LG Electronics Inc.

Interim Separate Financial Statements
June 30, 2010 and 2009

LG Electronics Inc.
Index

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Auditors' Review Report

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

We have reviewed the accompanying interim separate statement of financial position of LG Electronics Inc. (the "Company") as of June 30, 2010, and the related separate income statements, statements of comprehensive income for the three-month and six-month periods ended June 30, 2010, and changes in shareholders' equity and cash flows for the six-month period ended June 30, 2010, expressed in Korean won. These interim separate financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these interim separate financial statements based on our review. We have not reviewed the interim separate income statements and statements of comprehensive income for the three-month and six-month periods ended June 30, 2009, and changes in shareholders' equity and cash flows for the six-month period ended June 30, 2009, presented herein for comparative purposes.

We conducted our review in accordance with semi-annual review standards established by the Securities and Futures Commission of the Republic of Korea. These standards require that we plan and perform our review to obtain moderate assurance as to whether the financial statements are free of material misstatement. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and thus provide less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the interim separate financial statements referred to above are not presented fairly, in all material respects, in accordance with International Financial Reporting Standards as adopted by the Republic of Korea ("Korean IFRS").

We reviewed the non-consolidated income statements and statements of comprehensive income for the three-month and six-month periods ended June 30, 2009, and changes in shareholders' equity and cash flows for the six-month period ended June 30, 2009 in accordance with accounting standards generally accepted in the Republic of Korea (not Korean IFRS). Based on our review opinion dated August 7, 2009, we stated that nothing had come to our attention that caused us to believe that the non-consolidated interim financial statements referred to above were not presented fairly, in all material respects, in accordance with accounting principles generally accepted in the Republic of Korea. These non-consolidated interim financial statements are not included in this review report.

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Without qualifying our opinion, we draw attention that the Company has adopted early the Korean IFRS on January 1, 2010, as explained in Note 2. These interim separate financial statements have been prepared in accordance with Korean IFRS issued and effective or issued and early adopted at the reporting date.

Samil PricewaterhouseCoopers

Seoul, Korea
August 23, 2010

This review report is effective as of August 23, 2010, 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 separate 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 Inc.
Interim Separate Statements of Financial Position
June 30, 2010 and December 31, 2009

(in millions of Korean won)	Note	June 30, 2010	December 31, 2009
Assets			
Current assets			
Cash and cash equivalents	23	716,276	789,966
Financial deposits	23	13,000	223,000
Trade receivables	4, 22	6,982,838	5,154,589
Loans and other receivables		313,418	321,131
Inventories		1,184,380	767,019
Current income tax assets		2,169	-
Other current assets		530,134	435,989
		9,742,215	7,691,694
Non-current assets			
Financial deposits		29,087	23,023
Loans and other receivables		344,409	339,784
Other financial assets		85,633	82,707
Property, plant and equipment	5, 21	4,558,605	4,657,140
Intangible assets	5, 21	721,633	685,917
Deferred income tax assets		90,511	-
Investments in subsidiaries, jointly controlled entities and associates	6	7,909,350	7,897,109
Investment property		9,932	10,020
Other non-current assets		738,747	755,816
		14,487,907	14,451,516
Total assets		24,230,122	22,143,210
Liabilities			
Current liabilities			
Trade payables	22	4,925,281	3,819,977
Borrowings	7, 23	2,593,875	1,504,573
Other payables		2,406,475	2,534,486
Other financial liabilities		-	61,722
Current income tax liabilities		-	57,088
Provisions	8	176,663	196,890
Other current liabilities		590,407	493,694
		10,692,701	8,668,430
Non-current liabilities			
Borrowings	7, 23	2,363,014	1,953,613
Other financial liabilities		54,924	55,183
Deferred income tax liabilities		-	48,216
Defined benefit liability	9	197,858	203,280
Provisions	8	338,346	326,533
		2,954,142	2,586,825
Total liabilities		13,646,843	11,255,255
Equity			
Paid-in capital			
Capital stock		809,169	809,169
Share premium		2,207,919	2,207,919
Retained earnings	10	7,587,704	7,892,549
Accumulated other comprehensive income		11,306	11,137
Other components of equity	11	(32,819)	(32,819)
Total equity		10,583,279	10,887,955
Total liabilities and equity		24,230,122	22,143,210

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

LG Electronics Inc.
Interim Separate Income Statements and Statements of Comprehensive Income
Three-Month and Six-Month Periods Ended June 30, 2010 and 2009

		2010		2009 (Unreviewed)	
(in millions of Korean won, except per share amounts)	**Note**	**Three-Month**	**Six-Month**	**Three-Month**	**Six-Month**
Net sales	12, 22	7,653,107	14,880,444	8,477,122	15,551,219
Cost of sales	13, 22	6,441,404	12,279,309	6,290,608	11,692,199
Gross profit		1,211,703	2,601,135	2,186,514	3,859,020
Selling and marketing expenses	13,14	818,365	1,512,674	837,155	1,538,995
Administrative expenses	13,14	151,978	272,618	118,728	226,407
Research and development expenses	13,14	361,295	682,844	318,557	606,375
Service expenses	13,14	111,600	219,005	178,511	310,094
Other operating income	15	529,331	767,044	395,908	1,200,971
Other operating expenses	13, 16	510,582	800,408	367,768	1,123,905
Operating income (loss)		(212,786)	(119,370)	761,703	1,254,215
Financial income		148,701	399,934	369,179	924,860
Financial expenses		330,880	439,231	127,766	1,033,978
Profit (loss) before income tax		(394,965)	(158,667)	1,003,116	1,145,097
Income tax expense (income)		(144,025)	(136,735)	227,970	264,065
Profit (loss) for the period		(250,940)	(21,932)	775,146	881,032
Earnings (loss) per share during the period (in won)					
Earnings (loss) per share	17	(1,559)	(139)	4,811	5,467

		2010		2009 (Unreviewed)	
(in millions of Korean won)	**Note**	**Three-Month**	**Six-Month**	**Three-Month**	**Six-Month**
Profit (loss) for the period		(250,940)	(21,932)	775,146	881,032
Other comprehensive income					
Available-for-sale financial assets		1,249	169	816	4,269
Actuarial gain (loss) on defined benefit liability	9	(227)	(188)	917	1,827
Other comprehensive income for the period, net of tax		1,022	(19)	1,733	6,096
Total comprehensive income(loss) for the period		(249,918)	(21,951)	776,879	887,128

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

LG Electronics Inc.

Interim Separate Statements of Changes in Shareholders' Equity

Six-Month Periods Ended June 30, 2010 and 2009

(in millions of Korean won)	Note	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Other Components of Equity	Total
Balance at January 1, 2009		3,017,088	6,804,163	4,235	(32,819)	9,792,667
Comprehensive income						
Profit for the period		-	881,032	-	-	881,032
Actuarial gain on defined benefit liability	9	-	1,827	-	-	1,827
Available-for-sale financial assets		-	-	4,269	-	4,269
Dividends	18	-	(57,232)	-	-	(57,232)
Balance at June 30, 2009 (Unreviewed)		3,017,088	7,629,790	8,504	(32,819)	10,622,563
Balance at January 1, 2010		3,017,088	7,892,549	11,137	(32,819)	10,887,955
Comprehensive income						
Loss for the period		-	(21,932)	-	-	(21,932)
Actuarial loss on defined benefit liability	9	-	(188)	-	-	(188)
Available-for-sale financial assets		-	-	169	-	169
Dividends	18	-	(282,725)	-	-	(282,725)
Balance at June 30, 2010		3,017,088	7,587,704	11,306	(32,819)	10,583,279

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

LG Electronics Inc.

