

LG Electronics
Interim Consolidated Financial Statements
September 30, 2011 and 2010

LG Electronics
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Review Report on Interim Financial Information

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

Reviewed Financial Statements

We have reviewed the accompanying interim consolidated financial statements of LG Electronics Inc. and its subsidiaries (collectively the "Group"). These financial statements consist of the statement of financial position as of September 30, 2011, and the related consolidated statements of operations and comprehensive income for the three-month and nine-month periods ended September 30, 2011 and 2010, and statements of changes in shareholders' equity and cash flows for the nine-month periods ended September 30, 2011 and 2010, and a summary of significant accounting policies and other explanatory notes, expressed in Korean won.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to issue a report on these interim consolidated financial statements based on our reviews. We have not reviewed the financial statements of certain consolidated subsidiaries, whose financial statements reflect 27% of the Group's consolidated total assets as of September 30, 2011, and 44% and 53% of the Group's consolidated total sales for the nine-month periods ended September 30, 2011 and 2010, respectively. These financial statements were reviewed by other auditors whose reports have been furnished to us and our report, insofar as it relates to the amounts included for those consolidated subsidiaries, is based solely on the reports of the other auditors.

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

Conclusion

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

Other matters

We have audited the accompanying consolidated statement of financial position of the Group as of December 31, 2010, and the related consolidated income statement and statements of comprehensive income, changes in shareholders' equity and cash flows for the year then ended, in accordance with auditing standards generally accepted in the Republic of Korea. We expressed an unqualified opinion on those financial statements in our audit report dated March 4, 2011. These financial statements are not included in this review report. The consolidated statement of financial position as of December 31, 2010, presented herein for comparative purposes, is consistent, in all material respects, with the above audited statement of financial position as of December 31, 2010.

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



Seoul, Korea
November 14, 2011

This review report is effective as of November 14, 2011, the review report date. Certain subsequent events or circumstances, which may occur between the review report date and the time of reading this report, could have a material impact on the accompanying interim consolidated financial statements and notes thereto. Accordingly, the readers of the review report should understand that there is a possibility that the above review report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

LG Electronics

Interim Consolidated Statements of Financial Position

September 30, 2011 and December 31, 2010

<i>(in millions of Korean won)</i>	Notes	September 30, 2011	December 31, 2010
Assets			
Current assets			
Cash and cash equivalents	5, 28	2,749,813	1,944,162
Financial deposits	5, 28	45,000	85,000
Trade receivables	5, 6	7,114,533	7,001,962
Loans and other receivables	5	456,739	525,046
Other financial assets	5, 7	5,372	1,814
Inventories	8	6,216,637	5,872,420
Current income tax assets		204,207	154,286
Other current assets		935,978	924,813
Assets classified as held for sale		4,269	5,030
		<u>17,732,548</u>	<u>16,514,533</u>
Non-current assets			
Financial deposits	5	147,906	105,479
Loans and other receivables	5	597,268	543,562
Other financial assets	5, 7	133,802	105,601
Property, plant and equipment	9	7,108,118	6,500,484
Intangible assets	9	928,359	763,382
Deferred income tax assets		1,252,708	968,751
Investments in jointly controlled entities and associates	10	5,671,268	6,008,145
Investment property		7,281	7,295
Other non-current assets		797,018	801,267
		<u>16,643,728</u>	<u>15,803,966</u>
Total assets		<u>34,376,276</u>	<u>32,318,499</u>
Liabilities			
Current liabilities			
Trade payables	5	6,226,710	5,824,392
Borrowings	5, 11	4,550,820	4,009,229
Other payables		4,281,629	3,730,292
Other financial liabilities	5, 7	31,179	5,314
Current income tax liabilities		139,003	98,659
Provisions	12	750,624	748,146
Other current liabilities		902,058	901,201
		<u>16,882,023</u>	<u>15,317,233</u>
Non-current liabilities			
Borrowings	5, 11	3,977,267	3,183,706
Other payables		19,680	11,597
Other financial liabilities	5, 7	19	37,492
Deferred income tax liabilities		15,817	10,253
Defined benefit liability	13	345,197	318,112
Provisions	12	559,312	577,697
Other non-current liabilities		4,666	2,772
		<u>4,921,958</u>	<u>4,141,629</u>
Total liabilities		<u>21,803,981</u>	<u>19,458,862</u>
Equity attributable to owners of the Parent Company			
Paid-in capital			
Capital stock		809,169	809,169
Share premium		2,207,919	2,207,919
Retained earnings	14	9,720,030	10,108,173
Accumulated other comprehensive loss		(148,521)	(209,844)
Other components of equity	15	(271,339)	(271,277)
		<u>12,317,258</u>	<u>12,644,140</u>
Non-controlling interest		<u>255,037</u>	<u>215,497</u>
Total equity		<u>12,572,295</u>	<u>12,859,637</u>
Total liabilities and equity		<u>34,376,276</u>	<u>32,318,499</u>

