

2Q16 Earnings Release

28th July 2016

LG Electronics

All information regarding management performance and financial results of LG Electronics (the “Company”) during the 2nd quarter of 2016 as contained herein has been prepared on a consolidated basis in accordance with International Financial Reporting Standards (“IFRS”).

The information regarding results of 2nd quarter of 2016 has been prepared in advance, prior to being reviewed by outside auditors, solely for the convenience of investors of the Company, and is subject to change in the process of final review by external auditors.

The information contained herein includes forward-looking statements in respect to future plans, prospects, and performances of the Company as well as the Company’s projected sales plan for year of 2016.

These forward-looking statements also refer to the Company’s performance on consolidated base, as indicated.

The aforementioned forward-looking statements are influenced by changes in the management environment and relative events, and by their nature, these statements refer to uncertain circumstances. Consequently, due to these uncertainties, the Company’s actual future results may differ materially from those expressed or implied by such statements.

Please note that as the forward-looking statements contained herein are based on the current market situation and the Company’s management direction, they are subject to change according to the changes in future market environment and business strategy.

The information contained herein should not be utilized for any legal purposes in regards to investors’ investment results. The Company hereby expressly disclaims any and all liability for any loss or damage resulting from the investors’ reliance on the information contained herein.

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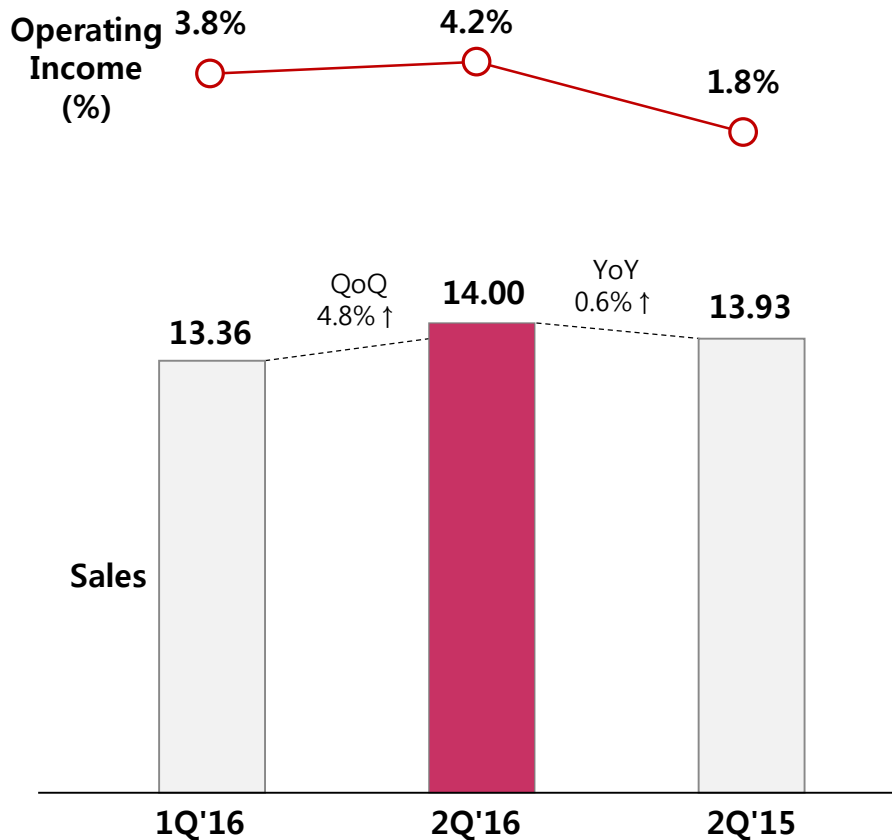
2Q16 Consolidated Earnings and Outlook

2Q16 Consolidated Earnings and Outlook

Sales/Profits

Sales / Profits

(Unit : KRW tn)



Performance by Division

(Unit : KRW bn)

