

# 3Q'16 Earnings Release

**27<sup>th</sup> Oct 2016**

**LG Electronics**

**All information regarding management performance and financial results of LG Electronics (the “Company”) during the 3<sup>rd</sup> 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 3<sup>rd</sup> 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 4<sup>th</sup> quarter 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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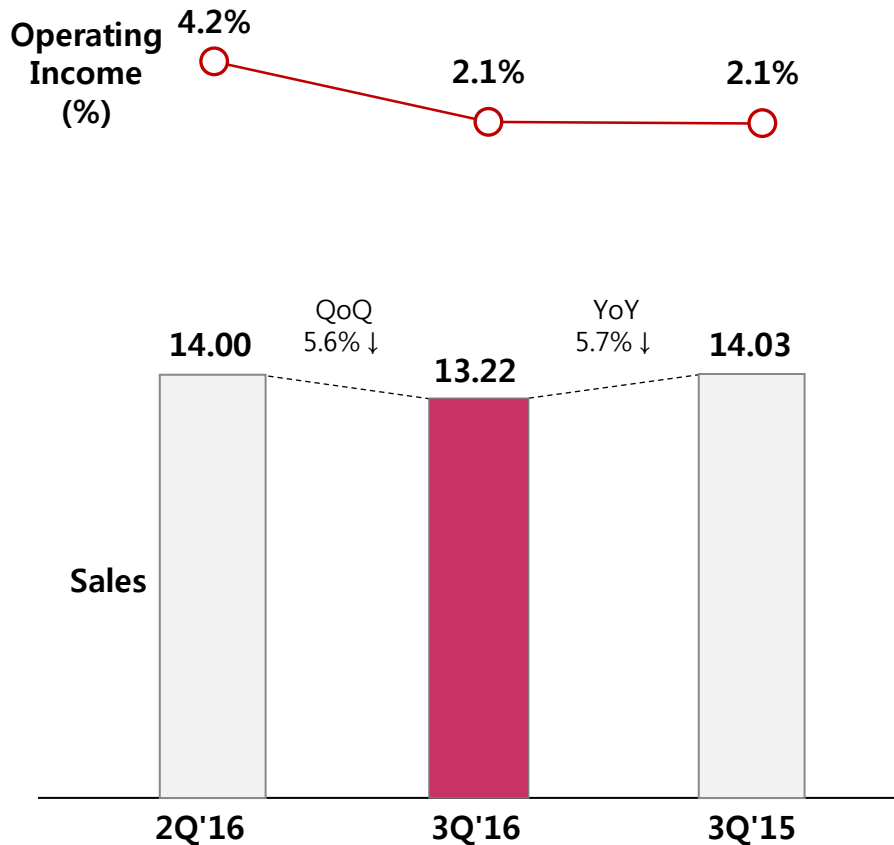
# Consolidated Earnings and Outlook

# Consolidated Earnings and Outlook

Sales/Profits

## Sales / Profits

(Unit : KRW tn)



## Performance by Division

(Unit : KRW bn)

