

**LG Electronics and Subsidiaries**  
**Interim Consolidated Financial Statements**  
**June 30, 2012 and 2011**

# LG Electronics and Subsidiaries

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June 30, 2012 and 2011, and December 31, 2011

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## Review Report on Interim Financial Information

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

### **Reviewed Financial Statements**

We have reviewed the accompanying interim consolidated financial statements of LG Electronics Inc. and its subsidiaries (collectively the "Group"). These financial statements consist of the statement of financial position of the Group as of June 30, 2012, and the related consolidated statements of income and comprehensive income for the three-month and six-month periods ending June 30, 2012 and 2011 and statements of changes in equity and cash flows for the six-month periods ended June 30, 2012 and 2011, and a summary of significant accounting policies and other explanatory notes, expressed in Korean won.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

Our responsibility is to issue a report on these interim consolidated financial statements based on our reviews. We have not reviewed the financial statements of certain consolidated subsidiaries, whose financial statements reflect 27% of the Group's consolidated total assets as of June 30, 2012, and 44% of the Group's consolidated total sales for each of the six-month periods ended June 30, 2012 and 2011. These financial statements were reviewed by other auditors whose reports have been furnished to us and our report, insofar as it relates to the amounts included for those consolidated subsidiaries, is based solely on the reports of the other auditors.

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

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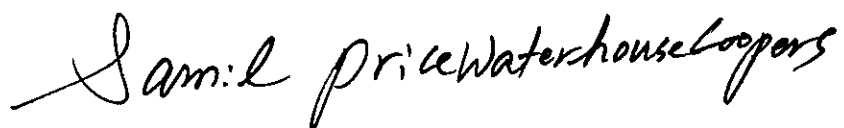
**Conclusion**

Based on our reviews and the reports of the other auditors, nothing has come to our attention that causes us to believe the accompanying interim consolidated financial statements do not present fairly, in all material respects, in accordance with the Korean IFRS 1034, *Interim Financial Reporting*.

**Other matters**

We have audited the accompanying consolidated statement of financial position of the Group as of December 31, 2011, and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, in accordance with auditing standards generally accepted in the Republic of Korea. We expressed an unqualified opinion on those financial statements in our audit report dated March 7, 2012. These consolidated financial statements are not included in this review report. The consolidated statement of financial position as of December 31, 2011, presented herein for comparative purposes, is consistent, in all material respects, with the above audited statement of financial position as of December 31, 2011.

Review standards and their application in practice vary among countries. The procedures and practices used in the Republic of Korea to review such financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report is for use by those who are informed about Korean review standards and their application in practice.



Seoul, Korea  
August 10, 2012

This report is effective as of August 10, 2012, the review report date. Certain subsequent events or circumstances, which may occur between the review report date and the time of reading this report, could have a material impact on the accompanying interim consolidated financial statements and notes thereto. Accordingly, the readers of the review report should understand that there is a possibility that the above review report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

**LG Electronics and Subsidiaries**  
**Interim Consolidated Statements of Financial Position**  
**June 30, 2012 and December 31, 2011**

<i>(in millions of Korean won)</i>	Notes	June 30, 2012	December 31, 2011
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	5,29	2,121,338	2,345,465
Financial deposits	5,29	50,050	150,000
Trade receivables	5,6	7,084,895	6,752,559
Loans and other receivables	5	488,323	494,239
Other financial assets	5,7	834	1,677
Inventories	8	4,761,032	4,947,160
Current income tax assets		175,978	197,968
Other current assets		853,609	890,388
Assets classified as held for sale		3,379	3,670
		<u>15,539,438</u>	<u>15,783,126</u>
<b>Non-current assets</b>			
Financial deposits	5	105,646	129,439
Loans and other receivables	5	595,085	610,709
Other financial assets	5,7	136,827	139,282
Property, plant and equipment	9	7,268,037	7,290,413
Intangible assets	9	1,021,986	1,035,797
Deferred income tax assets		1,213,765	1,246,071
Investments in jointly controlled entities and associates	10	5,420,943	5,603,199
Investment property		7,119	7,239
Other non-current assets		791,089	813,182
		<u>16,560,497</u>	<u>16,875,331</u>
<b>Total assets</b>		<u>32,099,935</u>	<u>32,658,457</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade payables	5	5,481,821	5,486,871
Borrowings	5,11,29	2,873,591	3,178,212
Other payables		3,625,757	3,780,158
Other financial liabilities	5,7	515	13,860
Current income tax liabilities		111,360	81,643
Provisions	12	681,709	724,516
Other current liabilities		848,085	949,262
		<u>13,622,838</u>	<u>14,214,522</u>
<b>Non-current liabilities</b>			
Borrowings	5,11,29	3,982,446	4,257,406
Other payables		19,923	20,490
Other financial liabilities	5,7	1,197	378
Deferred income tax liabilities		11,790	15,237
Defined benefit liability	13	494,631	423,306
Provisions	12	581,836	575,632
Other non-current liabilities		3,391	3,238
		<u>5,095,214</u>	<u>5,295,687</u>
<b>Total liabilities</b>		<u>18,718,052</u>	<u>19,510,209</u>
<b>Equity attributable to owners of the Parent Company</b>			
Paid-in capital:			
Capital stock	14	904,169	904,169
Share premium		3,088,179	3,088,179
Retained earnings	15	9,808,996	9,499,534
Accumulated other comprehensive loss		(399,951)	(326,584)
Other components of equity	16	(271,341)	(271,339)
		<u>13,130,052</u>	<u>12,893,959</u>
<b>Non-controlling interest</b>		<u>251,831</u>	<u>254,289</u>
<b>Total equity</b>		<u>13,381,883</u>	<u>13,148,248</u>
<b>Total liabilities and equity</b>		<u>32,099,935</u>	<u>32,658,457</u>

The accompanying notes are an integral part of these consolidated financial statements.

**LG Electronics and Subsidiaries**  
**Interim Consolidated Statements of Income**  
**Three-Month and Six-Month Periods Ended June 30, 2012 and 2011**

<i>(in millions of Korean won, except per share amounts)</i>	Notes	2012		2011	
		Three Months	Six Months	Three Months	Six Months
Net sales	17	12,858,999	25,086,896	14,385,076	27,545,024
Cost of sales	18	9,573,977	18,887,826	11,078,030	21,272,877
<b>Gross profit</b>		<b>3,285,022</b>	<b>6,199,070</b>	<b>3,307,046</b>	<b>6,272,147</b>
Selling and marketing expenses	18,19	1,741,029	3,226,887	1,988,395	3,858,523
Administrative expenses	18,19	304,056	620,961	344,036	646,315
Research and development expenses	18,19	446,262	876,934	453,396	858,550
Service costs	18,19	286,794	604,441	406,861	724,898
Other operating income	20	283,097	583,972	300,551	683,832
Other operating expenses	18,21	440,992	656,654	256,677	578,615
<b>Operating income</b>		<b>348,986</b>	<b>797,165</b>	<b>158,232</b>	<b>289,078</b>
Financial income	22	98,189	282,344	162,315	369,013
Financial expenses	23	175,220	432,344	199,844	443,426
Income(expense) from jointly controlled entities and associates	10	(35,897)	38,654	29,012	(26,480)
<b>Profit before income tax</b>		<b>236,058</b>	<b>685,819</b>	<b>149,715</b>	<b>188,185</b>
Income tax expense		77,062	284,321	41,277	95,513
<b>Profit for the period</b>		<b>158,996</b>	<b>401,498</b>	<b>108,438</b>	<b>92,672</b>
<b>Profit for the period attributable to:</b>					
Equity holders of the Parent Company		156,462	392,209	97,804	67,709
Non-controlling interest		2,534	9,289	10,634	24,963
<b>Earnings per share attributable to the equity holders of the Parent Company during the period (in won)</b>	24				
Earnings per share for profit attributable to the ordinary equity holders of the Parent Company		868	2,176	590	407
Earnings per share for profit attributable to the preferred equity holders of the Parent Company		879	2,201	619	443

The accompanying notes are an integral part of these consolidated financial statements.

## LG Electronics and Subsidiaries

### Interim Consolidated Statements of Comprehensive Income

Three-Month and Six-Month Periods Ended June 30, 2012 and 2011

<i>(in millions of Korean won)</i>	Notes	2012		2011	
		Three Months	Six Months	Three Months	Six Months
<b>Profit for the period</b>		158,996	401,498	108,438	92,672
<b>Other comprehensive loss:</b>					
Actuarial loss on defined benefit liability	13	(33,609)	(45,941)	(1,058)	(1,844)
Share of actuarial gain of associates		146	76	131	278
Other comprehensive income(loss) from jointly controlled entities and associates	10	3,998	4,014	(8,612)	(22,921)
Cash flow hedges	11	33	1,149	(4,449)	(4,166)
Available-for-sale financial assets		(1,019)	(918)	(835)	(1,378)
Currency translation differences		(131,141)	(78,717)	(71,479)	(135,391)
<b>Other comprehensive loss for the period</b>		<u>(161,592)</u>	<u>(120,337)</u>	<u>(86,302)</u>	<u>(165,422)</u>
<b>Total comprehensive income(loss) for the period</b>		<u>(2,596)</u>	<u>281,161</u>	<u>22,136</u>	<u>(72,750)</u>
<b>Comprehensive income(loss) for the period attributable to:</b>					
Equity holders of the Parent Company		(6,965)	272,977	14,708	(89,918)
Non-controlling interest		4,369	8,184	7,428	17,168
<b>Total comprehensive income(loss) for the period</b>		<u>(2,596)</u>	<u>281,161</u>	<u>22,136</u>	<u>(72,750)</u>

The accompanying notes are an integral part of these consolidated financial statements.

**LG Electronics and Subsidiaries**

**Interim Consolidated Statements of Changes in Equity**

**Six-Month Periods Ended June 30, 2012 and 2011**

		Attributable to equity holders of the Parent Company					Non-controlling Interest	Total Equity
	Notes	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income(loss)	Other Components of Equity	Total		
<i>(in millions of Korean won)</i>								
<b>Balance at January 1, 2011</b>		<b>3,017,088</b>	<b>10,108,173</b>	<b>(209,844)</b>	<b>(271,277)</b>	<b>12,644,140</b>	<b>215,497</b>	<b>12,859,637</b>
<b>Comprehensive income</b>								
		-	67,709	-	-	67,709	24,963	92,672
	13	-	(1,844)	-	-	(1,844)	-	(1,844)
		-	278	-	-	278	-	278
		-	-	(22,921)	-	(22,921)	-	(22,921)
	10	-	-	(22,921)	-	(22,921)	-	(22,921)
		-	-	(4,166)	-	(4,166)	-	(4,166)
	11	-	-	(4,166)	-	(4,166)	-	(4,166)
		-	-	(1,378)	-	(1,378)	-	(1,378)
		-	-	(127,596)	-	(127,596)	(7,795)	(135,391)
		-	-	(127,596)	-	(127,596)	(7,795)	(135,391)
<b>Total comprehensive loss</b>		<b>-</b>	<b>66,143</b>	<b>(156,061)</b>	<b>-</b>	<b>(89,918)</b>	<b>17,168</b>	<b>(72,750)</b>
<b>Transactions with equity holders of the Parent Company :</b>								
		-	(33,072)	-	-	(33,072)	(9,859)	(42,931)
		-	-	-	(10)	(10)	-	(10)
<b>Total transactions with equity holders of the Parent Company</b>		<b>-</b>	<b>(33,072)</b>	<b>-</b>	<b>(10)</b>	<b>(33,082)</b>	<b>(9,859)</b>	<b>(42,941)</b>
<b>Balance at June 30, 2011</b>		<b>3,017,088</b>	<b>10,141,244</b>	<b>(365,905)</b>	<b>(271,287)</b>	<b>12,521,140</b>	<b>222,806</b>	<b>12,743,946</b>
<b>Balance at January 1, 2012</b>		<b>3,992,348</b>	<b>9,499,534</b>	<b>(326,584)</b>	<b>(271,339)</b>	<b>12,893,959</b>	<b>254,289</b>	<b>13,148,248</b>
<b>Comprehensive income</b>								
		-	392,209	-	-	392,209	9,289	401,498
	13	-	(45,941)	-	-	(45,941)	-	(45,941)
		-	76	-	-	76	-	76
	10	-	-	4,014	-	4,014	-	4,014
		-	-	1,149	-	1,149	-	1,149
	11	-	-	1,149	-	1,149	-	1,149
		-	-	(918)	-	(918)	-	(918)
		-	-	(918)	-	(918)	-	(918)
		-	-	(77,612)	-	(77,612)	(1,105)	(78,717)
		-	-	(77,612)	-	(77,612)	(1,105)	(78,717)
<b>Total comprehensive income</b>		<b>-</b>	<b>346,344</b>	<b>(73,367)</b>	<b>-</b>	<b>272,977</b>	<b>8,184</b>	<b>281,161</b>
<b>Transactions with equity holders of the Parent Company :</b>								
		-	(36,872)	-	-	(36,872)	(19,462)	(56,334)
		-	-	-	-	-	8,820	8,820
		-	(10)	-	(2)	(12)	-	(12)
		-	(10)	-	(2)	(12)	-	(12)
<b>Total transactions with equity holders of the Parent Company</b>		<b>-</b>	<b>(36,882)</b>	<b>-</b>	<b>(2)</b>	<b>(36,884)</b>	<b>(10,642)</b>	<b>(47,526)</b>
<b>Balance at June 30, 2012</b>		<b>3,992,348</b>	<b>9,808,996</b>	<b>(399,951)</b>	<b>(271,341)</b>	<b>13,130,052</b>	<b>251,831</b>	<b>13,381,883</b>

The accompanying notes are an integral part of these consolidated financial statements.