		1Q'16	QoQ	2Q'16	YoY	2Q'15
Consolidated ^{*1)}	Sales	13,362.1	4.8%	14,002.9	0.6%	13,925.7
	O.I	505.2	79.4	584.6	340.5	244.1
	Operating Income (%)	3.8%	0.4%p	4.2%	2.4%p	1.8%
H&A	Sales	4,219.5	11.4%	4,700.2	4.8%	4,485.3
	O.I	407.8	25.9	433.7	141.9	291.8
	Home Appliance & Air Solution (%)	9.7%	-0.5%p	9.2%	2.7%p	6.5%
MC ^{*2)}	Sales	2,963.2	12.2%	3,325.8	-6.2%	3,544.8
	O.I	-202.2	48.7	-153.5	-134.3	-19.2
	Mobile Communications (%)	-6.8%	2.2%p	-4.6%	-4.1%p	-0.5%
HE	Sales	4,333.4	-4.1%	4,157.2	5.7%	3,934.8
	O.I	335.2	21.5	356.7	439.4	-82.7
	Home Entertainment (%)	7.7%	0.9%p	8.6%	10.7%p	-2.1%
VC	Sales	592.9	7.9%	639.6	41.9%	450.8
	O.I	-15.8	-1.0	-16.8	-15.3	-1.5
	Vehicle Components (%)	-2.7%	0.1%p	-2.6%	-2.3%p	-0.3%

*1) Including LG Innotek

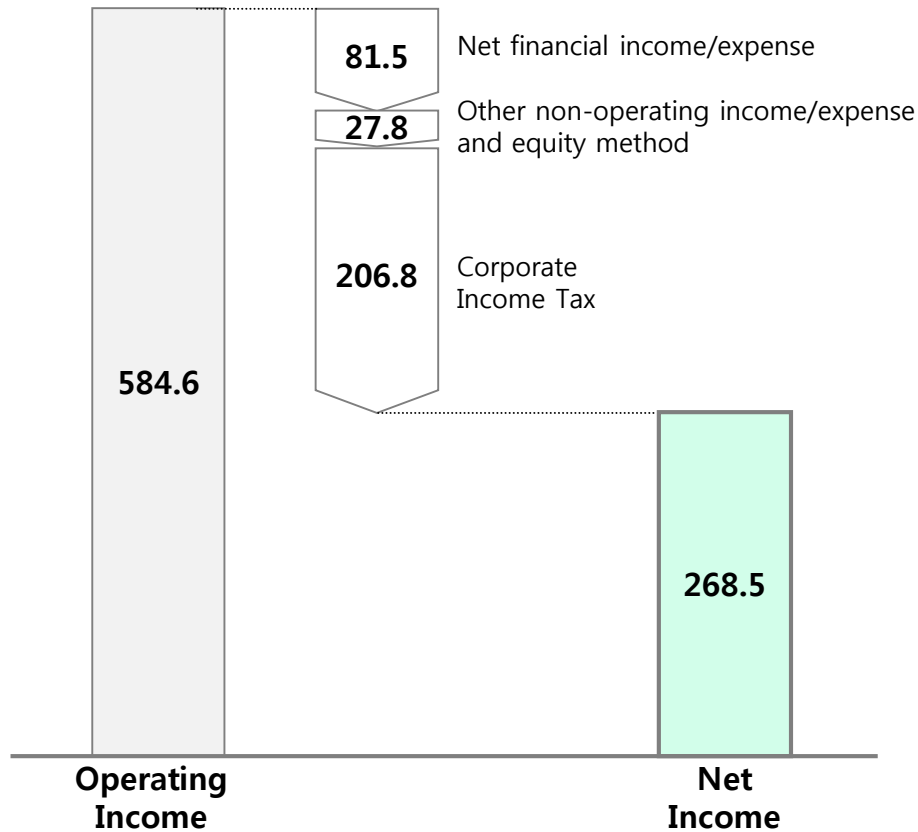
*2) IPD(Innovative Personal Device) department within MC division has been restated to "Others" since '16.1Q