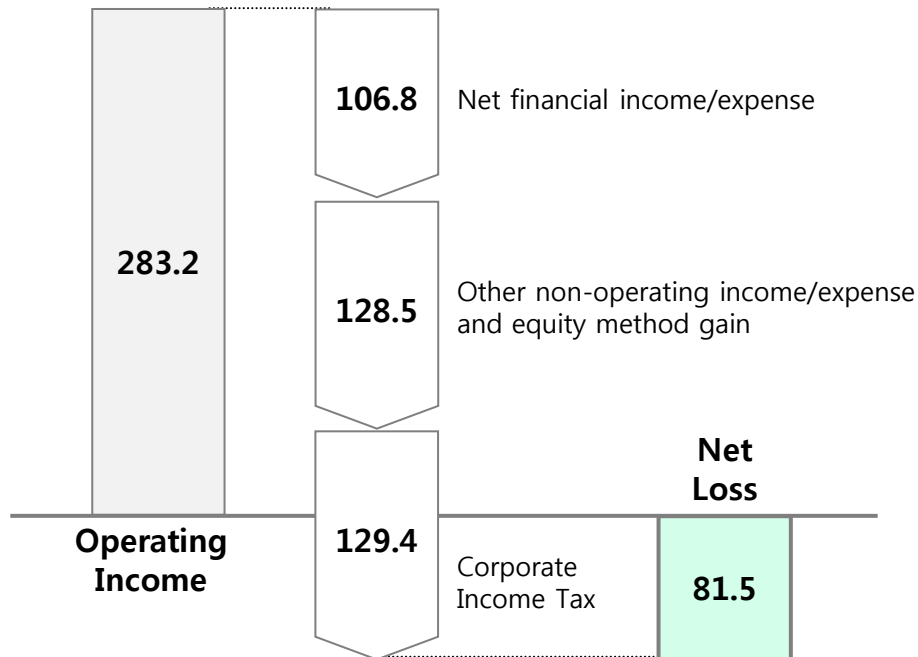
		2Q'16	QoQ	3Q'16	YoY	3Q'15
<b>Consolidated</b> <sup>*1)</sup>	Sales	14,002.9	-5.6%	<b>13,224.3</b>	-5.7%	14,028.8
	O.I	584.6	-301.4	<b>283.2</b>	-10.8	294.0
	Operating Income (%)	4.2%	-2.1%p	<b>2.1%</b>	0.0%p	2.1%
<b>H&amp;A</b>	Sales	4,700.2	-9.1%	<b>4,271.2</b>	2.8%	4,153.4
	O.I	433.7	-90.9	<b>342.8</b>	97.2	245.6
	Home Appliance & Air Solution (%)	9.2%	-1.2%p	<b>8.0%</b>	2.1%p	5.9%
<b>MC</b> <sup>*2)</sup>	Sales	3,325.8	-24.3%	<b>2,517.0</b>	-23.3%	3,280.1
	O.I	-153.5	-282.9	<b>-436.4</b>	-340.1	-96.3
	Mobile Communications (%)	-4.6%	-12.7%p	<b>-17.3%</b>	-14.4%p	-2.9%
<b>HE</b>	Sales	4,157.2	-0.4%	<b>4,141.5</b>	-3.4%	4,286.4
	O.I	356.7	24.8	<b>381.5</b>	344.5	37.0
	Home Entertainment (%)	8.6%	0.6%p	<b>9.2%</b>	8.3%p	0.9%
<b>VC</b>	Sales	639.6	5.5%	<b>674.9</b>	41.0%	478.6
	O.I	-16.8	0.6	<b>-16.2</b>	-15.4	-0.8
	Vehicle Components (%)	-2.6%	0.2%p	<b>-2.4%</b>	-2.2%p	-0.2%

\*1) Including LG Innotek

\*2) IPD(Innovative Personal Device) department within MC division has been restated to "Others" since 1Q'16

### Income Analysis

(Unit : KRW bn)