## LG Electronics and Subsidiaries

### Interim Consolidated Statements of Cash Flows

Six-Month Periods Ended June 30, 2012 and 2011

	Notes	Six-Month Period Ended June 30	
		2012	2011
<i>(in millions of Korean won)</i>			
<b>Cash flows from operating activities</b>			
Cash generated from operations	25	983,689	1,070,710
Interest received		37,882	35,476
Interest paid		(171,661)	(141,232)
Dividends received		36,640	71,649
Income tax paid		(180,570)	(215,790)
<b>Net cash generated from operating activities</b>		<u>705,980</u>	<u>820,813</u>
<b>Cash flows from investing activities</b>			
Decrease in financial deposits		123,000	40,671
Decrease in loans and other receivables		81,075	135,804
Proceeds from disposal of other financial assets		18,391	18,466
Proceeds from disposal of property, plant and equipment	9	62,555	52,465
Proceeds from disposal of intangible assets	9	2,550	2,242
Proceeds from disposal of and recovery of investments in jointly controlled entities and associates	10	214,757	-
Decrease in other assets		456	1,837
Increase in financial deposits		-	(25,801)
Increase in loans and other receivables		(71,997)	(193,051)
Acquisition of other financial assets		(28,910)	(51,201)
Acquisition of property, plant and equipment	9	(545,485)	(824,246)
Acquisition of intangible assets	9	(133,177)	(137,378)
Acquisition of jointly controlled entities and associates	10	(26,098)	(998)
Decrease in cash and cash equivalents due to business combination and changes in scope of subsidiaries	31	-	(148,275)
Increase in other assets		(218)	(1,173)
<b>Net cash used in investing activities</b>		<u>(303,101)</u>	<u>(1,130,638)</u>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		1,190,639	2,337,983
Issuance of ordinary shares of subsidiaries		8,820	-
Repayments of borrowings		(1,741,545)	(1,688,572)
Dividends paid		(55,535)	(33,509)
<b>Net cash provided by(used in) financing activities</b>		<u>(597,621)</u>	<u>615,902</u>
<b>Exchange losses on cash and cash equivalents</b>		<u>(29,385)</u>	<u>(6,927)</u>
<b>Net increase (Decrease)in cash and cash equivalents</b>		<u>(224,127)</u>	<u>299,150</u>
Cash and cash equivalents at the beginning of period		2,345,465	1,944,162
<b>Cash and cash equivalents at the end of period</b>		<u>2,121,338</u>	<u>2,243,312</u>

The accompanying notes are an integral part of these consolidated financial statements.

# **LG Electronics and Subsidiaries**

## **Notes to the Interim Consolidated Financial Statements**

### **June 30, 2012 and 2011, and December 31, 2011**

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#### **1. General Information**

General information about LG Electronics Inc. (the "Parent Company") and its subsidiaries (collectively referred to as "the Group") is as follows.

LG Electronics Inc. was spun-off from LG Electronics Investment Ltd. on April 1, 2002. The Parent Company's shares are listed on the Korea Exchange, and some of its preferred shares, in form of global depository receipts ("DRs"), are listed on the London Stock Exchange as of the reporting date. The Parent Company is domiciled in Korea at Yeouido dong, Yeungdeungpo-gu, Seoul.

As of June 30, 2012, LG Corp. owns 33.7% of the Parent Company's total shares, excluding preferred shares, while financial institutions, foreign investors and others own the rest.

The Group is primarily engaged in the manufacture and sale of electronic products including mobile phones, TV, air conditioners, refrigerators, washing machines, and personal computers. As of June 30, 2012, the Group operates four business segments and other supporting segments through the Parent Company and subsidiaries all over the world.

## LG Electronics and Subsidiaries

### Notes to the Interim Consolidated Financial Statements

#### June 30, 2012 and 2011, and December 31, 2011

Consolidated subsidiaries as of June 30, 2012, are as follows:

Territory	Country	Subsidiaries	Percentage of ownership	Closing Month	Major Business
The Republic of Korea	Korea	Hiplaza Co., Ltd.	100%	December	Sales
	Korea	Hj Business Logistics Co., Ltd.	100%	December	Logistics
	Korea	Hj Entech Co., Ltd.	100%	December	Water engineering
	Korea	LG-Hitachi Water Solutions Co., Ltd.	100%	December	Construction of Water Purification Facility
	Korea	ACE R&A Co., Ltd.	100%	December	Production and Sales
	Korea	Hj M Solutek	100%	December	Maintenance
	Korea	Hj Teleservice Co., Ltd.	100%	December	Marketing
	Korea	LGE Alliance Fund	96%	December	Investment
	Korea	Innovation Investment Fund	83%	December	Investment
	Korea	KTB Technology Fund	100%	December	Investment
China	China	Hj Logistics (China) Co., Ltd.	100%	December	Logistics
	China	Inspur LG Digital Mobile Communications Co., Ltd.(LGEYT)	70%	December	Production
	China	LG Electronics (China) Co., Ltd.(LGECH)	100%	December	Sales
	China	LG Electronics (China) Research and Development Centre Co.,Ltd.(LGERD)	100%	December	R&D
	China	LG Electronics (Hangzhou) Co., Ltd.(LGEHN)	70%	December	Production
	China	LG Electronics (Kunshan) Computer Co., Ltd.(LGEKS)	100%	December	Production
	China	LG Electronics (Shanghai) Research and Development Center Co.,Ltd(LGCRC)	100%	December	R&D
	China	LG Electronics Air-Conditioning(Shandong) Co.,Ltd.(LGEQA)	100%	December	Production and Sales
	China	LG Electronics HK Ltd.(LGEHK)	100%	December	Sales
	China	LG Electronics Huizhou Ltd.(LGEHZ)	80%	December	Production
	China	LG Electronics Nanjing Display Co., Ltd.(LGEND)	70%	December	Production

**LG Electronics and Subsidiaries**  
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China	LG Electronics Qinhuangdao Inc.(LGEQHQ)	100%	December	Production
China	LG Electronics Shenyang Inc.(LGESY)	79%	December	Production
China	LG Electronics Tianjin Appliances Co., Ltd.(LGETA)	80%	December	Production
China	Nanjing LG-Panda Appliances Co., Ltd.(LGEPN)	70%	December	Production
China	Qingdao LG Inspur Digital Communication Co., Ltd.(LGEQD)	70%	December	Production
China	Shanghai LG Electronics Co., Ltd.(LGESH)	70%	December	Production
China	Taizhou LG Electronics Refrigeration Co., Ltd.(LGETR)	100%	December	Production
China	Tianjin Lijie cartridge heater Co.,Ltd.(LGETL)	67%	December	Production
Australia	LG Electronics Australia Pty. Ltd.(LGEAP)	100%	December	Sales
India	LG Electronics India Pvt. Ltd.(LGEIL)	100%	March	Production and Sales
Japan	LG Electronics Japan Lab.Inc(LGEJL)	100%	December	R&D
Japan	LG Electronics Japan, Inc.(LGEJP)	100%	December	Sales
Malaysia	LG Electronics Malaysia SDN. BHD(LGEML)	100%	December	Sales
Philippines	LG Electronics Philippines Inc.(LGEPH)	100%	December	Sales
Singapore	LG Electronics Singapore PTE LTD(LGESL)	100%	December	Sales
Taiwan	LG Electronics Taiwan Taipei Co., Ltd(LGETT)	100%	December	Sales
Thailand	LG Electronics Thailand Co., Ltd.(LGETH)	100%	December	Production and Sales
Vietnam	LG Electronics Vietnam Co., Ltd.(LGEVN)	100%	December	Production and Sales
India	LG Soft India Private Limited.(LGSi)	100%	March	R&D
Indonesia	P.T. LG Electronics Indonesia(LGEIN)	100%	December	Production and Sales
India	HI Logistics India Private Limited	100%	March	Logistics
Netherlands	HI Logistics Europe B.V.	100%	December	Logistics
Austria	LG Electronics Austria GmbH(LGEAG)	100%	December	Sales
Netherlands	LG Electronics Benelux Sales B.V.(LGEBN)	100%	December	Sales

**LG Electronics and Subsidiaries**  
**Notes to the Interim Consolidated Financial Statements**  
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Czech Republic	LG Electronics CZ, s.r.o.(LGE CZ)	100%	December	Sales
Germany	LG Electronics Deutschland GmbH(LGEDG)	100%	December	Sales
Spain	LG Electronics Espana S.A.(LGEES)	100%	December	Sales
Netherlands	LG Electronics European Holdings B.V.(LGE EH)	100%	December	European Holding
Netherlands	LG Electronics European Shared Service Center B.V.(LGE SC)	100%	December	Services
France	LG Electronics France S.A.S(LGEFS)	100%	December	Sales
Greece	LG Electronics Hellas S.A(LGEHS)	100%	December	Sales
Italy	LG Electronics Italia S.p.A(LGEIS)	100%	December	Sales
Netherlands	LG Electronics JIT Europe B.V.(LGE JE)	100%	December	Logistics
Latvia	LG Electronics Latvia, LLC(LGELV)	100%	December	Sales
Hungary	LG Electronics Magyar KFT(LGEMK)	100%	December	Sales
Poland	LG Electronics Mlawa Sp. z o.o(LGEMA)	100%	December	Production
France	LG Electronics Mobilecomm France(LGEMF)	100%	December	R&D
Sweden	LG Electronics Nordic AB(LGESW)	100%	December	Sales
Norway	LG Electronics Norway AS(LGENO)	100%	December	Sales
Poland	LG Electronics Polska Sp. z o.o(LGEPL)	100%	December	Sales
Portugal	LG Electronics Portugal S.A.(LGEPT)	100%	December	Sales
Romania	LG Electronics Romania S.R.L.(LGERO)	100%	December	Sales
UK	LG Electronics United Kingdom Ltd.(LGEUK)	100%	December	Sales
Poland	LG Electronics Wroclaw Sp.z o.o(LGEWR)	100%	December	Production and Sales
USA	LG Electronics Miami Inc.(LGE MI)	100%	December	Sales
USA	LG Electronics Alabama Inc.(LGE AI)	100%	December	Sales
Canada	LG Electronics Canada, Inc.(LGE CI)	100%	December	Sales
Mexico	LG Electronics Mexicali, S.A. DE C.V.(LGE MX)	100%	December	Production

**LG Electronics and Subsidiaries**  
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	Mexico	LG Electronics Mexico S.A. DE C.V.(LGEMS)	100%	December	Sales
	USA	LG Electronics Mobile Research U.S.A., L.L.C.(LGEMR)	100%	December	R&D
	USA	LG Electronics Mobilecomm U.S.A., Inc.(LGEMU)	100%	December	Sales
	Mexico	LG Electronics Monterrey Mexico S.A.de C.V.(LGEMM)	100%	December	Production
	Mexico	LG Electronics Reynosa S.A. DE C.V.(LGERS)	100%	December	Production
	USA	LG Electronics U.S.A., Inc.(LGEUS)	100%	December	Sales
	USA	LG Receivable Funding LLC	100%	December	Other
	Mexico	Servicios Integrales LG S.A DE C.V	100%	December	Services
	Mexico	Servicios LG Monterrey Mexico S.A. de C.V.	100%	December	Other
	USA	Triveni Digital Inc.	88%	December	R&D
	USA	Zenith Electronics Corporation of Pennsylvania	100%	December	Other
	USA	Zenith Electronics Corporation(Zenith)	100%	December	R&D
South America	Brazil	LG Armagem Geral Ltda.	100%	December	Services
	Argentina	LG Electronics Argentina S.A.(LGEAR)	100%	December	Sales
	Colombia	LG Electronics Colombia Ltda.(LGECEB)	100%	December	Sales
	Brazil	LG Electronics do Brasil Ltda.(LGEBR) (former LGESP)	100%	December	Production and Sales
	Honduras	LG Electronics Honduras S.de R.L. <sup>1</sup>	20%	December	Sales
	Chile	LG Electronics Inc Chile Ltda.(LGECL)	100%	December	Sales
	Panama	LG Electronics Panama, S.A.(LGEPS)	100%	December	Sales
	Peru	LG Electronics Peru S.A.(LGEPR)	100%	December	Sales
	Venezuela	LG Electronics Venezuela S.A.(LGEVZ)	100%	December	Sales
	Brazil	SOCIO VIP Ltda	100%	December	Services
	Panama	C&S America Solutions	100%	December	Services
	Panama	LG Consulting corp.	100%	December	Services

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Middle East and Africa	Panama	LG Electronics Guatemala S.A.	100%	December	Sales
	Nigeria	EASYTEC GLOBAL SERVICES INNOVATION LIMITED	100%	December	Services
	Angola	LG Electronics Angola Limitada (LGEAO)	100%	December	Sales & Services
	Jordan	LG Electronics (Levant) Jordan(LGELF)	100%	December	Sales
	UAE	LG Electronics Africa Logistics FZE(LGEAF)	100%	December	Sales
	Algeria	LG Electronics Algeria SARL(LGEAS)	70%	December	Sales
	UAE	LG Electronics Dubai FZE(LGEDF)	100%	December	Sales
	Egypt	LG Electronics Egypt S.A.E(LGEEG)	100%	December	Production and Sales
	UAE	LG Electronics Gulf FZE(LGEGF)	100%	December	Sales
	UAE	LG Electronics Middle East Co., Ltd.(LGEME)	100%	December	Services
	Morocco	LG Electronics Morocco S.A.R.L(LGEMC)	100%	December	Sales
	Nigeria	LG Electronics Nigeria Limited(LGENI)	100%	December	Other
	Tunisia	LG Electronics North Africa Service Company S.A.R.L	100%	December	Production and Sales
	UAE	LG Electronics Overseas Trading FZE(LGEOT)	100%	December	Sales
	South Africa	LG Electronics S.A. (Pty) Ltd.(LGESA)	100%	December	Production and Sales
	Turkey	LG Electronics Ticaret A.S.(LGETK)	100%	December	Sales
	Saudi Arabia	LG-Shaker Co., Ltd.(LGESR) <sup>1</sup>	49%	December	Production
	Kenya	LG Electronics Service Kenya Limited(LGESK)	100%	December	Services
	Saudi Arabia	LG Electronics Saudi Arabia Limited	100%	December	Services
	Russia	LG Alina Electronics(LGERI)	95%	December	Services
Kazakhstan	LG Electronics Almaty Kazakhstan(LGEAK)	100%	December	Production and Sales	
Russia	LG Electronics RUS, LLC(LGERA)	100%	December	Production and Sales	
Russia	LG Electronics RUS-Marketing, LLC(LGERM)	100%	December	Services	
Ukraine	LG Electronics Ukraine Inc.(LGEUR)	100%	December	Sales	

## LG Electronics and Subsidiaries

### Notes to the Interim Consolidated Financial Statements

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<sup>1</sup> Control exists as there is a power over more than half of the voting rights by virtue of an agreement with other investors, although the Parent Company owns less of the voting power.

