LG Electronics Inc.

Separate Financial Statements
December 31, 2012 and 2011

LG Electronics Inc.

Index

December 31, 2012 and 2011

Page(s)

Report of Independent Auditors .... 1 - 2

Separate Financial Statements

Separate Statements of Financial Position 3

Separate Statements of Income 4

Separate Statements of Comprehensive Income.. 5

Separate Statements of Changes in Equity 6

Separate Statements of Cash Flows 7

Notes to the Separate Financial Statements .... 8 - 75

Report on the Review of Internal Accounting Control System 76

Report on the Operations of the Internal Accounting Control System 77

Report of Independent Auditors

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

We have audited the accompanying separate statements of financial position of LG Electronics Inc. (the "Company") as of December 31, 2012 and 2011, and the related separate statements of income, comprehensive income, changes in equity and cash flows for the years then ended, expressed in Korean won. These separate financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these separate financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the separate financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2012 and 2011, and its financial performance and cash flows for the years ended December 31, 2012 and 2011, in conformity with International Financial Reporting Standards as adopted by the Republic of Korea ("Korean IFRS").

Auditing standards and their application in practice vary among countries. The procedures and practices used in the Republic of Korea to audit 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 auditing standards and their application in practice.

Seoul, Korea
March 6, 2013

This report is effective as of March 6, 2013, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying separate financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

LG Electronics Inc.

Separate Statements of Financial Position

December 31, 2012 and 2011

(in millions of Korean won)	Note	2012	2011
Assets			
Current assets			
Cash and cash equivalents	4,5,41	1,114,246	1,364,211
Financial deposits	4,5,41	50,000	150,000
Trade receivables	4,6	4,693,196	5,077,362
Loans and other receivables	4,6	328,652	269,017
Other financial assets	4,7	53,555	-
Inventories	8	921,828	885,730
Current income tax assets		3,274	3,276
Other current assets	9	382,876	400,508
Assets classified as held for sale		3,043	3,670
		7,550,670	8,153,774
Non-current assets			
Financial deposits	4,5	14,321	40,962
Loans and other receivables	4,6	407,037	414,462
Other financial assets	4,7	32,530	112,056
Property, plant and equipment	10	5,437,210	5,190,881
Intangible assets	11	962,002	915,977
Deferred income tax assets	16	752,226	658,424
Investments in subsidiaries, associates and joint ventures	12	7,950,178	7,964,549
Investment property	13	5,211	5,360
Other non-current assets	9	720,791	742,785
		16,281,506	16,045,456
Total assets		23,832,176	24,199,230
Liabilities			
Current liabilities			
Trade payables	4	3,995,679	3,853,528
Borrowings	4,14,41	1,057,585	1,701,658
Other payables	4,15	2,809,156	2,697,795
Other financial liabilities	4,7	-	12,699
Current income tax liabilities		9,437	-
Provisions	18	192,306	169,196
Other current liabilities	19	296,798	436,315
		8,360,961	8,871,191
Non-current liabilities			
Borrowings	4,14,41	4,206,740	4,124,188
Other financial liabilities	4,7	13,889	-
Defined benefit liability	17	467,598	363,617
Provisions	18	760,033	345,373
		5,448,260	4,833,178
Total liabilities		13,809,221	13,704,369
Equity			
Paid-in capital:	20		
Capital stock		904,169	904,169
Share premium		3,088,179	3,088,179
Retained earnings	21	6,059,062	6,534,129
Accumulated other comprehensive income	22	4,364	1,203
Other components of equity	23	(32,819)	(32,819)
Total equity		10,022,955	10,494,861
Total liabilities and equity		23,832,176	24,199,230

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

LG Electronics Inc.

Separate Statements of Income

Years ended December 31, 2012 and 2011

(in millions of Korean won, except per share amounts)	Note	2012	2011
Net sales	25	25,427,205	28,097,139
Cost of sales	26	19,988,148	23,052,881
Gross profit		5,439,057	5,044,258
Selling and marketing expenses	26,28	2,650,250	2,572,477
Administrative expenses	26,28	459,970	527,867
Research and development expenses	26,28	1,790,948	1,667,056
Service costs	26,28	495,116	540,739
Operating income(loss)	2	42,773	(263,881)
Financial income	30	250,366	320,115
Financial expenses	31	463,760	558,755
Other non-operating income	32	1,093,532	1,116,716
Other non-operating expenses	33	1,165,919	1,016,588
Loss before income tax(benefit)		(243,008)	(402,393)
Income tax expense(benefit)	34	111,752	(124,474)
Loss for the year		(354,760)	(277,919)
Loss per share during the year (in won)	35		
Loss per share for loss attributable to the common equity holders of the Company		(1,975)	(1,707)
Loss per share for loss attributable to the preferred equity holders of the Company		(1,925)	(1,498)

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

LG Electronics Inc.

Separate Statements of Comprehensive Income

Years ended December 31, 2012 and 2011

(in millions of Korean won)	Note	2012	2011
Loss for the year		(354,760)	(277,919)
Other comprehensive income(loss), net of tax			
Items that will not be reclassified subsequently to profit or loss:			
Actuarial loss on defined benefit liability	17	(83,435)	(86,895)
Items that will be reclassified subsequently to profit or loss:			
Cash flow hedges	7	4,184	(4,923)
Available-for-sale financial assets	7	(1,023)	(3,718)
Other comprehensive loss for the year, net of tax		(80,274)	(95,536)
Total comprehensive loss for the year, net of tax		(435,034)	(373,455)

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

LG Electronics Inc.

Separate Statements of Changes in Equity

Years ended December 31, 2012 and 2011

(in millions of Korean won)	**Note**	**Paid-in Capital**	**Retained Earnings**	**Accumulated Other Comprehensive Income**	**Other Components of Equity**	**Total**
Balance at January 1, 2011		3,017,088	6,932,015	9,844	(32,819)	9,926,128
Comprehensive income(loss):						
Loss for the year		-	(277,919)	-	-	(277,919)
Actuarial loss on defined benefit liability	17	-	(86,895)	-	-	(86,895)
Cash flow hedges	7	-	-	(4,923)	-	(4,923)
Available-for-sale financial assets	7	-	-	(3,718)	-	(3,718)
Transactions with equity holders						
Dividends		-	(33,072)	-	-	(33,072)
Issuance of common shares	20	975,260	-	-	-	975,260
Balance at December 31, 2011		3,992,348	6,534,129	1,203	(32,819)	10,494,861
Balance at January 1, 2012		3,992,348	6,534,129	1,203	(32,819)	10,494,861
Comprehensive income(loss):						
Loss for the year		-	(354,760)	-	-	(354,760)
Actuarial loss on defined benefit liability	17	-	(83,435)	-	-	(83,435)
Cash flow hedges	7	-	-	4,184	-	4,184
Available-for-sale financial assets	7	-	-	(1,023)	-	(1,023)
Transactions with equity holders						
Dividends	36	-	(36,872)	-	-	(36,872)
Balance at December 31, 2012		3,992,348	6,059,062	4,364	(32,819)	10,022,955

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

LG Electronics Inc.

Separate Statements of Cash Flows

Years ended December 31, 2012 and 2011

(in millions of Korean won)	**Note**	**2012**	**2011**
Cash flows from operating activities			
Cash generated from operations	37	1,188,899	617,294
Interest received		31,319	31,153
Interest paid		(229,121)	(201,159)
Dividends received		264,625	142,277
Income tax paid		(170,008)	(75,579)
Net cash generated from operating activities		1,085,714	513,986
Cash flows from investing activities			
Decrease in financial deposits		126,641	-
Decrease in loans and other receivables		74,861	61,125
Proceeds from disposal of other financial assets		4,831	10,303
Proceeds from disposal of property, plant and equipment		37,296	45,401
Proceeds from disposal of intangible assets		1,081	15,786
Proceeds from disposal of investments in subsidiaries, associates and joint ventures		215,860	9,687
Decrease in other assets		672	1,235
Increase in financial deposits		-	(77,878)
Increase in loans and other receivables		(60,762)	(118,837)
Acquisition of other financial assets		(16,302)	(58,450)
Acquisition of property, plant and equipment	10	(785,100)	(1,047,319)
Acquisition of intangible assets	11	(328,945)	(296,296)
Acquisition of investments in subsidiaries, associates and joint ventures	12	(69,377)	(106,059)
Business combination	42	-	(150,300)
Net cash used in investing activities		(799,244)	(1,711,602)
Cash flows from financing activities			
Proceeds from borrowings		937,639	2,406,066
Issuance of common shares	20	-	975,260
Repayments of borrowings		(1,437,202)	(1,655,261)
Dividends paid	36	(36,872)	(33,072)
Net cash (used in)provided by financing activities		(536,435)	1,692,993
Net (decrease)increase in cash and cash equivalents		(249,965)	495,377
Cash and cash equivalents at the beginning of year	5	1,364,211	868,834
Cash and cash equivalents at the end of year	5	1,114,246	1,364,211

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

1. General Information

General information about LG Electronics Inc. (the "Company") is as follows.

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

As of December 31, 2012, LG Corp. owns 33.7% of the Company's total shares, excluding preferred shares, while financial institutions, foreign investors and others own the rest.

The Company is engaged in the manufacture and sale of electronic products including mobile phones, TV, air conditioners, refrigerators, washing machines and personal computers and of core parts. As of December 31, 2012, the Company operates manufacturing facilities mainly in Pyeongtaek, Changwon, Cheongju and Gumi in the Republic of Korea.

2. Significant Accounting Policies

The principal accounting policies applied in the preparation of these separate financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Certain reclassifications have been made to the December 31, 2011 financial statements to conform to the December 31, 2012 financial statement presentation. These reclassifications have no effect on net loss or net asset amount for the prior year.

Basis of Preparation

The financial statements for the annual period beginning on January 1, 2010, have been prepared in accordance with Korean IFRS. These are the standards, subsequent amendments and related interpretations issued by the International Accounting Standards Board ("IASB") that have been adopted by the Republic of Korea.

The separate financial statements are prepared in accordance with Korean IFRS. The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

Changes in Accounting Policy and Disclosures

(a) New and amended standards adopted by the Company

The Company has adopted the following new and amended Korean IFRS as of 1 January 2012:

- Korean IFRS 1012(Amendment) 'Income Taxes'

According to the amendments to Korean IFRS 1012 'Income Taxes', if a deferred tax liability or asset arises from investment property that is measured using the fair value model, the measurement of the investment property shall reflect the tax consequences of recovering the carrying amount of the non-depreciable asset through sale. The application of this amendment would not have an impact on its financial statements.

- Korean IFRS 1107(Amendment) 'Financial instruments: Disclosures'

According to the amendments to Korean IFRS 1107 'Financial instruments: Disclosures', the Company shall disclose the nature, carrying amounts, risks and rewards of transferred financial assets at each reporting date for each class of transferred financial assets that are not derecognized in their entirety. Also, the Company shall disclose additional information that enables users of its financial statements to evaluate the nature and extent of risks arising from transferred financial assets. Due to the adoption of this amendment, additional disclosures were necessary and have been presented.

- Korean IFRS 1001(Amendment) 'Presentation of financial statements': Presentation of other comprehensive income(loss)

Korean IFRS 1001, 'Presentation of Financial Statements', is amended for 'other comprehensive income(loss)' items to be grouped 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 Company early adopted the amendment during the reporting period.

- Korean IFRS 1001(Amendment) 'Presentation of financial statements': Disclosure of operating income

The Company changed its accounting policy to present the operating income after deducting cost of sales, selling and administrative expenses, research and development expenses and service costs from net sales, in accordance with the amendment of Korean IFRS 1001, 'Presentation of Financial Statements'.

The Company applies the accounting policy retroactively in accordance with the amended standards and the comparative statement of income is restated by reflecting adjustments resulting from the retrospective application. As a result of the changes in the accounting policy, other income and expenses which include foreign exchange differences and gain or loss on disposal of property, plant and equipment and others, classified as operating income under the previous standard, were excluded from operating income.

Selling and administrative expenses and others (₩32,367 million), other operating income (₩693,876 million) and other operating expenses (₩1,130,842 million) for 2012 and selling and administrative expenses and others (₩32,173 million), other operating income (₩1,004,523 million) and other operating expenses (₩1,007,649 million) for 2011 classified as operating income under the previous standard were excluded from operating income.

Consequently, operating income for the years ended December 31, 2012 and 2011, would have been higher by ₩469,333 million and by ₩35,299 million, respectively, when compared to the operating income prior to the adoption of amended standards for respective years. However, there is no impact on net loss or loss per share for the years ended December 31, 2012 and 2011.

(b) New standards, amendments and interpretations have not been early adopted by the Company

New standards, amendments and interpretations issued and will be effective for the financial year beginning January 1, 2013, and not early adopted by the Company are as follows:

- Amendments to Korean IFRS 1019, 'Employee Benefits'

According to the amendments to Korean IFRS 1019, 'Employee Benefits', the use of a 'corridor' approach is no longer permitted, and therefore all actuarial gains and losses incurred are immediately recognized in other comprehensive income. All past service costs incurred from changes in pension plan are immediately recognized, and expected returns on interest costs and plan assets that used to be separately calculated are changed to calculating net interest expense(income) by applying discount rate used in measuring defined benefit obligation in net defined benefit liabilities(assets). The Company expects that the application of the amendments results in increase of disclosures related to employee benefits.

- 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 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 the Korean IFRSs. The Company expects that the application of this enactment would not have a material impact on its separate financial statements.

Investments in Subsidiaries, Associates and Joint ventures

The attached statements are the separate financial statements subject to Korean IFRS 1027, 'Consolidated and Separate Financial Statements'. The investments in subsidiaries, associates or joint ventures are recorded at acquisition cost on the basis of the direct equity interest. The Company recognizes a dividend from a subsidiary, associate and joint ventures in profit when its right to receive the dividend is established.

Segment Reporting

Operating segments are established on the basis of business divisions whose internal reporting is provided to the chief operating decision-maker who is the chief executive officer. The information of the operating segments is disclosed in Note 4 to the consolidated financial statements, subject to Korean IFRS 1108, 'Operating Segments'.

Foreign Currency Translation

The Company's functional and presentation currency is 'Korean won'. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at each reporting date of monetary assets and liabilities denominated in foreign currencies are recognized in the separate statements of income, except qualifying cash flow hedges which are recognized in other comprehensive income.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are reported in 'financial income and expenses' in the separate statements of income. All other foreign exchange gains and losses are reported in 'other non-operating income and expenses' in the separate statements of income.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortized cost are recognized in profit or loss, and other changes in carrying amount are recognized in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities, such as equities held at fair value through profit or loss, are recognized in the separate statements of income as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available-for-sale, are recognized in other comprehensive income.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits at banks, and other short-term highly liquid investments with original maturities of three months or less. Bank overdrafts are shown within short-term borrowings on the statements of financial position.