Interim Separate Statements of Cash Flows

Six-Month periods Ended June 30, 2010 and 2009

(in millions of Korean won)	Note	Six-Month Period Ended June 30 2010	2009 (Unreviewed)
Cash flows from operating activities			
Cash generated from operations	19	(1,075,622)	1,461,830
Interest received		21,548	15,338
Interest paid		(64,699)	(110,100)
Dividends received		91,250	131,319
Income tax expense paid		(63,051)	(125,290)
Net cash generated (used) from operating activities		(1,090,574)	1,373,097
Cash flows from investing activities			
Decrease in financial deposits		203,936	48,875
Decrease in loans and other receivables		31,115	41,548
Proceeds from disposal of other financial assets		68,339	30,703
Proceeds from disposal of investments in subsidiaries, jointly controlled entities and associates		120,027	-
Proceeds from disposal of property, plant and equipment		12,813	60,995
Proceeds from disposal of intangible assets		170	5,220
Decrease in other assets		88	438
Increase in loans and other receivables		(36,205)	(43,474)
Acquisition of other financial assets		(83,690)	(102,221)
Acquisition of investments in subsidiaries, jointly controlled entities and associates		(132,268)	(43,663)
Acquisition of property, plant and equipment		(170,461)	(213,402)
Acquisition of intangible assets		(113,813)	(58,670)
Net cash used in investing activities		(99,949)	(273,651)
Cash flows from financing activities			
Proceeds from borrowings		2,126,158	568,562
Repayments of borrowings		(726,600)	(1,567,846)
Dividends paid		(282,725)	(57,232)
Net cash provided by (used in) financing activities		1,116,833	(1,056,516)
Net increase (decrease) in cash and cash equivalents		(73,690)	42,930
Cash and cash equivalents at the beginning of period		789,966	1,156,645
Cash and cash equivalents at the end of period		716,276	1,199,575

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

1. General Information

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

The Company is engaged in the manufacture and sale of electronic, information and communication products including mobile phones, TVs, air conditioners, refrigerators, washing machines, personnel computers and its core parts. As of June 30, 2010, the Company operates manufacturing facilities mainly in Pyeongtaek, Changwon, Cheongju and Gumi in the Republic of Korea.

As of June 30, 2010, LG Corp. and its related parties own 34.8% of the Company's total shares, excluding preferred shares, while financial institutions, foreign investors and others own the rest.

2. Significant Accounting Policies

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

Basis of Preparation

The financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the Republic of Korea ("Korean IFRS"). These are the standards, subsequent amendments and related interpretations issued by the International Accounting Standards Board ("IASB") that have been adopted by the Republic of Korea.

The non-consolidated financial statements of the Company were prepared in accordance with accounting principles generally accepted in the Republic of Korea ("K-GAAP"). The Company's Korean IFRS transition date according to Korean IFRS 1101, *'First-time Adoption of Korean IFRS',* is January 1, 2009, and reconciliations and descriptions of the effect of the transition from K-GAAP to Korean IFRS on the Company's equity, its comprehensive income and cash flows are provided in Note 24.

The interim separate financial statements for the six-month period ended June 30, 2010, have been prepared in accordance Korean IFRS 1034, *'Interim Financial Reporting'*, and are subject to Korean IFRS 1101, *'First-time Adoption of Korean IFRS'*. These interim separate financial statements have been prepared in accordance with the Korean IFRS standards and interpretations issued and effective or issued and early adopted at the reporting date. The Korean IFRS standards and interpretations that will be applicable at December 31, 2010, including those that will be applicable on an optional basis, are not known with certainty at the time of preparing these interim separate financial statements.

The preparation of interim separate financial statements in accordance with Korean IFRS 1034 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the separate financial statements, are disclosed in Note 3.

Investments in Subsidiaries, Jointly Controlled Entities and Associates

The attached statements are the separate financial statements subject to Korean IFRS 1027, *'Consolidated and Separate Financial Statements'*, and are those presented by a parent. The investments in subsidiaries, associates or jointly controlled entities are recorded at acquisition cost on the basis of the direct equity interest. As of the date of transition to Korean IFRS, K-GAAP carrying amount at the transition date is used as its deemed cost. The Company recognises a dividend from a subsidiary, jointly controlled entity or associate in profit or loss when its right to receive the dividend is established.

Segment Reporting

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

Foreign Currency Translation

The Company's functional and presentation currency is 'Korean won'. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at each reporting date exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

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

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

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in the income statement as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in the equity.

Cash and Cash Equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities less than three months.

Financial Instruments

(a) *Classification*

The Company classifies its financial assets in the following categories: financial assets and liabilities at fair value through profit or loss, loans and receivables, available-for-sale financial assets, held-to-maturity investment, and other financial liabilities at amortised cost. The classification depends on the purpose for which the financial assets were acquired and the nature of the instruments. Management determines the classification of its financial assets at initial recognition.

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

Financial assets and liabilities at fair value through profit or loss are financial instruments held for trading. Financial assets and liabilities are classified in this category if acquired or incurred principally for the purpose of selling or repurchasing it in the near term. Derivatives that are not subject to hedge accounting and financial instruments having embedded derivatives are also included in this category. The Company's financial assets and liabilities at fair value through profit or loss comprise 'other financial assets' and 'other financial liabilities'.

ii) Loans and receivables

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

iii) Held-to-maturity investments

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

iv) Available-for-sale financial assets

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

v) Financial liabilities measured at amortised cost

The Company classifies non-derivative financial liabilities as financial liabilities measured at amortised cost except for financial liabilities at fair value through profit or loss or financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition. In this case the transferred asset continues to be recognised and a financial liability is measured at the consideration received. Financial liabilities measured at amortised cost are included in non-current liabilities, except for maturities less than 12 months after the end of the reporting period, which are classified as current liabilities.

(b) *Recognition and Measurement*

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

Gains or losses arising from changes in the fair value of the financial assets carried at fair value through profit or loss are presented in the separate income statement within 'financial income and expenses' in the period in which they arise. The Company recognises a dividend from financial assets at fair value through profit or loss in the separate income statement when its right to receive the dividend is established.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are reported in the separate income statement as 'financial income and expenses'.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the separate income statement as part of 'financial income'. Dividends on available-for-sale equity instruments are recognised in the separate income statement as part of 'financial income' when the Company's right to receive the dividend is established.

Impairment of Financial Assets

(a) Assets carried at amortised cost

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

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

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

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount of the asset is reduced and the amount of the loss is recognised in the income statement. As a practical expedient, the Company may measure impairment on the basis of an instrument's fair value using an observable market price.

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

(b) Assets classified as available-for-sale

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

Derivative Financial Instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. When hedge does not meet the criteria for hedge accounting, changes in fair value of those are recognised typically to the separate income statement within 'other operating income and expenses' or 'financial income and expenses' according to the nature of transactions.

Trade Receivables

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted-average method, except for inventories in-transit which are determined using the specific identification method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Property, Plant and Equipment

All property, plant and equipment are stated at historical cost less depreciation except for certain land which was measured at fair value as deemed cost. Historical cost includes expenditures directly attributable to the acquisition of the items.

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

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

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

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

Borrowing Costs

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

Government Grants

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

Government grants relating to costs are deferred and recognised in the separate income statement to match them with the costs they are intended to compensate.

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

Intangible Assets

(a) *Goodwill*

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

(b) *Industrial property rights*

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

(c) *Development costs*

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

(d) *Other intangible assets*

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

Research and Development Costs

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

- It is technically feasible to complete the intangible asset so that it will be available for use;
- Management intends to complete the intangible asset and use or sell it;
- There is the ability to use or sell the intangible asset;

- It can be demonstrated how the intangible asset will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and
- The expenditure attributable to the intangible asset during its development can be reliably measured.

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

Investment Property

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

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

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

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

Impairment of Non-Financial Assets

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

Trade Payables

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

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method. The Company classifies the liability as current as long as it does not have an unconditional right to defer its settlement for at least 12 months after the reporting date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

Current and Deferred Income Tax

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

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

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

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

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

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

Interim period income tax expense is accrued using the tax rate that would be applicable to expected total annual earnings applied to the pre-tax income of the interim period.

Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events and an outflow of resources required to settle the obligation is probable and can be reliably estimated. Provisions are not recognised for future operating losses.

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

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as an interest expense.

Employee Benefits

(a) *Defined benefit liability*

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

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

A defined benefit plan is a pension plan that is not a defined contribution plan. Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The liability recognised in the separate statement of financial position in respect of the defined benefit pension plan is the present value of the defined benefit liability at the end of the reporting period less the fair value of plan assets. The defined benefit liability is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit liability is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income in the period in which they arise.

