

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

# LG Electronics and Subsidiaries

Index

September 30, 2012 and 2011

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## Report on Review of Interim Financial Statements

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

### ***Reviewed Financial Statements***

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

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

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

### ***Auditor's Responsibility***

Our responsibility is to issue a report on these interim consolidated financial statements based on our reviews. We have not reviewed the financial statements of certain consolidated subsidiaries, whose financial statements reflect 26% of the Group's consolidated total assets as of September 30, 2012, and 45% and 44% of the Group's consolidated total sales for the nine-month periods ended September 30, 2012 and 2011, respectively. These financial statements were reviewed by other auditors whose reports have been furnished to us and our report, insofar as it relates to the amounts included for those consolidated subsidiaries, is based solely on the reports of the other auditors.

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

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**Conclusion**

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

**Other matters**

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

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



Seoul, Korea  
November 8, 2012

This interim report is effective as of November 8, 2012, the review report date. Certain subsequent events or circumstances, which may occur between the review report date and the time of reading this report, could have a material impact on the accompanying interim consolidated financial statements and notes thereto. Accordingly, the readers of the review report should understand that there is a possibility that the above review report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

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

<i>(in millions of Korean won)</i>	Notes	September 30, 2012	December 31, 2011
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	5,29	2,661,874	2,345,465
Financial deposits	5,29	150,000	150,000
Trade receivables	5,6	6,688,506	6,752,559
Loans and other receivables	5	430,210	494,239
Other financial assets	5,7	165	1,677
Inventories	8	5,551,784	4,947,160
Current income tax assets		205,680	197,968
Other current assets		861,838	890,388
Assets classified as held for sale		3,361	3,670
		<u>16,553,418</u>	<u>15,783,126</u>
<b>Non-current assets</b>			
Financial deposits	5	113,625	129,439
Loans and other receivables	5	583,087	610,709
Other financial assets	5,7	126,861	139,282
Property, plant and equipment	9	7,381,831	7,290,413
Intangible assets	9	1,019,437	1,035,797
Deferred income tax assets		1,272,227	1,246,071
Investments in jointly controlled entities and associates	10	5,437,252	5,603,199
Investment property		7,241	7,239
Other non-current assets		780,411	813,182
		<u>16,721,972</u>	<u>16,875,331</u>
<b>Total assets</b>		<u>33,275,390</u>	<u>32,658,457</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade payables	5	6,070,413	5,486,871
Borrowings	5,11,29	2,477,143	3,178,212
Other payables		3,979,452	3,780,158
Other financial liabilities	5,7	946	13,860
Current income tax liabilities		98,096	81,643
Provisions	12	648,271	724,516
Other current liabilities		869,300	949,262
		<u>14,143,621</u>	<u>14,214,522</u>
<b>Non-current liabilities</b>			
Borrowings	5,11,29	4,523,817	4,257,406
Other payables		18,810	20,490
Other financial liabilities	5,7	6,897	378
Deferred income tax liabilities		11,056	15,237
Defined benefit liability	13	619,923	423,306
Provisions	12	532,569	575,632
Other non-current liabilities		3,253	3,238
		<u>5,716,325</u>	<u>5,295,687</u>
<b>Total liabilities</b>		<u>19,859,946</u>	<u>19,510,209</u>
<b>Equity attributable to owners of the Parent Company</b>			
Paid-in capital:			
Capital stock	14	904,169	904,169
Share premium		3,088,179	3,088,179
Retained earnings	15	9,880,108	9,499,534
Accumulated other comprehensive loss		(435,174)	(326,584)
Other components of equity	16	(271,348)	(271,339)
		<u>13,165,934</u>	<u>12,893,959</u>
<b>Non-controlling interest</b>		<u>249,510</u>	<u>254,289</u>
<b>Total equity</b>		<u>13,415,444</u>	<u>13,148,248</u>
<b>Total liabilities and equity</b>		<u>33,275,390</u>	<u>32,658,457</u>

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

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

<i>(in millions of Korean won, except per share amounts)</i>	Notes	2012		2011	
		Three Months	Nine Months	Three Months	Nine Months
<b>Net sales</b>	17	12,375,782	37,462,678	12,897,227	40,442,251
<b>Cost of sales</b>	18	9,276,886	28,164,712	9,850,763	31,123,640
<b>Gross profit</b>		3,098,896	9,297,966	3,046,464	9,318,611
Selling and marketing expenses	18,19	1,814,198	5,041,085	1,809,233	5,667,756
Administrative expenses	18,19	298,475	919,436	313,945	960,260
Research and development expenses	18,19	490,223	1,367,157	429,087	1,287,637
Service costs	18,19	357,308	961,749	411,724	1,136,622
Other operating income	20	258,655	842,627	674,273	1,358,105
Other operating expenses	18,21	176,799	833,453	788,634	1,367,249
<b>Operating income (loss)</b>		220,548	1,017,713	(31,886)	257,192
Financial income	22	63,426	345,770	53,001	422,014
Financial expenses	23	161,808	594,152	287,720	731,146
Income (expense) from jointly controlled entities and associates	10	56,546	95,200	(264,337)	(290,817)
<b>Profit (loss) before income tax</b>		178,712	864,531	(530,942)	(342,757)
Income tax expense (benefit)		21,590	305,911	(117,026)	(21,513)
<b>Profit (loss) for the period</b>		157,122	558,620	(413,916)	(321,244)
<b>Profit (loss) for the period attributable to:</b>					
Equity holders of the Parent Company		151,438	543,647	(424,174)	(356,465)
Non-controlling interest		5,684	14,973	10,258	35,221
<b>Earnings per share attributable to the equity holders of the Parent Company during the period (in won)</b>	24				
Earnings (loss) per share for profit attributable to the ordinary equity holders of the Parent Company		840	3,016	(2,575)	(2,167)
Earnings (loss) per share for profit attributable to the preferred equity holders of the Parent Company		852	3,053	(2,562)	(2,129)

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

**LG Electronics and Subsidiaries**

**Interim Consolidated Statements of Comprehensive Income**

**Three-Month and Nine-Month Periods Ended September 30, 2012 and 2011**

<i>(in millions of Korean won)</i>	Notes	2012		2011	
		Three Months	Nine Months	Three Months	Nine Months
<b>Profit (loss) for the period</b>		<u>157,122</u>	<u>558,620</u>	<u>(413,916)</u>	<u>(321,244)</u>
<b>Other comprehensive income (loss), net of tax:</b>					
Items not for reclassification to profit or loss:					
Actuarial gain (loss) on defined benefit liability	13	(55,080)	(101,021)	2,857	1,013
Share of actuarial gain (loss) of associates	10	(25,263)	(25,187)	103	381
Items subject to subsequent reclassification to profit or loss:					
Other comprehensive income(loss) from jointly controlled entities and associates	10	(14,975)	(10,961)	61,261	38,340
Cash flow hedges	11	1,371	2,520	(7,010)	(11,176)
Available-for-sale financial assets		1,970	1,052	(2,928)	(4,306)
Currency translation differences		(29,078)	(107,795)	189,577	54,186
<b>Other comprehensive income (loss) for the period, net of tax</b>		<u>(121,055)</u>	<u>(241,392)</u>	<u>243,860</u>	<u>78,438</u>
<b>Total comprehensive income(loss) for the period, net of tax</b>		<u>36,067</u>	<u>317,228</u>	<u>(170,056)</u>	<u>(242,806)</u>
<b>Comprehensive income(loss) for the period, net of tax, attributable to:</b>					
Equity holders of the Parent Company		35,889	308,866	(203,830)	(293,748)
Non-controlling interest		178	8,362	33,774	50,942
<b>Total comprehensive income(loss) for the period, net of tax</b>		<u>36,067</u>	<u>317,228</u>	<u>(170,056)</u>	<u>(242,806)</u>

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

**LG Electronics and Subsidiaries**
**Interim Consolidated Statements of Changes in Equity**
**Nine-Month Periods Ended September 30, 2012 and 2011**

		Attributable to equity holders of the Parent Company						
				Accumulated Other Comprehensive Income(loss)	Other Components of Equity		Non-controlling Interest	Total Equity
<i>(in millions of Korean won)</i>	Notes	Paid-in Capital	Retained Earnings			Total		
<b>Balance at January 1, 2011</b>		3,017,088	10,108,173	(209,844)	(271,277)	12,644,140	215,497	12,859,637
<b>Comprehensive income</b>								
Profit (loss) for the period		-	(356,465)	-	-	(356,465)	35,221	(321,244)
Actuarial gain on defined benefit liability	13	-	1,013	-	-	1,013	-	1,013
Share of actuarial gain of associates	10	-	381	-	-	381	-	381
Other comprehensive income of jointly controlled entities and associates	10	-	-	38,340	-	38,340	-	38,340
Cash flow hedges	11	-	-	(11,176)	-	(11,176)	-	(11,176)
Available-for-sale financial assets		-	-	(4,306)	-	(4,306)	-	(4,306)
Currency translation differences		-	-	38,465	-	38,465	15,721	54,186
<b>Total comprehensive income (loss)</b>		-	(355,071)	61,323	-	(293,748)	50,942	(242,806)
<b>Transactions with equity holders of the Parent Company :</b>								
Dividends		-	(33,072)	-	-	(33,072)	(11,381)	(44,453)
Changes in ownership interest over subsidiaries		-	-	-	(52)	(52)	(21)	(73)
Other changes in equity		-	-	-	(10)	(10)	-	(10)
<b>Total transactions with equity holders of the Parent Company</b>		-	(33,072)	-	(62)	(33,134)	(11,402)	(44,536)
<b>Balance at September 30, 2011</b>		3,017,088	9,720,030	(148,521)	(271,339)	12,317,258	255,037	12,572,295
<b>Balance at January 1, 2012</b>		3,992,348	9,499,534	(326,584)	(271,339)	12,893,959	254,289	13,148,248
<b>Comprehensive income</b>								
Profit for the period		-	543,647	-	-	543,647	14,973	558,620
Actuarial loss on defined benefit liability	13	-	(101,004)	-	-	(101,004)	(17)	(101,021)
Share of actuarial loss of associates	10	-	(25,187)	-	-	(25,187)	-	(25,187)
Share of other comprehensive loss of jointly controlled entities and associates	10	-	-	(10,961)	-	(10,961)	-	(10,961)
Cash flow hedges	11	-	-	2,520	-	2,520	-	2,520
Available-for-sale financial assets		-	-	711	-	711	341	1,052
Currency translation differences		-	-	(100,860)	-	(100,860)	(6,935)	(107,795)
<b>Total comprehensive income (loss)</b>		-	417,456	(108,590)	-	308,866	8,362	317,228
<b>Transactions with equity holders of the Parent Company :</b>								
Dividends		-	(36,872)	-	-	(36,872)	(21,961)	(58,833)
Issuance of new shares of subsidiaries		-	-	-	-	-	8,820	8,820
Other changes in equity		-	(10)	-	(9)	(19)	-	(19)
<b>Total transactions with equity holders of the Parent Company</b>		-	(36,882)	-	(9)	(36,891)	(13,141)	(50,032)
<b>Balance at September 30, 2012</b>		3,992,348	9,880,108	(435,174)	(271,348)	13,165,934	249,510	13,415,444