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

LG Electronics
Interim Consolidated Statements of Operations
Three-Month and Nine-Month Periods Ended September 30, 2011 and 2010

<i>(in millions of Korean won, except per share amounts)</i>	Notes	2011		2010	
		Three Months	Nine Months	Three Months	Nine Months
Continuing operations					
Net sales	16	12,897,227	40,442,251	13,429,059	41,056,098
Cost of sales	17	9,850,763	31,123,640	10,555,058	31,471,410
Gross profit		3,046,464	9,318,611	2,874,001	9,584,688
Selling and marketing expenses	17, 18	1,809,233	5,667,756	1,948,233	5,822,928
Administrative expenses	17, 18	313,945	960,260	365,194	1,046,939
Research and development expenses	17, 18	429,087	1,287,637	392,593	1,109,043
Service costs	17, 18	411,724	1,136,622	481,478	1,287,997
Other operating income	19	674,273	1,358,105	485,972	1,584,599
Other operating expenses	17, 20	788,634	1,367,249	357,658	1,480,225
Operating income (expenses)		(31,886)	257,192	(185,183)	422,155
Financial income	21	53,001	422,014	161,697	649,372
Financial expenses	22	287,720	731,146	116,376	814,779
Income (loss) from jointly controlled entities and associate:	10	(264,337)	(290,817)	123,170	551,569
Income (loss) before income tax		(530,942)	(342,757)	(16,692)	808,317
Income tax expense (benefit)		(117,026)	(21,513)	(24,262)	117,486
Profit (loss) from continuing operations		(413,916)	(321,244)	7,570	690,831
Discontinued operations	29				
Profit from discontinued operations		-	-	-	847,734
Profit (loss) for the period		(413,916)	(321,244)	7,570	1,538,565
Profit (loss) for the period attributable to:					
Equity holders of the Parent Company		(424,174)	(356,465)	(5,963)	1,486,745
Profit (loss) for the period from continuing operations		(424,174)	(356,465)	(5,963)	653,496
Profit for the period from discontinued operations		-	-	-	833,249
Non-controlling interest		10,258	35,221	13,533	51,820
Profit for the period from continuing operations		10,258	35,221	13,533	37,335
Profit for the period from discontinued operations		-	-	-	14,485
Earnings per share attributable to the equity holders of the Parent Company during the period (in won)					
	23				
Earnings (loss) per share attributable to the ordinary equity holders of the company		(2,635)	(2,217)	(39)	9,226
Earnings (loss) per share from continuing operations		(2,635)	(2,217)	(39)	4,053
Earnings per share from discontinued operations		-	-	-	5,173
Earnings (loss) per share attributable to the preferred equity holders of the company		(2,623)	(2,180)	(26)	9,264
Earnings (loss) per share from continuing operations		(2,623)	(2,180)	(26)	4,078
Earnings per share from discontinued operations		-	-	-	5,186

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

LG Electronics
Interim Consolidated Statements of Comprehensive Income
Three-Month and Nine-Month Periods Ended September 30, 2011 and 2010