(b) *Share-based payments*

The Company operates cash-settled, share-based compensation plans, under which the Company receives services from employees as consideration for the payments of the difference between market price of the stock and exercise price. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense in the separate income statement over the vesting period. The total amount to be expensed is determined by reference to the fair value of the options granted considering the impact of any service and performance vesting conditions and non-vesting condition. Until the liability is settled, the Company shall remeasure the fair value of the liability at each reporting date and at the date of settlement, with any changes in fair value recognised in profit or loss for the period.

(c) Other long-term employee benefits

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

(d) Termination benefits

Termination benefits are payable when employment is terminated by the Company before the normal retirement date, or whenever an employee accepts voluntary retirement in exchange for these benefits. The Company recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary retirement.

Share Capital

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

Revenue Recognition

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

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

(a) *Sales of goods*

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

The products are often sold with volume discounts and customers have a right to return faulty products in the market. Accumulated experience is used to estimate and provide for the discounts and returns. The volume discounts are assessed based on anticipated annual purchases. The Company recognises provisions for product warranties and sales return based on reasonable expectation reflecting warranty obligation and sales return rates incurred by sales (Note 8).

(b) *Sales of services*

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

(c) *Royalty income*

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

(d) *Interest income*

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

(e) *Dividend income*

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

Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the separate income statement on a straight-line basis over the period of the lease.

Dividend Distribution

Dividend liability is recognised in the financial statements when the dividends are approved by the shareholders.

3. Critical Accounting Estimates and Assumptions

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

Estimated Impairment of Goodwill

The Company tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in Note 2. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

Income Taxes

The measurement of current and deferred tax reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. However, where the final tax consequences of these matters are different from the expected 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 Company uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the each reporting date.

Provisions

The Company recognises provisions for product warranties and sales return at the reporting date as described in Note 8. The amounts are estimated based on historical data.

Defined benefit liability

The present value of the defined benefit liability depends on a number of 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 defined benefit liability. The Company determines the appropriate discount rate at the end of each year. This is the interest rate that is used to determine the present value of estimated future cash outflows expected to be required to settle the defined benefit liability. In determining the appropriate discount rate, the Company considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability. Other key assumptions for pension obligations are based in part on current market conditions. Additional information is disclosed in Note 9.

4. Trade Receivables

Trade receivables, net of allowance for doubtful accounts, are as follows:

(in millions of Korean won)	**June 30, 2010**	December 31, 2009
Trade receivables	6,997,869	5,175,746
Less: allowance for doubtful accounts	(15,031)	(21,157)
Net book amount	6,982,838	5,154,589

The ageing analysis of these trade receivables is as follows:

(in millions of Korean won)	**June 30, 2010**	December 31, 2009
Within due	6,774,377	5,012,702
Up to 3 months	197,816	146,174
4 to 6 months	7,130	1,108
7 to 12 months	1,293	1,049
Over one year	2,565	433
Impaired	14,688	14,280
Total	6,997,869	5,175,746

5. Property, Plant and Equipment, and Intangible Assets

Changes in carrying amounts of property, plant and equipment for the six-month periods ended June 30, 2010 and 2009, are as follows:

(in millions of Korean won)	**2010**	2009 (Unreviewed)
Beginning net book amount	4,657,140	4,754,122
Acquisitions	170,461	213,402
Transfer-out	(987)	(323)
Disposals	(13,757)	(68,365)
Impairment	(50)	(33)
Depreciation	(254,202)	(267,461)
Closing net book amount	4,558,605	4,631,342

Changes in carrying amounts of intangible assets for the six-month periods ended June 30, 2010 and 2009, are as follows:

(in millions of Korean won)	**2010**	2009 (Unreviewed)
Beginning net book amount	685,917	599,053
Acquisitions	113,813	58,670
Transfer-in	36,218	25,589
Disposals	(1,540)	(5,890)
Amortisation	(112,775)	(53,068)
Closing net book amount	721,633	624,354

6. Investments in Subsidiaries, Jointly Controlled Entities and Associates

Carrying amounts of investments in subsidiaries, jointly controlled entities and associates are as follows:

(in millions of Korean won)	**June 30, 2010**	December 31, 2009
Subsidiaries	3,356,305	3,760,954
Jointly controlled entities and associates	4,553,045	4,136,155
Total	7,909,350	7,897,109

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

(in millions of Korean won)	Countries	Ownership (%) at June 30, 2010	June 30, 2010	December 31, 2009
LG Electronics U.S.A., Inc. (LGEUS)	America	100.00	955,542	955,542
LG Innotek Co., Ltd.[1]	Korea	48.11	-	411,844
LG Electronics India Pvt. Ltd. (LGEIL)	India	100.00	311,746	311,746
LG Electronics de Sao Paulo Ltda. (LGESP)	Brazil	100.00	270,631	270,631
LG Electronics Mlawa Sp. z o. o (LGEMA)	Poland	100.00	214,091	214,091
LG Electronics Tianjin Appliances Co., Ltd. (LGETA)	China	70.00	161,331	161,331
LG Electronics European Holdings B.V. (LGEEH)	Netherlands	100.00	148,552	148,552
Hiplaza CO., LTD	Korea	100.00	104,459	104,459
Taizhou LG Electronics Refrigeration Co., Ltd. (LGETR)	China	88.34	97,608	97,608
PT LG Electronics Indonesia (LGEIN)	Indonesia	100.00	94,124	94,124
LG Electronics Wroclaw Sp z o.o (LGEWR)	Poland	100.00	70,014	70,014
LG Electronics Mexico S.A. DE C.V. (LGEMS)	Mexico	100.00	68,720	68,720
LG Electronics Shenyang Inc. (LGESY)	China	56.34	66,668	66,668
LG Electronics Panama, S.A. (LGEPS)	Panama	100.00	79,222	79,222
LG Electronics Thailand Co. Ltd. (LGETH)	Thailand	100.00	55,578	55,578
LG Electronics Australia Pty, Ltd. (LGEAP)	Australia	100.00	50,664	50,664
Others			607,355	600,160
Total			3,356,305	3,760,954

[1] Due to decrease in the ownership interest, the Company reclassified from a subsidiary to an associate. The Company contributed ₩ 129,694 million to LG Innotek Co., Ltd's paid in capital increase.

The status and carrying amounts of investments in jointly controlled entities and associates are as follows:

(in millions of Korean won)	Countries	Ownership (%) at June 30, 2010	June 30, 2010	December 31, 2009
LG Display Co., Ltd.	Korea	37.90	3,480,623	3,480,623
LG Innotek Co., Ltd.[1]	Korea	48.11	541,538	-
LG-Ericsson Co., Ltd.[2] (formerly LG-Nortel Co., Ltd)	Korea	50.00	163,503	263,503
LG Holdings (HK) Ltd.	Hong Kong	49.00	129,386	129,386
Hankuk Electric Glass Co., Ltd.	Korea	20.00	84,006	84,006
Global OLED Technology LLC[3]	America	32.73	53,454	72,483
Others			100,535	106,154
Total			4,553,045	4,136,155

[1] Due to decrease in the ownership interest, the Company reclassified the investee from a subsidiary to an associate. The Company contributed ₩ 129,694 million to LG Innotek Co., Ltd.'s paid in capital increase.

[2] The Company received ₩ 100,000 million for shares cancelled through capital reduction.

[3] The Company sold its investment in associates amounting to ₩ 19,029 million.