Financial Instruments

Classification

The Company classifies its financial instruments in the following categories: financial assets and liabilities at fair value through profit or loss, loans and receivables, available-for-sale financial assets, held-to-maturity investments, and other financial liabilities measured at amortized cost.

The classification depends on the purpose for which the financial instruments were acquired and the nature of the instruments. Management determines the classification of financial instruments at initial recognition.

(a) Financial assets and liabilities at fair value through profit or loss

Financial assets and liabilities at fair value through profit or loss are financial instruments held for trading. Financial assets and liabilities are classified in this category if acquired or incurred principally for the purpose of selling or repurchasing it in the near term. Derivatives that are not designated as hedges and financial instruments having embedded derivatives are also included in this category. Financial assets and liabilities at fair value through profit or loss of the Company are categorized in ‘other financial assets’ and ‘other financial liabilities’ on the statements of financial position.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Company’s loans and receivables comprise ‘cash and cash equivalents’, ‘financial deposits’, ‘trade receivables’, and ‘loans and other receivables’.

(c) Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company’s management has the positive intention and ability to hold to maturity and are classified as ‘other financial assets’ in the separate statements of financial position. If the Company were to sell more than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months after the end of the reporting period, which are classified as current assets.

(d) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in ‘other financial assets’ as non-current assets unless their maturities are less than 12 months or management intends to dispose of them within 12 months of the end of the reporting period.

(e) Financial liabilities measured at amortized cost

The Company classifies all non-derivative financial liabilities as financial liabilities measured at amortized cost except for financial liabilities at fair value through profit or loss or financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition. In this case the transferred asset continues to be recognized and a financial liability is measured as the consideration received.

Financial liabilities measured at amortized cost are included in non-current liabilities, except for maturities less than 12 months after the end of the reporting period, which are classified as current liabilities.

Recognition and Measurement

Regular purchases and sales of financial assets are recognized on the trade date. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss is initially recognized at fair value, and transaction costs are expensed in the separate statements of income. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity financial assets are subsequently carried at amortized cost using the effective interest rate method.

Gains or losses arising from changes in the fair value of the financial assets carried at fair value through profit or loss are presented in the separate statements of income within ‘other non-operating income and expenses’ in the period in which they arise. However, gains or losses on settlement of derivatives relative to borrowings are presented in ‘financial income and expenses’. The Company recognizes a dividend from financial assets at fair value through profit or loss in the separate statements of income when its right to receive the dividend is established.

Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognized in other comprehensive income. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognized in equity are reported in the separate statements of income as ‘other non-operating income and expenses’.

Interest on available-for-sale securities and held-to-maturity financial assets calculated using the effective interest method is recognized in the separate statements of income as part of ‘financial income’. Dividends on available-for-sale equity instruments are recognized in the separate statements of income as part of ‘other non-operating income’ when the Company’s right to receive payments is established.

Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

Derecognition

Financial assets are derecognized when the contractual rights to receive cash from the investments have expired or have been transferred and the Company has substantially transferred all risks and rewards of ownership or when the risk and rewards of ownership of transferred assets have not been substantially retained or transferred and the Company has not retained control over these assets.

Accounts receivable discounted and collaterals on factoring transaction such as accounts receivable and others that do not qualify for the requirement above are not derecognized because the Company retains substantially all the risks and rewards due to recourse conditions in case of debtors' default on obligations and others. Financial liabilities associated with such transactions are categorized in 'borrowings' on the statements of financial position.

Impairment of Financial Assets

(a) Assets carried at amortized cost

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or a group of financial assets that can be reliably estimated.

The criteria that the Company uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- For economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganization;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, even though the decrease cannot be identified with the individual financial assets in the portfolio, including:
    (i) adverse changes in the payment status of borrowers in the portfolio;
    (ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognized in the statements of income.

In case of financial assets with variable interest rates, impairment losses are recognized with current effective interest rates in accordance with the contract. As a practical expedient, the Company may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in the statements of income.

(b) Assets classified as available-for-sale

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the Company uses the criteria referred to in (a) above. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the asset is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from equity and recognized in the statements of income. Impairment losses recognized in the statements of income on equity instruments are not reversed through the statements of income. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the statements of income.

Derivative Financial Instruments

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The resulting gain or loss that does not meet the conditions for hedge accounting is recognized in 'other non-operating income and expenses' or 'financial income and expenses' according to the nature of transactions.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in the statements of income within 'other non-operating income and expenses' or 'financial income and expenses'.

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss.

When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the statements of income within 'other non-operating income and expenses' or 'financial income and expenses'.

Trade Receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets. Trade receivables are recognized initially at fair value, less allowance for doubtful debts.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the weighted-average method, except for inventories in-transit which is determined using the specific identification method. The cost of finished goods and work-in-process comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). The Company periodically reviews a possibility of the significant changes in net realizable value of inventories from disuse, decrease in market value and obsolescence and recognizes as 'Allowances for Valuation of Inventories'. Net realizable value is the estimated selling price in the ordinary course of business, less applicable selling expenses.

Non-current assets classified as Held for Sale (Group classified as held for sale)

Non-current assets (or disposal groups) are classified as ‘assets and liabilities as held for sale’ (or ‘groups classified as held for sale’) when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount or fair value less costs to sell.

Property, Plant and Equipment

All property, plant and equipment are stated at historical cost less depreciation and impairment. Historical cost includes expenditures directly attributable to the acquisition of the items.

Subsequent costs are included in the asset’s carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the separate statements of income during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate the difference between their cost and their residual values over their estimated useful lives, as follows:

Buildings	20 - 40 years
Structures	20 - 40 years
Machinery	5 - 10 years
Tools	1 - 5 years
Equipment	5 years
Other	5 years

The assets' depreciation method, residual values, and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within 'other non-operating income and expenses' in the separate statements of income.

Borrowing Costs

The Company capitalizes borrowing costs directly attributable to the acquisition or construction of a qualifying asset as part of the cost of that asset during an extended period in which it prepares an asset for its intended use. The Company recognizes other borrowing costs as an expense in the period in which it is incurred.

Government Grants

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Company will comply with all attached conditions.

Government grants relating to income are deferred and recognized in the separate statements of income over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are presented as a deduction of related assets and are credited to depreciation over the expected lives of the related assets.

Intangible Assets

(a) Goodwill

Goodwill represents the excess of the aggregate of the consideration transferred and the acquisition-date fair value of the Company's previously held equity interest in the acquiree over the net identifiable assets at the date of acquisition. Goodwill is tested at least annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed.

(b) Industrial property rights

Industrial property rights are shown at historical cost. Industrial property rights have a finite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of industrial property rights over their estimated useful lives of five to ten years.

(c) Development costs

Development costs which are individually identifiable and directly related to a new technology or to new products which carry probable future benefits are capitalized as intangible assets. Amortization of development costs based on the straight-line method over their estimated useful lives of one to five years begins at the commencement of the commercial production of the related products or use of the related technology.

(d) Other intangible assets

Other intangible assets such as software which meet the definition of an intangible asset are amortized using the straight-line method over their estimated useful lives primarily of two to thirty years when the asset is available for use. Membership rights are regarded as intangible assets with indefinite useful life and not amortized because there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the entity. All membership rights are tested annually for impairment and stated at cost less accumulated impairment.

Research and Development Costs

Costs associated with research are recognized as an expense as incurred. Costs that are identifiable, controllable and directly attributable to development projects are recognized as intangible assets when all the following criteria are met:

- It is technically feasible to complete the intangible asset so that it will be available for use;
- Management intends to complete the intangible asset and use or sell it;
- There is the ability to use or sell the intangible asset;
- It can be demonstrated how the intangible asset will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and
- The expenditure attributable to the intangible asset during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognized as an expense as incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period. Capitalized development costs which are stated as intangible assets are amortized using the straight-line method when the assets are available for use and are tested for impairment.

Investment Property

Investment property is held to earn rentals or for capital appreciation or both. Investment property is measured initially at its cost including transaction costs incurred in acquiring the asset. After recognition as an asset, investment property is carried at its cost less any accumulated depreciation and impairment losses.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the statements of income during the financial period in which they are incurred.

Land held for investment is not depreciated. Investment property, except for land, is depreciated using the straight-line method over their estimated useful lives.

The depreciation method, the residual value and the useful life of an asset are reviewed at least at each financial year end and, if management judges that previous estimates should be adjusted, the change is accounted for as a change in an accounting estimate.

Impairment of Non-Financial Assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortization and are tested at least annually for impairment. At each reporting date, assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

Trade Payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the statements of income over the period of the borrowings using the effective interest method.

The Company classifies the liability as current as long as it does not have an unconditional right to defer its settlement for at least 12 months after the reporting date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events and an outflow of resources required to settle the obligation is probable and can be reliably estimated. The Company recognizes a warranty provision, a sales return provision, a provision for restoration, and a provision for litigation.

A warranty provision is accrued for the estimated costs of future warranty claims based on historical experience. Sales return provision is for the estimated sales returns based on historical results. Where the Company, as a tenant, is required to restore its leased assets to their original state at the end of the lease-term, the Company recognizes the present value of the estimated cost of restoration as a provision for restoration. When there is a probability that an outflow of economic benefits will occur from litigation or disputes, and whose amount is reasonably estimable, a corresponding amount of provision is recognized as a provision for litigation in the financial statements.

Current and Deferred Income Tax

The tax expense for the year comprises current and deferred tax. Tax is recognized in the statements of income, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case the tax is also recognized in other comprehensive income or directly in equity, respectively.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. It represents future tax consequences that will arise when recovering or settling the carrying amount of its assets and liabilities. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax liabilities are provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax assets are recognized only to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity.

Employee Benefits

(a) Defined benefit liability

The Company operates various pension schemes. The schemes are generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations. The Company operates both defined contribution and defined benefit plans.

A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate fund. The Company has no legal or constructive obligations to pay further contributions even if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. For the defined contribution plan, the Company pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Company has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

A defined benefit plan is a pension plan that is not a defined contribution plan. Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The liability recognized in the statements of financial position in respect of the defined benefit pension plan is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognized past-service costs. The defined benefit liability is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using 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.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income in the period in which they arise. Past-service costs are recognized in the statements of income over the vesting periods.

(b) Share-based payments

The Company operates cash-settled, share-based compensation plans, under which the Company receives services from employees as consideration for the payments of the difference between market price of the stock and exercise price. The fair value of the employee services received in exchange for the grant of the options is recognized as an expense in the separate statements of income over the vesting period. The total amount to be expensed is determined by reference to the fair value of the options granted considering the impact of any service and performance vesting conditions and non-vesting condition.

Until the liability is settled, the Company shall remeasure the fair value of the liability at each reporting date and at the date of settlement, with any changes in fair value recognized in profit or loss for the year.

(c) Other long-term employee benefits

The Company provides other long-term employee benefits to their employees. The entitlement to these benefits is usually conditional on the employee working more than 10 years. The expected costs of these benefits are accrued over the period of employment using the same accounting methodology as used for defined benefit pension plans. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized in the statements of income as they occur. These benefits are calculated annually by independent qualified actuaries.

(d) Termination benefits

Termination benefits are payable when employment is terminated by the Company before the normal retirement date, or whenever an employee accepts voluntary retirement in exchange for these benefits.

The Company recognizes termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

Share Capital

Common shares and preferred shares without mandatory dividends or the obligation to be repaid are classified as equity.

Where the Company purchases the Company's equity share capital, the consideration paid, including any directly attributable incremental costs, is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such treasury shares are subsequently reissued, any consideration received is included in equity attributable to the Company's equity holders.

Revenue Recognition

Revenue comprises the fair value of the consideration received or receivable for the sales of goods and services in the ordinary course of the Company's activities. Revenue is shown net of value-added tax, returns, rebates and discounts.

The Company recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Company and when specific criteria have been met for each of the Company's activities as described below. The Company bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) Sales of goods

The Company manufactures and sells mobile communication products, multimedia, home electronics and their related core parts and display. Sales of goods are recognized when the Company has delivered products to the customer. Delivery does not occur until the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Company has objective evidence that all criteria for acceptance have been satisfied.

The products are often sold with volume discounts and customers have a right to return faulty products. Accumulated experience is used to estimate and provide for the discounts and returns. The volume discounts are assessed based on anticipated annual purchases. The Company recognizes provisions for product warranties and sales returns based on reasonable expectation reflecting warranty obligation and sales return rates incurred historically (Note 18).

(b) Sales of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with such transaction is recognized by reference to the stage of the performance of the services. When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognized only to the extent of the expenses recognized that are recoverable.

(c) Royalty income

Royalty income is recognized on an accrual basis in accordance with the substance of the relevant agreements.

(d) Interest income

Interest income is recognized using the effective interest method. When receivables are impaired, the Company reduces the carrying amount to its recoverable amount and continues unwinding the discount as interest income. Interest income on impaired receivables is recognized using the original effective interest rate.

(e) Dividend income

Dividend income is recognized when the right to receive payment is established.

Leases

A lease is an agreement, whereby the lessor conveys to the lessee, in return for a payment or series of payments, the right to use an asset for an agreed period of time.

(a) Lessees

The Company classifies leases that do not transfer substantially all the risks and rewards of ownership incidental to ownership of assets as operating leases. Payments made under operating leases are charged to the separate statements of income on a straight-line basis over the period of the lease.

The Company classifies leases that transfer substantially all the risks and rewards of ownership incidental to ownership of assets as finance leases. Finance leases are capitalized at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

(b) Lessors

The Company classifies a lease that transfers substantially all the risks and rewards incidental to ownership of an asset at inception of the lease as a finance lease. A lease other than a finance lease is classified as an operating lease.

Lease income from operating lease is recognized on a straight-line basis over the lease term. Initial direct costs incurred by lessors in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as the lease income.

Dividend Distribution

A dividend liability is recognized in the financial statements when the dividends are approved by the shareholders.

Earnings(loss) per Share

Basic earnings per share is calculated by dividing the profit attributable to common shareholders of the Company by the weighted average number of common shares in issue excluding shares held as treasury shares. Preferred shares have a right to participate in the profits of the Company. These participation rights have been considered in presenting the EPS for common shares and preferred shares.

Business Combination

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Company. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the Company's share of the identifiable net assets acquired is recorded as goodwill.

3. Critical Accounting Estimates and Assumptions

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

(a) Revenue Recognition

The Company recognizes revenue using the percentage of completion method for the rendering of service such as installation. When using the percentage of completion method, revenue shall be recognized by estimating services performed to date as a percentage of total services to be performed. The revenue may change with variations in terms and conditions including changes in the scope of work, costs or a contract period.