2Q16 Consolidated Earnings and Outlook

Income Analysis

Income Analysis

(Unit : KRW bn)



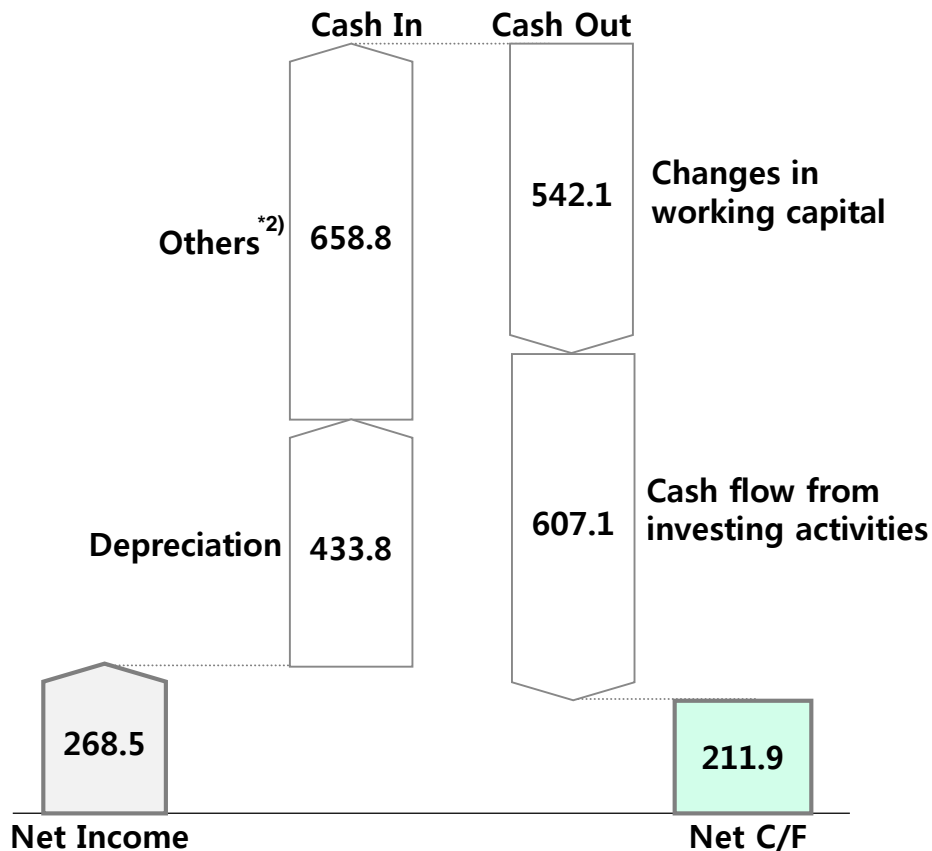
Income Trend

(Unit : KRW bn)

	1Q'16	QoQ	2Q'16	YoY	2Q'15
Operating Income	505.2	79.4	584.6	340.5	244.1
Net financial income/expense	-120.9	39.4	-81.5	16.6	-98.1
Gain/Loss on equity method	-22.3	-3.9	-26.2	-149.6	123.4
Other non-operating income/expense	-80.4	78.8	-1.6	-44.1	42.5
Income before tax	281.6	193.7	475.3	163.4	311.9
Corporate Income Tax	83.5	123.3	206.8	123.6	83.2
Income (Loss) from discontinued operations	-	-	-	2.3	-2.3
Net Income	198.1	70.4	268.5	42.1	226.4
EBITDA	959.5		1,018.4		720.6

Net Cash Flow^{*1)}

(Unit : KRW bn)



*1) Net Cash Flow: Excluding Cash flow from financing activities

*2) This refers to summation of ①others in cash flow from operating activities and ②FX effect from cash denominated in foreign currency and