7. Borrowings

The carrying amounts of borrowings are as follows:

(in millions of Korean won)	June 30, 2010	December 31, 2009
Current		
Short-term borrowings	2,404,152	804,521
Current maturities of debentures	189,723	700,052
Sub-total	2,593,875	1,504,573
Non-current		
Long-term borrowings	812,060	613,520
Debentures	1,550,954	1,340,093
Sub-total	2,363,014	1,953,613
Total	4,956,889	3,458,186

Short-term borrowings consist of:

(in millions of Korean won)	Maturity date	Annual interest rate (%) at June 30, 2010	Carrying amount June 30,2010	Carrying amount Dec 31,2009
Foreign currency loans				
LG Electronics shared service center B.V	2010.12.29	3ML+1.125	136,456	126,282
Borrowings on negotiated trade bills		1.49	2,267,696	678,239
Total			2,404,152	804,521

Long-term borrowings consist of:

(in millions of Korean won)	Maturity date	Annual interest rate (%) at June 30, 2010	Carrying amount June 30,2010	Carrying amount Dec 31,2009
Foreign currency loans				
The Korea Development Bank	2012.6.26	3ML+0.4	242,060	233,520
Local currency loans				
Kookmin Bank	2013.5.14	4.67	190,000	-
The Korea Development Bank	2012.3.30	5.81	190,000	190,000
The Korea Development Bank	2011.10.6	3M CD+0.88	190,000	190,000
Total			812,060	613,520

Debentures as of June 30, 2010, consist of:

(in millions of Korean won)	Maturity date	Annual interest rate (%) at June 30, 2010	Total	Less: current	Non-current
Fixed rate notes in local currency					
Public, non-guaranteed bonds (49th)	2012.4.11	5.27	190,000	-	190,000
Public, non-guaranteed bonds (51st)	2012.2.17	5.99	190,000	-	190,000
Public, non-guaranteed bonds (52nd)	2011.5.28	4.30	190,000	190,000	-
Public, non-guaranteed bonds (53rd)	2011.8.6	4.70	190,000	-	190,000
Public, non-guaranteed bonds (54th)	2013.4.22	4.20	190,000	-	190,000
Public, non-guaranteed bonds (55th)	2013.6.16	4.60	190,000	-	190,000
Floating rate notes in foreign currency					
Citi Bank, N.A.(50th)	2012.5.15	3ML+0.65	605,150	-	605,150
Less: discount on debentures			(4,473)	(277)	(4,196)
Total			1,740,677	189,723	1,550,954

Debentures as of December 31, 2009, consist of:

(in millions of Korean won)	Maturity date	Annual interest rate (%) at Dec 31, 2009	Total	Less: current	Non-current
Fixed rate notes in local currency					
Public, non-guaranteed bonds (49th)	2012. 4.11	5.27	190,000	-	190,000
Public, non-guaranteed bonds (51st)	2012. 2.17	5.99	190,000	-	190,000
Public, non-guaranteed bonds (52nd)	2011. 5.28	4.30	190,000	-	190,000
Public, non-guaranteed bonds (53rd)	2011. 8. 6	4.70	190,000	-	190,000
Fixed rate notes in foreign currency					
Citi Bank, N.A.(48th)	2010. 6.17	5.00	700,560	700,560	-
Floating rate notes in foreign currency					
Citi Bank, N.A.(50th)	2012. 5.15	3ML+0.65	583,800	-	583,800
Less: discount on debentures			(4,215)	(508)	(3,707)
Total			2,040,145	700,052	1,340,093

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

	June 30, 2010		December 31, 2009	
(in millions of Korean won)	Carrying amount	Fair value	Carrying amount	Fair value
Long-term borrowings	812,060	817,978	613,520	620,591
Debentures	1,550,954	1,575,809	1,340,093	1,367,461
Total	2,363,014	2,393,787	1,953,613	1,988,052

[1] The fair values are based on cash flows discounted using the borrowing rate of 4.99% (2009: 5.07%).

Payment schedule of borrowings as of June 30, 2010, is as follows:

		Less than		
(in millions of Korean won)	**Total**	**1 year**	**2 years**	**5 years**
Short-term borrowings	2,404,152	2,404,152	-	-
Current maturities of debentures	190,000	190,000	-	-
Long-term borrowings	812,060	-	622,060	190,000
Debentures	1,555,150	-	1,175,150	380,000
Total	4,961,362	2,594,152	1,797,210	570,000

8. Provisions

Changes in provisions for six-month period ended June 30, 2010, are as follows:

(in millions of Korean won)	**Warranty**	**Sales return**	**Restoration**	**Litigation and others**	**Total**
At January 1, 2010	195,853	1,037	3,188	323,345	523,423
Addition	146,831	1,165	34	12,855	160,885
Utilisation	167,186	1,037	69	1,007	169,299
At June 30, 2010	175,498	1,165	3,153	335,193	515,009
Less: current	175,498	1,165	-	-	176,663
Non-current	-	-	3,153	335,193	338,346

Changes in provisions for six-month period ended June 30, 2009, were as follows:

(in millions of Korean won)	Warranty	Sales return	Restoration	Litigation and others	Total
At January 1, 2009	220,884	-	-	2,198	223,082
Addition	120,071	992	3,507	5,766	130,336
Utilisation	141,655	-	-	662	142,317
At June 30, 2009	199,300	992	3,507	7,302	211,101
Less: current	199,300	992	-	-	200,292
Non-current	-	-	3,507	7,302	10,809

9. Defined benefit liability

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

(in millions of Korean won)	**June 30, 2010**	December 31, 2009
Present value of funded obligations	678,780	627,159
Fair value of plan assets	(480,922)	(423,879)
Liabilities	197,858	203,280

The amounts recognised in the separate statements of operations for the six-month periods ended June 30, 2010 and 2009, are as follows:

(in millions of Korean won)	**2010**	2009 (Unreviewed)
Current service cost	63,395	58,368
Interest cost	18,465	20,199
Expected return on plan assets	(13,978)	(8,432)
Curtailments	-	6,170
Total, included in staff costs	67,882	76,305

Cumulative actuarial losses recognised in the statement of other comprehensive income as of June 30, 2010, amount to ₩ 1,374 million (2009: ₩ 1,186 million).

The line items in which they are included for the six-month periods ended June 30, 2010 and 2009, are as follows:

(in millions of Korean won)	**2010**	2009 (Unreviewed)
Cost of sales	33,588	37,771
General operating expenses[1]	34,294	38,534
Total	67,882	76,305

[1] This includes Selling and Marketing Expenses, Administrative expenses, Research and Development Expenses, and Service expenses.

Changes in the defined benefit liability for the six-month periods ended June 30, 2010 and 2009, are as follows:

(in millions of Korean won)	**2010**	2009 (Unreviewed)
At January 1	627,159	657,467
Current service cost	63,395	58,368
Transfer – out	(2,120)	(2,435)
Interest expense	18,465	20,199
Benefits paid	(28,119)	(12,790)
Curtailments	-	6,170
Settlements	-	(139,555)
At June 30	678,780	587,424

Changes in the fair value of plan assets for the six-month periods ended June 30, 2010 and 2009, are as follows:

(in millions of Korean won)	**2010**	2009 (Unreviewed)
At January 1	423,879	443,780
Expected return on plan assets	13,978	8,432
Employer contributions	71,760	92,265
Benefits paid	(28,119)	(12,790)
Settlements	-	(139,555)
Others	(576)	2,344
At June 30	480,922	394,476

The actual return on plan assets for the six-month period ended June 30, 2010, was ₩ 13,402 million (2009: ₩ 10,776 million).

The principal actuarial assumptions used were as follows:

(%)	**June 30, 2010**	December 31, 2009
Discount rate	6.2	6.2
Expected rate of return	6.2	6.2
Future salary increase	6.0	6.0

Plan assets consist of:

(in millions of Korean won)	**June 30, 2010**	December 31, 2009
Time deposits	177,073	150,142
Derivatives-linked securities	303,849	273,737
Total	480,922	423,879

10. Retained Earnings

Details of retained earnings consist of:

(in millions of Korean won)	**June 30, 2010**	December 31, 2009
Statutory reserve[1]	138,822	110,549
Discretionary reserve[2]	5,643,697	3,949,343
Inappropriate retained earnings	1,805,185	3,832,657
Total	7,587,704	7,892,549

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

2 This is a discretionary reserve and may be distributed as dividends following the approval of shareholders.

11. Other Components of Equity

Details of other components of equity consist of:

(in millions of Korean won)	**June 30, 2010**	December 31, 2009
Treasury shares[1]	(44,893)	(44,893)
Consideration for conversion rights	9,891	9,891
Gain on disposal of treasury shares	2,183	2,183
Total	(32,819)	(32,819)

1 The Company has treasury shares consisting of 763,158 ordinary shares (2009: 763,157 shares and 4,686 preferred shares (2009: 4,684 shares) at the reporting date. The Company intends to either grant these treasury shares to employees and directors as compensation, or to sell them in the future.