(b) Estimated Impairment of Goodwill

The Company tests goodwill regularly for impairment in accordance with the accounting policy stated in Note 2. 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.

(c) Income Taxes

The Company recognizes assets and liabilities for anticipated tax audit issues based on the best estimates of whether additional taxes will be due.

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

(d) Fair Value of Financial Instruments

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

(e) Provisions

The Company recognizes provisions for product warranties and sales return in accordance with the accounting policy stated in Note 2 as of the reporting date. The amounts are estimated based on historical data.

(f) 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 Company determines the appropriate discount rate at the end of each year. 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 Company considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability. Other key assumptions for defined benefit liability are based on current market conditions. Additional information is disclosed in Note 17.

4. Financial Instruments by Category

(a) Categorizations of financial instruments as of December 31, 2012 and 2011, are as follows:

	December 31, 2012					
(in millions of Korean won)	**Assets at fair value through profit or loss**	**Derivatives for hedge**	**Loans and receivables**	**Assets classified as available-for-sale**	**Held-to-maturity financial assets**	**Total**
Cash and cash equivalents	-	-	1,114,246	-	-	1,114,246
Financial deposits	-	-	64,321	-	-	64,321
Trade receivables	-	-	4,693,196	-	-	4,693,196
Loans and other receivables	-	-	735,689	-	-	735,689
Other financial assets	-	-	-	32,530	53,555	86,085
Total	-	-	6,607,452	32,530	53,555	6,693,537

	December 31, 2012			
(in millions of Korean won)	**Liabilities at fair value through profit or loss**	**Derivatives for hedge**	**Liabilities carried at amortized cost**	**Total**
Trade payables	-	-	3,995,679	3,995,679
Borrowings	-	-	5,264,325	5,264,325
Other payables	-	-	1,161,356	1,161,356
Other financial liabilities	-	13,889	-	13,889
Total	-	13,889	10,421,360	10,435,249

	December 31, 2011					
(in millions of Korean won)	**Assets at fair value through profit or loss**	**Derivatives for hedge**	**Loans and receivables**	**Assets classified as available-for-sale**	**Held-to-maturity financial assets**	**Total**
Cash and cash equivalents	-	-	1,364,211	-	-	1,364,211
Financial deposits	-	-	190,962	-	-	190,962
Trade receivables	-	-	5,077,362	-	-	5,077,362
Loans and other receivables	-	-	683,479	-	-	683,479
Other financial assets	-	11,845	-	42,546	57,665	112,056
Total	-	11,845	7,316,014	42,546	57,665	7,428,070

	December 31, 2011			
(in millions of Korean won)	**Liabilities at fair value through profit and loss**	**Derivatives for hedge**	**Liabilities carried at amortized cost**	**Total**
Trade payables	-	-	3,853,528	3,853,528
Borrowings	-	-	5,825,846	5,825,846
Other payables	-	-	1,467,813	1,467,813
Other financial liabilities	12,699	-	-	12,699
Total	12,699	-	11,147,187	11,159,886

(b) Income and expenses by category of financial instruments for the years ended December 31, 2012 and 2011, are as follows:

	December 31, 2012					
(in millions of Korean won)	**Assets at fair value through profit or loss**	**Derivatives for hedge**	**Loans and receivables**	**Assets classified as available-for-sale**	**Held-to-maturity financial assets**	**Total**
Interest income	-	-	40,261	-	4,615	44,876
Exchange differences	-	-	(347,207)	-	(4,110)	(351,317)
Bad debts expense	-	-	(35,195)	-	-	(35,195)
Loss on transfer of trade receivables	-	-	(628)	-	-	(628)
Gains on valuation of available-for-sale financial assets (Other comprehensive loss)	-	-	-	(1,023)	-	(1,023)
Gains on disposal of available-for-sale financial assets	-	-	-	1,003	-	1,003
Impairment loss on available-for-sale financial assets	-	-	-	(8,101)	-	(8,101)
Dividend income	-	-	-	275	-	275
Derivatives (Financial income)	15,943	-	-	-	-	15,943
Derivatives (Other comprehensive income)	-	4,184	-	-	-	4,184

	December 31, 2012			
(in millions of Korean won)	**Liabilities at fair value through profit or loss**	**Derivatives for hedge**	**Liabilities carried at amortized cost**	**Total**
Interest expenses	-	-	(230,391)	(230,391)
Exchange differences	-	-	267,364	267,364
Derivatives (financial expense)	(16,304)	-	-	(16,304)

	December 31, 2011					
(in millions of Korean won)	**Assets at fair value through profit or loss**	**Derivatives for hedge**	**Loans and receivables**	**Assets classified as available-for-sale**	**Held-to-maturity financial assets**	**Total**
Interest income	-	-	36,503	-	4,354	40,857
Exchange differences	-	-	(55,620)	-	(465)	(56,085)
Bad debt expenses	-	-	(3,602)	-	-	(3,602)
Loss on transfer of trade receivables	-	-	(74)	-	-	(74)
Loss on valuation of available-for-sale financial assets (Other comprehensive income)	-	-	-	(3,718)	-	(3,718)
Gains on disposal of available-for-sale financial assets	-	-	-	356	-	356
Dividend income	-	-	-	452	-	452
Derivatives (Financial income)	38,829	-	-	-	-	38,829
Derivatives (Other comprehensive income)	-	(4,923)	-	-	-	(4,923)

	December 31, 2011			
(in millions of Korean won)	**Liabilities at fair value through profit or loss**	**Derivatives for hedge**	**Liabilities carried at amortized cost**	**Total**
Interest expenses	-	-	(215,948)	(215,948)
Exchange differences	-	-	(45,314)	(45,314)
Derivatives (financial expense)	(40,310)	-	-	(40,310)

5. Cash and Cash Equivalents, and Financial Deposits

(a) Cash and cash equivalents

Cash and cash equivalents in the statements of financial position are equal to the cash and cash equivalents in the statements of cash flows:

(in millions of Korean won)	**December 31, 2012**	**December 31, 2011**
Cash on hand	10	10
Bank deposits	1,114,236	1,364,201
Total	1,114,246	1,364,211

(b) Financial deposits

The financial deposits restricted in use are as follows:

(in millions of Korean won)	December 31, 2012	December 31, 2011
Restricted financial deposits		
Deposits for opening bank accounts	39	39
Government Funded National Projects	14,282	40,923
Deposit for Mutual Economic Cooperation Fund	50,000	50,000
Total	64,321	90,962
Current	50,000	50,000
Non-current	14,321	40,962

6. Trade Receivables, and Loans and Other Receivables

(a) Trade receivables, and loans and other receivables, net of allowance for doubtful accounts, are as follows:

	December 31, 2012			December 31, 2011		
(in millions of Korean won)	Original amount	Less : allowance for doubtful accounts	Carrying amount	Original amount	Less : allowance for doubtful accounts	Carrying amount
Trade receivables	4,736,848	(43,652)	4,693,196	5,091,527	(14,165)	5,077,362
Loans and other receivables						
Current	337,072	(8,420)	328,652	323,376	(54,359)	269,017
Non-current	407,105	(68)	407,037	414,852	(390)	414,462

(b) Details of loans and other receivables are as follows:

(in millions of Korean won)	December 31, 2012	December 31, 2011
Current		
Loans	15,594	20,767
Non-trade receivables	240,005	183,638
Accrued income	71,449	62,864
Deposits	1,604	1,748
Sub-total	328,652	269,017
Non-Current		
Loans	156,597	161,346
Deposits	250,440	253,116
Sub-total	407,037	414,462
Total	735,689	683,479

(c) The fair values of current loans and other receivables are the same with their carrying amounts. The fair values of non-current loans and other receivables are as follows:

(in millions of Korean won)	**December 31, 2012**	**December 31, 2011**
Loans	124,852	127,317
Deposits	250,566	245,715
Total	375,418	373,032

The fair values of non-current loans and other receivables are based on cash flows discounted using a discount rate of 5.62% (2011: 6.31%) reflecting credit risks.

(d) The aging analysis of these trade receivables and loans and other receivables as of December 31, 2012 and 2011, is as follows:

	December 31, 2012					
		Overdue				
(in millions of Korean won)	**Current**	**Up to 6 months**	**7 to 12 months**	**Over one year**	**Defaulted**	**Total**
Trade receivables	4,503,713	210,622	2,990	5,540	13,983	4,736,848
Loans and other receivables						
Current	287,723	30,593	3,796	5,152	9,808	337,072
Non-current	395,754	8,258	1,285	1,808	-	407,105

	December 31, 2011					
		Overdue				
(in millions of Korean won)	**Current**	**Up to 6 months**	**7 to 12 months**	**Over one year**	**Defaulted**	**Total**
Trade receivables	4,954,501	115,786	3,282	1,881	16,077	5,091,527
Loans and other receivables						
Current	297,966	11,550	2,828	4,612	6,420	323,376
Non-current	401,199	8,964	3,728	961	-	414,852

(e) The allowance for doubtful accounts is recognized based on aging analysis and historical experience.

(f) Defaulted receivables which are uncertain to be collected due to reasons including debtors' insolvency are classified into composition receivables and other defaulted receivables. In case of receivables from a debtor under court receivership or composition, its carrying amount is measured at the present value of estimated future cash flows based on repayment schedule. All other defaulted receivables are measured based on the class and the amount of provided collateral.

(g) Movements in allowance for doubtful accounts for the year ended December 31, 2012 and 2011, are as follows:

	2012				
(in millions of Korean won)	**At January 1**	**Addition (Reversal)**	**Write-off**	**Other**	**At December 31**
Trade receivables	14,165	32,727	(3,247)	7	43,652
Loans and other receivables					
Current	54,359	2,785	(48,725)	1	8,420
Non-current	390	(317)	-	(5)	68

	2011				
(in millions of Korean won)	**At January 1**	**Addition (Reversal)**	**Write-off**	**Other**	**At December 31**
Trade receivables	14,238	1,548	(1,531)	(90)	14,165
Loans and other receivables					
Current	52,376	1,983	-	-	54,359
Non-current	313	71	-	6	390

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above.

The bad debts expense of trade receivables has been included in 'selling and marketing expenses' in the statement of income and the bad debts expense of other receivables has been included in 'other non-operating expenses'. Amounts charged to the allowance account are generally written off, when there is no expectation of recovering additional cash.

(h) Transferred financial assets that are not derecognized in their entirety are as follows:

Trade receivables have been discounted through collateralized borrowing agreements with banks in 2012 and 2011. In case the customers default, the Company has an obligation to pay the related amounts to the bank. As a result, this transaction has been accounted for as a collateralized borrowing (Note 14).

(in millions of Korean won)	**December 31, 2012**	**December 31, 2011**
Carrying amount of asset[1]		
Trade receivables	105,684	176,517
Carrying amount of related liability[1]		
Short-term borrowings	(105,684)	(176,517)
Net position	-	-

[1] Fair values of the above trade receivables and short-term borrowings are the same with their carrying amounts.

7. Other Financial Assets and Liabilities

(a) Details of other financial assets and liabilities are as follows:

(in millions of Korean won)	December 31, 2012	December 31, 2011
Other financial assets		
Derivatives	-	11,845
Available-for-sale	32,530	42,546
Held-to-maturity	53,555	57,665
Total	86,085	112,056
Current	53,555	-
Non-current	32,530	112,056
Other financial liabilities		
Derivatives	13,889	12,699
Total	13,889	12,699
Current	-	12,699
Non-current	13,889	-

(b) Derivatives financial instruments

i) Details of derivatives and liabilities are as follows:

	December 31, 2012		December 31, 2011	
(in millions of Korean won)	Assets	Liabilities	Assets	Liabilities
Current				
Interest swap	-	-	-	12,699
Sub-total	-	-	-	12,699
Non- current				
Currency swap	-	13,889	11,845	-
Sub-total	-	13,889	11,845	-
Total	-	13,889	11,845	12,699

The maximum exposure to credit risk as of the reporting date is the fair value of derivatives as of the same date.

ii) Details of major derivatives contracts are as follows:

- Cross currency swap

The Company entered into the cross-currency swap contracts of up to USD270 million with Bank of Tokyo-Mitsubishi UFJ and others, and up to CHF215 million with Union Bank of Switzerland and others to hedge cash flow risks related to floating interest rates and foreign exchange rates of debentures.

At the end of the reporting period, the swap contracts are evaluated at fair value and the gain on valuation of the effective portion amounting to ₩4,184 million in 2012 (2011: loss on valuation amounting to ₩4,923 million) after applying the tax effect, is recognized in other comprehensive income(loss). The Company reclassified ₩30,020 million to loss from equity in 2012 and ₩11,513 million to profit in 2011.

December 31, 2012	Contractor	Contracted amount *(in millions)*	Contracted currency rate	Interest rate (received)	Interest rate (paid)	Expiration date
USD/KRW CRS	BTMU and others	USD170 KRW183,583	USD/KRW 1079.9	3ML +100bp Quarterly	4.2% Quarterly	2014.04.28
	Morgan Stanley and others	USD100 KRW108,340	USD/KRW 1083.4	3ML +70bp Quarterly	2.64 ~ 2.65% Quarterly	2014.08.23
CHF/KRW CRS	UBS and others	CHF215 KRW260,926	CHF/KRW 1213.6	2% Annual	3.64 ~ 3.74% Semi-annual	2016.12.02

(c) Assets classified as available-for-sale

i) Details of assets classified as available-for-sale are as follows:

	December 31, 2012				December 31, 2011
(in millions of Korean won)	Acquisition cost	Appreciation	Impairment losses	Carrying amount	Carrying amount
Listed equity securities	904	6,732	-	7,636	8,969
Unlisted equity securities	31,500	-	(6,606)	24,894	31,830
Debt securities	1,495	-	(1,495)	-	1,747
Total	33,899	6,732	(8,101)	32,530	42,546

ii) The amount recognized as other comprehensive loss resulting from valuation of available-for-sale financial asset is ₩1,023 million (2011: ₩3,718 million). No reclassification from equity into the statements of income was recognized (2011: nil). Also, impairment losses in the amount of ₩8,101 million (2011: nil) were recognized.

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

(d) Held-to-maturity financial assets consist of:

(in millions of Korean won)	December 31, 2012	December 31, 2011
Maturity		
Within 1 year	53,555	-
1 to 5 year	-	57,665

The amount recognized as interest income in relation to held-to-maturity financial assets is ₩4,615 million (2011: ₩4,354 million). No impairment losses were recognized in relation to held-to-maturity financial assets.