③gain/loss on equity method Investment

Cash Flow Statement

(Unit : KRW bn)

	1Q'16	2Q'16
☐ Cash at the beginning of period	2,710.2	3,294.8
• Cash flow from operating activities	597.3	826.5
Net income/loss	198.1	268.5
Depreciation	454.3	433.8
Gain/Loss on equity method investment	22.3	26.2
Changes in working capital	175.3	-542.1
Others	-252.7	640.1
• Cash flow from investing activities	-416.0	-607.1
Increase in tangible assets	-298.4	-490.1
Increase in intangible assets	-117.9	-101.7
• Cash flow from financing activities	436.1	-598.7
Dividend paid, etc	-0.5	-90.8
Increase/Decrease in debt	436.6	-507.9
• FX effect from cash denominated in foreign currency	-32.8	-7.5
☐ Net changes in cash	584.6	-386.8
☐ Cash at the end of period	3,294.8	2,908.0

Leverage Ratio

(Unit : %)

4Q'15 1Q'16 2Q'16

Liability
to Equity

180 186 184

Debt to
Equity

68 72 67

Net Debt to
Equity

47 46 45

Balance Sheet

(Unit : KRW tn)

	4Q'15	1Q'16	2Q'16
<input type="checkbox"/> Assets	36.31	37.18	37.25
Current Assets	16.40	17.38	17.27
Cash	2.71	3.29	2.91
Inventory	4.87	5.42	5.21
Non-Current Assets	19.91	19.80	19.98
<input type="checkbox"/> Liabilities	23.33	24.19	24.12
Current Liabilities	14.78	15.62	15.35
Non-Current Liabilities	8.55	8.57	8.77
<input type="checkbox"/> Equity	12.98	12.99	13.13
<input type="checkbox"/> Debt	8.83	9.29	8.80
<input type="checkbox"/> Net Debt	6.12	6.00	5.89

Business Environment

Despite global low interest rates, consumption is likely to remain weak.

Market uncertainties may grow due to Brexit.

Amplified volatilities of core raw material and panel prices.

Bipolarization of demand can further extend business opportunities within the premium market.

Key Strategies

Bolster premium brand image of LG Electronics.

Enhance cost structure and reinforce business fundamentals in order to cope with volatilities of core raw material and panel prices.

Accelerate transition into B2B business to secure future growth engines.

Sales & Profits

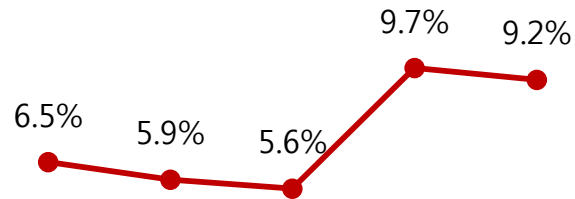
Anticipate similar level of revenue YoY

Project better operating margin YoY

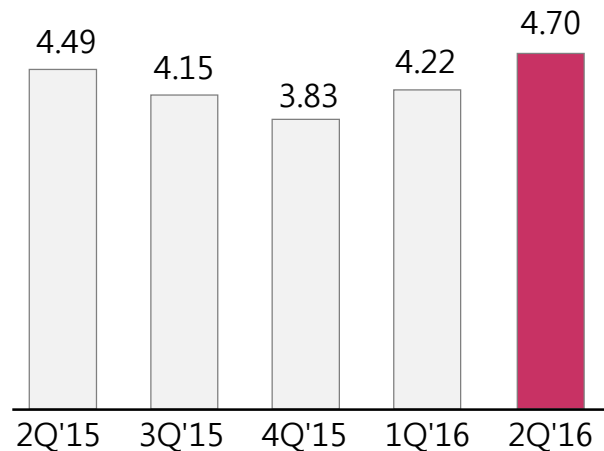
II Performance and Outlook by Division

(Unit : %, KRW tn)