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



## LG Electronics and Subsidiaries

### Interim Consolidated Statements of Cash Flows

Nine-Month Periods Ended September 30, 2012 and 2011

	Notes	Nine-Month Period Ended September 30	
		2012	2011
<i>(in millions of Korean won)</i>			
<b>Cash flows from operating activities</b>			
Cash generated from operations	25	2,042,753	1,680,879
Interest received		54,153	53,536
Interest paid		(246,006)	(224,726)
Dividends received		36,640	84,865
Income tax paid		(309,715)	(262,442)
<b>Net cash generated from operating activities</b>		<b>1,577,825</b>	<b>1,332,112</b>
<b>Cash flows from investing activities</b>			
Decrease in financial deposits		13,205	40,000
Decrease in loans and other receivables		224,404	118,072
Proceeds from disposal of other financial assets		37,292	17,343
Proceeds from disposal of property, plant and equipment	9	62,918	60,534
Proceeds from disposal of intangible assets	9	2,902	2,787
Proceeds from disposal of and recovery of investments in jointly controlled entities and associates	10	214,757	1,386
Decrease in other assets		1,525	3,749
Increase in financial deposits		-	(29,396)
Increase in loans and other receivables		(193,683)	(160,305)
Acquisition of other financial assets		(39,914)	(80,426)
Acquisition of property, plant and equipment	9	(902,180)	(1,317,281)
Acquisition of intangible assets	9	(204,362)	(218,619)
Acquisition of jointly controlled entities and associates	10	(26,098)	(998)
Decrease in cash and cash equivalents due to business combination and changes in scope of subsidiaries	31	-	(148,275)
Increase in other assets		(205)	-
<b>Net cash used in investing activities</b>		<b>(809,439)</b>	<b>(1,711,429)</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		1,907,458	3,008,809
Issuance of ordinary shares of subsidiaries		8,820	-
Repayments of borrowings		(2,289,991)	(1,811,811)
Dividends paid		(59,065)	(43,143)
<b>Net cash provided by(used in) financing activities</b>		<b>(432,778)</b>	<b>1,153,855</b>
<b>Exchange gains (losses) on cash and cash equivalents</b>		<b>(19,199)</b>	<b>31,113</b>
<b>Net increase in cash and cash equivalents</b>		<b>316,409</b>	<b>805,651</b>
Cash and cash equivalents at the beginning of period		2,345,465	1,944,162
<b>Cash and cash equivalents at the end of period</b>		<b>2,661,874</b>	<b>2,749,813</b>

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

# **LG Electronics and Subsidiaries**

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

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

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

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

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

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

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

## LG Electronics and Subsidiaries

### Notes to the Interim Consolidated Financial Statements September 30, 2012 and 2011, and December 31, 2011

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

Territory	Country	Subsidiaries	Percentage of ownership	Year end	Major Business	
The Republic of Korea	Korea	Hiplaza Co., Ltd.	100%	December 31	Sales	
	Korea	Hi Business Logistics Co., Ltd.	100%	December 31	Logistics	
	Korea	Hi Entech Co., Ltd.	100%	December 31	Water engineering	
	Korea	LG-Hitachi Water Solutions Co., Ltd.	51%	December 31	Construction of Water Purification Facility	
	Korea	ACE R&A Co., Ltd.	100%	December 31	Production and Sales	
	Korea	Hi M Solutek	100%	December 31	Maintenance	
	Korea	Hi Teleservice Co., Ltd.	100%	December 31	Marketing	
	Korea	LGE Alliance Fund	96%	December 31	Investment	
	Korea	Innovation Investment Fund	83%	December 31	Investment	
	Korea	KTB Technology Fund	100%	December 31	Investment	
	China	China	Hi Logistics (China) Co., Ltd.	100%	December 31	Logistics
		China	Inspur LG Digital Mobile Communications Co., Ltd.(LGEYT)	70%	December 31	Production
		China	LG Electronics (China) Co., Ltd.(LGECH)	100%	December 31	Sales
		China	LG Electronics (China) Research and Development Centre Co.,Ltd.(LGERD)	100%	December 31	R&D
China		LG Electronics (Hangzhou) Co., Ltd.(LGEHN)	70%	December 31	Production	
China		LG Electronics (Kunshan) Computer Co., Ltd.(LGEKS)	100%	December 31	Production	
China		LG Electronics (Shanghai) Research and Development Center Co.,Ltd(LGCRC)	100%	December 31	R&D	
China		LG Electronics Air-Conditioning(Shandong) Co.,Ltd.(LGEQA)	100%	December 31	Production and Sales	
China		LG Electronics HK Ltd.(LGEHK)	100%	December 31	Sales	
China		LG Electronics Huizhou Ltd.(LGEHZ)	80%	December 31	Production	
China	LG Electronics Nanjing Display Co., Ltd.(LGEND)	70%	December 31	Production		

**LG Electronics and Subsidiaries**  
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Territory	Country	Subsidiaries	Percentage of ownership	Year end	Major Business
Asia	China	LG Electronics Qinhuangdao Inc.(LGEQH)	100%	December 31	Production
	China	LG Electronics Shenyang Inc.(LGESY)	79%	December 31	Production
	China	LG Electronics Tianjin Appliances Co., Ltd.(LGETA)	80%	December 31	Production
	China	NanJing LG-Panda Appliances Co., Ltd.(LGEPN)	70%	December 31	Production
	China	Qingdao LG Inspur Digital Communication Co., Ltd.(LGEQD)	70%	December 31	Production
	China	Shanghai LG Electronics Co., Ltd.(LGESH)	70%	December 31	Production
	China	Taizhou LG Electronics Refrigeration Co., Ltd.(LGETR)	100%	December 31	Production
	China	Tianjin Lijie cartridge heater Co.,Ltd.(LGETL)	67%	December 31	Production
	Australia	LG Electronics Australia Pty, Ltd.(LGEAP)	100%	December 31	Sales
	India	LG Electronics India Pvt. Ltd.(LGEIL) <sup>2</sup>	100%	March 31	Production and Sales
	Japan	LG Electronics Japan Lab. Inc.(LGEJL)	100%	December 31	R&D
	Japan	LG Electronics Japan, Inc.(LGEJP)	100%	December 31	Sales
	Malaysia	LG Electronics Malaysia SDN. BHD(LGEML)	100%	December 31	Sales
	Philippines	LG Electronics Philippines Inc.(LGEPH)	100%	December 31	Sales
	Singapore	LG Electronics Singapore PTE LTD.(LGESL)	100%	December 31	Sales
	Taiwan	LG Electronics Taiwan Taipei Co., Ltd.(LGETT)	100%	December 31	Sales
	Thailand	LG Electronics Thailand Co., Ltd.(LGETH)	100%	December 31	Production and Sales
	Vietnam	LG Electronics Vietnam Co., Ltd.(LGEVN)	100%	December 31	Production and Sales
	India	LG Soft India Private Limited.(LGS) <sup>2</sup>	100%	March 31	R&D
	Indonesia	P. T. LG Electronics Indonesia(LGEIN)	100%	December 31	Production and Sales
India	Hi Logistics India Private Limited <sup>2</sup>	100%	March 31	Logistics	
Malaysia	Hi LOGISTICS MALAYSIA SDN BHD	100%	December 31	Logistics	

**LG Electronics and Subsidiaries**  
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Territory	Country	Subsidiaries	Percentage of ownership	Year end	Major Business
Europe	Netherlands	Hi Logistics Europe B.V.	100%	December 31	Logistics
	Austria	LG Electronics Austria GmbH(LGEAG)	100%	December 31	Sales
	Netherlands	LG Electronics Benelux Sales B.V.(LGEBN)	100%	December 31	Sales
	Czech Republic	LG Electronics CZ, s.r.o.(LGE CZ)	100%	December 31	Sales
	Germany	LG Electronics Deutschland GmbH(LGEDG)	100%	December 31	Sales
	Spain	LG Electronics Espana S.A.(LGEES)	100%	December 31	Sales
	Netherlands	LG Electronics European Holdings B.V.(LGE EH)	100%	December 31	European Holding
	Netherlands	LG Electronics European Shared Service Center B.V.(LGE SC)	100%	December 31	Services
	France	LG Electronics France S.A.S.(LGEFS)	100%	December 31	Sales
	Greece	LG Electronics Hellas S.A.(LGEHS)	100%	December 31	Sales
	Italy	LG Electronics Italia S.p.A.(LGEIS)	100%	December 31	Sales
	Netherlands	LG Electronics JIT Europe B.V.(LGEJE)	100%	December 31	Logistics
	Latvia	LG Electronics Latvia, LLC(LGELV)	100%	December 31	Sales
	Hungary	LG Electronics Magyar KFT(LGEMK)	100%	December 31	Sales
	Poland	LG Electronics Mlawa Sp. z o.o.(LGEMA)	100%	December 31	Production
	France	LG Electronics Mobilecomm France(LGEMF)	100%	December 31	R&D
	Sweden	LG Electronics Nordic AB(LGESW)	100%	December 31	Sales
	Norway	LG Electronics Norway AS(LGENO)	100%	December 31	Sales
	Poland	LG Electronics Polska Sp. z o.o.(LGEPL)	100%	December 31	Sales
	Portugal	LG Electronics Portugal S.A.(LGEPT)	100%	December 31	Sales
	Romania	LG Electronics Romania S.R.L.(LGERO)	100%	December 31	Sales