8. Inventories

Inventories consist of:

	December 31, 2012			December 31, 2011		
(in millions of Korean won)	Acquisition cost	Valuation Allowance	Carrying amount	Acquisition cost	Valuation Allowance	Carrying amount
Finished products and merchandise	415,220	(21,183)	394,037	358,285	(27,553)	330,732
Half-finished products and work-in-process	99,549	(5,125)	94,424	108,826	(5,554)	103,272
Raw materials and supplies	353,110	(29,620)	323,490	417,768	(62,843)	354,925
Other	128,599	(18,722)	109,877	119,453	(22,652)	96,801
Total	996,478	(74,650)	921,828	1,004,332	(118,602)	885,730

The cost of inventories recognized as expense and included in 'Cost of Sales' amounts to ₩18,865,755 million (2011: ₩21,890,252 million) including 'Losses on Valuation of Inventories' of ₩40,918 million (2011: ₩136,928 million). No reversal of allowance for 'Losses on Valuation of Inventories' was recognized (2011: nil).

9. Other Assets

The carrying amounts of other assets as of the December 31, 2012 and 2011, are as follows:

(in millions of Korean won)	December 31, 2012	December 31, 2011
Current:		
Advances	96,092	130,188
Prepaid expenses	206,998	195,744
Prepaid value added tax	79,786	74,576
Sub-total	382,876	400,508
Non-Current:		
Long-term prepaid expenses	448,193	461,773
Long-term advances	272,598	281,012
Sub-total	720,791	742,785
Total	1,103,667	1,143,293

10. Property, Plant and Equipment

Carrying amounts of property, plant and equipment consist of:

(in millions of Korean won)	Land	Buildings	Structures	Machinery	Tools	Equipment	Other	Construction -in-progress	Total
At December 31, 2012									
Acquisition cost	1,906,678	2,609,998	187,474	2,191,994	1,685,479	447,932	129,722	268,803	9,428,080
Accumulated depreciation	-	(530,473)	(81,637)	(1,638,912)	(1,307,542)	(352,506)	(45,011)	-	(3,956,081)
Accumulated Impairment	-	(2,217)	(288)	(31,285)	(841)	(133)	(25)	-	(34,789)
Net book amount	1,906,678	2,077,308	105,549	521,797	377,096	95,293	84,686	268,803	5,437,210
At December 31, 2011									
Acquisition cost	1,872,167	2,441,867	179,347	2,097,872	1,557,928	436,072	154,998	137,295	8,877,546
Accumulated depreciation	-	(464,555)	(71,674)	(1,526,886)	(1,207,834)	(344,210)	(40,604)	-	(3,655,763)
Accumulated Impairment	-	(2,215)	(342)	(27,585)	(661)	(77)	(22)	-	(30,902)
Net book amount	1,872,167	1,975,097	107,331	543,401	349,433	91,785	114,372	137,295	5,190,881

Changes in property, plant and equipment are as follows:

	2012								
(in millions of Korean won)	Land	Buildings	Structures	Machinery	Tools	Equipment	Other	Construction -in-progress	Total
At January 1, 2012	1,872,167	1,975,097	107,331	543,401	349,433	91,785	114,372	137,295	5,190,881
Acquisitions	2,654	71,322	3,354	56,156	187,292	34,193	19,685	410,444	785,100
Transfer-in(out)	31,932	97,192	5,250	93,236	47,175	2,640	3,175	(278,935)	1,665
Disposals / reclassification to assets held-for-sale	(75)	(312)	(63)	(5,790)	(4,454)	(519)	(31,220)	-	(42,433)
Depreciation	-	(65,969)	(10,300)	(157,872)	(202,099)	(32,577)	(21,324)	-	(490,141)
Impairment / reversal	-	(22)	(23)	(7,334)	(251)	(229)	(3)	-	(7,862)
At December 31, 2012	1,906,678	2,077,308	105,549	521,797	377,096	95,293	84,685	268,804	5,437,210

	2011								
(in millions of Korean won)	Land	Buildings	Structures	Machinery	Tools	Equipment	Other	Construction -in-progress	Total
At January 1, 2011	1,742,243	1,835,400	97,235	387,608	288,405	73,714	52,930	183,895	4,661,430
Acquisitions	17,138	24,818	7,571	90,288	159,328	46,052	53,699	648,425	1,047,319
Acquisitions by business combination	-	-	178	5,633	623	187	255	673	7,549
Transfer-in(out)	116,396	181,980	17,393	227,524	89,416	2,624	53,753	(695,698)	(6,612)
Disposals / reclassification to assets held-for-sale	(3,610)	(7,285)	(4,232)	(2,607)	(8,831)	(820)	(29,260)	-	(56,645)
Depreciation	-	(59,515)	(10,783)	(164,769)	(179,492)	(29,883)	(15,617)	-	(460,059)
Impairment / reversal	-	(301)	(31)	(276)	(16)	(89)	(1,388)	-	(2,101)
At December 31, 2011	1,872,167	1,975,097	107,331	543,401	349,433	91,785	114,372	137,295	5,190,881

Borrowing costs amounting to ₩2,957 million (2011: ₩2,042 million) are capitalized as acquisition costs and a capitalization rate of 3.85% (2011: 4.85%) is applied.

There are no property, plant and equipment pledged as collateral for various borrowings from banks.

11. Intangible assets

(a) Carrying amounts of intangible assets consist of:

(in millions of Korean won)	Goodwill	Industrial property rights	Development costs	Other intangible assets	Construction-in-progress	Total
At December 31, 2012						
Acquisition cost	88,885	600,145	1,250,465	461,657	64,111	2,465,263
Accumulated amortization and impairment	-	(263,253)	(983,525)	(256,483)	-	(1,503,261)
Net book amount	88,885	336,892	266,940	205,174	64,111	962,002
At December 31, 2011						
Acquisition cost	88,885	523,876	1,033,059	404,293	75,872	2,125,985
Accumulated amortization and impairment	-	(216,676)	(762,549)	(230,783)	-	(1,210,008)
Net book amount	88,885	307,200	270,510	173,510	75,872	915,977

(b) Changes in intangible assets are as follows:

	2012					
(in millions of Korean won)	Goodwill	Industrial property rights	Development costs	Other intangible assets	Construction -in-progress	Total
At January 1, 2012	88,885	307,200	270,510	173,510	75,872	915,977
Acquisitions	-	-	-	69,182	8,158	77,340
Acquisitions by internal development	-	-	65,960	-	185,645	251,605
Transfer-in(out)	-	93,060	198,358	3,839	(202,060)	93,197
Disposals and others	-	(7,156)	(19,074)	(440)	(3,504)	(30,174)
Amortization	-	(56,212)	(248,780)	(40,917)	-	(345,909)
Impairment	-	-	(34)	-	-	(34)
At December 31, 2012	88,885	336,892	266,940	205,174	64,111	962,002

	2011					
(in millions of Korean won)	**Goodwill**	**Industrial property rights**	**Development costs**	**Other intangible assets**	**In-progress**	**Total**
At January 1, 2011	32,005	227,513	278,577	144,044	43,679	725,818
Acquisitions	-	-	-	43,735	5,507	49,242
Acquisitions by internal development	-	-	53,239	-	193,815	247,054
Acquisitions by business combination	56,880	19,981	-	13,888	253	91,002
Transfer-in(out)	-	111,161	161,679	8,097	(163,163)	117,774
Disposals and others	-	(5,303)	(9,466)	(1,650)	(4,219)	(20,638)
Amortization	-	(46,152)	(213,519)	(34,604)	-	(294,275)
At December 31, 2011	88,885	307,200	270,510	173,510	75,872	915,977

(c) Amortization of intangible assets is presented as follows:

(in millions of Korean won)	**2012**	**2011**
Cost of sales	72,242	52,942
Selling and marketing expenses	11,115	5,520
Administrative expenses	86,751	86,737
Research and development expenses	174,384	147,492
Service costs	1,417	1,584
Total	345,909	294,275

(d) Impairment tests for goodwill

Goodwill is allocated among the Company's cash-generating units (CGUs) according to operating segments. An operating segment-level summary of goodwill allocation is presented below.

(in millions of Korean won)	**AE[1]**	**MC**	**Other**	**Total**
Goodwill	56,880	29,894	2,111	88,885

AE: Air Conditioning & Energy Solution
MC: Mobile Communications

[1] As the Company acquired the air-conditioning business of LS MTRON, additional goodwill amounting to ₩56,880 million is recognized by AE company (Note 42).

The recoverable amount of CGUs has been determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a four-year period. Cash flows beyond the four-year period are extrapolated using the estimated growth rate which does not exceed the long-term average growth rate for the electronic business in which the CGU operated.

Management determined budgeted EBIT margin based on past performance and its expectations of market development. The discount rates used are pre-tax and reflect specific risks relating to the relevant operating segments. Discount rates used for value-in-use calculations of AE, and MC companies are 13.0%, and 13.9%, respectively.

The recoverable amounts based on value-in-use calculations exceed carrying amounts and no impairments were recognized.

12. Investments in subsidiaries, associates and joint ventures

(a) Investments in subsidiaries, associates and joint ventures are as follows:

(in millions of Korean won)	December 31, 2012	December 31, 2011
Subsidiaries	3,548,119	3,504,840
Associates and joint ventures	4,402,059	4,459,709
Total	7,950,178	7,964,549

(b) The status and carrying amounts of investments in subsidiaries are as follows:

(in millions of Korean won)	Closing Month	Countries of incorporation	Percentage of ownership at Dec. 31, 2012	Dec. 31, 2012	Dec. 31, 2011
LG Electronics U.S.A., Inc. (LGEUS)	December	USA	100.0%	955,542	955,542
LG Electronics India Pvt. Ltd.(LGEIL)	March	India	100.0%	311,746	311,746
LG Electronics do Brasil Ltda.(LGEBR)	December	Brazil	100.0%	270,631	270,631
LG Electronics Mlawa Sp. z o.o (LGEMA)	December	Poland	100.0%	214,091	214,091
LG Electronics Tianjin Appliances Co., Ltd. (LGETA)	December	China	70.0%	161,331	161,331
LG Electronics European Holdings B.V.(LGEEH)	December	Netherland	100.0%	148,551	148,551
Hiplaza CO., LTD.	December	Korea	100.0%	136,459	104,459
Taizhou LG Electronics Refrigeration Co., Ltd.(LGETR)	December	China	88.4%	97,608	97,608
PT LG Electronics Indonesia(LGEIN)	December	Indonesia	100.0%	94,124	94,124
LG Electronics Wroclaw Sp z o.o(LGEWR)	December	Poland	100.0%	70,014	70,014
LG Electronics Mexico S.A. DE C.V. (LGEMS)	December	Mexico	100.0%	68,721	68,721
LG Electronics Panama, S.A.(LGEPS)	December	Panama	100.0%	79,222	79,222
LG Electronics Thailand Co., Ltd.(LGETH)	December	Thailand	100.0%	55,578	55,578
LG Electronics Australia Pty, Ltd.(LGEAP)	December	Australia	100.0%	50,664	50,664
LG Electronics Taiwan Taipei Co., Ltd.(LGETT)	December	Taiwan	100.0%	10,865	10,853

(in millions of Korean won)	Closing Month	Countries of incorporation	Percentage of ownership at Dec. 31, 2012	Dec. 31, 2012	Dec. 31, 2011
Hi Entech CO., LTD.	December	Korea	100.0%	63,118	61,118
LG-Hitachi Water Solutions Co., Ltd.	December	Korea	51.0%	9,180	-
Other				750,674	750,587
Total				3,548,119	3,504,840

(c) Investments in associates and joint ventures are as follows:

(in millions of Korean won)	Closing Month	Country of incorporation	Percentage of ownership at Dec. 31, 2012	Dec. 31, 2012	Dec. 31, 2011
LG Display Co., Ltd.	December	Korea	37.9%	3,480,623	3,480,623
LG Innotek Co., Ltd.	December	Korea	47.9%	541,538	541,538
Ericsson-LG Co., Ltd. (formerly LG-Ericsson Co., Ltd.)[1]	December	Korea	25.0%	81,755	163,503
LG Holdings(HK) Ltd.	December	Hong Kong	49.0%	129,386	129,386
Global OLED Technology LLC.	December	USA	32.7%	53,454	53,454
LG Fuel Cell Systems Inc.	December	USA	25.5%	26,098	-
Other				89,205	91,205
Total				4,402,059	4,459,709

[1] The Company disposed of its 25% ownership in Ericsson-LG Co., Ltd. during the year. Gain on disposal of above shares amounting to ₩133,009 million is included in the statement of income under 'other non-operating income'.

(d) Investments in listed subsidiaries, associates and joint ventures are as follows:

	December 31, 2012			
(in millions of Korean won)	Shares owned (Unit: shares)	Price per share (Unit: won)	Market trade value	Book value
LG Display Co., Ltd.	135,625,000	31,050	4,211,156	3,480,623
LG Innotek Co., Ltd.	9,653,181	82,300	794,457	541,538

	December 31, 2011			
(in millions of Korean won)	Shares owned (Unit: shares)	Price per share (Unit: won)	Market trade value	Book value
LG Display Co., Ltd.	135,625,000	24,500	3,322,813	3,480,623
LG Innotek Co., Ltd.	9,653,181	67,800	654,486	541,538

(e) Changes in investments in subsidiaries, associates and joint ventures are as follows:

(in millions of Korean won)	2012	2011
At January 1	7,964,549	7,844,726
Acquisition	69,377	106,059
Acquisitions by business combination	-	23,095
Disposal	(83,748)	(9,331)
At December 31	7,950,178	7,964,549

13. Investment Property

Details of investment property are as follows:

(in millions of Korean won)	Land	Buildings	Total
At December 31, 2012			
Acquisition cost	1,367	5,940	7,307
Accumulated depreciation	-	(2,096)	(2,096)
Net book amount	1,367	3,844	5,211
At December 31, 2011			
Acquisition cost	1,367	5,940	7,307
Accumulated depreciation	-	(1,947)	(1,947)
Net book amount	1,367	3,993	5,360

Changes in carrying amounts of investment property for the year ended December 31, 2012, are as follows:

(in millions of Korean won)	Land	Buildings	Total
At January 1	1,367	3,993	5,360
Depreciation	-	(149)	(149)
At December 31	1,367	3,844	5,211

Changes in carrying amounts of investment property for the year ended December 31, 2011, are as follows:

(in millions of Korean won)	Land	Buildings	Total
At January 1	1,367	4,141	5,508
Depreciation	-	(148)	(148)
At December 31	1,367	3,993	5,360

The fair value of investment property as of December 31, 2012, is ₩4,912 million (2011: ₩4,807 million).