Op. Margin



Sales



2Q'16 Performance

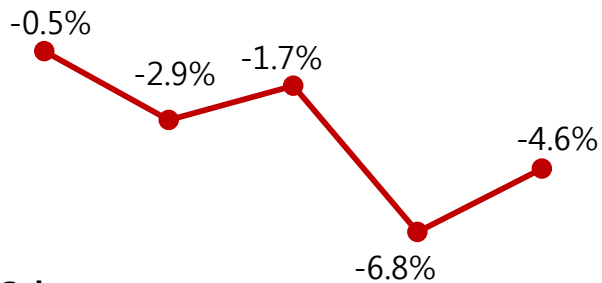
- **Sales** : Sales rose 5% YoY largely driven by growth in B2B sales including air conditioners and flourishing domestic turnover.
 - Domestic : Increased by 21% YoY helped by the strong performance in air conditioners, TWINWash washing machine, bottom freezer refrigerators
 - Overseas : Low level of oil price affected the weak performance in emerging countries. However, overall revenue is similar on YoY basis on account of the strong market growth in Europe and Asia regions.
- **Profitability** : Although the marketing expense went up due to the mid to long term investment for brand including LG SIGNATURE, 9% operating margin was secured thanks to product mix improvement and better cost structure.

3Q'16 Outlook

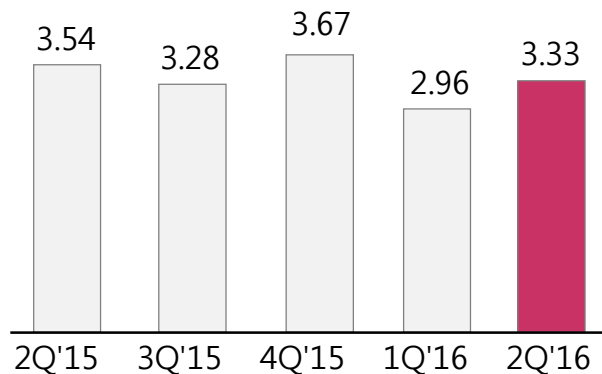
- **Market** : Slow growth of market demand is expected due to low level of oil price. However, the growth in the premium and B2B market is likely to sustain.
- **LGE** : Focus on successful global expansion 'LG SIGNATURE' and sales of market leading products such as TWINWash and TROMM styler, etc. Better profitability YoY is expected driven by efficient operation as well as cost innovation.

(Unit : %, KRW tn)

Op. Margin



Sales



2Q'16 Performance

- **Sales : Revenue increased 12% QoQ, however declined 6% YoY due to the weak performance of G5.**
 - Smartphone shipments marked 13.9M Units. (YoY 1% ↓, QoQ 3% ↑)
 - Mobile phone sales inclined 57% in the domestic market. Declined 9% QoQ in the North America market.
 - Mass tier sales went up 8% YoY driven by K/X series.
- **Profitability : 150B losses occurred due to the increased marketing expense and low yield of G5 at the initial stage.**

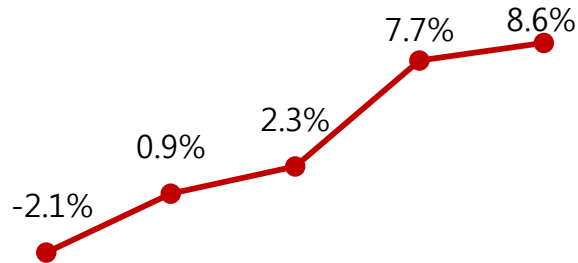
3Q'16 Outlook

- **Market : Intensified competition in the premium market is expected as competitors launch their new flagship products.**
- **LGE : Challenging 3Q is expected for the weak performance of G5. However, LGE plans to recover the revenue by launching the next V-Series and expanding the sales of mass tier models such as K/X series. LGE will strongly implement profitability improvement activities for dodging the current issues**

