Quarter</b>            | 26,950 | 20,950 | 1,615 | 11.61 | 8.57  | 436 |
| <b>Second Quarter</b>           | 27,400 | 23,600 | 1,263 | 12.09 | 9.92  | 468 |
| <b>Third Quarter</b>            | 32,150 | 26,650 | 1,238 | 14.32 | 11.46 | 423 |
| <b>Fourth Quarter</b>           | 32,000 | 26,200 | 1,141 | 13.50 | 11.31 | 404 |
| <b>2017</b>                     |        |        |       |       |       |     |
| <b>First Quarter</b>            | 32,500 | 27,300 | 1,770 | 14.01 | 12.02 | 486 |
| <b>Second Quarter</b>           | 38,150 | 28,800 | 2,867 | 16.78 | 12.77 | 584 |
| <b>Third Quarter</b>            | 38,900 | 29,350 | 3,645 | 16.87 | 12.77 | 784 |
| <b>Fourth Quarter</b>           | 31,800 | 28,700 | 3,081 | 14.47 | 12.56 | 786 |
| <b>November</b>                 | 31,800 | 29,150 | 3,103 | 14.47 | 13.07 | 760 |
| <b>December</b>                 | 30,650 | 29,400 | 2,656 | 13.91 | 13.40 | 722 |
| <b>2018</b>                     |        |        |       |       |       |     |
| <b>January</b>                  | 33,250 | 28,950 | 3,881 | 15.65 | 13.78 | 953 |
| <b>February</b>                 | 31,650 | 29,800 | 1,975 | 14.74 | 13.44 | 699 |
| <b>March</b>                    | 29,250 | 25,700 | 2,304 | 13.53 | 11.68 | 895 |
| <b>April (through April 25)</b> | 26,050 | 24,600 | 1,914 | 12.03 | 11.20 | 858 |

Source: Korea Exchange; New York Stock Exchange.

**Item 9.B. Plan of Distribution**

Not applicable.

**Item 9.C. Markets****The Korea Exchange**

Pursuant to the Korea Stock and Futures Exchange Act, as of January 27, 2005, the Korea Stock Exchange, which began its operations in 1956, the KRX KOSDAQ, which began its operation in July 1, 1996, and the Korea Futures Exchange (as an exchange operating futures market and options market), which began its operation in February 1, 1999, were consolidated into one entity to form the Korea Exchange.

The Korea Exchange was established in the form of a limited liability stock company pursuant to the Korean Commercial Code, with the minimum paid-in capital of ₩100 billion in accordance with the Financial Investment Services and Capital Markets Act. Historically, the Korea Exchange was the only exchange authorized under the Financial Investment Services and Capital Markets Act. On May 28, 2013, however, the Financial Investment Services and Capital Markets Act was amended to implement a system under which a license may be granted to an exchange upon satisfaction of certain requirements. In addition, the Financial Services Commission has authorized the establishment of alternative trading systems that engage in the trading of listed beneficial certificates, among other things, for a multiple number of parties through electronic means. Notwithstanding the foregoing regulatory developments, the Korea Exchange is presently the only duly licensed exchange in Korea, and there have been no definitive developments regarding newly licensed exchanges or alternative trading systems in Korea. The Korea Exchange operates and supervises four market divisions: the KRX KOSPI Market Division, the KRX KOSDAQ Market Division, the KRX Futures Market Division and the KRX KONEX Market Division. The principal office of the Korea Exchange is located in Busan.

As of December 31, 2017, the aggregate market value of equity securities listed on the Korea Exchange was ₩1,606 trillion. The average daily trading volume of equity securities for 2017 was 340 million shares with an average transaction value of ₩5,326 billion.

The Korea Exchange has the power in some circumstances to suspend trading in the shares of a given company or to de-list a security pursuant to the Regulation on Listing on the Korea Exchange. The Korea Exchange also restricts share price movements. All listed companies are required to file accounting reports annually, semi-annually and quarterly and to release immediately all information that may affect trading in a security.

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The Korean government has in the past exerted, and continues to exert, substantial influence over many aspects of the private sector business community that can have the intention or effect of depressing or boosting the market. In the past, the Korean government has informally both encouraged and restricted the declaration and payment of dividends, induced mergers to reduce what it considers excess capacity in a particular industry and induced private companies to offer publicly their securities.

The Korea Exchange publishes the KOSPI every ten seconds, which is an index of all equity securities listed on the Korea Exchange. Under the aggregate value method, the market capitalizations of all listed companies are aggregated, subject to certain adjustments, and this aggregate is expressed as a percentage of the aggregate market capitalization of all listed companies as of the base date, January 4, 1980.

Movements in KOSPI for the periods indicated are set out in the following table:

|                         | <b>Opening</b> | <b>High</b> | <b>Low</b> | <b>Closing</b> |
|-------------------------|----------------|-------------|------------|----------------|
| 1987                    | 264.82         | 525.11      | 264.82     | 525.11         |
| 1988                    | 532.04         | 922.56      | 527.89     | 907.20         |
| 1989                    | 919.61         | 1,007.77    | 844.75     | 909.72         |
| 1990                    | 908.59         | 928.82      | 566.27     | 696.11         |
| 1991                    | 679.75         | 763.10      | 586.51     | 610.92         |
| 1992                    | 624.23         | 691.48      | 459.07     | 678.44         |
| 1993                    | 697.41         | 874.10      | 605.93     | 866.18         |
| 1994                    | 879.32         | 1,138.75    | 855.37     | 1,027.37       |
| 1995                    | 1,013.57       | 1,016.77    | 847.09     | 882.94         |
| 1996                    | 888.85         | 986.84      | 651.22     | 651.22         |
| 1997                    | 653.79         | 792.29      | 350.68     | 376.31         |
| 1998                    | 385.49         | 579.86      | 280.00     | 562.46         |
| 1999                    | 587.57         | 1,028.07    | 498.42     | 1,028.07       |
| 2000                    | 1,059.04       | 1,059.04    | 500.60     | 504.62         |
| 2001                    | 520.95         | 704.50      | 468.76     | 693.70         |
| 2002                    | 724.95         | 937.61      | 584.04     | 627.55         |
| 2003                    | 635.17         | 822.16      | 515.24     | 810.71         |
| 2004                    | 821.26         | 936.06      | 719.59     | 895.92         |
| 2005                    | 893.71         | 1,379.37    | 870.84     | 1,379.37       |
| 2006                    | 1,389.27       | 1,464.70    | 1,203.86   | 1,434.46       |
| 2007                    | 1,435.26       | 2,064.85    | 1,355.79   | 1,897.13       |
| 2008                    | 1,853.45       | 1,888.88    | 938.75     | 1,124.47       |
| 2009                    | 1,132.87       | 1,723.17    | 992.69     | 1,682.77       |
| 2010                    | 1,696.14       | 2,052.97    | 1,532.68   | 2,051.00       |
| 2011                    | 2,070.08       | 2,228.96    | 1,652.71   | 1,825.12       |
| 2012                    | 1,826.37       | 2,049.28    | 1,769.31   | 1,997.05       |
| 2013                    | 2,031.10       | 2,059.58    | 1,780.63   | 2,011.34       |
| 2014                    | 1,967.19       | 2,082.61    | 1,886.85   | 1,915.59       |
| 2015                    | 1,926.44       | 2,173.41    | 1,829.81   | 1,961.31       |
| 2016                    | 1,918.76       | 2,068.72    | 1,835.28   | 2,026.46       |
| 2017                    | 2,026.16       | 2,557.97    | 2,026.16   | 2,467.49       |
| 2018 (through April 25) | 2,479.65       | 2,598.19    | 2,363.77   | 2,448.81       |

*Source:* The Korea Exchange

Shares are quoted ex-dividend on the first trading day of the relevant company's accounting period. Since the calendar year is the accounting period for the majority of listed companies, this may account for the drop in KOSPI between its closing level at the end of one calendar year and its opening level at the beginning of the following calendar year.



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With certain exceptions, principally to take account of a share being quoted ex-dividend and ex-rights, permitted upward and downward movements in share prices of any category of shares on any day are limited under the rules of the Korea Exchange to 15% of the previous day's closing price of the shares, rounded down as set out below:

| Previous Day's Closing Price (Won) | Rounded Down to Won |
|------------------------------------|---------------------|
| Less than 1,000                    | 1                   |
| 1,000 to less than 5,000           | 5                   |
| 5,000 to less than 10,000          | 10                  |
| 10,000 to less than 50,000         | 50                  |
| 50,000 to less than 100,000        | 100                 |
| 100,000 to less than 500,000       | 500                 |
| 500,000 or more                    | 1,000               |

As a consequence, if a particular closing price is the same as the price set by the fluctuation limit, the closing price may not reflect the price at which persons would have been prepared, or would be prepared to continue, if so permitted, to buy and sell shares. Orders are executed on an auction system with priority rules to deal with competing bids and offers.

Due to deregulation of restrictions on brokerage commission rates, the brokerage commission rate on equity securities transactions may be determined by the parties, subject to commission schedules being filed with the Korea Exchange by the financial investment companies. In addition, a securities transaction tax of 0.15% of the sales price will generally be imposed on the transfer of shares or certain securities representing rights to subscribe for shares. An agricultural and fishery special surtax of 0.15% of the sales prices will also be imposed on transfer of these shares and securities on the Korea Exchange. See Item 10.E. Taxation Korean Taxation.

The number of companies listed on the KRX KOSPI Market, the corresponding total market capitalization at the end of the periods indicated and the average daily trading volume for those periods are set forth in the following table:

| Year | Market Capitalization on<br>the Last Day of Each Period |                      |                                      | Average Daily Trading Volume,<br>Value |                      |                                       |
|------|---|----------------------|--------------------------------------|--|----------------------|---------------------------------------|
|      | Number<br>of<br>Listed<br>Companies                     | (Billions<br>of Won) | (Millions<br>of US\$) <sup>(1)</sup> | Thousands<br>of<br>Shares              | (Millions<br>of Won) | (Thousands<br>of US\$) <sup>(1)</sup> |
| 1985 | 342   | 6,570                | 7,362                                | 18,925                                 | 12,315               | 13,798                                |
| 1986 | 355   | 11,994               | 13,863                               | 31,755                                 | 32,870               | 37,991                                |
| 1987 | 389   | 26,172               | 32,884                               | 20,353                                 | 70,185               | 88,183                                |
| 1988 | 502   | 64,544               | 93,895                               | 10,367                                 | 198,364              | 288,571                               |
| 1989 | 626   | 95,477               | 140,119                              | 11,757                                 | 280,967              | 412,338                               |
| 1990 | 669   | 79,020               | 109,872                              | 10,866                                 | 183,692              | 255,412                               |
| 1991 | 686   | 73,118               | 95,541                               | 14,022                                 | 214,263              | 279,973                               |
| 1992 | 688   | 84,712               | 107,027                              | 24,028                                 | 308,246              | 389,445                               |
| 1993 | 693   | 112,665              | 138,870                              | 35,130                                 | 574,048              | 707,566                               |
| 1994 | 699   | 151,217              | 190,762                              | 36,862                                 | 776,257              | 979,257                               |
| 1995 | 721   | 141,151              | 181,943                              | 26,130                                 | 487,762              | 628,721                               |

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|      |     |           |           |         |           |           |
|------|-----|-----------|-----------|---------|-----------|-----------|
| 1996 | 760 | 117,370   | 138,490   | 26,571  | 486,834   | 574,435   |
| 1997 | 776 | 70,989    | 41,881    | 41,525  | 555,759   | 327,881   |
| 1998 | 748 | 137,799   | 114,261   | 97,716  | 660,429   | 547,619   |
| 1999 | 725 | 349,504   | 307,662   | 278,551 | 3,481,620 | 3,064,806 |
| 2000 | 704 | 188,042   | 148,415   | 306,163 | 2,602,211 | 2,053,837 |
| 2001 | 689 | 255,850   | 194,785   | 473,241 | 1,997,420 | 1,520,685 |
| 2002 | 683 | 258,681   | 216,071   | 857,245 | 3,041,598 | 2,540,590 |
| 2003 | 684 | 355,363   | 298,624   | 542,010 | 2,216,636 | 1,862,719 |
| 2004 | 683 | 412,588   | 398,597   | 372,895 | 2,232,109 | 2,156,419 |
| 2005 | 702 | 655,075   | 648,589   | 467,629 | 3,157,662 | 3,126,398 |
| 2006 | 731 | 704,588   | 757,622   | 279,096 | 3,435,180 | 3,693,742 |
| 2007 | 745 | 951,918   | 1,017,223 | 363,741 | 5,540,151 | 5,920,230 |
| 2008 | 763 | 576,928   | 457,152   | 355,205 | 5,190,181 | 4,112,663 |
| 2009 | 770 | 887,935   | 763,060   | 485,657 | 5,795,552 | 4,980,495 |
| 2010 | 766 | 1,141,885 | 1,009,981 | 379,171 | 5,619,768 | 4,970,607 |
| 2011 | 791 | 1,041,999 | 899,438   | 353,760 | 6,863,146 | 5,924,166 |
| 2012 | 784 | 1,154,294 | 1,085,638 | 486,480 | 4,823,643 | 4,536,740 |
| 2013 | 777 | 1,185,974 | 1,123,880 | 328,325 | 3,993,422 | 3,784,337 |

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|                         |     |           |           |         |           |           |
|-------------------------|-----|-----------|-----------|---------|-----------|-----------|
| 2014                    | 773 | 1,192,253 | 1,092,918 | 278,082 | 3,983,580 | 3,651,679 |
| 2015                    | 770 | 1,242,832 | 1,062,922 | 455,256 | 5,351,734 | 4,577,026 |
| 2016                    | 779 | 1,308,440 | 1,086,988 | 376,773 | 4,523,044 | 3,757,523 |
| 2017                    | 774 | 1,605,821 | 1,504,395 | 340,457 | 5,325,760 | 4,989,377 |
| 2018 (through April 25) | 777 | 1,634,742 | 1,526,370 | 409,131 | 7,139,579 | 6,666,274 |

Source: The Korea Exchange

(1) Converted at the noon buying rate as certified by the Federal Reserve Bank of New York in effect on the last business day of the year indicated other than for 2018, which is converted at the noon buying rate as certified by the Federal Reserve Bank of New York in effect on April 20, 2018 (the latest available noon buying rate prior to filing this annual report).

The Korean securities markets are principally regulated by the Financial Services Commission and the Financial Investment Services and Capital Markets Act. The Financial Investment Services and Capital Markets Act imposes restrictions on insider trading and price manipulation, requires specified information to be made available by listed companies to investors and establishes rules regarding margin trading, proxy solicitation, takeover bids, acquisition of treasury shares and reporting requirements for shareholders holding substantial interests. In addition, it also regulates the securities and derivatives markets in Korea.

**Foreign Investors Access to the Korean Securities Market**

A stock index futures market was opened on May 3, 1996 and a stock index option market was opened on July 7, 1997, in each case at the KRX KOSPI Market. Remittance and repatriation of funds in connection with investment in stock index futures and options are subject to regulations similar to those that govern remittance and repatriation in the context of foreign investment in Korean stocks.

Foreign investors are permitted to invest in warrants representing the right to subscribe for shares of a company listed on the KRX KOSPI Market or registered on the KRX KOSDAQ Market, subject to certain investment limitations. A foreign investor may not acquire such warrants with respect to shares of a class of a company for which the ceiling on aggregate investment by foreigners has been reached or exceeded.

Foreign investors are permitted to invest in all types of corporate bonds, bonds issued by national or local governments and bonds issued in accordance with certain special laws without being subject to any aggregate or individual investment ceiling. The Financial Services Commission sets forth procedural requirements for such investments. Foreigners are permitted to invest in certificates of deposit and repurchase agreements.

Currently, foreigners are permitted to invest in securities including shares of all Korean companies that are not listed on the KRX KOSPI Market nor registered on the KRX KOSDAQ Market and in bonds that are not listed.

**Protection of Customer's Interest in Case of Insolvency of Financial Investment Companies**

Under Korean law, the relationship between a customer and a financial investment company with a brokerage license in connection with a securities sell or buy order is deemed to be a consignment and the securities acquired by a consignment agent (i.e., the financial investment company with a brokerage license) through such sell or buy order are regarded as belonging to the customer in so far as the customer and the consignment agent's creditors are concerned. Therefore, in the event of a bankruptcy or reorganization procedure involving a financial investment company with a brokerage license, the customer of the financial investment company is entitled to the proceeds of the securities sold

by such financial investment company.

When a customer places a sell order with a financial investment company with a brokerage license that is not a member of the KRX KOSPI Market or the KRX KOSDAQ Market and such financial investment company places a sell order with another financial investment company with a brokerage license that is a member of the KRX KOSPI Market or the KRX KOSDAQ Market, the customer is still entitled to the proceeds of the securities sold and received by the non-member company from the member company regardless of the bankruptcy or reorganization of the non-member company.

Under the Financial Investment Services and Capital Markets Act, the Korea Exchange is obliged to indemnify any loss or damage incurred by a counterparty as a result of a breach by members of the KRX KOSPI Market or the KRX KOSDAQ Market. If a financial investment company with a brokerage license that is a member of the KRX KOSPI Market or the KRX KOSDAQ Market breaches its obligation in connection with a buy order, the Korea Exchange is obliged to pay the purchase price on behalf of the breaching member. Therefore, the customer can acquire the securities that have been ordered to be purchased by the breaching member.

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When a customer places a buy order with a non-member company and the non-member company places a buy order with a member company, the customer has the legal right to the securities received by the non-member company from the member company because the purchased securities are regarded as belonging to the customer in so far as the customer and the non-member company's creditors are concerned.

As the cash deposited with a financial investment company with a brokerage license is regarded as belonging to such financial investment company, which is liable to return the same at the request of its customer, the customer cannot take back deposited cash from the financial investment company if a bankruptcy or reorganization procedure is instituted against such financial investment company and, therefore, can suffer from loss or damage as a result. However, the Depositor Protection Act provides that the Korea Deposit Insurance Corporation will, upon the request of the investors, pay investors up to ₩50 million of cash deposited with such financial investment company in case of such financial investment company's bankruptcy, liquidation, cancellation of securities business license or other insolvency events. Pursuant to the Financial Investment Services and Capital Markets Act, as amended, financial investment companies with a brokerage license are required to deposit the cash received from its customers to the extent the amount is not covered by the insurance with the Korea Securities Finance Corporation, a special entity established pursuant to the Financial Investment Services and Capital Markets Act. Set-off or attachment of cash deposits by such financial investment company is prohibited. The premiums related to this insurance are paid by such financial investment company.

**Item 9.D. *Selling Shareholders***

Not applicable.

**Item 9.E. *Dilution***

Not applicable.

**Item 9.F. *Expenses of the Issue***

Not applicable.

**Item 10. ADDITIONAL INFORMATION**

**Item 10.A. *Share Capital***

Not applicable.

**Item 10.B. *Memorandum and Articles of Association***

**Description of Capital Stock**

This section provides information relating to our capital stock, including brief summaries of material provisions of our current articles of incorporation, the Financial Investment Services and Capital Markets Act and the Korean Commercial Code. The following summaries are subject to, and are qualified in their entirety by reference to, our articles of incorporation and the applicable provisions of the Financial Investment Services and Capital Markets Act and the Korean Commercial Code.

### **General**

Under our articles of incorporation, which was last amended in March 2013, the total number of shares authorized to be issued by us is 500,000,000 shares, which consists of shares of common stock and non-voting preferred stock, both with par value of ₩5,000 per share. We are authorized to issue preferred stock of up to 40,000,000 shares. As of December 31, 2017, 357,815,700 shares of common stock were issued. All of the issued and outstanding shares are fully-paid and non-assessable and are in registered form. We issue share certificates in denominations of 1, 5, 10, 50, 100, 500, 1,000 and 10,000 shares.

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### **Dividends**

We distribute dividends to our shareholders in proportion to the number of shares owned by each shareholder. The shares represented by the ADSs have the same dividend rights as other outstanding shares.

Holders of preferred shares are entitled to receive dividends in priority to the holders of common stock. The amount of dividends for preferred shares is determined by our board of directors within a range of 1% to 10% of par value at the time the shares are issued, provided that if the dividend amount on the shares of common stock exceeds that on the preferred shares, holders of preferred shares will also participate in the distribution of the excess dividend amount in the same proportion as holders of common stock. If the amount available for dividends is less than the aggregate amount of such minimum dividend, the holders of preferred shares will be entitled to receive the accumulated unpaid dividends in priority to the holders of common stock from the dividends payable in respect of the next fiscal year.

We declare dividends annually at the annual general meeting of shareholders which is held within three months after the end of the fiscal year. We pay the annual dividend shortly after the annual general meeting to the shareholders of record as of the end of the preceding fiscal year. We may distribute the annual dividend in cash or in shares. However, a dividend of shares must be distributed at par value. If the market price of the shares is less than their par value, dividends in shares may not exceed one-half of the annual dividend. We have no obligation to pay any annual dividend unclaimed for five years from the payment date.

Under the Korean Commercial Code, we may pay an annual dividend only out of the excess of our net assets, on a non-consolidated basis, over the sum of (1) our stated capital and (2) the total amount of our capital surplus reserve and legal reserve accumulated up to the end of the relevant dividend period. We may not pay an annual dividend unless we have set aside a legal reserve in an amount equal to at least 10% of the cash portion of the annual dividend or unless we have accumulated a legal reserve of not less than one-half of our stated capital. We may not use legal reserves to pay cash dividends but may transfer amounts from legal reserves to capital stock or use legal reserves to reduce an accumulated deficit.

Also, we may pay an interim dividend in accordance with a resolution of the board of directors to our shareholders who are registered in the shareholders' register as of July 1 of the relevant fiscal year, and such an interim dividend shall be made in cash.

### **Distribution of Free Shares**

In addition to paying dividends in shares out of our retained or current earnings, we may also distribute to our shareholders an amount transferred from our capital surplus or legal reserve to our stated capital in the form of free shares. Free shares are shares newly issued to existing shareholders without consideration, much like stock dividends, except that in the case of free shares a portion of the reserves, as opposed to earnings, is transferred to capital. We must distribute such free shares to all of our shareholders in proportion to their existing shareholdings. We may distribute free shares when we determine that our capital surplus or legal reserves are too large relative to our paid-in capital.

### **Preemptive Rights and Issuance of Additional Shares**

We may issue authorized but unissued shares at the times and, unless otherwise provided in the Korean Commercial Code, on the terms our board of directors may determine. All of our shareholders are generally entitled to subscribe for any newly issued shares in proportion to their existing shareholdings. We must offer new shares on uniform terms to all shareholders who have preemptive rights and are listed on our shareholders' register as of the relevant record

date. However, under the Korean Commercial Code, we may vary the specific terms of these preemptive rights for different classes of shares without shareholder approval. To the extent that such different terms result in placing any particular class of shareholders at a disadvantage relative to other classes, a special resolution by that disadvantaged class of shareholders is necessary.

We must give public notice of the preemptive rights regarding new shares and their transferability at least two weeks before the relevant record date. Our board of directors may determine how to distribute shares for which preemptive rights have not been exercised or where fractions of shares occur.

Under our articles of incorporation, we may issue new shares pursuant to a board resolution to persons other than existing shareholders, who however will not have preemptive rights, if the new shares are, among others:

publicly offered pursuant to the Financial Investment Services and Capital Markets Act;

issued to members of our employee stock ownership association;



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represented by depositary receipts;

issued upon exercise of stock options granted to our officers and employees;

issued to corporations, institutional investors or domestic or overseas financial institutions to achieve our operational objectives; or

issued for the purpose of drawing foreign investment when we deem it necessary for our business needs;

provided that the aggregate number of shares so issued do not exceed 20% of the total number of issued and outstanding shares.

In addition, we may issue convertible bonds or bonds with warrants, respectively, up to an aggregate face amount of ₩2.5 trillion to persons other than existing shareholders. The classes of shares to be issued upon conversion of bonds or exercise of warrants shall be common stock.

Members of our employee stock ownership association, whether or not they are our shareholders, generally have a preemptive right to subscribe for up to 20% of the shares publicly offered pursuant to the Financial Investment Services and Capital Markets Act. As of December 31, 2017, approximately 0.0001% of our common stock was held by our employee stock ownership association.

**General Meeting of Shareholders**

We hold the annual general meeting of shareholders within three months after the end of each fiscal year. Subject to a board resolution or court approval, we may hold an extraordinary general meeting of shareholders:

as necessary;

at the request of holders of an aggregate of 3% or more of our outstanding shares;

at the request of shareholders holding an aggregate of 1.5% or more of our outstanding shares for at least six consecutive months; or

at the request of our audit committee.

Holders of preferred shares may request a general meeting of shareholders only after the preferred shares become entitled to vote or are enfranchised, as described under **Voting Rights** below.

We must give shareholders written notice setting out the date, place and agenda of the meeting at least two weeks before the date of the general meeting of shareholders. However, for holders of less than 1% of the total number of issued and outstanding voting shares, we may give notice by placing at least two public notices in at least two daily

newspapers or providing such notice in the electronic notification system of the Financial Supervisory Service or the Korea Exchange at least two weeks in advance of the meeting. We use *Maeil Business Newspaper* and *The Chosun Ilbo*, published in Seoul, Korea, for such public notice purposes. Shareholders not on the shareholders' register as of the record date are not entitled to receive notice of the general meeting of shareholders, attend or vote at the meeting. Holders of non-voting preferred shares, unless enfranchised, are not entitled to receive notice of general meetings of shareholders.

The place of our general meetings of shareholders is decided by our board of directors, which can be held in our head office, our Paju Display Cluster or any other place as designated by our board of directors.

### **Voting Rights**

Holders of our common stock are entitled to one vote for each share of common stock, except that voting rights may not be exercised with respect to shares of common stock held by us or by a corporate shareholder in which we own, directly or indirectly, more than 10% of its voting stock. The Korean Commercial Code permits cumulative voting, under which voting method each shareholder would have multiple voting rights corresponding to the number of directors to be appointed in the voting and may exercise all voting rights cumulatively to elect one director. However, our articles of incorporation prohibit cumulative voting.

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According to our current articles of incorporation, our shareholders may adopt resolutions at a general meeting by an affirmative majority vote of the voting shares present or represented at the meeting, where the affirmative votes also represent at least one-fourth of our total voting shares then issued and outstanding. However, under the Korean Commercial Code and our articles of incorporation, the following matters, among others, require approval by the holders of at least two-thirds of the shares present or represented at a meeting, where the affirmative votes also represent at least one-third of our total voting shares then issued and outstanding:

amending our articles of incorporation;

removing a director;

effecting any dissolution, merger or consolidation of us;

transferring the whole or any significant part of our business;

effecting our acquisition of all of the business of any other company;

effecting our acquisition of a part of the business of any other company that has a material effect on our business; or

issuing any new shares at a price lower than their par value.

In general, holders of preferred shares are not entitled to vote on any resolution or receive notice of any general meeting of shareholders. However, in the case of amendments to our articles of incorporation, any merger or consolidation involving us, capital reductions or in certain other cases in which the rights or interests of the preferred shares are affected, approval of the holders of preferred shares is required. We may obtain such approval by a resolution of holders of at least two-thirds of the preferred shares present or represented at a class meeting of the holders of preferred shares, where the affirmative votes also represent at least one-third of our total issued and outstanding preferred shares. In addition, if we are unable to pay dividends on preferred shares as provided in our articles of incorporation, the holders of preferred shares will become enfranchised and will be entitled to exercise voting rights until those dividends are paid. The holders of enfranchised preferred shares have the same rights as holders of common stock to request, receive notice of, attend and vote at a general meeting of shareholders.

Shareholders may exercise their voting rights by proxy.

Holders of ADRs exercise their voting rights through the ADR depository, an agent of which is the record holder of the underlying shares. Subject to the provisions of the deposit agreement, ADR holders are entitled to instruct the ADR depository how to vote the shares underlying their ADSs.

## **Rights of Dissenting Shareholders**

In some limited circumstances, including the transfer of all or any significant part of our business and our merger or consolidation with another company, dissenting shareholders have the right to require us to purchase their shares. To exercise this right, shareholders must submit to us a written notice of their intention to dissent before the general meeting of shareholders. Within 20 days after the relevant resolution is passed at such meeting, the dissenting shareholders must make a request to us in writing to purchase their shares. We are obligated to purchase the shares of dissenting shareholders no later than one month after the end of such 20-day period. The purchase price for the shares is required to be determined through negotiation between the dissenting shareholders and us. If we cannot agree on a price through negotiation, the purchase price will be the average of (1) the weighted average of the daily closing prices of shares on the Korea Exchange for the two-month period before the date of the adoption of the relevant board resolution, (2) the weighted average of the daily closing price of shares on the Korea Exchange for the one-month period before the date of the adoption of the relevant board resolution and (3) the weighted average of the daily closing price of shares on the Korea Exchange for the one-week period before the date of the adoption of the relevant board resolution. If we or the dissenting shareholders that had requested the purchase of their shares do not accept the purchase price, we or the dissenting shareholders may request a court to determine the purchase price. Holders of ADSs will not be able to exercise dissenters' rights unless they have withdrawn the underlying common stock and become our direct shareholders.

### **Register of Shareholders and Record Dates**

Our transfer agent, Korea Securities Depository, maintains the register of our shareholders at its office in Seoul, Korea. It will register transfers of shares on the register of shareholders on presentation of the share certificates.

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The record date for annual dividends is December 31. For the purpose of determining the shareholders entitled to annual dividends, the register of shareholders may be closed for the period from January 1 to January 15 of each year. Further, for the purpose of determining the shareholders entitled to some other rights pertaining to the shares, we may, on at least two weeks' public notice, set a record date and/or close the register of shareholders for not more than three months.

## **Business Report**

At least one week before the annual general meeting of shareholders, we must make our business report and audited consolidated Korean IFRS financial statements available for inspection at our principal office and at all of our branch offices. In addition, copies of business reports, the audited consolidated Korean IFRS financial statements and any resolutions adopted at the general meeting of shareholders will be available to our shareholders.

Under the Financial Investment Services and Capital Markets Act, we must file with the Financial Services Commission and the Korea Exchange (1) a yearly report (including audited non-consolidated financial statements and audited consolidated financial statements) within 90 days after the end of our fiscal year and (2) interim reports with respect to the three-month period, six-month period and nine-month period from the beginning of each fiscal year within 45 calendar days following the end of each such period. Copies of these reports will be available for public inspection at the Financial Services Commission and the Korea Exchange.

## **Transfer of Shares**

Under the Korean Commercial Code, the transfer of shares is effected by delivery of share certificates. However, to assert shareholders' rights against us, the transferee must have his name and address registered on our register of shareholders. For this purpose, a shareholder is required to file his name, address and seal with us. A non-Korean shareholder may file a specimen signature in place of a seal, unless he is a citizen of a country with a sealing system similar to that of Korea. In addition, a non-resident shareholder must appoint an agent authorized to receive notices on his behalf in Korea and file a mailing address in Korea. The above requirements do not apply to the holders of ADSs.

Under current Korean regulations, the Korea Securities Depository, foreign exchange banks (including domestic branches of foreign banks), financial investment companies with a dealing, brokerage or collective investment license and internationally recognized custodians may act as agents and provide related services for foreign shareholders. Certain foreign exchange controls and securities regulations apply to the transfer of shares by non-residents or non-Koreans. See Item 10.D. Exchange Controls.

## **Acquisition of Shares by Us**

Under the Korean Commercial Code, we may acquire our own shares pursuant to a resolution adopted at a general meeting of shareholders through either (i) purchases on a stock exchange or (ii) with respect to shares other than any redeemable shares as set forth in Article 345, Paragraph (1) of the Korean Commercial Code, purchases from each shareholder in proportion to such shareholder's existing shareholding ratio through the methods set forth in the Presidential Decree, provided that the aggregate purchase price does not exceed the amount of our profit that may be distributed as dividends in respect of the immediately preceding fiscal year.

In addition, pursuant to the Financial Investment Services and Capital Markets Act, we may acquire shares through purchases on the Korea Exchange or through a tender offer. We may also acquire interests in our own shares through agreements with trust companies or retrieve our own shares from a trust company upon termination of the trust agreement. The aggregate purchase price for shares purchased through such means may not exceed the total amount

available for distribution of dividends at the end of the preceding fiscal year, subject to certain procedural requirements.

### **Liquidation Rights**

In the event of our liquidation, after payment of all debts, liquidation expenses and taxes, our remaining assets will be distributed among shareholders in proportion to their shareholdings. Holders of preferred shares have no preference in liquidation.

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**Item 10.C. *Material Contracts***

We have not entered into any material contracts during the two years immediately preceding the date of this annual report, other than in the ordinary course of our business. For information regarding our agreements and transactions with certain related parties, see Item 7.B. Related Party Transactions. For descriptions of certain agreements related to our capital commitments and obligations and certain agreements related to our joint ventures, which we believe were not material to our results of operations and financial condition in the periods in which such agreements were entered, see Item 5.B. Liquidity and Capital Resources and Item 4.B. Business Overview Joint Ventures, respectively.

**Item 10.D. *Exchange Controls***

The Foreign Exchange Transaction Act of Korea and the Presidential Decree and regulations under that Act and Decree, which we refer to collectively as the Foreign Exchange Transaction Laws, regulate investments in Korean securities by non-residents and issuances of securities outside Korea by Korean companies. Non-residents may invest in Korean securities pursuant to the Foreign Exchange Transaction Laws. The Financial Services Commission has also adopted, pursuant to its authority under the Financial Investment Services and Capital Markets Act, regulations that restrict investments by foreigners in Korean securities and regulate issuances of securities outside Korea by Korean companies.

Subject to certain limitations, the Ministry of Strategy and Finance has the authority to take the following actions under the Foreign Exchange Transaction Laws:

if the government deems it necessary on account of war, armed conflict, natural disaster or grave and sudden and significant changes in domestic or foreign economic circumstances or similar events or circumstances, the Ministry of Strategy and Finance may temporarily suspend performance under any or all foreign exchange transactions, in whole or in part, to which the Foreign Exchange Transaction Laws apply (including suspension of payment and receipt of foreign exchange) or impose an obligation to deposit, safe-keep or sell any means of payment to The Bank of Korea or certain other governmental agencies, foreign exchange equalization funds or financial institutions; and

if the government concludes that the international balance of payments and international financial markets are experiencing or are likely to experience significant disruption or that the movement of capital between Korea and other countries is likely to adversely affect the Korean Won, exchange rates or other macroeconomic policies, the Ministry of Strategy and Finance may take action to require any person who intends to effect a capital transaction to obtain permission or to require any person who effects a capital transaction to deposit a portion of the means of payment acquired in such transactions with The Bank of Korea, foreign exchange equalization funds or financial institutions.

**Government Review of Issuance of ADSs**

In order for us to issue ADSs outside Korea, we are required to submit a report to the Ministry of Strategy and Finance or our designated foreign exchange bank (depending on the aggregate issue amount) with respect to the issuance of the ADSs. No further governmental approval is necessary for the offering and issuance of the ADSs.

Under current Korean laws and regulations and the terms of the deposit agreement, the depository is required to obtain our consent for the number of shares of common stock to be deposited in any given proposed deposit that exceeds the

difference between:

- (1) the aggregate number of shares of our common stock deposited by us for the issuance of our ADSs (including deposits in connection with the initial issuance and all subsequent offerings of our ADSs and stock dividends or other distributions related to these ADSs); and
- (2) the number of shares of our common stock on deposit with the depository at the time of such proposed deposit.

We can give no assurance that we would, subject to governmental authorization, grant our consent, if our consent is required. Therefore, a holder of ADRs who surrenders ADRs and withdraws shares may not be permitted subsequently to deposit those shares and obtain ADRs.