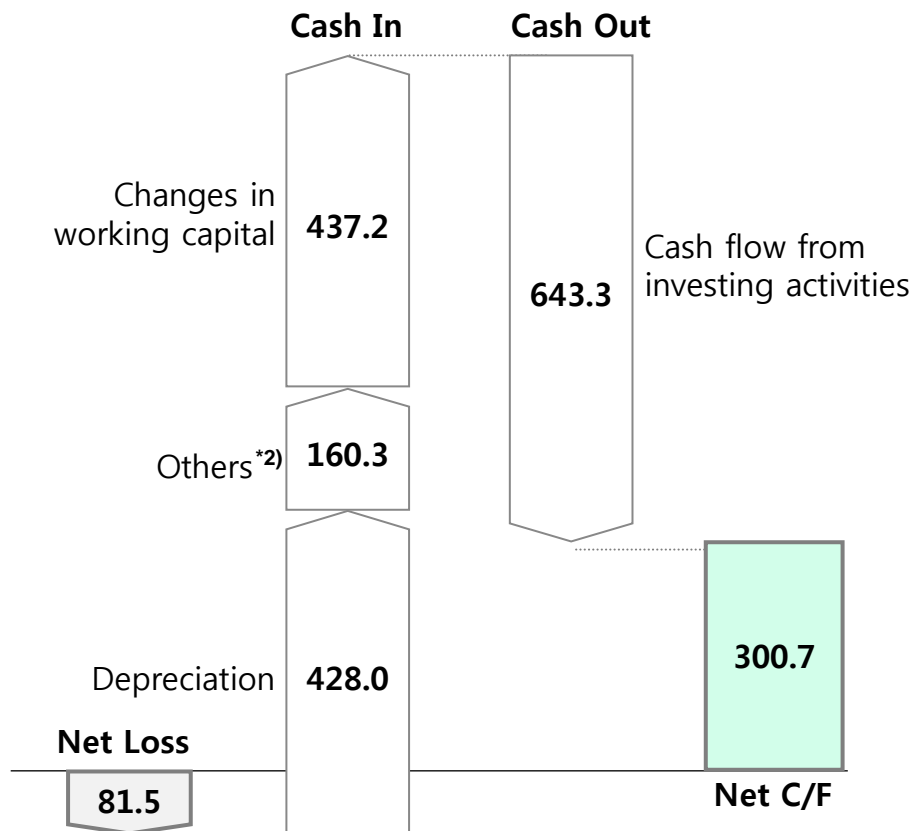
### Income Trend

(Unit : KRW bn)

	2Q'16	QoQ	3Q'16	YoY	3Q'15
<b>Operating Income</b>	<b>584.6</b>	<b>-301.4</b>	<b>283.2</b>	<b>-10.8</b>	<b>294.0</b>
Net financial income/expense	-81.5	-25.3	-106.8	-41.8	-65.0
Gain/Loss on equity method	-26.2	46.1	19.9	-50.1	70.0
Other non-operating income/expense	-1.6	-146.8	-148.4	39.7	-188.1
<b>Income before tax</b>	<b>475.3</b>	<b>-427.4</b>	<b>47.9</b>	<b>-63.0</b>	<b>110.9</b>
Corporate Income Tax	206.8	-77.4	129.4	143.6	-14.2
Income (Loss) from discontinued operations	-	-	-	0.3	-0.3
<b>Net Income</b>	<b>268.5</b>	<b>-350.0</b>	<b>-81.5</b>	<b>-206.3</b>	<b>124.8</b>
EBITDA	1,018.4		711.2		776.0

### Net Cash Flow<sup>\*1)</sup>

(Unit : KRW bn)



### Cash Flow Statement

(Unit : KRW bn)