12. Net Sales

Details of net sales for the three-month and six-month periods ended June 30, 2010 and 2009, are as follows:

	2010		2009 (Unreviewed)	
(in millions of Korean won)	**Three-month**	**Six-month**	Three-month	Six-month
Net sales				
Sales of goods	7,490,826	14,576,262	8,317,081	15,250,314
Sales of services	70,040	132,726	59,438	113,020
Royalty income	92,241	171,456	100,603	187,885
Total	7,653,107	14,880,444	8,477,122	15,551,219

13. Expenses by Nature

Expenses that are recorded by nature as cost of sales, selling and marketing expenses, administrative expenses, research and development expenses, service expenses and other operating expenses in the separate income statements for the three-month and six-month periods ended June 30, 2010 and 2009, consist of:

	2010		2009 (Unreviewed)	
(in millions of Korean won)	**Three-month**	**Six-month**	Three-month	Six-month
Changes in inventories	(133,441)	(416,424)	67,917	10,075
Purchase of raw materials and merchandise	5,925,729	11,452,152	5,643,967	10,585,153
Employee benefits	578,937	1,131,050	571,492	1,077,475
Depreciation, amortisation	190,386	366,977	155,050	320,529
Advertising expense	221,421	438,630	341,850	613,032
Sales promotional expense	67,124	108,960	52,917	68,642
Freight expense	218,077	412,447	161,474	305,220
Commission expense	384,551	644,401	308,240	575,278
Other expenses	942,440	1,628,665	808,420	1,942,571
Total	8,395,224	15,766,858	8,111,327	15,497,975

14. General Operating Expenses

Details of general operating expenses[1] for the three-month and six-month periods ended June 30, 2010 and 2009, are as follows:

	2010		2009 (Unreviewed)	
(in millions of Korean won)	**Three-month**	**Six-month**	Three-month	Six-month
Salaries	227,412	444,014	223,754	431,887
Severance benefits	18,146	36,187	19,151	37,576
Employee benefits	39,658	74,051	33,741	64,076
Freight expense	217,526	408,673	153,588	295,996
Rental expense	29,202	56,136	25,372	53,840
Commission expense	274,352	463,402	221,066	414,834
Depreciation	27,713	55,658	30,410	61,088
Amortisation	49,298	89,939	18,995	41,504
Taxes and dues	3,672	5,876	2,389	5,103
Advertising expense	221,421	438,630	341,850	613,032
Sales promotional expense	67,124	108,960	52,917	68,642
Research and development	100,464	186,349	105,149	193,009
Service costs	82,144	162,147	151,679	257,129
Others	85,106	157,119	72,890	144,155
Total	1,443,238	2,687,141	1,452,951	2,681,871

[1] Selling and Marketing expenses, Administrative expenses, Research and Development expenses and Services expenses

15. Other Operating Income

Other operating income for the three-month and six-month periods ended June 30, 2010 and 2009, consists of:

	2010		2009 (Unreviewed)	
(in millions of Korean won)	**Three-month**	**Six-month**	Three-month	Six-month
Rental income	7,349	13,729	6,988	12,852
Foreign exchange gains	514,986	721,407	354,733	1,137,290
Gain on settlement of derivatives	-	-	1,495	4,032
Gain on valuation of derivatives	-	-	(1,182)	-
Gain on disposal of property, plant and equipment	484	4,280	2,292	5,276
Gain on disposal of intangible assets	-	-	-	1,626
Others	6,512	27,628	31,582	39,895
Total	529,331	767,044	395,908	1,200,971

16. Other Operating Expenses

Other operating expenses for the three-month and six-month periods ended June 30, 2010 and 2009, consist of:

	2010		2009 (Unreviewed)	
(in millions of Korean won)	**Three-month**	**Six-month**	Three-month	Six-month
Foreign exchange losses	480,725	762,238	358,872	1,056,004
Loss on settlement of derivatives	-	-	(730)	18,037
Loss on valuation of derivatives	-	-	(10,527)	-
Loss on disposal of property, plant and equipment	2,362	5,224	7,297	12,646
Loss on disposal of intangible assets	1,194	1,370	149	2,296
Others	26,301	31,576	12,707	34,922
Total	510,582	800,408	367,768	1,123,905

17. Earnings (loss) per Share

Basic earnings (loss) per share is calculated by dividing profit (loss) attributable to shareholders of the Company by the weighted average number of ordinary shares in issue during the period excluding ordinary shares purchased by the Company and held as treasury shares (Note 11). Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. As of the reporting date, the Company has no potential ordinary shares.

	2010		2009 (Unreviewed)	
(in millions of Korean won)	**Three-month**	**Six-month**	Three-month	Six-month
Profit (loss) attributable to ordinary shares [1]	₩ (224,363)million	₩(19,976)million	₩ 692,268million	₩ 786,667million
Weighted average number of ordinary shares in issue [2]	143,884,656	143,884,656	143,884,657	143,884,657
Basic earnings (loss) per share	₩ (1,559)	₩ (139)	₩ 4,811	₩ 5,467

[1] Profit (loss) attributable to ordinary shares are as follows:

	2010		2009 (Unreviewed)	
(in millions of Korean won)	**Three-month**	**Six-month**	Three-month	Six-month
Profit (loss)	(250,940)	(21,932)	775,146	881,032
Preferred shares dividends	(7,731)	(15,463)	(1,718)	(3,436)
Additional profit (loss) available for dividends allocated to preferred shares	34,308	17,419	(81,160)	(90,929)
Profit (loss) attributable to ordinary shares	(224,363)	(19,976)	692,268	786,667

[2] Weighted average number of ordinary shares is calculated as follows:

	June 30, 2010		June 30, 2009 (Unreviewed)	
(in millions of Korean won)	**Three-month**	**Six-month**	Three-month	Six-month
Beginning balance	144,647,814	144,647,814	144,647,814	144,647,814
Treasury shares	(763,158)	(763,158)	(763,157)	(763,157)
Weighted average number of ordinary shares in issue	143,884,656	143,884,656	143,884,657	143,884,657

18. Dividends

Dividends for the year ended December 31, 2009, amounting to ₩ 282,725 million (2009: ₩ 57,232 million) were paid in April 2010.

19. Cash Generated from Operations

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

(in millions of Korean won)	**2010**	2009 (Unreviewed)
Profit (loss) for the period	(21,932)	881,032
Adjustments	389,059	886,961
Interest expense	66,042	119,895
Dividends received	(106,314)	(139,241)
Income tax expense	(136,735)	264,065
Foreign exchange losses	35,769	48,354
Gain (loss) on settlement and valuation of derivatives	(45,630)	17,293
Depreciation and amortisation	366,977	320,529
Defined benefit liability	67,882	76,305
Provisions	160,885	130,336
Others	(19,817)	49,425
Changes in operating assets and liabilities	(1,442,749)	(306,163)
Increase in trade receivables	(1,671,117)	(1,496,493)
Decrease (increase) in inventories	(416,424)	10,075
Increase in trade payables	1,032,475	1,369,435
Increase (decrease) in other payables	(48,975)	62,314
Decrease in other assets and liabilities	(338,708)	(251,494)
Cash generated from operations	(1,075,622)	1,461,830

Significant transactions not affecting cash flows for the six-month periods ended June 30, 2010 and 2009, are as follows:

(in millions of Korean won)	**2010**	2009 (Unreviewed)
Reclassification construction-in-progress	235,236	229,283
Reclassification to intangible assets from long-term advance payments	36,169	37,933
Reclassification of current maturities of borrowings	189,723	769,663

20. Contingencies

As of June 30, 2010 and December 31, 2009, the Company provided a note as collateral in relation to guarantees of indebtedness.

As of June 30, 2010, the Company has bank overdraft facility agreements with various banks with a limit of ₩ 240,500 million (2009: ₩ 240,500 million).

As of June 30, 2010, the Company has sales agreements for export trade receivables with various banks amounting to ₩ 6,754,032 million (2009: ₩ 7,114,885 million), and also has sales agreements for domestic trade receivables with Woori Bank amounting to ₩50,000 million (2009: ₩ 50,000 million). The Company has corporate electronic settlement services contracts for collection of trade receivables with two banks of up to ₩ 110,000 million (2009: ₩ 110,000 million).