**LG Electronics and Subsidiaries**  
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Territory	Country	Subsidiaries	Percentage of ownership	Year end	Major Business
	UK	LG Electronics United Kingdom Ltd.(LGEUK)	100%	December 31	Sales
	Poland	LG Electronics Wroclaw Sp.z o.o(LGEWR)	100%	December 31	Production and Sales
North America	USA	LG Electronics Miami Inc.(LGEML)	100%	December 31	Sales
	USA	LG Electronics Alabama Inc.(LGEAL)	100%	December 31	Services
	Canada	LG Electronics Canada, Inc.(LGECL)	100%	December 31	Sales
	Mexico	LG Electronics Mexicali, S.A. DE C.V.(LGEMLX)	100%	December 31	Production
	Mexico	LG Electronics Mexico S.A. DE C.V.(LGEEMS)	100%	December 31	Sales
	USA	LG Electronics Mobile Research U.S.A., L.L.C.(LGEMLR)	100%	December 31	R&D
	USA	LG Electronics Mobilecomm U.S.A., Inc.(LGEMLU)	100%	December 31	Sales
	Mexico	LG Electronics Monterrey Mexico S.A.de C.V.(LGEMLM)	100%	December 31	Production
	Mexico	LG Electronics Reynosa S.A. DE C.V.(LGEERS)	100%	December 31	Production
	USA	LG Electronics U.S.A., Inc.(LGEUS)	100%	December 31	Sales
	USA	LG Receivable Funding LLC	100%	December 31	Other
	Mexico	Servicios Integrales LG S.A DE C.V	100%	December 31	Services
	Mexico	Servicios LG Monterrey Mexico S.A. de C.V.	100%	December 31	Other
	USA	Triveni Digital Inc.	88%	December 31	R&D
	USA	Zenith Electronics Corporation of Pennsylvania	100%	December 31	Other
	USA	Zenith Electronics Corporation(Zenith)	100%	December 31	R&D
South America	Brazil	LG Armagem Geral Ltda.	100%	December 31	Services
	Argentina	LG Electronics Argentina S.A.(LGEARG)	100%	December 31	Sales
	Colombia	LG Electronics Colombia Ltda.(LGECLB)	100%	December 31	Sales
	Brazil	LG Electronics do Brasil Ltda.(LGEBR) (former LGESP)	100%	December 31	Production and Sales

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<b>Territory</b>	<b>Country</b>	<b>Subsidiaries</b>	<b>Percentage of ownership</b>	<b>Year end</b>	<b>Major Business</b>
	Honduras	LG Electronics Honduras S.de R.L. <sup>1</sup>	20%	December 31	Sales
	Chile	LG Electronics Inc Chile Ltda.(LGECL)	100%	December 31	Sales
	Panama	LG Electronics Panama, S.A.(LGEPS)	100%	December 31	Sales
	Peru	LG Electronics Peru S.A.(LGEPR)	100%	December 31	Sales
	Venezuela	LG Electronics Venezuela S.A.(LGEVZ)	100%	December 31	Sales
	Brazil	SOCIO VIP Ltda.	100%	December 31	Services
	Panama	C&S America Solutions	100%	December 31	Services
	Panama	LG Consulting corp.	100%	December 31	Services
	Guatemala	LG Electronics Guatemala S.A.	100%	December 31	Sales
Middle East and Africa	Nigeria	Easytec Global Services Innovation Limited	100%	December 31	Services
	Angola	LG Electronics Angola Limitada (LGEAO)	100%	December 31	Sales & Services
	Jordan	LG Electronics (Levant) Jordan(LGELF)	100%	December 31	Sales
	UAE	LG Electronics Africa Logistics FZE(LGEAF)	100%	December 31	Sales
	Algeria	LG Electronics Algeria SARL(LGEAS)	70%	December 31	Sales
	UAE	LG Electronics Dubai FZE(LGEDF)	100%	December 31	Sales
	Egypt	LG Electronics Egypt S.A.E(LGEEG)	100%	December 31	Production and Sales
	UAE	LG Electronics Gulf FZE(LGEGF)	100%	December 31	Sales
	UAE	LG Electronics Middle East Co., Ltd.(LGEME)	100%	December 31	Services
	Morocco	LG Electronics Morocco S.A.R.L(LGEMC)	100%	December 31	Sales
	Nigeria	LG Electronics Nigeria Limited(LGENI)	100%	December 31	Other
	Tunisia	LG Electronics North Africa Service Company S.A.R.L	100%	December 31	Production and Sales
	UAE	LG Electronics Overseas Trading FZE(LGEOT)	100%	December 31	Sales

**LG Electronics and Subsidiaries**  
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<b>Territory</b>	<b>Country</b>	<b>Subsidiaries</b>	<b>Percentage of ownership</b>	<b>Year end</b>	<b>Major Business</b>
	South Africa	LG Electronics S.A. (Pty) Ltd.(LGESA)	100%	December 31	Production and Sales
	Turkey	LG Electronics Ticaret A.S.(LGETK)	100%	December 31	Sales
	Saudi Arabia	LG-Shaker Co., Ltd.(LGESR) <sup>1</sup>	49%	December 31	Production
	Kenya	LG Electronics Service Kenya Limited(LGESK)	100%	December 31	Services
	Saudi Arabia	LG Electronics Saudi Arabia Limited	100%	December 31	Services
Others	Russia	LG Alina Electronics(LGERI)	95%	December 31	Services
	Kazakhstan	LG Electronics Almaty Kazakhstan(LGEAK)	100%	December 31	Production and Sales
	Russia	LG Electronics RUS, LLC(LGERA)	100%	December 31	Production and Sales
	Russia	LG Electronics RUS-Marketing, LLC(LGERM)	100%	December 31	Services
	Ukraine	LG Electronics Ukraine Inc.(LGEUR)	100%	December 31	Sales

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

<sup>2</sup> The financial statements for the nine-month period ended September 30, 2012, were used in the preparation of consolidated financial statements although the fiscal year ends on March 31, 2013.



## LG Electronics and Subsidiaries

### Notes to the Interim Consolidated Financial Statements

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

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

Subsidiaries	September 30, 2012									
	Three Months					Nine Months				
	Assets	Liabilities	Equity	Sales	Net Income(loss)	Total Comprehensive Income(loss)	Sales	Net Income(loss)	Total Comprehensive Income(loss)	Total Comprehensive Income(loss)
LG Electronics U.S.A., Inc.(LGEUS)	1,933,052	1,671,417	261,635	1,542,383	(24,973)	(25,222)	4,388,091	(6,758)	(6,848)	(6,848)
LG Electronics do Brasil Ltda.(LGEBR) (former LGESP)	1,517,153	1,152,004	365,149	718,550	52,728	51,844	2,105,988	48,961	47,570	47,570
LG Electronics RUS, LLC(LGERA)	1,098,882	712,125	386,757	682,412	57,539	60,947	1,873,979	126,024	129,072	129,072
LG Electronics European Shared Service Center B.V.(LGESC)	935,632	909,450	26,182	43,313	2,047	2,118	130,693	4,863	4,852	4,852
LG Electronics Reynosa S.A. DE C.V.(LGERS)	757,198	483,689	273,509	791,693	4,417	5,449	2,110,627	59,566	56,328	56,328
LG Electronics India Pvt. Ltd.(LGEIL)	752,788	388,643	364,145	557,823	25,169	28,787	1,886,314	104,988	111,081	111,081
LG Electronics (China) Co. Ltd.(LGECH)	752,200	725,384	26,816	316,256	(7,537)	(7,689)	820,705	504	975	975
LG Electronics Tianjin Appliances Co., Ltd.(LGETA)	676,691	384,735	291,956	318,800	5,330	4,776	1,100,522	27,945	25,954	25,954
P.T. LG Electronics Indonesia(LGEIN)	592,345	371,899	220,446	562,277	10,787	9,944	1,572,388	34,273	31,446	31,446
LG Electronics Miawa Sp. z o.o(LGEMA)	563,751	267,663	296,088	317,286	(1,525)	(1,043)	1,027,270	14,975	16,234	16,234
LG Electronics Wrocław Sp.z o.o(LGEWR)	527,068	381,210	145,858	389,308	(4,195)	(3,581)	1,189,207	10,877	13,237	13,237
LG Electronics Nanjing Display Co., Ltd.(LGEND)	426,267	277,141	149,126	327,796	560	428	755,697	6,051	2,806	2,806
Hiplaza Co., Ltd.	421,040	281,802	139,238	380,140	4,529	4,572	970,582	(4,521)	(4,119)	(4,119)
LG Electronics Mobilecomm U.S.A., Inc.(LGEMU)	401,175	321,624	79,551	844,376	(1,320)	(1,565)	2,747,893	10,295	9,230	9,230
LG Electronics Huizhou Ltd.(LGEHZ)	398,230	306,654	91,576	395,539	3,089	2,776	1,105,251	10,798	9,319	9,319
LG Electronics Mexico S.A. DE C.V.(LGEMS)	381,856	314,879	66,977	264,437	(1,430)	(2,902)	793,368	(50,170)	(51,229)	(51,229)
Inspur LG Digital Mobile Communications Co., Ltd.(LGEYT)	380,368	308,338	72,030	363,407	4,498	4,325	1,044,923	11,115	10,950	10,950
Taizhou LG Electronics Refrigeration Co., Ltd.(LGETR)	362,875	227,109	135,766	187,889	(1,801)	(2,025)	470,559	8,253	8,443	8,443
LG Electronics Thailand Co., Ltd.(LGETH)	335,205	194,477	140,728	251,382	(2,785)	(2,790)	836,804	13,712	13,909	13,909
LG Electronics Gulf FZE(LGEGF)	329,231	317,243	11,988	253,964	(8,282)	(8,739)	830,125	9,026	9,098	9,098

(in millions of Korean won)

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Subsidiaries	2011									
	December 31, 2011					2011				
	Assets	Liabilities	Equity	Sales	Net Income(loss)	Total Comprehensive Income(loss)	Sales	Net Income(loss)	Total Comprehensive Income(loss)	
LG Electronics U.S.A., Inc.(LGEUS)	1,820,097	1,542,988	277,109	1,402,210	(20,648)	(21,487)	4,127,457	(9,412)	(10,207)	
LG Electronics European Shared Service Center										
B.V.(LGESC)	1,146,062	1,141,380	4,682	7,291	758	790	20,797	(271)	(196)	
LG Electronics RUS, LLC(LGERA)	871,291	610,846	260,445	587,820	33,666	32,407	1,660,048	63,411	62,853	
LG Electronics Tianjin Appliances Co., Ltd.(LGETA)	854,376	564,307	290,069	315,635	4,343	6,504	1,281,982	22,906	23,631	
LG Electronics da Amazonia Ltda.(LGEAZ)	798,573	499,322	299,251	439,159	(30,344)	(26,401)	1,185,035	(73,106)	(78,831)	
LG Electronics (China) Co., Ltd.(LGECH)	786,112	759,166	26,946	440,407	(10,912)	(10,970)	1,425,184	(5,279)	(5,610)	
LG Electronics India Pvt. Ltd.(LGEIL)	759,343	304,022	455,321	657,434	7,039	7,498	2,193,472	62,273	60,787	
LG Electronics de Sao Paulo Ltda.(LGESP)	631,506	488,408	143,098	390,706	(38,543)	(38,786)	1,209,567	(28,447)	(28,263)	
LG Electronics Mobilecomm U.S.A., Inc.(LGEMU)	586,147	514,555	71,592	940,410	4,213	4,934	3,301,087	6,578	7,289	
LG Electronics Mlawa Sp. z o.o.(LGEIMA)	565,413	292,606	272,807	325,767	11,176	9,902	1,212,413	24,680	22,648	
LG Electronics Reynosa S.A. DE C.V.(LGEERS)	562,283	341,792	220,491	727,995	7,358	6,110	2,073,150	69,294	70,702	
LG Electronics Mexico S.A. DE C.V.(LGEEMS)	548,161	422,268	125,913	295,976	(8,982)	(9,274)	969,882	569	(1,112)	
LG Electronics Wroclaw Sp.z.o.o.(LGEWR)	500,117	369,506	130,611	259,735	3,613	1,861	1,122,073	24,394	23,685	
P.T. LG Electronics Indonesia(LGEIN)	492,848	300,127	192,721	498,588	10,357	13,953	1,505,305	38,065	43,104	
LG Electronics Nanjing Display Co., Ltd.(LGEND)	444,390	294,862	149,528	269,844	9,175	13,324	972,106	43,409	47,868	
Taizhou LG Electronics Refrigeration Co., Ltd.(LGETR)	378,682	247,351	131,331	179,280	(4,078)	(4,343)	532,005	(1,834)	(2,432)	
Hiplaza Co., Ltd.	371,441	260,077	111,364	395,033	4,070	4,032	1,068,346	4,471	1,881	
LG Electronics Huizhou Ltd.(LGEHZ)	346,424	249,923	96,501	346,447	2,139	3,811	1,079,937	14,255	15,463	
LG Electronics Thailand Co., Ltd.(LGETH)	327,034	199,563	127,471	239,422	(3,698)	(3,384)	867,424	2,956	850	
LG Electronics Deutschland GmbH(LGEDG)	318,172	284,049	34,123	267,669	(10,450)	(11,227)	835,869	(28,972)	(29,211)	