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**Table of Contents****Reporting Requirements for Holders of Substantial Interests**

Under the Financial Investment Services and Capital Markets Act, any person whose direct or beneficial ownership of our common stock with voting rights, whether in the form of shares of common stock or ADSs, certificates representing the rights to subscribe for shares and equity-related debt securities including convertible bonds, bonds with warrants and exchangeable bonds, which we refer to collectively as equity securities, together with the equity securities directly or beneficially owned by certain related persons or by any person acting in concert with the person, accounts for 5% or more of our total outstanding equity securities, is required to report the status and purpose (in terms of whether the purpose of the shareholding is to participate in the management of the issuer) of the holdings to the Financial Services Commission and the Korea Exchange within five business days after reaching the 5% ownership interest. In addition, any change (i) in the ownership interest subsequent to the report that equals or exceeds 1% of the total outstanding equity securities from the previous report or (ii) in the shareholding purpose, is required to be reported to the Financial Services Commission and the Korea Exchange within five business days from the date of the change (or, in the case of a person with no intent to seek management control or an institutional investor prescribed by the Financial Services Commission, within ten days of the end of the month in which the change occurred).

Violation of these reporting requirements may subject a person to criminal sanctions such as fines or imprisonment and/or prohibition on the exercise of voting rights with respect to the ownership of equity securities exceeding the reported number of shares. Furthermore, the Financial Services Commission may order the disposal of the unreported equity securities.

When a person's shareholding ratio reaches or exceeds ten percent or more of the company's issued and outstanding shares with voting rights, the person must file a report to the Securities and Futures Commission and to the Korea Exchange within five business days following the date on which the person reached such shareholding limit. In addition, such person must file a report to the Securities and Futures Commission and to the Korea Exchange regarding any subsequent change in his/her shareholding. These subsequent reports on changes in shareholding are required within five business days after the relevant change has occurred. Violation of these reporting requirements may subject a person to criminal sanctions such as fines or imprisonment.

**Restrictions Applicable to ADSs**

No Korean governmental approval is necessary for the sale and purchase of our ADSs in the secondary market outside Korea or for the withdrawal of shares of our common stock underlying the ADSs and the delivery inside Korea of shares in connection with the withdrawal, provided, that a foreigner who intends to acquire the shares must obtain an investment registration card from the Financial Supervisory Service as described below. The acquisition of the shares by a foreigner must be immediately reported to the governor of the Financial Services Commission, either by the foreigner or by his standing proxy in Korea.

Persons who have acquired shares of our common stock as a result of the withdrawal of shares underlying our ADSs may exercise their preemptive rights for new shares, participate in free distributions and receive dividends on shares without any further Korean governmental approval.

**Restrictions Applicable to Shares**

As a result of amendments to the Foreign Exchange Transaction Laws and Financial Services Commission regulations, adopted in connection with the stock market opening from January 1992, which we refer to collectively as the Investment Rules, after that date, foreigners may invest, with limited exceptions and subject to procedural

requirements, in shares of all Korean companies listed on the KRX KOSPI Market or the KRX KOSDAQ Market unless prohibited by specific laws. Foreign investors may trade shares listed on the KRX KOSPI Market or the KRX KOSDAQ Market only through the KRX KOSPI Market or the KRX KOSDAQ Market, except in limited circumstances, including:

odd-lot trading of shares;

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acquisition of shares, which we refer to as converted shares, by exercise of warrants, conversion rights or exchange rights under bonds with warrants, convertible bonds or exchangeable bonds or withdrawal rights under depositary receipts issued outside of Korea by a Korean company;

acquisition of shares as a result of inheritance, donation, bequest or exercise of shareholders' rights, including preemptive rights or rights to participate in free distributions and receive dividends;

subject to certain exceptions, over-the-counter transactions between foreigners of a class of shares for which the ceiling on aggregate acquisition by foreigners, as explained below, has been reached or exceeded;

shares acquired by way of direct investment and/or the disposal of such shares by the investor;

the disposal of shares pursuant to the exercise of appraisal rights of dissenting shareholders;

the disposal of shares in connection with a tender offer;

the acquisition of shares by a foreign depositary in connection with the issuance of depositary receipts;

the acquisition and disposal of shares through an overseas stock exchange market if such shares are simultaneously listed on the KRX KOSPI Market or the KRX KOSDAQ Market and such overseas stock exchange; and

arms-length transactions between foreigners, if all of such foreigners belong to the investment group managed by the same person.

For over-the-counter transactions of shares between foreigners outside the KRX KOSPI Market or the KRX KOSDAQ Market for shares with respect to which the limit on aggregate foreign ownership has been reached or exceeded, a financial investment company with a brokerage license in Korea must act as an intermediary. Odd-lot trading of shares outside the KRX KOSPI Market or the KRX KOSDAQ Market must involve a financial investment company with a dealing license in Korea as the other party. Foreign investors are prohibited from engaging in margin transactions by borrowing shares from financial investment companies with respect to shares that are subject to a foreign ownership limit.

The Investment Rules require a foreign investor who wishes to invest in shares on the KRX KOSPI Market or the KRX KOSDAQ Market (including converted shares and shares being issued for initial listing on the KRX KOSPI Market or the KRX KOSDAQ Market) to register its identity with the Financial Supervisory Service prior to making any such investment unless it has previously registered. However, the registration requirement does not apply to foreign investors who acquire converted shares (including upon conversion of ADSs into shares and upon exercise of conversion rights of convertible bonds) with the intention of selling such converted shares within three months from the date of acquisition of the converted shares. Upon registration, the Financial Supervisory Service will issue to the

foreign investor an investment registration card, which must be presented each time the foreign investor opens a brokerage account with a financial investment company with a brokerage license. Foreigners eligible to obtain an investment registration card include foreign nationals who have not been residing in Korea for a consecutive period of six months or more, foreign governments, foreign municipal authorities, foreign public institutions, international financial institutions or similar international organizations, corporations incorporated under foreign laws and any person in any additional category designated by a decree promulgated under the Financial Investment Services and Capital Markets Act. All Korean branch offices of a foreign corporation as a group are treated as a separate foreigner from the offices of the corporation located outside of Korea for the purpose of investment registration. However, a foreign corporation or depository issuing depository receipts may obtain one or more investment registration cards in its name in certain circumstances as described in the relevant regulations.

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Upon a foreign investor's purchase of shares through the KRX KOSPI Market or the KRX KOSDAQ Market, no separate report by the investor is required because the investment registration card system is designed to control and oversee foreign investment through a computer system. However, a foreign investor's acquisition or sale of shares outside the KRX KOSPI Market or the KRX KOSDAQ Market (as discussed above) must be reported by the foreign investor or his standing proxy to the governor of the Financial Supervisory Service at the time of each such acquisition or sale; provided, however, that a foreign investor must ensure that any acquisition or sale by it of shares outside the KRX KOSPI Market or the KRX KOSDAQ Market in the case of trades in connection with a tender offer, odd-lot trading of shares or trades of a class of shares for which the aggregate foreign ownership limit has been reached or exceeded, is reported to the governor of the Financial Supervisory Service by the financial investment company engaged to facilitate such transaction. A foreign investor may appoint a standing proxy from among the Korea Securities Depository, foreign exchange banks (including domestic branches of foreign banks), financial investment companies with a dealing, brokerage or collective investment license and internationally recognized custodians which will act as a standing proxy to exercise shareholders' rights or perform any matters related to the foregoing activities if the foreign investor does not perform these activities itself. Generally, a foreign investor may not permit any person, other than its standing proxy, to exercise rights relating to its shares or perform any tasks related thereto on its behalf. However, a foreign investor may be exempted from complying with these standing proxy rules with the approval of the governor of the Financial Supervisory Service in cases deemed inevitable by reason of conflict between the laws of Korea and the home country of the foreign investor.

Certificates evidencing shares of Korean companies must be kept in custody with an eligible custodian in Korea. Only the Korea Securities Depository, foreign exchange banks (including domestic branches of foreign banks), financial investment companies with a dealing, brokerage or collective investment license and internationally recognized custodians are eligible to act as a custodian of shares for a non-resident or foreign investor; provided, however, that a foreign investor may have the certificate evidencing shares released from such custody when it is necessary to exercise its rights to such shares or to inspect and confirm the presence of the certificate(s) of such shares. A foreign investor must ensure that its custodian deposits its shares with the Korea Securities Depository. However, a foreign investor may be exempted from complying with this deposit requirement with the approval of the governor of the Financial Supervisory Service in circumstances where compliance with that requirement is made impracticable, including cases where compliance would contravene the laws of the home country of such foreign investor.

Under the Investment Rules, with certain exceptions, foreign investors may acquire shares of a Korean company without being subject to any foreign investment ceiling. As one such exception, unless otherwise stated in their articles of incorporation, designated public corporations are subject to a 40% ceiling on the acquisition of shares by foreigners in the aggregate. Furthermore, an investment by a foreign investor in 10% or more of the outstanding shares with voting rights of a Korean company is defined as a foreign direct investment under the Foreign Investment Promotion Act of Korea. Generally, a foreign direct investment must be reported to the foreign exchange bank designated by the Ministry of Trade, Industry & Energy or the Korea Trade-Investment Promotion Agency prior to such investment (within 30 days from the date of such investment, if the company is listed on the Korea Exchange). The acquisition of shares of a Korean company by a foreign investor may also be subject to certain foreign or other shareholding restrictions in the event that the restrictions are prescribed in a specific law that regulates the business of the Korean company.

Under the Foreign Exchange Transaction Laws, a foreign investor who intends to acquire shares must designate a foreign exchange bank at which he must open a foreign currency account and a Korean Won account exclusively for stock investments. No approval is required for remittance into Korea and deposit of foreign currency funds in the foreign currency account. Foreign currency funds may be transferred from the foreign currency account at the time required to place a deposit for, or settle the purchase price of, a stock purchase transaction to a Korean Won account opened at a financial investment company with a securities dealing or brokerage license. Funds in the foreign currency

account may be remitted abroad without any Korean governmental approval.

Dividends on shares of Korean companies are paid in Korean Won. No Korean governmental approval is required for foreign investors to receive dividends on, or the Korean Won proceeds of the sale of, any shares to be paid, received and retained in Korea. Dividends paid on, and the Korean Won proceeds of the sale of, any shares held by a non-resident of Korea must be deposited either in a Korean Won account with the investor's financial investment company or in his Korean Won account. Funds in the investor's Korean Won account may be transferred to his foreign currency account or withdrawn for local living expenses, provided that any withdrawal of local living expenses in excess of a certain amount is reported to the Financial Supervisory Service by the foreign exchange bank at which the Won account is maintained. Funds in the Korean Won account may also be used for future investment in shares or for payment of the subscription price of new shares obtained through the exercise of preemptive rights.

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Financial investment companies with a securities dealing, brokerage or collective investment license are allowed to open foreign currency accounts with foreign exchange banks exclusively for accommodating foreign investors' stock investments in Korea. Through these accounts, such financial investment companies may enter into foreign exchange transactions on a limited basis, such as conversion of foreign currency funds and Korean Won funds, either as a counterparty to or on behalf of foreign investors, without the investors having to open their own accounts with foreign exchange banks.

**Item 10.E. Taxation**

The following summary is based upon the tax laws of the United States and the Republic of Korea as in effect on the date of this annual report, and is subject to any change in U.S. or Korean law that may come into effect after such date. Investors in the shares of common stock or ADSs are advised to consult their own tax advisers as to the United States, Korean or other tax consequences of the purchase, ownership and disposition of such securities, including the effect of any national, state or local tax laws.

**Korean Taxation**

The following summary of Korean tax considerations applies to you so long as you are not:

a resident of Korea;

a corporation having its head office, principal place of business or place of effective management in Korea (i.e., a Korean corporation); or

engaged in a trade or business in Korea through a permanent establishment or a fixed base to which the relevant income is attributable or with which the relevant income is effectively connected.

***Taxation of Dividends on Shares of Common Stock or ADSs***

We will deduct Korean withholding tax from dividends (whether in cash or in shares) paid to you at a rate of 22% (including local income surtax). If you are a beneficial owner of the dividends and a qualified resident in a country that has entered into a tax treaty with Korea, you may qualify for a reduced rate of Korean withholding tax. See **Tax Treaties** below for a discussion of treaty benefits. If we distribute to you free shares representing a transfer of certain capital reserves or asset revaluation reserves into paid-in capital, that distribution may be subject to Korean withholding tax.

***Taxation of Capital Gains from Transfer of Shares of Common Stock or ADSs***

As a general rule, capital gains earned by non-residents upon transfer of shares of our common stock or ADSs are subject to Korean withholding tax at the lower of (1) 11% (including local income surtax) of the gross proceeds realized or (2) subject to the production of satisfactory evidence of acquisition costs and certain direct transaction costs of the shares or ADSs, 22% (including local income surtax) of the net realized gain, unless exempt from Korean income taxation under the applicable Korean tax treaty with the non-resident's country of tax residence. See **Tax Treaties** below for a discussion on treaty benefits. Even if you do not qualify for an exemption under a tax treaty, you

will not be subject to the foregoing withholding tax on capital gains if you qualify under the relevant Korean domestic tax law exemptions discussed in the following paragraphs.

With respect to shares of our common stock, you will not be subject to Korean income taxation on capital gains realized upon the transfer of such shares through the Korea Exchange if you (1) have no permanent establishment in Korea and (2) did not own or have not owned (together with any shares owned by any entity with which you have a certain special relationship and possibly including the shares represented by the ADSs) 25% or more of our total issued and outstanding shares at any time during the calendar year in which the sale occurs and during the five calendar years prior to the calendar year in which the sale occurs.



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Under the Korean tax laws for capital gains recognized or to be recognized from disposition of ADSs, ADSs are viewed as shares of stock for capital gains tax purposes. Accordingly, capital gains from sale or disposition of ADSs are taxed (if taxable) as if such gains are from sale or disposition of shares of our common stock. It should be noted that (i) capital gains earned by you (regardless of whether you have a permanent establishment in Korea) from a transfer of ADSs outside Korea will generally be exempt from Korean income taxation by virtue of the Special Tax Treatment Control Law of Korea, or the STTCL, provided that the issuance of ADSs is deemed to be an overseas issuance under the STTCL, but (ii) in the case where an owner of the underlying shares of stock transfers ADSs after conversion of the underlying shares into ADSs, the exemption under the STTCL described in (i) will not apply. In the case where an owner of the underlying shares of stock transfers the ADSs after conversion of the underlying shares of stock into ADSs, such person is obligated to file corporate income tax returns and pay tax unless a purchaser or a financial investment company with a brokerage license, as applicable, withholds and pays the tax on capital gains derived from transfer of ADSs, as discussed below.

If you are subject to tax on capital gains with respect to the sale of ADSs, or of shares of common stock which you acquired as a result of a withdrawal, the purchaser or, in the case of the sale of shares of common stock on the Korea Exchange or through a financial investment company with a brokerage license in Korea, the financial investment company, is required to withhold Korean tax from the sales price in an amount equal to the lower of (i) 11% (including local income surtax) of the gross realization proceeds and (ii) subject to the production of satisfactory evidence of acquisition costs and certain direct transaction costs of the shares or ADSs, 22% (including local income surtax) of the net realized gain, and to make payment of these amounts to the Korean tax authority, unless you establish your entitlement to an exemption under an applicable tax treaty or domestic tax law. See the discussion under [Tax Treaties](#) below for an additional explanation of claiming treaty benefits.

***Tax Treaties***

Korea has entered into a number of income tax treaties with other countries, including the United States, which reduce or exempt Korean withholding tax on dividend income and capital gains on transfer of shares of common stock or ADSs. For example, under the Korea-U.S. income tax treaty, reduced rates of Korean withholding tax on dividends of 16.5% or 11%, respectively (including local income surtax), depending on your shareholding ratio, and an exemption from Korean withholding tax on capital gains are available to residents of the United States that are beneficial owners of the relevant dividend income or capital gains. However, under Article 17 (Investment or Holding Companies) of the Korea-U.S. income tax treaty, such reduced rates and exemption do not apply if (1) you are a U.S. corporation, (2) by reason of any special measures, the tax imposed on you by the United States with respect to such dividends or capital gains is substantially less than the tax generally imposed by the United States on corporate profits, and (3) 25% or more of your capital is held of record or is otherwise determined, after consultation between competent authorities of the United States and Korea, to be owned directly or indirectly by one or more persons who are not individual residents of the United States. Also, under Article 16 (Capital Gains) of the Korea-U.S. income tax treaty, the exemption on capital gains does not apply if you are an individual, and (a) you maintain a fixed base in Korea for a period or periods aggregating 183 days or more during the taxable year and your ADSs or shares of common stock giving rise to capital gains are effectively connected with such fixed base or (b) you are present in Korea for a period or periods of 183 days or more during the taxable year. You should inquire for yourself whether you are entitled to the benefit of an income tax treaty with Korea. It is the responsibility of the party claiming the benefits of an income tax treaty in respect of dividend payments or capital gains to submit to us, the purchaser or the financial investment company, as applicable, a certificate as to his tax residence. In the absence of sufficient proof, we, the purchaser or the financial investment company, as applicable, must withhold tax at the normal rates.



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Furthermore, in order for you to claim the benefit of a tax rate reduction or tax exemption on certain Korean source income (e.g., dividends and capital gains) under an applicable tax treaty, subject to certain exceptions, Korean tax law requires you (or your agent) as the beneficial owner of such Korean source income to submit the relevant application (Application for Entitlement to Reduced Tax Rate or Application for Tax Exemption, as the case may be) along with a certificate of your tax residency issued by a competent authority of your country of tax residence ( BO Application ). Such application should be submitted to the withholding agent prior to the payment date of such Korean source income. Subject to certain exceptions, where the Korean source income is paid to an overseas investment vehicle that is not the beneficial owner of such income ( OIV ), a beneficial owner claiming the benefit of an applicable tax treaty with respect to the Korean source income must submit its BO application to such OIV, which must submit an OIV report and a schedule of beneficial owners to the withholding agent prior to the payment date of such Korean source income. In the case of an application for tax exemption, the withholding agent is required to submit the application (together with the applicable OIV report in the case of income paid to an OIV) to the relevant district tax office by the ninth day of the month following the date of the payment of such income.

***Inheritance Tax and Gift Tax***

If you die while holding an ADS or donate an ADS, it is unclear whether, for Korean inheritance and gift tax purposes, you will be treated as the owner of the shares of common stock underlying the ADSs. If the tax authority interprets depositary receipts as the underlying share certificates, you may be treated as the owner of the shares of common stock and your heir or the donee (or in certain circumstances, you as the donor) will be subject to Korean inheritance or gift tax presently at the rate of 10% to 50% based on the value of the ADSs or shares of common stock and the identity of the individual against whom the tax is assessed.

If you die while holding a share of common stock or donate a share of common stock, your heir or donee (or in certain circumstances, you as the donor) will be subject to Korean inheritance or gift tax at the same rate as indicated above.

At present, Korea has not entered into any tax treaty relating to inheritance or gift taxes.

***Securities Transaction Tax***

If you transfer shares of common stock on the Korea Exchange, you will be subject to securities transaction tax at the rate of 0.15% and an agriculture and fishery special surtax at the rate of 0.15% of the sale price of the shares of common stock. If your transfer of the shares of common stock is not made on the Korea Exchange, subject to certain exceptions, you will be subject to a securities transaction tax at the rate of 0.5% and will not be subject to an agriculture and fishery special surtax.

Depositary receipts, which the ADSs constitute, are included in the scope of securities the transfers of which are subject to securities transaction tax. However, transfer of depositary receipts listed on a foreign securities exchange similar to that of Korea (e.g., the New York Stock Exchange or the Nasdaq Stock Market) will not be subject to the securities transaction tax.

In principle, the securities transaction tax, if applicable, must be paid by the transferor of the shares or certain rights including rights to subscribe to each shares. When the transfer is effected through a securities settlement company, such settlement company is generally required to withhold and pay the tax to the tax authorities. When such transfer is made through a financial investment company only, such financial investment company is required to withhold and pay the tax. Where the transfer is effected by a non-resident without a permanent establishment in Korea, other than through a securities settlement company or a financial investment company, the transferee is required to withhold the securities transaction tax.

Non-reporting or under-reporting of securities transaction tax will generally result in penalties equal to 20% to 60% of the non-reported tax amount or 10% to 60% of the under-reported tax amount, respectively. Also, a failure to timely pay securities transaction tax will result in a penalty equal to 10.95% per annum of the due but unpaid tax amount. The penalties are imposed on the party responsible for paying the securities transaction tax or, if such tax is required to be withheld, on the party that has the obligation to withhold.

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**United States Taxation**

This summary describes certain material U.S. federal income tax consequences for a U.S. holder (as defined below) of acquiring, owning, and disposing of shares of common stock or ADSs. This summary applies to you only if you hold shares of common stock or ADSs as capital assets for tax purposes. This summary does not apply to you if you are a member of a class of holders subject to special rules, such as:

a dealer in securities or currencies;

a trader in securities that elects to use a mark-to-market method of accounting for securities holdings;

a bank or financial institution;

a life insurance company;

a tax-exempt organization;

an entity treated as a partnership (and partners therein) or other pass-through entity for U.S. federal income tax purposes;

a person that holds shares of common stock or ADSs that are a hedge or that are hedged against interest rate or currency risks;

a person that holds shares of common stock or ADSs as part of a straddle or conversion transaction for tax purposes;

a person whose functional currency for tax purposes is not the U.S. dollar; or

a person that owns or is deemed to own 10% or more of any class of our stock.

This summary is based on the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations promulgated thereunder, published rulings and court decisions, all as currently in effect. These laws are subject to change, possibly on a retroactive basis.

In addition, this summary does not discuss the application of the Medicare net investment income tax or the alternative minimum tax. Please consult your own tax advisers concerning the consequences of purchasing, owning, and disposing of shares of common stock or ADSs in your particular circumstances, including the possible application of state, local, non-U.S. or other tax laws.

For purposes of this summary, you are a U.S. holder if you are a beneficial owner of a share of common stock or an ADS and you are:

a citizen or resident of the United States;

a U.S. domestic corporation; or

otherwise subject to U.S. federal income tax on a net income basis with respect to income from the share of common stock or ADS.

In general, if you are the beneficial owner of ADSs, you will be treated as the beneficial owner of the common stock represented by those ADSs for U.S. federal income tax purposes, and no gain or loss will be recognized if you exchange an ADS for the common stock represented by that ADS.

### ***Dividends***

The gross amount of cash dividends that you receive (prior to deduction of Korean taxes) generally will be subject to U.S. federal income taxation as foreign source dividend income. Dividends paid in Korean Won will be included in your income in a U.S. dollar amount calculated by reference to the exchange rate in effect on the date that you receive the dividend (or the date of the depository's receipt of the dividend, in the case of ADSs), regardless of whether the payment is in fact converted into U.S. dollars. If such a dividend is converted into U.S. dollars on the date of receipt, you generally should not be required to recognize foreign currency gain or loss in respect of the dividend income.

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Subject to certain exceptions for short-term (60 days or less) and hedged positions, the U.S. dollar amount of qualified dividends received by an individual U.S. holder in respect of ADSs generally will be subject to taxation at a lower rate than other ordinary income. Dividends paid on the ADSs will be treated as qualified dividends if (i) the ADSs are readily tradable on an established securities market in the United States and (ii) we were not, in the year prior to the year in which the dividend was paid, and are not, in the year in which the dividend is paid, a passive foreign investment company (a PFIC). The ADSs are listed on the New York Stock Exchange and will qualify as readily tradable on an established securities market in the United States so long as they are so listed. Based on our audited financial statements and relevant market and shareholder data, we believe that we were not treated as a PFIC for U.S. federal income tax purposes with respect to our 2017 taxable year. In addition, based on our current expectations regarding the value and nature of our assets, the sources and nature of our income, and relevant market and shareholder data, we do not anticipate becoming a PFIC for our 2018 taxable year.

Distributions of additional shares in respect of shares of common stock or ADSs that are made as part of a pro-rata distribution to all of our shareholders generally will not be subject to U.S. federal income tax, unless you have the right to receive cash or property, in which case you will be treated as if you received cash equal to the fair market value of the distribution.

***Sale or Other Disposition***

For U.S. federal income tax purposes, gain or loss you realize on the sale or other disposition of shares of common stock or ADSs will be treated as U.S. source capital gain or loss, and will be long-term capital gain or loss if the shares of common stock or ADSs were held for more than one year. Your ability to offset capital losses against ordinary income is limited. Long-term capital gain recognized by an individual U.S. holder generally is subject to taxation at a reduced rate.

***Foreign Tax Credit Considerations***

You should consult your own tax advisers to determine whether you are subject to any special rules that limit your ability to make effective use of foreign tax credits, including the possible adverse impact of failing to take advantage of benefits under the income tax treaty between the United States and Korea. If no such rules apply, you may claim a credit against your U.S. federal income tax liability for Korean taxes withheld from cash dividends on the shares of common stock or ADSs, so long as you have owned the shares of common stock or ADSs (and not entered into specified kinds of hedging transactions) for at least a 16-day period that includes the ex-dividend date. Instead of claiming a credit, you may, at your election, deduct such Korean taxes in computing your taxable income, subject to generally applicable limitations under U.S. tax law. Foreign tax credits will not be allowed for withholding taxes imposed in respect of certain short-term or hedged positions in securities and may not be allowed in respect of arrangements in which a U.S. holder's expected economic profit is insubstantial.

Any Korean securities transaction tax or agriculture and fishery special surtax that you pay will not be creditable for foreign tax credit purposes.

The calculation of foreign tax credits and, in the case of a U.S. holder that elects to deduct foreign taxes, the availability of deductions involve the application of complex rules that depend on a U.S. holder's particular circumstances. You should consult your own tax advisers regarding the creditability or deductibility of such taxes.

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***Specified Foreign Financial Assets***

Certain U.S. holders that own specified foreign financial assets with an aggregate value in excess of US\$50,000 are generally required to file an information statement along with their tax returns, currently on Form 8938, with respect to such assets. Specified foreign financial assets include any financial accounts held at a non-U.S. financial institution, as well as securities issued by a non-U.S. issuer (which would include shares of common stock or ADSs) that are not held in accounts maintained by financial institutions. Higher reporting thresholds apply to certain individuals living abroad and to certain married individuals. Regulations extend this reporting requirement to certain entities that are treated as formed or availed of to hold direct or indirect interests in specified foreign financial assets based on certain objective criteria. U.S. holders who fail to report the required information could be subject to substantial penalties. Prospective investors should consult their own tax advisors concerning the application of these rules to their investment in shares of common stock or ADSs, including the application of the rules to their particular circumstances.

***U.S. Information Reporting and Backup Withholding Rules***

Payments of dividends and sales proceeds that are made within the United States or through certain U.S. related financial intermediaries are subject to information reporting and may be subject to backup withholding unless the holder (i) is a corporation or other exempt recipient or (ii) provides a taxpayer identification number and certifies that no loss of exemption from backup withholding has occurred.

Holders that are not U.S. persons generally are not subject to information reporting or backup withholding. However, such a holder may be required to provide a certification of its non-U.S. status in connection with payments received within the United States or through a U.S. related financial intermediary.

***Item 10.F. Dividends and Paying Agents***

Not applicable.

***Item 10.G. Statements by Experts***

Not applicable.

***Item 10.H. Documents on Display***

We are subject to the information requirements of the Exchange Act and, in accordance therewith, are required to file reports, including annual reports on Form 20-F, and other information with the SEC. These materials, including this annual report and the exhibits thereto, may be inspected and copied at the SEC's public reference rooms in Washington, D.C., New York, New York and Chicago, Illinois. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms. As a foreign private issuer, we are also required to make filings with the SEC by electronic means. Any filings we make electronically will be available to the public over the Internet at the SEC's web site at <http://www.sec.gov>.



**Item 10.I. *Subsidiary Information***

Not applicable.

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Market risk is the risk of loss related to adverse changes in market prices, including interest rates and foreign exchange rates, of financial instruments. We are exposed to various financial market risks in our ordinary course of business transactions, primarily from changes in interest rates and foreign exchange rates, and we utilize financial derivatives to mitigate these risks. We also used various derivative instruments, principally forward contracts with maturities of one year or less, to manage our exposure associated with net asset and liability positions and cash flows denominated in foreign currencies. We have used, and intend to continue to use, these financial derivatives only for hedging purposes and not for speculative purposes.

Our primary market risk exposures relate to interest rate movements on floating rate borrowings and exchange rate movements on foreign currency denominated accounts receivable, as well as foreign currency denominated future cash flows from sales, mostly denominated in U.S. dollars and foreign currency denominated accounts payable for purchases of raw materials and supplies, primarily denominated in U.S. dollars and Japanese Yen. The fair value of our financial instruments has been determined as the price, as of the applicable measurement date, that we would receive when selling an asset or that we would pay when transferring a liability, in an orderly transaction between market participants. Fair value is based on quoted market prices where available.

For a further discussion of our market risk and fair value of our financial assets and liabilities, see Note 26 of the notes to our financial statements.

***Interest Rate Risks***

Our exposure to interest rate risks relates primarily to our long-term debt obligations, which are typically incurred to fund capital expenditures and repay maturing debt, as well as for working capital and other general corporate purposes. As of December 31, 2017, we had outstanding long-term debt, including current portion, in the amount of ₩5,603 billion (US\$5,249 million).

From time to time, we may enter into interest rate swap contracts to hedge against the effects of interest rate fluctuations of certain of our floating rate long-term debt. As of December 31, 2017, ₩350 billion (US\$328 million) of our Korean Won denominated floating rate long-term borrowings were hedged against interest rate fluctuations using variable-to-fixed interest rate swap contracts that expire in 2018 and 2019. In connection with such contracts, we recognized a gain on valuation of derivatives of ₩1,070 million (US\$1,002 thousand) in 2017. The table below provides information about our interest rate swap contracts. The table presents notional amounts used to calculate the contractual payments to be exchanged under such contracts.

|                                      | Expected Maturity Dates                                    |         |      |      |      |            | Total   | Fair Value<br>at<br>December 31,<br>2017 |
|--------------------------------------|--|---------|------|------|------|------------|---------|--|
|                                      | 2018   | 2019    | 2020 | 2021 | 2022 | Thereafter |         |  |
|                                      | (in billions of Won, except for interest rate percentages) |         |      |      |      |            |         |  |
| Interest rate swaps                  |  |         |      |      |      |            |         |  |
| Variable to fixed (₩) <sup>(1)</sup> | ₩ 200.0  | ₩ 150.0 |      |      |      |            | ₩ 350.0 | ₩ 350.0                                  |
| Average pay rate                     | 1.6%   | 1.4%    |      |      |      |            |         |  |
| Average receive rate                 | 1.8%   | 2.1%    |      |      |      |            |         |  |

(1) Average pay rates and average receive rates are applicable to the total notional amounts outstanding until maturity. We may be exposed to interest rate risks on additional debt financing that we may periodically undertake to fund capital expenditures required for our capacity expansion. Upward fluctuations in interest rates increase the cost of new debt. The interest rate that we will be able to obtain in a new debt financing will depend on market conditions at that time and may differ from the rates we have secured on our current debt.

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As of December 31, 2017, we had US\$1,500 million aggregate principal amount of U.S. dollar denominated long-term loans and RMB3,263 million aggregate principal amount of RMB denominated long-term loans. The interest rates on these loans are set based on three-month U.S. dollar LIBOR plus 0.55% to 2.00% and 90% of the rate published by the People's Bank of China, as applicable. The table below provides information about our financial instruments that are sensitive to changes in interest rates. The risk associated with fluctuating interest expense is principally limited to our U.S. dollar denominated and RMB denominated term loans, and we do not believe that a near-term 10% change of the effective interest rate would have a significant impact on our cash flows. We currently do not have any capital lease obligations.

|                            | Expected Maturity Dates                                    |         |           |         |         |            | Total     | Fair Value at December 31, 2017 |
|----------------------------|--|---------|-----------|---------|---------|------------|-----------|---------------------------------|
|                            | 2018   | 2019    | 2020      | 2021    | 2022    | Thereafter |           |                                 |
|                            | (in billions of Won, except for interest rate percentages) |         |           |         |         |            |           |                                 |
| Long-term debt obligations |  |         |           |         |         |            |           |                                 |
| Fixed rate (₩)             | ₩ 505.7  | ₩ 760.7 | ₩ 1,048.0 | ₩ 337.6 | ₩ 277.5 | ₩ 37.5     | ₩ 2,966.9 | ₩ 2,973.2                       |
| Average interest rate      | 2.77%  | 2.40%   | 2.43%     | 2.06%   | 2.61%   | 2.58%      |           |                                 |
| Variable rate (₩)          | ₩ 200.0  | ₩ 300.0 |           |         |         |            | ₩ 500.0   | ₩ 500.0                         |
| Average interest rate      | 1.72%  | 2.24%   |           |         |         |            |           |                                 |
| Variable rate (RMB)        | ₩ 321.5  | ₩ 212.4 |           |         |         |            | ₩ 534.0   | ₩ 534.0                         |
| Average interest rate      | 4.28%  | 4.28%   |           |         |         |            |           |                                 |
| Variable rate (US\$)       | ₩ 426.0  | ₩ 605.7 | ₩ 150.8   | ₩ 161.5 | ₩ 107.1 | ₩ 155.4    | ₩ 1,606.5 | ₩ 1,606.5                       |
| Average interest rate      | 2.38%  | 2.78%   | 2.38%     | 2.33%   | 2.25%   | 2.25       |           |                                 |

For a further discussion of our interest rate risk exposures, including a further sensitivity analysis on our interest rate risk exposures, see Notes 11 and 26 of the notes to our financial statements.

**Foreign Currency Risk**

The primary foreign currency to which we are exposed is the U.S. dollar. We are also exposed, to a lesser extent, to other foreign currencies, including the Chinese Renminbi, the Japanese Yen and the Euro. As of December 31, 2017, we had U.S. dollar denominated sales-related trade accounts and notes receivable of US\$3,316 million, which represented 82.1% of our trade accounts and notes receivable, and U.S. dollar denominated sales-related trade accounts payable of US\$1,345 million, which represented 49.9% of our trade accounts payable.

As of December 31, 2017, we also had RMB denominated sales-related trade accounts and notes receivable of RMB1,453 million, which represented 5.5% of our trade accounts and notes receivable, net, and Japanese Yen denominated sales-related trade accounts and notes receivable of ¥11 million. In addition, we had RMB denominated sales-related trade accounts payable of RMB2,843 million and Japanese Yen denominated sales-related trade accounts

payable of ¥14,898 million, which represented 16.8% and 5.2% of our trade accounts and notes payable, net, respectively.

In addition to relying on natural hedges created by foreign currency payables and receivables, we enter into short-term foreign currency forward contracts with major financial institutions to minimize the impact of foreign currency fluctuations on our results of operations. Gains and losses on foreign currency forward contracts are recorded in the period of the exchange rate changes as foreign exchange gain or loss or other comprehensive income. As of December 31, 2017, we did not have any outstanding foreign currency forward contracts.

Based on our overall foreign currency exposure as of December 31, 2017, a short-term 10% appreciation or depreciation of the U.S. dollar against the Korean Won may have a material effect on our short-term financial condition, results of operations or cash flows.

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For a further discussion of our foreign currency risk exposures, including a sensitivity analysis on our currency risk exposures, see Note 26 of the notes to our financial statements.

**Other Risks**

We are exposed to credit risk in the event of non-performance by the counterparties under our foreign currency forward contracts at maturity. In order to minimize this risk, we limit the transaction amount with any one party and continually monitor the credit quality of the counterparties to these financial instruments. We do not anticipate any material losses from these contracts, and we believe the risk of non-performance by the counterparties under these contracts is remote.

A substantial portion of our sales is attributable to a limited number of our end-brand customers. Our top ten end-brand customers, including our largest shareholder as an end-brand customer, together accounted for approximately 82% of our sales in each of 2015 and 2016 and 81% in 2017. While we negotiate directly with our end-brand customers concerning the price and quantity of the sales, for some sales transactions we invoice the end-brand customers' designated system integrators. In addition, a portion of our sales to end-brand customers and their system integrators located in certain regions are sold through LG International's overseas subsidiaries. Although our sales to LG International and its subsidiaries only accounted for 2.6% of our sales in 2017, in the past we have sold a significantly greater amount to these entities. As a result of our significant dependence on a concentrated group of end-brand customers and their designated system integrators, as well a significant amount of sales we may make to our affiliated trading company, LG International, and its subsidiaries, we are exposed to credit risks associated with these entities. We have established certain measures, such as factoring arrangements and requirement of credit insurance from customers, to protect us from excessive exposure to such credit risks.