Rental income amounting to ₩91 million (2011: ₩301 million) and rental expenses amounting to ₩161 million (2011: ₩159 million) are recognized in the statement of income relating to investment property.

14. Borrowings

(a) The carrying amounts of borrowings are as follows:

(in millions of Korean won)	December 31, 2012	December 31, 2011
Current		
Short-term borrowings	230,434	325,033
Current maturities of long-term borrowings	337,500	420,660
Current maturities of debentures	489,651	955,965
Sub-total	1,057,585	1,701,658
Non-current		
Long-term borrowings	2,152,500	2,110,000
Debentures	2,054,240	2,014,188
Sub-total	4,206,740	4,124,188
Total	5,264,325	5,825,846

(b) Details of borrowings

i) Short-term borrowings consist of:

(in millions of Korean won)	Latest maturity date	Annual interest rate at Dec. 31, 2012	Carrying amount December 31, 2012	Carrying amount December 31, 2011
General loans				
LG Electronics European Shared Service Center B.V.	2013.12.27	3ML+0.95%	124,750	148,516
Borrowings on negotiated trade bills[1]				
Woori Bank and others	-	0.75~4.08%	105,684	176,517
Total			230,434	325,033

[1] At the end of the reporting period, borrowings are secured by certain trade receivables of the Company (Note 6).

ii) Long-term borrowings as of December 31, 2012 and 2011, consist of:

(in millions of Korean won)	Latest maturity date	Annual interest Rate at Dec. 31, 2012	December 31, 2012 Total	Current	Non-current
Local currency loans					
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	47,500	142,500
Shinhan Bank	2017.02.16	Financial bond 6M+0.94%	190,000	-	190,000
Woori Bank	2017.10.28	4.62%	190,000	-	190,000
Korea Development Bank	2013.03.11	4.59%	100,000	100,000	-
Korea Development Bank	2014.04.07	4.45%	190,000	-	190,000
Korea Development Bank	2014.11.24	4.55%	150,000	-	150,000
Korea Development Bank	2014.12.24	4.71%	140,000	-	140,000
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	2015.02.28	4.80%	100,000	-	100,000
Korea Finance Corporation	2015.09.13	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
Total			2,490,000	337,500	2,152,500

(in millions of Korean won)	Latest maturity date	Annual interest rate at Dec. 31, 2011	December 31, 2011		
			Total	Current	Non-current
Local currency loans					
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	-	190,000
Woori Bank	2017.10.28	4.62%	190,000	-	190,000
Korea Development Bank	2012.03.30	5.81%	190,000	190,000	-
Korea Development Bank	2013.03.11	4.59%	100,000	-	100,000
Korea Development Bank	2014.04.07	4.45%	190,000	-	190,000
Korea Development Bank	2014.11.24	4.55%	150,000	-	150,000
Korea Development Bank	2014.12.24	4.71%	140,000	-	140,000
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	2015.02.28	4.80%	100,000	-	100,000
Korea Finance Corporation	2015.09.13	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 loan					
Korea Development Bank	2012.06.26	3ML+0.4%	230,660	230,660	-
Total			2,530,660	420,660	2,110,000

iii) Debentures as of December 31, 2012 and 2011, consist of:

(in millions of Korean won)		Latest maturity date	Annual interest rate at Dec. 31, 2012	December 31, 2012 Total	Current	Non-current
Fixed rate notes in local currency	Public, non-guaranteed bonds (54th)	2013.04.22	4.20%	190,000	190,000	-
Fixed rate notes in local currency	Public, non-guaranteed bonds (55th)	2013.06.16	4.60%	190,000	190,000	-
Fixed rate notes in local currency	Public, non-guaranteed bonds (56th)	2015.09.09	4.63%	190,000	-	190,000
Fixed rate notes in local currency	Public, non-guaranteed bonds (57th)	2015.10.22	4.30%	190,000	-	190,000
Fixed rate notes in local currency	Public, non-guaranteed bonds (58-1st)	2014.02.16	4.44%	130,000	-	130,000
Fixed rate notes in local currency	Public, non-guaranteed bonds (58-2nd)	2016.02.16	4.91%	60,000	-	60,000
Floating rate notes in foreign currency	Public, non-guaranteed bonds (59th)[1]	2014.04.28	3ML+1.00%	182,087	-	182,087
Fixed rate notes in local currency	Public, non-guaranteed bonds (60th)	2016.05.20	4.41%	190,000	-	190,000
Fixed rate notes in local currency	Public, non-guaranteed bonds (61st)	2016.06.29	4.38%	190,000	-	190,000
Fixed rate notes in local currency	Public, non-guaranteed bonds (62-1st)	2013.08.05	3.89%	110,000	110,000	-
Fixed rate notes in local currency	Public, non-guaranteed bonds (62-2nd)	2016.08.05	4.34%	80,000	-	80,000
Floating rate notes in foreign currency	Private, non-guaranteed bonds (63rd)[1]	2014.08.23	3ML+0.70%	107,110	-	107,110
Fixed rate notes in local currency	Public, non-guaranteed bonds (64th)	2016.09.30	4.32%	190,000	-	190,000
Fixed rate notes in foreign Currency	Public, non-guaranteed bonds (65th)[1]	2016.12.02	2.00%	252,216	-	252,216
Fixed rate notes in local currency	Public, non-guaranteed bonds (66-1st)	2015.09.10	3.18%	170,000	-	170,000
Fixed rate notes in local currency	Public, non-guaranteed bonds (66-2nd)	2017.09.10	3.28%	130,000	-	130,000
Less: discount on debentures				(7,522)	(349)	(7,173)
Total				2,543,891	489,651	2,054,240

(in millions of Korean won)		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 (49th)	2012.04.11	5.27%	190,000	190,000	-
Fixed rate notes in local currency	Public, non-guaranteed bonds (51st)	2012.02.17	5.99%	190,000	190,000	-
Fixed rate notes in local currency	Public, non-guaranteed bonds (54th)	2013.04.22	4.20%	190,000	-	190,000
Fixed rate notes in local currency	Public, non-guaranteed bonds (55th)	2013.06.16	4.60%	190,000	-	190,000
Fixed rate notes in local currency	Public, non-guaranteed bonds (56th)	2015.09.09	4.63%	190,000	-	190,000
Fixed rate notes in local currency	Public, non-guaranteed bonds (57th)	2015.10.22	4.30%	190,000	-	190,000
Fixed rate notes in local currency	Public, non-guaranteed bonds (58-1st)	2014.02.16	4.44%	130,000	-	130,000
Fixed rate notes in local currency	Public, non-guaranteed bonds (58-2nd)	2016.02.16	4.91%	60,000	-	60,000
Floating rate notes in foreign currency	Public, non-guaranteed bonds (59th)[1]	2014.04.28	3ML+1.00%	196,061	-	196,061
Fixed rate notes in local currency	Public, non-guaranteed bonds (60th)	2016.05.20	4.41%	190,000	-	190,000
Fixed rate notes in local currency	Public, non-guaranteed bonds (61st)	2016.06.29	4.38%	190,000	-	190,000
Fixed rate notes in local currency	Public, non-guaranteed bonds (62-1st)	2013.08.05	3.89%	110,000	-	110,000
Fixed rate notes in local currency	Public, non-guaranteed bonds (62-2nd)	2016.08.05	4.34%	80,000	-	80,000
Floating rate notes in foreign currency	Private, non-guaranteed bonds (63rd)[1]	2014.08.23	3ML+0.70%	115,330	-	115,330
Fixed rate notes in local currency	Public, non-guaranteed bonds (64th)	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	-
Less: discount on debentures				(7,888)	(685)	(7,203)
Total				2,970,153	955,965	2,014,188

[1] The Company entered into cross-currency swap contracts to hedge cash flow risk related to floating interest rate and foreign exchange rate of the debenture (Note 7).

iv) The carrying amounts and fair value of non-current borrowings consist of:

	December 31, 2012		December 31, 2011	
(in millions of Korean won)	Carrying amount	Fair value	Carrying amount	Fair value
Long-term borrowings	2,152,500	2,246,819	2,110,000	2,169,131
Debentures	2,054,240	2,101,628	2,014,188	2,059,063
Total	4,206,740	4,348,447	4,124,188	4,228,194

The fair values of non-current borrowings are based on cash flows discounted using rates of return on non-guaranteed bonds having similar credit ratings as the Company.

(c) Payment schedule of borrowings as of December 31, 2012, is as follows:

		Less than		
(in millions of Korean won)	Total	1 year	2 years	5 years
Short-term borrowings	231,838	231,838	-	-
Current maturities of long-term borrowings	343,901	343,901	-	-
Current maturities of debentures	501,569	501,569	-	-
Long-term borrowings	2,432,004	99,532	1,044,244	1,288,228
Debentures	2,330,722	83,919	496,941	1,749,862
Total	5,840,034	1,260,759	1,541,185	3,038,090

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

15. Other Payables

(in millions of Korean won)	December 31, 2012	December 31, 2011
Non-trade payables	1,139,840	1,451,165
Accrued expenses	1,647,800	1,229,982
Deposits received	21,516	16,648
Total	2,809,156	2,697,795

16. Deferred Income Tax

(a) The analysis of deferred tax assets and deferred tax liabilities as of December 31, 2012 and 2011, is as follows:

(in millions of Korean won)	December 31, 2012	December 31, 2011
Deferred tax assets		
Deferred tax asset to be recovered within 12 months	395,018	365,473
Deferred tax asset to be recovered after more than 12 months	1,254,346	1,256,499
Deferred tax assets before offsetting	1,649,364	1,621,972
Deferred tax liabilities		
Deferred tax liability to be recovered within 12 months	57,296	63,028
Deferred tax liability to be recovered after more than 12 months	839,842	900,520
Deferred tax liabilities before offsetting	897,138	963,548
Deferred tax assets, net	752,226	658,424

(b) Movements in deferred income tax assets and liabilities during the years ended December 31, 2012 and 2011, without the offsetting of balances within the same tax jurisdiction, are as follows:

	2012				
(in millions of Korean won)	At January 1	Adjustment in respective of prior years	Charged (credited) to the statement of income	Charged(credited) to other comprehensive income	At December 31
Changes in temporary differences					
Investments in subsidiaries[1], associates and joint ventures	(283,050)	8,239	5,289	-	(269,522)
Property, plant and equipment	(199,696)	1,404	5,063	-	(193,229)
Trade receivables	(8,169)	-	8,324	-	155
Accrued expenses	298,368	-	38,777	-	337,145
Provisions	42,976	-	5,296	-	48,272
Gain(loss) on foreign currency translation	38,136	-	(38,826)	-	(690)
Gain(loss) on valuation of derivatives	9,009	-	(9,009)	-	-
Reserve for research and manpower development	(154,093)	-	51,364	-	(102,729)
Severance and retirement benefits	35,231	-	89	27,115	62,435
Other	18,228	2,342	(14,038)	(1,009)	5,523
Sub-total	(203,060)	11,985	52,329	26,106	(112,640)
Tax credits carryforwards	448,230	(6,555)	140,393	-	582,068
Loss carryforwards	413,254	(16,050)	(114,406)	-	282,798
Deferred tax assets(liabilities)	658,424	(10,620)	78,316	26,106	752,226

	2011			
(in millions of Korean won)	At January 1	Charged/ (credited) to the statement of income	Charged/ (credited) to other comprehensive income	At December 31
Changes in temporary differences				
Investments in subsidiaries[1], associates and joint ventures	(256,996)	(26,054)	-	(283,050)
Property, plant and equipment	(180,703)	(18,993)	-	(199,696)
Trade receivables	(9,784)	1,615	-	(8,169)
Accrued expenses	276,398	21,970	-	298,368
Provisions	41,496	1,480	-	42,976
Gain on foreign currency translation	25,634	12,502	-	38,136
Gain(loss) on valuation of derivatives	9,158	(149)	-	9,009
Reserve for research and manpower development	(140,085)	(14,008)	-	(154,093)
Severance and retirement benefits	9,204	(3,320)	29,347	35,231
Other	(9,006)	24,841	2,393	18,228
Sub-total	(234,684)	(116)	31,740	(203,060)
Tax credits carryforwards	366,777	81,453	-	448,230
Loss carryforwards	307,019	106,235	-	413,254
Deferred tax assets(liabilities)	439,112	187,572	31,740	658,424

[1] At the reporting date, deferred tax liabilities of ₩4,132 million (2011: ₩45,267 million) were not recognized for the temporary differences on the unremitted earnings of subsidiaries which are expected to be permanently reinvested.

(c) Tax effects recognized in other comprehensive income directly are as follows:

	December 31, 2012			December 31, 2011		
(in millions of Korean won)	Before Tax	Tax effects	After Tax	Before Tax	Tax effects	After Tax
Other comprehensive income						
Actuarial loss on defined benefit liability	(282,075)	68,624	(213,451)	(171,525)	41,509	(130,016)
Cash flow hedges	(975)	236	(739)	(6,495)	1,572	(4,923)
Available-for-sale financial assets	6,732	(1,629)	5,103	8,082	(1,956)	6,126
Total	(276,318)	67,231	(209,087)	(169,938)	41,125	(128,813)

(d) Expirations of unrecognized tax loss and tax credit carryforwards as of December 31, 2012, are as follows:

(in millions of Korean won)	**Tax loss**	**Tax credit**
Within 1 year	-	-
Within 2 years	-	73,350
Within 3 years	-	225,660
Over 3 years	282,798	283,058
Total	282,798	582,068

The deferred tax asset related to tax loss and tax credits carryforwards is recognized when the related tax benefit has high possibility to be realized through future taxable income. The Company did not recognize ₩5,461 million of the deferred tax asset related to tax credit carry-forwards that can be deducted from future taxable income.

17. Defined Benefit Liability

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

(in millions of Korean won)	**December 31, 2012**	**December 31, 2011**
Present value of funded obligations	1,365,526	1,073,728
Fair value of plan assets	(897,928)	(710,111)
Total	467,598	363,617

(b) The amounts recognized in the statements of income for the years ended December 31, 2012 and 2011, are as follows:

(in millions of Korean won)	**2012**	**2011**
Current service cost	196,163	157,822
Interest cost	47,985	42,202
Expected return on plan assets	(28,881)	(23,835)
Total	215,267	176,189

(c) The line items in which expenses are included for the years ended December 31, 2012 and 2011, are as follows:

(in millions of Korean won)	**2012**	**2011**
Cost of sales	111,566	91,595
Selling and marketing expenses	31,514	26,243
Administrative expenses	11,411	9,260
Research and development expenses	57,496	46,541
Service costs	3,280	2,550
Total	215,267	176,189

(d) Cumulative actuarial losses recognized in the statement of comprehensive income for the year ended December 31, 2012, are ₩213,451 million (2011: ₩130,016 million).