As of June 30, 2010, the Company has corporate electronic settlement services contracts for payment of trade payables with various banks of up to ₩ 965,450 million (2009: ₩ 965,450 million).

As of June 30, 2010, the Company has loan commitments and import financing commitments in relation to Documents against Acceptance ('D/A') and Documents against Payment agreements ('D/P') with several banks, including Industrial Bank of Korea.

As of June 30, 2010, the Company is provided with a performance guarantee of ₩ 88,047 million (2009: ₩ 91,902 million) from Seoul Guarantee Insurance Company.

As of June 30, 2010 and December 31, 2009, the Company is contingently liable for guarantees approximating ₩ 2,465,290 million (2009:₩ 3,059,314 million) on the indebtedness of its subsidiaries, as follows:

(in millions of Korean won)	**June 30, 2010**	December 31, 2009
LG Electronics European Shared Service Center B.V. (LGESC)	377,326	523,016
LG Electronics U.S.A., Inc. (LGEUS)	242,060	233,520
LG Electronics Wroclaw Sp z o.o (LGEWR)	98,897	193,380
LG Electronics Ticaret A.S. (LGETK)	170,417	142,032
LG Electronics (China) Co. Ltd. (LGECH)	158,437	212,334
LG Electronics Mexico S.A. DE C.V. (LGEMS)	132,798	126,402
LG Electronics Monterrey Mexico S.A. de C.V. (LGEMM)	114,063	163,688
LG Electronics Tianjin Appliances Co., Ltd. (LGETA)	39,239	107,771
LG Electronics Thailand Co. Ltd. (LGETH)	107,021	219,976
LG Electronics RUS, LLC (LGERA)	117,571	84,233
LG Electronics Mlawa Sp. z o.o (LGEMA)	76,210	90,043
LG Electronics Shenyang Inc. (LGESY)	80,581	91,654
LG Electronics Vietnam Co., Ltd (LGEVN)	88,352	75,894
Taizhou LG Electronics Refrigeration Co., Ltd. (LGETR)	62,936	72,391
PT LG Electronics Indonesia (LGEIN)	12,103	134,274
Others	587,279	588,706
Total	2,465,290	3,059,314

The Company 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 Company and certain foreign subsidiaries are under investigation by the European Commission with respect to possible anti-competitive activities among CRT (cathode ray tube) manufacturers. The Company recognized a reasonably estimated expected loss related to this investigation as contingent liabilities. The ultimate amount of loss resulting from the investigation may differ from the estimated loss accrued by the Company. In addition, the Company and certain foreign subsidiaries are currently under investigation with respect to the same activities by the Korean Fair Trade Commission and other competition authorities.

In addition, the 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 outcome of the cases and effect on financial statements could not be ascertained as of the report date.

In addition, the Company and certain foreign subsidiaries have been named as defendants in a number of class actions brought by purchasers of ODD (Optical Disk Drive) 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 financial statements could not be ascertained as of the reporting date.

Other than those above, there are a number of other legal actions that remain pending at the end of the reporting period.

21. Commitments

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

The property, plant and equipment and intangible assets contracted to be acquired at the reporting date but not yet incurred are as follows:

(in millions of Korean won)	**June 30, 2010**	December 31, 2009
Property, plant and equipment	42,908	12,586
Intangible assets	15,115	32,117
Total	58,023	44,703

(b) *Operating lease commitments – the Company as lessee*

The future aggregate minimum lease payments under non-cancellable operating leases at the reporting date, are as follows:

(in millions of Korean won)	No later than 1 year	Later than 1 year and no later than 5 years	Total lease payments
Buildings and offices	15,226	26,787	42,013
Vehicles	9,887	5,451	15,338
Equipment	11,130	6,165	17,295
Total	36,243	38,403	74,646

(c) *Trademark licenses commitments*

As of June 30, 2010, the Company has various agreements including below:

Company	Related products	Provided by	Used by
Use of license	Mobile	Qualcomm and others	LG Electronics Inc.
Provision of license	Home appliance	LG Electronics Inc.	Panasonic and others

22. Related Party Transactions

Subsidiaries as of June 30, 2010, are as follows:

Territory	Name
Domestic subsidiaries	Hiplaza CO., LTD, Hi Business Logistics, Innovation Investment Fund, System Air-con Engineering Incorporation, KTB Technology Fund, HITELESERVICE CO.,LTD.
China	LG Electronics (China) Co. Ltd. (LGECH) Taizhou LG Electronics Refrigeration Co., Ltd.(LGETR) LG Electronics HK Ltd.(LGEHK) LG Electonics (Hangzhou) Recording Media Co., Ltd.(LGEHN) LG Electronics Huizhou Ltd.(LGEHZ) LG Electronics (Kunshan) Computer Co., Ltd.(LGEKS) LG Electronics Nanjing Display Co., Ltd.(LGEND) NanJing LG-Panda Appliances Co., Ltd. (LGEPN) Qingdao LG Inspur Digital Communication Co., Ltd.(LGEQD) LG Electronics Qinhuangdao Inc.(LGEQH) LG Electronics (China) Research and Development Centre Co., Ltd.(LGERD) Shanghai LG Electronics Co., Ltd.(LGESH) LG Electronics Shenyang Inc.(LGESY) LG Electronics Tianjin Appliances Co., Ltd. (LGETA) Inspur LG Digital Mobile Communications Co., Ltd.(LGEYT) Hi Logistics (China) Co., Ltd.
Asia	LG Electronics Philippines Inc.(LGEPH) LG Electronics India Pvt. Ltd.(LGEIL) PT LG Electronics Indonesia (LGEIN) LG Electronics Malaysia SDN. BHD(LGEML) LG Soft India Private Limited.(LGSI) LG Electronics Singapore PTE LTD(LGESL) LG Electronics Vietnam Co., Ltd.(LGEVN) LG Electronics Thailand Co.Ltd.(LGETH) LG Electronics Taiwan Taipei Co., Ltd(LGETT) LG Electronics Australia Pty, Ltd.(LGEAP) LG Electronics Japan, Inc. (LGEJP) LG Electronics Venezuela S.A.(LGEVZ)
Europe	LG Electronics Austria GmbH(LGEAG) LG Electronics Benelux Sales B.V.(LGEBN) LG Electronics CZ, s.r.o.(LGECZ) LG Electronics Deutschland GmbH(LGEDG) LG Electronics European Holdings B.V.(LGEEH) LG Electronics Espana S.A.(LGEES) LG Electronics France S.A.R.L(LGEFS) LG Electronics Hellas S.A.R.L(LGEHS) LG Electronics Italia S.p.A(LGEIS) LG Electronics JIT Europe B.V.(LGEJE) LG Electronics Latvia, LLC(LGELV) LG Electronics Mlawa Sp. zo.o (LGEMA) LG Electronics Mobilecomm France(LGEMF) LG Electronics Magyar KFT(LGEMK) LG Electronics Polska Sp. z o.o (LGEPL)