Our credit policy typically requires payment within 30 to 90 days, and payments on the vast majority of our sales have typically been collected within 60 days. We manage our accounts receivable and credit exposure to customers by establishing credit limits for each customer to whom we supply products on an open account basis in accordance with our internal credit guidelines. We assess credit risk through quantitative and qualitative analysis, and based on this analysis, we establish credit limits and determine whether we will seek to use one or more credit support devices, such as obtaining some form of third-party guaranty or stand-by letter of credit, obtaining credit insurance or through factoring of all or part of accounts receivables. Our credit policy does not require credit limits on accounts receivable created on letters of credit. To date we have not experienced any material problems relating to customer payments. For a further discussion of our credit risk exposures, see Note 26 of the notes to our financial statements.

According to the Korean Statistical Information Service, the rate of inflation in Korea was 0.7% in 2015, 1.0% in 2016 and 1.9% in 2017. Inflation has not had a material impact on our results of operations in recent years.

**Item 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES****Fees and Charges**

Under the terms of the deposit agreement, as a holder of our ADSs, you are required to pay the following service fees to the depository:

**Services****Fees**

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|   |                                 |
|---|---------------------------------|
| Issuance of ADSs  | Up to US\$0.05 per ADS issued   |
| Cancellation of ADSs  | Up to US\$0.05 per ADS canceled |
| Distribution of cash dividends or other cash distributions  | Up to US\$0.02 per ADS held     |
| Distribution of ADSs pursuant to (i) stock dividends or other free stock distributions or (ii) exercise of rights to purchase additional ADSs | Up to US\$0.02 per ADS held     |
| Distribution of securities other than ADSs or rights to purchase additional ADSs  | Up to US\$0.05 per ADS held     |
| Other ADS services  | Up to US\$0.02 per ADS held     |

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As a holder of our ADSs, you are also responsible for paying certain fees and expenses incurred by the depositary and certain taxes and governmental charges such as the following:

Fees for the transfer and registration of shares charged by the registrar and transfer agent for the shares in Korea (i.e., upon deposit and withdrawal of shares).

Expenses incurred for converting foreign currency into U.S. dollars.

Expenses for cable, telex and fax transmissions and for delivery of securities.

Taxes and duties upon the transfer of securities (i.e., when shares are deposited or withdrawn from deposit).

Fees and expenses incurred in connection with the delivery or servicing of shares on deposit. Depositary fees payable upon the issuance and cancellation of ADSs are typically paid to the depositary by the brokers (on behalf of their clients) receiving the newly issued ADSs from the depositary and by the brokers (on behalf of their clients) delivering the ADSs to the depositary for cancellation. The brokers in turn charge these fees to their clients. Depositary fees payable in connection with distributions of cash or securities to ADS holders and the depositary services fee are charged by the depositary to the holders of record of ADSs as of the applicable ADS record date.

The depositary fees payable for cash distributions are deducted from the cash being distributed. In the case of distributions other than cash (i.e., stock dividend, rights), the depositary charges the applicable fee to the ADS record date holders concurrent with the distribution. In the case of ADSs registered in the name of the investor (whether certificated or uncertificated in direct registration), the depositary sends invoices to the applicable record date ADS holders. In the case of ADSs held in brokerage and custodian accounts (via the Depositary Trust Company, or DTC), the depositary collects its fees through the systems provided by DTC (whose nominee is the registered holder of the ADSs held in DTC) from the brokers and custodians holding ADSs in their DTC accounts. The brokers and custodians who hold their clients' ADSs in DTC accounts in turn charge their clients' accounts the amount of the fees paid to the depositary.

In the event of refusal to pay the depositary fees, the depositary may, under the terms of the deposit agreement, refuse the requested service until payment is received or may set off the amount of the depositary fees from any distribution to be made to such holder of ADSs.

Note that the fees and charges you may be required to pay may vary over time and may be changed by us and by the depositary. You will receive prior notice of such changes.

**Fees and Payments from the Depositary to Us**

In 2017, we received the following payments, after deduction of applicable U.S. taxes, from the depositary:



|  |                 |
|--|-----------------|
| Reimbursement of proxy process expenses (printing, postage and distribution)   | US\$ 118,155.83 |
| Contributions towards our investor relations efforts (i.e. non-deal roadshows, investor conferences and IR agency fees) and legal expenses incurred in connection with the preparation of our Form 20-F for the fiscal year 2016 | US\$ 659,636.19 |

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**PART II**

**Item 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES**

Not applicable.

**Item 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS**

Not applicable.

**Item 15. CONTROLS AND PROCEDURES**

**Disclosure Controls and Procedures**

Our management has evaluated, with the participation of our chief executive officer and chief financial officer, the effectiveness of our disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as of December 31, 2017. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon our evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were effective as of such date. Our disclosure controls and procedures are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms, and that it is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

**Management's Annual Report on Internal Control Over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) under the Exchange Act. Because of its inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that a misstatement of our financial statements would be prevented or detected. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2017. The effectiveness of our internal control over financial reporting as of December 31, 2017 has been audited by our independent registered public accounting firm, as stated in its attestation report which is included in Item 18 of this Form 20-F.

**Changes in Internal Control Over Financial Reporting**

There has been no change in our internal control over financial reporting during 2017 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**Item 16. [RESERVED]**

**Item 16A. AUDIT COMMITTEE FINANCIAL EXPERT**

Our board of directors has determined that Sung Sik Hwang qualifies as an audit committee financial expert and is independent within the meaning of this Item 16A.

**Item 16B. CODE OF ETHICS**

We have adopted a code of ethics, as defined in Item 16B of Form 20-F under the Exchange Act. Our Code of Ethics applies to our chief executive officer, chief financial officer and persons performing similar functions as well as to our non-executive directors and other officers and employees. Our Code of Ethics is available on our website at [www.lgdisplay.com](http://www.lgdisplay.com). If we amend the provisions of our Code of Ethics that apply to our chief executive officer and chief financial officer and persons performing similar functions, or if we grant any waiver of such provisions, we will disclose such amendment or waiver on our website at the same address.

**Table of Contents****Item 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The following table sets forth the fees billed to us by our independent registered public accounting firm, KPMG Samjong Accounting Corp., a member firm of KPMG International, and their respective affiliates, which we collectively refer to as KPMG, during the fiscal years ended December 31, 2016 and 2017:

|                | <b>Year ended December 31,</b> |             |
|----------------|--------------------------------|-------------|
|                | <b>2016</b>                    | <b>2017</b> |
|                | <b>(in millions of Won)</b>    |             |
| Audit fees     | ₩ 3,733                        | ₩ 3,064     |
| Tax fees       | 103                            | 98          |
| All other fees | 21                             | 31          |
| Total fees     | ₩ 3,857                        | ₩ 3,193     |

Audit fees in the above table are the fees billed by KPMG in connection with the audit of our annual financial statements and the review of our interim financial statements.

Tax fees in the above table are fees billed by KPMG for tax compliance services and other tax advice.

All other fees for 2016 in the above table are the aggregate fees billed by KPMG for services related to our professional curriculum training for certain of our employees. All other fees for 2017 in the above table are the aggregate fees billed by KPMG for services related to information security trends of global enterprises and the utilization of such trend information for benchmarking purposes.

**Audit Committee Pre-Approval Policies and Procedures**

Our audit committee has not established pre-approval policies and procedures for the engagement of our independent auditors for services. Our audit committee expressly approves on a case-by-case basis any engagement of our independent auditors for audit and non-audit services provided to our subsidiaries or to us.

The audit committee is permitted to approve certain fees for audit and non-audit services before the completion of the engagement that are recurring, in the ordinary course of business and otherwise comply with the *de minimis* exception to the applicable rules of the SEC. In 2017, no fees were approved pursuant to the *de minimis* exception.

**Item 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES**

Not applicable.

**Item 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS**

Neither we nor any affiliated purchaser, as defined in Rule 10b-18(a)(3) of the Exchange Act, purchased any of our equity securities during the period covered by this annual report.

**Item 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT**

Not applicable.

**Item 16G. CORPORATE GOVERNANCE**

The following is a summary of the significant differences between the New York Stock Exchange's corporate governance standards and those that we follow under Korean law.

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**NYSE Corporate Governance Standards  
Director Independence**

Listed companies must have a majority of independent directors.

**Nomination/Corporate Governance Committee**

Listed companies must have a nomination/corporate governance committee composed entirely of independent directors. The committee must have a charter that addresses the purpose, responsibilities (including development of corporate governance guidelines) and annual performance evaluation of the committee.

**Compensation Committee**

Listed companies must have a compensation committee composed entirely of independent directors. The committee must have a charter that addresses the purpose, responsibilities and annual performance evaluation of the committee. The charter must be made available on the company's website. In addition, in accordance with the U.S. Securities and Exchange Commission rules adopted pursuant to Section 952 of the Dodd-Frank Act, the New York Stock Exchange listing standards were amended to expand the factors relevant in determining whether a committee member has a relationship with the company that will materially affect that member's duties to the compensation committee.

**Executive Session**

Non-management directors of listed companies must meet in regularly scheduled executive sessions without management. Independent directors should meet alone in an executive session at least once a year.

**Audit Committee**

Listed companies must have an audit committee that satisfies the requirements of Rule 10A-3 under the Exchange Act. All members must be independent. The committee must have a charter addressing the committee's purpose, an annual performance evaluation of the committee, and the duties and responsibilities of the committee. The charter must be made available on the company's website.

**Audit Committee Additional Requirements**

**LG Display's Corporate Governance Practice**

The majority of our board of directors is independent (as defined in accordance with the New York Stock Exchange's standards), as four out of seven directors are outside directors.

Although we have not established a separate nomination/corporate governance committee, we maintain an Outside Director Nomination Committee composed of two outside directors and one non-outside director.

Under Korean law, we are not required to establish a compensation committee. Accordingly, we do not currently have a compensation committee, and our board of directors is directly responsible for matters relating to salaries and incentive compensation for our directors and executive officers.

We do not normally hold executive sessions solely attended by non-management directors as that is not required under Korean law but we may elect to do so at the discretion of the directors.

We maintain an Audit Committee composed of three outside directors who meet the applicable independence criteria set forth under Rule 10A-3 of the Exchange Act.

Listed companies must have an audit committee that is composed of at least three directors.

Our Audit Committee has three directors, as described above.

**Shareholder Approval of Equity Compensation Plan**

Listed companies must allow its shareholders to exercise their voting rights with respect to any material revision to the company's equity compensation plan.

We currently have two equity compensation plans: one providing for the grant of stock options to officers and key employees and an Employee Stock Ownership Plan, or ESOP.

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Stock options to officers and key employees may be granted pursuant to a resolution of the shareholders in an amount not to exceed 15% of the total number of our issued and outstanding shares. However, the board of directors may grant stock options to non-director officers and employees up to 1% of the total number of our issued and outstanding shares, which grant must be approved by a resolution of the subsequent general meeting of shareholders.

All material matters related to the granting of stock options are provided in our articles of incorporation, and any amendments to the articles of incorporation are subject to shareholders' approval. Matters related to the ESOP are not subject to shareholders' approval under Korean law.

**Corporate Governance Guidelines**

Listed companies must adopt and disclose corporate governance guidelines.

We do not maintain formal corporate governance guidelines. Our board of directors is responsible for overseeing our policies, practices and procedures in the area of corporate governance.

**Code of Business Conduct and Ethics**

Listed companies must adopt and disclose a code of business conduct and ethics for directors, officers and employees, and promptly disclose any waivers of the code for directors or executive officers.

We have adopted a Code of Ethics for all directors, officers and employees. A copy of our Code of Ethics is available on our website at [www.lgdisplay.com](http://www.lgdisplay.com).

**Item 16H. MINE SAFETY DISCLOSURE**

Not applicable.



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**PART III**

**Item 17. FINANCIAL STATEMENTS**

Not applicable.

**Item 18. FINANCIAL STATEMENTS**

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| <b>Number</b> | <b>Description</b>  |
|---------------|---|
| 1.1*          | <u>Amended and Restated Articles of Incorporation (translation in English) (incorporated by reference to Exhibit 1.1 to the Registrant's Annual Report (No. 001-32238) on Form 20-F, filed on April 26, 2013)</u>   |
| 2.1*          | <u>Form of Common Stock Certificate (translation in English) (incorporated by reference to Exhibit 4.1 to the Registrant's Registration Statement (No. 333-116819) on Form F-1, filed on July 13, 2004)</u>   |
| 2.2*          | <u>Deposit Agreement (including Form of American Depositary Receipt) (incorporated by reference to Exhibit (a) to the Registrant's Registration Statement (No. 333-147661) on Form F-6, filed on November 28, 2007)</u>   |
| 2.3*          | <u>Form of Amendment No. 1 to Deposit Agreement (including Form of American Depositary Receipt) (incorporated by reference to Exhibit (a)(i) to the Registration Statement (No. 333-147661) on Post Effective Amendment No. 1 to Form F-6, filed on July 30, 2014)</u>  |
| 2.4*          | <u>Letter from Citibank, N.A., as depository, dated as of November 29, 2007, to the Registrant relating to the direct registration system for the American depository receipts (incorporated by reference to Exhibit 2.3 to the Registrant's Annual Report (No. 001-32238) on Form 20-F, filed on April 16, 2008)</u> |
| 8.1**         | <u>List of subsidiaries of LG Display Co., Ltd.</u>   |
| 12.1          | <u>Section 302 certification of the Chief Executive Officer</u>   |
| 12.2          | <u>Section 302 certification of the Chief Financial Officer</u>   |
| 13.1          | <u>Section 906 certification of the Chief Executive Officer</u>   |
| 13.2          | <u>Section 906 certification of the Chief Financial Officer</u>   |

\* Filed previously.

\*\* Incorporated by reference to Note 1 of the notes to the consolidated financial statements of LG Display Co., Ltd. included in this annual report.

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**SIGNATURES**

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

**LG DISPLAY CO., LTD.**

(Registrant)

/s/ SANG BEOM HAN  
(Signature)

Name: Sang Beom Han  
Title: Representative Director, Vice  
Chairman and

Chief Executive Officer

/s/ SANG DON KIM  
(Signature)

Name: Sang Don Kim  
Title: Director, Executive Vice President and  
Chief Financial Officer

Date: April 27, 2018

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**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Shareholders

LG Display Co., Ltd.:

**Opinions on the Consolidated Financial Statements and Internal Control Over Financial Reporting**

We have audited the accompanying consolidated statements of financial position of LG Display Co., Ltd. and subsidiaries ( the Group ) as of December 31, 2016 and 2017, and the related consolidated statements of comprehensive income, changes in equity and cash flows for each of the years in the three-year period ended December 31, 2017, and the related notes (collectively, the consolidated financial statements ). We also have audited the Group s internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Group as of December 31, 2016 and 2017, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2017, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board. Also in our opinion, the Group maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

**Basis for Opinion**

The Group s management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Group s consolidated financial statements and an opinion on the Group s internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ( PCAOB ) and are required to be independent with respect to the Group in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide

a reasonable basis for our opinions.

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**Definition and Limitations of Internal Control Over Financial Reporting**

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ KPMG Samjong Accounting Corp.

We have served as the Group's auditor since 2008.

Seoul, Korea

April 26, 2018

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## LG DISPLAY CO., LTD. AND SUBSIDIARIES

**Consolidated Statements of Financial Position**

As of December 31, 2016 and 2017

| <i>(In millions of won)</i>               | Note         | December 31, 2016 | December 31, 2017 |
|---|--------------|-------------------|-------------------|
| <b>Assets</b>                             |              |                   |                   |
| Cash and cash equivalents                 | 4, 26        | ₩ 1,558,696       | 2,602,560         |
| Deposits in banks                         | 4, 26        | 1,163,750         | 758,078           |
| Trade accounts and notes receivable, net  | 5, 15, 26 28 | 4,957,993         | 4,325,120         |
| Other accounts receivable, net            | 5, 26        | 143,592           | 164,827           |
| Other current financial assets            | 6, 26        | 28,016            | 27,252            |
| Inventories                               | 7            | 2,287,785         | 2,350,084         |
| Prepaid income taxes                      |              | 592               | 3,854             |
| Other current assets                      | 5            | 343,762           | 241,928           |
| <b>Total current assets</b>               |              | 10,484,186        | 10,473,703        |
| Deposits in banks                         | 4, 26        | 13                | 11                |
| Investments in equity accounted investees | 8            | 172,683           | 122,507           |
| Other non-current financial assets        | 6, 26        | 74,633            | 68,574            |
| Property, plant and equipment, net        | 9            | 12,031,449        | 16,201,960        |
| Intangible assets, net                    | 10           | 894,937           | 912,821           |
| Deferred tax assets                       | 24           | 867,011           | 985,352           |
| Other non-current assets                  | 5            | 359,424           | 394,759           |
| <b>Total non-current assets</b>           |              | 14,400,150        | 18,685,984        |
| <b>Total assets</b>                       |              | ₩ 24,884,336      | 29,159,687        |



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## LG DISPLAY CO., LTD. AND SUBSIDIARIES

**Consolidated Statements of Financial Position, Continued**

As of December 31, 2016 and 2017

| <i>(In millions of won)</i>   | Note   | December 31, 2016 | December 31, 2017 |
|---|--------|-------------------|-------------------|
| <b>Liabilities</b>  |        |                   |                   |
| Trade accounts and notes payable  | 26, 28 | ₩ 2,877,326       | 2,875,090         |
| Current financial liabilities   | 11, 26 | 667,909           | 1,452,926         |
| Other accounts payable  | 26     | 2,449,517         | 3,169,937         |
| Accrued expenses  |        | 639,629           | 812,615           |
| Income tax payable  |        | 257,082           | 321,978           |
| Provisions  | 13     | 55,972            | 76,016            |
| Advances received   | 15     | 61,818            | 194,129           |
| Other current liabilities   | 14     | 48,966            | 75,991            |
| <b>Total current liabilities</b>  |        | 7,058,219         | 8,978,682         |
| Non-current financial liabilities   | 11, 26 | ₩ 4,111,333       | 4,150,192         |
| Non-current provisions  | 13     | 8,155             | 28,312            |
| Defined benefit liabilities, net  | 12     | 142,987           | 95,447            |
| Long-term advances received   | 15     |                   | 830,335           |
| Deferred tax liabilities  | 24     | 32,108            | 24,646            |
| Other non-current liabilities   | 14     | 69,146            | 70,563            |
| <b>Total non-current liabilities</b>  |        | 4,363,729         | 5,199,495         |
| <b>Total liabilities</b>  |        | 11,421,948        | 14,178,177        |
| <b>Equity</b>   |        |                   |                   |
| Share capital   | 16     | 1,789,079         | 1,789,079         |
| Share premium   |        | 2,251,113         | 2,251,113         |
| Retained earnings   |        | 9,004,283         | 10,621,571        |
| Reserves  | 16     | (88,478)          | (288,280)         |
| <b>Total equity attributable to equity holders of the Controlling Company</b> |        | 12,955,997        | 14,373,483        |
| <b>Non-controlling interests</b>  |        | 506,391           | 608,027           |
| <b>Total equity</b>   |        | 13,462,388        | 14,981,510        |
| <b>Total liabilities and equity</b>   |        | ₩ 24,884,336      | 29,159,687        |

See accompanying notes to the consolidated financial statements.



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## LG DISPLAY CO., LTD. AND SUBSIDIARIES

**Consolidated Statements of Comprehensive Income**

For the years ended December 31, 2015, 2016 and 2017

| <i>(In millions of won, except earnings per share)</i>               | <b>Note</b> | <b>2015</b>      | <b>2016</b>      | <b>2017</b>      |
|--|-------------|------------------|------------------|------------------|
| Revenue  | 17, 28      | ₩ 28,383,884     | 26,504,074       | 27,790,216       |
| Cost of sales  | 7, 18, 28   | (24,069,572)     | (22,754,270)     | (22,424,661)     |
| <b>Gross profit</b>  |             | <b>4,314,312</b> | <b>3,749,804</b> | <b>5,365,555</b> |
| Selling expenses   | 19          | (878,368)        | (694,914)        | (994,483)        |
| Administrative expenses  | 19          | (592,517)        | (610,479)        | (696,022)        |
| Research and development expenses                                    |             | (1,217,929)      | (1,133,972)      | (1,213,432)      |
| Other income   | 21          | 1,273,901        | 1,591,801        | 1,081,746        |
| Other expenses   | 21          | (1,326,782)      | (1,467,831)      | (1,230,455)      |
| Finance income   | 22          | 158,829          | 139,671          | 279,019          |
| Finance costs  | 22          | (316,229)        | (266,186)        | (268,856)        |
| Equity in income of equity accounted investees, net                  | 8           | 18,765           | 8,339            | 9,560            |
| <b>Profit before income tax</b>                                      |             | <b>1,433,982</b> | <b>1,316,233</b> | <b>2,332,632</b> |
| Income tax expense   | 23          | (410,526)        | (384,725)        | (395,580)        |
| <b>Profit for the year</b>   |             | <b>1,023,456</b> | <b>931,508</b>   | <b>1,937,052</b> |
| <b>Other comprehensive income (loss)</b>                             |             |                  |                  |                  |
| <b>Items that will never be reclassified to profit or loss</b>       |             |                  |                  |                  |
| Remeasurements of net defined benefit liabilities                    | 12, 23      | (110,257)        | 155,346          | (16,260)         |
| Other comprehensive income (loss) from associates and joint ventures |             | (607)            | 200              | 441              |
| Related income tax   | 12, 23      | 26,682           | (37,594)         | 9,259            |
|  |             | (84,182)         | 117,952          | (6,560)          |
| <b>Items that are or may be reclassified to profit or loss</b>       |             |                  |                  |                  |
| Net change in fair value of available-for-sale financial assets      | 22, 23      | (288)            | (77)             |                  |
| Foreign currency translation differences for foreign operations      | 22, 23      | 44,913           | (90,503)         | (231,738)        |
| Other comprehensive income (loss) from associates and joint ventures | 23          | 19,176           | (5,416)          | 905              |
| Related income tax   | 23          | 214              | 19               |                  |
|  |             | 64,015           | (95,977)         | (230,833)        |
|  |             | (20,167)         | 21,975           | (237,393)        |

**Other comprehensive income (loss) for the year,  
net of income tax**

|  |          |                  |                |                  |
|--|----------|------------------|----------------|------------------|
| <b>Total comprehensive income for the year</b> | <b>₩</b> | <b>1,003,289</b> | <b>953,483</b> | <b>1,699,659</b> |
|--|----------|------------------|----------------|------------------|

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## LG DISPLAY CO., LTD. AND SUBSIDIARIES

**Consolidated Statements of Comprehensive Income, Continued**

For the years ended December 31, 2015, 2016 and 2017

| <i>(In millions of won, except earnings per share)</i> | Note | 2015               | 2016           | 2017             |
|--|------|--------------------|----------------|------------------|
| <b>Profit attributable to:</b>                         |      |                    |                |                  |
| Owners of the Controlling Company                      |      | 966,553            | 906,713        | 1,802,756        |
| Non-controlling interests                              |      | 56,903             | 24,795         | 134,296          |
| <b>Profit for the year</b>                             |      | <b>₩ 1,023,456</b> | <b>931,508</b> | <b>1,937,052</b> |
| <b>Total comprehensive income attributable to:</b>     |      |                    |                |                  |
| Owners of the Controlling Company                      |      | 940,448            | 941,953        | 1,596,394        |
| Non-controlling interests                              |      | 62,841             | 11,530         | 103,265          |
| <b>Total comprehensive income for the year</b>         |      | <b>₩ 1,003,289</b> | <b>953,483</b> | <b>1,699,659</b> |
| <b>Earnings per share (In won)</b>                     |      |                    |                |                  |
| Basic earnings per share                               | 25   | ₩ 2,701            | 2,534          | 5,038            |
| Diluted earnings per share                             | 25   | ₩ 2,701            | 2,534          | 5,038            |

*See accompanying notes to the consolidated financial statements.*

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## LG DISPLAY CO., LTD. AND SUBSIDIARIES

**Consolidated Statements of Changes in Equity**

For the years ended December 31, 2015, 2016 and 2017

| <i>(In millions of won)</i>                                     | Attributable to owners of the Controlling Company |               |                   |          |            | Non-controlling interests | Total equity |
|---|---|---------------|-------------------|----------|------------|---------------------------|--------------|
|   | Share capital                                     | Share premium | Retained earnings | Reserves | Sub-total  |                           |              |
| <b>Balances at January 1, 2015</b>                              | ₩ 1,789,079                                       | 2,251,113     | 7,455,063         | (63,843) | 11,431,412 | 351,998                   | 11,783,410   |
| <b>Total comprehensive income (loss) for the year</b>           |   |               |                   |          |            |                           |              |
| Profit for the year   |   |               | 966,553           |          | 966,553    | 56,903                    | 1,023,456    |
| Other comprehensive income (loss)                               |   |               | (84,182)          | 58,077   | (26,105)   | 5,938                     | (20,167)     |
|   | ₩   |               | 882,371           | 58,077   | 940,448    | 62,841                    | 1,003,289    |
| <b>Transaction with owners, recognized directly in equity</b>   |   |               |                   |          |            |                           |              |
| Dividends to equity holders                                     |   |               | (178,908)         |          | (178,908)  |                           | (178,908)    |
| Subsidiaries dividends distributed to non-controlling interests |   |               |                   |          |            | (5,743)                   | (5,743)      |
| Capital contribution from non-controlling interests             |   |               |                   |          |            | 102,908                   | 102,908      |
| <b>Balances at December 31, 2015</b>                            | ₩ 1,789,079                                       | 2,251,113     | 8,158,526         | (5,766)  | 12,192,952 | 512,004                   | 12,704,956   |
| <b>Balances at January 1, 2016</b>                              | ₩ 1,789,079                                       | 2,251,113     | 8,158,526         | (5,766)  | 12,192,952 | 512,004                   | 12,704,956   |
| <b>Total comprehensive income (loss) for the year</b>           |   |               |                   |          |            |                           |              |
| Profit for the year   |   |               | 906,713           |          | 906,713    | 24,795                    | 931,508      |
| Other comprehensive income (loss)                               |   |               | 117,952           | (82,712) | 35,240     | (13,265)                  | 21,975       |

|   |   |           |           |           |           |            |           |            |
|---|---|-----------|-----------|-----------|-----------|------------|-----------|------------|
|   | ₩ |           | 1,024,665 | (82,712)  | 941,953   | 11,530     | 953,483   |            |
| <b>Transaction with owners, recognized directly in equity</b> |   |           |           |           |           |            |           |            |
| Dividends to equity holders                                   |   |           | (178,908) |           | (178,908) |            | (178,908) |            |
| Capital contribution from non-controlling interests           |   |           |           |           |           | (17,143)   | (17,143)  |            |
| <b>Balances at December 31, 2016</b>                          |   |           |           |           |           |            |           |            |
|   | ₩ | 1,789,079 | 2,251,113 | 9,004,283 | (88,478)  | 12,955,997 | 506,391   | 13,462,388 |

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LG DISPLAY CO., LTD. AND SUBSIDIARIES

**Consolidated Statements of Changes in Equity, Continued**

For the years ended December 31, 2015, 2016 and 2017

| <i>(In millions of won)</i>                                     | Attributable to owners of the Controlling Company |               |                   |           |            | Non-controlling interests | Total equity |
|---|---|---------------|-------------------|-----------|------------|---------------------------|--------------|
|   | Share capital                                     | Share premium | Retained earnings | Reserves  | Sub-total  |                           |              |
| <b>Balances at January 1, 2017</b>                              | ₩ 1,789,079                                       | 2,251,113     | 9,004,283         | (88,478)  | 12,955,997 | 506,391                   | 13,462,388   |
| <b>Total comprehensive income (loss) for the year</b>           |   |               |                   |           |            |                           |              |
| Profit for the year   |   |               | 1,802,756         |           | 1,802,756  | 134,296                   | 1,937,052    |
| Other comprehensive income (loss)                               |   |               | (6,560)           | (199,802) | (206,362)  | (31,031)                  | (237,393)    |
|   | ₩   |               | 1,796,196         | (199,802) | 1,596,394  | 103,265                   | 1,699,659    |
| <b>Transaction with owners, recognized directly in equity</b>   |   |               |                   |           |            |                           |              |
| Dividends to equity holders                                     |   |               | (178,908)         |           | (178,908)  |                           | (178,908)    |
| Subsidiaries dividends distributed to non-controlling interests |   |               |                   |           |            | (5,929)                   | (5,929)      |
| Capital contribution from non-controlling interests             |   |               |                   |           |            | 4,300                     | 4,300        |
| <b>Balances at December 31, 2017</b>                            | ₩ 1,789,079                                       | 2,251,113     | 10,621,571        | (288,280) | 14,373,483 | 608,027                   | 14,981,510   |

*See accompanying notes to the consolidated financial statements.*



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## LG DISPLAY CO., LTD. AND SUBSIDIARIES

**Consolidated Statements of Cash Flows**

For the years ended December 31, 2015, 2016 and 2017

| <i>(In millions of won)</i>                                | Note  | 2015        | 2016      | 2017      |
|--|-------|-------------|-----------|-----------|
| <b>Cash flows from operating activities:</b>               |       |             |           |           |
| Profit for the year  |       | ₩ 1,023,456 | 931,508   | 1,937,052 |
| <b>Adjustments for:</b>                                    |       |             |           |           |
| Income tax expense   | 23    | 410,526     | 384,725   | 395,580   |
| Depreciation   | 9,18  | 2,969,394   | 2,643,445 | 2,791,883 |
| Amortization of intangible assets                          | 10,18 | 406,462     | 378,126   | 422,693   |
| Gain on foreign currency translation                       |       | (73,057)    | (250,508) | (187,558) |
| Loss on foreign currency translation                       |       | 80,084      | 161,897   | 174,919   |
| Expenses related to defined benefit plans                  | 12,20 | 199,033     | 220,962   | 198,241   |
| Gain on disposal of property, plant and equipment          |       | (18,179)    | (14,637)  | (101,227) |
| Loss on disposal of property, plant and equipment          |       | 4,037       | 7,466     | 20,030    |
| Impairment loss on property, plant and equipment           |       | 3,027       | 1,610     |           |
| Impairment loss on inventories                             |       | 363,755     | 204,123   | 206,127   |
| Bad debt expense (reversal)                                |       | 682         | (19)      | 144       |
| Gain on disposal of intangible assets                      |       |             |           | (308)     |
| Loss on disposal of intangible assets                      |       | 29          | 75        | 30        |
| Impairment loss on intangible assets                       |       | 239         | 138       | 1,809     |
| Reversal of impairment loss on intangible assets           |       | (80)        |           | (35)      |
| Warranty expenses  |       | 146,829     | 166,691   | 251,131   |
| Finance income   |       | (81,572)    | (58,748)  | (202,591) |
| Finance costs  |       | 222,699     | 187,931   | 142,591   |
| Equity in income of equity method accounted investees, net | 8     | (18,765)    | (8,339)   | (9,560)   |
| Other income   |       | (12,454)    | (15,546)  | (16,812)  |
| Other expenses   |       | 123,166     | 15,777    | 1,870     |
|  |       | 5,749,311   | 4,956,677 | 6,026,009 |

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## LG DISPLAY CO., LTD. AND SUBSIDIARIES

**Consolidated Statements of Cash Flows, Continued**

For the years ended December 31, 2015, 2016 and 2017

| <i>(In millions of won)</i>                      | Note | 2015               | 2016             | 2017             |
|--|------|--------------------|------------------|------------------|
| Trade accounts and notes receivable              |      | ₩ (1,061,400)      | (553,756)        | 484,448          |
| Other accounts receivable                        |      | 38,411             | 62,981           | (3,004)          |
| Inventories                                      |      | 41,107             | (98,435)         | (262,106)        |
| Other current assets                             |      | 87,130             | 126,616          | 180,844          |
| Other non-current assets                         |      | (78,859)           | (126,256)        | (119,002)        |
| Trade accounts and notes payable                 |      | (670,565)          | (114,977)        | 113,590          |
| Other accounts payable                           |      | (459,730)          | 66,930           | 106,930          |
| Accrued expenses                                 |      | (66,071)           | (16,431)         | 181,509          |
| Provisions                                       |      | (143,228)          | (160,462)        | (210,973)        |
| Other current liabilities                        |      | 14,015             | 17,272           | (585)            |
| Defined benefit liabilities, net                 |      | (279,672)          | (276,459)        | (261,966)        |
| Long-term advances received                      |      |                    |                  | 1,020,470        |
| Other non-current liabilities                    |      | 48,240             | 21,641           | 5,974            |
| Cash generated from operating activities         |      | 3,218,689          | 3,905,341        | 7,262,138        |
| Income taxes paid                                |      | (414,007)          | (187,816)        | (416,794)        |
| Interests received                               |      | 58,860             | 48,911           | 55,340           |
| Interests paid                                   |      | (136,965)          | (125,530)        | (136,483)        |
| <b>Net cash provided by operating activities</b> |      | <b>₩ 2,726,577</b> | <b>3,640,906</b> | <b>6,764,201</b> |

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## LG DISPLAY CO., LTD. AND SUBSIDIARIES

**Consolidated Statements of Cash Flows, Continued**

For the years ended December 31, 2015, 2016 and 2017

| <i>(In millions of won)</i>  | Note | 2015               | 2016               | 2017               |
|--|------|--------------------|--------------------|--------------------|
| <b>Cash flows from investing activities:</b>                         |      |                    |                    |                    |
| Dividends received   | ₩    | 25,577             | 59,820             | 8,639              |
| Proceeds from withdrawal of deposits in banks                        |      | 2,306,672          | 3,293,398          | 2,206,148          |
| Increase in deposits in banks  |      | (2,544,114)        | (2,684,810)        | (1,803,718)        |
| Acquisition of financial assets at fair value through profit or loss |      |                    | (1,500)            |                    |
| Acquisition of available-for-sale financial assets                   |      | (4,550)            | (859)              | (273)              |
| Proceeds from disposal of available-for-sale financial assets        |      | 2,263              | 507                | 917                |
| Acquisition of investments in equity accounted investees             |      | (30,647)           |                    | (20,309)           |
| Proceeds from disposal of investments in equity accounted investees  |      | 7,263              | 29,745             | 13,128             |
| Acquisition of property, plant and equipment                         |      | (2,364,988)        | (3,735,948)        | (6,592,435)        |
| Proceeds from disposal of property, plant and equipment              |      | 447,320            | 278,067            | 160,252            |
| Acquisition of intangible assets                                     |      | (294,638)          | (405,167)          | (454,448)          |
| Proceeds from disposal of intangible assets                          |      | 1,135              | 261                | 1,674              |
| Government grants received   |      | 5,017              | 6,393              | 1,859              |
| Receipt from settlement of derivatives                               |      | (35)               | 4,008              | 2,592              |
| Increase in short-term loans   |      |                    | (2,132)            |                    |
| Proceeds from collection of short-term loans                         |      |                    | 8,202              | 1,118              |
| Increase in long-term loans  |      | (16,516)           | (32,498)           | (13,930)           |
| Decrease in deposits   |      |                    | 2,436              | 4,272              |
| Increase in deposits   |      | (1,595)            | (9,105)            | (2,648)            |
| Proceeds from disposal of emission rights                            |      |                    |                    | 6,090              |
| Acquisition of businesses, net of cash acquired                      |      | (270,093)          |                    |                    |
| <b>Net cash used in investing activities</b>                         | ₩    | <b>(2,731,929)</b> | <b>(3,189,182)</b> | <b>(6,481,072)</b> |

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## LG DISPLAY CO., LTD. AND SUBSIDIARIES

**Consolidated Statements of Cash Flows, Continued**

For the years ended December 31, 2015, 2016 and 2017

| <i>(In millions of won)</i>                                     | <b>Note</b> | <b>2015</b>      | <b>2016</b>      | <b>2017</b>      |
|---|-------------|------------------|------------------|------------------|
| <b>Cash flows from financing activities:</b>                    | <b>27</b>   |                  |                  |                  |
| Proceeds from short-term borrowings                             |             | ₩ 107,345        |                  |                  |
| Repayments of short-term borrowings                             |             | (223,626)        |                  | (105,864)        |
| Proceeds from issuance of bonds                                 |             | 298,778          | 597,573          | 497,959          |
| Proceeds from long-term borrowings                              |             | 901,451          | 1,667,060        | 1,195,415        |
| Repayments of long-term borrowings                              |             | (324,570)        | (347,693)        |                  |
| Repayments of current portion of long-term borrowings and bonds |             | (744,788)        | (1,520,287)      | (544,731)        |
| Capital contribution from non-controlling interests             |             | 102,908          |                  | 4,300            |
| Subsidiaries dividends distributed to non-controlling interests |             | (5,743)          | (17,143)         | (5,929)          |
| Dividends paid  |             | (178,908)        | (178,908)        | (178,908)        |
| <b>Net cash provided by (used in) financing activities</b>      |             | <b>(174,498)</b> | <b>307,947</b>   | <b>862,242</b>   |
| <b>Net increase (decrease) in cash and cash equivalents</b>     |             | <b>(179,850)</b> | <b>759,671</b>   | <b>1,145,371</b> |
| Cash and cash equivalents at January 1                          |             | 889,839          | 751,662          | 1,558,696        |
| Effect of exchange rate fluctuations on cash held               |             | 41,673           | 47,363           | (101,507)        |
| <b>Cash and cash equivalents at December 31</b>                 |             | <b>₩ 751,662</b> | <b>1,558,696</b> | <b>2,602,560</b> |

*See accompanying notes to the consolidated financial statements.*

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**LG DISPLAY CO., LTD. AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

For the years ended December 31, 2015, 2016 and 2017

1. **Reporting Entity**

(a) **Description of the Controlling Company**

LG Display Co., Ltd. (the Controlling Company) was incorporated in February 1985 and the Controlling Company is a public corporation listed in the Korea Exchange since 2004. The main business of the Controlling Company and its subsidiaries (the Group) is to manufacture and sell displays and its related products. As of December 31, 2017, the Group is operating Thin Film Transistor Liquid Crystal Display (TFT-LCD) and Organic Light Emitting Diode (OLED) panel manufacturing plants in Gumi, Paju and China and TFT-LCD and OLED module manufacturing plants in Gumi, Paju, China, Poland and Vietnam. The Controlling Company is domiciled in the Republic of Korea with its address at 128 Yeouidae-ro, Yeongdeungpo-gu, Seoul, the Republic of Korea. As of December 31, 2017, LG Electronics Inc., a major shareholder of the Controlling Company, owns 37.9% (135,625,000 shares) of the Controlling Company's common stock.