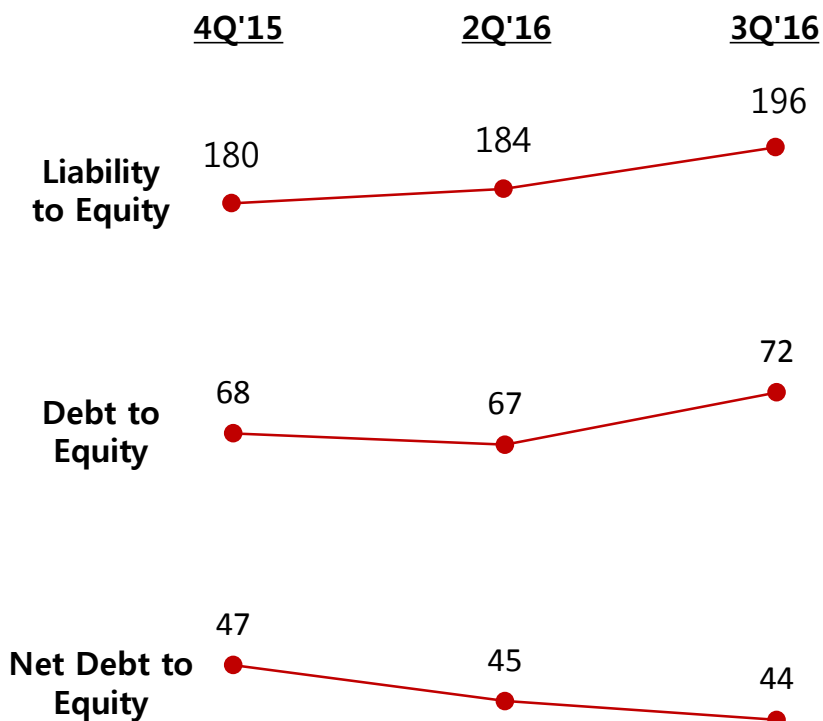
	2Q'16	3Q'16
☐ Cash at the beginning of period	3,294.8	2,908.0
• Cash flow from operating activities	826.5	1,043.9
Net income/loss	268.5	-81.5
Depreciation	433.8	428.0
Gain/Loss on equity method investment	26.2	-19.9
Changes in working capital	-542.1	437.2
Others	640.1	280.3
• Cash flow from investing activities	-607.1	-643.3
Increase in tangible assets	-490.1	-482.2
Increase in intangible assets	-101.7	-116.9
• Cash flow from financing activities	-598.7	279.8
Dividend paid, etc	-90.8	-17.2
Increase/Decrease in debt	-507.9	297.0
• FX effect from cash denominated in foreign currency	-7.4	-99.9
☐ Net changes in cash	-386.8	580.5
☐ Cash at the end of period	2,908.0	3,488.5

\*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

### Leverage Ratio

(Unit : %)



### Balance Sheet

(Unit : KRW tn)

	4Q'15	2Q'16	3Q'16
<b>Assets</b>	<b>36.31</b>	<b>37.25</b>	<b>37.29</b>
Current Assets	16.40	17.27	17.28
Cash	2.71	2.91	3.49
Inventory	4.87	5.21	5.54
Non-Current Assets	19.91	19.98	20.01
<b>Liabilities</b>	<b>23.33</b>	<b>24.12</b>	<b>24.71</b>
Current Liabilities	14.78	15.35	15.36
Non-Current Liabilities	8.55	8.77	9.35
<b>Equity</b>	<b>12.98</b>	<b>13.13</b>	<b>12.58</b>
<b>Debt</b>	<b>8.83</b>	<b>8.80</b>	<b>9.00</b>
<b>Net Debt</b>	<b>6.12</b>	<b>5.89</b>	<b>5.51</b>



### Business Environment

Low growth of global economy would continue.

Increasing trend of core raw material and panel price would persist.

Strong competition in TVs and handsets is likely as the entrance of peak season.

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### Key Strategies

Appliance and TV business will endeavor to accelerate the sales of premium products and bolster premium brand image

Mobile business will complete the business improvement activities by 2H16 and concentrate on the thorough development of next year's flagship model.

Vehicle Components business will put more efforts to grow, leveraging the success of GM BOLT project

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### Sales & Profits

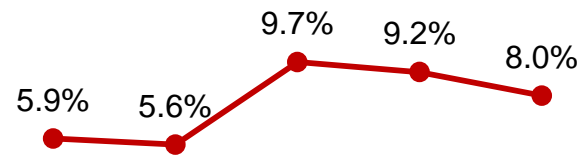
Expect mid-single digit QoQ increase in revenue

Decline in operating margin QoQ on account of the promotion expense and the seasonality of appliance business

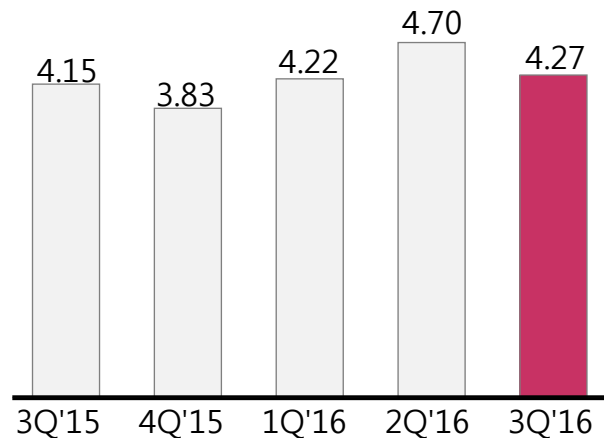
## **II Performance and Outlook by Division**