Financial information of major subsidiaries as of and for the three-month and six-month periods ended June 30, 2012 and 2011, follows (before elimination of intercompany transactions):

Subsidiaries	2012									
	June 30, 2012					Six Months				
	Assets	Liabilities	Equity	Sales	Net Income(loss)	Total Comprehensive Income(loss)	Sales	Net Income(loss)	Total Comprehensive Income(loss)	Total
LG Electronics U.S.A., Inc.(LGEUS)	1,895,909	1,600,595	295,314	1,621,050	24,065	23,975	2,845,708	18,215	18,374	18,374
LG Electronics do Brasil Ltda.(LGEBR) (former LGESP)	1,339,372	1,023,495	315,877	706,750	1,939	2,912	1,387,438	(3,767)	(4,274)	(4,274)
LG Electronics European Shared Service Center B.V.(LGESC)	1,054,543	1,030,616	23,927	45,703	6,815	6,817	87,380	2,816	2,734	2,734
LG Electronics RUS, LLC(LGERA)	930,058	613,530	316,528	630,540	46,751	41,584	1,191,567	68,485	68,125	68,125
LG Electronics Reynosa S.A. DE C.V.(LGERS)	695,426	420,268	275,158	706,367	24,537	21,928	1,318,934	55,149	50,879	50,879
LG Electronics Tianjin Appliances Co., Ltd.(LGETA)	694,848	401,711	293,137	378,495	7,723	7,817	781,722	22,615	21,178	21,178
LG Electronics India Pvt. Ltd.(LGEIL)	651,882	326,267	325,615	689,105	44,417	39,180	1,328,491	79,819	82,294	82,294
LG Electronics (China) Co. Ltd.(LGECH)	651,112	616,016	35,096	222,956	(11,316)	(11,165)	504,449	8,041	8,664	8,664
P.T. LG Electronics Indonesia(LGEIN)	563,838	347,346	216,492	525,674	12,001	12,143	1,010,111	23,486	21,502	21,502
LG Electronics Milawa Sp. z o.o(LGEMA)	469,857	185,461	284,396	288,170	14,427	13,652	709,984	16,500	17,277	17,277
LG Electronics Wrocław Sp.z o.o(LGEWR)	459,932	316,592	143,340	431,076	14,173	13,522	799,899	15,072	16,818	16,818
Hiplaza Co., Ltd.	440,808	338,135	102,673	308,601	(4,171)	(3,812)	590,442	(9,050)	(8,691)	(8,691)
LG Electronics Huizhou Ltd.(LGEHZ)	400,478	296,686	103,792	388,969	3,201	3,272	709,712	7,709	6,543	6,543
LG Electronics Mexico S.A. DE C.V.(LGEMS)	391,853	325,383	66,470	256,095	(32,648)	(32,025)	528,931	(48,740)	(48,327)	(48,327)
LG Electronics Nanjing Display Co., Ltd.(LGEND)	367,695	215,770	151,925	195,331	(528)	(488)	427,901	5,491	2,378	2,378



**LG Electronics and Subsidiaries**  
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Subsidiaries	2011												
	December 31, 2011					2011							
	Three Months		Six Months		Total		Three Months		Six Months		Total		
	Assets	Liabilities	Equity	Sales	Income(loss)	Net Income(loss)	Sales	Income(loss)	Net Income(loss)	Sales	Income(loss)	Net Income(loss)	Comprehensive Income(loss)
(In millions of Korean won)													
LG Electronics Mobilecomm U.S.A., Inc.(LGEMU)	367,155	283,854	83,301	902,818	(1,640)	(1,607)	1,903,517	11,615	10,795				
LG Electronics Gulf FZE(LGEGF)	362,863	342,034	20,829	296,688	9,740	9,868	576,161	17,308	17,837				
LG Electronics Thailand Co., Ltd.(LGETH)	356,246	212,938	143,308	291,272	4,963	4,662	585,422	16,497	16,699				
Taizhou LG Electronics Refrigeration Co., Ltd.(LGETR)	322,348	181,679	140,669	161,710	8,976	8,960	282,670	10,054	10,468				
Inspur LG Digital Mobile Communications Co., Ltd.(LGEYT)	301,090	232,010	69,080	365,235	4,522	4,514	661,516	6,617	6,625				
LG Electronics U.S.A., Inc.(LGEUS)	1,820,097	1,542,988	277,109	1,459,066	14,241	14,488	2,725,247	11,236	11,280				
LG Electronics European Shared Service Center B.V.(LGESC)	1,146,062	1,141,380	4,682	6,534	(759)	(768)	13,506	(1,029)	(986)				
LG Electronics RUS, LLC(LGERA)	871,291	610,846	260,445	562,517	11,700	11,498	1,072,228	29,745	30,446				
LG Electronics Tianjin Appliances Co., Ltd.(LGETA)	854,376	564,307	290,069	448,833	5,641	5,499	966,347	18,563	17,127				
LG Electronics da Amazonia Ltda.(LGEAZ)	798,573	499,322	299,251	411,896	(12,610)	(13,252)	745,876	(42,762)	(52,430)				
LG Electronics (China) Co., Ltd.(LGECH)	786,112	759,166	26,946	448,522	(19,044)	(19,350)	984,777	5,633	5,360				
LG Electronics India Pvt. Ltd.(LGEIL)	759,343	304,022	455,321	769,182	21,315	19,997	1,536,038	55,234	53,289				
LG Electronics de Sao Paulo Ltda.(LGESP)	631,506	488,408	143,098	466,255	7,153	7,314	818,861	10,096	10,523				
LG Electronics Mobilecomm U.S.A., Inc.(LGEMU)	586,147	514,555	71,592	1,313,380	11,081	11,232	2,360,677	2,365	2,355				
LG Electronics Miawa Sp. z o.o.(LGEMA)	565,413	292,606	272,807	404,772	12,808	12,711	886,646	13,504	12,746				
LG Electronics Reynosa S.A. DE C.V.(LGERS)	562,283	341,792	220,491	758,101	39,136	39,161	1,345,155	61,936	64,592				
LG Electronics Mexico S.A. DE C.V.(LGEMS)	548,181	422,268	125,913	365,001	12,173	12,139	673,906	9,551	8,162				
LG Electronics Wroclaw Sp.z o.o.(LGEWR)	500,117	369,506	130,611	408,230	9,742	9,717	862,338	20,781	21,824				

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P.T. LG Electronics Indonesia(LGEIN)	492,848	300,127	192,721	518,692	17,523	17,175	1,006,717	27,708	29,151
LG Electronics Nanjing Display Co., Ltd.(LGEND)	444,390	294,862	149,528	322,597	17,573	17,388	702,262	34,234	34,544
Taizhou LG Electronics Refrigeration Co., Ltd.(LGETR)	378,682	247,351	131,331	184,608	(965)	(992)	352,725	2,244	1,911
Hiplaza Co., Ltd.	371,441	260,077	111,364	374,889	6,443	6,261	673,313	401	(2,151)
LG Electronics Huizhou Ltd.(LGEHZ)	346,424	249,923	96,501	385,735	5,224	5,128	733,490	12,116	11,652
LG Electronics Thailand Co., Ltd.(LGETH)	327,034	199,563	127,471	294,078	(5,859)	(6,229)	628,002	6,654	4,234
LG Electronics Deutschland GmbH(LGEDG)	318,172	284,049	34,123	289,871	(14,441)	(14,426)	568,200	(18,522)	(17,984)

**LG Electronics and Subsidiaries**  
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Subsidiaries newly included in the consolidation are:

<b>Subsidiary</b>	<b>Remarks</b>
LG-Hitachi Water Solutions Co., Ltd.	Newly established
LG Electronics Service Kenya Limited(LGESK)	Newly established
LG Electronics Saudi Arabia Limited	Newly established
Hi Logistics India Private Limited	Newly established

Subsidiaries eliminated from the consolidation are:

<b>Subsidiaries</b>	<b>Remarks</b>
LG Electronics da Amazonia Ltda.(LGEAZ)	Merger with LGESP
LG Electronics European Logistics & Services B.V.(LGELS)	Merger with LGESC
Goldstar Panama S.A.	Liquidated

**2. Significant Accounting Policies**

**Basis of Preparation**

The interim consolidated financial statements for the six-month period ended June 30, 2012, have been prepared in accordance with Korean IFRS 1034, '*Interim Financial Reporting*'. These interim consolidated financial statements have been prepared in accordance with the Korean IFRS standards and interpretations issued and effective at June 30, 2012.

Korean IFRS 1001, 'Presentation of Financial Statements', is amended for 'other comprehensive income(loss)' items to group into those that (a) will not be reclassified subsequently to profit or loss, and (b) will be reclassified to profit or loss when specific conditions are met. The Group early adopted the amendment during the reporting period.

The following standards, amendments to standards and interpretations have been issued and announced as of the reporting date and shall be newly adopted by the Group for the year 2013 or thereafter.

- Amendment to Korean IFRS 1019, 'Employee Benefits'

The amendment does not allow the corridor approach any more. It requires the Group to recognise all actuarial gains and losses in other comprehensive income as they occur, immediately recognise all past service costs and replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability (asset).

- Enactment of Korean IFRS 1113, 'Fair Value Measurement'

Korean IFRS 1113, 'Fair value measurement,' aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across Korean IFRSs. Korean IFRS 1113

## **LG Electronics and Subsidiaries**

### **Notes to the Interim Consolidated Financial Statements**

#### **June 30, 2012 and 2011, and December 31, 2011**

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does not extend the use of fair value accounting but provides guidance on how it should be applied where its use is already required or permitted by other standards within Korean IFRSs. This statement will be applied in the year beginning January 1, 2013.

The Group is in the process of understanding the potential impact from the application of Korean IFRS 1019 and 1113.

#### **Application of Accounting Policies**

The significant accounting policies and methods of computation followed by the Group in the preparation of its consolidated interim financial statements are the same as the policies and methods adopted for the financial statements for the year ended December 31, 2011.

### **3. Critical Accounting Estimates and Assumptions**

For the interim consolidated financial statements, the Group's management makes judgements, estimates and assumptions which affect accounting policies and its assets, liabilities, income, and cost. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related actual results.

#### **Estimated Impairment of Goodwill**

The Group tests regularly whether goodwill has suffered any impairment in accordance with the accounting policy. The recoverable amounts of cash-generating units have been determined based on net fair value and value-in-use calculations. These calculations require the use of estimates.

#### **Income Taxes**

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognizes assets and liabilities for anticipated tax issues based on the best estimates of whether additional taxes will be due. Income tax expense is recognized in each interim period based on the best estimate of the weighted average annual income tax rate expected for the full financial year. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

# LG Electronics and Subsidiaries

## Notes to the Interim Consolidated Financial Statements

### June 30, 2012 and 2011, and December 31, 2011

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#### Fair Value of Financial Instruments

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

#### Provisions

The Group recognizes provisions for product warranties and sales return as of the reporting date. The amounts are estimated based on historical data.