The Controlling Company's common stock is listed on the Korea Exchange under the identifying code 034220. As of December 31, 2017, there are 357,815,700 shares of common stock outstanding. The Controlling Company's common stock is also listed on the New York Stock Exchange in the form of American Depositary Shares (ADSs) under the symbol LPL. One ADS represents one-half of one share of common stock. As of December 31, 2017, there are 24,581,448 ADSs outstanding.

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Notes to the Consolidated Financial Statements

For the years ended December 31, 2015, 2016 and 2017

1. Reporting Entity, Continued(b) Consolidated Subsidiaries as of December 31, 2017*(In millions)*

| <b>Subsidiaries</b>            | <b>Location</b>      | <b>Percentage of ownership</b> | <b>Fiscal year end</b> | <b>Date of incorporation</b> | <b>Business</b>              | <b>Capital stocks</b> |
|--------------------------------|----------------------|--------------------------------|------------------------|------------------------------|------------------------------|-----------------------|
| LG Display America, Inc.       | San Jose,<br>U.S.A.  | 100%                           | December 31            | September 24,<br>1999        | Sell Display products        | USD 411               |
| LG Display Japan Co., Ltd.     | Tokyo, Japan         | 100%                           | December 31            | October 12,<br>1999          | Sell Display products        | JPY 95                |
| LG Display Germany GmbH        | Eschborn,<br>Germany | 100%                           | December 31            | November 5,<br>1999          | Sell Display products        | EUR 1                 |
| LG Display Taiwan Co., Ltd.    | Taipei,<br>Taiwan    | 100%                           | December 31            | April 12,<br>1999            | Sell Display products        | NTD 116               |
| LG Display Nanjing Co., Ltd.   | Nanjing,<br>China    | 100%                           | December 31            | July 15,<br>2002             | Manufacture Display products | CNY 3,020             |
| LG Display Shanghai Co., Ltd.  | Shanghai,<br>China   | 100%                           | December 31            | January 16,<br>2003          | Sell Display products        | CNY 4                 |
| LG Display Poland Sp. z o.o.   | Wroclaw,<br>Poland   | 100%                           | December 31            | September 6,<br>2005         | Manufacture Display products | PLN 511               |
| LG Display Guangzhou Co., Ltd. | Guangzhou,<br>China  | 100%                           | December 31            | June 30,<br>2006             | Manufacture Display products | CNY 1,655             |
| LG Display Shenzhen Co., Ltd.  | Shenzhen,<br>China   | 100%                           | December 31            | August 28,<br>2007           | Sell Display products        | CNY 4                 |
| LG Display Singapore Pte. Ltd. | Singapore            | 100%                           | December 31            | January 12,<br>2009          | Sell Display products        | USD 1.1               |

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|  |                       |      |             |                      |  |           |
|--|-----------------------|------|-------------|----------------------|--|-----------|
| L&T Display Technology<br>(Fujian) Limited | Fujian,<br>China      | 51%  | December 31 | January 5,<br>2010   | Manufacture and sell LCD module and LCD monitor sets | CNY 116   |
| LG Display Yantai Co., Ltd.                | Yantai,<br>China      | 100% | December 31 | April 19,<br>2010    | Manufacture Display products                         | CNY 1,008 |
| Nanumnuri Co., Ltd.                        | Gumi,<br>South Korea  | 100% | December 31 | March 21,<br>2012    | Janitorial services                                  | KRW 800   |
| LG Display (China) Co., Ltd.(*1)           | Guangzhou,<br>China   | 70%  | December 31 | December 10,<br>2012 | Manufacture and sell Display products                | CNY 8,232 |
| Unified Innovative Technology, LLC         | Wilmington,<br>U.S.A. | 100% | December 31 | March 12,<br>2014    | Manage intellectual property                         | USD 9     |
| LG Display Guangzhou Trading Co., Ltd.     | Guangzhou,<br>China   | 100% | December 31 | April 28,<br>2015    | Sell Display products                                | CNY 1.2   |

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Notes to the Consolidated Financial Statements

For the years ended December 31, 2015, 2016 and 2017

1. **Reporting Entity, Continued**(b) **Consolidated Subsidiaries as of December 31, 2017, Continued**

| <b>Subsidiaries</b>                   | <b>Location</b>    | <b>Percentage of ownership</b> | <b>Fiscal year end</b> | <b>Date of incorporation</b> | <b>Business</b>                                      | <b>Capital stocks</b> |
|---------------------------------------|--------------------|--------------------------------|------------------------|------------------------------|--|-----------------------|
| Global OLED Technology, LLC           | Herndon, U.S.A.    | 100%                           | December 31            | December 18, 2009            | Manage OLED intellectual property                    | USD 138               |
| LG Display Vietnam Haiphong Co., Ltd. | Haiphong, Vietnam  | 100%                           | December 31            | May 5, 2016                  | Manufacture Display products                         | USD 100               |
| Suzhou Lehui Display Co., Ltd.        | Suzhou, China      | 100%                           | December 31            | July 1, 2016                 | Manufacture and sell LCD module and LCD monitor sets | CNY 637               |
| Money Market Trust(*2)                | Seoul, South Korea | 100%                           | December 31            |                              | Money market trust                                   | KRW 61,471            |

(\*1) In June 2017, LG Display Guangzhou Co., Ltd. ( LGDGZ ) contributed ₩8,557 million in cash for the capital increase of LG Display (China) Co., Ltd. ( LGDCA ).

(\*2) For the year ended December 31, 2017, the Controlling Company acquired ₩61,471 million in Money Market Trust.

₩531,304 million, ₩349,977 million and ₩603,493 million, respectively, are attributable to the Controlling Company over the distributed dividends from consolidated subsidiaries for the years ended December 31, 2015, 2016 and 2017.



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**LG DISPLAY CO., LTD. AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

For the years ended December 31, 2015, 2016 and 2017

2. **Basis of Presenting Financial Statements**

(a) **Statement of Compliance**

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ( IFRSs ) as issued by the International Accounting Standards Board.

The consolidated financial statements were authorized for issuance by the Board of Directors on January 22, 2018.

(b) **Basis of Measurement**

The consolidated financial statements have been prepared on the historical cost basis except for the following material items in the consolidated statements of financial position:

derivative instruments, financial assets at fair value through profit or loss and available-for-sale financial assets are measured at fair value, and net defined benefit liabilities are recognized as the present value of defined benefit obligations less the fair value of plan assets

(c) **Functional and Presentation Currency**

The consolidated financial statements are presented in Korean won, which is the Controlling Company's functional currency.

(d) **Use of Estimates and Judgments**

The preparation of the consolidated financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is included in the following notes:

Classification of financial instruments (note 3.(e))

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next 12 months is included in the following notes:

Recognition and measurement of provisions (note 3.(k), 13 and 15.(a))

Measurement of defined benefit obligations (note 12)

Deferred tax assets and liabilities (note 24)

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**LG DISPLAY CO., LTD. AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

For the years ended December 31, 2015, 2016 and 2017

3. **Summary of Significant Accounting Policies**

The significant accounting policies followed by the Group in preparation of its consolidated financial statements are as follows:

(a) **Consolidation**

**(i) Business combinations**

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognized in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities in accordance with IAS 32 and IAS 39. The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in profit or loss.

**(ii) Subsidiaries**

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has right to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

**(iii) Non-controlling interests**

Non-controlling interests ( NCI ) are measured at their proportionate share of the acquiree s identifiable net assets at the acquisition date.

Changes in the Group s interest in subsidiaries that do not result in a loss of control are accounted for as equity transactions.

**(iv) Loss of control**

If the Controlling Company loses control of subsidiaries, the Controlling Company derecognizes the assets and liabilities of the former subsidiaries from the consolidated statement of financial position and recognizes the gain or loss associated with the loss of control attributable to the former controlling interest. Meanwhile, the Controlling Company recognizes any investment retained in the former subsidiaries at its fair value when control is lost.



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**LG DISPLAY CO., LTD. AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

For the years ended December 31, 2015, 2016 and 2017

3. Summary of Significant Accounting Policies, Continued

(a) Consolidation, Continued

(v) Associates and joint ventures (equity method investees)

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Investments in associates and joint ventures are initially recognized at cost and subsequently accounted for using the equity method of accounting. The carrying amount of investments in associates and joint ventures is increased or decreased to recognize the Group's share of the profits or losses and changes in the Group's proportionate interest of the investee after the date of acquisition. Distributions received from an investee reduce the carrying amount of the investment.

If an associate or joint ventures uses accounting policies different from those of the Controlling Company for like transactions and events in similar circumstances, appropriate adjustments are made to the consolidated financial statements. As of and during the periods presented in the consolidated financial statements, no adjustments were made in applying the equity method.

When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to nil, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

(vi) Transactions eliminated on consolidation

Intra-group balances and transactions, including income and expenses and any unrealized income and expenses and balance of trade accounts and notes receivable and payable arising from intra-group transactions, are eliminated. Unrealized gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

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**LG DISPLAY CO., LTD. AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

For the years ended December 31, 2015, 2016 and 2017

3. Summary of Significant Accounting Policies, Continued

(b) Foreign Currency Transactions and Translation

Transactions in foreign currencies are translated to the respective functional currencies of the Group at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated to the functional currency at the exchange rate on the reporting date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was originally determined. Foreign currency differences arising on retranslation are recognized in profit or loss, except for differences arising on available-for-sale equity instruments and a financial asset and liability designated as a cash flow hedge, which are recognized in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the original transaction. Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition are recognized in profit or loss in the period in which they arise. Foreign currency differences arising from assets and liabilities in relation to the investing and financing activities including borrowings, bonds and cash and cash equivalents are recognized in finance income (costs) in the consolidated statement of comprehensive income and foreign currency differences arising from assets and liabilities in relation to activities other than investing and financing activities are recognized in other non-operating income (expense) in the consolidated statement of comprehensive income. Relevant foreign currency differences are presented in gross amounts in the consolidated statement of comprehensive income.

If the presentation currency of the Group is different from a foreign operation's functional currency, the financial position and financial performance of the foreign operation are translated into the presentation currency using the following methods. The assets and liabilities of foreign operations, whose functional currency is not the currency of a hyperinflationary economy, including goodwill and fair value adjustments arising on acquisition, are translated to the Group's functional currency at exchange rates at the reporting date. The income and expenses of foreign operations are translated to the Group's functional currency at exchange rates at the dates of the transactions. Foreign currency differences are recognized in other comprehensive income. However, if the operation is a non-wholly-owned subsidiary, then the relevant proportionate share of the translation difference is allocated to the non-controlling interests. When a foreign operation is disposed of in its entirety or partially such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. If the Group disposes part of its interest in a subsidiary but retains control, then the relevant proportion of the cumulative amount is reattributed to NCI. When the Group disposes of only part of an associate or joint venture while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation is treated as assets and liabilities of the foreign operation. Thus, they are expressed in the functional currency of the foreign operation and translated at the at each reporting date's exchange rate.



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**LG DISPLAY CO., LTD. AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

For the years ended December 31, 2015, 2016 and 2017

3. Summary of Significant Accounting Policies, Continued

(c) Cash and Cash Equivalents

Cash and cash equivalents include all cash balances and short-term highly liquid investments with an original maturity of three months or less that are readily convertible into known amounts of cash.

(d) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the weighted-average method, and includes expenditures incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated selling expenses. In the case of manufactured inventories and work-in-process, cost includes an appropriate share of production overheads based on the actual capacity of production facilities. However, the normal capacity is used for the allocation of fixed production overheads if the actual level of production is lower than the normal capacity.

(e) Financial Instruments

(i) Non-derivative financial assets

The Group initially recognizes loans and receivables and deposits on the date they are originated. All other non-derivative financial assets, including financial assets at fair value through profit or loss ( FVTPL ), are recognized in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows of the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognized as a separate asset or liability. If a transfer does not result in derecognition because the Group has retained substantially all the risks and rewards of ownership of the transferred asset, the Group continues to recognize the transferred asset and recognizes a financial liability for the consideration received. In subsequent periods, the Group recognizes any income on the transferred assets and any expense incurred on the financial liability.

Financial assets and liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.



The Group has the following non-derivative financial assets: financial assets at FVTPL, loans and receivables and available-for-sale financial assets.

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**LG DISPLAY CO., LTD. AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

For the years ended December 31, 2015, 2016 and 2017

3. Summary of Significant Accounting Policies, Continued

(e) Financial Instruments, Continued

(i) Non-derivative financial assets, Continued

*Financial assets at fair value through profit or loss*

A financial asset is classified at FVTPL if it is classified as held for trading or is designated as such upon initial recognition. If a contract contains one or more embedded derivatives, the Group designates the entire hybrid (combined) contract as a financial asset at FVTPL unless: the embedded derivative(s) does not significantly modify the cash flows that otherwise would be required by the contract; or it is clear with little or no analysis when a similar hybrid (combined) instrument is first considered that separation of the embedded derivative(s) is prohibited. Upon initial recognition, attributable transaction costs are recognized in profit or loss as incurred. Financial assets at FVTPL are measured at fair value, and changes therein are recognized in profit or loss.

*Loans and receivables*

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. When loans and receivables are recognized initially, the Group measures them at their fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses. Loans and receivables comprise trade accounts and notes receivable and other accounts receivable.

*Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or that are not classified as financial assets at FVTPL, held-to-maturity financial assets or loans and receivables. The Group's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale equity instruments, are recognized in other comprehensive income and presented within equity in the fair value reserve. When an investment in available-for-sale financial assets is derecognized, the cumulative gain or loss in other comprehensive income is transferred to profit or loss.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and whose derivatives are linked to and must be settled by delivery of such unquoted

equity instruments are measured at cost.

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**LG DISPLAY CO., LTD. AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

For the years ended December 31, 2015, 2016 and 2017

3. Summary of Significant Accounting Policies, Continued

(e) Financial Instruments, Continued

(ii) Non-derivative financial liabilities

The Group classifies financial liabilities into two categories, financial liabilities at FVTPL and other financial liabilities, in accordance with the substance of the contractual arrangement and the definitions of financial liabilities, and recognizes them in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

Financial liabilities at FVTPL include financial liabilities held for trading or designated as such upon initial recognition at FVTPL. After initial recognition, financial liabilities at FVTPL are measured at fair value, and changes therein are recognized in profit or loss. Upon initial recognition, transaction costs that are directly attributable to the issuance of financial liabilities are recognized in profit or loss as incurred.

Non-derivative financial liabilities other than financial liabilities classified as FVTPL are classified as other financial liabilities and measured initially at fair value minus transaction costs that are directly attributable to the issuance of financial liabilities. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method. As of December 31, 2017, non-derivative financial liabilities comprise borrowings, bonds and others.

The Group derecognizes a financial liability when its contractual obligations are discharged, cancelled or expired.

(iii) Share capital

The Group only issued common stocks and they are classified as equity. Incremental costs directly attributable to the issuance of common stocks are recognized as a deduction from equity, net of tax effects. Capital contributed in excess of par value upon issuance of common stocks is classified as share premium within equity.

(iv) Derivative financial instruments

Derivatives are initially recognized at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

Hedge accounting

If necessary, the Group designates derivatives as hedging items to hedge the risk of changes in the fair value of assets, liabilities or firm commitments (a fair value hedge) and foreign currency risk of highly probable forecasted transactions or firm commitments (a cash flow hedge).

On initial designation of the hedge, the Group's management formally designates and documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship, both at the inception of the hedge relationship as well as on an ongoing basis.

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**LG DISPLAY CO., LTD. AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

For the years ended December 31, 2015, 2016 and 2017

3. Summary of Significant Accounting Policies, Continued

(e) Financial Instruments, Continued

(iv) Derivative financial instruments, Continued

i) Fair value hedges

Change in the fair value of a derivative hedging instrument designated as a fair value hedge and the hedged item is recognized in profit or loss, respectively. The gain or loss from remeasuring the hedging instrument at fair value and the gain or loss on the hedged item attributable to the hedged risk are recognized in profit or loss in the same line item of the statement of comprehensive income. The Group discontinues fair value hedge accounting if it does not designate the derivative hedging instrument and the hedged item as the hedge relationship between them anymore or if the hedging instrument expires or is sold, terminated or exercised, or if the hedge no longer meets the criteria for hedge accounting. Any adjustment arising from gain or loss on the hedged item attributable to the hedged risk is amortized to profit or loss from the date the hedge accounting is discontinued.

ii) Cash flow hedges

When a derivative designated as a cash flow hedging instrument meets the criteria of cash flow hedge accounting, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income and the ineffective portion of changes in the fair value of the derivative is recognized in profit or loss. The Group discontinues cash flow hedge accounting if it does not designate the derivative hedging instrument and the hedged item as the hedge relationship between them any more or if the hedging instruments expires or is sold, terminated or exercised, or if the hedge no longer meets the criteria for hedge accounting. The cumulative gain or loss on the hedging instrument that has been recognized in other comprehensive income is reclassified to profit or loss in the periods during which the forecasted transaction occurs. If the forecasted transaction is no longer expected to occur, then the balance in other comprehensive income is recognized immediately in profit or loss.

Embedded derivative

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at FVTPL. Changes in the fair value of separable embedded derivatives are recognized immediately in profit or loss.

*Other derivative financial instruments*

Derivative financial instruments are measured at fair value and changes of them not designated as a hedging instrument or not effective for hedging are recognized in profit or loss.

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## Notes to the Consolidated Financial Statements

For the years ended December 31, 2015, 2016 and 2017

**3. Summary of Significant Accounting Policies, Continued****(f) Property, Plant and Equipment****(i) Recognition and measurement**

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes an expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labor, any costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located and borrowing costs on qualifying assets.

The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item and recognized in other non-operating income or other non-operating expenses.

**(ii) Subsequent costs**

Subsequent expenditure on an item of property, plant and equipment is recognized as part of its cost only if it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

**(iii) Depreciation**

Depreciation is recognized in profit or loss on a straight-line basis, reflecting the pattern in which the asset's future economic benefits are expected to be consumed by the Group. The residual value of property, plant and equipment is zero. Land is not depreciated.

Estimated useful lives of the assets are as follows:

|                               | <b>Useful lives (years)</b> |
|-------------------------------|-----------------------------|
| Buildings and structures      | 20, 40                      |
| Machinery                     | 4, 5                        |
| Furniture and fixtures        | 4                           |
| Equipment, tools and vehicles | 4, 12                       |

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate and any changes are accounted for as changes in accounting estimates. There were no such changes for all



periods presented.

(g) Borrowing Costs

The Group capitalizes borrowing costs, which includes interests and exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs, directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. To the extent that the Group borrows funds specifically for the purpose of obtaining a qualifying asset, the Group determines the amount of borrowing costs eligible for capitalization as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings. The Group immediately recognizes other borrowing costs as an expense.

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**LG DISPLAY CO., LTD. AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

For the years ended December 31, 2015, 2016 and 2017

3. Summary of Significant Accounting Policies, Continued

(h) Government Grants

In case there is reasonable assurance that the Group will comply with the conditions attached to a government grant, the government grant is recognized as follows:

(i) Grants related to the purchase or construction of assets

A government grant related to the purchase or construction of assets is deducted in calculating the carrying amount of the asset. The grant is recognized in profit or loss over the life of a depreciable asset as a reduced depreciation expense and cash related to grant received is presented in investing activities in the statement of cash flows.

(ii) Grants for compensating the Group's expenses incurred

A government grant that compensates the Group for expenses incurred is recognized in profit or loss as a deduction from relevant expenses on a systematic basis in the periods in which the expenses are recognized.

(iii) Other government grants

A government grant that becomes receivable for the purpose of giving immediate financial support to the Group with no compensation for expenses or losses already incurred or no future related costs is recognized as income of the period in which it becomes receivable.

(i) Intangible Assets

Intangible assets are initially measured at cost. Subsequently, intangible assets are measured at cost less accumulated amortization and accumulated impairment losses.

(i) Goodwill

Goodwill arising from business combinations is recognized as the excess of the acquisition cost of investments in subsidiaries, associates and joint ventures over the Group's share of the net fair value of the identifiable assets acquired and liabilities assumed. Any deficit is a bargain purchase that is recognized in profit or loss. Goodwill is measured at cost less accumulated impairment losses.

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**LG DISPLAY CO., LTD. AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

For the years ended December 31, 2015, 2016 and 2017

3. Summary of Significant Accounting Policies, Continued

(i) Intangible Assets, Continued

(ii) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognized in profit or loss as incurred.

Development activities involve a plan or design of the production of new or substantially improved products and processes. Development expenditure is capitalized only if the Group can demonstrate all of the following:

the technical feasibility of completing the intangible asset so that it will be available for use or sale,

its intention to complete the intangible asset and use or sell it,

its ability to use or sell the intangible asset,

how the intangible asset will generate probable future economic benefits. Among other things, the Group can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset,

the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset, and

its ability to measure reliably the expenditure attributable to the intangible asset during its development.

The expenditure capitalized includes the cost of materials, direct labor, overhead costs that are directly attributable to preparing the asset for its intended use, and borrowing costs on qualifying assets.

(iii) Other intangible assets

Other intangible assets include intellectual property rights, software, customer relationships, technology, memberships and others.

(iv) Subsequent costs

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific intangible asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognized in profit or loss as incurred.

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## Notes to the Consolidated Financial Statements

For the years ended December 31, 2015, 2016 and 2017

3. Summary of Significant Accounting Policies, Continued(i) Intangible Assets, Continued(v) Amortization

Amortization is calculated on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use. The residual value of intangible assets is zero. However, as there are no foreseeable limits to the periods over which condominium and golf club memberships are expected to be available for use, these intangible assets are regarded as having indefinite useful lives and not amortized.

|  | <b>Estimated useful lives (years)</b> |
|--|---------------------------------------|
| Intellectual property rights                               | 5, 10                                 |
| Rights to use electricity, water and gas supply facilities | 10                                    |
| Software   | 4                                     |
| Customer relationships                                     | 7, 10                                 |
| Technology   | 10                                    |
| Development costs  | (*)                                   |
| Condominium and golf club memberships                      | Not amortized                         |

(\*) Capitalized development costs are amortized over the useful life considering the life cycle of the developed products. Amortization of capitalized development costs is recognized in research and development expenses in the consolidated statement of comprehensive income.

Amortization periods and the amortization methods for intangible assets with finite useful lives are reviewed at each financial year-end. The useful lives of intangible assets that are not being amortized are reviewed each period to determine whether events and circumstances continue to support indefinite useful life assessments for those assets. If appropriate, the changes are accounted for as changes in accounting estimates.

(j) Impairment(i) Financial assets

A financial asset not carried at FVTPL is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency in interest or principal payments by an issuer or a debtor, for economic reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the Group would not otherwise consider, or the disappearance of an active market for that financial asset. In addition, for an investment in an equity security, objective evidence of impairment includes significant financial difficulty of the issuer and a significant or prolonged decline in its fair value below its cost.

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**LG DISPLAY CO., LTD. AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

For the years ended December 31, 2015, 2016 and 2017

3. Summary of Significant Accounting Policies, Continued

(j) Impairment, Continued

(i) Financial assets, Continued

Management considers evidence of impairment for loans and receivables at both a specific asset and collective level. All individually significant loans and receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

If there is objective evidence that an impairment loss has been incurred on financial assets carried at amortized cost, the amount of the impairment loss is measured as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses are recognized in profit or loss and reflected in an allowance account against loans and receivables.

The amount of the impairment loss on financial assets including equity securities carried at cost is measured as the difference between the carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

When a decline in the fair value of an available-for-sale financial asset has been recognized in other comprehensive income the amount of the cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognized in profit or loss.

In a subsequent period, for the financial assets recorded at fair value, if the fair value increases and the increase can be objectively related to an event occurring after the impairment loss was recognized, the previously recognized impairment loss is reversed. The amount of the reversal in financial assets carried at amortized cost and a debt instrument classified as available for sale is recognized in profit or loss. However, impairment loss recognized for an investment in an equity instrument classified as available-for-sale is reversed through other comprehensive income.





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**LG DISPLAY CO., LTD. AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

For the years ended December 31, 2015, 2016 and 2017

3. Summary of Significant Accounting Policies, Continued

(j) Impairment, Continued

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than assets arising from employee benefits, inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, irrespective of whether there is any indication of impairment, the recoverable amount is estimated each year at the same time.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit", or "CGU"). The recoverable amount of an asset or cash-generating unit is determined as the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Fair value less costs to sell is based on the best information available to reflect the amount that the Group could obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the costs of disposal.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Goodwill acquired in a business combination is allocated to CGUs that are expected to benefit from the synergies of the combination. Impairment losses recognized in respect of a CGU are allocated first to reduce the carrying amount of any goodwill allocated to the unit, and then to reduce the carrying amounts of the other assets in the unit on a pro rata basis.

In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of accumulated depreciation or amortization, if no impairment loss had been recognized. An impairment loss in respect of goodwill is not reversed.

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**LG DISPLAY CO., LTD. AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

For the years ended December 31, 2015, 2016 and 2017

3. Summary of Significant Accounting Policies, Continued

(k) Provisions

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

The risks and uncertainties that inevitably surround events and circumstances are taken into account in reaching the best estimate of a provision. Where the effect of the time value of money is material, provisions are determined at the present value of the expected future cash flows. The unwinding of the discount is recognized as finance cost.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

The Group recognizes a liability for warranty obligations based on the estimated costs expected to be incurred under its basic limited warranty. This warranty covers defective products and is normally applicable for eighteen months from the date of purchase. These liabilities are accrued when product revenues are recognized. Factors that affect the Group's warranty liability include historical and anticipated rates of warranty claims on those repairs and cost per claim to satisfy the Group's warranty obligation. Warranty costs primarily include raw materials and labor costs. As these factors are impacted by actual experience and future expectations, management periodically assesses the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary. Accrued warranty obligations are included in the current and non-current provisions.

Liabilities for loss contingencies arising from claims, assessments, litigation, fines, and penalties and other sources, are recorded when it is probable that a liability has been incurred and the amount of the assessment and/or remediation can be reasonably estimated.

(l) Employee Benefits

(i) Short-term employee benefits

Short-term employee benefits that are due to be settled within twelve months after the end of the period in which the employees render the related service are recognized in profit or loss on an undiscounted basis. The expected cost of profit-sharing and bonus plans and others are recognized when the Group has a present legal or constructive obligation to make payments as a result of past events and a reliable estimate of the obligation can be made.

(ii) Other long-term employee benefits

The Group's net obligation in respect of long-term employee benefits other than pension plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods.

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**LG DISPLAY CO., LTD. AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

For the years ended December 31, 2015, 2016 and 2017

3. Summary of Significant Accounting Policies, Continued

(l) Employee Benefits, Continued

(iii) Defined contribution plan

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

(iv) Defined benefit plan

A defined benefit plan is a post-employment benefit plan other than defined contribution plans. The Group's net obligation in respect of its defined benefit plan is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The fair value of any plan assets is deducted.

The calculation is performed annually by an independent actuary using the projected unit credit method. The discount rate is the yield at the reporting date on high quality corporate bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The Group recognizes all actuarial gains and losses arising from defined benefit plans in retained earnings immediately.

The Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Consequently, the net interest on the net defined benefit liability (asset) now comprises: interest cost on the defined benefit obligation, interest income on plan assets, and interest on the effect on the asset ceiling.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The Group recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

(m) Revenue

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of estimated returns, earned trade discounts, volume rebates and other cash incentives paid to customers. Revenue is recognized when persuasive evidence exists that the significant risks and rewards of ownership have been transferred to the buyer, generally on delivery and acceptance at the customers premises, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognized as a reduction of revenue when the sales are recognized. Sales taxes collected from customers and remitted to governmental authorities are accounted for on a net basis and therefore are excluded from revenues in the consolidated statements of comprehensive income.

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**LG DISPLAY CO., LTD. AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

For the years ended December 31, 2015, 2016 and 2017

3. Summary of Significant Accounting Policies, Continued

(n) Operating Segments

An operating segment is a component of the Group that: 1) engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with other components of the group, 2) whose operating results are reviewed regularly by the Group's chief operating decision maker ( CODM ) in order to allocate resources and assess its performance, and 3) for which discrete financial information is available. Management has determined that the CODM of the Group is the Board of Directors. The CODM does not receive and therefore does not review discrete financial information for any component of the Group. Consequently, no operating segment information is included in these consolidated financial statements. Entity wide disclosures of geographic and product revenue information are provided in note 17 to these consolidated financial statements.

(o) Finance Income and Finance Costs

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets, changes in the fair value of financial assets at FVTPL, and gains on hedging instruments that are recognized in profit or loss. Interest income is recognized as it accrues in profit or loss, using the effective interest method. Dividend income is recognized in profit or loss on the date that the Group's right to receive payment is established.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, changes in the fair value of financial assets at FVTPL, impairment losses recognized on financial assets, and losses on hedging instruments that are recognized in profit or loss. Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of that asset.

(p) Income Tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

(i) Current tax

Current tax is the expected tax payable or receivable on the taxable profit or loss for the year, using tax rates enacted or substantively enacted at the reporting date and any adjustment to tax payable in respect of previous years. The taxable profit is different from the accounting profit for the period since the taxable profit is calculated excluding the temporary differences, which will be taxable or deductible in determining taxable profit (tax loss) of future periods,

and non-taxable or non-deductible items from the accounting profit.

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**LG DISPLAY CO., LTD. AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

For the years ended December 31, 2015, 2016 and 2017

3. Summary of Significant Accounting Policies, Continued

(p) Income Tax, Continued

(ii) Deferred tax

Deferred tax is recognized, using the liability method, in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. However, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill.

The Group recognizes a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries, associates, and interests in joint ventures, except to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. A deferred tax asset is recognized for all deductible temporary differences to the extent that it is probable that the differences relating to investments in subsidiaries, associates and joint ventures will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

The Group offsets deferred tax assets and deferred tax liabilities if, and only if the Group has a legally enforceable right to set off current tax assets against current tax liabilities and the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously.

(q) Earnings Per Share

The Controlling Company presents basic and diluted earnings per share ( EPS ) data for its common stocks. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Controlling Company by the weighted average number of common stocks outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of common stocks



outstanding, adjusted for the effects of all dilutive potential common stocks such as convertible bonds and others.

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**LG DISPLAY CO., LTD. AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

For the years ended December 31, 2015, 2016 and 2017

3. Summary of Significant Accounting Policies, Continued

(r) Change in Accounting Policies

The Group has consistently applied the accounting policies to the consolidated financial statements for 2016 and 2017 except for the new amendments effective for annual periods beginning on January 1, 2017 as mentioned below.

(i) IAS 7, Statement of Cash Flows

The Group has adopted the amendment to IAS 7, *Statement of Cash Flows*, since January 1, 2017. The amendment to IAS 7 is part of the disclosure initiative to improve presentation and disclosure in financial statements and requires an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities including both changes due to cash flows and non-cash changes such as changes from financing cash flows, changes arising from obtaining or losing control of subsidiaries or other businesses, the effect of changes in foreign exchange rates and changes in fair value and other changes. The Group has applied the amendment and disclosed changes in liabilities arose from financing activities including both changes due to cash flows and non-cash changes in note 27.

(ii) IAS 12, Income Taxes

The Group has adopted the amendment to IAS 12, *Income Taxes*, since January 1, 2017. The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendment provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. There is no impact of applying this amendment on the consolidated financial statements.

(s) New Standards and Amendments Not Yet Adopted

The following new standards and amendments to existing standards have been published and are mandatory for the Group for annual periods beginning after January 1, 2017, and the Group has not early adopted them.

(i) IFRS 9, Financial Instruments

IFRS 9, *Financial Instruments*, was issued on July 24, 2014 which will replace IAS 39, *Financial Instruments: Recognition and Measurement*, is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Group plans to adopt IFRS 9 in its consolidated financial statements for annual periods

beginning on January 1, 2018.

Adoption of IFRS 9 will generally be applied retrospectively, except as described below.

Advantage of exemption allowing the Group not to restate comparative information for prior periods with respect to classification, measurement and impairment changes.

Prospective application of new hedge accounting except for those specified in IFRS 9 for retrospective application such as accounting for the time value of options and others.

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## Notes to the Consolidated Financial Statements

For the years ended December 31, 2015, 2016 and 2017

3. Summary of Significant Accounting Policies, Continued(s) New Standards and Amendments Not Yet Adopted, Continued

During the year ended December 31, 2017, the Group performed analysis and identified necessary modifications to internal controls and the accounting system in preparation of adoption of IFRS 9. Management believes that the adoption of the amendment is expected to have no significant impact on the consolidated financial statements of the Group. The potential general impact on its consolidated financial statements resulting from the application of new standards are as follows.

Classification and Measurement of Financial Assets

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income ( FVOCI ) and fair value through profit or loss ( FVTPL ), based on the business model in which assets are managed and their cash flow characteristics. However, derivatives embedded in contracts where the host is a financial assets in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification.

| <b>Business model assessment</b>                                 | <b>Contractual cash flow characteristics</b>     |               |
|--|--|---------------|
|  | <b>Solely payments of principal and interest</b> | <b>Others</b> |
| Hold to collect contractual cash flows                           | Amortized cost (*1)                              |               |
| Hold to collect contractual cash flows and sell financial assets | FVOCI  | FVTPL (*2)    |
| Hold to sell financial assets and others                         | FVTPL  |               |

(\*1)The Group may irrevocably designate a financial asset as measured at FVTPL using the fair value option at initial recognition if doing so eliminates or significantly reduces accounting mismatch.

(\*2)The Group may irrevocably designate an equity investment that is not held for trading as measured at FVOCI using the fair value option.

The requirements to classify financial assets as amortized cost or FVOCI under IFRS 9 are more restrictive than them under IAS 39. Accordingly, increase in proportion of financial assets classified as FVTPL may result in increase of volatility in profit or loss of the Group. As of December 31, 2017, the Group recognized ₩7,938,886 million of loans and receivable, ₩5,142 million of available-for-sale financial assets and ₩1,552 million of financial assets at fair

value through profit or loss.