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

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

Subsidiaries eliminated from the consolidation are:

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

**2. Significant Accounting Policies**

**Basis of Preparation**

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

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

The following standards, amendments to standards and interpretations have been issued and announced as of the reporting date and shall be implemented from December 31, 2012, or newly adopted by the Group for the year 2013 or thereafter.

- Korean IFRS 1001 (Amendment): '*Presentation of financial statements*'

Korean-IFRS 1001, '*Presentation of financial statements*', was amended to present the operating income or loss as an amount of sales net of cost of sales, and selling, marketing and administrative expenses in the statement of income. It also describes that an entity can present operating income or loss to include other income or expenses as reflected in entity-specific measure of its operating performance (under the name 'adjusted operating income or loss' or another if appropriate) in the notes. The effective date of the amendment is December 31, 2012, and the amendment is required to be applied for annual periods ending on or after the effective date, with early adoption permitted. The Group expects that the

## **LG Electronics and Subsidiaries**

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

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

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application of this amendment would not have an impact on its profit or loss for the period but have an impact on its operating income or loss.

- Korean IFRS 1019 (Amendment): '*Employee Benefits*'

The amendment does not allow the corridor approach any more. It requires the Group to recognise all actuarial gains and losses in other comprehensive income as they occur, immediately recognise all past service costs and replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability (asset). The Group is in the process of understanding the potential impact from the application of Korean IFRS 1019.

- Korean IFRS 1113 (Enactment): '*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 Korean IFRSs. The Group is in the process of understanding the potential impact from the application of Korean IFRS 1113.

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

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

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

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

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

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

# **LG Electronics and Subsidiaries**

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

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

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#### **Income Taxes**

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

#### **Fair Value of Financial Instruments**

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

#### **Provisions**

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

#### **Defined Benefit Liability**

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

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**4. Segment Information**

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

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

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

*.(in millions of Korean won)*

	2012				2011			
	Segment sales		Segment operating income(loss)		Segment Sales		Segment operating income(loss)	
	Three Months	Nine Months	Three Months	Nine Months	Three Months	Nine Months	Three Months	Nine Months
Home Entertainment (HE)	5,486,365	16,294,972	88,561	522,008	5,739,988	17,276,882	88,763	299,737
Mobile Communications(MC)	2,447,450	7,265,876	21,583	3,809	2,762,448	8,917,444	(138,780)	(293,120)
Home Appliance (HA)	2,867,554	8,278,554	128,518	445,378	2,694,808	8,103,051	74,315	235,117
Air Conditioning &Energy Solution(AE)	974,252	3,667,037	11,743	162,926	1,005,941	3,898,330	1,729	95,330
	<u>11,775,621</u>	<u>35,506,439</u>	<u>250,405</u>	<u>1,134,121</u>	<u>12,203,185</u>	<u>38,195,707</u>	<u>26,027</u>	<u>337,064</u>
Other segments <sup>1</sup> and inter-segment transactions <sup>2</sup>	600,161	1,956,239	(29,857)	(116,408)	694,042	2,246,544	(57,913)	(79,872)
	<u>12,375,782</u>	<u>37,462,678</u>	<u>220,548</u>	<u>1,017,713</u>	<u>12,897,227</u>	<u>40,442,251</u>	<u>(31,886)</u>	<u>257,192</u>

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

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

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The segment information for assets and liabilities is as follows:

<i>(in millions of Korean won)</i>	September 30, 2012		December 31, 2011	
	Segment assets <sup>1</sup>	Segment liabilities <sup>1</sup>	Segment assets <sup>1</sup>	Segment liabilities <sup>1</sup>
Home Entertainment (HE)	15,155,891	12,995,193	14,063,934	11,832,253
Mobile Communications (MC)	6,621,590	4,213,797	6,689,008	4,201,161
Home Appliance (HA)	8,199,782	6,007,934	7,307,851	5,327,816
Air Conditioning & Energy Solution (AE)	3,154,021	2,068,984	2,798,424	1,797,373
	<u>33,131,284</u>	<u>25,285,908</u>	<u>30,859,217</u>	<u>23,158,603</u>
Other segments and inter-segment transactions	144,106	(5,425,962)	1,799,240	(3,648,394)
	<u>33,275,390</u>	<u>19,859,946</u>	<u>32,658,457</u>	<u>19,510,209</u>

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

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

<i>(in millions of Korean won)</i>	External sales				Non-current assets <sup>1</sup>	
	2012		2011		September	December
	Three Months	Nine Months	Three Months	Nine Months	30, 2012	31, 2011
Korea	2,364,332	7,612,636	2,447,919	7,078,551	6,362,243	6,294,475
North America	2,691,736	7,949,086	2,671,354	8,388,509	137,648	139,883
Europe	1,202,951	3,732,020	1,506,018	5,310,116	251,722	249,278
Central & South America	1,715,271	4,974,379	1,825,440	5,471,664	439,602	431,712
Middle East & Africa	1,019,312	3,254,626	1,139,996	3,719,361	79,712	81,140
Asia	1,010,683	3,024,082	1,014,793	3,129,430	168,069	176,219
India	511,819	1,753,649	590,739	2,004,781	154,084	161,414
China	960,805	2,706,161	964,814	3,229,821	627,327	635,135
CIS	898,873	2,456,039	736,154	2,110,018	188,102	164,193
	<u>12,375,782</u>	<u>37,462,678</u>	<u>12,897,227</u>	<u>40,442,251</u>	<u>8,408,509</u>	<u>8,333,449</u>

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

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

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**5. Financial Instruments by Category**

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

<i>(in millions of Korean won)</i>	<b>Assets at fair value through profit or loss</b>	<b>Derivatives for hedge</b>	<b>Loans and Receivables</b>	<b>Available-for-sale financial assets</b>	<b>Held-to-maturity financial assets</b>	<b>Total</b>
Cash and cash equivalents	-	-	2,661,874	-	-	2,661,874
Financial deposits	-	-	263,625	-	-	263,625
Trade receivables	-	-	6,688,506	-	-	6,688,506
Loans and other receivables	-	-	1,013,297	-	-	1,013,297
Other financial assets	8,324	4,758	-	58,014	55,930	127,026
	<u>8,324</u>	<u>4,758</u>	<u>10,627,302</u>	<u>58,014</u>	<u>55,930</u>	<u>10,754,328</u>

<i>(in millions of Korean won)</i>	<b>Liabilities at fair value through profit or loss</b>	<b>Derivatives for hedge</b>	<b>Liabilities carried at amortized cost</b>	<b>Total</b>
Trade payables	-	-	6,070,413	6,070,413
Borrowings	-	-	7,000,960	7,000,960
Other payables	-	-	1,320,901	1,320,901
Other financial liabilities	3,394	4,449	-	7,843
Other liabilities	-	-	480	480
	<u>3,394</u>	<u>4,449</u>	<u>14,392,754</u>	<u>14,400,597</u>

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

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

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



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**6. Trade Receivables**

Carrying amounts of trade receivables, net of allowance for doubtful accounts, are as follows:

<i>(in millions of Korean won)</i>	<u>September 30, 2012</u>	<u>December 31, 2011</u>
Trade receivables	6,845,688	6,853,722
Less: allowance for doubtful accounts	<u>(157,182)</u>	<u>(101,163)</u>
	<u>6,688,506</u>	<u>6,752,559</u>

The aging of the trade receivables is as follows:

<i>(in millions of Korean won)</i>	<u>September 30, 2012</u>	<u>December 31, 2011</u>
Current	6,130,237	6,149,878
Up to 6 months	508,787	525,534
7 to 12 months	39,559	7,832
Over one year	20,600	18,803
Defaulted	<u>146,505</u>	<u>151,675</u>
	<u>6,845,688</u>	<u>6,853,722</u>

**7. Other Financial Assets and Liabilities**

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

<i>(in millions of Korean won)</i>	<u>September 30, 2012</u>	<u>December 31, 2011</u>
<b>Other financial assets</b>		
Derivatives	13,082	14,677
Available-for-sale	58,014	68,617
Held-to-maturity	<u>55,930</u>	<u>57,665</u>
	<u>127,026</u>	<u>140,959</u>
<b>Current</b>	165	1,677
<b>Non-current</b>	<u>126,861</u>	<u>139,282</u>

<i>(in millions of Korean won)</i>	<u>September 30, 2012</u>	<u>December 31, 2011</u>
<b>Other financial liabilities</b>		
Derivatives	<u>7,843</u>	<u>14,238</u>
	<u>7,843</u>	<u>14,238</u>
<b>Current</b>	946	13,860
<b>Non-current</b>	<u>6,897</u>	<u>378</u>

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Available-for-sale financial assets as of September 30, 2012 and December 31, 2011, consist of:

<i>(in millions of Korean won)</i>	September 30, 2012			December 31, 2011	
	Acquisition Cost	Appreciation	Impairment losses	Carrying amounts	Carrying amounts
Listed equity securities	1,881	8,817	-	10,698	8,969
Unlisted equity securities	53,514	-	(9,068)	44,446	52,873
Debt securities	4,672	-	(1,802)	2,870	6,775
	<u>60,067</u>	<u>8,817</u>	<u>(10,870)</u>	<u>58,014</u>	<u>68,617</u>

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

**8. Inventories**

The carrying amounts of inventories as of September 30, 2012 and December 31, 2011, are as follows:

<i>(in millions of Korean won)</i>	September 30, 2012			December 31, 2011		
	Amounts before valuation	Valuation allowance	Carrying amounts	Amounts before valuation	Valuation allowance	Carrying amounts
Finished products and Merchandise	3,379,829	(78,593)	3,301,236	3,023,842	(111,725)	2,912,117
Half-finished products and work-in-process	228,528	(2,842)	225,686	188,879	(6,224)	182,655
Raw materials and supplies	1,795,013	(35,375)	1,759,638	1,680,103	(87,919)	1,592,184
Other	298,782	(33,558)	265,224	297,291	(37,087)	260,204
	<u>5,702,152</u>	<u>(150,368)</u>	<u>5,551,784</u>	<u>5,190,115</u>	<u>(242,955)</u>	<u>4,947,160</u>

The loss on valuation of inventories recognized for the nine-month period ended September 30, 2012, respectively, amounts to ₩46,131 million (2011: ₩169,178 million).