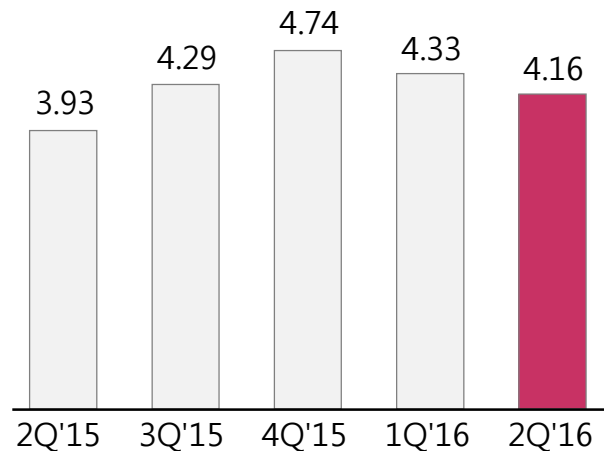
*1 The IPD(Innovative Personal Device) department within MC division has been restated to others since 1Q16

(Unit : %, KRW tn)

Op. Margin



Sales



2Q'16 Performance

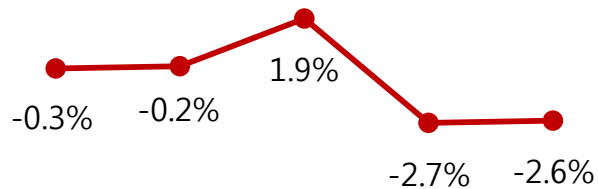
- **Sales** : Revenue fell slightly QoQ due to the economic conditions in emerging markets, and sluggish TV demand.
 - TV shipments decreased QoQ in MEA/CIS regions but increased QoQ in North/Latin America regions.
 - The revenue portion and shipments of premium TVs are continuously growing.
- **Profitability** : Margins improved QoQ helped by inclined sales of the premium product such as Ultra HD TV and OLED TV. Better cost structure also meaningfully contributed.

3Q'16 Outlook

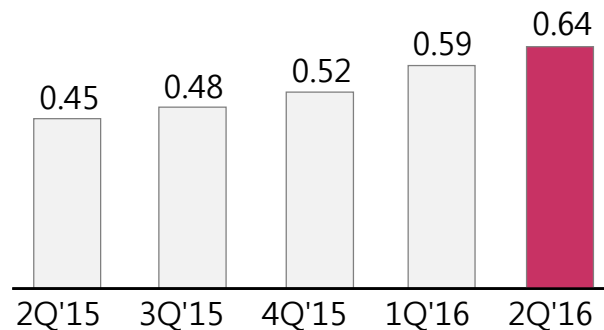
- **Market** : Although the overall TV demand would remain sluggish, the premium TV demand such as UHD TV and OLED TV will continuously move up.
- **LGE** : Focus on maintaining solid profitability by enhancing cost competitiveness, although volatile panel price may affect profitability negatively.

(Unit : %, KRW tn)

Op. Margin



Sales



2Q'16 Performance

- Sales : Increased 8% QoQ, 42% YoY due to the high growth in Car Infotainment business.
- Profitability : Loss occurred due to the inclined R&D investment for Infotainment and electric vehicle components.

3Q'16 Outlook

- Market : Market may have a negative impact due to the uncertainties of global economic conditions driven by Brexit. However, adoption of electronic components and electric vehicle market is expected to grow.
- LGE : The production of e-PT components for GM Bolt project, an important turning point for VC division, will kick in at the end of August. Regarding Car Infotainment business, LGE will enhance business structure and secure cost competitiveness.