(Unit : %, KRW tn)

## Op. Margin



## Sales

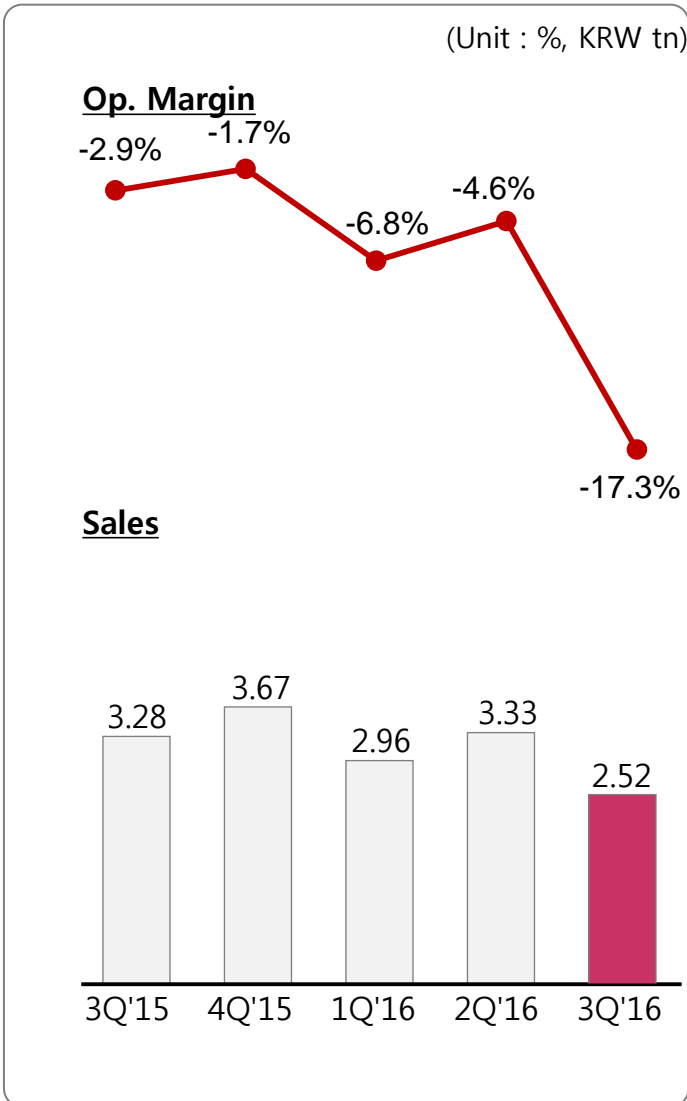


## 3Q'16 Performance

- **Sales : Revenue rose 3% YoY largely driven by the growth in Europe, Asia regions.**
  - Domestic : Increased by 29% YoY helped by the strong performance in air conditioners, TWINWash washing machine, bottom freezer refrigerators
  - Overseas : Although the sales grew YoY in Europe and Asia regions, the overall revenue declined 4% YoY due to the unfavorable FX movements in MEA, Latin America regions and weak demand in emerging countries influenced by economic recession
- **Profitability : Profitability improved YoY mostly driven by the product mix improvement and strong performance of air conditioning business in domestic market.**

## 4Q'16 Outlook

- **Market :** Slow growth of market demand is expected due to the slow recovery of global economic condition. However, the growth in the premium and B2B business such as system air conditioners/built-in appliances is likely to sustain.
- **LGE :** Spearheaded by LG SIGNATURE, LGE try to expand premium product sales such as TWINWash, InstaView, and Door-in-Door refrigerator etc. as well as keeping constant cost innovation in order to maintain high profitability.