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**LG DISPLAY CO., LTD. AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

For the years ended December 31, 2015, 2016 and 2017

3. Summary of Significant Accounting Policies, Continued

(s) New Standards and Amendments Not Yet Adopted, Continued

A debt investment is measured at amortized cost under IFRS 9 if it meets both of the following conditions:

The asset is held within a business model whose objective is achieved by collecting contractual cash flows; and

The contractual terms of the financial asset give rise on specified dates to cash flow that are solely payments of principal and interest on the principal amount outstanding.

As of December 31, 2017, the Group recognized ₩7,938,886 million of loans and receivables and measured them at amortized cost.

A debt investment is measured at FVOCI under IFRS 9 if it meets both of the following conditions:

The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

The contractual terms of the financial asset give rise on specified dates to cash flow that are solely payments of principal and interest on the principal amount outstanding.

As of December 31, 2017, the Group recognized ₩162 million of debt instruments classified as available-for-sale financial assets.

Equity investment that are not held for trading may be irrevocably designated as FVOCI on initial recognition under IFRS 9 and they are not subsequently recycled to profit or loss. As of December 31, 2017, the Group recognized ₩4,980 million of equity investment classified as available-for-sale financial assets.

A financial asset is measured at FVTPL under IFRS 9, if:

The asset's contractual cash flows do not represent solely payments of principal and interest on the principal amount outstanding;

Debt instrument is held for trading; or

Equity instrument is not designated as FVOCI.

As of December 31, 2017, the Group recognized ₩1,552 million of debt instrument classified as FVTPL.

Based on the evaluation to date, upon adoption of IFRS 9, ₩4,980 million of available-for-sale financial assets is expected to be classified as FVTPL as of January 1, 2018.

*Classification and Measurement of Financial Liabilities*

Under IFRS 9, the amount of change in the fair value of liabilities designated as at FVTPL that is attributable to changes in the credit risk of the liability is not presented in the item of profit or loss, but in OCI and they are not subsequently recycled to profit or loss. However, if accounting mismatch is created or enlarged as a result of this accounting treatment, the amount of change in the credit risk of the financial liabilities is also recognized as profit or loss.

Adoption of IFRS 9 may result in decrease of volatility in profit or loss in relation to evaluation of financial liabilities as some of change in the fair value of financial liabilities designated as at FVTPL is presented in OCI. As of December 31, 2017, there was no financial liabilities measured at FVTPL.

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## Notes to the Consolidated Financial Statements

For the years ended December 31, 2015, 2016 and 2017

**3. Summary of Significant Accounting Policies, Continued****(s) New Standards and Amendments Not Yet Adopted, Continued****Impairment: Financial assets and contract assets**

Impairment loss is recognized if there is any objective evidence that a financial asset or group of financial asset is impaired according to incurred loss model under IAS 39. However, IFRS 9 replaces the incurred loss model in IAS 39 with an expected credit loss impairment model which applies to debt instruments measured at amortized cost or at fair value through other comprehensive income, lease receivable, loan commitments and financial guarantee contracts.

Under IFRS 9, loss allowance is classified into three stages below in accordance with increase of credit risk after initial recognition of financial assets and measured on the 12-month expected credit loss ( ECL ) or lifetime ECL basis. Under IFRS 9, loss allowances are recognized based on the following method, the timing of which is earlier than that under IAS 39.

|         | <b>Classification</b>  | <b>Loss allowances</b>   |
|---------|--|--|
| Stage 1 | No significant increase in credit risk since initial recognition | 12-month expected credit losses: the expected credit losses that result from default events that are possible within 12 months after the reporting date. |
| Stage 2 | Significant increase in credit risk since initial recognition    | Lifetime expected credit losses: the expected credit losses that result from all possible default events over the expected                               |
| Stage 3 | Objective evidence of credit risk impairment                     | life of the financial instrument.  |

Under IFRS 9, cumulative change in lifetime expected credit loss since initial recognition is recognized as a loss allowance for financial asset, if it was credit-impaired at initial recognition. As of December 31, 2017, under IAS 39, the Group recognized ₩2,943 million of loss allowances for ₩7,941,829 million of debt instruments measured at amortized cost including loans and receivables.

**Hedge accounting**

When initially applying IFRS 9, the Group may choose as its accounting policy to continue to apply hedge accounting requirements under IAS 39 instead of the requirements in IFRS 9. The Group determined to consistently apply hedge accounting requirements of IAS 39.





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**LG DISPLAY CO., LTD. AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

For the years ended December 31, 2015, 2016 and 2017

3. Summary of Significant Accounting Policies, Continued

(s) New Standards and Amendments Not Yet Adopted, Continued

(ii) IFRS 15, Revenue from contracts with customers

IFRS 15, *Revenue from contracts with customers*, as amended, was published on April 12, 2016 and is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. IFRS 15 replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11, *Construction Contracts*, SIC-31, *Revenue: Barter Transactions Involving Advertising Services*, IFRIC 13, *Customer Loyalty Programmes*, IFRIC 15, *Agreements for the Construction of Real Estate* and IFRIC 18, *Transfers of Assets from Customers*. Regarding transition to IFRS 15, the Group has decided to apply the cumulative effect method, i.e. recognizing the cumulative effect of applying IFRS 15 at the date of initial application, which is January 1, 2018, without restatement of the comparative periods presented. In doing so, the Group also decided to apply the practical expedients as allowed by IFRS 15 by applying the new standard only to those contracts that are not considered as completed contracts at the date of initial application.

Revenue recognition criteria in IAS 18 are applied separately to each transaction including sale of goods, rendering of services, interest, royalties, dividends and construction contracts. However, IFRS 15 establishes a single new revenue recognition standard for contracts with customers and introduces a five-step model for determining whether, how much and when revenue is recognized.

The steps in five-step model are as follows:

- a) Identify the contract with a customer.
- b) Identify the performance obligations in the contract.
- c) Determine the transaction price.
- d) Allocate the transaction price to the performance obligations in the contract.
- e) Recognize revenue when (or as) the entity satisfies a performance obligation.

During the year ended December 31, 2017, the Group assessed the financial impact of the adoption of IFRS 15 on its consolidated financial statements. As a result, the potential impact on its consolidated financial statements resulting from the application of the new standard is as follows.

Variable Consideration

The consideration received from customers may be variable as the Group allows its customers to return their products according to the contracts. Currently, the Group recognizes a provision measured at the gross profit for products sold which are expected to be returned. Under IFRS 15, the Group shall estimate an amount of variable consideration by using the expected value or the most likely amount, depending on which method the Group expects to better predict the amount of consideration to which it will be entitled and include in the transaction price some or all of an amount of variable consideration estimated only to the extent that is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when return period expires. The Group shall recognize refund liability measured at the amount of consideration received (or receivable) to which the Group does not expect to be entitled and a new asset for the right to recover returned goods. As a result of this change, it is expected that the refund liability and a new asset for the right to recover returned goods will be increased by ₩9,789 million, respectively, as of January 1, 2018.

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For the years ended December 31, 2015, 2016 and 2017

3. Summary of Significant Accounting Policies, Continued

(s) New Standards and Amendments Not Yet Adopted, Continued

(iii) IFRS 16, Leases

IFRS 16, *Leases*, issued in January 13, 2016 is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted. IFRS 16 replaces existing leases guidance including IAS 17, *Leases*, IFRIC 4, *Determining whether an Arrangement contains a Lease*, SIC-15, *Operating Leases Incentives* and SIC-27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

At inception of a contract, the Group assesses whether the contract is, or contains, a lease and reassess whether a contract is, or contains, a lease at the date of initial application. However, as a practical expedient, the Group is not required to reassess for contracts entered into, or changed, on or before January 1, 2019. The Group is currently assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 16.

(iv) IFRIC 22, Foreign Currency Transactions and Advance Consideration

According to the new interpretation, IFRIC 22, *Foreign Currency Transactions and Advance Consideration*, 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. IFRIC 22 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. Management believes that the adoption of the amendment is expected to have no significant impact on the consolidated financial statements of the Group.

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## Notes to the Consolidated Financial Statements

For the years ended December 31, 2015, 2016 and 2017

**4. Cash and Cash Equivalents and Deposits in Banks**

Cash and cash equivalents and deposits in banks at the reporting date are as follows:

*(In millions of won)*

|                                  | <b>December 31, 2016</b> | <b>December 31, 2017</b> |
|----------------------------------|--------------------------|--------------------------|
| <b>Current assets</b>            |                          |                          |
| <b>Cash and cash equivalents</b> |                          |                          |
| Demand deposits                  | ₩ 1,558,696              | 2,602,560                |
| <b>Deposits in banks</b>         |                          |                          |
| Time deposits                    | ₩ 1,091,364              | 685,238                  |
| Restricted cash (*)              | 72,386                   | 72,840                   |
|                                  | ₩ 1,163,750              | 758,078                  |
| <b>Non-current assets</b>        |                          |                          |
| <b>Deposits in banks</b>         |                          |                          |
| Restricted cash (*)              | ₩ 13                     | 11                       |
|                                  | ₩ 2,722,459              | 3,360,649                |

(\*) Restricted cash includes mutual growth fund to aid LG Group's second and third-tier suppliers, pledge to enforce investment plans according to the receipt of subsidies from Gumi city and Gyeongsangbuk-do and others.

**5. Receivables and Other Assets**

(a) Trade accounts and notes receivable at the reporting date are as follows:

*(In millions of won)*

|                          | <b>December 31, 2016</b> | <b>December 31, 2017</b> |
|--------------------------|--------------------------|--------------------------|
| Trade, net               | ₩ 3,916,171              | 3,275,902                |
| Due from related parties | 1,041,822                | 1,049,218                |
|                          | ₩ 4,957,993              | 4,325,120                |

(b) Other accounts receivable at the reporting date are as follows:

| <i>(In millions of won)</i> |   | <b>December 31, 2016</b> | <b>December 31, 2017</b> |
|-----------------------------|---|--------------------------|--------------------------|
| <b>Current assets</b>       |   |                          |                          |
| Non-trade receivable, net   | ₩ | 134,161                  | 150,554                  |
| Accrued income              |   | 9,431                    | 14,273                   |
|                             | ₩ | 143,592                  | 164,827                  |

Due from related parties included in other accounts receivable, as of December 31, 2016 and 2017 are ₩5,231 million and ₩10,821 million, respectively.

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For the years ended December 31, 2015, 2016 and 2017

5. Receivables and Other Assets, Continued

- (c) The aging of trade accounts and note receivable, other accounts receivable and long-term non-trade receivable at the reporting date are as follows:

*(In millions of won)*

|                            | December 31, 2016                   |                              |                                |                                     |                              |                                |
|----------------------------|-------------------------------------|------------------------------|--------------------------------|-------------------------------------|------------------------------|--------------------------------|
|                            | Book value                          |                              | Impairment loss                |                                     |                              |                                |
|                            | Trade accounts and notes receivable | Other accounts receivable(*) | Long-term non-trade receivable | Trade accounts and notes receivable | Other accounts receivable(*) | Long-term non-trade receivable |
| Not past due               | ₩ 4,958,591                         | 140,893                      | 2,643                          | (1,488)                             | (669)                        | (23)                           |
| Past due 1-15 days         | 386                                 | 2,298                        |                                |                                     | (20)                         |                                |
| Past due 16-30 days        | 417                                 | 309                          |                                |                                     |                              |                                |
| Past due 31-60 days        | 65                                  | 640                          |                                |                                     | (6)                          |                                |
| Past due more than 60 days | 22                                  | 545                          |                                |                                     | (398)                        |                                |
|                            | ₩ 4,959,481                         | 144,685                      | 2,643                          | (1,488)                             | (1,093)                      | (23)                           |

(\*) Other accounts receivable includes non-trade receivable and accrued income.

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For the years ended December 31, 2015, 2016 and 2017

5. Receivables and Other Assets, Continued*(In millions of won)*

|                            | December 31, 2017                         |                                    |                                      |  |                                    |                                      |
|----------------------------|---|------------------------------------|--------------------------------------|--|------------------------------------|--------------------------------------|
|                            | Book value                                |                                    |                                      | Impairment loss                              |                                    |                                      |
|                            | Trade accounts<br>and notes<br>receivable | Other<br>accounts<br>receivable(*) | Long-term<br>non-trade<br>receivable | Trade accounts<br>and<br>notes<br>receivable | Other<br>accounts<br>receivable(*) | Long-term<br>non-trade<br>receivable |
| Not past due               | ₩ 4,323,465                               | 164,755                            | 8,738                                | (1,631)                                      | (905)                              |                                      |
| Past due 1-15 days         | 2,652                                     | 488                                |                                      | (1)  | (3)                                |                                      |
| Past due 16-30 days        | 631                                       | 65                                 |                                      |  | (1)                                |                                      |
| Past due 31-60 days        |   | 208                                |                                      |  | (2)                                |                                      |
| Past due more than 60 days | 4   | 622                                |                                      |  | (400)                              |                                      |
|                            | ₩ 4,326,752                               | 166,138                            | 8,738                                | (1,632)                                      | (1,311)                            |                                      |

(\*) Other accounts receivable includes non-trade receivable and accrued income.



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## Notes to the Consolidated Financial Statements

For the years ended December 31, 2015, 2016 and 2017

5. Receivables and Other Assets, Continued

The movement in the allowance for impairment in respect of trade accounts and notes receivable, other accounts receivable and long-term non-trade receivable for the years ended December 31, 2015, 2016, and 2017 are as follows:

| <i>(In millions of won)</i>          | <b>Trade accounts and notes receivable</b> |             |             |
|--------------------------------------|--|-------------|-------------|
|                                      | <b>2015</b>                                | <b>2016</b> | <b>2017</b> |
| Balance at the beginning of the year | ₩ 825                                      | 1,507       | 1,488       |
| (Reversal of) bad debt expense       | 682  | (19)        | 144         |
| Balance at the end of the year       | ₩ 1,507                                    | 1,488       | 1,632       |

| <i>(In millions of won)</i>          | <b>Other accounts receivable</b> |             |             |
|--------------------------------------|----------------------------------|-------------|-------------|
|                                      | <b>2015</b>                      | <b>2016</b> | <b>2017</b> |
| Balance at the beginning of the year | ₩ 794                            | 566         | 1,093       |
| (Reversal of) bad debt expense       | (228)                            | 527         | 218         |
| Balance at the end of the year       | ₩ 566                            | 1,093       | 1,311       |

| <i>(In millions of won)</i>          | <b>Long-term non-trade receivable</b> |             |             |
|--------------------------------------|---------------------------------------|-------------|-------------|
|                                      | <b>2015</b>                           | <b>2016</b> | <b>2017</b> |
| Balance at the beginning of the year | ₩ 79                                  | 52          | 23          |
| (Reversal of) bad debt expense       | (27)                                  | (29)        | (23)        |
| Balance at the end of the year       | ₩ 52                                  | 23          |             |

(d) Other assets at the reporting date are as follows:

| <i>(In millions of won)</i> | <b>December 31, 2016</b> | <b>December 31, 2017</b> |
|-----------------------------|--------------------------|--------------------------|
| <b>Current assets</b>       |                          |                          |
| Advance payments            | ₩ 9,297                  | 7,973                    |
| Prepaid expenses            | 74,657                   | 83,626                   |

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|                            |   |         |         |
|----------------------------|---|---------|---------|
| Value added tax refundable |   | 259,808 | 148,351 |
| Emission rights            |   |         | 1,978   |
|                            | ₩ | 343,762 | 241,928 |
| <b>Non-current assets</b>  |   |         |         |
| Long-term prepaid expenses | ₩ | 358,424 | 394,759 |
| Long-term advanced payment |   | 1,000   |         |
|                            | ₩ | 359,424 | 394,759 |

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**Table of Contents****LG DISPLAY CO., LTD. AND SUBSIDIARIES**

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For the years ended December 31, 2015, 2016 and 2017

**6. Other Financial Assets**

(a) Other financial assets at the reporting date are as follows:

| <i>(In millions of won)</i>                          | <b>December 31, 2016</b> | <b>December 31, 2017</b> |
|--|--------------------------|--------------------------|
| <b>Current assets</b>                                |                          |                          |
| Available-for-sale financial assets                  | ₩                        | 6                        |
| Deposits   | 20,320                   | 10,480                   |
| Short-term loans                                     | 7,696                    | 16,766                   |
|  | ₩                        | 28,016                   |
|  |                          | 27,252                   |
| <b>Non-current assets</b>                            |                          |                          |
| Financial asset at fair value through profit or loss | ₩                        | 1,552                    |
| Available-for-sale financial assets                  | 7,993                    | 5,136                    |
| Deposits   | 27,635                   | 19,898                   |
| Long-term loans                                      | 34,760                   | 32,408                   |
| Long-term non-trade receivable                       | 2,619                    | 8,738                    |
| Derivatives(*)                                       | 244                      | 842                      |
|  | ₩                        | 74,633                   |
|  |                          | 68,574                   |

Other financial assets of related parties as of December 31, 2016 and 2017 are ₩3,488 million and ₩2,750 million, respectively.

(\*) Represents interest rate swap contracts related to borrowings with variable interest rate.

(b) Available-for-sale financial assets at the reporting date are as follows:

| <i>(In millions of won)</i> | <b>December 31, 2016</b> | <b>December 31, 2017</b> |
|-----------------------------|--------------------------|--------------------------|
| <b>Current assets</b>       |                          |                          |
| <b>Debt securities</b>      |                          |                          |
| Government bonds            | ₩                        | 6                        |

**Non-current assets****Debt securities**

|                  |   |     |     |
|------------------|---|-----|-----|
| Government bonds | ₩ | 154 | 156 |
|------------------|---|-----|-----|

**Equity securities**

|                              |   |     |     |
|------------------------------|---|-----|-----|
| Intellectual Discovery, Ltd. | ₩ | 729 | 729 |
|------------------------------|---|-----|-----|

|              |  |       |       |
|--------------|--|-------|-------|
| Kyulux, Inc. |  | 3,266 | 1,968 |
|--------------|--|-------|-------|

|                              |  |       |  |
|------------------------------|--|-------|--|
| Henghao Technology Co., Ltd. |  | 1,559 |  |
|------------------------------|--|-------|--|

|                              |  |       |       |
|------------------------------|--|-------|-------|
| ARCH Venture Fund Vill, L.P. |  | 2,285 | 2,283 |
|------------------------------|--|-------|-------|

|  |   |       |       |
|--|---|-------|-------|
|  | ₩ | 7,839 | 4,980 |
|--|---|-------|-------|

|  |   |       |       |
|--|---|-------|-------|
|  | ₩ | 7,993 | 5,142 |
|--|---|-------|-------|

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## Notes to the Consolidated Financial Statements

For the years ended December 31, 2015, 2016 and 2017

**7. Inventories**

Inventories at the reporting date are as follows:

| <i>(In millions of won)</i> | <b>December 31, 2016</b> | <b>December 31, 2017</b> |
|-----------------------------|--------------------------|--------------------------|
| Finished goods              | ₩ 930,818                | 965,643                  |
| Work-in-process             | 685,913                  | 748,592                  |
| Raw materials               | 354,791                  | 344,997                  |
| Supplies                    | 316,263                  | 290,852                  |
|                             | ₩ 2,287,785              | 2,350,084                |

For the years ended December 31, 2015, 2016 and 2017, the amount of inventories recognized as cost of sales and inventory write-downs included in cost of sales are as follows:

| <i>(In millions of won)</i>             | <b>2015</b>  | <b>2016</b> | <b>2017</b> |
|---|--------------|-------------|-------------|
| Inventories recognized as cost of sales | ₩ 24,069,572 | 22,754,270  | 22,424,661  |
| Including: inventory write-downs        | 363,755      | 204,123     | 206,127     |

There were no significant reversals of inventory write-downs recognized during 2015, 2016 and 2017.

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## Notes to the Consolidated Financial Statements

For the years ended December 31, 2015, 2016 and 2017

**8. Investments in Equity Accounted Investees**

(a) Associates at the reporting date are as follows:

*(In millions  
of won)*

| Associates  | Location                    | Fiscal<br>year end | Date of<br>incorporation | Business  | Percentage<br>of<br>ownership | 2016               | 2017               | Percentage<br>of<br>ownership | Carrying<br>amount |
|---|-----------------------------|--------------------|--------------------------|---|-------------------------------|--------------------|--------------------|-------------------------------|--------------------|
|   |                             |                    |                          |   |                               | Carrying<br>amount | Carrying<br>amount |                               |                    |
| Paju Electric<br>Glass Co.,<br>Ltd.               | Paju,<br>South<br>Korea     | December 31        | January<br>2005          | Manufacture<br>electric glass<br>for FPDs   | 40%                           | ₩ 52,750           | 40%                | ₩ 46,511                      |                    |
| New Optics<br>Ltd.(*1)                            | Yangju,<br>South<br>Korea   | December 31        | August<br>2005           | Manufacture<br>back light<br>parts for<br>TFT-LCDs  | 46%                           | 40,045             |                    |                               |                    |
| INVENIA<br>Co., Ltd.                              | Seongnam,<br>South<br>Korea | December 31        | January<br>2001          | Develop and<br>manufacture<br>equipment<br>for FPDs   | 13%                           | 2,450              | 13%                | 2,887                         |                    |
| WooRee<br>E&L Co.,<br>Ltd.                        | Ansan,<br>South<br>Korea    | December 31        | June<br>2008             | Manufacture<br>LED back<br>light unit<br>packages   | 14%                           | 8,627              | 14%                | 7,270                         |                    |
| LB Gemini<br>New<br>Growth<br>Fund No. 16<br>(*2) | Seoul,<br>South<br>Korea    | December 31        | December<br>2009         | Invest in<br>small and<br>middle sized<br>companies<br>and benefit<br>from M&A<br>opportunities | 31%                           | 8,647              | 31%                | 5,910                         |                    |
| Can Yang<br>Investments<br>Limited<br>(*1)(*3)    | Hong<br>Kong                | December 31        | January<br>2010          | Develop,<br>manufacture<br>and sell LED<br>parts  | 9%                            | 5,580              |                    |                               |                    |
|   | Paju,                       | December 31        | April                    |   | 18%                           | 9,883              | 15%                | 15,888                        |                    |

|                       |                |      |  |
|-----------------------|----------------|------|--|
| YAS Co.,<br>Ltd. (*4) | South<br>Korea | 2002 | Develop and<br>manufacture<br>deposition<br>equipment<br>for OLEDs |
|-----------------------|----------------|------|--|

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## Notes to the Consolidated Financial Statements

For the years ended December 31, 2015, 2016 and 2017

8. Investments in Equity Accounted Investees, Continued*(In millions  
of won)*

| Associates                          | Location                  | Fiscal<br>year end | Date of<br>incorporation | Business   | Percentage<br>of<br>ownership | 2016               | 2017                          |
|-------------------------------------|---------------------------|--------------------|--------------------------|--|-------------------------------|--------------------|-------------------------------|
|                                     |                           |                    |                          |  |                               | Carrying<br>amount | Percentage<br>of<br>ownership |
| Narenanotech<br>Corporation<br>(*1) | Yongin,<br>South<br>Korea | December 31        | December<br>1995         | Manufacture<br>and sell FPD<br>manufacturing<br>equipment                              | 23%                           | ₩23,717            | ₩                             |
| AVATEC<br>Co., Ltd.                 | Daegu,<br>South<br>Korea  | December 31        | August<br>2000           | Process and<br>sell electric<br>glass for FPDs   | 17%                           | 20,984             | 17%<br>23,732                 |
| Arctic<br>Sentinel, Inc.            | Los<br>Angeles,<br>U.S.A. | March 31           | June<br>2008             | Develop and<br>manufacture<br>tablet for kids  | 10%                           |                    | 10%                           |
| CYNORA<br>GmbH (*5)                 | Bruchsal,<br>Germany      | December 31        | March<br>2003            | Develop<br>organic<br>emitting<br>materials for<br>displays and<br>lighting<br>devices |                               |                    | 14%<br>20,309                 |
|                                     |                           |                    |                          |  |                               | ₩172,683           | ₩122,507                      |

Although the Controlling Company's share interests in INVENIA Co., Ltd., WooRee E&L Co., Ltd., YAS Co., Ltd., AVATEC Co., Ltd., Arctic Sentinel, Inc. and Cynora GmbH are below 20% as of December 31, 2017, the Controlling Company is able to exercise significant influence through its right to appoint a director to the board of directors of each investee or the transactions between the Controlling Company and the investees are significant. Accordingly, the investments in these investees have been accounted for using the equity method.





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## Notes to the Consolidated Financial Statements

For the years ended December 31, 2015, 2016 and 2017

**8. Investments in Equity Accounted Investees, Continued**

(\*1) During the year ended December 31, 2017, the Controlling Company disposed of the entire investments in New Optics Ltd., Can Yang Investments Limited and Narenanotech Corporation.

(\*2) The Controlling Company is a member of a limited partnership in the LB Gemini New Growth Fund No.16 ( the Fund ). During the year ended December 31, 2017, the Controlling Company received ₩2,076 million from the Fund as capital distribution and there were no changes in the Controlling Company's ownership percentage in the Fund. On the other hand, a resolution to dissolve the fund was approved at the general meeting and the fund is in process of liquidation as of December 31, 2017.

(\*3) The Controlling Company recognized an impairment loss of ₩4,234 million as finance cost for the difference between the carrying amount and the recoverable amount of investments in Can Yang Investments Limited.

(\*4) In 2017, the Controlling Company's ownership percentage in YAS Co., Ltd. decreased from 18% to 15% as the Controlling Company did not participate in the capital increase of YAS Co., Ltd.

(\*5) In September 2017, the Controlling Company invested ₩20,309 million in cash and acquired 88,584 shares of preferred stock with voting rights in CYNORA GmbH.

As of December 31, 2017, the market value for the Controlling Company's investments in INVENIA Co., Ltd., WooRee E&L Co., Ltd., YAS Co., Ltd., and AVATEC Co., Ltd., all of which are listed in KOSDAQ, are ₩12,870 million, ₩7,038 million, ₩54,500 million and ₩20,670 million, respectively.

Dividends received from a joint venture and equity method investees for the years ended December 31, 2015, 2016 and 2017 amounted to ₩25,577 million, ₩59,820 million and ₩8,639 million, respectively.

(b) Summary of financial information of the significant associate as of December 31, 2016 and 2017 and for the years ended December 31, 2015, 2016 and 2017 is as follows:

(i) Paju Electric Glass Co., Ltd.

| <i>(In millions of won)</i> | <b>December 31, 2016</b> | <b>December 31, 2017</b> |
|-----------------------------|--------------------------|--------------------------|
| <b>Total assets</b>         | ₩ 225,086                | 193,584                  |
| Current assets              | 182,656                  | 146,702                  |
| Non-current assets          | 42,430                   | 46,882                   |
| <b>Total liabilities</b>    | 91,364                   | 77,174                   |
| Current liabilities         | 87,116                   | 71,973                   |
| Non-current liabilities     | 4,248                    | 5,201                    |

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| <i>(In millions of won)</i>       | <b>2015</b> | <b>2016</b> | <b>2017</b> |
|-----------------------------------|-------------|-------------|-------------|
| Revenue                           | ₩ 491,329   | 549,559     | 408,846     |
| Profit for the year               | 14,729      | 21,082      | 12,327      |
| Other comprehensive income (loss) | (51)        | 16,477      | (9,366)     |
| Total comprehensive income        | 14,678      | 37,559      | 2,961       |

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## Notes to the Consolidated Financial Statements

For the years ended December 31, 2015, 2016 and 2017

**8. Investments in Equity Accounted Investees, Continued**

(c) Reconciliation from financial information of the significant associate to its carrying value in the consolidated financial statements at the reporting date is as follows:

(i) As of December 31, 2016

*(In millions of won)*

| <b>Company</b>                | <b>Net asset</b> | <b>Ownership interest</b> | <b>Net asset (applying ownership interest)</b> | <b>Goodwill</b> | <b>Intra-group transaction</b> | <b>Book value</b> |
|-------------------------------|------------------|---------------------------|--|-----------------|--------------------------------|-------------------|
| Paju Electric Glass Co., Ltd. | ₩ 133,722        | 40%                       | 53,489   |                 | (739)                          | 52,750            |

(ii) As of December 31, 2017

*(In millions of won)*

| <b>Company</b>                | <b>Net asset</b> | <b>Ownership interest</b> | <b>Net asset (applying ownership interest)</b> | <b>Goodwill</b> | <b>Intra-group transaction</b> | <b>Book value</b> |
|-------------------------------|------------------|---------------------------|--|-----------------|--------------------------------|-------------------|
| Paju Electric Glass Co., Ltd. | ₩ 116,410        | 40%                       | 46,564   |                 | (53)                           | 46,511            |

(d) Book value of other associates, in aggregate, as of December 31, 2016 and 2017 is as follows:

(i) As of December 31, 2016

*(In millions of won)*

|                  | <b>Book value</b> | <b>Profit (loss) for the year</b> | <b>Net profit (loss) of associates (applying ownership interest)</b> | <b>Total comprehensive income (loss)</b> |
|------------------|-------------------|-----------------------------------|--|--|
|                  |                   |                                   | <b>Other comprehensive income (loss)</b>                             |  |
| Other associates | 119,933           | (2,983)                           | (14,197)   | (17,180)                                 |

(ii) As of December 31, 2017

*(In millions of won)*

|                  |                   | <b>Net profit (loss) of associates<br/>(applying ownership interest)</b> |  |  |
|------------------|-------------------|--|--|--|
|                  |                   |  | <b>Other<br/>comprehensive<br/>income<br/>(loss)</b> | <b>Total<br/>comprehensive<br/>income<br/>(loss)</b> |
|                  | <b>Book value</b> | <b>Profit (loss)<br/>for the year</b>                                    |  |  |
| Other associates | 75,996            | 3,943  | 5,093  | 9,036  |

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For the years ended December 31, 2015, 2016 and 2017

**8. Investments in Equity Accounted Investees, Continued**

- (e) Changes in investments in associates and a joint venture accounted for using the equity method for the years ended December 31, 2016 and 2017 are as follows:

*(In millions of won)*

| Company        |   | January 1 | Acquisition/<br>Disposal | Dividends<br>received | 2016                     | Other                             | December 31 |
|----------------|---|-----------|--------------------------|-----------------------|--------------------------|-----------------------------------|-------------|
|                |   |           |                          |                       | (loss) on<br>investments | comprehensive<br>income<br>(loss) |             |
| Joint ventures | Suzhou Raken<br>Technology<br>Co., Ltd. | ₩ 145,731 | (121,204)                | (29,902)              | 2,985                    | 2,390                             |             |
| Associates     | Paju Electric<br>Glass Co., Ltd.        | 58,852    |                          | (21,030)              | 8,337                    | 6,591                             | 52,750      |
|                | Others                                  | 180,172   | (28,034)                 | (8,888)               | (2,983)                  | (14,197)                          | (6,137)     |
|                |   | ₩ 384,755 | (149,238)                | (59,820)              | 8,339                    | (5,216)                           | (6,137)     |
|                |   |           |                          |                       |                          |                                   | 172,683     |

*(In millions of won)*

| Company    |                                  | January 1 | Acquisition/<br>Disposal | Dividends<br>received | 2017                     | Other                             | December 31 |
|------------|----------------------------------|-----------|--------------------------|-----------------------|--------------------------|-----------------------------------|-------------|
|            |                                  |           |                          |                       | (loss) on<br>investments | comprehensive<br>income<br>(loss) |             |
| Associates | Paju Electric<br>Glass Co., Ltd. | 52,750    |                          | (8,109)               | 5,617                    | (3,747)                           | 46,511      |
|            | Others                           | ₩ 119,933 | (48,209)                 | (530)                 | 3,943                    | 5,093                             | (4,234)     |
|            |                                  |           |                          |                       |                          |                                   | 75,996      |
|            |                                  | 172,683   | (48,209)                 | (8,639)               | 9,560                    | 1,346                             | (4,234)     |
|            |                                  |           |                          |                       |                          |                                   | 122,507     |

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## Notes to the Consolidated Financial Statements

For the years ended December 31, 2015, 2016 and 2017

**9. Property, Plant and Equipment**

(a) Changes in property, plant and equipment for the year ended December 31, 2016 are as follows:

*(In millions of won)*

|   | <b>Land</b> | <b>Buildings<br/>and<br/>structures</b> | <b>Machinery<br/>and<br/>equipment</b> | <b>Furniture<br/>and<br/>fixtures</b> | <b>Construction-<br/>in-progress<br/>(*1)</b> | <b>Others</b> | <b>Total</b> |
|---|-------------|---|--|---------------------------------------|---|---------------|--------------|
| Acquisition cost as of January 1, 2016            | ₩ 462,787   | 5,998,384                               | 36,450,747                             | 794,894                               | 1,268,946                                     | 216,044       | 45,191,802   |
| Accumulated depreciation as of January 1, 2016    |             | (2,117,951)                             | (31,694,483)                           | (663,331)                             |   | (164,257)     | (34,640,022) |
| Accumulated impairment loss as of January 1, 2016 |             |   | (5,760)                                |                                       |   |               | (5,760)      |
| Book value as of January 1, 2016                  | ₩ 462,787   | 3,880,433                               | 4,750,504                              | 131,563                               | 1,268,946                                     | 51,787        | 10,546,020   |
| Additions   |             |   |  |                                       | 4,562,263                                     |               | 4,562,263    |
| Business combinations (*3)                        |             | 16,023                                  | 655                                    | 449                                   |   | 663           | 17,790       |
| Depreciation                                      |             | (288,891)                               | (2,283,482)                            | (57,130)                              |   | (13,942)      | (2,643,445)  |
| Impairment loss                                   |             | (1,610)                                 |  |                                       |   |               | (1,610)      |
| Disposals   | (1,303)     | (3,204)                                 | (284,855)                              | (1,746)                               |   | (862)         | (291,970)    |
| Others (*2)                                       |             | 313,404                                 | 2,461,635                              | 52,471                                | (2,846,180)                                   | 18,670        |              |
| Effect of movements in exchange rates             |             | (30,357)                                | (118,060)                              | (1,349)                               | (1,179)                                       | (261)         | (151,206)    |
| Government grants received                        |             | (638)                                   | (3,869)                                |                                       | (1,886)                                       |               | (6,393)      |
| Book value as of December 31, 2016                | ₩ 461,484   | 3,885,160                               | 4,522,528                              | 124,258                               | 2,981,964                                     | 56,055        | 12,031,449   |
| Acquisition cost as of December 31,               | ₩ 461,484   | 6,284,778                               | 37,472,177                             | 775,682                               | 2,981,964                                     | 202,306       | 48,178,391   |

2016

|  |   |             |              |           |           |              |
|--|---|-------------|--------------|-----------|-----------|--------------|
| Accumulated depreciation as of December 31, 2016 | ₩ | (2,397,967) | (32,947,359) | (651,424) | (146,251) | (36,143,001) |
|--|---|-------------|--------------|-----------|-----------|--------------|

|   |   |         |         |  |  |         |
|---|---|---------|---------|--|--|---------|
| Accumulated impairment loss as of December 31, 2016 | ₩ | (1,651) | (2,290) |  |  | (3,941) |
|---|---|---------|---------|--|--|---------|

(\*1) As of December 31, 2016, construction-in-progress mainly relates to construction of manufacturing facilities.

(\*2) Others are mainly amounts transferred from construction-in-progress.

(\*3) Business combinations include property, plant and equipment related to Suzhou Lehui Display Co., Ltd. as its control was transferred to the Controlling Company by exchanging equity interests.