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Income Statement

(Unit : KRW bn, %)

	2015										2016			
	1Q		2Q		3Q		4Q		Total		1Q		2Q	
Sales	13,994.4	100.0%	13,925.7	100.0%	14,028.8	100.0%	14,560.1	100.0%	56,509.0	100.0%	13,362.1	100.0%	14,002.9	100.0%
Cost of goods sold	10,906.1	77.9%	10,732.7	77.1%	10,769.9	76.8%	11,226.4	77.1%	43,635.1	77.2%	10,038.4	75.1%	10,236.4	73.1%
Gross profit	3,088.3	22.1%	3,193.0	22.9%	3,258.9	23.2%	3,333.7	22.9%	12,873.9	22.8%	3,323.7	24.9%	3,766.5	26.9%
Selling & admin expense	2,783.1	19.9%	2,948.9	21.2%	2,964.9	21.1%	2,984.7	20.5%	11,681.6	20.7%	2,818.5	21.1%	3,181.9	22.7%
Operating income (Loss)	305.2	2.2%	244.1	1.8%	294.0	2.1%	349.0	2.4%	1,192.3	2.1%	505.2	3.8%	584.6	4.2%
Financial income (Expense)	-102.9	-0.7%	-98.1	-0.7%	-65.0	-0.5%	-94.5	-0.6%	-360.5	-0.6%	-120.9	-0.9%	-81.5	-0.6%
Gains (loss) on equity method investment	168.3	1.2%	123.4	0.9%	70.0	0.5%	-2.2	0.0%	359.5	0.6%	-22.3	-0.2%	-26.2	-0.2%
Other non operating income (Loss)	-320.9	-2.3%	42.5	0.3%	-188.1	-1.3%	-131.7	-0.9%	-598.2	-1.1%	-80.4	-0.6%	-1.6	0.0%
Net income before tax	49.7	0.4%	311.9	2.2%	110.9	0.8%	120.6	0.8%	593.1	1.0%	281.6	2.1%	475.3	3.4%
Tax	11.3	0.1%	83.2	0.6%	-14.2	-0.1%	259.9	1.8%	340.2	0.6%	83.5	0.6%	206.8	1.5%
Income (Loss) from continuing operations	38.4	0.3%	228.7	1.6%	125.1	0.9%	-139.3	-1.0%	252.9	0.4%	198.1	1.5%	268.5	1.9%
Income (Loss) from discontinued operations	0.0	0.0%	-2.3	0.0%	-0.3	0.0%	-1.2	0.0%	-3.8	0.0%	0.0	0.0%	0.0	0.0%
Net income	38.4	0.3%	226.4	1.6%	124.8	0.9%	-140.5	-1.0%	249.1	0.4%	198.1	1.5%	268.5	1.9%
Controlled shares	2.2		187.1		83.7		-148.6		124.4		190.6		271.0	
Noncontrolled shares	36.2		39.3		41.1		8.1		124.7		7.5		-2.5	

*) Since this statements have not yet been reviewed by an independent auditor, the contents can be changed if the auditor raise an issue during the review process

Appendix

Summarized Financial Statements (Consolidated)

Balance Sheet

(Unit : KRW bn)

	2015				2016	
	1Q	2Q	3Q	4Q	1Q	2Q
Assets	37,253.7	37,979.5	38,947.4	36,313.9	37,176.9	37,245.0
Current Assets	17,649.5	18,122.3	18,831.1	16,397.6	17,378.8	17,271.8
Cash and cash equivalents	2,034.3	2,576.5	2,961.3	2,710.2	3,294.8	2,908.0
Accounts receivable	7,867.7	8,119.4	8,034.7	7,093.4	6,838.2	7,351.8
Inventory	5,828.7	5,554.7	5,880.3	4,872.7	5,417.8	5,209.5
Other	1,918.8	1,871.7	1,954.8	1,721.3	1,828.0	1,802.5
Non-current Assets	19,604.2	19,857.2	20,116.3	19,916.3	19,798.1	19,973.2
Investment	4,662.6	4,814.1	4,951.3	4,841.9	4,768.3	4,721.1
PP&E	10,475.0	10,550.6	10,496.9	10,460.3	10,359.8	10,514.9
Intangible assets	1,386.6	1,402.0	1,417.1	1,473.3	1,468.9	1,509.1
Other	3,080.0	3,090.5	3,251.0	3,140.8	3,201.1	3,228.1
Liabilities	24,499.5	24,794.6	25,523.8	23,330.4	24,186.9	24,116.7
Accounts payable	6,958.2	6,416.0	7,219.8	6,087.0	6,561.4	6,315.3
Debt	9,568.4	9,894.7	9,773.9	8,827.3	9,291.7	8,801.6
Other	7,972.9	8,483.9	8,530.1	8,416.1	8,333.8	8,999.8
Equity	12,754.2	13,184.9	13,423.6	12,983.5	12,990.0	13,128.3