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

Changes in property, plant and equipment are as follows:

<i>(in millions of Korean won)</i>	2012	2011
<b>At January 1</b>	7,290,413	6,500,484
Acquisitions	902,180	1,317,281
Transfer-in	158	(505)
Disposals and others	(62,215)	(67,812)
Depreciation	(707,108)	(669,772)
Impairment	(2,900)	(3,586)

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Business Combination and changes in scope of subsidiaries	-	27,450
Exchange differences	(38,697)	4,578
<b>At September 30</b>	<b>7,381,831</b>	<b>7,108,118</b>

Changes in intangible assets are as follows:

<i>(in millions of Korean won)</i>	<b>2012</b>	<b>2011</b>
<b>At January 1</b>	1,035,797	763,382
Acquisitions	39,514	43,615
Acquisitions by internal development	164,848	175,004
Transfer-in	72,090	89,571
Disposals and other	(21,510)	(18,324)
Amortization	(270,225)	(226,446)
Impairment	(46)	(16)
Business Combination and changes in scope of subsidiaries	-	101,062
Exchange differences	(1,031)	511
<b>At September 30</b>	<b>1,019,437</b>	<b>928,359</b>

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

The details of changes of investments in jointly controlled entities and associates as of September 30, 2012 and December 31, 2011, are as follows:

Location	Percentage of Ownership at September 30, 2012	Year end	September 30, 2012			December 31, 2011			
			Acquisition Cost	Net asset amounts	Carrying amounts	Acquisition Cost	Net asset amounts	Carrying amounts	
LG Display Co., Ltd.	Korea	37.9%	Dec. 31	679,218	3,775,523	3,727,215	679,218	3,829,341	3,794,169
LG Innotek Co., Ltd.	Korea	47.9%	Dec. 31	381,795	1,326,016	1,323,738	381,795	1,351,819	1,350,791
Ericsson-LG Co., Ltd.	Korea	25.0%	Dec. 31	26,626	93,034	92,236	53,255	203,968	201,517
Other <sup>1</sup>				306,546	383,698	294,063	280,448	266,877	256,722
				<b>1,394,185</b>	<b>5,578,271</b>	<b>5,437,252</b>	<b>1,394,716</b>	<b>5,652,005</b>	<b>5,603,199</b>

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

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

<i>(in millions of Korean won)</i>	<u>2012</u>	<u>2011</u>
<b>At January 1</b>	5,603,199	6,008,145
Acquisitions	26,098	998
Loss of jointly controlled entities and associates <sup>1</sup>	(40,334)	(289,754)
Other comprehensive income (expense) of jointly controlled entities and associates <sup>2</sup>	(10,961)	38,340
Actuarial gain (loss) of jointly controlled entities and associates	(25,187)	381
Dividends / recovery of investment <sup>3</sup>	(115,563)	(86,842)
<b>At September 30</b>	<u>5,437,252</u>	<u>5,671,268</u>

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

<i>(in millions of Korean won)</i>	<u>2012</u>	<u>2011</u>
Loss of jointly controlled entities and associates	(40,334)	(289,754)
Gain on disposal of shares of jointly controlled entities and associates	135,795	-
Loss on disposal of shares of jointly controlled entities and associates	(261)	(1,063)
	<u>95,200</u>	<u>(290,817)</u>

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

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

The Group's share in the major jointly controlled entities and associates' profits and total assets, including goodwill, liabilities, non-controlling interests as of September 30, 2012 and December 31, 2011, and sales, and net income (loss) for the nine-month periods ended September 30, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	<u>September 30, 2012</u>		<u>2012</u>	
	<u>Assets</u>	<u>Liabilities and Non-controlling interest</u>	<u>Sales</u>	<u>Profit(loss)</u>
LG Display Co., Ltd.	9,594,512	5,818,989	7,841,151	(27,185)
LG Innotek Co., Ltd.	3,058,455	1,732,439	1,765,790	(17,412)
Ericsson-LG Co., Ltd	142,985	49,951	193,851	9,003

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<i>(in millions of Korean won)</i>	December 31, 2011		2011	
	Assets	Liabilities and Non-controlling interest	Sales	Profit(loss)
LG Display Co., Ltd.	9,532,770	5,703,429	6,701,852	(289,644)
LG Innotek Co., Ltd.	2,855,251	1,503,432	1,598,154	(46,315)
Ericsson-LG Co., Ltd	442,813	238,845	506,257	68,170

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

<i>(in million of Korean won)</i>	September 30, 2012	Unrecognized loss	December 31, 2011
Accumulated comprehensive loss	46,470	298	46,172

The fair values of listed associates are as follows:

<i>(in million Korean won)</i>	September 30, 2012			
	Shares owned (unit: shares)	Price per share (unit: won)	Fair value	Book value
LG Display Co., Ltd.	135,625,000	28,350	3,844,969	3,727,215
LG Innotek Co., Ltd.	9,653,181	81,000	781,908	1,323,738

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

## 11. Borrowings

The carrying amounts of borrowings are as follows:

<i>(in millions of Korean won)</i>	September 30, 2012	December 31, 2011
<b>Current</b>		
Short-term borrowings	1,673,923	1,673,417
Current maturities of long-term borrowings	313,767	548,830
Current maturities of debentures	489,453	955,965
	<u>2,477,143</u>	<u>3,178,212</u>
<b>Non-current</b>		
Long-term borrowings	2,453,162	2,243,218
Debentures	2,070,655	2,014,188
	<u>4,523,817</u>	<u>4,257,406</u>
	<u>7,000,960</u>	<u>7,435,618</u>

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Short-term borrowings consist of:

<i>(in millions of Korean won)</i>	Latest maturity date	Annual interest rate (%) at September 30, 2012	Carrying amount	
			September 30, 2012	December 31, 2011
General loans				
HSBC and other	2013-08-15	1.2 ~ 18.75	1,203,044	1,108,741
Borrowings on negotiated trade bills				
Woori Bank and other <sup>1</sup>	-	0.75 ~ 4.09	470,879	564,676
			<u>1,673,923</u>	<u>1,673,417</u>

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

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

<i>(in millions of Korean won)</i>	Latest maturity date	Annual interest rate (%) at September 30, 2012	September 30, 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	23,750	166,250
Shinhan Bank	2017-02-16	Financial Bond 6ML+0.94	190,000	-	190,000
Woori Bank	2014-02-18	5.67	10,000	-	10,000
Woori Bank	2017-10-28	4.62	190,000	-	190,000
Small & Medium Business Corporation	2014-11-17	3.80	153	17	136
The Korea Development Bank	2013-03-11	4.59	100,000	100,000	-
The Korea Development Bank	2014-04-07	4.45	190,000	-	190,000
The Korea Development Bank	2014-06-24	5.56	8,000	-	8,000
The Korea Development Bank	2014-06-24	5.68	6,000	-	6,000
The Korea Development Bank	2014-06-24	5.31	6,000	-	6,000
The Korea Development Bank	2014-11-24	4.55	150,000	-	150,000
The Korea Development Bank	2014-12-24	4.71	140,000	-	140,000
The Korea Development Bank	2015-03-10	5.06	90,000	-	90,000
The Korea Development Bank	2015-05-04	5.24	16,000	-	16,000
The Korea Development Bank	2015-05-04	4.52	4,000	-	4,000
Korea Finance Corporation	2014-02-28	4.56	90,000	-	90,000
Korea Finance Corporation	2015-03-02	4.80	100,000	-	100,000
Korea Finance Corporation	2015-09-14	4.57	80,000	-	80,000
Korea Finance Corporation	2015-12-24	4.64	40,000	-	40,000
Korea Finance Corporation	2016-04-20	4.63	30,000	-	30,000
Korea Finance Corporation	2017-03-29	4.62	190,000	-	190,000
Foreign currency loans					
HSBC and other	-	1.13~9.19	226,776	-	226,776
			<u>2,766,929</u>	<u>313,767</u>	<u>2,453,162</u>

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

<i>(in millions of Korean won)</i>	Latest maturity date	Annual interest rate (%) at December 31, 2011	December 31, 2011		
			Total	Current	Non-current
<b>Local currency loans</b>					
Kookmin Bank	2012-07-01	5.18	55	55	-
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	2014-02-18	5.67	10,000	-	10,000
Woori Bank	2017-10-28	4.62	190,000	-	190,000
Small & Medium Business Corporation	2014-11-17	3.90	204	68	136
The Korea Development Bank	2012-03-30	5.81	190,000	190,000	-
The Korea Development Bank	2013-03-11	4.59	100,000	-	100,000
The Korea Development Bank	2014-04-07	4.45	190,000	-	190,000
The Korea Development Bank	2014-06-24	5.56	8,000	-	8,000
The Korea Development Bank	2014-06-24	5.68	6,000	-	6,000
The Korea Development Bank	2014-06-24	5.31	6,000	-	6,000
The Korea Development Bank	2014-11-24	4.55	150,000	-	150,000
The Korea Development Bank	2014-12-24	4.71	140,000	-	140,000
The Korea Development Bank	2015-03-10	5.06	90,000	-	90,000
Korea Finance Corporation	2014-02-28	4.56	90,000	-	90,000
Korea Finance Corporation	2015-03-02	4.80	100,000	-	100,000
Korea Finance Corporation	2015-09-14	4.57	80,000	-	80,000
Korea Finance Corporation	2015-12-24	4.64	40,000	-	40,000
Korea Finance Corporation	2016-04-20	4.63	30,000	-	30,000
<b>Foreign currency loans</b>					
The Korea Development Bank	2012-06-26	3ML+0.4	230,660	230,660	-
SMBC Bank and other	-	5.99~10.3	231,129	128,047	103,082
			<u>2,792,048</u>	<u>548,830</u>	<u>2,243,218</u>

Debentures as of September 30, 2012, consist of:

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

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Fixed rate notes in local currency	Public, non-guaranteed bonds (58-2 <sup>nd</sup> )	2016-02-16	4.91	60,000	-	60,000
Floating rate notes in foreign currency	Public, non-guaranteed bonds (59 <sup>th</sup> ) <sup>1</sup>	2014-04-28	3ML+1.00	190,162	-	190,162
Fixed rate notes in local currency	Public, non-guaranteed bonds (60 <sup>th</sup> )	2016-05-20	4.41	190,000	-	190,000
Fixed rate notes in local currency	Public, non-guaranteed bonds (61 <sup>st</sup> )	2016-06-29	4.38	190,000	-	190,000
Fixed rate notes in local currency	Public, non-guaranteed bonds (62-1 <sup>st</sup> )	2013-08-05	3.89	110,000	110,000	-
Fixed rate notes in local currency	Public, non-guaranteed bonds (62-2 <sup>nd</sup> )	2016-08-05	4.34	80,000	-	80,000
Floating rate notes in foreign currency	Private, non-guaranteed bonds (63 <sup>rd</sup> ) <sup>1</sup>	2014-08-23	3ML+0.70	111,860	-	111,860
Fixed rate notes in local currency	Public, non-guaranteed bonds (64 <sup>th</sup> )	2016-09-30	4.32	190,000	-	190,000
Fixed rate notes in foreign currency	Public, non-guaranteed bonds (65 <sup>th</sup> ) <sup>2</sup>	2016-12-02	2.00	256,506	-	256,506
Fixed rate notes in local currency	Public, non-guaranteed bonds (66-1 <sup>st</sup> )	2015-09-10	3.18	170,000	-	170,000
Fixed rate notes in local currency	Public, non-guaranteed bonds (66-2 <sup>nd</sup> )	2017-09-10	3.28	130,000	-	130,000
Less: discount on debentures				(8,419)	(547)	(7,872)
				<u>2,560,109</u>	<u>489,453</u>	<u>2,070,656</u>

Debentures as of December 31, 2011, consist of:

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

<sup>1</sup> The Group entered into a cross-currency swap contract amounting to US\$270 million with Bank of Tokyo-Mitsubishi UFJ and others to hedge cash flow risk related to floating interest rate and foreign exchange rate of the debenture. At the end of the reporting period, the swap contract is evaluated at fair value. The loss on valuation of the effective portion amounting to ₩3,210 million(2011: ₩4,923 million), after applying the tax effect, is recognized cumulatively in other comprehensive loss.



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<sup>2</sup> The Group entered into a cross-currency swap contract amounting to CHF 215 million with Union Bank of Switzerland and others to hedge cash flow risk related to floating foreign exchange rate of the debenture. At the end of the reporting period, the swap contract is evaluated at fair value. The gain on valuation of the effective portion amounting to ₩807 million, after applying the tax effect, is recognized cumulatively in other comprehensive loss.

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

<i>(in millions of Korean won)</i>	September 30, 2012		December 31, 2011	
	Carrying amounts	Fair value	Carrying amounts	Fair value
Long-term borrowings	2,453,162	2,550,747	2,243,218	2,303,461
Debentures	2,070,655	2,116,813	2,014,188	2,059,063
	<u>4,523,817</u>	<u>4,667,560</u>	<u>4,257,406</u>	<u>4,362,524</u>

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 Group.

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

<i>(in millions of Korean won)</i>	Total	Less than			Over 5 years
		1 year	2 years	5 years	
Short-term borrowings	1,725,269	1,725,269	-	-	-
Current maturities of long-term borrowings	322,756	322,756	-	-	-
Current maturities of debentures	506,819	506,819	-	-	-
Long-term borrowings	2,775,574	109,744	844,811	1,628,824	192,195
Debentures	2,354,104	81,867	503,080	1,769,157	-
	<u>7,684,522</u>	<u>2,746,455</u>	<u>1,347,891</u>	<u>3,397,981</u>	<u>192,195</u>

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

## 12. Provisions

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

<i>(in millions of Korean won)</i>	2012				
	Warranty	Sales returns	Restoration	Contingent	Total
At January 1	699,363	67,844	6,672	526,269	1,300,148
Addition	622,990	175,593	2,414	102,808	903,805
Utilisation	(705,116)	(186,361)	(568)	(109,097)	(1,001,142)
Exchange differences	(10,927)	(906)	(10)	(10,128)	(21,971)
At September 30	<u>606,310</u>	<u>56,170</u>	<u>8,508</u>	<u>509,852</u>	<u>1,180,840</u>
Current	556,417	56,170	-	35,684	648,271
Non-current	49,893	-	8,508	474,168	532,569

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<i>(in millions of Korean won)</i>	2011				
	Warranty	Sales returns	Restoration	Contingent	Total
<b>At January 1</b>	742,852	81,914	5,853	495,224	1,325,843
Addition	921,295	207,792	690	43,210	1,172,987
Utilisation	(949,191)	(223,050)	(72)	(22,568)	(1,194,881)
Exchange differences	7,756	1,463	12	(5,377)	3,854
Business Combination and changes in scope of subsidiaries	2,133	-	-	-	2,133
<b>At September 30</b>	<b>724,845</b>	<b>68,119</b>	<b>6,483</b>	<b>510,489</b>	<b>1,309,936</b>
<b>Current</b>	<b>643,954</b>	<b>68,119</b>	<b>-</b>	<b>38,551</b>	<b>750,624</b>
<b>Non-current</b>	<b>80,891</b>	<b>-</b>	<b>6,483</b>	<b>471,938</b>	<b>559,312</b>

**13. Defined Benefit Liability**

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

<i>(in millions of Korean won)</i>	<u>September 30, 2012</u>	<u>December 31, 2011</u>
Present value of funded obligations	1,403,972	1,133,650
Present value of unfunded obligations	32,326	27,731
	<u>1,436,298</u>	<u>1,161,381</u>
Fair value of plan assets	<u>(816,375)</u>	<u>(738,075)</u>
<b>Liabilities</b>	<b><u>619,923</u></b>	<b><u>423,306</u></b>

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

<i>(in millions of Korean won)</i>	2012		2011	
	Three Months	Nine Months	Three Months	Nine Months
Current service cost	56,770	170,300	45,304	144,690
Interest cost	12,897	38,713	11,324	33,919
Expected return on plan assets	(7,476)	(22,427)	(6,246)	(18,706)
Past service cost	7	23	8	24
	<u>62,198</u>	<u>186,609</u>	<u>50,390</u>	<u>159,927</u>

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

<i>(in millions of Korean won)</i>	2012		2011	
	Three Months	Nine Months	Three Months	Nine Months
Cost of sales	28,872	88,440	24,165	77,966
Selling and marketing expenses	10,803	37,352	10,811	33,524
Administrative expenses	3,708	10,586	2,812	9,449
Research and development expenses	14,582	43,677	12,005	35,508
Service costs	4,233	6,554	597	3,480
	<u>62,198</u>	<u>186,609</u>	<u>50,390</u>	<u>159,927</u>

Cumulative actuarial losses after applying the tax effect recognized as other comprehensive loss at the end of the reporting period are ₩250,045 million (2011: ₩149,024 million).

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

<i>(in millions of Korean won)</i>	2012	2011
<b>At January 1</b>	1,161,381	868,843
Current service cost	170,300	144,690
Interest expense	38,713	33,919
Benefits paid	(68,160)	(61,649)
Business combination and changes in scope of subsidiaries	-	3,892
Actuarial loss	135,017	259
Other	(953)	(377)
<b>At September 30</b>	<u>1,436,298</u>	<u>989,577</u>

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

<i>(in millions of Korean won)</i>	2012	2011
<b>At January 1</b>	738,075	550,731
Expected return on plan assets	22,427	18,706
Employer contributions	98,115	92,955
Benefits paid	(44,031)	(21,549)
Actuarial gain	1,900	1,631
Business combination and changes in scope of subsidiaries	-	2,123
Other	(111)	(217)
<b>At September 30</b>	<u>816,375</u>	<u>644,380</u>

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The actual return on plan assets for the nine-month period ended September 30, 2012, is ₩24,327 million (2011: ₩20,337 million).

The principal actuarial assumptions used are as follows:

(%)	<u>September 30, 2012</u>	<u>December 31, 2011</u>
Discount rate	3.6	4.7
Expected rate of return	3.9	3.9
Future salary increase	6.0	6.0

Plan assets consist of:

(in millions of Korean won)	<u>September 30, 2012</u>	<u>December 31, 2011</u>
Securities combined with derivatives (guaranteed)	510,793	460,724
Time deposits and other	305,582	277,351
	<u>816,375</u>	<u>738,075</u>

**14. Capital Stock**

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

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

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

<u>Contents</u>	<u>Details</u>
Purpose of Issuance	Funds for investment and operation
Type of Issued Stock	Ordinary Shares
Total Issued Shares	19,000,000
Par value	₩51,600 per share

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**15. Retained Earnings**

Details of retained earnings as of September 30, 2012 and December 31, 2011, are as follows:

<i>(in millions of Korean won)</i>	<u>September 30, 2012</u>	<u>December 31, 2011</u>
Legal reserve <sup>1</sup>	145,816	142,128
Discretionary reserve <sup>2</sup>	6,351,342	6,756,716
Unappropriated retained earnings	<u>3,382,950</u>	<u>2,600,690</u>
	<u>9,880,108</u>	<u>9,499,534</u>

<sup>1</sup> The Commercial Code of the Republic of Korea requires the Parent 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 Parent Company's Board of Directors or used to reduce accumulated deficit, if any, with the ratification of the Parent Company's majority shareholders.

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

**16. Other Components of Equity**

Details of other components of equity consist of:

<i>(in millions of Korean won)</i>	<u>September 30, 2012</u>	<u>December 31, 2011</u>
Treasury shares <sup>1</sup>	(44,893)	(44,893)
Consideration for conversion rights	9,891	9,891
Gain on disposal of treasury shares	2,183	2,183
Capital transactions within the Group <sup>2</sup>	<u>(238,529)</u>	<u>(238,520)</u>
	<u>(271,348)</u>	<u>(271,339)</u>

<sup>1</sup> The Parent Company has treasury shares consisting of 763,166 (2011: 763,165 shares) of ordinary shares and 4,689 shares (2011: 4,687 shares) of preferred shares at the reporting date. The Parent Company intends to either grant these treasury shares to employees and directors as compensation, or to sell them in the future.