#### Defined Benefit Liability

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

#### 4. Segment Information

The segments of the Group are strategic business divisions providing different products and services. They are reported separately because each business division requires different technologies and marketing strategies. The main products of each business division are as follows:

<b>Divisions</b>	<b>Products</b>
Home Entertainment	LCD TV, PDP TV, PDP Module, LCD Monitor, PC, Navigation, Security device , Audio, Video and others
Mobile Communications	Mobile communications, Network and others
Home Appliance	Refrigerators, Washing machines, Microwave, Vacuum, Healthcare, and others
Air Conditioning & Energy Solution	Air conditioners, Chiller and others
Other	-

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The segment information for sales and operating income(loss) for the three-month and six-month periods ended June 30, 2012 and 2011, is as follows:

<i>(in millions of Korean won)</i>	2012				2011			
	Segment sales		Segment operating income(loss)		Segment sales		Segment operating income(loss)	
	Three Months	Six Months	Three Months	Six Months	Three Months	Six Months	Three Months	Six Months
	Home Entertainment (HE)	5,478,389	10,808,607	216,346	433,447	5,818,365	11,536,894	97,841
Mobile Communications(MC)	2,321,212	4,818,426	(56,625)	(17,774)	3,245,899	6,154,996	(53,884)	(154,340)
Home Appliance (HA)	2,875,306	5,411,000	165,221	316,860	2,801,113	5,408,243	58,719	160,802
Air Conditioning & Energy Solution(AE)	1,474,885	2,692,785	70,078	151,183	1,659,632	2,892,389	59,468	93,601
	<u>12,149,792</u>	<u>23,730,818</u>	<u>395,020</u>	<u>883,716</u>	<u>13,525,009</u>	<u>25,992,522</u>	<u>162,144</u>	<u>311,037</u>
Other segments <sup>1</sup> and inter-segment transactions <sup>2</sup>	709,207	1,356,078	(46,034)	(86,551)	860,067	1,552,502	(3,912)	(21,959)
	<u>12,858,999</u>	<u>25,086,896</u>	<u>348,986</u>	<u>797,165</u>	<u>14,385,076</u>	<u>27,545,024</u>	<u>158,232</u>	<u>289,078</u>

<sup>1</sup> Other segments include operating segments not qualifying as reportable segments, supporting and R&D divisions.

<sup>2</sup> Sales among segments are carried out at arm's length.

The segment information for assets and liabilities is as follows:

<i>(in millions of Korean won)</i>	June 30, 2012		December 31, 2011	
	Segment assets <sup>1</sup>	Segment liabilities <sup>1</sup>	Segment assets <sup>1</sup>	Segment liabilities <sup>1</sup>
Home Entertainment (HE)	14,277,029	12,101,493	14,063,934	11,832,253
Mobile Communications (MC)	6,319,913	3,905,111	6,689,008	4,201,161
Home Appliance (HA)	7,746,839	5,672,796	7,307,851	5,327,816
Air Conditioning & Energy Solution (AE)	3,420,947	2,342,640	2,798,423	1,797,373
	<u>31,764,728</u>	<u>24,022,040</u>	<u>30,859,216</u>	<u>23,158,603</u>
Other segments and inter-segment transactions	335,207	(5,303,988)	1,799,241	(3,648,394)
	<u>32,099,935</u>	<u>18,718,052</u>	<u>32,658,457</u>	<u>19,510,209</u>

<sup>1</sup> The amounts of assets and liabilities of each segment are before inter-segment elimination and common assets and liabilities are allocated based on the operations of the segments.

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External sales by geographic areas for the three-month and six-month periods ended June 30, 2012 and 2011, and non-current assets by geographic areas as of June 30, 2012 and December 31, 2011, are as follows:

<i>(in millions of Korean won)</i>	External sales				Non-current assets <sup>1</sup>	
	2012		2011		June 30,	December
	Three Months	Six Months	Three Months	Six Months	2012	31, 2011
Korea	2,693,822	5,248,304	2,463,825	4,630,632	6,268,816	6,294,475
North America	2,785,685	5,257,350	3,094,116	5,717,155	139,092	139,883
Europe	1,284,169	2,529,069	1,854,475	3,804,098	243,144	249,278
Central & South America	1,684,207	3,259,108	2,024,184	3,646,224	439,566	431,712
Middle East & Africa	1,126,321	2,235,314	1,343,248	2,579,365	84,189	81,140
Asia	968,383	2,013,399	1,104,433	2,114,637	171,135	176,219
India	643,981	1,241,830	701,480	1,414,043	141,011	161,414
China	865,309	1,745,356	1,092,440	2,265,007	623,093	635,135
Commonwealth of Independent States	807,122	1,557,166	706,875	1,373,863	187,096	164,193
	<u>12,858,999</u>	<u>25,086,896</u>	<u>14,385,076</u>	<u>27,545,024</u>	<u>8,297,142</u>	<u>8,333,449</u>

<sup>1</sup> Non-current assets consist of property, plant and equipment, intangible assets, and investment property.

There is no external customer attributing to more than 10% of total sales for the six-month periods ended June 30, 2012 and 2011.

**5. Financial Instruments by Category**

Categorizations of financial instruments as of June 30, 2012, are as follows:

<i>(in millions of Korean won)</i>	Assets at fair value through profit or loss	Derivatives for hedge	Loans and Receivables	Available-for-sale financial assets	Held-to-maturity financial assets	Total
Cash and cash equivalents	-	-	2,121,338	-	-	2,121,338
Financial deposits	-	-	155,696	-	-	155,696
Trade receivables	-	-	7,084,895	-	-	7,084,895
Loans and other receivables	-	-	1,083,408	-	-	1,083,408
Other financial assets	8,809	13,519	-	57,643	57,690	137,661
	<u>8,809</u>	<u>13,519</u>	<u>10,445,337</u>	<u>57,643</u>	<u>57,690</u>	<u>10,582,998</u>

<i>(in millions of Korean won)</i>	Liabilities at fair value through profit or loss	Derivatives for hedge	Liabilities carried at amortized cost	Total
Trade payables	-	-	5,481,821	5,481,821
Borrowings	-	-	6,856,037	6,856,037
Other payables	-	-	1,275,992	1,275,992
Other financial liabilities	1,712	-	-	1,712
Other liabilities	-	-	2,384	2,384
	<u>1,712</u>	<u>-</u>	<u>13,616,234</u>	<u>13,617,946</u>

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Categorizations of financial instruments as of December 31, 2011, are as follows:

<i>(in millions of Korean won)</i>	Assets at fair value through profit or loss	Derivatives for hedge	Loans and Receivables	Available-for-sale financial assets	Held-to-maturity financial assets	Total
Cash and cash equivalents	-	-	2,345,465	-	-	2,345,465
Financial deposits	-	-	279,439	-	-	279,439
Trade receivables	-	-	6,752,559	-	-	6,752,559
Loans and other receivables	-	-	1,104,948	-	-	1,104,948
Other financial assets	2,832	11,845	-	68,617	57,665	140,959
	<u>2,832</u>	<u>11,845</u>	<u>10,482,411</u>	<u>68,617</u>	<u>57,665</u>	<u>10,623,370</u>

<i>(in millions of Korean won)</i>	Liabilities at fair value through profit or loss	Derivatives for hedge	Liabilities carried at amortized cost	Total
Trade payables	-	-	5,486,871	5,486,871
Borrowings	-	-	7,435,618	7,435,618
Other payables	-	-	1,912,161	1,912,161
Other financial liabilities	14,238	-	-	14,238
Other liabilities	-	-	521	521
	<u>14,238</u>	<u>-</u>	<u>14,835,171</u>	<u>14,849,409</u>

**6. Trade Receivables**

Carrying amount of trade receivables, net of allowance for doubtful accounts, is as follows:

<i>(in millions of Korean won)</i>	June 30, 2012	December 31, 2011
Trade receivables	7,242,715	6,853,722
Less: allowance for doubtful accounts	(157,820)	(101,163)
	<u>7,084,895</u>	<u>6,752,559</u>

The aging of the trade receivables is as follows:

<i>(in millions of Korean won)</i>	June 30, 2012	December 31, 2011
Current	6,545,963	6,149,878
Up to 6 months	503,198	525,534
7 to 12 months	21,794	7,832
Over one year	20,323	18,803
Defaulted	151,437	151,675
	<u>7,242,715</u>	<u>6,853,722</u>



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**7. Other Financial Assets and Liabilities**

The details of other financial assets and liabilities are as follows:

<i>(in millions of Korean won)</i>	<u>June 30, 2012</u>	<u>December 31, 2011</u>
<b>Other financial assets</b>		
Derivatives	22,328	14,677
Available-for-sale	57,643	68,617
Held-to-maturity	57,690	57,665
	<u>137,661</u>	<u>140,959</u>
Current	834	1,677
Non-current	<u>136,827</u>	<u>139,282</u>
<b>Other financial liabilities</b>		
Derivatives	1,712	14,238
	<u>1,712</u>	<u>14,238</u>
Current	515	13,860
Non-current	<u>1,197</u>	<u>378</u>

Available-for-sale financial assets measured at fair value as of June 30, 2012 and December 31, 2011, consist of:

<i>(in millions of Korean won)</i>	<u>June 30, 2012</u>			<u>December 31, 2011</u>	
	<u>Acquisition Cost</u>	<u>Appreciation</u>	<u>Impairment losses</u>	<u>Carrying amounts</u>	<u>Carrying amounts</u>
Listed Equity Securities	887	6,873	-	7,760	8,969
Unlisted Equity Securities	55,847	-	(9,068)	46,779	52,873
Debt Securities	4,906	-	(1,802)	3,104	6,775
	<u>61,640</u>	<u>6,873</u>	<u>(10,870)</u>	<u>57,643</u>	<u>68,617</u>

The listed securities among the above equity securities are measured using quoted prices in active markets. However, most of the unlisted securities are measured at cost as they are in the beginning of their business stages and their fair values cannot be reliably measured.

**8. Inventories**

Inventories consist of:

<i>(in millions of Korean won)</i>	<u>June 30, 2012</u>			<u>December 31, 2011</u>		
	<u>Amounts before valuation</u>	<u>Valuation allowance</u>	<u>Carrying amounts</u>	<u>Amounts before valuation</u>	<u>Valuation allowance</u>	<u>Carrying amounts</u>
Merchandise and finished product:	2,772,944	(68,136)	2,704,808	3,023,842	(111,725)	2,912,117
Work-in-process	196,688	(2,646)	194,042	188,879	(6,224)	182,655
Raw materials and supplies	1,626,577	(42,976)	1,583,601	1,680,103	(87,919)	1,592,184
Other	311,980	(33,399)	278,581	297,291	(37,087)	260,204
	<u>4,908,189</u>	<u>(147,157)</u>	<u>4,761,032</u>	<u>5,190,115</u>	<u>(242,955)</u>	<u>4,947,160</u>

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The losses on valuation of inventories recognized for the six-month periods ended June 30, 2012 and 2011, respectively, amounts to ₩4,745 million (2011: ₩59,761 million).

**9. Property, Plant and Equipment, and Intangible assets**

Changes in property, plant and equipment are as follows:

<i>(in millions of Korean won)</i>	<u>2012</u>	<u>2011</u>
<b>At January 1</b>	7,290,413	6,500,484
Acquisitions	545,485	824,246
Transfer-in	2,541	475
Disposals and others	(61,757)	(52,688)
Depreciation	(464,768)	(446,726)
Impairment / reversal	(2,702)	(2,985)
Business Combination and changes in scope of subsidiaries	-	27,450
Exchange differences	(41,175)	(40,568)
<b>At June 30</b>	<u>7,268,037</u>	<u>6,809,688</u>

Changes in intangible assets are as follows:

<i>(in millions of Korean won)</i>	<u>2012</u>	<u>2011</u>
<b>At January 1</b>	1,035,797	763,382
Acquisitions	19,397	34,009
Acquisitions by internal development	113,780	103,369
Transfer-in	47,504	48,621
Disposals and others	(14,662)	(12,359)
Amortization	(178,927)	(156,465)
Impairment / reversal	(24)	-
Business Combination and changes in scope of subsidiaries	-	101,062
Exchange differences	(879)	(619)
<b>At June 30</b>	<u>1,021,986</u>	<u>881,000</u>

**10. Investments in jointly controlled entities and associates**

The details of changes of investments in jointly controlled entities and associates for the six-month periods ended June 30, 2012 and 2011, are as follows:

Location	Percentage of Ownership at June 30, 2012	June 30, 2012			December 31, 2011			
		Acquisition Cost	Net asset amounts	Carrying amounts	Acquisition Cost	Net asset amounts	Carrying amounts	
LG Display Co., Ltd.	Korea	37.9%	679,218	3,743,412	3,699,225	679,218	3,829,341	3,794,169
LG Innotek Co., Ltd.	Korea	47.9%	381,795	1,338,478	1,336,524	381,795	1,351,819	1,350,791
LG-Ericsson Co., Ltd.	Korea	25.0%	26,626	94,193	94,185	53,255	203,968	201,517
Other <sup>1</sup>			306,546	285,384	291,009	280,448	266,877	256,722
			<u>1,394,185</u>	<u>5,461,467</u>	<u>5,420,943</u>	<u>1,394,716</u>	<u>5,652,005</u>	<u>5,603,199</u>

<sup>1</sup> Shares of LG Fuel Cell Systems Inc. amounting to ₩26,098 million (25.5% of ownership) were acquired in this period.

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Valuation of the equity method of accounting on jointly controlled entities and associates for the six-month periods ended June 30, 2012 and 2011, follows:

<i>(in millions of Korean won)</i>	<u>2012</u>	<u>2011</u>
<b>At January 1</b>	5,603,199	6,008,145
Acquisitions	26,098	998
Loss of jointly controlled entities and associates <sup>1</sup>	(96,947)	(25,422)
Other comprehensive income (expense) of jointly controlled entities and associates <sup>2</sup>	4,014	(22,921)
Dividends / recovery of investment <sup>3</sup>	(115,303)	(72,249)
Others	(118)	277
<b>At June 30</b>	<u>5,420,943</u>	<u>5,888,828</u>

<sup>1</sup> 'Income (loss) from jointly controlled entities and associates' on the statements of income is as follows:

<i>(in millions of Korean won)</i>	<u>2012</u>	<u>2011</u>
Loss of jointly controlled entities and associates	(96,947)	(25,422)
Gain on disposal of shares of jointly controlled entities and associates	135,795	-
Loss on disposal of shares of jointly controlled entities and associates	(194)	(1,058)
	<u>38,654</u>	<u>(26,480)</u>

<sup>2</sup> The ₩599 million of other comprehensive income is included in the investments in jointly controlled entities and associates due to their disposal.