Europe	LG Electronics Portugal S.A.(LGEPT) LG Electronics Romania S.R.L.(LGERO) LG Electronics European Shared Service Center B.V.(LGESC) LG Electronics European Logistics & Services B.V.(LGELS) LG Electronics Nordic AB(LGESW) LG Electronics United Kingdom Ltd.(LGEUK) LG Electronics Wroclaw Sp z o.o(LGEWR) HI Logistics Europe B.V.
North America	LG Electronics Alabama Inc. (LGEAI) LG Electronics Canada, Inc. (LGECI) LG Electronics Monterrey Mexico S.A.de C.V.(LGEMM) LG Electronics Mobilecomm U.S.A., Inc.(LGEMU) LG Electronics Mobile Research U.S.A., L.L.C.(LGEMR) LG Electronics Mexicalli, S.A. DE C.V.(LGEMX) LG Electronics Mexico S.A. DE C.V. (LGEMS) LG Electronics Reynosa S.A. DE C.V. (LGERS) LG Electronics U.S.A., Inc. (LGEUS) Zenith Electronics Corporation Triveni Digital Inc.
South America	LG Electronics Argentina S.A.(LGEAR) LG Electronics da Amazonia Ltda.(LGEAZ) LG Electronics Colombia Ltda.(LGECB) LG Electronics Inc, Chile Ltda.(LGECL) LG Electronics Peru S.A.(LGEPR) LG Electronics Panama, S.A.(LGEPS) LG Electronics de Sao Paulo Ltda.(LGESP) C & S America Solution Inc. LG Electronics Guatemala S.A.
Middle East and Africa	LG Electronics Egypt S.A.E (LGEEG) LG Electronics Morocco S.A.R.L(LGEMC) LG Electronics S.A. (Pty) Ltd. (LGESA) LG Electronics Africa Logistic FZE(LGEAF) LG Electronics Dubai FZE (LGEDF) LG Electronics Gulf FZE (LGEGF) LG Electronics (Levant) Jordan (LGELF) LG Electronics Middle East Co., Ltd.(LGEME) LG-Shaker Co. Ltd.(LGESR) LG Electronics Ticaret A.S.(LGETK) LG Electronics Overseas Trading FZE(LGEOT) LG Electronics Algeria SARL(LGEAS)
Others	LG Electronics Almaty Kazakhstan(LGEAK) LG Electronics Ukraine Inc.(LGEUR) LG Electronics RUS, LLC (LGERA) LG Alina Electronics(LGERI) LG Electronics RUS-Marketing, LLC(LGERM)

Significant transactions for the six-month periods ended June 30, 2010 and 2009, are as follows:

(in millions of Korean won)	2010		2009 (Unreviewed)	
	Sales	**Purchases**	Sales	Purchases
LG Corp.	569	68,547	395	62,219
Subsidiaries	11,265,474	729,713	11,652,143	951,638
Jointly controlled entities and associates	335,400	1,095,611	227,811	791,280
Other related parties	40,242	529,192	20,125	466,801
Total	11,641,685	2,423,063	11,900,474	2,271,938

The balances of significant transactions are as follows:

(in millions of Korean won)	June 30, 2010		December 31, 2009	
	Receivables	**Payables**	Receivables	Payables
LG Corp.	17,638	-	16,074	9,275
Subsidiaries	5,370,062	2,004,356	3,870,588	2,023,528
Jointly controlled entities and associates	242,991	378,053	132,577	167,139
Other related parties	89,853	144,755	77,556	154,037
Total	5,720,544	2,527,164	4,096,795	2,353,979

Except for the above transactions, the Company has received dividends amounting to ₩ 34,400 million (2009: ₩ 29,734 million) from subsidiaries and ₩ 71,651 million (2009: ₩ 109,346 million) from associates, including LG Display Co., Ltd.

The amounts of guarantees for the related parties as of the reporting date are disclosed in Note 20.

The Company has not recognised any bad debts expense or allowance for trade receivables against related parties for the six-month periods ended June 30, 2010 and 2009.

23. Risk Management

Financial Risk Management

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

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

In addition, the Company operates five overseas regional treasury centers ("RTC") located in New Jersey in the USA, Amsterdam in the Netherlands, Beijing in China, Singapore, and Sao Paulo in Brazil to mitigate financial risks under global business environment preemptively and systematically. RTC contributes to improve overseas subsidiaries' business competitiveness by operating integrated financial functions.

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

(a) *Market risk*

i) Foreign exchange risk

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

The purpose of foreign exchange risk management is maximising the Company's value by minimising the uncertainty and volatility of foreign exchange gains and losses from foreign exchange rate fluctuations.

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

The Company manages foreign exchange risk by matching inflow and outflow of each currency performing Leading & Lagging. The Company hedges its remaining exposure with derivative financial instruments such as forward exchange contracts under its global hedge policy. Speculative foreign exchange trading is strictly prohibited.

The Company determines a hedge ratio for overseas subsidiaries while considering factors highly related to foreign exchange rate fluctuations such as risk index, implied volatility, and market view. The finance team in the Company and the RTC scrutinize changes in foreign exchange exposure and the results of hedging activities on a monthly basis.

As of June 30, 2010 and December 31, 2009, if the foreign exchange rate of the Korean won fluctuated by 10 % while other variables were fixed, the effects on income before tax would be as follows:

	June 30, 2010		December 31, 2009	
(in millions of Korean won)	**10% increase**	**10% decrease**	10% increase	10% decrease
USD/KRW	(229,841)	229,841	(205,661)	205,661
EUR/KRW	14,203	(14,203)	28,616	(28,616)

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

ii) Interest rate risk

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

To mitigate interest rate risk, the Company manages interest rate risk proactively by: minimising external borrowings by maximising 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 weekly and monthly interest rate trends in domestic and international markets.

As of June 30, 2010, the Company is in a net borrowing situation and is partially exposed to a risk of increase in interest expenses. However, the Company minimises risks from changes in interest rate by matching variable interest-bearing short-term borrowings with variable interest-bearing financial deposits adequately.

As of June 30, 2010, if interest rates fluctuate by 100bp without other variables changing, the effects on annual income and expenses related to borrowings and financial deposits with variable interest rates are as follows:

	June 30, 2010		December 31, 2009	
(in millions of Korean won)	**100bp increase**	**100bp decrease**	100bp increase	100bp decrease
Interest expense	25,053	(25,053)	10,338	(10,338)
Interest income	7,293	(7,293)	10,130	(10,130)
Gain (loss) on valuation of derivatives (IRS[1])	8,000	(8,000)	7,885	(7,885)

[1] Interest rate swap mainly creates fair market value risk from changes in interest rates.

(b) *Credit risk*

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

The purpose of the Global Credit / TR policy is to support timely decision-making and minimise loss by securing payment of TR. The policy is mainly 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, Global Credit Insurance Program is structured with top three global credit insurance companies, namely, Euler Hermes, Atradius and 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 June 30, 2010, trade receivable balance of the Company, excluding TR due from its subsidiaries, is ₩ 1,718,766 million (2009: ₩ 1,371,625 million), and its risk is managed appropriately with insurer's credit limit of ₩ 1,997,287 million (2009: ₩ 1,708,633 million).

(c) *Liquidity risk*

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

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

In addition, the Company copes with potential financial distress by maintaining adequate amount of cash and committed credit facilities. The balance of cash and cash equivalents and current financial deposits at June 30, 2010, is ₩ 729,276 million (2009: ₩ 1,012,966 million). The Company maintains total committed credit lines of ₩ 400,000 million (2009: ₩ 600,000 million) in Woori Bank and Kookmin Bank in Korea at June 30, 2010.

As of June 30, 2010, the cash and cash equivalents, and current financial deposits balance of the Company is about 28 % (2009: 67 %) of the borrowings due in 12 months. If committed credit lines are included, the balance covers about 44 % (2009: 107 %) of current borrowings.

In addition, the Company is able to source funds any time from the domestic and international financial markets because it has good investment credit grades from Standard & Poors and Moody's of BBB Stable and Baa2 Stable (2009: BBB Stable and Baa3 Stable), respectively.

Cash flow information on maturity of borrowings is presented in Note 7.

Capital Risk Management

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

As of June 30, 2010, liability/equity ratio and net borrowings ratio are as follows:

(in millions of Korean won, except for ratios)	**2010**	2009
Liability (A)	13,646,843	11,255,255
Equity (B)	10,583,279	10,887,955
Cash and cash equivalents and current financial deposits (C)	729,276	1,012,966
Borrowings (D)	4,956,889	3,458,186
Liability-to-equity ratio (A/B)	129%	103%
Net borrowings ratio (D-C)/B	40%	22%

Fair Value Estimation

Methods and Assumptions in Determining Fair Value

The Company should classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in measurements.

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

Fair value measurements by level of the financial instruments hierarchy at the reporting date are as follows:

	June 30, 2010			
(in millions of Korean won)	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Available-for-sale financial assets	15,382	-	12,121	27,503
Total	15,382	-	12,121	27,503
Liabilities				
Financial liabilities at fair value through profit or loss				
Derivatives for trading	-	54,924	-	54,924
Share-based payment	-	10,232	-	10,232
Total	-	65,156	-	65,156

	December 31, 2009			
(in millions of Korean won)	Level 1	Level 2	Level 3	Total
Assets				
Available-for-sale financial assets	13,023	-	11,554	24,577
Total	13,023	-	11,554	24,577
Liabilities				
Financial liabilities at fair value through profit or loss				
Derivatives for trading	-	116,905	-	116,905
Share-based payment	-	13,559	-	13,559
Total	-	130,464	-	130,464

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

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Company uses various valuation techniques and makes judgments based on current market conditions. These valuation techniques maximise 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 of an instrument are observable, the instrument is included in Level 2.