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## Notes to the Consolidated Financial Statements

For the years ended December 31, 2015, 2016 and 2017

9. Property, Plant and Equipment, Continued

(b) Changes in property, plant and equipment for the year ended December 31, 2017 are as follows:

*(In millions of won)*

|   | Land      | Buildings<br>and<br>structures | Machinery<br>and<br>equipment | Furniture<br>and<br>fixtures | Construction-<br>in-progress<br>(*1) | Others    | Total        |
|---|-----------|--------------------------------|-------------------------------|------------------------------|--------------------------------------|-----------|--------------|
| Acquisition cost as of January 1, 2017            | ₩ 461,484 | 6,284,778                      | 37,472,177                    | 775,682                      | 2,981,964                            | 202,306   | 48,178,391   |
| Accumulated depreciation as of January 1, 2017    |           | (2,397,967)                    | (32,947,359)                  | (651,424)                    |                                      | (146,251) | (36,143,001) |
| Accumulated impairment loss as of January 1, 2017 |           | (1,651)                        | (2,290)                       |                              |                                      |           | (3,941)      |
| Book value as of January 1, 2017                  | ₩ 461,484 | 3,885,160                      | 4,522,528                     | 124,258                      | 2,981,964                            | 56,055    | 12,031,449   |
| Additions   |           |                                |                               |                              | 7,272,476                            |           | 7,272,476    |
| Depreciation                                      |           | (295,045)                      | (2,416,202)                   | (66,963)                     |                                      | (13,673)  | (2,791,883)  |
| Disposals   | (1,042)   | (7,206)                        | (75,275)                      | (52)                         |                                      | (3,133)   | (86,708)     |
| Others (*2)                                       | 69        | 339,640                        | 3,825,155                     | 87,186                       | (4,270,210)                          | 18,160    |              |
| Effect of movements                               |           |                                |                               |                              |                                      |           |              |
| in exchange rates                                 |           | (63,222)                       | (140,306)                     | (3,087)                      | (14,213)                             | (687)     | (221,515)    |
| Government grants received                        |           | (548)                          | (3,150)                       |                              | 1,839                                |           | (1,859)      |
| Book value as of December 31, 2017                | ₩ 460,511 | 3,858,779                      | 5,712,750                     | 141,342                      | 5,971,856                            | 56,722    | 16,201,960   |
| Acquisition cost as of December 31, 2017          | ₩ 460,511 | 6,539,506                      | 38,901,158                    | 772,824                      | 5,971,856                            | 205,475   | 52,851,330   |

|  |   |             |              |           |           |              |
|--|---|-------------|--------------|-----------|-----------|--------------|
| Accumulated depreciation as of December 31, 2017 | ₩ | (2,678,970) | (33,186,118) | (631,482) | (148,753) | (36,645,323) |
|--|---|-------------|--------------|-----------|-----------|--------------|

|   |   |         |         |  |  |         |
|---|---|---------|---------|--|--|---------|
| Accumulated impairment loss as of December 31, 2017 | ₩ | (1,757) | (2,290) |  |  | (4,047) |
|---|---|---------|---------|--|--|---------|

(\*1) As of December 31, 2017, construction-in-progress relates to construction of manufacturing facilities.

(\*2) Others are mainly amounts transferred from construction-in-progress.

(c) The capitalized borrowing costs and capitalization rate for the years ended December 31, 2015, 2016 and 2017 are as follows:

*(In millions of won)*

|                             |   | 2015   | 2016   | 2017   |
|-----------------------------|---|--------|--------|--------|
| Capitalized borrowing costs | ₩ | 13,696 | 16,909 | 47,686 |
| Capitalization rate         |   | 3.73%  | 2.91%  | 1.92%  |

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## Notes to the Consolidated Financial Statements

For the years ended December 31, 2015, 2016 and 2017

**10. Intangible Assets**

(a) Changes in intangible assets for the year ended December 31, 2016 are as follows:

|   |   | Intellectual<br>property<br>rights | Software  | Member-<br>ships | Development<br>costs | Construction<br>in-progress<br>(software) | Customer<br>relationships | Technology | Good-<br>will | Others<br>(*3) | Total       |
|---|---|------------------------------------|-----------|------------------|----------------------|---|---------------------------|------------|---------------|----------------|-------------|
| Acquisition cost as of<br>January 1, 2016         | ₩ | 817,359                            | 698,844   | 51,092           | 1,111,503            | 2,986                                     | 59,176                    | 11,074     | 104,455       | 13,089         | 2,860,494   |
| Amortization as of<br>January 1, 2016             |   | (516,421)                          | (541,212) |                  | (924,273)            |   | (19,731)                  | (6,275)    |               | (13,063)       | (2,010,675) |
| Amortization as of<br>January 1, 2016             |   |                                    |           | (9,873)          |                      |   |                           |            |               |                | (9,873)     |
| Value as of<br>December 31, 2016                  | ₩ | 300,938                            | 157,632   | 41,219           | 187,230              | 2,986                                     | 39,445                    | 4,799      | 104,455       | 26             | 830,795     |
| Acquisitions - internally<br>developed            |   |                                    |           |                  | 322,288              |   |                           |            |               |                | 322,288     |
| Acquisitions - external<br>business combinations  |   | 21,160                             |           | 800              |                      | 80,481                                    |                           |            |               |                | 102,441     |
| Amortization (*2)                                 |   | (41,088)                           | (75,786)  |                  | (253,178)            |   | (6,947)                   | (1,107)    |               | (20)           | (378,106)   |
| Impairment loss                                   |   |                                    |           | (336)            |                      |   |                           |            |               |                | (336)       |
| Transfer from<br>Construction-in-progress         |   |                                    | 65,327    |                  |                      | (65,327)                                  |                           |            |               |                |             |
| Exchange rate<br>movements in<br>carrying amounts |   | 5,256                              | (1,766)   | 8                |                      | 598                                       |                           |            | 994           |                | 4,186       |
| Value as of<br>December 31, 2016                  | ₩ | 286,266                            | 145,772   | 41,553           | 256,340              | 18,738                                    | 32,498                    | 3,692      | 110,072       | 6              | 894,337     |
| Acquisition cost as of<br>December 31, 2016       | ₩ | 904,664                            | 806,835   | 51,564           | 1,433,791            | 18,738                                    | 59,176                    | 11,074     | 110,072       | 13,077         | 3,407,717   |
| Amortization as of<br>December 31, 2016           | ₩ | (618,398)                          | (661,063) |                  | (1,177,451)          |   | (26,678)                  | (7,382)    |               | (13,071)       | (2,503,973) |

ulated  
 zation as of  
 ber 31, 2016

ulated impairment  
 of December 31,

₩

(10,011)

(10

(\*1) Business combinations include intangible assets related to Suzhou Lehui Display Co., Ltd. as its control was transferred to the Controlling Company by exchanging equity interests.

(\*2) The Group has classified the amortization as manufacturing overhead costs, selling expenses, administrative expenses and research and development expenses.

(\*3) Others mainly consist of rights to use electricity and gas supply facilities.

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Notes to the Consolidated Financial Statements

For the years ended December 31, 2015, 2016 and 2017

**10. Intangible Assets, Continued**

(b) Changes in intangible assets for the year ended December 31, 2017 are as follows:

|                                    |   | <b>Intellectual<br/>property<br/>rights</b> | <b>Software</b> | <b>Member-<br/>ships</b> | <b>Development<br/>costs</b> | <b>Construction-<br/>in-progress<br/>(software)</b> | <b>Customer<br/>relationships</b> | <b>Technology</b> | <b>Good-<br/>will(*2)</b> | <b>Others<br/>(*3)</b> | <b>To</b> |
|------------------------------------|---|---|-----------------|--------------------------|------------------------------|---|-----------------------------------|-------------------|---------------------------|------------------------|-----------|
| ation cost as of<br>1, 2017        | ₩ | 904,664                                     | 806,835         | 51,564                   | 1,433,791                    | 18,738  | 59,176                            | 11,074            | 110,072                   | 13,077                 | 3,40      |
| ulated<br>ation as of<br>1, 2017   |   | (618,398)                                   | (661,063)       |                          | (1,177,451)                  |   | (26,678)                          | (7,382)           |                           | (13,071)               | (2,50     |
| ulated impairment<br>of January 1, |   |   |                 | (10,011)                 |                              |   |                                   |                   |                           |                        | (1        |
| value as of<br>1, 2017             | ₩ | 286,266                                     | 145,772         | 41,553                   | 256,340                      | 18,738  | 32,498                            | 3,692             | 110,072                   | 6                      | 89        |
| ns - internally<br>ed              |   |   |                 |                          | 336,207                      |   |                                   |                   |                           |                        | 33        |
| ns - external<br>es                |   | 22,746                                      |                 | 4,819                    |                              | 108,761   |                                   |                   |                           |                        | 13        |
| ization (*1)                       |   | (42,195)                                    | (78,939)        |                          | (295,787)                    |   | (4,659)                           | (1,108)           |                           | (5)                    | (42       |
| als                                |   | (4)   |                 | (1,392)                  |                              |   |                                   |                   |                           |                        | (         |
| ment loss                          |   |   |                 | (1,809)                  |                              |   |                                   |                   |                           |                        | (         |
| l of impairment                    |   |   |                 | 35                       |                              |   |                                   |                   |                           |                        |           |
| r from<br>ction-in-progress        |   |   | 98,989          |                          |                              | (98,989)  |                                   |                   | (3,218)                   |                        | (         |
| of movements in<br>ge rates        |   | (19,847)                                    | (4,332)         | (6)                      |                              | 2,423   |                                   |                   | (3,806)                   |                        | (2        |
| value as of<br>ber 31, 2017        | ₩ | 246,966                                     | 161,490         | 43,200                   | 296,760                      | 30,933  | 27,839                            | 2,584             | 103,048                   | 1                      | 91        |
| ation cost as of<br>ber 31, 2017   | ₩ | 895,721                                     | 898,278         | 54,985                   | 1,769,998                    | 30,933  | 59,176                            | 11,074            | 103,048                   | 13,077                 | 3,83      |

|                                       |             |           |             |          |         |          |       |
|---------------------------------------|-------------|-----------|-------------|----------|---------|----------|-------|
| ulated<br>ation as of<br>ber 31, 2017 | ₩ (648,755) | (736,788) | (1,473,238) | (31,337) | (8,490) | (13,076) | (2,91 |
| ulated impairment<br>of December 31,  | ₩           | (11,785)  |             |          |         |          | (1    |

(\*1) The Group has classified the amortization as manufacturing overhead costs, selling expenses, administrative expenses and research and development expenses.

(\*2) As of December 31, 2017, the book value of goodwill decreased by ₩3,218 million as the Group completed the fair value measurement of land use right, acquired from business combination during the year ended December 31, 2016.

(\*3) Others mainly consist of rights to use electricity and gas supply facilities.

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## Notes to the Consolidated Financial Statements

For the years ended December 31, 2015, 2016 and 2017

10. Intangible Assets, Continued

(c) Development of new projects are divided into research activities and development activities. Expenditures on research activities are recognized in profit or loss and development expenditures are capitalized, respectively.

(d) Development costs at the reporting date are as follows:

(i) As of December 31, 2016

*(In millions of won and in years)*

| <b>Classification</b>  | <b>Product</b> | <b>Book Value</b> | <b>Remaining Useful life</b> |
|------------------------|----------------|-------------------|------------------------------|
| Development completed  | Mobile         | ₩ 54,405          | 0.5                          |
|                        | TV             | 50,223            | 0.6                          |
|                        | Notebook       | 16,207            | 0.6                          |
|                        | Others         | 20,032            | 0.6                          |
|                        | Sub-Total      | ₩ 140,867         |                              |
| Development in process | Mobile         | ₩ 45,496          |                              |
|                        | TV             | 22,392            |                              |
|                        | Notebook       | 21,950            |                              |
|                        | Others         | 25,635            |                              |
|                        | Sub-Total      | ₩ 115,473         |                              |
|                        | Total          | ₩ 256,340         |                              |

(ii) As of December 31, 2017

*(In millions of won and in years)*

| <b>Classification</b> | <b>Product</b> | <b>Book Value</b> | <b>Remaining Useful</b> |
|-----------------------|----------------|-------------------|-------------------------|
|-----------------------|----------------|-------------------|-------------------------|

|             |           |           | <b>life</b> |
|-------------|-----------|-----------|-------------|
|             | Mobile    | ₩ 79,372  | 0.6         |
| Development | TV        | 36,038    | 0.6         |
|             | Notebook  | 14,311    | 0.5         |
| completed   | Others    | 12,444    | 0.4         |
|             | Sub-Total | ₩ 142,165 |             |
|             | Mobile    | ₩ 117,222 |             |
| Development | TV        | 30,670    |             |
|             | Notebook  | 2,356     |             |
| in process  | Others    | 4,347     |             |
|             | Sub-Total | ₩ 154,595 |             |
|             | Total     | ₩ 296,760 |             |

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Notes to the Consolidated Financial Statements

For the years ended December 31, 2015, 2016 and 2017

**11. Financial Liabilities**

(a) Financial liabilities at the reporting date are as follows:

*(In millions of won)*

|   | December 31, 2016 | December 31, 2017 |
|---|-------------------|-------------------|
| <b>Current</b>                                    |                   |                   |
| Short-term borrowings                             | ₩ 113,209         |                   |
| Current portion of long-term borrowings and bonds | 554,700           | 1,452,926         |
|   | ₩ 667,909         | 1,452,926         |
| <b>Non-current</b>                                |                   |                   |
| Won denominated borrowings                        | ₩ 821,922         | 1,251,258         |
| Foreign currency denominated borrowings           | 1,777,877         | 1,392,931         |
| Bonds   | 1,511,062         | 1,506,003         |
| Derivatives(*)                                    | 472               |                   |
|   | ₩ 4,111,333       | 4,150,192         |

(\*) Represents interest rate swap contracts related to borrowings with variable interest rate.

(b) Short-term borrowings at the reporting date are as follows:

*(In millions of won, USD)*

| Lender                                | Annual<br>interest<br>rate<br>as of | December 31, 2017 | December 31, 2016 | December 31, 2017 |
|---------------------------------------|-------------------------------------|-------------------|-------------------|-------------------|
| Standard Chartered Bank Korea Limited |                                     | ₩                 | 113,209           |                   |

Foreign currency equivalent USD 94

(c) Won denominated long-term borrowings at the reporting date are as follows:

| <i>(In millions of won)</i>                     | <b>Annual interest rate</b>                      |                     |                     |
|---|--|---------------------|---------------------|
|   | <b>as of</b>                                     | <b>December 31,</b> | <b>December 31,</b> |
| <b>Lender</b>                                   | <b>December 31, 2017 (%)</b>                     | <b>2016</b>         | <b>2017</b>         |
| Woori Bank                                      | 3-year Korean Treasury<br>Bond rate - 1.25, 2.75 | ₩ 2,991             | 1,922               |
| Shinhan Bank                                    | CD rate (91days) + 0.30                          | 200,000             | 200,000             |
| Korea Development Bank and<br>others            | CD rate (91days) +<br>0.64~0.74, 2.28~3.07       | 620,000             | 1,250,000           |
| Less current portion of<br>long-term borrowings |  | (1,069)             | (200,664)           |
|   |  | ₩ 821,922           | 1,251,258           |

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**Table of Contents****LG DISPLAY CO., LTD. AND SUBSIDIARIES**

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2015, 2016 and 2017

**11. Financial Liabilities, Continued**

(d) Foreign currency denominated long-term borrowings at the reporting date are as follows:

| <i>(In millions of won, USD and CNY)</i>     | <b>Annual interest rate</b>                 |                          |                          |           |
|--|---|--------------------------|--------------------------|-----------|
|  | <b>as of</b>                                |                          |                          |           |
| <b>Lender</b>                                | <b>December 31, 2017 (%)</b> <sup>(*)</sup> | <b>December 31, 2016</b> | <b>December 31, 2017</b> |           |
| The Export-Import Bank of Korea and others   | 3ML+0.55~1.04                               | ₩ 1,027,225              |                          | 755,337   |
| Standard Chartered Bank Korea Limited        |   | 8,469                    |                          |           |
| China Construction Bank and others           | USD:<br>3ML+0.80~2.00                       |                          |                          |           |
|  | CNY: 4.28                                   | 926,058                  |                          | 1,385,097 |
| Foreign currency equivalent                  |   | USD 1,157                | USD 1,500                |           |
|  |   | CNY 3,264                | CNY 3,263                |           |
| Less current portion of long-term borrowings |   | (183,875)                |                          | (747,503) |
|  |   | ₩ 1,777,877              |                          | 1,392,931 |

(\*) ML represents Month LIBOR (London Inter-Bank Offered Rates).

(e) Details of bonds issued and outstanding at the reporting date are as follows:

| <i>(In millions of won)</i> | <b>Maturity</b> | <b>Annual interest rate as of</b> | <b>December 31, 2016</b> | <b>December 31, 2017</b> |
|-----------------------------|-----------------|-----------------------------------|--------------------------|--------------------------|
|-----------------------------|-----------------|-----------------------------------|--------------------------|--------------------------|

## December 31, 2017 (%)

|                                 |              |           |   |           |           |
|---------------------------------|--------------|-----------|---|-----------|-----------|
| <b>Won denominated bonds(*)</b> |              |           |   |           |           |
| Publicly issued bonds           | March 2018 ~ |           |   |           |           |
|                                 | October 2022 | 1.73~3.73 | ₩ | 1,885,000 | 2,015,000 |
| Less discount on bonds          |              |           |   | (4,182)   | (4,238)   |
| Less current portion            |              |           |   | (369,756) | (504,759) |
|                                 |              |           | ₩ | 1,511,062 | 1,506,003 |

(\*) Principal of the won denominated bonds is to be repaid at maturity and interests are paid quarterly in arrears.

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## Notes to the Consolidated Financial Statements

For the years ended December 31, 2015, 2016 and 2017

**12. Employee Benefits**

The Controlling Company and certain subsidiaries defined benefit plans provide a lump-sum payment to an employee based on final salary rates and length of service at the time the employee leaves the Controlling Company or certain subsidiaries.

The defined benefit plans expose the Group to actuarial risks, such as the risk associated with expected periods of service, interest rate risk, market (investment) risk, and others.

(a) Net defined benefit liabilities recognized at the reporting date are as follows:

*(In millions of won)*

|   | <b>December 31, 2016</b> | <b>December 31, 2017</b> |
|---|--------------------------|--------------------------|
| Present value of partially funded defined benefit obligations | ₩ 1,401,396              | 1,562,424                |
| Fair value of plan assets                                     | (1,258,409)              | (1,466,977)              |
|   | ₩ 142,987                | 95,447                   |

(b) Changes in the present value of the defined benefit obligations for the years ended December 31, 2016 and 2017 are as follows:

*(In millions of won)*

|                                     | <b>2016</b> | <b>2017</b> |
|-------------------------------------|-------------|-------------|
| Opening defined benefit obligations | ₩ 1,381,648 | 1,401,396   |
| Current service cost                | 210,682     | 195,850     |
| Interest cost                       | 39,420      | 40,844      |
| Remeasurements (before tax)         | (161,082)   | (114)       |
| Benefit payments                    | (65,099)    | (76,011)    |
| Transfers from (to) related parties | (4,205)     | 534         |
| Others                              | 32          | (75)        |
| Closing defined benefit obligations | ₩ 1,401,396 | 1,562,424   |

Weighted average remaining maturity of defined benefit obligations as of December 31, 2016 and 2017 are 14.3 years and 14.0 years, respectively.

(c) Changes in fair value of plan assets for the years ended December 31, 2016 and 2017 are as follows:

*(In millions of won)*

|   | <b>2016</b> | <b>2017</b> |
|---|-------------|-------------|
| Opening fair value of plan assets                 | ₩ 1,027,850 | 1,258,409   |
| Expected return on plan assets                    | 29,140      | 38,453      |
| Remeasurements (before tax)                       | (5,736)     | (16,374)    |
| Contributions by employer directly to plan assets | 265,000     | 250,998     |
| Benefit payments                                  | (57,845)    | (64,509)    |
| Closing fair value of plan assets                 | ₩ 1,258,409 | 1,466,977   |

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Notes to the Consolidated Financial Statements

For the years ended December 31, 2015, 2016 and 2017

**12. Employee Benefits, Continued**

(d) Plan assets at the reporting date are as follows:

*(In millions of won)*

|                              | <b>December 31, 2016</b> | <b>December 31, 2017</b> |
|------------------------------|--------------------------|--------------------------|
| Guaranteed deposits in banks | ₩ 1,258,409              | 1,466,977                |

As of December 31, 2017, the Controlling Company maintains the plan assets with Mirae Asset Securities Co., Ltd., Shinhan Bank and others.

The Group's estimated additional contribution to the plan assets for the year ending December 31, 2018 is ₩129,138 million.

(e) Expenses recognized in profit or loss for the years ended December 31, 2015, 2016 and 2017 are as follows:

| <i>(In millions of won)</i> | <b>2015</b> | <b>2016</b> | <b>2017</b> |
|-----------------------------|-------------|-------------|-------------|
| Current service cost        | ₩ 187,768   | 210,682     | 195,850     |
| Net interest cost           | 11,265      | 10,280      | 2,391       |
|                             | ₩ 199,033   | 220,962     | 198,241     |

Expenses are recognized in the following line items in the consolidated statements of comprehensive income:

| <i>(In millions of won)</i>       | <b>2015</b> | <b>2016</b> | <b>2017</b> |
|-----------------------------------|-------------|-------------|-------------|
| Cost of sales                     | ₩ 159,348   | 177,652     | 158,418     |
| Selling expenses                  | 11,567      | 12,513      | 11,114      |
| Administrative expenses           | 14,809      | 16,486      | 16,287      |
| Research and development expenses | 13,309      | 14,311      | 12,422      |
|                                   | ₩ 199,033   | 220,962     | 198,241     |

- (f) Remeasurements of net defined benefit liabilities (assets) included in other comprehensive income (loss) for the years ended December 31, 2015, 2016 and 2017 are as follows:

| <i>(In millions of won)</i>                  | <b>2015</b> | <b>2016</b> | <b>2017</b> |
|--|-------------|-------------|-------------|
| Balance at January 1                         | ₩ (197,720) | (281,902)   | (163,950)   |
| Remeasurements                               |             |             |             |
| Actuarial profit or loss arising from:       |             |             |             |
| Experience adjustment                        | 15,567      | 70,258      | (48,890)    |
| Demographic assumptions                      | (22,267)    | (4,605)     | (7,702)     |
| Financial assumptions                        | (98,117)    | 95,429      | 56,706      |
| Return on plan assets                        | (5,440)     | (5,736)     | (16,374)    |
| Share of associates regarding remeasurements | (607)       | 200         | 441         |
|  | (110,864)   | 155,546     | (15,819)    |
| Income tax                                   | 26,682      | (37,594)    | 9,259       |
| Balance at December 31                       | ₩ (281,902) | (163,950)   | (170,510)   |

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## Notes to the Consolidated Financial Statements

For the years ended December 31, 2015, 2016 and 2017

12. Employee Benefits, Continued

(g) Principal actuarial assumptions at the reporting date (expressed as weighted averages) are as follows:

|   | 2016 | 2017 |
|---|------|------|
| Expected rate of salary increase              | 4.7% | 4.7% |
| Discount rate for defined benefit obligations | 3.0% | 3.2% |

Assumptions regarding future mortality are based on published statistics and mortality tables. The current mortality underlying the values of the liabilities in the defined benefit plans are as follows:

|          |         | December 31, 2016 | December 31, 2017 |
|----------|---------|-------------------|-------------------|
| Teens    | Males   | 0.01%             | 0.01%             |
|          | Females | 0.00%             | 0.00%             |
| Twenties | Males   | 0.01%             | 0.01%             |
|          | Females | 0.00%             | 0.00%             |
| Thirties | Males   | 0.01%             | 0.01%             |
|          | Females | 0.01%             | 0.01%             |
| Forties  | Males   | 0.03%             | 0.03%             |
|          | Females | 0.02%             | 0.02%             |
| Fifties  | Males   | 0.05%             | 0.05%             |
|          | Females | 0.02%             | 0.02%             |

(h) Reasonably possible changes to respective relevant actuarial assumptions would have affected the defined benefit obligations by the amounts as of December 31, 2017 are as follows:

|   | Defined benefit obligation |             |
|---|----------------------------|-------------|
|   | 1%<br>increase             | 1% decrease |
| Discount rate for defined benefit obligations | ₩ (190,224)                | 229,954     |
| Expected rate of salary increase              | 224,578                    | (189,818)   |

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## Notes to the Consolidated Financial Statements

For the years ended December 31, 2015, 2016 and 2017

13. Provisions

Changes in provisions for the year ended December 31, 2016 are as follows:

*(In millions of won)*

|                              | <b>Litigations<br/>and claims</b> | <b>Warranties</b> | <b>Others</b> | <b>Total</b> |
|------------------------------|-----------------------------------|-------------------|---------------|--------------|
| Balance at January 1, 2016   | ₩ 61,245                          | 56,429            | 4,040         | 121,714      |
| Additions                    | 12,471                            | 167,322           | 873           | 180,666      |
| Reversal                     | (14,887)                          | (631)             | (3,248)       | (18,766)     |
| Usage and reclassification   | (58,829)                          | (161,335)         |               | (220,164)    |
| Business combination         |                                   | 677               |               | 677          |
| Balance at December 31, 2016 | ₩                                 | 62,462            | 1,665         | 64,127       |
| Current                      | ₩                                 | 54,307            | 1,665         | 55,972       |
| Non-current                  | ₩                                 | 8,155             |               | 8,155        |

Changes in provisions for the year ended December 31, 2017 are as follows:

*(In millions of won)*

|                              | <b>Litigation<br/>and claims</b> | <b>Warranties<br/>(*)</b> | <b>Others</b> | <b>Total</b> |
|------------------------------|----------------------------------|---------------------------|---------------|--------------|
| Balance of January 1, 2017   | ₩                                | 62,462                    | 1,665         | 64,127       |
| Additions                    | 43                               | 251,131                   | 170           | 251,344      |
| Usage and reclassification   |                                  | (211,143)                 |               | (211,143)    |
| Balance at December 31, 2017 | ₩ 43                             | 102,450                   | 1,835         | 104,328      |
| Current                      | ₩ 43                             | 74,138                    | 1,835         | 76,016       |
| Non-current                  | ₩                                | 28,312                    |               | 28,312       |

(\*) The provision for warranties covers defective products and is normally applicable for 18 months from the date of purchase. The warranty liability is calculated by using historical and anticipated rates of warranty claims, and costs per claim to satisfy the Group's warranty obligation.



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For the years ended December 31, 2015, 2016 and 2017

14. Other liabilities

Other liabilities at the reporting date are as follows:

*(In millions of won)*

|                                  | December 31, 2016 | December 31, 2017 |
|----------------------------------|-------------------|-------------------|
| <b>Current liabilities</b>       |                   |                   |
| Withholdings                     | ₩ 40,190          | 63,766            |
| Unearned revenues                | 8,776             | 12,225            |
|                                  | ₩ 48,966          | 75,991            |
| <b>Non-current liabilities</b>   |                   |                   |
| Long-term accrued expenses       | ₩ 65,616          | 70,561            |
| Long-term other accounts payable | 3,530             | 2                 |
|                                  | ₩ 69,146          | 70,563            |

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For the years ended December 31, 2015, 2016 and 2017

15. **Contingent Liabilities and Commitments**

(a) Legal Proceedings

**Delaware Display Group LLC and Innovative Display Technologies LLC ( DDG and IDT )**

In December 2013, Delaware Display Group LLC and Innovative Display Technologies LLC filed a patent infringement case ( First Case ) against the Controlling Company and LG Display America, Inc. in the United States District Court for the District of Delaware and DDG and IDT filed a new patent infringement case against the Controlling Company and LG Display America, Inc. over the three patents that were dismissed without prejudice from the First Case in December 2015. Additionally, in August 2016, Innovative Display Technologies LLC filed a new patent infringement case against the Controlling Company and LG Display America, Inc. in the United States District Court for the Eastern District of Texas with respect to two new patents. In March 2017, the parties reached settlements in principle through mediation. In April 2017, the parties filed a stipulation of dismissal and amicably settled all claims asserted in the above-mentioned patent litigations.

**Surpass Tech Innovation LLC**

In March 2014, Surpass Tech Innovation LLC filed a complaint in the United States District Court for the District of Delaware against the Controlling Company and LG Display America, Inc. for alleged patent infringement. In April 2017, the case was terminated pursuant to a stipulation of dismissal filed by Surpass Tech Innovation LLC.

**Anti-trust litigations**

Argos Limited and affiliated companies ( Argos ) filed a Notice of Claim against the Controlling Company and LG Display Taiwan Co., Ltd. in the High Court of Justice in London alleging infringement of Treaty on the Functioning of the European Union and Agreement on the European Economic Area. Prior to Argos' filing of Particulars of Claim and service, the Controlling Company and LG Display Taiwan Co., Ltd. reached a settlement in principle with Argos in December 2017. The parties expect to execute a settlement agreement in early 2018.

**Others**

The Group is defending against various claims in addition to pending proceedings described above. The Group does not have a present obligation for these matters and has not recognized any provision at December 31, 2017.

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## Notes to the Consolidated Financial Statements

For the years ended December 31, 2015, 2016 and 2017

**15. Contingent Liabilities and Commitments, Continued**

## (b) Commitments

**Factoring and securitization of accounts receivable**

The Controlling Company has agreements with Korea Development Bank and several other banks for accounts receivable sales negotiating facilities of up to an aggregate of USD 1,743 million (~~₩~~1,867,964 million) in connection with the Controlling Company's export sales transactions with its subsidiaries. As of December 31, 2017, no short-term borrowings were outstanding in connection with these agreements. In connection with all of the contracts mentioned above, the Controlling Company has sold its accounts receivable with recourse.

The Controlling Company and oversea subsidiaries entered into agreements with financial institutions for accounts receivables sales negotiating facilities. The respective maximum amount of accounts receivables sales and the amount of sold accounts receivables before maturity by contract are as follows:

*(In millions of USD and KRW)*

| Classification                 | Financial institutions              | Maximum            |        | Not yet due        |     |
|--------------------------------|-------------------------------------|--------------------|--------|--------------------|-----|
|                                |                                     | Contractual amount | KRW    | Contractual amount | KRW |
| <b>Controlling Company</b>     | Shinhan Bank                        | KRW                | 90,000 | 90,000             |     |
|                                | Sumitomo Mitsui Banking Corporation | USD                | 20     | 21,428             |     |
|                                | Bank of Tokyo-Mitsubishi UFJ        | USD                | 70     | 74,998             |     |
|                                | BNP Paribas                         | USD                | 150    | 160,710            |     |
|                                |                                     | USD                | 240    |                    |     |
|                                |                                     | KRW                | 90,000 | 347,136            |     |
| <b>Subsidiaries</b>            |                                     |                    |        |                    |     |
| LG Display Singapore Pte. Ltd. | Standard Chartered Bank             | USD                | 300    | 321,420            |     |
| LG Display Taiwan Co., Ltd.    | BNP Paribas                         | USD                | 82     | 87,855             |     |
|                                | Hongkong & Shanghai                 |                    |        |                    |     |
|                                | Banking Corp.                       | USD                | 60     | 64,284             |     |
|                                | Taishin International Bank          | USD                | 280    | 299,992            |     |
| LG Display Germany GmbH        | Citibank                            | USD                | 160    | 171,424            |     |

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|  |   |     |        |           |
|--|---|-----|--------|-----------|
|  | BNP Paribas                             | USD | 75     | 80,355    |
| LG Display America, Inc.               | Hongkong & Shanghai Banking Corp.       | USD | 400    | 428,560   |
|  | Standard Chartered Bank                 | USD | 400    | 428,560   |
|  | Sumitomo Mitsui Banking Corporation     | USD | 250    | 267,850   |
| LG Display Japan Co., Ltd.             | Sumitomo Mitsui Banking Corporation     | USD | 90     | 96,426    |
| LG Display Guangzhou Trading Co., Ltd. | Industrial and Commercial Bank of China | USD | 64     | 68,570    |
|  |   | USD | 2,161  | 2,315,296 |
|  |   | USD | 2,401  | 2,662,432 |
|  |   | KRW | 90,000 |           |

In connection with all of the contracts in the above table, the Controlling Company has sold its accounts receivable without recourse.

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For the years ended December 31, 2015, 2016 and 2017

15. Contingent Liabilities and Commitments, Continued

*Letters of credit*

As of December 31, 2017, the Controlling Company has agreements in relation to the opening of letters of credit up to USD 30 million (₩32,142 million) with KEB Hana Bank, USD 80 million (₩85,712 million) with Bank of China and USD 50 million (₩53,570 million) with Sumitomo Mitsui Banking Corporation.

*Payment guarantees*

The Controlling Company obtained payment guarantees amounting to USD 900 million (₩964,260 million) from KEB Hana Bank and others for advance received related to the long-term supply agreements and USD 8.5 million (₩9,107 million) from Shinhan Bank for value added tax payments in Poland.

LG Display (China) Co., Ltd. and other subsidiaries are provided with payment guarantees from the Bank of China and other various banks amounting to CNY 3,550 million (₩580,958 million), JPY 700 million (₩6,644 million), USD 0.5 million (₩536 million), EUR 2.5 million (₩3,198 million), PLN 0.2 million (₩61 million) and VND 40,992 million (₩1,935 million), respectively, for their local tax payments and utility payments.

*Credit facility*

LG Display Vietnam Co., Ltd. and other subsidiary have entered into long-term credit facility agreements of up to USD 550 million (₩589,270 million) with Sumitomo Mitsui Banking Corporation and other various banks and borrowings as of December 31, 2017 amount to USD 495 million (₩530,343 million).

*License agreements*

As of December 31, 2017, in relation to its LCD business, the Group has technical license agreements with Hitachi Display, Ltd. and others and has a trademark license agreement with LG Corp.

*Long-term supply agreement*

As of December 31, 2017, in connection with long-term supply agreements with customers, the Controlling Company recognized USD 900 million (₩964,260 million) in advances received. The advances received will be offset against outstanding accounts receivable balances after a given period of time, as well as those arising from the supply of products thereafter. The Controlling Company received payment guarantees amounting to USD 900 million (₩964,260 million) from KEB Hana Bank and other various banks relating to advance received.

*Pledged Assets*



Regarding the secured bank borrowing amounting to USD 300 million (~~₩~~320,797 million) and CNY 1,964 million (~~₩~~321,376 million) from China Construction Bank, as of December 31, 2017, the Group provided its property, plant and equipment and others with carrying amount of ~~₩~~303,324 million as pledged assets.

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## Notes to the Consolidated Financial Statements

For the years ended December 31, 2015, 2016 and 2017

**16. Capital and Reserves****(a) Share capital**

The Controlling Company is authorized to issue 500,000,000 shares of capital stock (par value ₩5,000), and as of December 31, 2016 and December 31, 2017, the number of issued common shares is 357,815,700. There have been no changes in the capital stock from January 1, 2015 to December 31, 2017.

**(b) Reserves**

Reserves consist mainly of the following:

**Translation reserve**

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

**Other comprehensive income (loss) from associates**

The other comprehensive income (loss) from associates comprises the amount related to change in equity of investments in equity accounted investees.

Reserves at the reporting date are as follows:

| <i>(In millions of won)</i>  | <b>December 31, 2016</b> | <b>December 31, 2017</b> |
|--|--------------------------|--------------------------|
| Foreign currency translation differences for foreign operations  | ₩ (59,042)               | (259,749)                |
| Other comprehensive loss from associates and joint venture (excluding remeasurements of net defined benefit liabilities) | (29,436)                 | (28,531)                 |
|  | ₩ (88,478)               | (288,280)                |



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## Notes to the Consolidated Financial Statements

For the years ended December 31, 2015, 2016 and 2017

16. Capital and Reserves, Continued

The movement in reserves for the years ended December 31, 2015, 2016 and 2017 are as follows:

*(In millions of won)*

|                    | <b>Net change in fair<br/>value of<br/>available-for-<br/>sale<br/>financial<br/>assets</b> | <b>Foreign currency<br/>translation differences<br/>for foreign<br/>operations</b> | <b>Other comprehensive<br/>income (loss)<br/>from<br/>associates<br/>(excluding<br/>remeasurements)</b> | <b>Total</b> |
|--------------------|---|--|---|--------------|
| January 1, 2015    | ₩ 276   | (20,923)   | (43,196)  | (63,843)     |
| Change in reserves | (218)   | 39,119   | 19,176  | 58,077       |
| December 31, 2015  | 58  | 18,196   | (24,020)  | (5,766)      |
| January 1, 2016    | 58  | 18,196   | (24,020)  | (5,766)      |
| Change in reserves | (58)  | (77,238)   | (5,416)   | (82,712)     |
| December 31, 2016  |   | (59,042)   | (29,436)  | (88,478)     |
| January 1, 2017    |   | (59,042)   | (29,436)  | (88,478)     |
| Change in reserves |   | (200,707)  | 905   | (199,802)    |
| December 31, 2017  |   | (259,749)  | (28,531)  | (288,280)    |

## (c) Dividends

On March 15, 2018, The Controlling Company declared a cash dividends of ₩178,908 million (₩500 won per share) to shareholders of record as of December 31, 2017 and distributed the cash dividend to such shareholders on April 12, 2018.