<sup>3</sup> The 25% of LG-Ericsson Co., Ltd. shares were disposed of in the current period.

The Group's share in the major jointly controlled entities and associates' profits and total assets, including goodwill, liabilities, non-controlling interests, sales, and net income (loss) for the six-month periods ended June 30, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	<u>June 30, 2012</u>		<u>2012</u>	
	<u>Assets</u>	<u>Liabilities and Non-controlling interest</u>	<u>Sales</u>	<u>Profit(loss)</u>
LG Display Co., Ltd.	9,679,079	5,935,667	4,963,115	(88,430)
LG Innotek Co., Ltd.	2,964,410	1,625,932	1,182,120	(12,537)
LG-Ericsson Co., Ltd	162,029	67,836	160,652	5,431

<i>(in millions of Korean won)</i>	<u>December 31, 2011</u>		<u>2011</u>	
	<u>Assets</u>	<u>Liabilities and Non-controlling interest</u>	<u>Sales</u>	<u>Profit(loss)</u>
LG Display Co., Ltd.	9,532,770	5,703,429	4,325,777	(31,142)
LG Innotek Co., Ltd.	2,855,251	1,503,432	1,088,768	(22,267)
LG-Ericsson Co., Ltd	442,813	238,845	339,014	52,011

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Accumulated comprehensive loss that was not recognized due to discontinuation of equity method is as follows:

<i>(in million of Korean won)</i>	<u>June 30, 2012</u>	<u>Unrecognized loss</u>	<u>December 31, 2011</u>
Accumulated comprehensive loss	46,189	17	46,172

The fair values of listed associates are as follows:

<i>(in million Korean won)</i>	<u>June 30, 2012</u>			
	<u>Shares owned (unit: shares)</u>	<u>Price per share (unit: won)</u>	<u>Fair value</u>	<u>Book value</u>
LG Display Co., Ltd.	135,625,000	21,350	2,895,594	3,699,225
LG Innotek Co., Ltd.	9,653,181	89,300	862,029	1,336,524

<i>(in million Korean won)</i>	<u>December 31, 2011</u>			
	<u>Shares owned (unit: shares)</u>	<u>Price per share (unit: won)</u>	<u>Fair value</u>	<u>Book value</u>
LG Display Co., Ltd.	135,625,000	24,500	3,322,813	3,794,169
LG Innotek Co., Ltd.	9,653,181	67,800	654,486	1,350,791

**11. Borrowings**

The carrying amounts of borrowings are as follows:

<i>(in millions of Korean won)</i>	<u>June 30, 2012</u>	<u>December 31, 2011</u>
<b>Current</b>		
Short-term borrowings	2,117,617	1,673,417
Current maturities of long-term borrowings	376,488	548,830
Current maturities of debentures	379,486	955,965
	<u>2,873,591</u>	<u>3,178,212</u>
<b>Non-current</b>		
Long-term borrowings	2,346,369	2,243,218
Debentures	1,636,077	2,014,188
	<u>3,982,446</u>	<u>4,257,406</u>
	<u>6,856,037</u>	<u>7,435,618</u>

Short-term borrowings consist of:

<i>(in millions of Korean won)</i>	<u>Latest maturity date</u>	<u>Annual interest rate (%) at June 30, 2012</u>	<u>Carrying amount</u>	
			<u>June 30, 2012</u>	<u>December 31, 2011</u>
General loans				
HSBC and others	2013-6-30	1.2 ~ 13.13	1,551,084	1,108,741
Borrowings on negotiated trade bills				
Woori Bank and others <sup>1</sup>	-	1.03 ~ 4.28	566,533	564,676
			<u>2,117,617</u>	<u>1,673,417</u>

<sup>1</sup> At the end of the reporting period, borrowings are secured by certain trade receivables of the Group.

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Long-term borrowings as of June 30, 2012, consist of:

<i>(in millions of Korean won)</i>	Latest maturity date	Annual interest rate (%) at June 30, 2012	June 30, 2012		
			Total	Current	Non-current
Local currency loans					
Kookmin Bank	2012-07-01	5.18	10	10	-
Kookmin Bank	2013-05-14	4.67	190,000	190,000	-
Kookmin Bank	2014-11-12	4.62	150,000	-	150,000
Kookmin Bank	2016-05-24	4.73	190,000	-	190,000
Nonghyup	2014-03-10	4.70	190,000	-	190,000
Shinhan Bank	2016-10-19	4.37	190,000	23,750	166,250
Shinhan Bank	2017-02-16	Financial Bond 6ML+0.94	190,000	-	190,000
Woori Bank	2014-02-18	5.67	10,000	-	10,000
Woori Bank	2015-05-04	5.24	16,000	-	16,000
Woori Bank	2017-10-28	4.62	190,000	-	190,000
Small & Medium Business Corporation	2014-11-17	3.80	170	34	136
The Korea Development Bank	2013-03-11	4.59	100,000	100,000	-
The Korea Development Bank	2014-04-07	4.45	190,000	-	190,000
The Korea Development Bank	2014-06-24	5.56	8,000	-	8,000
The Korea Development Bank	2014-06-24	5.68	6,000	-	6,000
The Korea Development Bank	2014-06-24	5.31	6,000	-	6,000
The Korea Development Bank	2014-11-24	4.55	150,000	-	150,000
The Korea Development Bank	2014-12-24	4.71	140,000	-	140,000
The Korea Development Bank	2015-03-10	5.06	90,000	-	90,000
Korea Finance Corporation	2014-02-28	4.56	90,000	-	90,000
Korea Finance Corporation	2015-03-02	4.80	100,000	-	100,000
Korea Finance Corporation	2015-09-14	4.57	80,000	-	80,000
Korea Finance Corporation	2015-12-24	4.64	40,000	-	40,000
Korea Finance Corporation	2016-04-20	4.63	30,000	-	30,000
Korea Finance Corporation	2017-03-29	4.62	190,000	-	190,000
Foreign currency loans					
SMBC Bank and others	-	2.23~10.3	186,677	62,694	123,983
			<u>2,722,857</u>	<u>376,488</u>	<u>2,346,369</u>

Long-term borrowings as of December 31, 2011, consist of:

<i>(in millions of Korean won)</i>	Latest maturity date	Annual interest rate (%) at Dec 31, 2011	December 31, 2011		
			Total	Current	Non-current
Local currency loans					
Kookmin Bank	2012-07-01	5.18	55	55	-
Kookmin Bank	2013-05-14	4.67	190,000	-	190,000

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<i>(in millions of Korean won)</i>	Latest maturity date	Annual interest rate (%) at Dec 31, 2011	December 31, 2011		
			Total	Current	Non-current
Kookmin Bank	2014-11-12	4.62	150,000	-	150,000
Kookmin Bank	2016-05-24	4.73	190,000	-	190,000
NH Bank	2014-03-10	4.70	190,000	-	190,000
Shinhan Bank	2016-10-19	4.37	190,000	-	190,000
Woori Bank	2014-02-18	5.67	10,000	-	10,000
Woori Bank	2017-10-28	4.62	190,000	-	190,000
Small and Medium Business Corporation	2014-11-17	3.90	204	68	136
The Korea Development Bank	2012-03-30	5.81	190,000	190,000	-
The Korea Development Bank	2013-03-11	4.59	100,000	-	100,000
The Korea Development Bank	2014-04-07	4.45	190,000	-	190,000
The Korea Development Bank	2014-06-24	5.56	8,000	-	8,000
The Korea Development Bank	2014-06-24	5.68	6,000	-	6,000
The Korea Development Bank	2014-06-24	5.31	6,000	-	6,000
The Korea Development Bank	2014-11-24	4.55	150,000	-	150,000
The Korea Development Bank	2014-12-24	4.71	140,000	-	140,000
The Korea Development Bank	2015-03-10	5.06	90,000	-	90,000
Korea Finance Corporation	2014-02-28	4.56	90,000	-	90,000
Korea Finance Corporation	2015-03-02	4.80	100,000	-	100,000
Korea Finance Corporation	2015-09-14	4.57	80,000	-	80,000
Korea Finance Corporation	2015-12-24	4.64	40,000	-	40,000
Korea Finance Corporation	2016-04-20	4.63	30,000	-	30,000
Foreign currency loans					
The Korea Development Bank	2012-06-26	3ML+0.4	230,660	230,660	-
SMBC Bank and other	-	5.99~10.3	231,129	128,047	103,082
			<b>2,792,048</b>	<b>548,830</b>	<b>2,243,218</b>

Debentures as of June 30, 2012, consist of:

<i>(in millions of Korean won)</i>	Latest maturity date	Annual interest rate (%) at June 30, 2012	June 30, 2012		
			Total	Current	Non-current
Fixed rate notes in local currency					
Public, non-guaranteed bonds (54 <sup>th</sup> )	2013-04-22	4.20	190,000	190,000	-
Public, non-guaranteed bonds (55 <sup>th</sup> )	2013-06-16	4.60	190,000	190,000	-
Public, non-guaranteed bonds (56 <sup>th</sup> )	2015-09-09	4.63	190,000	-	190,000
Public, non-guaranteed bonds (57 <sup>th</sup> )	2015-10-22	4.30	190,000	-	190,000
Public, non-guaranteed bonds (58-1 <sup>st</sup> )	2014-02-16	4.44	130,000	-	130,000
Public, non-guaranteed bonds (58-2 <sup>nd</sup> )	2016-02-16	4.91	60,000	-	60,000
Public, non-guaranteed bonds (60 <sup>th</sup> )	2016-05-20	4.41	190,000	-	190,000

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Public, non-guaranteed bonds (61 <sup>st</sup> )	2016-06-29	4.38	190,000	-	190,000
Public, non-guaranteed bonds (62-1 <sup>st</sup> )	2013-08-05	3.89	110,000	-	110,000
Public, non-guaranteed bonds (62-2 <sup>nd</sup> )	2016-08-05	4.34	80,000	-	80,000
Public, non-guaranteed bonds (64 <sup>th</sup> )	2016-09-30	4.32	190,000	-	190,000
Floating rate notes in foreign currency					
Public, non-guaranteed bonds (59 <sup>th</sup> ) <sup>1</sup>	2014-04-28	3ML+1.00	196,146	-	196,146
Public, non-guaranteed bonds (63 <sup>rd</sup> ) <sup>1</sup>	2014-08-23	3ML+0.70	115,380	-	115,380
Less: discount on debentures			(5,963)	(514)	(5,449)
			<u>2,015,563</u>	<u>379,486</u>	<u>1,636,077</u>

Debentures as of December 31, 2011, consist of:

<i>(in millions of Korean won)</i>	Latest maturity date	Annual interest rate (%) at Dec 31, 2011	December 31, 2011		
			Total	Current	Non-current
Fixed rate notes in local currency					
Public, non-guaranteed bonds (49 <sup>th</sup> )	2012-04-11	5.27	190,000	190,000	-
Public, non-guaranteed bonds (51 <sup>st</sup> )	2012-02-17	5.99	190,000	190,000	-
Public, non-guaranteed bonds (54 <sup>th</sup> )	2013-04-22	4.20	190,000	-	190,000
Public, non-guaranteed bonds (55 <sup>th</sup> )	2013-06-16	4.60	190,000	-	190,000
Public, non-guaranteed bonds (56 <sup>th</sup> )	2015-09-09	4.63	190,000	-	190,000
Public, non-guaranteed bonds (57 <sup>th</sup> )	2015-10-22	4.30	190,000	-	190,000
Public, non-guaranteed bonds (58-1 <sup>st</sup> )	2014-02-16	4.44	130,000	-	130,000
Public, non-guaranteed bonds (58-2 <sup>nd</sup> )	2016-02-16	4.91	60,000	-	60,000
Public, non-guaranteed bonds (60 <sup>th</sup> )	2016-05-20	4.41	190,000	-	190,000
Public, non-guaranteed bonds (61 <sup>st</sup> )	2016-06-29	4.38	190,000	-	190,000
Public, non-guaranteed bonds (62-1 <sup>st</sup> )	2013-08-05	3.89	110,000	-	110,000
Public, non-guaranteed bonds (62-2 <sup>nd</sup> )	2016-08-05	4.34	80,000	-	80,000
Public, non-guaranteed bonds (64 <sup>th</sup> )	2016-09-30	4.32	190,000	-	190,000
Floating rate notes in foreign currency					
Citibank, N.A	2012-05-15	3ML+0.65	576,650	576,650	-
Public, non-guaranteed bonds (59 <sup>th</sup> )	2014-04-28	3ML+1.00	196,061	-	196,061
Private, non-guaranteed bonds (63 <sup>rd</sup> )	2014-08-23	3ML+0.70	115,330	-	115,330
Less: discount on debentures			(7,888)	(685)	(7,203)
			<u>2,970,153</u>	<u>955,965</u>	<u>2,014,188</u>

<sup>1</sup> The Group entered into Cross-currency Interest Rate Swap contract amounting to US\$270 million with BTMU (Bank of Tokyo-Mitsubishi UFJ) and others to hedge cash flow risk related to floating interest rate and foreign exchange rate of the debenture. At the end of the reporting period, the swap contract is evaluated at fair value. The loss on valuation of the effective portion amounting to, after applying the tax effect, ₩3,774 million(2011: ₩4,923 million) is recognized cumulatively in other comprehensive loss.