## 3Q'16 Performance

- **Sales : Revenue decreased 24% QoQ, due to the weak performance of premium products and ASP decline of smartphones.**
  - Smartphone shipments marked 13.5M Units. (YoY 9% ↓, QoQ 3% ↓)
  - Mobile phone shipment inclined 14% QoQ in the North America Market. Declined 41% QoQ in the Domestic market.
  - Mass tier shipment went up 16% QoQ driven by K/X series.
- **Profitability: Loss occurred due to the lower yield, weak sales of G5, and expenses associated with business improvement activities.**

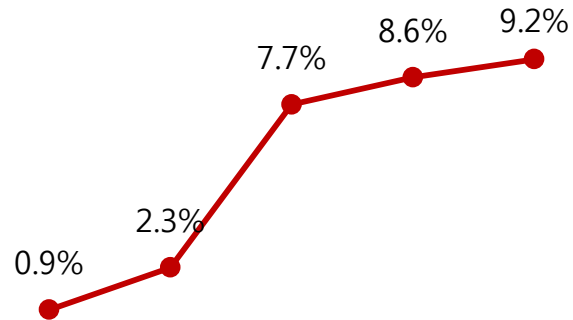
## 4Q'16 Outlook

- **Market : With the entrance of high season, competition among smartphone makers will go tougher. Additionally consumers will be more keen on quality and stability of smartphones.**
- **LGE : LGE will focus on maximizing the sales of V20, which is gaining positive responses and extending the turn-over of new mass-tier smartphones, which are garnering popularity. Meanwhile, LGE will finalize business improvement activities by 4Q, thereby ensuring fundamentals enhancement onwards and bracing for future business.**

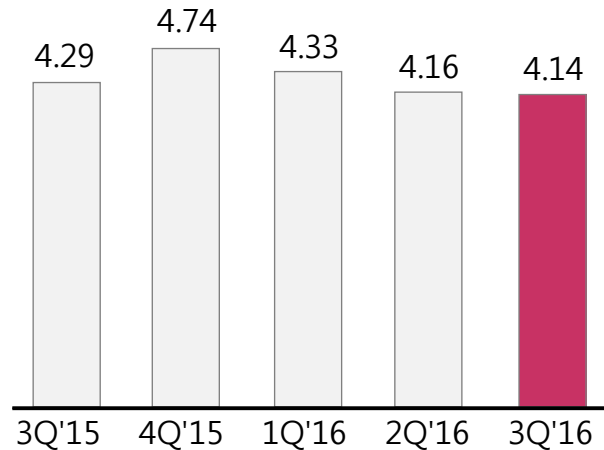
\*1 The IPD(Innovative Personal Device) department within MC division has been restated to others since 1Q'16

(Unit : %, KRW tn)

## Op. Margin



## Sales



## 3Q'16 Performance

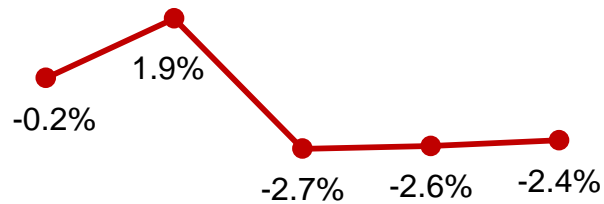
- **Sales** : Although TV Shipment increased, revenue was flat QoQ due to the market price decline and stronger FX in KRW. However, sales of OLED TV & UHD TV is continuously growing.
- **Profitability** : Continuous improvement in product mix and expansion of large size premium TVs sales contributed to the solid margin again.