(e) Changes in the defined benefit obligations for the years ended December 31, 2012 and 2011, are as follows:

(in millions of Korean won)	**2012**	**2011**
At January 1	1,073,728	805,656
Current service cost	196,163	157,822
Interest expense	47,985	42,202
Benefits paid	(65,913)	(54,475)
Actuarial loss	113,563	119,085
Business combination	-	3,438
At December 31	1,365,526	1,073,728

(f) Changes in the fair value of plan assets for the years ended December 31, 2012 and 2011, are as follows:

(in millions of Korean won)	**2012**	**2011**
At January 1	710,111	536,413
Expected return on plan assets	28,881	23,835
Employer contributions	200,000	170,000
Benefits paid	(44,077)	(25,103)
Actuarial gain	3,013	2,843
Business combination	-	2,123
At December 31	897,928	710,111

(g) The actual return on plan assets for the year ended December 31, 2012, is ₩31,894 million (2011: ₩26,678 million).

(h) The principal actuarial assumptions used are as follows:

	December 31, 2012	**December 31, 2011**
Discount rate	3.7%	4.6%
Expected rate of return	3.9%	4.3%
Future salary increase	6.0%	6.0%

(i) Plan assets consist of:

(in millions of Korean won)	**December 31, 2012**	**December 31, 2011**
Securities combined with derivatives (guaranteed)	582,827	460,724
Time deposits and others	315,101	249,387
Total	897,928	710,111

(j) Adjustments for the differences between initial assumptions and actual figures arising on the defined benefit obligation and the plan assets as of December 31, for the latest five years including year 2012 are as follows:

(in millions of Korean won)	**Dec. 31, 2012**	**Dec. 31, 2011**	**Dec. 31, 2010**	**Dec. 31, 2009**	**Jan. 1, 2009**
Present value of obligation	1,365,526	1,073,728	805,656	627,159	657,467
Fair value of plan assets	(897,928)	(710,111)	(536,413)	(423,879)	(443,780)
Deficit in the plan	467,598	363,617	269,243	203,280	213,687
Experience adjustments on defined benefit obligation	577	(34,872)	(4,411)	25,760	-
Experience adjustments on plan assets	3,013	2,843	(1,753)	4,634	-

(k) Expected future contribution of defined benefit plans by employer is best estimated to be ₩170,873 million in 2013.

18. Provisions

Changes in provisions during the year ended December 31, 2012, are as follows:

(in millions of Korean won)	**Warranty**	**Sales returns**	**Restoration**	**Litigation and others**	**Total**
At January 1	177,586	493	4,568	331,922	514,569
Addition	332,217	5,569	1,665	465,449	804,900
Utilization	(310,333)	(4,959)	(582)	(51,256)	(367,130)
At December 31	199,470	1,103	5,651	746,115	952,339
Current	191,203	1,103	-	-	192,306
Non-current	8,267	-	5,651	746,115	760,033

Changes in provisions during the year ended December 31, 2011, are as follows:

(in millions of Korean won)	**Warranty**	**Sales returns**	**Restoration**	**Litigation and others**	**Total**
At January 1	171,470	654	3,971	317,054	493,149
Addition	367,780	3,681	667	26,571	398,699
Acquisition by business combination	1,671	-	-	-	1,671
Utilization	(363,335)	(3,842)	(70)	(11,703)	(378,950)
At December 31	177,586	493	4,568	331,922	514,569
Current	168,703	493	-	-	169,196
Non-current	8,883	-	4,568	331,922	345,373

19. Other Liabilities

Other liabilities consist of:

(in millions of Korean won)	December 31, 2012	December 31, 2011
Advances from customers	147,668	299,071
Unearned income	44,627	45,278
Withholding	104,503	91,966
Total	296,798	436,315

20. Paid-in Capital

As of December 31, 2012 and 2011, the number of shares authorized is 600 million.

		December 31, 2012		December 31, 2011	
	Par value per share	Number of shares issued	Amount (in millions)	Number of shares issued	Amount (in millions)
Common stock[1]	5,000	163,647,814	818,239	163,647,814	818,239
Preferred stock[2]	5,000	17,185,992	85,930	17,185,992	85,930
Total		180,833,806	904,169	180,833,806	904,169

[1] The Company issued new shares by the board of directors' resolution on November 3, 2011, as follows:

Contents	Details
Purpose of issuance	Funds for investment and operation
Type of issued shares	Common shares
Total number of issued shares	19,000,000
Par value	₩51,600 per share

[2] The preferred shareholders have no voting rights and are entitled to preferred dividends at a rate of one percentage point over that of common shares. This preferred dividend rate is not applicable to stock dividends. In addition, the preferred shareholders have same rights on the remaining assets with common shareholders. Repayment and conversion are not applicable to preferred shares.

Share premium balances are as follows:

(in millions of Korean won)	December 31, 2012	December 31, 2011
Share premium[3]	3,088,179	3,088,179

[3] Share premium includes the amount of ₩1,876,153 million, less capital stock amounting to ₩783,961 million and capital adjustment amounting to ₩155,593 million from net book amount of net assets amounting to ₩2,815,707 million taken over due to the split-off on April 1, 2002. In addition, the amount of ₩331,766 million paid in excess of par value due to issuance of common shares (merged with LG IBMPC Co., Ltd.) and the exercise of conversion right and warrants in 2005 and 2006 are included. The excess in paid-in capital amounting to ₩880,260 million over the par value was recognized as share premium due to the issuance of common shares in 2011.

21. Retained Earnings

Retained earnings consist of:

(in millions of Korean won)	**December 31, 2012**	**December 31, 2011**
Legal reserve[1]	145,816	142,129
Discretionary reserve[2]	6,351,342	6,756,715
Accumulated deficit	(438,096)	(364,715)
Total	6,059,062	6,534,129

[1] The Commercial Code of the Republic of Korea requires the Company to appropriate, as a legal reserve, an amount equal to a minimum of 10% of cash dividends paid until such reserve equals 50% of its issued 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.

[2] 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.

Changes in retained earnings are as follows:

(in millions of Korean won)	**2012**	**2011**
At January 1	6,534,129	6,932,015
Loss for the year	(354,760)	(277,919)
Actuarial loss	(83,435)	(86,895)
Dividends	(36,872)	(33,072)
At December 31	6,059,062	6,534,129

Appropriation of retained earnings for the years ended December 31, 2012 and 2011, are as follows:

Expected date of appropriation: March 15, 2013 for the year ended December 2012
Date of appropriation: March 16, 2012 for the year ended December 2011

(in millions of Korean won)	**2012**	**2011**
Undisposed deficit		
Unappropriated retained earnings carried over from prior year	99	99
Actuarial loss	(83,435)	(86,895)
Loss for the year	(354,760)	(277,919)
	(438,096)	(364,715)
Transfer from discretionary reserve		
Reserve for research and manpower development	5,926,841	6,119,965
Total	5,488,745	5,755,250
Appropriation of retained earnings		
Legal reserve	3,687	3,687
Reserve for research and manpower development	5,448,087	5,714,592

(in millions of Korean won)	2012	2011
Dividends	36,872	36,872
Common stock :		
₩ 200 (4%) in 2012,		
₩ 200 (4%) in 2011.		
Preferred stock :		
₩ 250 (5%) in 2012,		
₩ 250 (5%) in 2011,		
	5,488,646	5,755,151
Unappropriated retained earnings to be carried forward to subsequent year	99	99

22. Accumulated Other Comprehensive Income(loss)

Details of accumulated other comprehensive income(loss) consist of:

(in millions of Korean won)	December 31, 2012	December 31, 2011
Cash flow hedge	(739)	(4,923)
Available-for-sale financial assets	5,103	6,126
Total	(4,364)	(1,203)

23. Other Components of Equity

Details of other components of equity consist of:

(in millions of Korean won)	December 31, 2012	December 31, 2011
Treasury shares[1]	(44,893)	(44,893)
Consideration for conversion rights	9,891	9,891
Gain on disposal of treasury shares	2,183	2,183
At December 31	(32,819)	(32,819)

[1] The Company has treasury shares consisting of 763,168 shares (2011: 763,165 shares) of common shares and 4,690 shares (2011: 4,687 shares) of preferred shares at the reporting date. The Company intends to either grant these treasury shares to employees and directors as compensation, or to sell them in the future.

24. Share-Based Payments

The 259,250 shares of cash-settled, share-based compensation plans, which were not exercised as of December 31, 2011, were exercised in 2012. Movements in the number of stock appreciation rights outstanding and their related weighted average stock prices as of December 31, 2012 and 2011, are as follows:

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

[1] The weighted average stock price is determined by an average of three share prices: average share price of last two months prior, the month prior and the week prior to each date of exercise.
[2] This line represents the weighted average of the stock prices determined by above calculation at each of exercise dates for the year.

25. Net Sales

Details of net sales for the years ended December 31, 2012 and 2011, are as follows:

(in millions of Korean won)	**2012**	**2011**
Net sales		
Sales of goods	24,511,158	27,230,767
Sales of services	571,111	491,343
Royalty income	344,936	375,029
Total	25,427,205	28,097,139

26. Expenses by Nature

Expenses that are recorded by nature for the years ended December 31, 2012 and 2011, consist of:

(in millions of Korean won)	**2012**	**2011**
Changes in inventories	(36,098)	179,062
Purchase of raw materials and merchandise	16,903,045	20,014,898
Employee benefit expense (Note 27)	2,887,858	2,504,645
Depreciation and amortization	833,592	750,926
Advertising expense	594,060	582,249
Promotion expense	246,177	222,673
Transportation expense	624,277	708,120
Commission expense	1,380,040	1,435,137
Other expenses	1,951,481	1,963,310
Total[1]	25,384,432	28,361,020

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

27. Employee Benefit Expense

(in millions of Korean won)	2012	2011
Wages and salaries	2,254,254	1,931,506
Welfare expense	398,441	384,042
Stock options (Note 24)	3,355	(7,256)
Defined contribution plans	1,506	1,776
Defined benefit plans (Note 17)	215,267	176,189
Other post-employment benefits	13,321	16,158
Termination expense	1,714	2,230
Total	2,887,858	2,504,645

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

Details of general operating expenses for the years ended December 31, 2012 and 2011, are as follows:

(in millions of Korean won)	2012	2011
Wages and salaries	1,074,557	924,095
Severance benefits	105,011	86,312
Welfare expense	184,019	180,786
Transportation expense	609,205	701,737
Rental expense	142,241	141,290
Commission expense	947,220	968,196
Depreciation	112,575	107,407
Amortization	273,667	241,333
Taxes and dues	14,640	15,668
Advertising expense	594,060	582,249
Promotion expense	246,177	222,673
Direct R&D costs	426,433	470,339
Direct service costs	334,560	390,830
Other	331,919	275,224
Total	5,396,284	5,308,139

29. Research and Development Expenditure

Research and development expenditure recognized in the statements of income consists of:

(in millions of Korean won)	2012	2011
Uncapitalized research and development expenditure	2,457,628	2,227,827
Amortized development costs (Note 11)	248,780	213,519
Total	2,706,408	2,441,346

30. Financial Income

(in millions of Korean won)	2012	2011
Interest income	44,876	40,857
Foreign exchange differences	187,968	239,043
Gain on derivatives	15,943	38,829
Other	1,579	1,386
Total	250,366	320,115

31. Financial Expenses

(in millions of Korean won)	2012	2011
Interest expense	230,391	215,948
Foreign exchange differences	215,962	302,063
Loss on derivatives	16,304	40,310
Other	1,103	434
Total	463,760	558,755

32. Other Non-Operating Income

Other non-operating income for the years ended December 31, 2012 and 2011, consist of:

(in millions of Korean won)	2012	2011
Dividend income	296,371	143,345
Foreign exchange differences	619,618	900,803
Gain on disposal of property, plant and equipment	3,516	3,924
Gain on disposal of intangible assets	724	14,111
Gain on disposal of investments in subsidiaries, associates and joint ventures	133,009	357
Other	40,294	54,176
Total	1,093,532	1,116,716

33. Other Non-Operating Expenses

Other non-operating expenses for the years ended December 31, 2012 and 2011, consist of:

(in millions of Korean won)	2012	2011
Foreign exchange differences	619,406	951,143
Loss on disposal of property, plant and equipment	8,653	15,168
Loss on disposal of intangible assets	29,817	18,963
Impairment loss on available-for-sale financial assets	8,101	-
Other	499,942	31,314
Total	1,165,919	1,016,588

34. Income Tax

Details of income tax expense(benefit) are as follows:

(in millions of Korean won)	2012	2011
Current income taxes		
Current tax on profits for the year	69,475	44,928
Adjustments in respect of prior years	120,593	18,170
Deferred tax		
Changes in temporary differences	(78,316)	(187,572)
Income tax expense(benefit)	111,752	(124,474)

The reconciliation between the tax charge calculated using weighted average tax rate and the effective tax rate is as follows:

	2012		2011	
(in millions of Korean won)	**Tax expense**	**Tax rate**	**Tax expense**	**Tax rate**
Profit(loss) before income tax	(243,008)		(402,393)	
Tax expense based on statutory tax rate	(58,808)	24.2%	(97,379)	24.2%
Tax adjustments:				
Income not subject to tax	(12,382)	5.1%	(9,601)	2.4%
Expenses not deductible for tax purposes	146,322	(60.2%)	6,759	(1.7%)
Tax loss and credits carryforwards	(74,590)	30.7%	(99,348)	24.7%
Adjustments in respect of prior years	123,001	(50.6%)	5,437	(1.4%)
Changes in unrecognized deferred tax assets	(11,791)	4.9%	40,930	(10.2%)
Change in tax rates[1]	-	0.0%	28,644	(7.1%)
Other	-	0.0%	84	0.0%
Income tax expense(benefit)	111,752	(46.0%)	(124,474)	30.9%

[1] The 24.2% tax rate was used for accumulated temporary differences expected to reverse in 2012 and thereafter. As a result, income tax expense was increased by ₩28,644 million.

35. Earnings(loss) per Share

In the prior year, the diluted earnings per common share is not computed due to anti-dilution. For the current year, the Company has no potential dilutive common shares. Accordingly, basic earnings(loss) per share is identical to diluted earnings(loss) per share.