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Carrying amounts and fair value of non-current borrowings consist of:

<i>(in millions of Korean won)</i>	June 30, 2012		December 31, 2011	
	Carrying amounts	Fair value <sup>1</sup>	Carrying amounts	Fair value <sup>1</sup>
Long-term borrowings	2,346,369	2,422,143	2,243,218	2,303,461
Debentures	1,636,077	1,678,095	2,014,188	2,059,063
	<u>3,982,446</u>	<u>4,100,238</u>	<u>4,257,406</u>	<u>4,362,524</u>

<sup>1</sup>The fair values of non-current finance liabilities are based on cash flows discounted using rates of return on non-guaranteed bonds having similar credit ratings as the Group.

Annual payment schedule of borrowings as of June 30, 2012, is as follows:

<i>(in millions of Korean won)</i>	Total	Less than			Over 5 years
		1 year	2 years	5 years	
Short-term borrowings	2,183,925	2,183,925	-	-	-
Current maturities of long-term borrowings	389,781	389,781	-	-	-
Current maturities of debentures	396,720	396,720	-	-	-
Long-term borrowings	2,690,977	105,520	755,166	1,634,210	196,081
Debentures	1,843,918	66,869	489,904	1,287,145	-
	<u>7,505,321</u>	<u>3,142,815</u>	<u>1,245,070</u>	<u>2,921,355</u>	<u>196,081</u>

The above cash flow is calculated at nominal value based on the nearest date of maturity, and includes cash flow of principal and interests.

## 12. Provisions

Changes in provisions during the six-month periods ended June 30, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	2012				
	Warranty	Sales returns	Restoration	Contingent	Total
At January 1, 2012	699,363	67,844	6,672	526,269	1,300,148
Addition	397,141	119,350	2,119	115,665	634,275
Utilisation	(445,199)	(128,720)	(2)	(75,344)	(649,265)
Exchange differences	(9,837)	(833)	(8)	(10,935)	(21,613)
At June 30, 2012	<u>641,468</u>	<u>57,641</u>	<u>8,781</u>	<u>555,655</u>	<u>1,263,545</u>
Current	589,398	57,641	-	34,670	681,709
Non-current	52,070	-	8,781	520,985	581,836

<i>(in millions of Korean won)</i>	2011				
	Warranty	Sales returns	Restoration	Contingent	Total
At January 1, 2011	742,852	81,914	5,853	495,224	1,325,843
Addition	575,799	142,027	284	21,566	739,676
Utilisation	(580,234)	(154,262)	(72)	(14,631)	(749,199)
Exchange differences	(8,188)	(891)	(2)	2,567	(6,514)
Business Combination and changes in scope of subsidiaries	2,133	-	-	-	2,133



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At June 30, 2011	732,362	68,788	6,063	504,726	1,311,939
Current	647,999	68,788	-	37,947	754,734
Non-current	84,363	-	6,063	466,779	557,205

**13. Defined Benefit Liability**

The amounts recognized in the statements of financial position are determined as follows:

<i>(in millions of Korean won)</i>	June 30, 2012	December 31, 2011
Present value of funded obligations	1,279,439	1,133,650
Present value of unfunded obligations	30,124	27,731
	1,309,563	1,161,381
Fair value of plan assets	(814,932)	(738,075)
<b>Liabilities</b>	<b>494,631</b>	<b>423,306</b>

The amounts recognized in the statements of income for the three-month and six-month periods ended June 30, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	2012		2011	
	Three Months	Six Months	Three Months	Six Months
Current service cost	56,568	113,530	48,835	99,386
Interest cost	12,902	25,816	11,313	22,595
Expected return on plan assets	(7,473)	(14,951)	(6,238)	(12,460)
Past service cost	8	16	8	16
	62,005	124,411	53,918	109,537

The line items in which expenses are included for the three-month and six-month periods ended June 30, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	2012		2011	
	Three Months	Six Months	Three Months	Six Months
Cost of sales	29,337	59,568	26,148	53,801
Selling and marketing expenses	13,336	26,549	11,202	22,713
Administrative expenses	3,697	6,878	3,093	6,637
Research and development expenses	14,518	29,095	11,614	23,503
Service costs	1,117	2,321	1,861	2,883
	62,005	124,411	53,918	109,537

Cumulative actuarial losses after applying the tax effect recognized at the end of the reporting period are ₩194,965 million (2011: ₩149,024 million).

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Changes in the defined benefit obligations for the six-month periods ended June 30, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	<u>2012</u>	<u>2011</u>
<b>At January 1</b>	1,161,381	868,843
Current service cost	113,530	99,386
Interest expense	25,816	22,595
Benefits paid	(51,766)	(50,313)
Business combination and changes in scope of subsidiaries	-	3,892
Actuarial loss	61,485	-
Other	(883)	(606)
<b>At June 30</b>	<u>1,309,563</u>	<u>943,797</u>

Changes in the fair value of plan assets for the six-month periods ended June 30, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	<u>2012</u>	<u>2011</u>
<b>At January 1</b>	738,075	550,731
Expected return on plan assets	14,951	12,460
Employer contributions	95,761	92,433
Benefits paid	(34,460)	(15,238)
Actuarial gain (loss)	852	(2,042)
Business combination and changes in scope of subsidiaries	-	2,123
Other	(247)	(243)
<b>At June 30</b>	<u>814,932</u>	<u>640,224</u>

The actual return on plan assets for the six-month period ended June 30, 2012, is ₩15,803 million (2011: ₩10,418 million).

The principal actuarial assumptions used are as follows:

(%)	<u>June 30, 2012</u>	<u>December 31, 2011</u>
Discount rate	4.2	4.7
Expected rate of return	3.9	3.9
Future salary increase	6.0	6.0

Plan assets consist of:

<i>(in millions of Korean won)</i>	<u>June 30, 2012</u>	<u>December 31, 2011</u>
Securities combined with derivatives (guaranteed)	510,642	460,724
Time deposits and others	304,290	277,351
	<u>814,932</u>	<u>738,075</u>

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**14. Capital Stock**

At the end of the reporting period, the number of authorized stocks of ordinary and preferred stocks are 600 million.

<i>(in million of korean won)</i>	Par value per share (in won)	June 30, 2012		December 31, 2011	
		Number of shares issued	Amount	Number of shares issued	Amount
Common stock <sup>1</sup>	5,000	163,647,814	818,239	163,647,814	818,239
Preferred stock <sup>2</sup>	5,000	17,185,992	85,930	17,185,992	85,930
		<u>180,833,806</u>	<u>904,169</u>	<u>180,833,806</u>	<u>904,169</u>

<sup>1</sup> The Parent Company issued new shares as approved by the Board of Directors on November 3, 2011.

<sup>2</sup> At the end of the reporting period, the preferred stocks being traded in the London Stock Exchange in form of global depository receipts ("DRs") total 1,870,657 shares.

**15. Retained Earnings**

Retained earnings consist of:

<i>(in millions of Korean won)</i>	June 30, 2012	December 31, 2011
Legal reserve <sup>1</sup>	145,816	142,128
Discretionary reserve <sup>2</sup>	6,351,342	6,756,716
Unappropriated retained earnings	3,311,838	2,600,690
	<u>9,808,996</u>	<u>9,499,534</u>

<sup>1</sup> The Commercial Code of the Republic of Korea requires the Company to appropriate, as a legal reserve, an amount equal to a minimum of 10% of cash dividends paid until such reserve equals 50% of its issued capital stock. The reserve is not available for the payment of cash dividends, but may be transferred to capital stock through an appropriate resolution by the Company's Board of Directors or used to reduce accumulated deficit, if any, with the ratification of the Company's majority shareholders.

<sup>2</sup> The Company separately accumulates a discretionary reserve for research and human resource development through appropriation of retained earnings, which has been included as deductible expense for the corporate income tax return according to the Special Tax Treatment Law. The reserve could be reversed in accordance with the terms of related tax laws.

**16. Other Components of Equity**

Details of other components of equity consist of:

<i>(in millions of Korean won)</i>	June 30, 2012	December 31, 2011
Treasury shares <sup>1</sup>	(44,893)	(44,893)
Consideration for conversion rights	9,891	9,891
Gain on disposal of treasury shares	2,183	2,183
Capital transactions within the Group <sup>2</sup>	(238,522)	(238,520)
	<u>(271,341)</u>	<u>(271,339)</u>

<sup>1</sup> The Parent Company has treasury shares consisting of 763,165 (2011: 763,165 shares) of ordinary shares and 4,688 shares (2011: 4,687 shares) of preferred shares at the reporting date. The Parent

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Company intends to either grant these treasury shares to employees and directors as compensation, or to sell them in the future.

<sup>2</sup> The amounts include gain (loss) from transactions with non-controlling interests and other reserves of subsidiaries, net of related deferred tax.

**17. Net Sales**

Details of net sales for the three-month and six-month periods ended June 30, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	2012		2011	
	Three Months	Six Months	Three Months	Six Months
Net sales				
Sales of goods	12,609,475	24,598,169	14,184,778	27,163,515
Sales of services	171,318	346,171	122,597	220,229
Royalty income	78,206	142,556	77,701	161,280
	<u>12,858,999</u>	<u>25,086,896</u>	<u>14,385,076</u>	<u>27,545,024</u>

**18. Expenses by Nature**

Expenses that are recorded by nature as cost of sales, general operating expenses and other operating expenses in the statements of income for the three-month and six-month periods ended June 30, 2012 and 2011, consist of:

<i>(in millions of Korean won)</i>	2012		2011	
	Three Months	Six Months	Three Months	Six Months
Changes in inventories	(18,837)	105,040	246,451	(303,730)
Purchase of raw materials and merchandise	8,627,007	17,006,969	9,908,259	19,800,591
Employee benefit expenses	1,128,064	2,328,015	1,199,933	2,338,425
Depreciation, amortization and impairment loss	324,057	646,421	305,480	606,176
Advertising expenses	298,131	496,051	406,166	851,035
Sales promotional expenses	191,062	321,681	260,752	438,919
Transportation expenses	407,042	769,692	474,879	944,337
Commission expense	570,614	1,131,654	655,999	1,189,794
Other expenses	1,265,970	2,068,180	1,069,476	2,074,231
	<u>12,793,110</u>	<u>24,873,703</u>	<u>14,527,395</u>	<u>27,939,778</u>

<sup>1</sup> Cost of sales, selling and marketing expenses, administrative expenses, research and development expenses, service costs, and other operating expenses in the statements of income are included.

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**19. General Operating Expenses (Selling and marketing expenses, Administrative expenses, Research and development expenses, and Service costs)**

Details of general operating expenses for the three-month and six-month periods ended June 30, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	2012		2011	
	Three Months	Six Months	Three Months	Six Months
Wages and salaries	604,679	1,205,801	628,514	1,231,924
Severance benefits	32,125	62,053	28,007	56,957
Welfare expense	122,726	253,633	132,965	254,119
Freight expense	393,966	748,637	468,983	931,789
Rental expense	105,683	211,770	110,914	213,614
Commission expense	410,974	831,830	481,813	883,822
Depreciation	50,189	99,598	47,018	92,298
Amortization	72,038	143,040	64,309	125,714
Taxes and dues	34,945	65,609	34,721	64,278
Advertising expense	298,131	496,051	406,166	851,035
Promotional expense	191,062	321,681	260,752	438,919
Direct R&D costs	63,105	130,853	89,745	154,625
Direct service costs	164,882	339,689	254,915	443,520
Other	233,636	418,978	183,866	345,672
	<u>2,778,141</u>	<u>5,329,223</u>	<u>3,192,688</u>	<u>6,088,286</u>

**20. Other Operating Income**

Other operating income for the three-month and six-month periods ended June 30, 2012 and 2011, consists of:

<i>(in millions of Korean won)</i>	2012		2011	
	Three Months	Six Months	Three Months	Six Months
Rental income	8,678	17,244	9,480	15,737
Foreign exchange gain	256,033	527,408	261,679	591,364
Gain on settlement of derivatives	2,914	3,516	3,024	4,738
Gain on disposal of property, plant and equipment	3,509	6,147	1,928	3,743
Gain on disposal of intangible assets	825	825	-	-
Others	11,138	28,832	24,440	68,250
	<u>283,097</u>	<u>583,972</u>	<u>300,551</u>	<u>683,832</u>

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**21. Other Operating Expenses**

Other operating expenses for the three-month and six-month periods ended June 30, 2012 and 2011, consist of:

<i>(in millions of Korean won)</i>	2012		2011	
	Three Months	Six Months	Three Months	Six Months
Foreign exchange loss	377,125	562,126	240,153	540,526
Loss on settlement of derivatives	2,074	7,321	2,626	5,258
Loss on disposal of property, plant and equipment	4,034	5,349	3,339	3,966
Loss on disposal of intangible assets	7,408	12,925	5,752	10,117
Others	50,351	68,933	4,807	18,748
	<u>440,992</u>	<u>656,654</u>	<u>256,677</u>	<u>578,615</u>

**22. Financial Income**

Financial income for the three-month and six-month periods ended June 30, 2012 and 2011, consists of:

<i>(in millions of Korean won)</i>	2012		2011	
	Three Months	Six Months	Three Months	Six Months
Interest income	23,562	45,936	21,639	42,392
Dividend income	-	289	21	458
Foreign exchange gain	44,540	204,061	121,046	298,900
Gain on settlement of derivatives	25,462	27,049	18,974	26,301
Others	4,625	5,009	635	962
	<u>98,189</u>	<u>282,344</u>	<u>162,315</u>	<u>369,013</u>

**23. Financial Expenses**

Financial expenses for the three-month and six-month periods ended June 30, 2012 and 2011, consist of:

<i>(in millions of Korean won)</i>	2012		2011	
	Three Months	Six Months	Three Months	Six Months
Interest expense	84,318	169,609	78,285	147,517
Foreign exchange loss	58,571	211,564	87,654	244,224
Loss on settlement of derivatives	15,334	19,307	18,405	23,243
Loss on settlement of trade receivables	5,477	15,541	11,717	20,397
Others	11,520	16,323	3,783	8,045
	<u>175,220</u>	<u>432,344</u>	<u>199,844</u>	<u>443,426</u>

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**24. Earnings(loss) per Share**

Basic earnings per share is calculated by dividing the profit attributable to shareholders of the Parent Company by the weighted average number of shares in issue excluding shares purchased by the Parent Company and held as treasury shares. Preferred shares have a right to participate in the profits of the Parent Company. These participation rights have been considered in presenting the EPS for ordinary shares and preferred shares. In the prior period, the diluted earnings per ordinary share are not computed due to anti-dilution. For this period, the Group had no potential dilutive ordinary shares.