## 4Q'16 Outlook

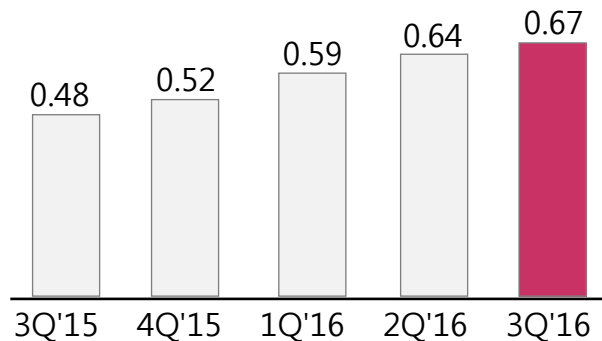
- **Market** : With entering the peak season, the overall TV demand is expected to grow. The demand for Premium TV such as UHD TV and OLED TV in developed countries would grow significantly QoQ.
- **LGE** : The profit is likely to decrease QoQ on account of the panel price increase and marketing expense rise. However, LGE will continuously focus on the premium TVs sales in order to successfully address peak season demand.

(Unit : %, KRW tn)

## Op. Margin



## Sales



## 3Q'16 Performance

- **Sales** : Increased 6% QoQ, 41% YoY due to the high growth in electric vehicle components and car infotainment business.
- **Profitability** : Loss occurred due to the inclined R&D investment for infotainment and electric vehicle components.

## 4Q'16 Outlook

- **Market** : Car Infotainment market will steadily be growing with the increasing adoption of electronic components in vehicle.  
The era of electric vehicle is expected to come sooner due to the launch of new electric vehicles and substantial technology progress of the industry enabling to manufacture longer distance electric vehicles.
- **LGE** : Diversify and enhance collaboration with major OEMs in infotainment business.  
High revenue growth is foreseen for electric vehicle components business, largely driven by the GM BOLT project.



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# Appendix

## Summarized Financial Statements (Consolidated)

### Income Statement

(Unit : KRW bn, %)

	2015					2016		
	1Q	2Q	3Q	4Q	Total	1Q	2Q	3Q
<b>Sales</b>	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%	13,224.3 100.0%
<b>Cost of goods sold</b>	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%	9,915.4 75.0%
<b>Gross profit</b>	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%	3,308.9 25.0%
<b>Selling &amp; admin expense</b>	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%	3,025.7 22.9%
<b>Operating income (Loss)</b>	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%	283.2 2.1%
<b>Financial income (Expense)</b>	-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%	-106.8 -0.8%
<b>Gains (loss) on equity method investment</b>	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%	19.9 0.2%
<b>Other non operating income (Loss)</b>	-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%	-148.4 -1.1%
<b>Net income before tax</b>	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%	47.9 0.4%
<b>Corporate Income Tax</b>	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%	129.4 1.0%
<b>Income (Loss) from continuing operations</b>	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%	-81.5 -0.6%
<b>Income (Loss) from discontinued operations</b>	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%	0.0 0.0%
<b>Net income</b>	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%	-81.5 -0.6%
Controlled shares	2.2	187.1	83.7	-148.6	124.4	190.6	271.0	-62.0
Noncontrolled shares	36.2	39.3	41.1	8.1	124.7	7.5	-2.5	-19.5