<i>(in millions of Korean won)</i>	Notes	2011		2010	
		Three Months	Nine Months	Three Months	Nine Months
Profit (loss) for the period		<u>(413,916)</u>	<u>(321,244)</u>	<u>7,570</u>	<u>1,538,565</u>
Other comprehensive loss					
Actuarial gain (loss) on defined benefit liability	13	2,857	1,013	(58,897)	(60,051)
Share of actuarial gain (loss) of associates		103	381	(10,174)	(10,198)
Share of other comprehensive income (loss) from jointly controlled entities and associates	10	61,261	38,340	(11,521)	(20,589)
Cash flow hedges		(7,010)	(11,176)	13	(110)
Available-for-sale financial assets		(2,928)	(4,306)	(1,593)	(1,402)
Currency translation differences		189,577	54,186	(91,867)	(36,829)
Other comprehensive income (loss) for the period, net of tax		<u>243,860</u>	<u>78,438</u>	<u>(174,039)</u>	<u>(129,179)</u>
Total comprehensive income (loss) for the period		<u>(170,056)</u>	<u>(242,806)</u>	<u>(166,469)</u>	<u>1,409,386</u>
Comprehensive income (loss) for the period attributable to:					
Equity holders of the Parent Company		(203,830)	(293,748)	(170,933)	1,360,378
Non-controlling interest		33,774	50,942	4,464	49,008
Total comprehensive income (loss) for the period		<u>(170,056)</u>	<u>(242,806)</u>	<u>(166,469)</u>	<u>1,409,386</u>

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

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Interim Consolidated Statements of Changes in Shareholders' Equity

Nine-Month Periods Ended September 30, 2011 and 2010

		Attributable to equity holders of the Parent Company					Non-controlling Interest	Total Equity
	Notes	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (loss)	Other Components of Equity	Total		
<i>(in millions of Korean won)</i>								
Balance at January 1, 2010		3,017,088	9,214,309	(156,886)	(270,333)	11,804,178	621,068	12,425,246
Comprehensive income								
Profit for the period		-	1,486,745	-	-	1,486,745	51,820	1,538,565
Actuarial loss on defined benefit liability		-	(60,000)	-	-	(60,000)	(51)	(60,051)
Share of actuarial loss of associates		-	(10,198)	-	-	(10,198)	-	(10,198)
Share of other comprehensive expense of jointly controlled entities and associates	10	-	-	(20,589)	-	(20,589)	-	(20,589)
Cash flow hedges		-	-	(110)	-	(110)	-	(110)
Available-for-sale financial assets		-	-	(1,402)	-	(1,402)	-	(1,402)
Currency translation differences		-	-	(34,068)	-	(34,068)	(2,761)	(36,829)
Total comprehensive income (loss)		-	1,416,547	(56,169)	-	1,360,378	49,008	1,409,386
Transactions with equity holders of the Parent Company :								
Dividends		-	(282,725)	-	-	(282,725)	(24,376)	(307,101)
Change in ownership interest over subsidiaries		-	-	-	(957)	(957)	3,531	2,574
Changes in scope of subsidiaries		-	-	-	-	-	(439,757)	(439,757)
Changes in components of equity of associates		-	-	-	(6,804)	(6,804)	-	(6,804)
Total transactions with equity holders of the Parent Company		-	(282,725)	-	(7,761)	(290,486)	(460,602)	(751,088)
Balance at September 30, 2010		3,017,088	10,348,131	(213,055)	(278,094)	12,874,070	209,474	13,083,544
Balance at January 1, 2011		3,017,088	10,108,173	(209,844)	(271,277)	12,644,140	215,497	12,859,637
Comprehensive loss								
Profit (loss) for the period		-	(356,465)	-	-	(356,465)	35,221	(321,244)
Actuarial gain on defined benefit liability		-	1,013	-	-	1,013	-	1,013
Share of actuarial gain of associates		-	381	-	-	381	-	381
Share of other comprehensive expense of jointly controlled entities and associates	10	-	-	38,340	-	38,340	-	38,340
Cash flow hedges		-	-	(11,176)	-	(11,176)	-	(11,176)
Available-for-sale financial assets		-	-	(4,306)	-	(4,306)	-	(4,306)
Currency translation differences		-	-	38,465	-	38,465	15,721	54,186
Total comprehensive profit (loss)		-	(355,071)	61,323	-	(293,748)	50,942	(242,806)
Transactions with equity holders of the Parent Company :								
Dividends		-	(33,072)	-	-	(33,072)	(11,381)	(44,453)
Change in ownership interest over subsidiaries		-	-	-	(52)	(52)	(21)	(73)
Other changes in equity		-	-	-	(10)	(10)	-	(10)
Total transactions with equity holders of the Parent Company		-	(33,072)	-	(62)	(33,134)	(11,402)	(44,536)
Balance at September 30, 2011		3,017,088	9,720,030	(148,521)	(271,339)	12,317,258	255,037	12,572,295