	2012	2011
Loss attributable to common shares[1] (in millions of won)	(321,687)	(252,178)
Weighted average number of common shares outstanding (unit: shares)[2]	162,884,648	147,768,109
Basic loss per common share (in won)	(1,975)	(1,707)

	2012	2011
Loss attributable to preferred shares[1] (in millions of won)	(33,073)	(25,741)
Weighted average number of preferred shares outstanding (unit: shares)[2]	17,181,303	17,181,305
Basic loss per preferred share (in won)	(1,925)	(1,498)

[1] Loss attributable to common and preferred shares are as follows:

(in millions of Korean won)	2012	2011
Loss for the year (A)	(354,760)	(277,919)
Common share dividends (B)	32,577	32,577
Preferred share dividends (C)	4,295	4,295
Undistributed loss (D=A-B-C)	(391,632)	(314,791)
Undistributed loss available for common shares (E)	(354,264)	(284,755)
Undistributed loss available for preferred shares (F)	(37,368)	(30,036)
Loss attributable to common shares (G=B+E)	(321,687)	(252,178)
Loss attributable to preferred shares (H=C+F)	(33,073)	(25,741)

[2] Weighted average numbers of shares are calculated as follows:

(unit: shares)	2012	2011
Common shares outstanding	163,647,814	163,647,814
Common treasury shares	(763,168)	(763,165)
Common shares	162,884,646	162,884,649
Weighted average number of common shares outstanding	162,884,648	147,768,109
Preferred shares outstanding	17,185,992	17,185,992
Preferred treasury shares	(4,690)	(4,687)
Preferred shares	17,181,302	17,181,305
Weighted average number of preferred shares outstanding	17,181,303	17,181,305

36. Dividends

The dividends paid in 2012 and 2011 were ₩36,872 million and ₩33,072 million, respectively. Details of dividends per share and a total dividend in respect of the year ended December 31, 2012, which is to be proposed at the annual general meeting on March 15, 2013, are as follows. These financial statements do not reflect this dividend payable.

The numbers of shares entitled to dividends are as follows:

(unit: shares)	**2012**	**2011**
Common shares	162,884,646	162,884,649
Preferred shares	17,181,302	17,181,305

Details of the Company's dividends declared as of December 31, 2012, are as follows:

(in millions of Korean won)	**Calculation**	**Amount**
Common shares	162,884,646 X ₩5,000 X 4%	32,577
Preferred shares	17,181,302 X ₩5,000 X 5%	4,295
Total		36,872

Details of the Company's dividends declared as of December 31, 2011, are as follows:

(in millions of Korean won)	**Calculation**	**Amount**
Common shares	162,884,649 X ₩5,000 X 4%	32,577
Preferred shares	17,181,305 X ₩5,000 X 5%	4,295
Total		36,872

The Company's dividend payout ratios and dividend yield ratio for the years ended December 31, 2012 and 2011, are computed as follows:

(in millions of Korean won)	**Calculation**	**2012**	**2011**
Dividend payout ratio	Total dividends/ Profit for the year	-[1]	-[1]
Dividend yield ratio	Dividend per share/ Market price[2]		
	Common shares	0.27%	0.27%
	Preferred shares	1.22%	1.05%

[1] Dividend payout ratio is not calculated due to the net loss for the year of the Company.
[2] Average of prices in the stock market for one week preceding the two business days before the record date of the shareholders' list for the general meeting of shareholders related to above dividends.

37. Cash Generated from Operations

(a) Cash generated from operations

Cash flows from operating activities are presented under the indirect method. Cash generated from operations for the years ended December 31, 2012 and 2011, is as follows:

(in millions of Korean won)	**2012**	**2011**
Loss for the year	(354,760)	(277,919)
Adjustments:		
Interest expense, net	185,515	175,091
Foreign exchange loss(gain), net	(78,473)	88,291
Loss on derivatives	361	1,481
Depreciation	490,140	460,059
Amortization	345,909	294,275
Loss on disposal of property, plant and equipment and intangible assets	34,230	16,096
Provisions for severance benefits	215,267	176,189
Provisions	804,900	398,699
Impairment loss on available-for-sale financial assets	8,101	-
Dividend income	(296,371)	(143,345)
Income tax expense(benefit)	111,752	(124,474)
Gain on disposal of investments in subsidiaries, associates and joint ventures	(133,009)	(357)
Other	93,215	13,719
	1,781,537	1,355,724
Changes in operating assets and liabilities		
Decrease in trade receivables	307,119	468,499
Increase in loans and other receivables	(36,342)	(21,060)
Decrease(increase) in inventories	(77,016)	188,286
Increase in other assets	(54,395)	(179,103)
Increase(decrease) in trade payables	179,607	(484,150)
Increase in other payables	171,633	60,524
Decrease in provisions	(367,130)	(378,950)
Increase(decrease) in other liabilities	(139,518)	84,815
Payment of defined benefit liability	(21,836)	(29,372)
Deposit of plan assets, net	(200,000)	(170,000)
	(237,878)	(460,511)
Cash generated from operations	1,188,899	617,294

(b) Non-cash transactions

Significant transactions not affecting cash flows for the years ended December 31, 2012 and 2011, are as follows:

(in millions of Korean won)	**2012**	**2011**
Reclassification of construction-in-progress of property, plant and equipment	278,936	695,698
Reclassification of construction-in-progress of intangible assets	202,060	163,163
Reclassification to intangible assets from long-term advances	93,060	111,161
Reclassification of current maturities of borrowings	827,151	1,376,625

38. Contingencies

(a) At the end of the reporting period, the Company is provided with a performance guarantee of ₩130,483 million (2011: ₩114,376 million) from Seoul Guarantee Insurance and two other banks relating to the sales contracts.

(b) At the end of the reporting period, the Company is contingently liable for guarantees amounting to ₩2,519,427 million (2011: ₩2,549,537 million) on the indebtedness of its subsidiaries. Details are as follows:

(in millions of Korean won)	**December 31, 2012**	**December 31, 2011**
LG Electronics European Shared Service Center B.V.(LGESC)	532,522	529,221
LG Electronics U.S.A., Inc.(LGEUS)	289,197	340,224
LG Electronics Ticaret A.S.(LGETK)	226,845	229,688
LG Electronics (China) Co., Ltd.(LGECH)	195,293	171,986
LG Electronics do Brasil Ltda.(LGEBR)	133,888	34,599
LG-Shaker Co., Ltd.(LGESR)	110,496	122,756
LG Electronics Algeria SARL(LGEAS)	108,482	111,791
LG Electronics Inc Chile Ltda.(LGECL)	101,326	14,993
LG Electronics Thailand Co., Ltd.(LGETH)	83,830	90,130
LG Electronics Argentina S.A.(LGEAR)	81,714	62,631
LG Electronics Vietnam Co., Ltd.(LGEVN)	75,534	105,989
LG Electronics Ukraine Inc.(LGEUR)	66,530	71,805
LG Electronics Morocco S.A.R.L(LGEMC)	57,065	72,685
LG Electronics Philippines Inc.(LGEPH)	56,098	60,086
LG Electronics Peru S.A.(LGEPR)	44,129	27,679
LG Electronics RUS, LLC(LGERA)	42,844	110,788
LG Electronics Wroclaw Sp z o.o(LGEWR)	-	89,646
Other	313,634	302,840
Total	2,519,427	2,549,537

The maturities of the above limited guarantees provided by the Company as of the end of the reporting period are as follows:

(in millions of Korean won)	**2012**		
Less than 1 year	**Less than 2 years**	**Less than 5 year**	**Over 5 years**
2,257,050	221,123	41,254	-

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

In December 2012, the European Commission imposed a penalty on the Company for anti-competitive activities among CRT (Cathode Ray Tube) manufacturers as a result of an investigation. The Company recognized such penalty amounting to EUR491,567 thousand (₩696,187 million) that is a reasonably expected loss as a litigation provision. However, the Company will appeal the decision of the European Commission and plan to apply for the certification of payment to a bank in 2013. The ultimate amount of loss resulting from the investigation may differ from the amount of penalty imposed.

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

The Company and certain foreign subsidiaries have been named as defendants in a class action in the United States and in Canada, in connection with the alleged anti-competitive activities among ODD (Optical Disk Drive) manufacturers. The judgment of that lawsuits and the effect to the financial statements could not be expected reasonably as of the end of 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.

39. Commitments

(a) At the end of the reporting period, the Company has overdraft agreements with various banks including Shinhan Bank, with a limit of ₩245,500 million (2011: ₩245,500 million).

(b) At the end of the reporting period, the Company has sales agreements for export trade receivables with Shinhan Bank and other 28 various banks amounting to ₩4,879,932 million (2011: ₩6,141,323 million) and for domestic trade receivables with Deutsche Bank amounting to ₩70,813 million (2011: ₩374,705 million). The Company has corporate electronic settlement services contracts for collection of trade receivables with Hana Bank of up to ₩126,000 million (2011: ₩130,000 million).

(c) At the end of the reporting period, the Company has corporate electronic settlement services contracts with Shinhan Bank and seven other banks for up to ₩945,450 million (2011: ₩935,450 million) which guarantee the payment of trade accounts payable in case the suppliers sell their trade receivables.

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

(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:

(in millions of Korean won)	**December 31, 2012**	**December 31, 2011**
Property, plant and equipment	22,182	55,190
Intangible assets	20	5,161
Total	22,202	60,351

(f) Operating lease commitments – the Company as lessee

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

	December 31, 2012			
(in millions of Korean won)	**No later than 1 year**	**Later than 1 year and no later than 5 years**	**Over 5 years**	**Total lease payments**
Buildings and offices	29,546	41,352	646	71,544
Vehicles	13,139	6,117	-	19,256
Equipment	16,973	10,940	-	27,913
Total	59,658	58,409	646	118,713

(g) Operating lease commitments – the Company as lessor

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

	December 31, 2012			
(in millions of Korean won)	**No later than 1 year**	**Later than 1 year and no later than 3 years**	**Over 3 years**	**Total lease payments**
Healthcare rental	65,596	133,147	65,702	264,445

The Company recognized ₩55,674 million lease income during the year ended December 31, 2012.

(h) Trademark licenses commitments

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

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

40. Related Party Transactions

(a) Subsidiaries as of December 31, 2012, are as follows:

Territory	Name
Domestic subsidiaries	Hiplaza Co., Ltd., Hi Business Logistics, Innovation Investment Fund, Hi M Solutek, KTB Technology Fund, Hi Teleservice Co., Ltd., LG Electronics Alliance Fund, ACE R&A Co., Ltd., Hi Entech Co., Ltd., LG-Hitachi Water Solutions Co., Ltd.
China	LG Electronics (China) Co., Ltd.(LGECH)
	Taizhou LG Electronics Refrigeration Co.,Ltd.(LGETR)
	LG Electronics HK Ltd.(LGEHK)
	LG Electronics (Hangzhou) Co., Ltd.(LGEHN)
	LG Electronics Huizhou Ltd.(LGEHZ)
	LG Electronics (Kunshan) Computer Co., Ltd.(LGEKS)
	LG Electronics Nanjing Display Co., Ltd.(LGEND)
	NanJing LG-Panda Appliances Co., Ltd.(LGEPN)
	Qingdao LG Inspur Digital Communication Co., Ltd.(LGEQD)
	LG Electronics Qinhuangdao Inc.(LGEQH)
	LG Electronics (China) Research and Development Centre Co., Ltd.(LGERD)
	Shanghai LG Electronics Co., Ltd.(LGESH)
	LG Electronics Shenyang Inc.(LGESY)
	LG Electronics Tianjin Appliances Co., Ltd.(LGETA)
	Inspur LG Digital Mobile Communications Co., Ltd.(LGEYT)
	Hi Logistics (China) Co., Ltd.
	LG Electronics (Shanghai) Research and Development Center Co., Ltd(LGCRC)
	Tianjin Lijie cartridge heater Co.,Ltd.(LGETL)
	LG Electronics Air-Conditioning(Shandong) Co.,Ltd.(LGEQA)
Asia	LG Electronics Philippines Inc.(LGEPH)
	LG Electronics India Pvt. Ltd.(LGEIL)
	PT LG Electronics Indonesia(LGEIN)
	LG Electronics Malaysia SDN. BHD(LGEML)
	LG Soft India Private Limited.(LGSI)
	LG Electronics Singapore PTE LTD.(LGESL)
	LG Electronics Vietnam Co., Ltd.(LGEVN)
	LG Electronics Thailand Co., Ltd.(LGETH)
	LG Electronics Taiwan Taipei Co., Ltd.(LGETT)
	LG Electronics Australia Pty, Ltd.(LGEAP)
	LG Electronics Japan, Inc.(LGEJP)
	LG Electronics Japan Lab.(LGEJL)
	Hi Logistics India Private Limited
	HI LOGISTICS MALAYSIA SDN BHD

Territory	Name
Europe	LG Electronics Austria GmbH(LGEAG)
	LG Electronics Benelux Sales B.V.(LGEBN)
	LG Electronics CZ, s.r.o.(LGECZ)
	LG Electronics Deutschland GmbH(LGEDG)
	LG Electronics European Holdings B.V.(LGEEH)
	LG Electronics Espana S.A.(LGEES)
	LG Electronics France S.A.S(LGEFS)
	LG Electronics Hellas S.A(LGEHS)
	LG Electronics Italia S.p.A(LGEIS)
	LG Electronics Latvia, LLC(LGELV)
	LG Electronics Mlawa Sp. z o.o(LGEMA)
	LG Electronics Mobilecomm France(LGEMF)
	LG Electronics Magyar KFT(LGEMK)
	LG Electronics Norway AS(LGENO)
	LG Electronics Polska Sp. z o.o(LGEPL)
	LG Electronics Portugal S.A.(LGEPT)
	LG Electronics Romania S.R.L.(LGERO)
	LG Electronics European Shared Service Center B.V.(LGESC)
	LG Electronics Nordic AB(LGESW)
	LG Electronics United Kingdom Ltd.(LGEUK)
	LG Electronics Wroclaw Sp z o.o(LGEWR)
	HI Logistics Europe B.V.
North America	LG Electronics Alabama Inc.(LGEAI)
	LG Electronics Canada, Inc.(LGECI)
	LG Electronics Miami Inc.(LGEMI)
	LG Electronics Monterrey Mexico S.A.de C.V.(LGEMM)
	LG Electronics Mobilecomm U.S.A., Inc.(LGEMU)
	LG Electronics Mobile Research U.S.A., L.L.C.(LGEMR)
	LG Electronics Mexicalli, S.A. DE C.V.(LGEMX)
	LG Electronics Mexico S.A. DE C.V.(LGEMS)
	LG Electronics Reynosa S.A. DE C.V.(LGERS)
	LG Electronics U.S.A., Inc.(LGEUS)
	Zenith Electronics Corporation(Zenith)
	Triveni Digital Inc.
	Zenith Electronics Corporation of Pennsylvania
	Servicios Integrales LG S.A DE C.V
	Servicios LG Monterrey Mexico S.A. de C.V.
	LG Receivable Funding LLC
South America	LG Electronics Argentina S.A.(LGEAR)
	LG Electronics Colombia Ltda.(LGECB)
	LG Electronics Inc Chile Ltda.(LGECL)
	LG Electronics Peru S.A.(LGEPR)
	LG Electronics Panama, S.A.(LGEPS)
	LG Electronics do Brasil Ltda.(LGEBR) (formerly LGESP)
	LG Electronics Venezuela S.A.(LGEVZ)
	C&S America Solution
	LG Electronics Guatemala S.A.
	SOCIO VIP Ltda.
	LG Armagem Geral Ltda.
	LG Consulting corp.
	LG Electronics Honduras S.de R.L.