\*) 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	3Q
<b>Assets</b>	<b>37,253.7</b>	<b>37,979.5</b>	<b>38,947.4</b>	<b>36,313.9</b>	<b>37,176.9</b>	<b>37,245.0</b>	<b>37,285.6</b>
Current Assets	17,649.5	18,122.3	18,831.1	16,397.6	17,378.8	17,271.8	17,277.5
Cash and cash equivalents	2,034.3	2,576.5	2,961.3	2,710.2	3,294.8	2,908.0	3,488.5
Accounts receivable	7,867.7	8,119.4	8,034.7	7,093.4	6,838.2	7,351.8	6,644.7
Inventory	5,828.7	5,554.7	5,880.3	4,872.7	5,417.8	5,209.5	5,544.8
Other	1,918.8	1,871.7	1,954.8	1,721.3	1,828.0	1,802.5	1,599.5
Non-current Assets	19,604.2	19,857.2	20,116.3	19,916.3	19,798.1	19,973.2	20,008.1
Investment	4,662.6	4,814.1	4,951.3	4,841.9	4,768.3	4,721.1	4,701.7
PP&E	10,475.0	10,550.6	10,496.9	10,460.3	10,359.8	10,514.9	10,606.2
Intangible assets	1,386.6	1,402.0	1,417.1	1,473.3	1,468.9	1,509.1	1,523.5
Other	3,080.0	3,090.5	3,251.0	3,140.8	3,201.1	3,228.1	3,176.7
<b>Liabilities</b>	<b>24,499.5</b>	<b>24,794.6</b>	<b>25,523.8</b>	<b>23,330.4</b>	<b>24,186.9</b>	<b>24,116.7</b>	<b>24,707.8</b>
Accounts payable	6,958.2	6,416.0	7,219.8	6,087.0	6,561.4	6,315.3	6,740.7
Debt	9,568.4	9,894.7	9,773.9	8,827.3	9,291.7	8,801.6	9,007.7
Other	7,972.9	8,483.9	8,530.1	8,416.1	8,333.8	8,999.8	8,959.4
<b>Equity</b>	<b>12,754.2</b>	<b>13,184.9</b>	<b>13,423.6</b>	<b>12,983.5</b>	<b>12,990.0</b>	<b>13,128.3</b>	<b>12,577.8</b>

\*) 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

## Divisional Sales (Consolidated)

(Unit : KRW bn)

		1Q'15	2Q'15	3Q'15	4Q'15	'15 Total	1Q'16	2Q'16	3Q'16	QoQ	YoY
<b>H&amp;A</b> (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	4,271.2	-9%	3%
	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%	342.8 8.0%		
<b>MC</b> (Mobile Communications)	Sales	3,508.4	3,544.8	3,280.1	3,670.1	14,003.4	2,963.2	3,325.8	2,517.0	-24%	-23%
	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%	-436.4 -17.3%		
<b>HE</b> (Home Entertainment)	Sales	4,436.7	3,934.8	4,286.4	4,739.7	17,397.6	4,333.4	4,157.2	4,141.5	0%	-3%
	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%	381.5 9.2%		
<b>VC</b> (Vehicle Components)	Sales	382.6	450.8	478.6	520.4	1,832.4	592.9	639.6	674.9	6%	41%
	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%	-16.2 -2.4%		
<b>Others</b>	Sales	402.2	413.0	601.3	558.9	1,975.4	393.7	362.2	532.8	47%	-11%
	Op. Income	-40.2	9.0	48.6	27.9	45.3	-19.7	-0.6	0.3		
<b>LGE Consolidated Excluding LG Innotek(①)</b>	Sales	12,793.0	12,828.7	12,799.8	13,318.6	51,740.1	12,502.7	13,185.0	12,137.4	-8%	-5%
	Op. Income	237.5	197.4	234.1	300.7	969.7	505.3	619.5	272.0		
	(%)	1.9%	1.5%	1.8%	2.3%	1.9%	4.0%	4.7%	2.2%		
<b>LG Innotek(②)</b>	Sales	1,541.3	1,447.1	1,558.8	1,590.9	6,138.1	1,195.0	1,120.5	1,384.5	24%	-11%
	Op. Income	69.0	49.0	60.6	45.1	223.7	0.4	-34.0	20.6		
<b>LGE-LG Innotek Inter-company Transaction (③)</b>	Sales	339.9	350.1	329.8	349.4	1,369.2	335.6	302.6	297.6	-2%	-10%
	Op. Income	1.3	2.3	0.7	-3.2	1.1	0.5	0.9	9.4		
<b>LGE Consolidated (①+②-③)</b>	Sales	13,994.4	13,925.7	14,028.8	14,560.1	56,509.0	13,362.1	14,002.9	13,224.3	-6%	-6%
	Op. Income	305.2	244.1	294.0	349.0	1,192.3	505.2	584.6	283.2		
	(%)	2.2%	1.8%	2.1%	2.4%	2.1%	3.8%	4.2%	2.1%		

\*) The IPD(Innovative Personal Device) department within MC division has been restated to others since 1Q'16

\*) 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