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Appendix

Divisional Sales (Consolidated)

(Unit : KRW bn)

		1Q'15	2Q'15	3Q'15	4Q'15	'15 Total	1Q'16	2Q'16	QoQ	YoY
H&A (Home Appliance & Air Solution)	Sales	4,063.1	4,485.3	4,153.4	3,829.5	16,531.3	4,219.5	4,700.2	11%	5%
	Op. Income (%)	229.5 5.6%	291.8 6.5%	245.6 5.9%	214.8 5.6%	981.7 5.9%	407.8 9.7%	433.7 9.2%		
MC (Mobile Communications)	Sales	3,508.4	3,544.8	3,280.1	3,670.1	14,003.4	2,963.2	3,325.8	12%	-6%
	Op. Income (%)	56.8 1.6%	-19.2 -0.5%	-96.3 -2.9%	-60.9 -1.7%	-119.6 -0.9%	-202.2 -6.8%	-153.5 -4.6%		
HE (Home Entertainment)	Sales	4,436.7	3,934.8	4,286.4	4,739.7	17,397.6	4,333.4	4,157.2	-4%	6%
	Op. Income (%)	-6.2 -0.1%	-82.7 -2.1%	37.0 0.9%	109.2 2.3%	57.3 0.3%	335.2 7.7%	356.7 8.6%		
VC (Vehicle Components)	Sales	382.6	450.8	478.6	520.4	1,832.4	592.9	639.6	8%	42%
	Op. Income (%)	-2.4 -0.6%	-1.5 -0.3%	-0.8 -0.2%	9.7 1.9%	5.0 0.3%	-15.8 -2.7%	-16.8 -2.6%		
Others	Sales	402.2	413.0	601.3	558.9	1,975.4	393.7	362.2	-8%	-12%
	Op. Income	-40.2	9.0	48.6	27.9	45.3	-19.7	-0.6		
LGE Consolidated Excluding LG Innotek(①)										
Sales		12,793.0	12,828.7	12,799.8	13,318.6	51,740.1	12,502.7	13,185.0	5%	3%
Op. Income (%)		237.5 1.9%	197.4 1.5%	234.1 1.8%	300.7 2.3%	969.7 1.9%	505.3 4.0%	619.5 4.7%		
LG Innotek(②)										
Sales		1,541.3	1,447.1	1,558.8	1,590.9	6,138.1	1,195.0	1,120.5	-6%	-23%
Op. Income		69.0	49.0	60.6	45.1	223.7	0.4	-34.0		
LGE-LG Innotek Inter-company Transaction (③)										
Sales		339.9	350.1	329.8	349.4	1,369.2	335.6	302.6	-10%	-14%
Op. Income		1.3	2.3	0.7	-3.2	1.1	0.5	0.9		
LGE Consolidated (①+②-③)										
Sales		13,994.4	13,925.7	14,028.8	14,560.1	56,509.0	13,362.1	14,002.9	5%	1%
Op. Income (%)		305.2 2.2%	244.1 1.8%	294.0 2.1%	349.0 2.4%	1,192.3 2.1%	505.2 3.8%	584.6 4.2%		

*) The IPD(Innovative Personal Device) department within MC division has been restated to others since 1Q16

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