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

LG Electronics
Interim Consolidated Statements of Cash Flows
Nine-Month Periods Ended September 30, 2011 and 2010

<i>(in millions of Korean won)</i>	Notes	Nine-Month Period Ended September 30	
		2011	2010
Cash flows from operating activities			
Cash generated from (used in) operations	24	1,680,879	(697,374)
Interest received		53,536	52,667
Interest paid		(224,726)	(181,035)
Dividends received		84,865	76,301
Income tax paid		(262,442)	(332,049)
Net cash generated from (used in) operating activities		<u>1,332,112</u>	<u>(1,081,490)</u>
Cash flows from investing activities			
Decrease in financial deposits		40,000	96,572
Decrease in loans and other receivables		118,072	169,267
Proceeds from disposal of other financial assets		17,343	82,258
Proceeds from disposal of and recovery of investments in jointly controlled entities and associates		1,386	121,529
Proceeds from disposal of property, plant and equipment		60,534	124,124
Proceeds from disposal of intangible assets		2,787	1,637
Increase in cash and cash equivalents due to changes in scope of subsidiaries		-	798
Decrease in other assets		3,749	4,963
Increase in financial deposits		(29,396)	-
Increase in loans and other receivables		(160,305)	(100,262)
Acquisition of other financial assets		(80,426)	(107,178)
Acquisition of investment in jointly controlled entities and associates	10	(998)	(129,693)
Acquisition of property, plant and equipment	9	(1,317,281)	(1,114,022)
Acquisition of intangible assets	9	(218,619)	(209,435)
Decrease in cash and cash equivalents due to business combination and changes in scope of subsidiaries	30	(148,275)	(239,632)
Increase in other assets		-	(1,446)
Net cash used in investing activities		<u>(1,711,429)</u>	<u>(1,300,520)</u>
Cash flows from financing activities			
Proceeds from borrowings		3,008,809	4,063,070
Repayments of borrowings		(1,811,811)	(1,984,784)
Dividends paid		(43,143)	(306,129)
Net cash provided by financing activities		<u>1,153,855</u>	<u>1,772,157</u>
Exchange gains (losses) on cash and cash equivalents		<u>31,113</u>	<u>(28,613)</u>
Net increase (decrease) in cash and cash equivalents		<u>805,651</u>	<u>(638,466)</u>
Cash and cash equivalents at the beginning of period		1,944,162	2,423,787
Cash and cash equivalents at the end of period		<u>2,749,813</u>	<u>1,785,321</u>

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

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Notes to the Interim Consolidated Financial Statements

September 30, 2011 and 2010

1. General Information

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

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

As of September 30, 2011, LG Corp. and its related parties own 34.8% of the Parent Company’s total shares, excluding preferred shares, while financial institutions, foreign investors and others own the rest.

The Group is engaged in the manufacture and sale of electronic products including mobile phones, TV, air conditioners, refrigerators, washing machines, and personal computers. As of September 30, 2011, the Group operates four business segments and other supporting segments through the Parent Company and subsidiaries all over the world.

Consolidated subsidiaries as of September 30, 2011, are as follows:

Territory	Name
Domestic subsidiaries	Hiplaza Co., Ltd., Hi Business Logistics Co., Ltd., Innovation Investment Fund, Hi M Solutek (formerly System Air-con Engineering Incorporation), KTB Technology Fund, HI Teleservice Co., Ltd. LG Electronics Alliance Fund, Ace R&A Co., Ltd.
China	LG Electronics (China) Co., Ltd.(LGECH) Taizhou LG Electronics Refrigeration Co., Ltd.(LGETR) LG Electronics HK Ltd.(LGEHK) LG Electronics (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. LG Electronics (Shanghai) Research and Development Center.(LGECR) Tianjin Lijie cartridge heater Co., Ltd. LG Electronics Air-Conditioning(Shandong) Co., Ltd.(LGEQA)
Asia	LG Electronics Philippines Inc.(LGEPH) LG Electronics India Pvt. Ltd.(LGEIL) PT LG Electronics Indonesia (LGEIN) LG Electronics Malaysia SDN. BHD (LGEML) LG Soft India Private Limited.(LGSIL) LG Electronics Singapore PTE LTD (LGESL) LG Electronics Vietnam Co., Ltd.(LGEVN)

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Notes to the Interim Consolidated Financial Statements