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

24. Transition to Korean IFRS

Basis of Transition to Korean IFRS

(a) *The first adoption of Korean IFRS*

The financial statements for the year ending December 31, 2010, will be the first annual financial statements compliant with Korean IFRS. These interim separate financial statements have been prepared as described in Note 2.

The Company's transition date to Korean IFRS is January 1, 2009, and the adoption date is January 1, 2010. The reporting date of these interim separate financial statements is June 30, 2010.

In preparing these interim separate financial statements in accordance with Korean IFRS 1101, the Company has applied the mandatory exceptions and certain optional exemptions allowed by Korean IFRS.

(b) *Exemptions elected by the Company*

The Company has elected to apply the following optional exemptions from full retrospective application.

i) Business combination

The Company has not retrospectively applied Korean IFRS 1103 to the business combination that took place prior to January 1, 2009, the transition date.

ii) Deemed cost

The Company has elected to measure land at fair value as of January 1, 2009, the date of transition to Korean IFRS, and use that fair value as its deemed cost at the transition date.

iii) Subsidiaries, jointly controlled entities and associates

When the Company prepares separate financial statements, the Company measures its investments in subsidiaries, jointly controlled entities and associates at cost. Therefore, K-GAAP carrying amount of ₩ 7,760,488 million at the transition date is used as its deemed cost.

iv) Decommissioning liabilities included in the cost of property, plant and equipment

Subject to Korean IFRS Interpretations 2101, *'Changes in Existing Decommissioning, Restoration and Similar Liabilities'*, regarding the changes in a decommissioning, restoration or similar liability to be added to or deducted from the cost of the asset to which it relates, the Company does not comply with these requirements for changes in such liabilities that occurred before the date of transition to Korean IFRS. The amounts to be included as costs of decommissioning assets are measured by discounting the liability over the intervening period and the accumulated depreciation on that amount is calculated at the date of transition to Korean IFRS.

v) Borrowing costs

In respect of capitalizing borrowing costs incurred in the construction of a qualifying asset, the Company capitalizes interest on all qualifying assets for which the commencement date for capitalization is after the transition date.

Reconciliations between Korean IFRS and K-GAAP

The following reconciliations provide a quantification of the effect of the transition to Korean IFRS.

(a) *Effects on Total Assets, Liabilities and Equity*

Effects on the separate total assets, liabilities and equity as of January 1, 2009, the date of Korean IFRS transition, are as follows:

(in millions of Korean won)	**Total assets**	**Total liabilities**	**Total equity**
Reported amount under K-GAAP	17,337,881	8,931,076	8,406,805
Adjustments			
Sold trade receivables[1]	3,154,824	3,141,123	13,701
Defined benefit liability[2]	-	16,422	(16,422)
Revaluation of land[4]	1,084,732	-	1,084,732
Stock options[5]	-	2,504	(2,504)
Deferred tax[7]	(290,323)	(596,678)	306,355
Total	3,949,233	2,563,371	1,385,862
Adjusted amount under Korean IFRS	21,287,114	11,494,447	9,792,667

Effects on the separate total assets, liabilities and equity as of June 30, 2009, are as follows:

(in millions of Korean won)	**Total assets** (Unreviewed)	**Total liabilities** (Unreviewed)	**Total equity** (Unreviewed)
Reported amount under K-GAAP	20,375,191	11,023,557	9,351,634
Adjustments			
Sold trade receivables[1]	1,713,323	1,708,025	5,298
Defined benefit liability [2]	-	24,943	(24,943)
Goodwill[3]	10,594	-	10,594
Revaluation of land[4]	1,084,732	-	1,084,732
Stock options[5]	-	3,405	(3,405)
Investments in equity securities[6]	(184,791)	-	(184,791)
Capitalization of borrowing costs	223	-	223
Development costs	20,789	-	20,789
Deferred tax[7]	(354,129)	(716,561)	362,432
Total	2,290,741	1,019,812	1,270,929
Adjusted amount under Korean IFRS	22,665,932	12,043,369	10,622,563

Effects on the separate total assets, liabilities and equity as of December 31, 2009, are as follows:

(in millions of Korean won)	**Total assets**	**Total liabilities**	**Total equity**
Reported amount under K-GAAP	21,577,176	11,417,383	10,159,793
Adjustments			
Sold trade receivables[1]	618,734	617,275	1,459
Defined benefit liability [2]	-	55,228	(55,228)
Goodwill[3]	17,404	-	17,404
Provisions	1,021	1,021	-
Revaluation of land[4]	1,084,732	-	1,084,732
Stock options[5]	-	3,265	(3,265)
Investments in equity securities[6]	(862,698)	-	(862,698)
Capitalization of borrowing costs	677	-	677
Development costs	86,682	-	86,682
Deferred tax[7]	(380,518)	(838,917)	458,399
Total	566,034	(162,128)	728,162
Adjusted amount under Korean IFRS	22,143,210	11,255,255	10,887,955

(b) *Effects on Profit and Comprehensive Income*

Effects on the profit and comprehensive income for the six-month period ended June 30, 2009, are as follows:

(in millions of Korean won)	**Profit** (Unreviewed)	**Comprehensive income** (Unreviewed)
Reported amount under K-GAAP	948,458	999,232
Adjustments		
Sold trade receivables[1]	(8,403)	(8,403)
Defined benefit liability [2]	(10,865)	(9,038)
Goodwill[3]	10,594	10,594
Stock options[5]	(901)	(901)
Capitalization of borrowing costs	223	223
Development costs	20,789	20,789
Investments in equity securities[6]	(130,687)	(176,958)
Deferred tax[7]	51,824	51,590
Total	(67,426)	(112,104)
Adjusted amount under Korean IFRS	881,032	887,128

Effects on the profit and comprehensive income for the year ended December 31, 2009, are as follows:

(in millions of Korean won)	**Profit**	**Comprehensive income**
Reported amount under K-GAAP	2,052,835	1,840,971
Adjustments		
Sold trade receivables[1]	(12,242)	(12,242)
Defined benefit liability[2]	(37,619)	(38,806)
Goodwill[3]	17,404	17,404
Stock options[5]	(761)	(761)
Capitalization of borrowing costs	677	677
Development costs	86,682	86,682
Investments in equity securities[6]	(1,151,789)	(900,467)
Deferred tax[7]	191,617	159,061
Total	(906,031)	(688,452)
Adjusted amount under Korean IFRS	1,146,804	1,152,519

1 The trade receivables which are transferred and sold, but cannot be derecognised under Korean IFRS are treated as borrowings with the collaterals.

2 Defined benefit liability and other long term employee benefit liability are calculated by using an actuarial method. Actuarial loss on defined benefit liability is recognised in other comprehensive income and actuarial loss on other long-term employee benefit liability is recognised in the income statements.

3 Goodwill amortisation is reversed.

4 Land is revalued at its fair value and recorded as its deemed cost under the exemption rule for first-time adopters.

5 Changed valuation method for stock options.

6 Cost method is applied for investments in subsidiaries, jointly controlled entities and associates, and the carrying value as of the transition date is considered as the deemed costs.

7 Deferred tax effects from the above adjustments and deferred tax differences.

The principal Korean IFRS transition effects presented by the Company in the separate statements of cash flows for the year ended December 31, 2009, were as follows:

According to Korean IFRS, cash flows of the related income (expenses) and assets (liabilities) are adjusted to disclose separately in the separate statements of cash flows from received interest, paid interest and cash payments of income taxes that were not presented separately under K-GAAP.

Cash flows from operating and financing activities are separately adjusted because some trade receivables are treated as borrowings, which were treated as a selling transaction under K-GAAP. Also, other Korean IFRS transition effects are reflected on the separate statements of cash flows if they have an effect on cash flow.