Territory	Name
Middle-east Asia and Africa	LG Electronics Egypt S.A.E (LGEEG) LG Electronics Morocco S.A.R.L(LGEMC) LG Electronics S.A. (Pty) Ltd.(LGESA) LG Electronics Africa Logistic FZE(LGEAF) LG Electronics Dubai FZE(LGEDF) LG Electronics Gulf FZE(LGEGF) LG Electronics (Levant) Jordan(LGELF) LG Electronics Middle East Co., Ltd.(LGEME) LG-Shaker Co., Ltd.(LGESR) LG Electronics Ticaret A.S.(LGETK) LG Electronics Overseas Trading FZE(LGEOT) LG Electronics Algeria SARL(LGEAS) LG Electronics Nigeria Limited(LGENI) LG Electronics North Africa Service Company S.A.R.L Easytec Global Services Innovation Limited LG Electronics Angola Limitada(LGEAO) LG Electronics Service Kenya Limited(LGESK) LG Electronics Saudi Arabia Limited
Other	LG Electronics Almaty Kazakhstan(LGEAK) LG Electronics Ukraine Inc.(LGEUR) LG Electronics RUS, LLC(LGERA) LG Alina Electronics(LGERI) LG Electronics RUS-Marketing, LLC(LGERM)

(b) The related parties of the Company other than subsidiaries as of the end of reporting period are as follows:

Classification	**Name**
Significantly influencing the Company	LG Corp.
Associates and joint ventures[1]	LG Display Co., Ltd., LG Innotek Co., Ltd., and others
Other related parties	SERVEONE Co., Ltd., LG CNS Co., Ltd., and others

[1] The details of associates and joint ventures are provided in Note 12.

(c) Significant balances and transactions

i) Significant transactions for the years ended December 31, 2012 and 2011, are as follows:

	2012		**2011**	
(in millions of Korean won)	**Sales**	**Purchases**	**Sales**	**Purchases**
LG Corp.	3,321	130,688	7,519	123,094
Subsidiaries	17,023,160	935,971	20,655,484	1,083,223
Associates and joint ventures	403,995	2,452,169	671,457	2,301,696
Other related parties	80,818	1,287,705	113,205	1,291,807
Total	17,511,294	4,806,533	21,447,665	4,799,820

ii) The balances of significant transactions are as follows:

	December 31, 2012		December 31, 2011	
(in millions of Korean won)	**Receivables**	**Payables**	**Receivables**	**Payables**
LG Corp.	29,394	503	23,136	691
Subsidiaries	3,666,033	2,049,586	3,696,517	1,493,291
Associates and joint ventures	111,644	426,524	166,882	346,796
Other related parties	76,154	398,012	86,474	307,729
Total	3,883,225	2,874,625	3,973,009	2,148,507

iii) Key management compensation costs of the Company for the years ended December 31, 2012 and 2011, consist of:

(in millions of Korean won)	**2012**	**2011**
Wages and salaries	8,010	9,315
Other long-term benefits	26	144
Post-employment benefits	1,508	1,665
Share-based payments	497	(3,253)
Total	10,041	7,871

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

iv) Significant capital transactions with related parties and others are as follows:

(in millions of Korean won)	**Nature of Transaction**	**2012**	**2011**
LG Corp.	Issuance of common shares	-	245,263
Subsidiaries	Capital investment	34,099	12,829
	Receipt of dividends	259,755	67,063
Associates and joint ventures	Receipt of dividends	36,341	75,569

(d) The payment guarantees for related parties as of the end of the reporting period are written in Note 14 and Note 38, respectively.

(e) The Company has not recognized bad debt expense nor allowance for trade receivables from related parties for the years ended December 31, 2012 and 2011.

41. Risk Management

Financial Risk Management

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

While cooperating with other divisions, the finance team in the 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 Company 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 Company mitigates the adverse effects from financial risk by monitoring the risk periodically and updating FRM policy each year.

The information of the carrying amount of in each category of financial instruments and the details of borrowings related to the financial risk management presented in Note 4 and Note 14, respectively.

(a) Market risk

i) Foreign exchange risk

Due to its multinational business operations, the Company is mainly exposed to foreign exchange risk on the US Dollar and Euro. The 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 foundation of a stable business operation by minimizing the uncertainty and volatility of foreign exchange gains and losses from foreign exchange rate fluctuations.

The Company’s foreign exchange risk management policy is implemented under its global hedge policy. The policy contains its overall foreign exchange risk management philosophy which includes: strategy, exposure definition of foreign currency, hedge maturity and hedge ratio.

The Company curtails foreign exchange risk by reducing foreign exchange exposure and considers hedges against its remaining exposure with derivative financial instruments such as Leading & Lagging strategy and forward exchange contracts under its global hedge policy.

The Company determines a hedge ratio for considering factors highly related to foreign exchange rate fluctuation such as risk index, implied volatility, and market view and 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 December 31, 2012 and 2011, if the foreign exchange rate of the Korean won fluctuated by 10% while other variables were fixed, the effects on income(loss) before tax would be as follows:

	December 31, 2012		December 31, 2011	
(in millions of Korean won)	**10% increase**	**10% decrease**	**10% increase**	**10% decrease**
USD/KRW	(139,678)	139,678	(170,234)	170,234
EUR/KRW	42,169	(42,169)	40,283	(40,283)

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

ii) Interest rate risk

The Company is exposed to interest rate risk through changes in interest-bearing assets or liabilities. The risk mainly arises from financial deposits and borrowings 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 December 31, 2012, as interest rate increases, net interest expense would decrease because the amounts of financial deposits with variable interest rate are greater than those of borrowings with variable interest rate. However, to mitigate interest rate risk, the Company manages interest rate risk fundamentally by reducing borrowings with high interest rates, maintaining an adequate mix between short-term and long-term liabilities and between fixed and variable interest rates, monitoring daily, weekly, and monthly interest rate trends in domestic and international markets, setting up counter measures and managing short term borrowings and financial deposits with variable interest rate.

As of December 31, 2012 and 2011, 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 twelve months period are as follows:

	December 31, 2012		December 31, 2011	
(in millions of Korean won)	**100bp increase**	**100bp decrease**	**100bp increase**	**100bp decrease**
Interest expense	1,999	(1,999)	7,380	(7,346)
Interest income	11,142	(11,142)	15,142	(15,142)

iii) Price risk

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

The listed securities owned by the Company are traded in the public market, and related to KOSPI and KOSDAQ Indices.

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 Company have correlation with the relevant past index.

	December 31, 2012		**December 31, 2011**	
(in millions of Korean won)	**30% increase**	**30% decrease**	**30% increase**	**30% decrease**
KOSPI	1	(1)	-	-
KOSDAQ	1,764	(1,764)	1,975	(1,975)

The valuation and the reclassified amounts of the cash flow hedging derivative and the available-for-sale financial asset related to the market risk above are presented in Note 7.

(b) Credit risk

The Company 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, Korea Trade Insurance Corporation (K-Sure), Seoul Guarantee Insurance (Coface) and the Global Credit Insurance Program are operated.

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 December 31, 2012, trade receivable balance of the Company, excluding the trade receivables from the subsidiaries, is ₩1,263,124 million (2011: ₩1,454,423 million) and its risk is managed appropriately with insurer's credit limit of ₩2,631,644 million (2011: ₩2,298,513 million).

Other information on credit risk, such as doubtful debt allowances on trade or other receivables, aging analysis, maximum exposure to credit risk, information on transferred assets that are not derecognized, are presented in Note 6.

(c) Liquidity risk

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

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

In addition, the Company 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 December 31, 2012, is ₩1,164,246 million (2011: ₩1,514,211 million). The Company maintains total committed credit lines of ₩600,000 million (2011: ₩600,000 million) in Woori Bank, Kookmin Bank, and Shinhan Bank in Korea at December 31, 2012.

As of December 31, 2012, the balance of cash and cash equivalents, and current-financial deposits of the Company is about 110% (2011: 89%) of current borrowings with due in 12 months. If committed credit lines are included, the balance covers about 167% (2011: 124%) of short-term borrowings.

In addition, the Company is able to source funds any time in domestic and international financial markets as of the end of reporting period because it has good investment credit grades from Korea Investors Service, Korea Ratings and NICE Information Service of AA0-Stable, and Standard & Poors and Moody's of BBB- Stable and Baa2 Negative, respectively.

Cash flow information on maturity of borrowings is presented in Note 14.

Capital Risk Management

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

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

(in millions of Korean won, except for ratios)	**December 31, 2012**	**December 31, 2011**
Liability (A)	13,809,221	13,704,369
Equity (B)	10,022,955	10,494,861
Cash and cash equivalents and current-financial deposits (C)	1,164,246	1,514,211
Borrowings (D)	5,264,325	5,825,846
Liability-to-equity ratio (A/B)	138%	131%
Net borrowings ratio (D-C)/B	41%	41%

Methods and Assumptions in Determining Fair Value

The Company 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 that are observable for the asset or liability, either directly or indirectly.
- Level 3: inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

	December 31, 2012			
(In millions of Korean won)	Level 1	Level 2	Level 3	Total
Assets				
Available-for-sale financial assets - Listed securities	7,636	-	-	7,636
Total	7,636	-	-	7,636
Liabilities				
Derivatives for hedge	-	13,889	-	13,889
Total	-	13,889	-	13,889

	December 31, 2011			
(In millions of Korean won)	Level 1	Level 2	Level 3	Total
Assets				
Available-for-sale financial assets - Listed securities	8,969	-	-	8,969
Derivatives for hedge	-	11,845	-	11,845
Total	8,969	11,845	-	20,814
Liabilities				
Financial liabilities at fair value through profit or loss - Derivatives for trading	-	12,699	-	12,699
Total	-	12,699	-	12,699

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 from 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 Company 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 Company 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 'level 2' are derivative financial instruments. The fair value of derivative financial instruments is measured at discount using forward exchange rate as of the reporting date.

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

In case of investments in equity instruments that do not have a quoted market price in an active market and their fair value cannot be measured reliably, they are measured at cost. Fair value of these investments are not disclosed in the above fair value measurement hierarchy.

Carrying amounts of current trade and other receivables are estimated by a reasonable approximation of fair value. Other information related to the fair values of non-current other receivables and borrowings that carrying amounts are not a reasonable approximation of fair value are separately presented in Note 6 and Note 14.

42. Business Combination

On May 1, 2011, the Company 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.

The goodwill 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 Company 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 at the acquisition date.

(in millions of Korean won)	**Amount**
Consideration[1]	150,300
Recognized amounts of identifiable assets acquired and liabilities assumed[2]	
Current assets	
Trade receivables	50,726
Other receivables	4
Inventories	9,223
Other assets	888
Non-current assets	
Financial deposits	4,232
Other receivables	786
Investments in subsidiaries, associates and joint ventures	23,095
Other assets	149
Property, plant and equipment	7,549
Intangible assets	34,122
Current liabilities	
Trade payables	(26,771)
Other payables	(2,233)
Provisions	(1,671)
Other liabilities	(5,364)
Non-current liabilities	
Defined benefit liabilities	(1,315)
Total identifiable net assets	93,420
Goodwill	56,880
Total	150,300

[1] The consideration is within the measurement period.

[2] 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 ₩3,646 million were all expensed during the year.

43. Approval of the Financial Statements

The separate financial statements as of and for the year ended December 31, 2012, were approved by the Board of Directors on January 29, 2013.

Report of Independent Accountants'
Review of Internal Accounting Control System

To the President of
LG Electronics Inc.

We have reviewed the accompanying management's report on the operations of the Internal Accounting Control System ("IACS") of LG Electronics Inc. (the "Company") as of December 31, 2012. The Company's management is responsible for designing and operating IACS and for its assessment of the effectiveness of IACS. Our responsibility is to review the management's report on the operations of the IACS and issue a report based on our review. The management's report on the operations of the IACS of the Company states that "based on its assessment of the operations of the IACS as of December 31, 2012, the Company's IACS has been designed and is operating effectively as of December 31, 2012, in all material respects, in accordance with the IACS standards established by the Internal Accounting Control System Operations Committee (IACSOC) of the Korea Listed Companies Association."

Our review was conducted in accordance with the IACS review standards established by the Korean Institute of Certified Public Accountants. Those standards require that we plan and perform, in all material respects, the review of management's report on the operations of the IACS to obtain a lower level of assurance than an audit. A review is to obtain an understanding of a company's IACS and consists principally of inquiries of management and, when deemed necessary, a limited inspection of underlying documents, which is substantially less in scope than an audit.

A company's IACS is a system to monitor and operate those policies and procedures designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the Republic of Korea. Because of its inherent limitations, IACS may not prevent or detect a material misstatement of the financial statements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on our review, nothing has come to our attention that causes us to believe that management's report on the operations of the IACS, referred to above, is not presented fairly, in all material respects, in accordance with the IACS standards established by IACSOC.

Our review is based on the Company's IACS as of December 31, 2012, and we did not review management's assessment of its IACS subsequent to December 31, 2012. This report has been prepared pursuant to the Acts on External Audit for Stock Companies in Korea and may not be appropriate for other purposes or for other users.

Samil PricewaterhouseCoopers
March 6, 2013

Report on the Operations of the Internal Accounting Control System

To the Board of Directors and Audit Committee of
LG Electronics Inc.

I, as the Internal Accounting Control Officer ("IACO") of LG Electronics Inc. (the "Company"), assessed the status of the design and operations of the Company's internal accounting control system ("IACS") for the year ended December 31, 2012.

The Company's management including IACO is responsible for designing and operating IACS. I, as the IACO, assessed whether the IACS has been effectively designed and is operating to prevent and detect any error or fraud which may cause any misstatement of the financial statements, for the purpose of establishing the reliability of financial reporting and the preparation of financial statements for external purposes. I, as the IACO, applied the IACS standard for the assessment of design and operations of the IACS.

Based on the assessment on the operations of the IACS, the Company's IACS has been effectively designed and is operating as of December 31, 2012, in all material respects, in accordance with the IACS standards.

January 29, 2013

Do-hyun Jung
Internal Accounting Control Officer

Bon-Joon Koo
Chief Executive Officer and President