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LG Electronics Thailand Co., Ltd.(LGETH)
LG Electronics Taiwan Taipei Co., Ltd.(LGETT)
LG Electronics Australia Pty, Ltd.(LGEAP)
LG Electronics Japan, Inc.(LGEJP)
LG Electronics Japan, Lab.(LGEJL)

Europe

LG Electronics Austria GmbH (LGEAG)
LG Electronics Benelux Sales B.V.(LGEBN)
LG Electronics CZ, s.r.o.(LGE CZ)
LG Electronics Deutschland GmbH (LGEDG)
LG Electronics European Holdings B.V.(LGE EH)
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 (LGE LV)
LG Electronics Mlawa Sp. z o.o (LGE MA)
LG Electronics Mobilecomm France (LGE MF)
LG Electronics Magyar KFT (LGE MK)
LG Electronics Norway AS.(LGE NO)
LG Electronics Polska Sp. z o.o (LGE PL)
LG Electronics Portugal S.A.(LGE PT)
LG Electronics Romania S.R.L.(LGE RO)
LG Electronics European Shared Service Center B.V.(LGE SC)
LG Electronics European Logistics & Services B.V.(LGE LS)
LG Electronics Nordic AB (LGE SW)
LG Electronics United Kingdom Ltd.(LGE UK)
LG Electronics Wroclaw Sp z o.o (LGE WR)
HI Logistics Europe B.V.

North America

LG Electronics Alabama Inc.(LGE AI)
LG Electronics Canada, Inc.(LGE CI)
LG Electronics Miami Inc.(LGE MI)
LG Electronics Monterrey Mexico S.A.de C.V.(LGE MM)
LG Electronics Mobilecomm U.S.A., Inc.(LGE MU)
LG Electronics Mobile Research U.S.A., L.L.C.(LGE MR)
LG Electronics Mexicali, S.A. DE C.V.(LGE MX)
LG Electronics Mexico S.A. DE C.V.(LGE MS)
LG Electronics Reynosa S.A. DE C.V.(LGE RS)
LG Electronics U.S.A., Inc.(LGE US)
Zenith Electronics Corporation
Triveni Digital Inc.
Zenith Electronics Corporation of Pennsylvania
Servicios Integrales LG S.A DE C.V
Servicios LG Monterrey Mexico S.A. de C.V.
LG Receivable Funding LLC

South America

LG Electronics Argentina S.A.(LGE AR)
LG Electronics da Amazonia Ltda.(LGE AZ)
LG Electronics Colombia Ltda.(LGE CB)
LG Electronics Inc, Chile Ltda.(LGE CL)
LG Electronics Peru S.A.(LGE PR)
LG Electronics Panama, S.A.(LGE PS)
LG Electronics de Sao Paulo Ltda.(LGE SP)
LG Electronics Venezuela S.A.(LGE VZ)
C & S America Solution Inc.
LG Electronics Guatemala S.A.
SOCIO VIP Ltda
LG Armagem Geral Ltda.
LG Consulting corp.
LG Electronics Honduras S.de R.L.

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Goldstar Panama S.A.

Middle-east Asia and Africa	LG Electronics Egypt S.A.E (LGEEG) LG Electronics Morocco S.A.R.L (LGEMC) LG Electronics S.A. (Pty) Ltd.(LGESA) LG Electronics Africa Logistic FZE (LGEAF) LG Electronics Dubai FZE (LGEDF) LG Electronics Gulf FZE (LGEGF) LG Electronics (Levant) Jordan (LGELF) LG Electronics Middle East Co., Ltd.(LGEME) LG-Shaker Co., Ltd.(LGESR) LG Electronics Ticaret A.S.(LGETK) LG Electronics Overseas Trading FZE (LGEOT) LG Electronics Algeria SARL (LGEAS) LG Electronics Nigeria Limited.(LGENI) LG Electronics North Africa EASYTEC GLOBAL SERVICES INNOVATION LIMITED
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)

2. Significant Accounting Policies

Basis of Preparation

The Group 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 interim consolidated financial statements for the nine-month period ended September 30, 2011, have been prepared in accordance Korean IFRS 1034, '*Interim Financial Reporting*'. These interim consolidated financial statements have been prepared in accordance with the Korean IFRS standards and interpretations issued and effective at September 30, 2011.