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## Notes to the Consolidated Financial Statements

For the years ended December 31, 2015, 2016 and 2017

**17. Geographic and Other Information**

## (a) Revenue by geography

The following is a summary of sales by region based on the location of the customers for the years ended December 31, 2015, 2016 and 2017.

*(In millions of won)*

| <b>Region</b>             | <b>2015</b>  | <b>2016</b> | <b>2017</b> |
|---------------------------|--------------|-------------|-------------|
| Domestic                  | ₩ 2,217,516  | 1,825,191   | 1,996,183   |
| Foreign                   |              |             |             |
| China                     | 19,375,401   | 18,367,767  | 18,090,974  |
| Asia (excluding China)    | 2,605,753    | 2,148,676   | 2,383,390   |
| United States             | 1,981,021    | 2,053,317   | 2,724,714   |
| Europe (excluding Poland) | 1,064,122    | 983,672     | 1,433,126   |
| Poland                    | 1,140,071    | 1,125,451   | 1,161,829   |
|                           | 26,166,368   | 24,678,883  | 25,794,033  |
|                           | ₩ 28,383,884 | 26,504,074  | 27,790,216  |

Sales to Company A and Company B amount to ₩9,027,165 million and ₩6,511,961 million, respectively, for the year ended December 31, 2017 (2015: ₩9,900,220 million and ₩6,682,226 million, 2016: ₩9,122,385 million and ₩5,808,630 million). The Group's top ten end-brand customers together accounted for 81% of sales for the year ended December 31, 2017 (2015: 82%, 2016: 82%).

## (b) Non-current assets by geography

*(In millions of won)*

| <b>Region</b> | <b>December 31, 2016</b>             |                          | <b>December 31, 2017</b>             |                          |
|---------------|--------------------------------------|--------------------------|--------------------------------------|--------------------------|
|               | <b>Property, plant and equipment</b> | <b>Intangible assets</b> | <b>Property, plant and equipment</b> | <b>Intangible assets</b> |
| Domestic      | ₩ 8,758,171                          | 673,966                  | 12,487,111                           | 731,373                  |
| Foreign       |                                      |                          |                                      |                          |
| China         | 3,079,724                            | 23,298                   | 2,929,739                            | 17,244                   |

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|        |              |         |            |         |
|--------|--------------|---------|------------|---------|
| Others | 193,554      | 197,673 | 785,110    | 164,204 |
|        | ₩ 3,273,278  | 220,971 | 3,714,849  | 181,448 |
|        | ₩ 12,031,449 | 894,937 | 16,201,960 | 912,821 |

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## Notes to the Consolidated Financial Statements

For the years ended December 31, 2015, 2016 and 2017

17. Geographic and Other Information, Continued

## (c) Revenue by product and services

*(In millions of won)*

| <b>Product</b>     | <b>2015</b>  | <b>2016</b> | <b>2017</b> |
|--------------------|--------------|-------------|-------------|
| Panels for:        |              |             |             |
| Televisions        | ₩ 10,853,598 | 10,132,520  | 11,717,982  |
| Desktop monitors   | 4,553,138    | 4,035,195   | 4,393,482   |
| Tablet products    | 2,509,911    | 2,695,808   | 2,369,634   |
| Notebook computers | 2,508,878    | 2,383,532   | 2,244,088   |
| Mobile and others  | 7,958,359    | 7,257,019   | 7,065,030   |
|                    | ₩ 28,383,884 | 26,504,074  | 27,790,216  |

18. The Nature of Expenses and Others

The classification of expenses by nature for the years ended December 31, 2015, 2016 and 2017 are as follows:

*(In millions of won)*

|  | <b>2015</b> | <b>2016</b> | <b>2017</b> |
|--|-------------|-------------|-------------|
| Changes in inventories                             | ₩ 402,429   | 63,884      | (62,299)    |
| Purchases of raw materials, merchandise and others | 14,705,757  | 14,244,942  | 13,548,848  |
| Depreciation and amortization                      | 3,375,856   | 3,021,571   | 3,214,576   |
| Outsourcing fees                                   | 1,011,084   | 819,742     | 771,697     |
| Labor cost   | 3,104,043   | 3,022,607   | 3,258,427   |
| Supplies and others                                | 1,062,820   | 1,053,245   | 1,239,915   |
| Utility  | 836,600     | 840,664     | 865,347     |
| Fees and commissions                               | 580,235     | 638,732     | 692,125     |
| Shipping costs                                     | 231,830     | 224,742     | 249,820     |
| Advertising  | 265,755     | 67,636      | 236,440     |
| Warranty expenses                                  | 146,829     | 166,691     | 251,131     |
| Travel   | 71,457      | 73,807      | 92,976      |
| Taxes and dues                                     | 76,640      | 74,506      | 91,806      |

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|        |                         |            |            |
|--------|-------------------------|------------|------------|
| Others | 1,036,131               | 927,218    | 919,051    |
|        | <del>₩</del> 26,907,466 | 25,239,987 | 25,369,860 |

Total expenses consist of cost of sales, selling, administrative, research and development expenses and other non-operating expenses, excluding foreign exchange differences.

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For the years ended December 31, 2015, 2016 and 2017

**19. Selling and Administrative Expenses**

Details of selling and administrative expenses for the years ended December 31, 2015, 2016 and 2017 are as follows:

*(In millions of won)*

|   | <b>2015</b> | <b>2016</b> | <b>2017</b> |
|---|-------------|-------------|-------------|
| Salaries                                  | ₩ 268,182   | 276,824     | 327,288     |
| Expenses related to defined benefit plans | 26,967      | 28,999      | 27,401      |
| Other employee benefits                   | 88,191      | 89,717      | 94,740      |
| Shipping costs                            | 199,774     | 191,442     | 214,866     |
| Fees and commissions                      | 191,106     | 192,786     | 197,070     |
| Depreciation                              | 118,719     | 129,225     | 138,711     |
| Taxes and dues                            | 30,958      | 30,523      | 46,317      |
| Advertising                               | 265,755     | 67,636      | 236,440     |
| Warranty expenses                         | 146,829     | 166,691     | 251,131     |
| Rent                                      | 24,184      | 25,840      | 26,711      |
| Insurance                                 | 10,826      | 11,561      | 12,459      |
| Travel                                    | 24,411      | 23,343      | 27,879      |
| Training                                  | 15,515      | 14,464      | 16,311      |
| Others                                    | 59,468      | 56,342      | 73,181      |
|   | ₩ 1,470,885 | 1,305,393   | 1,690,505   |

**20. Personnel Expenses**

Details of personnel expenses for the years ended December 31, 2015, 2016 and 2017 are as follows:

*(In millions of won)*

|  | <b>2015</b> | <b>2016</b> | <b>2017</b> |
|--|-------------|-------------|-------------|
| Salaries and wages                       | ₩ 2,468,767 | 2,418,869   | 2,704,217   |
| Other employee benefits                  | 450,651     | 459,730     | 483,704     |
| Contributions to National Pension plan   | 66,191      | 69,588      | 73,061      |
| Expenses related to defined benefit plan | 199,033     | 220,962     | 198,241     |
|  | ₩ 3,184,642 | 3,169,149   | 3,459,223   |

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## Notes to the Consolidated Financial Statements

For the years ended December 31, 2015, 2016 and 2017

21. Other Income and Other Expenses

(a) Details of other income for the years ended December 31, 2015, 2016 and 2017 are as follows:

*(In millions of won)*

|   | <b>2015</b>        | <b>2016</b>      | <b>2017</b>      |
|---|--------------------|------------------|------------------|
| Foreign currency gain                             | ₩ 1,221,066        | 1,543,909        | 969,425          |
| Gain on disposal of property, plant and equipment | 18,179             | 14,637           | 101,227          |
| Gain on disposal of Intangible assets             |                    |                  | 308              |
| Reversal of impairment loss on intangible assets  | 80                 |                  | 35               |
| Rental income                                     | 4,858              | 5,152            | 2,212            |
| Others  | 29,718             | 28,103           | 8,539            |
|   | <b>₩ 1,273,901</b> | <b>1,591,801</b> | <b>1,081,746</b> |

(b) Details of other expenses for the years ended December 31, 2015, 2016 and 2017 are as follows:

*(In millions of won)*

|  | <b>2015</b>        | <b>2016</b>      | <b>2017</b>      |
|--|--------------------|------------------|------------------|
| Foreign currency loss                                      | ₩ 1,177,634        | 1,420,502        | 1,189,193        |
| Other bad debt expenses                                    |                    |                  | 1,798            |
| Loss on disposal of property, plant and equipment          | 4,037              | 7,466            | 20,030           |
| Impairment loss on property, plant and equipment           | 3,027              | 1,610            |                  |
| Loss on disposal of intangible assets                      | 29                 | 75               | 30               |
| Impairment loss on intangible assets                       | 239                | 138              | 1,809            |
| Donations  | 14,114             | 22,221           | 17,152           |
| Expenses related to legal proceedings or claims and others | 127,702            | 15,819           | 443              |
|  | <b>₩ 1,326,782</b> | <b>1,467,831</b> | <b>1,230,455</b> |

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## Notes to the Consolidated Financial Statements

For the years ended December 31, 2015, 2016 and 2017

22. Finance Income and Finance Costs

- (a) Finance income and costs recognized in profit or loss for the years ended December 31, 2015, 2016 and 2017 are as follows:

*(In millions of won)*

|   | 2015      | 2016    | 2017    |
|---|-----------|---------|---------|
| <b>Finance income</b>   |           |         |         |
| Interest income   | ₩ 57,080  | 42,079  | 60,106  |
| Foreign currency gain   | 77,879    | 81,554  | 210,890 |
| Gain on disposal of investments in equity accounted investees             | 23,268    | 11,367  | 3,669   |
| Gain on derivatives transactions  | 602       | 4,427   | 3,106   |
| Gain on valuation of derivatives  |           | 244     | 1,070   |
| Gain on disposal of available-for-sale financial assets                   |           |         | 8       |
| Gain on valuation of Financial asset at fair value through profit or loss |           |         | 170     |
|   | ₩ 158,829 | 139,671 | 279,019 |
| <b>Finance costs</b>  |           |         |         |
| Interest expense  | ₩ 126,456 | 113,285 | 90,538  |
| Foreign currency loss   | 155,728   | 132,320 | 126,642 |
| Loss on disposal of investments in equity accounted investees             | 481       | 5,643   | 42,112  |
| Loss on impairment of investments in equity accounted investees           | 26,791    | 6,137   | 4,234   |
| Loss on impairment of available-for-sale financial asset                  |           | 3,757   | 1,948   |
| Loss on valuation of Financial asset at fair value through profit or loss |           |         | 118     |
| Loss on sale of trade accounts and notes receivable                       | 4,909     | 2,886   | 784     |
| Loss on transaction of derivatives  | 722       | 334     | 514     |
| Loss on valuation of derivatives  |           | 472     |         |
| Others  | 1,142     | 1,234   | 2,084   |
|   | ₩ 316,229 | 266,186 | 268,856 |

- (b) Finance income and costs recognized in other comprehensive income or loss for the years ended December 31, 2015, 2016 and 2017 are as follows:

*(In millions of won)*

|  | <b>2015</b> | <b>2016</b> | <b>2017</b> |
|--|-------------|-------------|-------------|
| Foreign currency translation differences for foreign operations                  | ₩ 44,913    | (90,503)    | (231,738)   |
| Net change in fair value of available-for-sale financial assets                  | (288)       | (77)        |             |
| Tax effect   | 214         | 19          |             |
| Finance income (costs) recognized in other comprehensive income (loss) after tax | ₩ 44,839    | (90,561)    | (231,738)   |

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## Notes to the Consolidated Financial Statements

For the years ended December 31, 2015, 2016 and 2017

23. **Income Taxes**

- (a) Details of income tax expense (benefit) recognized in profit for the year for the years ended December 31, 2015, 2016 and 2017 are as follows:

| <i>(In millions of won)</i>                       | <b>2015</b> | <b>2016</b> | <b>2017</b> |
|---|-------------|-------------|-------------|
| Current tax expense                               |             |             |             |
| Current year                                      | ₩ 277,264   | 361,237     | 512,123     |
| Deferred tax expense (benefit)                    |             |             |             |
| Origination and reversal of temporary differences | 123,458     | (49,190)    | (104,835)   |
| Change in unrecognized deferred tax assets        | 9,804       | 72,678      | (11,708)    |
|   | 133,262     | 23,488      | (116,543)   |
| Income tax expense                                | ₩ 410,526   | 384,725     | 395,580     |

- (b) Income taxes recognized directly in other comprehensive income for the years ended December 31, 2015, 2016 and 2017 are as follows:

| <i>(In millions of won)</i>                                     | <b>Before tax</b> | <b>2015<br/>Tax benefit</b> | <b>Net of tax</b> |
|---|-------------------|-----------------------------|-------------------|
| Net change in fair value of available-for-sale financial assets | ₩ (288)           | 70                          | (218)             |
| Remeasurements of net defined benefit liabilities (assets)      | (110,257)         | 26,682                      | (83,575)          |
| Foreign currency translation differences for foreign operations | 44,913            | 144                         | 45,057            |
| Change in equity of equity method investee                      | 18,569            |                             | 18,569            |
|   | ₩ (47,063)        | 26,896                      | (20,167)          |

*(In millions of won)***2016**

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|   | <b>Before<br/>tax</b> | <b>Tax benefit<br/>(expense)</b> | <b>Net of<br/>tax</b> |
|---|-----------------------|----------------------------------|-----------------------|
| Net change in fair value of available-for-sale financial assets | ₩ (77)                | 19                               | (58)                  |
| Remeasurements of net defined benefit liabilities (assets)      | 155,346               | (37,594)                         | 117,752               |
| Foreign currency translation differences for foreign operations | (90,503)              |                                  | (90,503)              |
| Change in equity of equity method investee                      | (5,216)               |                                  | (5,216)               |
|   | ₩ 59,550              | (37,575)                         | 21,975                |

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## Notes to the Consolidated Financial Statements

For the years ended December 31, 2015, 2016 and 2017

**23. Income Taxes, Continued***(In millions of won)*

|   | <b>2017</b>       |                    |                   |
|---|-------------------|--------------------|-------------------|
|   | <b>Before tax</b> | <b>Tax benefit</b> | <b>Net of tax</b> |
| Net change in fair value of available-for-sale financial assets | ₩                 |                    |                   |
| Remeasurements of net defined benefit liabilities (assets)      | (16,260)          | 9,259              | (7,001)           |
| Foreign currency translation differences for foreign operations | (231,738)         |                    | (231,738)         |
| Change in equity of equity method investee                      | 1,346             |                    | 1,346             |
|   | ₩ (246,652)       | 9,259              | (237,393)         |

(c) Reconciliation of the actual effective tax rate for the years ended December 31, 2015, 2016 and 2017 is as follows:

| <i>(In millions of won)</i>                             | <b>2015</b> |                      | <b>2016</b>           |  | <b>2017</b>           |  |
|---|-------------|----------------------|-----------------------|--|-----------------------|--|
| Profit before income taxes                              | ₩           | 1,433,982            | 1,316,233             |  | 2,332,632             |  |
| Income tax using the statutory tax rate of each country |             | 32.56%<br>466,848    | 33.49%<br>440,753     |  | 28.54%<br>665,733     |  |
| Non-deductible expenses                                 |             | 2.66%<br>38,208      | 3.39%<br>44,606       |  | 2.72%<br>63,416       |  |
| Tax credits   |             | (8.12%)<br>(116,439) | (11.45%)<br>(150,663) |  | (10.64%)<br>(248,191) |  |
| Change in unrecognized deferred tax assets              |             | 0.68%<br>9,804       | 5.52%<br>72,678       |  | (0.50%)<br>(11,708)   |  |
| Effect on change in tax rate (Note 24(d))               |             |                      |                       |  | (3.10%)<br>(72,376)   |  |
| Others  |             | 0.84%<br>12,105      | (1.72%)<br>(22,649)   |  | (0.06%)<br>(1,294)    |  |
|   | ₩           | 410,526              | 384,725               |  | 395,580               |  |



Actual income tax  
expense

|                              |        |        |        |
|------------------------------|--------|--------|--------|
| Actual effective tax<br>rate | 28.63% | 29.23% | 16.96% |
|------------------------------|--------|--------|--------|

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## Notes to the Consolidated Financial Statements

For the years ended December 31, 2015, 2016 and 2017

**24. Deferred Tax Assets and Liabilities****(a) Unrecognized deferred tax liabilities**

As of December 31, 2016 and 2017, in relation to the temporary differences on investments in subsidiaries amounting to ₩149,616 million and ₩103,946 million, the Controlling Company did not recognize deferred tax liabilities since the Controlling Company is able to control the timing of the reversal of the temporary difference and it is probable that the temporary differences will not reverse in the foreseeable future.

**(b) Unused tax credit carryforwards for which no deferred tax asset is recognized**

Realization of deferred tax assets related to tax credit carryforwards is dependent on whether sufficient taxable income will be generated prior to their expiration. As of December 31, 2017, the Controlling Company recognized deferred tax assets of ₩268,926 million, in relation to tax credit carryforwards, to the extent that management believes the realization is probable. The amount of unused tax credit carryforwards for which no deferred tax asset is recognized and their expiration dates are as follows:

*(In millions of won)*

|                          | December 31, 2016 | December 31, 2017 | December 31, 2018 | December 31, 2021 | December 31, 2022 |
|--------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Tax credit carryforwards | ₩                 |                   |                   | 58,391            | 91,862            |

**(c) Deferred tax assets and liabilities are attributable to the following:***(In millions of won)*

|                                    | Assets            |                   | Liabilities       |                   | Total             |                   |
|------------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
|                                    | December 31, 2016 | December 31, 2017 | December 31, 2016 | December 31, 2017 | December 31, 2016 | December 31, 2017 |
| Other accounts receivable, net     | ₩                 |                   | (1,190)           | (1,441)           | (1,190)           | (1,441)           |
| Inventories, net                   | 35,771            | 34,550            |                   |                   | 35,771            | 34,550            |
| Defined benefit liabilities, net   | 10,817            | 2,375             |                   |                   | 10,817            | 2,375             |
| Unrealized gain or loss and others | 34,777            | 29,061            |                   |                   | 34,777            | 29,061            |
| Accrued expenses                   | 122,998           | 183,903           |                   |                   | 122,998           | 183,903           |
| Property, plant and equipment      | 338,860           | 409,928           |                   |                   | 338,860           | 409,928           |
| Intangible assets                  | 744               | 3,457             | (31,771)          | (24,646)          | (31,027)          | (21,189)          |
| Provisions                         | 15,051            | 27,018            |                   |                   | 15,051            | 27,018            |

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|   |                      |         |          |          |         |         |
|---|----------------------|---------|----------|----------|---------|---------|
| Gain or loss on foreign currency translation, net | 11                   | 13      |          |          | 11      | 13      |
| Others  | 21,435               | 27,562  |          |          | 21,435  | 27,562  |
| Tax credit carryforwards                          | 287,400              | 268,926 |          |          | 287,400 | 268,926 |
| Deferred tax assets (liabilities)                 | <del>₩</del> 867,864 | 986,793 | (32,961) | (26,087) | 834,903 | 960,706 |

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## Notes to the Consolidated Financial Statements

For the years ended December 31, 2015, 2016 and 2017

**24. Deferred Tax Assets and Liabilities, Continued**

(d) Changes in deferred tax assets and liabilities for the years ended December 31, 2016 and 2017 are as follows:

(In millions of won)

|   | January 1,<br>2016 | Profit<br>or loss | Other<br>compre-<br>hensive<br>income<br>(loss) | December 31,<br>2016 | Profit<br>or<br>loss | Other<br>compre-<br>hensive<br>income | December 31,<br>2017 |
|---|--------------------|-------------------|---|----------------------|----------------------|---------------------------------------|----------------------|
| Other accounts receivable, net                    | ₩ (2,388)          | 1,198             |   | (1,190)              | (251)                |                                       | (1,441)              |
| Inventories, net                                  | 46,449             | (10,678)          |   | 35,771               | (1,221)              |                                       | 34,550               |
| Available-for-sale financial assets               | (19)               |                   | 19  |                      |                      |                                       |                      |
| Defined benefit liabilities, net                  | 58,962             | (10,551)          | (37,594)  | 10,817               | (17,701)             | 9,259                                 | 2,375                |
| Unrealized gain or loss and others                | 9,121              | 25,656            |   | 34,777               | (5,716)              |                                       | 29,061               |
| Accrued expenses                                  | 122,002            | 996               |   | 122,998              | 60,905               |                                       | 183,903              |
| Property, plant and equipment                     | 271,252            | 67,608            |   | 338,860              | 71,068               |                                       | 409,928              |
| Intangible assets                                 | (33,846)           | 2,819             |   | (31,027)             | 9,838                |                                       | (21,189)             |
| Provisions  | 14,152             | 899               |   | 15,051               | 11,967               |                                       | 27,018               |
| Gain or loss on foreign currency translation, net | 11                 |                   |   | 11                   | 2                    |                                       | 13                   |
| Others  | 25,253             | (3,818)           |   | 21,435               | 6,127                |                                       | 27,562               |
| Tax credit carryforwards                          | 385,017            | (97,617)          |   | 287,400              | (18,474)             |                                       | 268,926              |
| Deferred tax assets (liabilities)                 | ₩ 895,966          | (23,488)          | (37,575)  | 834,903              | 116,544              | 9,259                                 | 960,706              |

Statutory tax rate applicable to the Controlling Company is 24.2% for the year ended December 31, 2017. During the year ended December 31, 2017, certain amendments to corporate income tax rules in Korea were enacted and effective on January 1, 2018 that resulted in application of 27.5% for taxable income in excess of ₩300,000 million. Accordingly, the Controlling Company recorded the impact from the amendment in 2017.



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## Notes to the Consolidated Financial Statements

For the years ended December 31, 2015, 2016 and 2017

25. Earnings per Share

(a) Basic earnings per share for the years ended December 31, 2015, 2016 and 2017 are as follows:

*(In won and No. of shares)*

|   | 2015              | 2016            | 2017              |
|---|-------------------|-----------------|-------------------|
| <b>Profit attributable to owners of the Controlling Company</b> | ₩ 966,553,061,333 | 906,714,278,688 | 1,802,756,119,275 |
| Weighted-average number of common stocks outstanding            | 357,815,700       | 357,815,700     | 357,815,700       |
| <b>Earnings per share</b>                                       | ₩ 2,701           | 2,534           | 5,038             |

For the years ended December 31, 2015, 2016 and 2017, there were no events or transactions that resulted in changes in the number of common stocks used for calculating earnings per share.

(b) Diluted earnings per share for the years ended December 31, 2016 and 2017 are not calculated since there was no potential common stock.

26. Financial Risk Management

The Group is exposed to credit risk, liquidity risk and market risks. The Group identifies and analyzes such risks, and controls are implemented under a risk management system to monitor and manage these risks at below a threshold level.

## (a) Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices, will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

## (i) Currency Risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the functional currency of the Controlling Company, Korean won (KRW). The currencies in which these transactions primarily are denominated are USD, CNY, JPY, etc.

Interest on borrowings is denominated in the currency of the borrowing. Generally, borrowings are denominated in currencies that match the cash flows generated by the underlying operations of the Group, primarily KRW and USD.

In respect of other monetary assets and liabilities denominated in foreign currencies, the Group adopts policies to ensure that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

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## Notes to the Consolidated Financial Statements

For the years ended December 31, 2015, 2016 and 2017

26. Financial Risk Management, Continuedi) Exposure to currency risk

The Group's exposure to foreign currency risk based on notional amounts at the reporting date is as follows:

*(In millions)*

|  | <b>December 31, 2016</b> |            |            |            |            |            |            |
|--|--------------------------|------------|------------|------------|------------|------------|------------|
|  | <b>USD</b>               | <b>JPY</b> | <b>CNY</b> | <b>TWD</b> | <b>EUR</b> | <b>PLN</b> | <b>VND</b> |
| Cash and cash equivalents                      | 518                      | 308        | 3,785      | 36         | 1          | 77         | 338,770    |
| Deposits in banks                              |                          |            | 500        |            |            |            |            |
| Trade accounts and notes receivable            | 3,558                    | 10         | 1,776      |            |            |            |            |
| Non-trade receivable                           | 52                       | 2,434      | 199        | 12         |            | 2          |            |
| Long-term non-trade receivable                 | 2                        |            |            |            |            |            |            |
| Other assets denominated in foreign currencies | 1                        | 259        | 210        | 6          |            |            | 506        |
| Trade accounts and notes payable               | (1,204)                  | (14,940)   | (2,567)    |            |            |            |            |
| Other accounts payable                         | (397)                    | (9,836)    | (771)      | (7)        | (2)        | (5)        | (665,869)  |
| Borrowings                                     | (1,251)                  |            | (3,264)    |            |            |            |            |
| Net exposure                                   | 1,279                    | (21,765)   | (132)      | 47         | (1)        | 74         | (326,593)  |

*(In millions)*

|  | <b>December 31, 2017</b> |            |            |            |            |            |             |
|--|--------------------------|------------|------------|------------|------------|------------|-------------|
|  | <b>USD</b>               | <b>JPY</b> | <b>CNY</b> | <b>TWD</b> | <b>EUR</b> | <b>PLN</b> | <b>VND</b>  |
| Cash and cash equivalents                      | 1,228                    | 152        | 6,940      | 16         | 3          | 165        | 342,063     |
| Deposits in banks                              |                          |            | 750        |            |            |            |             |
| Trade accounts and notes receivable            | 3,316                    | 11         | 1,453      |            |            |            |             |
| Non-trade receivable                           | 62                       | 1,340      | 136        | 2          | 9          |            | 13,405      |
| Other assets denominated in foreign currencies | 1                        | 206        | 596        | 7          |            |            | 1,882       |
| Trade accounts and notes payable               | (1,345)                  | (14,898)   | (2,843)    |            |            |            | (102,398)   |
| Other accounts payable                         | (285)                    | (14,653)   | (2,403)    | (11)       | (8)        | (4)        | (2,138,370) |
| Borrowings                                     | (1,500)                  |            | (3,263)    |            |            |            |             |
| Net exposure                                   | 1,477                    | (27,842)   | 1,366      | 14         | 4          | 161        | (1,883,418) |



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## Notes to the Consolidated Financial Statements

For the years ended December 31, 2015, 2016 and 2017

26. Financial Risk Management, Continued

Significant exchange rates applied during the reporting periods are as follows:

| <i>(In won)</i> | Average rate |          |          | Reporting date spot rate |                   |
|-----------------|--------------|----------|----------|--------------------------|-------------------|
|                 | 2015         | 2016     | 2017     | December 31, 2016        | December 31, 2017 |
| USD             | ₩ 1,131.30   | 1,159.83 | 1,131.08 | 1,208.50                 | 1,071.40          |
| JPY             | 9.35         | 10.67    | 10.09    | 10.37                    | 9.49              |
| CNY             | 179.47       | 174.40   | 167.52   | 173.26                   | 163.65            |
| TWD             | 35.64        | 35.97    | 37.16    | 37.41                    | 35.92             |
| EUR             | 1,256.17     | 1,283.95 | 1,277.01 | 1,267.60                 | 1,279.25          |
| PLN             | 300.22       | 294.41   | 299.98   | 287.62                   | 306.07            |
| VND             | 0.0516       | 0.0518   | 0.0498   | 0.0531                   | 0.0472            |

## ii) Sensitivity analysis

A weaker won, as indicated below, against the following currencies which comprise the Group's assets or liabilities denominated in a foreign currency as of December 31, 2016 and 2017, would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Group considers to be reasonably possible as of the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, would remain constant. The changes in equity and profit or loss would have been as follows:

| <i>(In millions of won)</i> | December 31, 2016 |                | December 31, 2017 |                |
|-----------------------------|-------------------|----------------|-------------------|----------------|
|                             | Equity            | Profit or loss | Equity            | Profit or loss |
| USD (5 percent weakening)   | ₩ 57,111          | 63,337         | 50,040            | 91,238         |
| JPY (5 percent weakening)   | (8,972)           | (7,237)        | (10,294)          | (9,141)        |
| CNY (5 percent weakening)   | (3,410)           | 7,077          | 13,212            | (6,396)        |
| TWD (5 percent weakening)   | 88                |                | 23                | 1              |
| EUR (5 percent weakening)   | (40)              | (79)           | 16                | 594            |
| PLN (5 percent weakening)   | 1,129             | (167)          | 2,515             | (120)          |
| VND (5 percent weakening)   | (867)             |                | (4,445)           |                |

A stronger won against the above currencies as of December 31, 2016 and 2017 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain

constant.

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## Notes to the Consolidated Financial Statements

For the years ended December 31, 2015, 2016 and 2017

26. **Financial Risk Management, Continued**

## (ii) Interest rate risk

Interest rate risk arises principally from the Company's bonds and borrowings. The Company establishes and applies its policy to reduce uncertainty arising from fluctuations in the interest rate and to minimize finance cost and manages interest rate risk by monitoring of trends of fluctuations in interest rate and establishing plan for countermeasures.

## i) Profile

The interest rate profile of the Group's interest-bearing financial instruments at the reporting date is as follows:

*(In millions of won)*

|                                  | December 31, 2016 | December 31, 2017 |
|----------------------------------|-------------------|-------------------|
| <b>Fixed rate instruments</b>    |                   |                   |
| Financial assets                 | ₩ 2,722,600       | 3,360,800         |
| Financial liabilities            | (2,203,378)       | (2,962,671)       |
|                                  | ₩ 519,222         | 398,129           |
| <b>Variable rate instruments</b> |                   |                   |
| Financial liabilities            | ₩ (2,575,392)     | (2,640,447)       |

## ii) Equity and profit or loss sensitivity analysis for variable rate instruments

For the years ended December 31, 2016 and 2017 a change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below for the respective following years. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

*(In millions of won)*

|                              | Equity         |                | Profit or loss |                |
|------------------------------|----------------|----------------|----------------|----------------|
|                              | 1%<br>increase | 1%<br>decrease | 1%<br>increase | 1%<br>decrease |
| <b>December 31, 2016</b>     |                |                |                |                |
| Variable rate instruments(*) | ₩ (16,868)     | 16,868         | (16,868)       | 16,868         |
| <b>December 31, 20167</b>    |                |                |                |                |
| Variable rate instruments(*) | ₩ (17,362)     | 17,362         | (17,362)       | 17,362         |

(\* Financial instruments subject to interest rate swap not qualified for hedging are excluded.

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## Notes to the Consolidated Financial Statements

For the years ended December 31, 2015, 2016 and 2017

**26. Financial Risk Management, Continued****(b) Credit risk**

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers.

The Group's exposure to credit risk of trade and other receivables is influenced mainly by the individual characteristics of each customer. However, management believes that the demographics of the Group's customer base, including the default risk of the country in which customers operate, do not have a significant influence on credit risk since the majority of the customers are global electronic appliance manufacturers operating in global markets.

The Group establishes credit limits for each customer and each new customer is analyzed quantitatively and qualitatively before determining whether to utilize third party guarantees, insurance or factoring as appropriate.

The Group does not establish allowances for receivables under insurance or receivables from customers with a high credit rating. For the rest of the receivables, the Group establishes an allowance for impairment of trade and other receivables that have been individually or collectively evaluated for impairment and estimated on the basis of historical loss experience for assets.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date are as follows:

*(In millions of won)*

|   | <b>December 31, 2016</b> | <b>December 31, 2017</b> |
|---|--------------------------|--------------------------|
| Cash and cash equivalents                             | ₩ 1,558,696              | 2,602,560                |
| Deposits in banks                                     | 1,163,763                | 758,089                  |
| Trade accounts and notes receivable, net              | 4,957,993                | 4,325,120                |
| Non-trade receivable, net                             | 134,161                  | 150,554                  |
| Accrued income  | 9,431                    | 14,273                   |
| Available-for-sale financial assets                   | 154                      | 162                      |
| Financial assets at fair value through profit or loss | 1,382                    | 1,552                    |
| Deposits  | 47,954                   | 30,378                   |
| Short-term loans                                      | 7,696                    | 16,766                   |
| Long-term loans                                       | 34,760                   | 32,408                   |
| Long-term non-trade receivable                        | 2,619                    | 8,738                    |
| Derivatives   | 244                      | 842                      |

|   |           |           |
|---|-----------|-----------|
| ₩ | 7,918,853 | 7,941,442 |
|---|-----------|-----------|

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises primarily from the sales and investing activities. Trade accounts and notes receivables are insured in order to manage credit risk and uninsured trade accounts and notes receivables are managed in accordance with the Group's management policy.

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## Notes to the Consolidated Financial Statements

For the years ended December 31, 2015, 2016 and 2017

**26. Financial Risk Management, Continued****(c) Liquidity Risk**

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group has historically been able to satisfy its cash requirements from cash flows from operations and borrowings and equity financing. To the extent that the Group does not generate sufficient cash flows from operations to meet its capital requirements, the Group may rely on other financing activities, such as external long-term borrowings and offerings of debt securities, equity-linked and other debt securities. In addition, the Group maintains a line of credit with various banks.

The following are the contractual maturities of financial liabilities, including estimated interest payments, as of December 31, 2017.

*(In millions of won)*

|   | Carrying<br>amount | Total      | Contractual cash flows |                |           |           |                      |  |
|---|--------------------|------------|------------------------|----------------|-----------|-----------|----------------------|--|
|   |                    |            | 6 months<br>or less    | 6-12<br>months | 1-2years  | 2-5 years | More than<br>5 years |  |
| <b>Non-derivative<br/>financial liabilities</b> |                    |            |                        |                |           |           |                      |  |
| Secured bank<br>borrowings                      | ₩ 642,172          | 660,540    | 258,027                | 145,804        | 256,709   |           |                      |  |
| Unsecured bank<br>borrowings                    | 2,950,184          | 3,112,199  | 36,579                 | 596,101        | 1,107,718 | 1,176,097 | 195,704              |  |
| Unsecured bond issues                           | 2,010,762          | 2,124,147  | 413,307                | 134,829        | 592,031   | 983,980   |                      |  |
| Trade accounts and<br>notes payable             | 2,875,090          | 2,875,090  | 2,875,090              |                |           |           |                      |  |
| Other accounts payable                          | 3,169,937          | 3,170,157  | 3,169,790              | 367            |           |           |                      |  |
| Long-term other<br>accounts payable             | 2                  | 2          |                        |                | 2         |           |                      |  |
|   | ₩ 11,648,147       | 11,942,135 | 6,752,793              | 877,101        | 1,956,460 | 2,160,077 | 195,704              |  |

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

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26. Financial Risk Management, Continued

## (d) Capital Management

Management's policy is to maintain a capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Liabilities to equity ratio, net borrowings to equity ratio and other financial ratios are used by management to achieve an optimal capital structure. Management also monitors the return on capital as well as the level of dividends to ordinary shareholders.

*(In millions of won)*

|                                     | <b>December 31, 2016</b> | <b>December 31, 2017</b> |
|-------------------------------------|--------------------------|--------------------------|
| Total liabilities                   | ₩ 11,421,948             | 14,178,177               |
| Total equity                        | 13,462,388               | 14,981,510               |
| Cash and deposits in banks (*1)     | 2,722,446                | 3,360,638                |
| Borrowings (including bonds)        | 4,778,770                | 5,603,118                |
| Total liabilities to equity ratio   | 85%                      | 95%                      |
| Net borrowings to equity ratio (*2) | 15%                      | 15%                      |

(\*1) Cash and deposits in banks consist of cash and cash equivalents and current deposit in banks.

(\*2) Net borrowings to equity ratio is calculated by dividing total borrowings (including bonds) less cash and current deposits in banks by total equity.