<i>(in millions of Korean won)</i>	2012		2011	
	Three Months	Six Months	Three Months	Six Months
Profit attributable to ordinary shares <sup>1</sup>	141,338	354,396	87,179	60,102
Weighted average number of ordinary shares outstanding (unit: shares) <sup>2</sup>	162,884,649	162,884,649	147,642,834	147,642,834
Basic earnings per share (in won)	868	2,176	590	407

<i>(in millions of Korean won)</i>	2012		2011	
	Three Months	Six Months	Three Months	Six Months
Profit attributable to preferred shares <sup>1</sup>	15,124	37,813	10,625	7,607
Weighted average number of preferred shares outstanding (unit: shares) <sup>2</sup>	17,181,304	17,181,305	17,181,305	17,181,305
Basic earnings per preferred share (in won)	879	2,201	619	443

<sup>1</sup> Profit attributable to ordinary and preferred shares is as follows:

<i>(in millions of Korean won)</i>	2012		2011	
	Three Months	Six Months	Three Months	Six Months
<b>Profit for the period (A)</b>	156,462	392,209	97,804	67,709
Ordinary shares dividends (B)	8,144	16,288	7,194	14,388
Preferred shares dividends (C)	1,074	2,148	1,074	2,148
<b>Undistributed earnings (D=A-B-C)</b>	147,244	373,773	89,536	51,173
Undistributed earnings available for ordinary shares	133,194	338,108	79,985	45,714
Undistributed earnings available for preferred shares	14,050	35,665	9,551	5,459
<b>Profit attributable to ordinary shares (G=B-E)</b>	141,338	354,396	87,179	60,102
<b>Profit attributable to preferred shares(H=C+F)</b>	15,124	37,813	10,625	7,607

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<sup>2</sup> Weighted average numbers of shares are calculated as follows:

	2012		2011	
	Three Months	Six Months	Three Months	Six Months
Ordinary shares outstanding	163,647,814	163,647,814	144,647,814	144,647,814
Ordinary treasury shares	(763,165)	(763,165)	(763,162)	(763,162)
Ordinary shares	162,884,649	162,884,649	143,884,652	143,884,652
<b>Weighted average number of ordinary shares outstanding<sup>3</sup></b>	<b>162,884,649</b>	<b>162,884,649</b>	<b>147,642,834</b>	<b>147,642,834</b>
Preferred shares outstanding	17,185,992	17,185,992	17,185,992	17,185,992
Preferred treasury shares	(4,688)	(4,688)	(4,687)	(4,687)
Preferred shares	17,181,304	17,181,304	17,181,305	17,181,305
<b>Weighted average number of preferred shares outstanding</b>	<b>17,181,304</b>	<b>17,181,305</b>	<b>17,181,305</b>	<b>17,181,305</b>

<sup>3</sup> The comparative number of ordinary shares outstanding during the six-month period ended June 30, 2011, has been adjusted to reflect bonus element from rights issued in the fourth quarter of 2011.

**25. Cash Generated from Operations**

A reconciliation between operating profit(loss) and net cash inflow (outflow) from operating activities is as follows:

(in millions of Korean won)	2012	2011
Profit for the period	401,498	92,672
Adjustments :		
Interest expense, net	123,673	105,125
Foreign exchange loss (gain), net	29,574	(77,673)
Gain(loss) on derivatives, net	(3,937)	(2,538)
Depreciation	464,768	446,726
Amortization	178,927	156,465
Loss on disposal of property, plant and equipment, intangible assets, net	11,302	10,340
Provisions, net	632,156	739,676
Tax income (expense)	284,321	95,513
Expense (income) from jointly controlled entities and associates	(38,654)	26,480
Provisions for severance benefits	124,411	109,537
Other	108,168	(11,760)
	<b>1,914,709</b>	<b>1,597,891</b>
Changes in operating assets and liabilities		
Increase in trade receivables	(414,005)	(633,722)
Decrease (increase) in other receivables	8,201	(13,292)
Decrease (increase) in inventories	100,295	(267,895)
Decrease (increase) in other assets	9,092	(19,483)



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Increase (decrease) in trade payables	(26,165)	602,939
Increase (decrease) in other payables	(157,616)	607,350
Decrease in provisions	(649,265)	(749,199)
Decrease in other liabilities	(89,988)	(19,043)
Payment of defined benefit liability	(17,306)	(35,075)
Payment of plan assets, net	(95,761)	(92,433)
	<u>(1,332,518)</u>	<u>(619,853)</u>
<b>Cash generated from operations</b>	<b>983,689</b>	<b>1,070,710</b>

Significant transactions not affecting cash flows for the six-month periods ended June 30, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	<u>2012</u>	<u>2011</u>
Reclassification of construction-in-progress of property, plant and equipment	146,994	484,422
Reclassification of intangible assets in progress	123,778	79,123
Reclassification of long-term prepayment to intangible assets	47,297	43,363
Reclassification of current maturities of borrowings	698,593	1,469,506

**26. Contingencies**

(a) At the end of the reporting period, borrowings are secured on property, plant and equipment including land, buildings and machinery and intangible assets including land use rights for the book value of ₩175,462 million (2011: ₩145,052 million).

(b) At the end of the reporting period, the Parent Company is provided with a performance guarantee of ₩129,299 million (2011: ₩118,361 million) from Seoul Guarantee Insurance and two other banks relating to the sales contracts.

(c) The Group has contingent liabilities with respect to investigations and litigations arising in the ordinary course of business. Major investigations and litigations are as follows:

At the end of the reporting period, the Parent Company and certain foreign subsidiaries are under investigation by the European Commission with respect to possible anti-competitive activities among Cathode Ray Tube (CRT) manufacturers. The Group recognized a reasonably estimated loss related to this investigation as a litigation provision. The ultimate amount of loss resulting from the investigation may differ from the estimated loss accrued by the Group.

In addition, the Parent Company and certain foreign subsidiaries have been named as defendants in a number of class actions brought by purchasers of CRT products in the United States and in Canada in connection with the alleged anti-competitive activities among CRT manufacturers. The Group recognized a reasonably estimated loss related to this investigation as a litigation provision. The ultimate amount of loss resulting from the investigation may differ from the estimated loss accrued by the Group.

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In addition, the Parent Company and certain foreign subsidiaries have been named as defendants in a number of class actions brought by purchasers of Optical Disk Drive (ODD) products in the United States and in Canada alleging violation of antitrust laws in connection with the anti-competitive activities among ODD manufacturers. The outcome of the cases and effect on the financial statements could not be ascertained at the end of the reporting period.

There are a number of other legal actions that remain pending at the end of the reporting period. It is not anticipated that any material liabilities will arise from these contingent liabilities other than those provided for.

At the end of the reporting period, the Group's associate, LG Display Co.,Ltd., has been named as defendants in a class action brought by Chimei Innolux Corp and others with infringements of patents, and are under investigation by related facility with respect to possible anti-competitive activities. Investments profit (loss) of associates may be affected by the following result. The Group does not take individual responsibility regarding above case and investigation.

At the end of the reporting period, the Group and an associate, LG Innotek Co., Ltd., have been named as defendants in a class action brought by Osram AG in International Trade Commission(ITC) to ban the importation of the goods subject to the suit, and the Northern District of California alleging infringement of its LED patents and seeking damages. In addition, Osram AG has requested an injunction against the patent infringement, compensation of damages, and patent invalidation trials in Germany, China, Japan, and Korea. Although the outcome of the case and effect on the financial statements could not be ascertained at the end of the reporting period, the investments profit (loss) of associates of the Group may be affected by the following result. Nevertheless, the Group does not take direct responsibility regarding above case and investigation.

#### **27. Commitments**

(a) At the end of the reporting period, the Parent Company has overdraft facility agreements with various banks including, Shinhan Bank, with a limit of ₩245,500 million (2011: ₩245,500 million). Its overseas subsidiaries, including LG Electronics India Private Limited, have overdraft facility agreements with a limit of ₩1,242,118 million (2011: ₩1,205,823 million) with various banks including Standard Chartered New Delhi Bank. The Parent Company's domestic subsidiaries, including Hi Plaza Inc., have overdraft facility agreements with various banks, including Woori Bank, with a limit of ₩2,350 million (2011: ₩2,350 million).

(b) At the end of the reporting period, the Parent Company has sales agreements for export trade receivables with Shinhan Bank and 32 other banks amounting to ₩5,872,842 million (2011: ₩6,141,323 million) and for domestic trade receivables with Deutsche Bank amounting to ₩71,752 million (2011: ₩374,705 million). The Parent Company has corporate electronic settlement services contracts for collection of trade receivables with Hana Bank of up to ₩100,000 million (2011: ₩130,000 million).

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The subsidiaries, LG Electronics UK., Ltd., LG Electronics Deutschland GmbH, and LG Electronics Espana S.A., transfer their accounts receivable to Societe Generale Bank on a revolving basis, for up to US\$393 million (2011: US\$554 million).

LG Electronics U.S.A., Inc. and LG Electronics MobileComm U.S.A. Inc., subsidiaries of the Parent Company, transfer their accounts receivable to JP Morgan Chase Bank and Sumitomo Bank on a revolving basis, for up to US\$200 million (2011: US\$200 million).

(c) At the end of the reporting period, the Parent Company has corporate electronic settlement services contracts with Shinhan Bank and other seven banks of up to ₩935,450 million (2011: ₩935,450 million) which guarantee the payment of trade accounts payable in case the suppliers sell their trade receivables.

In addition, two domestic subsidiaries including Hi Plaza Inc. provided payment guarantees to financial institutions, including Woori Bank, amounting to ₩40,000 million (2011: ₩40,000 million) in connection with discount of notes which are paid to their suppliers.

(d) At the end of the reporting period, the Group has other trade financing agreements and loan commitments with financial institutions including Industrial Bank of Korea in addition to the above commitments.

*(e) Contractual commitments for the acquisition of assets*

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

<i>(in millions of Korean won)</i>	<u>June 30, 2012</u>	<u>December 31, 2011</u>
Property, plant and equipment	56,165	58,667
Intangible assets	2,661	5,161
	<u>58,826</u>	<u>63,828</u>

*(f) Operating lease commitments – the Group as lessee*

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

<i>(in millions of Korean won)</i>	<u>June 30, 2012</u>			<u>Total lease payments</u>
	<u>Within 1 year</u>	<u>Within 1 year and no later than 5 years</u>	<u>Over 5 years</u>	
Buildings and offices	84,286	137,107	57,787	279,180
Vehicles	28,462	13,666	-	42,128
Equipment	24,019	27,768	-	51,787
	<u>136,767</u>	<u>178,541</u>	<u>57,787</u>	<u>373,095</u>

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(g) *Operating lease commitments – the Group as lessor*

The Group has an operating lease agreement regarding healthcare rental business that lends water purifiers to customers. The future aggregate lease income under operating leases at the end of the reporting period follows:

(in millions of Korean won)	June 30, 2012			
	Within 1 year	Within 1 year and no later than 3 years	Over 3 years	Total lease payments
Healthcare rental	50,461	110,097	92,835	253,393

The Group recognized ₩24,183 million lease income for the six-month period ended June 30, 2012.

(h) *Trademark licenses commitments*

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

Purpose	Related products	Provided by	Used by
Use of license	Mobile	QUALCOMM Incorporated and other	The Group
Provision of license	Home appliance	The Group	Panasonic Corporation and other

**28. Related Party Transactions**

Significant transactions for the six-month periods ended June 30, 2012 and 2011, are as follows:

(in millions of Korean won)	2012		2011	
	Sales	Purchases	Sales	Purchases
LG Corp.	1,016	63,459	5,784	60,516
Jointly controlled entities and associates	284,988	3,498,206	404,743	3,251,366
Other related parties	48,899	650,224	66,494	697,307
	<u>334,903</u>	<u>4,211,889</u>	<u>477,021</u>	<u>4,009,189</u>

The balances of significant transactions are as follows:

(in millions of Korean won)	June 30, 2012		December 31, 2011	
	Receivables	Payables	Receivables	Payables
LG Corp.	25,540	2,049	23,136	691
Jointly controlled entities and associates	139,887	857,145	187,259	757,488
Other related parties	92,522	339,895	89,028	361,525
	<u>257,949</u>	<u>1,199,089</u>	<u>299,423</u>	<u>1,119,704</u>

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The jointly controlled entities and associates at the end of the reporting period include LG Display Co.,Ltd., LG Innotek Co., Ltd., LG-Ericsson Co., Ltd., and other related parties include SERVEONE Co., Ltd. and LG CNS Co., Ltd.