The following new standards, new interpretations and amendments to standards and interpretations have been issued and announced but are not effective for the year beginning January 1, 2011 and have not been early adopted:

- Korean IFRS 1012 (amendment): 'Income taxes'
- Korean IFRS 1107 (amendment): 'Financial instruments: Disclosures'

The Group expects additional disclosures of the nature of the transferred assets, the carrying amount and a description of the risks and rewards for the financial assets in accordance with Korean IFRS 1107 amendment.

The preparation of 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 Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are

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Notes to the Interim Consolidated Financial Statements

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significant to the consolidated financial statements are disclosed in Note 3.

Application of Accounting Policies

The significant accounting policies and methods of computation followed by the Group in the preparation of its consolidated interim financial statements are the same as the policies and methods adopted for the financial statements for the year ended December 31, 2010. Certain prior year accounts, presented herein solely for comparative purposes, have been reclassified to conform to current period's financial statement presentation. Such reclassification does not impact the net income or net assets reported in the prior year.

Business Combination

The acquisition method of accounting is used to account for the business combination. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Non-controlling interest in the acquiree is measured at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of the acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement within 'other operating income and expenses' or 'financial income and expenses'. Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement within 'other operating income and expenses' or 'financial income and expenses'.

3. Critical Accounting Estimates and Assumptions

The Group 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

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period are addressed below.

Estimated Impairment of Goodwill

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

Income Taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises the current and deferred income tax for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Fair Value of Financial Instruments

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

Provisions

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

Defined Benefit Liability

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

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4. Segment Information

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

Divisions	Products
Home Entertainment	LCD TV / PDP TV, PDP Module, LCD Monitor, Audio, Video, Security device and others
Mobile Communications	Mobile communications, Tablet PC, Network and others
Home Appliance	Refrigerators, Washing machines, Microwave, Vacuum, Healthcare, Water treatment and others
Air Conditioning & Energy Solution	Air conditioners, LED, Chiller and others
Others	Compressor and Motor, Storage Device, PC, Telematics, Solar cell and others

As of September 30, 2011, the Group has reorganized Compressors, Motor and Solar cells business divisions as Others business division. Financial information on 2010 has been reclassified and prepared based on changed criteria for classification.

The segment information for sales and operating income for the nine-month periods ended September 30, 2011 and 2010, is as follows:

	2011		2010	
	Segment Sales	Segment operating income(loss)	Segment sales	Segment operating income(loss)
<i>(in millions of Korean won)</i>				
Home Entertainment	16,067,905	273,490	17,046,833	209,950
Mobile Communications	8,917,408	(293,127)	9,594,684	(393,558)
Home Appliance	8,125,893	230,459	7,628,389	438,280
Air Conditioning & Energy Solution	3,877,412	96,089	3,358,546	37,628
Sub total	36,988,618	306,911	37,628,452	292,300
Other segments ¹ and inter-segment transactions ²	3,453,633	(49,719)	3,427,646	129,855
Total	40,442,251	257,192	41,056,098	422,155

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

² Segment sales were traded at fair value.

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The segment information for assets and liabilities is as follows:

<i>(in millions of Korean won)</i>	September 30, 2011		December 31, 2010	
	Segment assets ¹	Segment liabilities ¹	Segment assets ¹	Segment liabilities ¹
Home Entertainment	14,114,110	11,547,522	13,531,228	10,893,636
Mobile Communications	7,440,167	4,908,980	7,619,597	4,794,633
Home Appliance	7,618,041	5,574,682	6,601,463	4,643,048
Air Conditioning & Energy Solution	3,158,685	2,076,329	2,727,760	1,751,205
Sub total	32,331,003	24,107,513	30,480,048	22,082,522
Other segments and inter-segment transactions	2,045,273	(2,303,532)	1,838,451	(2,623,660)
Total	34,376,276	21,803,981	32,318,499	19,458,862

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

External sales by geographic areas for the nine-month periods ended September 30, 2011 and 2010, and non-current assets by geographic areas as of September 30, 2011 and December 31, 2010, are as follows:

<i>(in millions of Korean won)</i>	External sales		Non-current assets ¹	
	2011	2010	September 30, 2011	December 31, 2010
Korea	7,078,551	6,270,684	6,003,985	5,475,146
North America	8,388,509	8,704,320	139,722	132,619
Europe	5,310,116	7,071,128	273,393	260,976
Central & South America	5,471,664	5,315,832	432,537	373,737
Asia & Africa	8,853,572	8,302,468	417,678	385,532
China	3,229,821	3,613,657	617,064	528,099
Commonwealth of Independent States	2,110,018	1,778,009	159,379	115,052
Total	40,442,251	41,056,098	8,043,758	7,271,161

¹ Non-current assets consist of property, plant and equipment, intangible assets, and investment property.