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

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**17. Net Sales**

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

<i>(in millions of Korean won)</i>	2012		2011	
	<u>Three Months</u>	<u>Nine Months</u>	<u>Three Months</u>	<u>Nine Months</u>
Sales of goods	12,100,306	36,698,475	12,638,258	39,724,687
Sales of services	189,488	535,659	185,033	482,348
Royalty income	85,988	228,544	73,936	235,216
	<u>12,375,782</u>	<u>37,462,678</u>	<u>12,897,227</u>	<u>40,442,251</u>

**18. Expenses by Nature**

Expenses that are recorded by nature as cost of sales, general operating expenses and other operating expenses in the statements of income for the three-month and nine-month periods ended September 30, 2012 and 2011, consist of<sup>1</sup>:

<i>(in millions of Korean won)</i>	2012		2011	
	<u>Three Months</u>	<u>Nine Months</u>	<u>Three Months</u>	<u>Nine Months</u>
Changes in inventories	(805,044)	(700,004)	(13,122)	(316,852)
Purchase of raw materials and merchandise	9,143,326	26,150,295	8,979,840	28,780,431
Employee benefit expenses	1,171,520	3,499,535	1,117,227	3,455,652
Depreciation, amortization and impairment loss	333,858	980,279	293,644	899,820
Advertising expenses	413,412	909,463	359,286	1,210,321
Sales promotional expenses	186,084	507,765	205,319	644,238
Transportation expenses	418,006	1,187,698	440,678	1,385,015
Commission expenses	626,500	1,758,154	623,252	1,813,046
Other expenses	926,227	2,994,407	1,597,262	3,671,493
	<u>12,413,889</u>	<u>37,287,592</u>	<u>13,603,386</u>	<u>41,543,164</u>

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

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

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

<i>(in millions of Korean won)</i>	2012		2011	
	<u>Three Months</u>	<u>Nine Months</u>	<u>Three Months</u>	<u>Nine Months</u>
Wages and salaries	590,354	1,796,155	563,587	1,795,511

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Severance benefits	32,754	94,807	27,266	84,223
Welfare expenses	126,959	380,592	138,261	392,380
Freight expenses	413,904	1,162,541	433,482	1,365,271
Rental expenses	104,384	316,154	108,185	321,799
Commission expenses	466,268	1,298,098	468,837	1,352,659
Depreciation	48,742	148,340	46,898	139,196
Amortization	71,025	214,065	61,143	186,857
Taxes and dues	36,055	101,664	32,955	97,233
Advertising expenses	413,412	909,463	359,286	1,210,321
Sales promotional expenses	186,084	507,765	205,319	644,238
Direct R&D costs	95,568	226,421	90,848	245,473
Direct service costs	185,004	524,693	261,336	704,856
Other	189,691	608,669	166,586	512,258
	<u>2,960,204</u>	<u>8,289,427</u>	<u>2,963,989</u>	<u>9,052,275</u>

**20. Other Operating Income**

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

<i>(in millions of Korean won)</i>	2012		2011	
	Three Months	Nine Months	Three Months	Nine Months
Rental income	8,595	25,839	8,487	24,224
Foreign exchange gain	230,672	758,080	635,848	1,227,212
Gain on settlement of derivatives	128	3,644	5,699	10,437
Gain on disposal of property, plant and equipment	3,133	9,280	1,747	5,490
Gain on disposal of intangible assets	29	854	-	-
Other	16,098	44,930	22,492	90,742
	<u>258,655</u>	<u>842,627</u>	<u>674,273</u>	<u>1,358,105</u>

**21. Other Operating Expenses**

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

<i>(in millions of Korean won)</i>	2012		2011	
	Three Months	Nine Months	Three Months	Nine Months
Foreign exchange loss	159,663	721,789	762,490	1,303,016
Loss on settlement of derivatives	1,369	8,690	3,502	8,760
Loss on disposal of property, plant and equipment	3,228	8,577	8,802	12,768
Loss on disposal of intangible assets	6,536	19,461	5,420	15,537
Other	6,003	74,936	8,420	27,168
	<u>176,799</u>	<u>833,453</u>	<u>788,634</u>	<u>1,367,249</u>

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**22. Financial Income**

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

<i>(in millions of Korean won)</i>	2012		2011	
	Three Months	Nine Months	Three Months	Nine Months
Interest income	23,117	69,053	22,328	64,720
Dividend income	-	289	16	474
Foreign exchange gain	36,579	240,640	26,362	325,262
Gain on settlement of derivatives	2,112	29,161	4,295	30,596
Other	1,618	6,627	-	962
	<u>63,426</u>	<u>345,770</u>	<u>53,001</u>	<u>422,014</u>

**23. Financial Expenses**

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

<i>(in millions of Korean won)</i>	2012		2011	
	Three Months	Nine Months	Three Months	Nine Months
Interest expense	74,795	244,404	85,042	232,559
Foreign exchange loss	75,018	286,582	179,599	423,823
Loss on settlement of derivatives	1,439	20,746	8,138	31,381
Loss on disposal of trade receivables	5,754	21,295	11,547	31,944
Other	4,802	21,125	3,394	11,439
	<u>161,808</u>	<u>594,152</u>	<u>287,720</u>	<u>731,146</u>

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

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

<i>(in millions of Korean won)</i>	2012		2011	
	Three Months	Nine Months	Three Months	Nine Months
Profit(loss) attributable to ordinary shares	136,796	491,192	(380,150)	(319,884)
Weighted average number of ordinary shares outstanding (unit: shares) <sup>2</sup>	162,884,648	162,884,649	147,642,832	147,642,833
Basic earnings(loss) per share (in won)	840	3,016	(2,575)	(2,167)



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<i>(in millions of Korean won)</i>	2012		2011	
	Three Months	Nine Months	Three Months	Nine Months
Profit(loss) attributable to preferred shares <sup>1</sup>	14,642	52,455	(44,024)	(36,581)
Weighted average number of preferred shares outstanding (unit: shares) <sup>2</sup>	17,181,303	17,181,304	17,181,305	17,181,305
Basic earnings(loss) per preferred share (in won)	852	3,053	(2,562)	(2,129)

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

<i>(in millions of Korean won)</i>	2012		2011	
	Three Months	Nine Months	Three Months	Nine Months
<b>Profit (loss) for the period (A)</b>	151,438	543,647	(424,174)	(356,465)
Ordinary shares dividends (B)	8,145	24,433	7,382	22,146
Preferred shares dividends (C)	1,073	3,221	1,073	3,221
<b>Undistributed earnings (loss) (D=A-B-C)</b>	142,220	515,993	(432,629)	(381,832)
Undistributed earnings (loss) available for ordinary shares(E)	128,651	466,759	(387,532)	(342,030)
Undistributed earnings (loss) available for preferred shares (F)	13,569	49,234	(45,097)	(39,802)
<b>Profit (loss) attributable to ordinary shares (G=B+E)</b>	136,796	491,192	(380,150)	(319,884)
<b>Profit (loss) attributable to preferred shares (H=C+F)</b>	14,642	52,455	(44,024)	(36,581)

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

	2012		2011	
	Three Months	Nine Months	Three Months	Nine Months
Ordinary shares outstanding	163,647,814	163,647,814	144,647,814	144,647,814
Ordinary treasury shares	(763,166)	(763,166)	(763,164)	(763,164)
Ordinary shares	162,884,648	162,884,648	143,884,650	143,884,650
<b>Weighted average number of ordinary shares outstanding<sup>3</sup></b>	162,884,648	162,884,649	147,642,832	147,642,833
Preferred shares outstanding	17,185,992	17,185,992	17,185,992	17,185,992
Preferred treasury shares	(4,689)	(4,689)	(4,687)	(4,687)
Preferred shares	17,181,303	17,181,303	17,181,305	17,181,305
<b>Weighted average number of preferred shares outstanding</b>	17,181,303	17,181,304	17,181,305	17,181,305

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

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**25. Cash Generated from Operations**

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

<i>(in millions of Korean won)</i>	<u>2012</u>	<u>2011</u>
Profit (loss) for the period	558,620	(321,244)
Adjustments :		
Interest expense, net	175,351	167,839
Foreign exchange loss (gain), net	(39,075)	182,035
Gain on derivatives, net	(3,369)	(892)
Depreciation	707,108	669,772
Amortization	270,225	226,446
Loss on disposal of property, plant and equipment and intangible assets, net	17,904	22,815
Provisions, net	903,805	1,172,987
Income tax expense (benefit)	305,911	(21,513)
Expense (income) from jointly controlled entities and associates	(95,200)	290,817
Provisions for severance benefits	186,609	159,927
Other	162,973	42,701
	<u>2,592,242</u>	<u>2,912,934</u>
Changes in operating assets and liabilities		
Decrease (increase) in trade receivables	(199,900)	333,599
Decrease in other receivables	63,213	70,859
Increase in inventories	(746,135)	(286,173)
Increase in other assets	(17,901)	(61,916)
Increase (decrease) in trade payables	728,722	(52,003)
Increase in other payables	255,180	445,340
Decrease in provisions	(1,001,142)	(1,194,881)
Decrease in other liabilities	(67,902)	(32,581)
Payment of defined benefit liability	(24,129)	(40,100)
Payment of plan assets, net	(98,115)	(92,955)
	<u>(1,108,109)</u>	<u>(910,811)</u>
<b>Cash generated from operations</b>	<u>2,042,753</u>	<u>1,680,879</u>

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

<i>(in millions of Korean won)</i>	<u>2012</u>	<u>2011</u>
Reclassification of construction-in-progress of property, plant and equipment	202,206	703,800
Reclassification of intangible assets in progress	161,700	122,487
Reclassification of long-term prepayment to intangible assets	71,852	89,074
Reclassification of current maturities of borrowings	811,383	1,592,474

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**26. Contingencies**

(a) At the end of the reporting period, borrowings are secured on property, plant and equipment including land, buildings and machinery and intangible assets including land use rights for the book value of ₩170,359 million (2011: ₩145,052 million).

(b) At the end of the reporting period, the Parent Company is provided with a performance guarantee of ₩164,522 million (2011: ₩118,361 million) from Seoul Guarantee Insurance and other two banks relating to the sales contracts.

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

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

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

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

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

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

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At the end of the reporting period, the Group and an associate, LG Innotek Co., Ltd., have reached an agreement with Osram AG to settle all disputes regarding LED patents in five countries which include Korea, the United States, Germany, Japan and China. As of October 31, 2012, the Group, LG Innotek Co., Ltd. and Osram AG entered into a mutual license agreement concerning LED patents.

#### **27. Commitments**

(a) At the end of the reporting period, the Parent Company has overdraft facility agreements with various banks including, Shinhan Bank, with a limit of ₩245,500 million (2011: ₩245,500 million). Its overseas subsidiaries, including LG Electronics India Private Limited, have overdraft facility agreements with a limit of ₩1,204,073 million (2011: ₩1,205,823 million) with various banks including Standard Chartered New Delhi Bank. The Parent Company's domestic subsidiaries, including Hi Plaza Inc., have overdraft facility agreements with various banks, including Woori Bank, with a limit of ₩2,500 million (2011: ₩2,350 million).