There is no payment guarantee provided for related parties other than subsidiaries at the end of the reporting period.

The Group has not recognized bad debt expenses nor allowance for trade receivables against the related parties for the six-month period ended June 30, 2012, and the year ended December 31, 2011.

## **29. Risk Management**

### **Financial Risk Management**

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

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

In addition, the Group operates four overseas regional treasury centers ("RTC") located in New Jersey in USA, Amsterdam in the Netherlands, Beijing in China, and Singapore to mitigate financial risks in a global business environment preemptively and systematically. RTC contributes by improving our overseas subsidiaries' business competitiveness by operating integrated financial functions.

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

#### *(a) Market risk*

##### *i) Foreign exchange risk*

Due to its multinational business operations, the Group is mainly exposed to foreign exchange risk on the US Dollar and Euro. The Japanese Yen, Australian Dollar, British Pound and Canadian Dollar also need to be considered for foreign exchange risk.

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

The Group's foreign exchange risk management policy is implemented under its global hedge policy. The policy contains its overall foreign exchange risk management philosophy

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which includes: strategy, exposure definition of foreign currency, hedge maturity and hedge ratio.

The Group manages foreign exchange risk by matching inflow and outflow of each currency. The Group hedges its remaining foreign currency exposure with Leading & Lagging strategy and derivative financial instruments such as forward exchange contracts under its global hedge policy. The Group determines a hedge ratio for overseas subsidiaries considering factors highly related to foreign exchange rate fluctuation such as risk index, implied volatility, and market view. The Parent Company and the RTC scrutinize changes in foreign exchange exposure and the results of hedging activities on a monthly basis. Speculative foreign exchange trading is strictly prohibited.

As of June 30, 2012 and December 31, 2011, if the foreign exchange rate of the Korean won fluctuated by 10% while other variables were fixed, the effects on income before tax would be as follows:

<i>(in millions of Korean won)</i>	June 30, 2012		December 31, 2011	
	10% increase	10% decrease	10% increase	10% decrease
USD/KRW	(170,828)	170,828	(302,425)	302,425
EUR/KRW	19,316	(19,316)	28,888	(28,888)

The above sensitivity analysis is done with foreign currency denominated assets and liabilities which are not dominated in the Parent Company's functional currency.

ii) Interest rate risk

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

As of June 30, 2012, the Group is in a net borrowing situation and is partially exposed to a risk of increase in interest rates. However, to mitigate interest rate risk, the Group manages interest rate risk proactively by minimizing external borrowings by maximizing internal cash sharing, reducing borrowings with high interest rates, maintaining an adequate mix between short-term and long-term liabilities and between fixed and variable interest rates and monitoring daily, weekly, and monthly interest rate trends in domestic and international markets.

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As of June 30, 2012, if interest rates fluctuate by 100bp without other variables changing, the effects on income and expenses related to borrowings and financial deposits with variable interest rates for the six months are as follows:

<i>(in millions of Korean won)</i>	June 30, 2012		June 30, 2011	
	100bp increase	100bp decrease	100bp increase	100bp decrease
Interest expense	10,776	(10,776)	13,195	(13,195)
Interest income	10,607	(10,607)	11,120	(11,120)

<sup>1</sup> Interest rate swaps mainly create fair value risk from changes in interest rates.

iii) Price risk

The Group is exposed to price risk through securities owned by the Group classified as available-for-sale financial assets on the interim consolidated financial statements.

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

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

<i>(in millions of Korean won)</i>	June 30, 2012		December 31, 2011	
	30% increase	30% decrease	30% increase	30% decrease
KOSDAQ	1,696	(1,696)	1,975	(1,975)

(b) Credit risk

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

The purpose of the Global Credit / TR policy is to support timely decision-making and minimize loss by securing payment of TR. The policy is composed of five categories: Credit Management, TR Management, Internal Credit Limit Management, Credit / TR Risk Monitoring and Country Risk Management.

Assumed TR risk is especially mitigated with credit insurance, guarantees / collateral, and internal credit limits. In order to manage the risk, the Global Credit Insurance Program is structured with top three global credit insurance companies (Euler Hermes, Atradius, Coface) and Korea Trade Insurance Corporation (K-Sure).

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Adequate internal credit limit is assessed by the evaluation standards of Global Credit / TR Policy and applied strictly with authorization matrix and procedures.

As of June 30, 2012, trade receivable balance of the Group is ₩7,084,895 million (2011: ₩6,752,559 million) and its risk is managed appropriately with insurer's credit limit of ₩29,489,067 million (2011: ₩32,468,797 million).

*(c) Liquidity risk*

Liquidity risk is defined as the risk that the Group is unable to meet its short-term payment obligations on time due to deterioration of its business performance or inability to access financing.

The Group forecasts its cash flow and liquidity status and sets action plans on a regular base to manage liquidity risk proactively. The Group assigns experts in four RTCs to manage liquidity risk in overseas subsidiaries efficiently.

In addition, the Group copes with potential financial distress by maintaining adequate amount of cash and committed credit facilities. The balance of cash and cash equivalents, and current-financial deposits at June 30, 2012 is ₩2,171,388 million (2011: ₩2,495,465 million). The Group maintains total committed credit lines of ₩600,000 million (2011: ₩600,000 million) in Woori Bank, Kookmin Bank, and Shinhan Bank in Korea at June 30, 2012.

As of June 30, 2012, the cash and cash equivalents balance of the Group is about 76% (2011: 79%) of current borrowings with due date in 12 months. If committed credit lines are included, the balance covers about 96% (2011: 97%) of short-term borrowings.

In addition, as of June 30, 2012, the Group is able to source funds any time in domestic and international financial markets because it has credit grades AA0(Stable) from Korea Investors Service, Korea Ratings, and Nice Information, along with investment credit grades from Standard & Poors and Moody's of BBB- Stable and Baa2 Negative, respectively.

Annual payment schedule of the related borrowings is presented in Note 11.

**Capital Risk Management**

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

Debt/equity ratio and net borrowing ratio are as follows:

<i>(in millions of Korean won, except for ratios)</i>	<u>June 30, 2012</u>	<u>December 31, 2011</u>
Liability (A)	18,718,052	19,510,209



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Equity (B)	13,381,883	13,148,248
Cash and cash equivalents and current financial deposits (C)	2,171,388	2,495,465
Borrowings (D)	6,856,037	7,435,618
Liability-to-equity ratio (A/B)	140%	148%
Net Borrowings ratio (D-C)/B	35%	38%

**Methods and Assumptions in Determining Fair Value**

The Group classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in measurements.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices those 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 (that is, unobservable inputs).

<i>(In millions of Korean won)</i>	June 30, 2012			
	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Financial assets at fair value through profit or loss	-	8,809	-	8,809
- Derivatives for trading				
Available-for-sale financial assets	7,760	-	-	7,760
- Listed securities				
- Derivatives for hedge	-	13,519	-	13,519
	<u>7,760</u>	<u>22,328</u>	<u>-</u>	<u>30,088</u>
<b>Liabilities</b>				
Financial liabilities at fair value through profit or loss	-	1,712	-	1,712
- Derivatives for trading				
	<u>-</u>	<u>1,712</u>	<u>-</u>	<u>1,712</u>

<i>(In millions of Korean won)</i>	December 31, 2011			
	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Financial assets at fair value through profit or loss				
- Derivatives for trading	-	2,832	-	2,832
Available-for-sale financial assets	8,969	-	-	8,969
- Listed securities				
- Derivatives for hedge	-	11,845	-	11,845
	<u>8,969</u>	<u>14,677</u>	<u>-</u>	<u>23,646</u>

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Liabilities

Financial liabilities at fair value through profit or loss

- Derivatives for trading	-	14,238	-	14,238
	-	14,238	-	14,238

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, an entity in the same industry, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in 'level 1'. Instruments included in 'level 1' comprise primarily equity investments classified as available for sale.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses various valuation techniques and makes judgments based on current market conditions. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to measure the fair value an instrument are observable, the instrument is included in 'level 2'. Financial instruments included in 'level2' are derivative financial instruments. The fair value of derivative financial instruments is measured at discounted amount using forward exchange rate as of the reporting date.

If one or more of the significant inputs is not based on observable market data, the instrument is included in 'level 3'.

**30. Share-Based Payments**

The 259,250 shares of cash-settled, share-based compensation plans which were not exercised as of December 31, 2011, were all exercised in the six-month period ended June 30, 2012.

Movements in the number of stock appreciation rights outstanding and their related weighted average stock prices as of June 30, 2012 and December 31, 2011, are as follows:

	Weighted average stock price (in won) <sup>1</sup>		Number of options (unit: shares)	
	2012	2011	2012	2011
Beginning	72,065	101,507	259,250	275,500
Exercised <sup>2</sup>	88,169	114,810	(259,250)	(16,250)
Ending	-	72,065	-	259,250

<sup>1</sup> The weighted average stock price is determined by an average of three share prices: average share price of last two months, last one month and last one week from each date of exercise.

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<sup>2</sup> This line represents the weighted average of the stock prices determined by above calculation at each of exercise dates for the year.

#### 31. Business Combination

##### LS Mtron Co., Ltd.'s air-conditioning business

On May 1, 2011, the Group acquired LS Mtron Co., Ltd.'s air-conditioning business which is engaged in the installation of chillers and heaters, and the manufacture and sale of air cooler to launch a new business.

As a part of the acquisition, the Group took over 100% of share capital of LS Air-Conditioning (Sandong) Co., Ltd. and Ace R&A Co., Ltd., and the acquisition is accounted for in accordance with Korean IFRS 1103, *Business Combination*. After the acquisition, the name of LS Air-Conditioning (Sandong) Co., Ltd. was changed to LG Electronics Air-Conditioning (Shandong) Co., Ltd.

The goodwill amounting to ₩64,531 million arising from the acquisition is due to the synergy benefits, increasing overseas market share and reducing R&D costs, resulting from combining business operations of the Group and acquired air-conditioning business.

The following table summarizes the consideration paid for LS Mtron Co., Ltd. and the amounts of the assets acquired and liabilities assumed recognized at the acquisition date.

<i>(in millions of Korean won)</i>	<u>Amount</u>
Consideration	<u>150,300</u>
Recognized amounts of identifiable assets acquired and liabilities assumed <sup>1</sup>	
Current assets	
Cash and cash equivalents	2,025
Trade receivables	84,927
Other receivables	1,233
Inventories	18,156
Other assets	25,100
Non-current assets	
Financial deposits	5,888
Other receivables	868
Other financial assets	40
Property, plant and equipment	27,450
Intangible assets	36,531
Other assets	558
Current liabilities	
Trade payables	(46,765)
Borrowings	(19,504)
Other payables	(4,858)
Current income tax liabilities	(20)

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Provisions	(2,133)
Other liabilities	(32,625)
Non-current liabilities	
Borrowings	(8,450)
Other payables	(224)
Defined benefit liabilities	(1,769)
Deferred income tax liabilities	(659)
<b>Total identifiable net assets</b>	<b>85,769</b>
Goodwill <sup>1</sup>	64,531
	<b>150,300</b>

<sup>1</sup> The assets acquired and the liabilities assumed is measured at their acquisition-date fair values in accordance with Korean IFRS 1103, *Business Combination*.

The acquisition-related costs amounting to ₩3,646 million were all expensed.

**Hi Entech Co., Ltd.**

On November 1, 2011, the Group acquired 100% of ownership of Daewoo Entech Co., Ltd. which is engaged in management, operation, testing, and maintenance of the water pollution control facilities and sewage disposal facilities, and in development of water supply and water resources. The acquisition is accounted for in accordance with Korean IFRS 1103, *Business Combination*.

After the acquisition, the name of Daewoo Entech Co., Ltd. was changed to Hi Entech Co., Ltd.

The goodwill amounting to ₩45,755 million arising from the acquisition is due to the synergy benefits based on future preoccupancy of private domestic market for water service and sewage market, and sales increase in the global water treatment market in long-term resulting from combining business operations of the Group and acquired water treatment business.

(in millions of Korean won)

	<u>Amount</u>
Consideration	<u>61,100</u>
Recognized amounts of identifiable assets acquired and liabilities assumed <sup>1</sup>	
Current assets	
Cash and cash equivalents	4,121
Trade receivables	2,680
Other receivables	355
Inventories	87
Other assets	888
Non-current assets	
Financial deposits	50
Other receivables	273

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Other financial assets	742
Property, plant and equipment	1,020
Intangible assets	14,413
Current liabilities	
Trade payables	(108)
Borrowings	(774)
Other payables	(2,402)
Current income tax liabilities	(250)
Other liabilities	(1,581)
Non-current liabilities	
Defined benefit liabilities	(1,135)
Deferred income tax liabilities	(2,992)
Provision	(42)
<b>Total identifiable net assets</b>	<u>15,345</u>
Goodwill <sup>1</sup>	<u>45,755</u>
	<u>61,100</u>

<sup>1</sup> The assets acquired and the liabilities assumed are measured at their acquisition-date fair values in accordance with Korean IFRS 1103, *Business Combination*.

The acquisition-related costs amounting to ₩825 million were all expensed.