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For the years ended December 31, 2015, 2016 and 2017

26. **Financial Risk Management, Continued**

(e) Determination of fair value

(i) Measurement of fair value

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

i) Other current financial assets and liabilities

The carrying amounts approximate fair value because of the short maturity of these instruments.

ii) Trade Receivables and Other Receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes. The carrying amounts of short-term receivables approximate fair value.

iii) Investments in Equity and Debt Securities

The fair value of marketable available-for-sale financial assets is determined by reference to their quoted closing bid price at the reporting date. The fair value of non-marketable securities is determined using valuation methods.

iv) Non-derivative Financial Liabilities

Fair value, which is determined for disclosure purposes, except for the liabilities at FVTPL, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

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## Notes to the Consolidated Financial Statements

For the years ended December 31, 2015, 2016 and 2017

26. **Financial Risk Management, Continued**

## (e) Determination of fair value, Continued

## (ii) Fair values versus carrying amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown in the consolidated statement of financial position, are as follows:

| <i>(In millions of won)</i>                          | December 31, 2016 |             | December 31, 2017 |             |
|--|-------------------|-------------|-------------------|-------------|
|  | Carrying amounts  | Fair values | Carrying amounts  | Fair values |
| <b>Assets carried at fair value</b>                  |                   |             |                   |             |
| Available-for-sale financial assets                  | ₩ 154             | 154         | 162               | 162         |
| Financial asset at fair value through profit or loss | 1,382             | 1,382       | 1,552             | 1,552       |
| Derivatives  | 244               | 244         | 842               | 842         |
| <b>Assets carried at amortized cost</b>              |                   |             |                   |             |
| Cash and cash equivalents                            | ₩ 1,558,696       | (*)         | 2,602,560         | (*)         |
| Deposits in banks                                    | 1,163,763         | (*)         | 758,089           | (*)         |
| Trade accounts and notes receivable                  | 4,957,993         | (*)         | 4,325,120         | (*)         |
| Non-trade receivable                                 | 134,161           | (*)         | 150,554           | (*)         |
| Accrued income                                       | 9,431             | (*)         | 14,273            | (*)         |
| Deposits   | 47,954            | (*)         | 30,378            | (*)         |
| Short-term loans                                     | 7,696             | (*)         | 16,766            | (*)         |
| Long-term loans                                      | 34,760            | (*)         | 32,408            | (*)         |
| Long-term non-trade receivable                       | 2,619             | (*)         | 8,738             | (*)         |
| <b>Liabilities carried at fair value</b>             |                   |             |                   |             |
| Derivatives  | ₩ 472             | 472         |                   |             |
| <b>Liabilities carried at amortized cost</b>         |                   |             |                   |             |
| Secured bank borrowings                              | ₩ 700,820         | 700,820     | 642,172           | 642,172     |
| Unsecured bank borrowings                            | 2,197,132         | 2,200,522   | 2,950,184         | 2,955,399   |
| Unsecured bond issues                                | 1,880,818         | 1,903,863   | 2,010,762         | 2,016,086   |
| Trade accounts and notes payable                     | 2,877,326         | (*)         | 2,875,090         | (*)         |
| Other accounts payable                               | 2,449,517         | 2,449,938   | 3,169,937         | 3,170,147   |
| Long-term other accounts payable                     | 3,530             | 3,891       | 2                 | (*)         |

(\* Excluded from disclosures as the carrying amount approximates fair value.

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For the years ended December 31, 2015, 2016 and 2017

26. Financial Risk Management, Continued

(e) Determination of fair value, Continued

(iii) Financial Instruments measured at cost

Available-for-sale financial assets measured at cost at the reporting date are as follows:

*(In millions of won)*

|                                  | <b>December 31, 2016</b> | <b>December 31, 2017</b> |
|----------------------------------|--------------------------|--------------------------|
| Intellectual Discovery Co., Ltd. | ₩ 729                    | 729                      |
| Kyulux, Inc.                     | 3,266                    | 1,968                    |
| Henghao Technology Co., Ltd.     | 1,559                    |                          |
| ARCH Venture Fund Vill, L.P.     | 2,285                    | 2,283                    |
|                                  | ₩ 7,839                  | 4,980                    |

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**Table of Contents****LG DISPLAY CO., LTD. AND SUBSIDIARIES**

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2015, 2016 and 2017

**26. Financial Risk Management, Continued****(e) Determination of fair value, Continued**

The movement in the available-for-sale financial assets for the years ended December 31, 2016 and 2017 is as follows:

**(In millions of won)**

|                                  | <b>December 31, 2016</b>   |  |      |                   |                       | <b>Effect of<br/>movements in December 31,<br/>2016</b> |
|----------------------------------|----------------------------|--|------|-------------------|-----------------------|---|
|                                  | <b>January 1,<br/>2016</b> | <b>Disposal<br/>Acquisition and others</b> |      | <b>Impairment</b> | <b>exchange rates</b> |   |
| Intellectual Discovery Co., Ltd. | ₩ 2,673                    |  |      | (1,944)           |                       | 729   |
| Kyulux Inc.                      | 3,266                      |  |      |                   |                       | 3,266   |
| Henghao Technology Co., Ltd.     | 3,372                      |  |      | (1,813)           |                       | 1,559   |
| ARCH Venture Fund Vill, L.P      | 1,378                      | 859  | (48) |                   | 96                    | 2,285   |
|                                  | ₩ 10,689                   | 859  | (48) | (3,757)           | 96                    | 7,839   |

**(In millions of won)**

|                                  | <b>December 31, 2017</b>   |  |       |                   |       | <b>Effect of<br/>movements<br/>in<br/>exchange<br/>rates</b> | <b>December 31,<br/>2017</b> |
|----------------------------------|----------------------------|--|-------|-------------------|-------|--|------------------------------|
|                                  | <b>January 1,<br/>2017</b> | <b>Disposal<br/>Acquisition and others</b> |       | <b>Impairment</b> |       |  |                              |
| Intellectual Discovery Co., Ltd. | ₩ 729                      |  |       |                   |       |  | 729                          |
| Kyulux Inc.                      | 3,266                      |  |       | (1,298)           |       |  | 1,968                        |
| Henghao Technology Co., Ltd.     | 1,559                      |  | (909) | (650)             |       |  |                              |
| ARCH Venture Fund Vill, L.P      | 2,285                      | 266  |       |                   | (268) |  | 2,283                        |
|                                  | ₩ 7,839                    | 266  | (909) | (1,948)           | (268) |  | 4,980                        |

Available-for-sale-financial assets consist of investments in equity securities and the fair value of some investments in equity securities are measured at cost because the range of reasonable fair value measurements is significant and the probabilities of the various estimates cannot be reasonably assessed since they do not have a quoted price in an active market for an identical instruments.

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Notes to the Consolidated Financial Statements

For the years ended December 31, 2015, 2016 and 2017

**26. Financial Risk Management, Continued**

(e) Determination of fair value, Continued

(iv) Fair values of financial assets and liabilities

i) Fair value hierarchy

The table below analyzes financial instruments carried at fair value based on the input variables used in the valuation method to measure fair value of assets and liabilities. The different levels have been defined as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: inputs for the asset or liability that are not based on observable market data

ii) Financial instruments measured at fair value

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

*(In millions of won)*

|  | Level 1 | Level 2 | Level 3 | Total |
|--|---------|---------|---------|-------|
| <b>December 31, 2016</b>                             |         |         |         |       |
| <b>Assets</b>  |         |         |         |       |
| Available-for-sale financial assets                  | ₩ 154   |         |         | 154   |
| Financial asset at fair value through profit or loss |         |         | 1,382   | 1,382 |
| Derivatives  |         |         | 244     | 244   |
| <b>Liabilities</b>                                   |         |         |         |       |
| Derivatives  | ₩       |         | 472     | 472   |



*(In millions of won)*

|  | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> | <b>Total</b> |
|--|----------------|----------------|----------------|--------------|
| <b>December 31, 2017</b>                             |                |                |                |              |
| <b>Assets</b>  |                |                |                |              |
| Available-for-sale financial assets                  | ₩ 162          |                |                | 162          |
| Financial asset at fair value through profit or loss |                |                | 1,552          | 1,552        |
| Derivatives  |                |                | 842            | 842          |

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**Table of Contents****LG DISPLAY CO., LTD. AND SUBSIDIARIES**

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2015, 2016 and 2017

26. Financial Risk Management, Continued

## (e) Determination of fair value, Continued

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

Fair value hierarchy classifications, valuation technique and inputs for fair value measurements of the financial instruments not measured at fair value but for which the fair value is disclosed as of December 31, 2016 and December 31, 2017 are as follows:

| <i>(In millions of won)</i>      | December 31, 2016 |         |         | Valuation |                      |               |
|----------------------------------|-------------------|---------|---------|-----------|----------------------|---------------|
|                                  | Classification    | Level 1 | Level 2 | Level 3   | technique            | Input         |
| <b>Liabilities</b>               |                   |         |         |           |                      |               |
| Secured bank borrowings          | ₩                 |         |         | 700,820   | Discounted cash flow | Discount rate |
| Unsecured bank borrowings        |                   |         |         | 2,200,522 | Discounted cash flow | Discount rate |
| Unsecured bond issues            |                   |         |         | 1,903,863 | Discounted cash flow | Discount rate |
| Other accounts payable           |                   |         |         | 2,449,938 | Discounted cash flow | Discount rate |
| Long-term other accounts payable |                   |         |         | 3,891     | Discounted cash flow | Discount rate |

| <i>(In millions of won)</i> | December 31, 2017 |         |         | Valuation |                      |               |
|-----------------------------|-------------------|---------|---------|-----------|----------------------|---------------|
|                             | Classification    | Level 1 | Level 2 | Level 3   | technique            | Input         |
| <b>Liabilities</b>          |                   |         |         |           |                      |               |
| Secured bank borrowings     | ₩                 |         |         | 642,172   | Discounted cash flow | Discount rate |
| Unsecured bank borrowings   |                   |         |         | 2,955,399 | Discounted cash flow | Discount rate |
| Unsecured bond issues       |                   |         |         | 2,016,086 | Discounted cash flow | Discount rate |
| Other accounts payable      |                   |         |         | 3,170,147 | Discounted cash flow | Discount rate |

The interest rates applied for determination of the above fair value at the reporting date are as follows:

|                              | December 31, 2016 | December 31, 2017 |
|------------------------------|-------------------|-------------------|
| Borrowings, bonds and others | 1.48~2.68%        | 1.57~2.92%        |



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Notes to the Consolidated Financial Statements

For the years ended December 31, 2015, 2016 and 2017

**27. Changes in liabilities arising from financing activities**

Changes in liabilities arising from financing activities for the year ended December 31, 2017 are as follows:

*(In millions of won)*

|   | <b>January 1,<br/>2017</b> | <b>Cash flows from<br/>financing activities</b> | <b>Reclassification</b> | <b>Non-cash transactions<br/>Exchange<br/>rate<br/>effect</b> | <b>Effective interest<br/>adjustment</b> | <b>December 31,<br/>2017</b> |
|---|----------------------------|---|-------------------------|---|--|------------------------------|
| Short-term borrowings                                   | ₩ 113,209                  | (105,864)                                       |                         | (7,345)   |  |                              |
| Current portion of<br>long-term borrowings and<br>bonds | 554,700                    | (544,731)                                       | 1,525,616               | (83,262)  | 603                                      | 1,452,926                    |
| Long-term borrowings                                    | 2,599,799                  | 1,195,415                                       | (1,021,215)             | (129,810)   |  | 2,644,189                    |
| Bonds   | 1,511,062                  | 497,959   | (504,401)               |   | 1,383                                    | 1,506,003                    |
|   | ₩ 4,778,770                | 1,042,779                                       |                         | (220,417)   | 1,986                                    | 5,603,118                    |

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**LG DISPLAY CO., LTD. AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

For the years ended December 31, 2015, 2016 and 2017

28. **Related Parties and Others**

(a) Related parties

Related parties for the periods presented are as follows:

| <b>Classification</b>  | <b>Description</b>                             |
|--|--|
| Associates(*)  | Paju Electric Glass Co., Ltd. and others       |
| Subsidiaries of Associates   | AVATEC Electronics Yantai Co., Ltd. and others |
| Entity that has significant influence over the Controlling Company                     | LG Electronics Inc.                            |
| Subsidiaries of the entity that has significant influence over the Controlling Company | Subsidiaries of LG Electronics Inc.            |

(\*) Details of associates are described in note 8.

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## Notes to the Consolidated Financial Statements

For the years ended December 31, 2015, 2016 and 2017

28. Related Parties and Others, Continued

- (b) Significant transactions such as sales of goods and purchases of raw material and outsourcing service and others, which occurred in the normal course of business with related parties for the years ended December 31, 2015, 2016 and 2017 are as follows:

*(In millions of won)*

|   | <b>2015</b>                     |                        |   |                      |                            |                    |
|---|---------------------------------|------------------------|---|----------------------|----------------------------|--------------------|
|   | <b>Purchase of raw material</b> |                        | <b>Acquisition of property, plant and equipment</b> |                      | <b>Purchase and others</b> |                    |
|   | <b>Sales and others</b>         | <b>Dividend income</b> | <b>and others</b>                                   | <b>and equipment</b> | <b>Outsourcing fees</b>    | <b>Other costs</b> |
| <b>Joint Venture</b>                      |                                 |                        |   |                      |                            |                    |
| Suzhou Raken Technology Co., Ltd.         | ₩ 143,125                       |                        |   |                      |                            | 361                |
| <b>Associates and their subsidiaries</b>  |                                 |                        |   |                      |                            |                    |
| New Optics Ltd.                           | ₩ 92                            |                        | 47,404  |                      | 5,880                      | 441                |
| New Optics USA, Inc.                      |                                 |                        |   |                      | 29,475                     |                    |
| INVENIA Co., Ltd. (LIG INVENIA Co., Ltd.) |                                 | 9                      | 49  | 42,007               |                            | 122                |

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For the years ended December 31, 2015, 2016 and 2017

**28. Related Parties and Others, Continued***(In millions of won)*

|   | <b>2015</b>       |                  |                                   |                  |                        |                    |               |
|---|-------------------|------------------|-----------------------------------|------------------|------------------------|--------------------|---------------|
|   |                   |                  | <b>Purchase and others</b>        |                  |                        |                    |               |
|   | <b>Sales</b>      | <b>Dividend</b>  | <b>Purchase of Acquisition of</b> |                  | <b>and Outsourcing</b> |                    |               |
|   | <b>and others</b> | <b>income</b>    | <b>and</b>                        | <b>and</b>       | <b>fees</b>            | <b>Other costs</b> |               |
|   | <b>₩</b>          |                  | <b>others</b>                     | <b>equipment</b> |                        |                    |               |
| TLI Inc.  |                   | 101              | 84,732                            |                  |                        | 929                |               |
| AVACO Co., Ltd.   |                   | 128              | 1,826                             | 82,797           |                        | 6,223              |               |
| AVATEC Co., Ltd.  |                   | 530              | 278                               |                  | 52,097                 | 1,599              |               |
| AVATEC Electronics Yantai Co., Ltd.   |                   |                  |                                   |                  |                        | 761                |               |
| Paju Electric Glass Co., Ltd.   |                   | 24,058           | 425,314                           |                  |                        | 2,772              |               |
| Shinbo Electric Co., Ltd.   | 284,255           |                  | 473,484                           |                  | 97,736                 | 83                 |               |
| Narenanotech Corporation  | 3                 |                  | 634                               | 20,515           |                        | 643                |               |
| Glonix Co., Ltd.  | 8                 |                  | 4,581                             |                  |                        | 227                |               |
| ADP System Co., Ltd.  |                   |                  | 2,465                             | 2,853            |                        | 629                |               |
| YAS Co., Ltd.   |                   | 9                | 810                               | 20,324           |                        | 974                |               |
| LB Gemini New Growth Fund No. 16  |                   | 760              |                                   |                  |                        |                    |               |
|   | <b>₩</b>          | <b>284,376</b>   | <b>25,577</b>                     | <b>1,041,577</b> | <b>168,496</b>         | <b>185,188</b>     | <b>15,403</b> |
| <b>Entity that has significant influence over the Controlling Company</b>                     |                   |                  |                                   |                  |                        |                    |               |
| LG Electronics Inc.   | <b>₩</b>          | <b>1,694,039</b> |                                   | <b>39,791</b>    | <b>255,046</b>         | <b>133,536</b>     |               |
| <b>Subsidiaries of the entity that has significant influence over the Controlling Company</b> |                   |                  |                                   |                  |                        |                    |               |
| LG Electronics India Pvt. Ltd.  | <b>₩</b>          | <b>156,428</b>   |                                   |                  |                        | <b>131</b>         |               |
| LG Electronics Vietnam Haiphong Co., Ltd.   |                   | 95,626           |                                   |                  |                        |                    |               |
| LG Electronics Thailand Co., Ltd.   |                   | 12,902           |                                   |                  |                        | 188                |               |
| LG Electronics Nanjing Display Co., Ltd.  |                   | 182,302          |                                   |                  |                        | 2,200              |               |





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For the years ended December 31, 2015, 2016 and 2017

**28. Related Parties and Others, Continued***(In millions of won)*

|  | <b>2015</b>                 |                            |                       |   |                             |                    |
|--|-----------------------------|----------------------------|-----------------------|---|-----------------------------|--------------------|
|  | <b>Sales<br/>and others</b> | <b>Dividend<br/>income</b> | <b>and<br/>others</b> | <b>Purchase and<br/>Acquisition of<br/>raw material<br/>property, plant<br/>and<br/>equipment</b> | <b>Outsourcing<br/>fees</b> | <b>Other costs</b> |
| LG Electronics RUS, LLC                              | ₩ 198,897                   |                            |                       |   |                             | 420                |
| LG Electronics do Brasil Ltda.                       | 298,679                     |                            |                       |   |                             | 490                |
| LG Electronics (Kunshan)<br>Computer Co., Ltd.       | 9,282                       |                            |                       |   |                             |                    |
| LG Innotek Co., Ltd.                                 | 5,647                       |                            | 299,033               |   |                             | 44,691             |
| Qingdao LG Inspur Digital<br>Communication Co., Ltd. | 271,405                     |                            |                       |   |                             |                    |
| Inspur LG Digital Mobile<br>Communications Co., Ltd. | 286,420                     |                            |                       |   |                             |                    |
| LG Electronics Mexicali, S.A. DE<br>C.V.             | 160,842                     |                            |                       |   |                             |                    |
| LG Electronics Mlawa Sp. z o.o.                      | 448,468                     |                            |                       |   |                             | 1,371              |
| LG Electronics Shenyang Inc.                         | 109,844                     |                            |                       |   |                             | 4                  |
| LG Electronics Taiwan Taipei Co.,<br>Ltd.            | 13,050                      |                            |                       |   |                             |                    |
| LG Electronics Wroclaw Sp. z o.o.                    | 523,623                     |                            |                       |   |                             | 298                |
| LG Hitachi Water Solutions Co.,<br>Ltd.              |                             |                            |                       | 40,436  |                             | 5,664              |
| LG Electronics Reynosa, S.A. DE<br>C.V.              | 1,020,471                   |                            |                       |   |                             | 9                  |
| Hi Entech Co., Ltd.                                  |                             |                            |                       |   |                             | 24,963             |
| Hi Logistics Co., Ltd.                               | 34                          |                            |                       |   |                             | 24,832             |
| Hi Logistics (China) Co., Ltd.                       |                             |                            |                       |   |                             | 7,183              |
| Hientech (Tianjin) Co., Ltd.                         |                             |                            |                       |   |                             | 19,149             |
| LG Electronics U.S.A., Inc.                          | 5,305                       |                            |                       |   |                             | 868                |
| Others   | 12                          |                            | 2                     |   |                             | 8,567              |
|  | ₩ 3,799,237                 |                            | 299,035               | 40,436  |                             | 141,028            |
|  | ₩ 5,920,777                 | 25,577                     | 1,380,403             | 463,978   | 185,188                     | 290,328            |

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**28. Related Parties and Others, Continued***(In millions of won)*

|  | <b>2016</b>             |         |                        |         |  |        |
|--|-------------------------|---------|------------------------|---------|--|--------|
|  | <b>Sales and others</b> |         | <b>Dividend income</b> |         | <b>Purchase and others</b>   |        |
|  | <b>and others</b>       |         | <b>and income</b>      |         | <b>Purchase of raw materials and property, plant and equipment</b> |        |
|  | <b>and others</b>       |         | <b>and income</b>      |         | <b>and Outsourcing fees</b>  |        |
|  | <b>and others</b>       |         | <b>and income</b>      |         | <b>and Other costs</b>   |        |
| <b>Joint Venture</b>                     |                         |         |                        |         |  |        |
| Suzhou Raken Technology Co., Ltd.(*1)    | ₩                       | 59,388  | 29,902                 |         |  | 543    |
| <b>Associates and their subsidiaries</b> |                         |         |                        |         |  |        |
| New Optics Ltd.                          | ₩                       | 2,469   |                        | 50,372  | 7,569  | 255    |
| New Optics USA, Inc.                     |                         |         |                        |         | 509  |        |
| NEWOPTIX RS. SA DE CV                    |                         | 33      |                        |         |  |        |
| INVENIA Co., Ltd.                        |                         | 54      |                        | 1,429   | 48,398   | 261    |
| TLI Inc.(*2)                             |                         |         | 101                    | 57,429  |  | 2,238  |
| AVACO Co., Ltd.(*2)                      |                         |         | 128                    | 703     | 31,299   | 1,373  |
| AVATEC Co., Ltd.                         |                         |         | 265                    |         |  | 70,196 |
| Paju Electric Glass Co., Ltd.            |                         |         | 21,030                 | 453,463 |  | 3,674  |
| Shinbo Electric Co., Ltd.                |                         | 204,637 |                        | 355,607 |  | 2,449  |
| Narenanotech Corporation                 |                         | 17      |                        | 513     | 24,821   | 909    |
| WooRee E&L Co., Ltd.                     |                         |         |                        |         |  | 32     |
| YAS Co., Ltd.                            |                         | 44      |                        | 2,076   | 80,836   | 1,758  |
| LB Gemini New Growth Fund No. 16         |                         |         | 8,394                  |         |  |        |
|  | ₩                       | 207,254 | 29,918                 | 921,592 | 185,354  | 80,723 |
|  |                         |         |                        |         |  | 12,624 |

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**28. Related Parties and Others, Continued***(In millions of won)*

|   | <b>2016</b>                 |                            |                       |   |   |   |
|---|-----------------------------|----------------------------|-----------------------|---|---|---|
|   | <b>Sales<br/>and others</b> | <b>Dividend<br/>income</b> | <b>and<br/>others</b> | <b>Purchase of<br/>raw material<br/>and<br/>equipment</b> | <b>Acquisition of<br/>property, plant<br/>and<br/>equipment</b> | <b>Outsourcing<br/>fees<br/>and<br/>Other costs</b> |
| <b>Entity that has significant influence over the Controlling Company</b>                     |                             |                            |                       |   |   |   |
| LG Electronics Inc.   | ₩ 1,580,279                 |                            | 23,047                | 538,175   |   | 103,158   |
| <b>Subsidiaries of the entity that has significant influence over the Controlling Company</b> |                             |                            |                       |   |   |   |
| LG Electronics India Pvt. Ltd.  | ₩ 75,591                    |                            |                       |   |   | 69  |
| LG Electronics Vietnam Haiphong Co., Ltd.   | 162,893                     |                            |                       |   |   | 141   |
| LG Electronics Nanjing New Technology Co., Ltd.   | 229,773                     |                            |                       | 293   |   | 1,876   |
| LG Electronics RUS, LLC   | 127,316                     |                            |                       |   |   | 2,993   |
| LG Electronics do Brasil Ltda.  | 133,903                     |                            |                       |   |   | 3,430   |
| LG Innotek Co., Ltd.  | 11,503                      |                            | 209,878               |   |   | 9,873   |
| Qingdao LG Inspur Digital Communication Co., Ltd.   | 47,804                      |                            |                       |   |   |   |
| Inspur LG Digital Mobile Communications Co., Ltd.   | 370,966                     |                            |                       |   |   | 5   |
| LG Electronics Mexicalli, S.A. DE C.V.  | 210,021                     |                            |                       |   |   | 77  |
| LG Electronics Mlawa Sp. z o.o.   | 709,558                     |                            |                       |   |   | 895   |
| LG Electronics Taiwan Taipei Co., Ltd.  | 11,919                      |                            |                       |   |   | 27  |



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For the years ended December 31, 2015, 2016 and 2017

**28. Related Parties and Others, Continued***(In millions of won)*

|   | <b>2017</b>  |                        |                   |                      |                         |                    |
|---|--|------------------------|-------------------|----------------------|-------------------------|--------------------|
|   | <b>Purchase and others</b>   |                        |                   |                      |                         |                    |
|   | <b>Purchase of raw materials and property, plant and equipment</b> |                        |                   |                      |                         |                    |
|   | <b>Sales and others</b>  | <b>Dividend income</b> | <b>and others</b> | <b>and equipment</b> | <b>Outsourcing fees</b> | <b>Other costs</b> |
| <b>Associates and their subsidiaries</b>  |  |                        |                   |                      |                         |                    |
| New Optics Ltd. (*)   | ₩ 1  |                        |                   |                      | 4                       | 6                  |
| INVENIA Co., Ltd.   |  |                        | 1,862             | 66,548               |                         | 2,259              |
| AVATEC Co., Ltd.  |  | 530                    |                   |                      | 90,785                  | 720                |
| Paju Electric Glass Co., Ltd.   |  | 8,109                  | 380,815           |                      |                         | 4,225              |
| Shinbo Electric Co., Ltd. (*)   | 15,812   |                        |                   |                      |                         | 21                 |
| Narenanotech Corporation (*)  |  |                        | 279               | 21,727               |                         | 244                |
| WooRee E&L Co., Ltd.  |  |                        |                   |                      |                         | 175                |
| YAS Co., Ltd.   |  |                        | 6,347             | 69,243               |                         | 2,474              |
|   | ₩ 15,813   | 8,639                  | 389,303           | 157,518              | 90,789                  | 10,124             |
| <b>Entity that has significant influence over the Controlling Company</b>                     |  |                        |                   |                      |                         |                    |
| LG Electronics Inc.   | ₩ 1,689,381  |                        | 47,898            | 906,427              |                         | 109,865            |
| <b>Subsidiaries of the entity that has significant influence over the Controlling Company</b> |  |                        |                   |                      |                         |                    |
| LG Electronics India Pvt. Ltd.  | ₩ 71,597   |                        |                   |                      |                         | 163                |
| LG Electronics Vietnam Haiphong Co., Ltd.   | 205,934  |                        |                   | 8,892                |                         | 198                |

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**28. Related Parties and Others, Continued***(In millions of won)*

|  | <b>2017</b>                         |                 |               |                  |                    |                    |
|--|-------------------------------------|-----------------|---------------|------------------|--------------------|--------------------|
|  | <b>Purchase and others</b>          |                 |               |                  |                    |                    |
|  | <b>Purchase of Acquisition of</b>   |                 |               |                  |                    |                    |
|  | <b>raw material property, plant</b> |                 |               |                  |                    |                    |
|  | <b>Sales</b>                        | <b>Dividend</b> | <b>and</b>    | <b>and</b>       | <b>Outsourcing</b> | <b>Other costs</b> |
|  | <b>and others</b>                   | <b>income</b>   | <b>others</b> | <b>equipment</b> | <b>fees</b>        | <b>Other costs</b> |
| LG Electronics Nanjing New Technology Co., Ltd.      | ₩ 300,785                           |                 |               | 245              |                    | 379                |
| LG Electronics RUS, LLC                              | 103,479                             |                 |               |                  |                    | 963                |
| LG Electronics do Brasil Ltda.                       | 228,821                             |                 |               |                  |                    | 430                |
| LG Innotek Co., Ltd.                                 | 14,836                              |                 | 199,896       |                  |                    | 5,692              |
| Qingdao LG Inspur Digital Communication Co., Ltd.    | 77,787                              |                 |               |                  |                    |                    |
| Inspur LG Digital Mobile Communications Co., Ltd.    | 230,832                             |                 |               |                  |                    |                    |
| LG Electronics Mexicali, S.A. DE C.V.                | 319,772                             |                 |               |                  |                    | 186                |
| LG Electronics Mlawa Sp. z o.o.                      | 847,565                             |                 |               |                  |                    | 985                |
| LG Electronics Taiwan Taipei Co., Ltd.               | 13,693                              |                 |               |                  |                    | 164                |
| LG Hitachi Water Solutions Co., Ltd.                 |                                     |                 |               | 318,978          |                    | 1,532              |
| LG Electronics Reynosa, S.A. DE C.V.                 | 1,287,340                           |                 |               |                  |                    | 1,926              |
| LG Electronics Almaty Kazakhstan                     | 14,079                              |                 |               |                  |                    | 53                 |
| LG Electronics Air-Conditioning (Shandong) Co., Ltd. |                                     |                 | 255           | 3,744            |                    | 2,621              |
| HiEntech Co., Ltd.                                   |                                     |                 |               | 6,991            |                    | 34,432             |
| Hientech (Tianjin) Co., Ltd.                         |                                     |                 |               | 21,838           |                    | 11,822             |
| LG Electronics S.A. (Pty) Ltd.                       | 14,155                              |                 |               |                  |                    | 25                 |
| Others   | 857                                 |                 | 3             | 14               |                    | 7,264              |
|  | ₩ 3,731,532                         |                 | 200,154       | 360,702          |                    | 68,835             |
|  | ₩ 5,436,726                         | 8,639           | 637,355       | 1,424,647        | 90,789             | 188,824            |

(\*) Represents transactions occurred prior to disposal of the entire investments.

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**28. Related Parties and Others, Continued**

(c) Trade accounts and notes receivable and payable as of December 31, 2016 and 2017 are as follows:

*(In millions of won)*

|   | Trade accounts and notes receivable<br>and others |                   | Trade accounts and notes payable<br>and others |                   |
|---|---|-------------------|--|-------------------|
|   | December 31, 2016                                 | December 31, 2017 | December 31, 2016                              | December 31, 2017 |
| <b>Associates and their subsidiaries</b>  |   |                   |  |                   |
| New Optics Ltd. (*)   | ₩ 1,000   |                   | 8,616  |                   |
| INVENIA Co., Ltd. (LIG INVENIA Co., Ltd.)   | 833   | 2,375             | 6,515  | 18,662            |
| AVATEC Co., Ltd.  |   |                   | 5,190  | 2,949             |
| Paju Electric Glass Co., Ltd.   |   |                   | 71,685   | 60,141            |
| Shinbo Electric Co., Ltd.   | 85,011  |                   | 64,693   |                   |
| Narenanotech Corporation (*)  | 300   |                   | 2,826  |                   |
| WooRee E&L Co., Ltd.  |   |                   |  | 61                |
| YAS Co., Ltd.   | 833   | 375               | 3,531  | 6,474             |
|   | ₩ 87,977  | 2,750             | 163,056  | 88,287            |
| <b>Entity that has significant influence over the Controlling Company</b>                     |   |                   |  |                   |
| LG Electronics Inc.   | ₩ 357,577   | 550,335           | 160,309  | 257,071           |
| <b>Subsidiaries of the entity that has significant influence over the Controlling Company</b> |   |                   |  |                   |
| LG Electronics do Brasil Ltda.  | ₩ 14,299  | 19,091            | 27   | 10                |
| LG Electronics RUS, LLC   | 47,686  | 25,102            |  | 80                |
| LG Innotek Co., Ltd.  | 1,070   | 407               | 50,919   | 62,675            |
| Qingdao LG Inspur Digital Communication Co., Ltd.   | 7,007   | 13,061            |  |                   |

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For the years ended December 31, 2015, 2016 and 2017

**28. Related Parties and Others, Continued***(In millions of won)*

|  | <b>Trade accounts and notes receivable<br/>and others</b> |                          | <b>Trade accounts and notes payable<br/>and others</b> |                          |
|--|---|--------------------------|--|--------------------------|
|  | <b>December 31, 2016</b>                                  | <b>December 31, 2015</b> | <b>December 31, 2016</b>                               | <b>December 31, 2015</b> |
| Inspur LG Digital Mobile                     |   |                          |  |                          |
| Communications Co., Ltd.                     | ₩ 72,963  | 55,278                   | 5  |                          |
| LG Electronics Mexicali, S.A. DE C.V.        | 11,959  | 29,440                   | 13   |                          |
| LG Electronics Mlawa Sp. z o.o.              | 222,480   | 136,874                  | 27   | 25                       |
| LG Electronics Nanjing New                   |   |                          |  |                          |
| Technology Co., Ltd.                         | 51,794  | 46,373                   | 78   | 699                      |
| LG Electronics Reynosa, S.A. DE C.V.         | 93,873  | 137,413                  | 259  | 82                       |
| LG Electronics Vietnam Haiphong Co.,<br>Ltd. | 35,121  | 36,017                   | 7  | 3,917                    |
| LG Hitachi Water Solutions Co., Ltd.         |   |                          | 108,119  | 154,864                  |
| Hientech (Tianjin) Co., Ltd.                 |   |                          | 3,746  | 5,600                    |
| HiEntech Co., Ltd.                           |   |                          | 4,080  | 6,679                    |
| Others                                       | 46,735  | 10,648                   | 2,962  | 1,715                    |
|  | ₩ 604,987   | 509,704                  | 170,242  | 236,346                  |
|  | ₩ 1,050,541   | 1,062,789                | 493,607  | 581,704                  |

(\*) Excluded from related parties due to disposal of equity investments during the year ended December 31, 2017.

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## Notes to the Consolidated Financial Statements

For the years ended December 31, 2015, 2016 and 2017

28. Related Parties and Others, Continued

- (d) Details of significant cash transactions such as loans and collection of loans, which occurred in the normal course of business with related parties for the years ended December 31, 2016 and 2017 are as follows:

*(In millions of won)*

| Associates               | January 1, 2016 | Loans(*) |          | December 31, 2016 |
|--------------------------|-----------------|----------|----------|-------------------|
|                          |                 | Increase | Decrease |                   |
| New Optics Ltd.          | ₩               | 1,000    |          | 1,000             |
| INVENIA Co., Ltd.        | 1,000           |          | 167      | 833               |
| Narenanotech Corporation | 300             |          |          | 300               |
| YAS Co., Ltd.            | 1,000           |          | 167      | 833               |
|                          | ₩ 2,300         | 1,000    | 334      | 2,966             |

- (\*) Loans are presented based on nominal amounts.

*(In millions of won)*

| Associates                   | January 1, 2017 | Loans(*1) |          | December 31, 2017 |
|------------------------------|-----------------|-----------|----------|-------------------|
|                              |                 | Increase  | Decrease |                   |
| New Optics Ltd.(*2)          | ₩ 1,000         |           | 125      | 875               |
| INVENIA Co., Ltd.            | 833             | 2,000     | 458      | 2,375             |
| Narenanotech Corporation(*2) | 300             |           | 75       | 225               |
| YAS Co., Ltd.                | 833             |           | 458      | 375               |
|                              | ₩ 2,966         | 2,000     | 1,116    | 3,850             |

(\*1) Loans are presented based on nominal amounts.

- (\*2) Excluded from related parties due to disposal of equity investments during the year ended December 31, 2017.

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**28. Related Parties and Others, Continued**

## (e) Key management personnel compensation

Compensation costs of key management for the years ended December 31, 2015, 2016 and 2017 are as follows:

*(In millions of won)*

|  | <b>2015</b>    | <b>2016</b>  | <b>2017</b>  |
|--|----------------|--------------|--------------|
| Short-term benefits                          | ₩ 2,940        | 2,323        | 3,724        |
| Expenses related to the defined benefit plan | 378            | 897          | 488          |
|  | <b>₩ 3,318</b> | <b>3,220</b> | <b>4,212</b> |

Key management refers to the registered directors who have significant control and responsibilities over the Controlling Company's operations and business.

**29. Supplemental Cash Flow Information**

Supplemental cash flow information for the years ended December 31, 2015, 2016 and 2017 is as follows:

*(In millions of won)*

|  | <b>2015</b> | <b>2016</b> | <b>2017</b> |
|--|-------------|-------------|-------------|
| <b>Non-cash investing and financing activities:</b>  |             |             |             |
| Changes in other accounts payable arising from the purchase of property, plant and equipment | ₩ 182,424   | 809,406     | 632,355     |