(b) At the end of the reporting period, the Parent Company has sales agreements for export trade receivables with Shinhan Bank and 32 other banks amounting to ₩5,559,442 million (2011: ₩6,141,323 million) and for domestic trade receivables with Deutsche Bank amounting to ₩72,214 million (2011: ₩374,705 million). The Parent Company has corporate electronic settlement services contracts for collection of trade receivables with Hana Bank of up to ₩100,000 million (2011: ₩130,000 million).

The subsidiaries, LG Electronics UK., Ltd., LG Electronics Deutschland GmbH, and LG Electronics Espana S.A., transfer their accounts receivable to Societe Generale Bank on a revolving basis, for up to US\$409 million (2011: US\$554 million).

LG Electronics U.S.A., Inc. and LG Electronics MobileComm U.S.A. Inc., subsidiaries of the Parent Company, transfer their accounts receivable to JP Morgan Chase Bank on a revolving basis, for up to US\$150 million (2011: US\$200 million).

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

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

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

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(e) Contractual commitments for the acquisition of assets

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

<i>(in millions of Korean won)</i>	<u>September 30, 2012</u>	<u>December 31, 2011</u>
Property, plant and equipment	30,189	58,667
Intangible assets	2,584	5,161
	<u>32,773</u>	<u>63,828</u>

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

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

<i>(in millions of Korean won)</i>	<u>September 30, 2012</u>			<u>Total lease payments</u>
	<u>Within 1 year</u>	<u>Within 1 year and no later than 5 years</u>	<u>Over 5 years</u>	
Buildings and offices	77,886	138,048	54,839	270,773
Vehicles	26,123	13,095	-	39,218
Equipments	24,109	27,186	-	51,295
	<u>128,118</u>	<u>178,329</u>	<u>54,839</u>	<u>361,286</u>

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

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

<i>(in millions of Korean won)</i>	<u>September 30, 2012</u>			<u>Total lease payments</u>
	<u>Within 1 year</u>	<u>Within 1 year and no later than 3 years</u>	<u>Over 3 years</u>	
Healthcare rental	56,021	122,227	106,782	285,030

The Group recognized ₩38,928 million as lease income for the nine-month period ended September 30, 2012.

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(h) Trademark licenses commitments

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

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

**28. Related Party Transactions**

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

<i>(in millions of Korean won)</i>	<u>2012</u>		<u>2011</u>	
	<u>Sales</u>	<u>Purchases</u>	<u>Sales</u>	<u>Purchases</u>
LG Corp.	2,416	95,793	5,909	90,341
Jointly controlled entities and associates	411,153	5,396,237	598,565	4,580,417
Other related parties	67,958	1,065,213	91,984	1,049,013
	<u>481,527</u>	<u>6,557,243</u>	<u>696,458</u>	<u>5,719,771</u>

The balances of significant transactions are as follows:

<i>(in millions of Korean won)</i>	<u>September 30, 2012</u>		<u>December 31, 2011</u>	
	<u>Receivables</u>	<u>Payables</u>	<u>Receivables</u>	<u>Payables</u>
LG Corp.	28,106	220	23,136	691
Jointly controlled entities and associates	119,871	1,021,353	187,259	757,488
Other related parties	85,043	387,013	89,028	361,525
	<u>233,020</u>	<u>1,408,586</u>	<u>299,423</u>	<u>1,119,704</u>

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

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

The Group has not recognized bad debts expense nor allowance for trade receivables against the related parties for the nine-month period ended September 30, 2012, and the year ended December 31, 2011.

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## **29. Risk Management**

### **Financial Risk Management**

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

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

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

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

#### *(a) Market risk*

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

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

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

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

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

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Speculative foreign exchange trading is strictly prohibited.

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

<i>(in millions of Korean won)</i>	<b>September 30, 2012</b>		<b>December 31, 2011</b>	
	<b>10% increase</b>	<b>10% decrease</b>	<b>10% increase</b>	<b>10% decrease</b>
USD/KRW	(144,589)	144,589	(302,425)	302,425
EUR/KRW	26,260	(26,260)	28,888	(28,888)

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

ii) Interest rate risk

The Group is exposed to interest rate risk through changes in interest-bearing liabilities or assets. The risk mainly arises from 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 September 30, 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 Group manages interest rate risk proactively by minimizing external borrowings by maximizing internal cash sharing, reducing borrowings with high interest rates, maintaining an adequate mix between short-term and long-term liabilities and between fixed and variable interest rates and monitoring daily, weekly, and monthly interest rate trends in domestic and international markets.

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

<i>(in millions of Korean won)</i>	<b>September 30, 2012</b>		<b>September 30, 2011</b>	
	<b>100bp increase</b>	<b>100bp decrease</b>	<b>100bp increase</b>	<b>100bp decrease</b>
Interest expense	11,919	(11,919)	22,325	(22,304)
Interest income	19,964	(19,964)	20,459	(20,459)



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iii) Price risk

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

The listed securities owned by the Group are traded in the public market, and related to 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 Group have correlation with the relevant past index.

<i>(in millions of Korean won)</i>	<b>September 30, 2012</b>		<b>December 31, 2011</b>	
	<b>30% increase</b>	<b>30% decrease</b>	<b>30% increase</b>	<b>30% decrease</b>
KOSPI	4	(4)	-	-
KOSDAQ	2,545	(2,545)	1,975	(1,975)

(b) Credit risk

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

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

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

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 September 30, 2012, trade receivable balance of the Group is ₩6,845,688 million (2011: ₩6,853,722 million) and its risk is managed appropriately with insurer's credit limit of ₩29,157,197 million (2011: ₩32,468,797 million).

(c) Liquidity risk

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

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

In addition, the Group copes with potential financial distress by maintaining adequate amount of cash and committed credit facilities. The balance of cash and cash equivalents, and current-financial deposits at September 30, 2012, is ₩2,811,874 million (2011: ₩2,495,465 million). The Group maintains total committed credit lines of ₩600,000 million (2011: ₩600,000 million) in Woori Bank, Kookmin Bank, and Shinhan Bank in Korea at September 30, 2012.

As of September 30, 2012, the cash and cash equivalents balance of the Group is about 114% (2011: 79%) of current borrowings with due date in 12 months. If committed credit lines are included, the balance covers about 138% (2011: 97%) of short-term borrowings.

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

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

**Capital Risk Management**

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

Debt-to-equity ratio and net borrowing ratio are as follows:

<i>(in millions of Korean won, except for ratios)</i>	<u>September 30, 2012</u>	<u>December 31, 2011</u>
Liability (A)	19,859,946	19,510,209
Equity (B)	13,415,444	13,148,248
Cash and cash equivalents and current financial deposits (C)	2,811,874	2,495,465
Borrowings (D)	7,000,960	7,435,618
Liability-to-equity ratio (A/B) (%)	148%	148%
Net Borrowings ratio (D-C)/B (%)	31%	38%

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**Methods and Assumptions in Determining Fair Value**

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices those are observable for the asset or liability, either directly or indirectly.
- Level 3: inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

<i>(In millions of Korean won)</i>	<b>September 30, 2012</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Assets</b>				
Financial assets at fair value through profit or loss				
- Derivatives for trading	-	8,324	-	8,324
Available-for-sale financial assets				
- Listed securities	10,698	-	-	10,698
Derivatives for hedge	-	4,758	-	4,758
	<u>10,698</u>	<u>13,082</u>	<u>-</u>	<u>23,780</u>
<b>Liabilities</b>				
Financial liabilities at fair value through profit or loss				
- Derivatives for trading	-	3,394	-	3,394
Derivatives for hedge	-	4,449	-	4,449
	<u>-</u>	<u>7,843</u>	<u>-</u>	<u>7,843</u>
<b>December 31, 2011</b>				
<i>(In millions of Korean won)</i>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Assets</b>				
Financial assets at fair value through profit or loss				
- Derivatives for trading	-	2,832	-	2,832
Available-for-sale financial assets				
- Listed securities	8,969	-	-	8,969
Derivatives for hedge	-	11,845	-	11,845
	<u>8,969</u>	<u>14,677</u>	<u>-</u>	<u>23,646</u>
<b>Liabilities</b>				
Financial liabilities at fair value through profit or loss				
- Derivatives for trading	-	14,238	-	14,238
	<u>-</u>	<u>14,238</u>	<u>-</u>	<u>14,238</u>

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, an entity in the same industry, pricing

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service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in 'level 1.' Instruments included in 'level 1' comprise primarily equity investments classified as available for sale.

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

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

**30. Share-Based Payments**

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

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

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

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

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

**31. Business Combination**

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

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

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

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

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

<i>(in millions of Korean won)</i>	<u>Amount</u>
Consideration <sup>1</sup>	150,300
Recognized amounts of identifiable assets acquired and liabilities assumed <sup>2</sup>	
Current assets	
Cash and cash equivalents	2,025
Trade receivables	84,927
Other receivables	1,233
Inventories	18,156
Other assets	25,100
Non-current assets	
Financial deposits	5,888
Other receivables	868
Other financial assets	40
Property, plant and equipment	27,450
Intangible assets	36,531
Other assets	558
Current liabilities	
Trade payables	(46,765)
Borrowings	(19,504)
Other payables	(4,858)
Current income tax liabilities	(20)
Provisions	(2,133)
Other liabilities	(32,625)
Non-current liabilities	
Borrowings	(8,450)
Other payables	(224)
Defined benefit liabilities	(1,769)
Deferred income tax liabilities	(659)
<b>Total identifiable net assets</b>	<u>85,769</u>
Goodwill	<u>64,531</u>
	<u>150,300</u>

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<sup>1</sup> The consideration is within the measurement period.

<sup>2</sup> The assets acquired and the liabilities assumed are measured at their acquisition-date fair values in accordance with Korean IFRS 1103, *Business Combination*.

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

**Hi Entech Co., Ltd.**

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

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

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

The following table summarized the consideration paid for Hi Entech Co., Ltd. and the amounts of the assets acquired and liabilities assumed recognized at the acquisition date.

<i>(in millions of Korean won)</i>	<u>Amount</u>
Consideration	61,100
Recognized amounts of identifiable assets acquired and liabilities assumed <sup>1</sup>	
Current assets	
Cash and cash equivalents	4,121
Trade receivables	2,680
Other receivables	355
Inventories	87
Other assets	888
Non-current assets	
Financial deposits	50
Other receivables	273
Other financial assets	742
Property, plant and equipment	1,020
Intangible assets	14,413
Current liabilities	
Trade payables	(108)
Borrowings	(774)
Other payables	(2,402)

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Current income tax liabilities	(250)
Other liabilities	(1,581)
Non-current liabilities	
Defined benefit liabilities	(1,135)
Deferred income tax liabilities	(2,992)
Provision	(42)
<b>Total identifiable net assets</b>	<u>15,345</u>
Goodwill	<u>45,755</u>
	<u>61,100</u>

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

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