There is no external customer attributing to more than 10% of total sales for the nine-month periods ended September 30, 2011 and 2010.

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5. Financial Instruments by Category

Categorisations of financial instruments as of September 30, 2011, are as follows:

<i>(in millions of Korean won)</i>	Assets at fair value through			Assets classified as available-for-sale		Held-to-maturity financial assets	Total
	profit or loss	Derivatives for hedge	Loans and receivables				
Cash and cash equivalents	-	-	2,749,813	-	-	-	2,749,813
Financial deposits	-	-	192,906	-	-	-	192,906
Trade receivables	-	-	7,114,533	-	-	-	7,114,533
Loans and other receivables	-	-	1,054,007	-	-	-	1,054,007
Other financial assets	5,372	10,717	-	64,110	-	58,975	139,174
Total	5,372	10,717	11,111,259	64,110		58,975	11,250,433

<i>(in millions of Korean won)</i>	Liabilities at fair value through			Liabilities carried at amortised cost	Total
	profit or loss	Derivatives for hedge			
Trade payables	-	-	-	6,226,710	6,226,710
Borrowings	-	-	-	8,528,087	8,528,087
Other payables	-	-	-	1,584,209	1,584,209
Other financial liabilities	31,179	19	-	-	31,198
Other liabilities	-	-	-	1,756	1,756
Total	31,179	19		16,340,762	16,371,960

Categorisations of financial instruments as of December 31, 2010, are as follows:

<i>(in millions of Korean won)</i>	Assets at fair value through		Assets classified as available-for-sale		Held-to-maturity financial assets	Total
	profit or loss	Loans and receivables				
Cash and cash equivalents	-	1,944,162	-	-	-	1,944,162
Financial deposits	-	190,479	-	-	-	190,479
Trade receivables	-	7,001,962	-	-	-	7,001,962
Loans and other receivables	-	1,068,608	-	-	-	1,068,608
Other financial assets	1,814	-	47,471	-	58,130	107,415
Total	1,814	10,205,211	47,471		58,130	10,312,626

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<i>(in millions of Korean won)</i>	Liabilities at fair value through the profit and loss	Derivatives for hedge	Liabilities carried at amortised cost	Total
Trade payables	-	-	5,824,392	5,824,392
Borrowings	-	-	7,192,935	7,192,935
Other payables	-	-	1,813,910	1,813,910
Other financial liabilities	42,543	263	-	42,806
Other liabilities	-	-	553	553
Total	42,543	263	14,831,790	14,874,596

6. Trade Receivables

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

<i>(in millions of Korean won)</i>	September 30, 2011	December 31, 2010
Trade receivables	7,232,039	7,122,430
Less: allowance for doubtful accounts	(117,506)	(120,468)
Net book amount	7,114,533	7,001,962

The aging of the trade receivables follows:

<i>(in millions of Korean won)</i>	September 30, 2011	December 31, 2010
Less than 6 months	7,044,283	6,935,329
6 to 12 months	5,179	11,368
Over one year	20,522	58,173
Defaulted	162,055	117,560
Total	7,232,039	7,122,430

7. Other Financial Assets and Liabilities

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

<i>(in millions of Korean won)</i>	September 30, 2011	December 31, 2010
Other financial assets		
Derivatives	16,089	1,814
Available-for-sale	64,110	47,471
Held-to-maturity	58,975	58,130
Total	139,174	107,415
Current	5,372	1,814
Non-current	133,802	105,601

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<i>(in millions of Korean won)</i>	September 30, 2011	December 31, 2010
Other financial liabilities		
Derivative financial liabilities	31,198	42,806
Total	31,198	42,806
Current	31,179	5,314
Non-current	19	37,492

8. Inventories

Inventories consist of:

<i>(in millions of Korean won)</i>	September 30, 2011	December 31, 2010
Merchandise and finished products	3,662,342	3,480,831
Work-in-process	271,730	237,413
Raw materials and supplies	2,023,315	1,917,378
Others	259,250	236,798
Total	6,216,637	5,872,420

9. Property, Plant and Equipment and Intangible assets

Changes in property, plant and equipment are as follows:

<i>(in millions of Korean won)</i>	2011	2010
At January 1	6,500,484	7,708,933
Acquisitions	1,317,358	1,114,022
Transfer-in (out)	(505)	16,414
Disposals and others	(67,812)	(232,901)
Depreciation	(669,772)	(766,451)
Impairment / reversal	(3,586)	(449)
Business combination and changes in scope of subsidiaries	27,450	(1,492,701)
Exchange differences	4,578	(20,923)
At September 30	7,108,118	6,325,944

Changes in intangible assets are as follows:

<i>(in millions of Korean won)</i>	2011	2010
At January 1	763,382	803,828
Acquisitions	218,619	209,435
Transfer-in	89,571	59,706
Disposals and others	(18,324)	(8,083)
Amortisation	(226,446)	(203,553)
Impairment	(16)	(264)
Business combination and changes in scope of subsidiaries	101,062	(88,234)
Exchange differences	511	(185)
At September 30	928,359	772,650

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10. Investments in jointly controlled entities and associates

<i>(in millions of Korean won)</i>	2011	2010
At January 1	6,008,145	4,404,163
Acquisitions ¹	998	1,437,601
Income (loss) of jointly controlled entities and associates ²	(289,754)	563,973
Other comprehensive income (expense) of jointly controlled entities and associates	38,340	(20,589)
Dividends / recovery of investment	(84,392)	(169,619)
Disposal	(2,450)	(18,959)
Others	381	(39,000)
At September 30	5,671,268	6,157,570

¹ The Group acquired the equity of MTH Co., Ltd. during the nine-month period ended September 30, 2011.

² "Income (loss) from jointly controlled entities and associates" on the statements of operation includes loss on disposal amounting to ₩1,063 million.

11. Borrowings

The carrying amounts of borrowings are as follows:

<i>(in millions of Korean won)</i>	September 30, 2011	December 31, 2010
Current		
Short-term borrowings	2,774,717	3,327,277
Current maturities of long-term borrowings	807,284	302,256
Current maturities of debentures	968,819	379,696
Sub-total	4,550,820	4,009,229
Non-current		
Long-term borrowings	1,956,664	1,478,910
Debentures	2,020,603	1,704,796
Sub-total	3,977,267	3,183,706
Total	8,528,087	7,192,935

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Short-term borrowings consist of:

<i>(in millions of Korean won)</i>	Latest maturity date	Annual interest rate (%) at	Carrying amount	
		September 30, 2011	September 30, 2011	December 31, 2010
Foreign currency loans				
HSBC and others	2012-09-04	1.37~16.9	1,514,399	1,191,907
Borrowings on negotiated trade bills				
Citibank and others	-	0.97~2.24	1,260,318	2,135,370
Total			2,774,717	3,327,277

Long-term borrowings consist of:

<i>(in millions of Korean won)</i>	Latest maturity date	Annual interest rate (%) at	September 30, 2011		
		September 30, 2011	Total	Current	Non-current
Local currency loans					
Kookmin Bank	2013-05-14	4.67	190,000	-	190,000
Kookmin Bank	2014-11-12	4.62	150,000	-	150,000
Kookmin Bank	2016-05-24	4.73	190,000	-	190,000
Nonghyup	2014-03-10	4.70	190,000	-	190,000
Shinhan Bank	2016-10-19	4.37	190,000	-	190,000
Woori Bank	2014-02-18	5.67	10,000	-	10,000
Small & Medium Business Corporation	2014-11-17	4.39	221	68	153
The Korea Development Bank	2011-10-06	3M CD + 0.88	190,000	190,000	-
The Korea Development Bank	2012-03-30	5.81	190,000	190,000	-
The Korea Development Bank	2013-03-11	4.59	100,000	-	100,000
The Korea Development Bank	2014-04-07	4.45	190,000	-	190,000
The Korea Development Bank	2014-06-24	5.56	8,000	-	8,000
The Korea Development Bank	2014-06-24	5.68	6,000	-	6,000
The Korea Development Bank	2014-11-24	4.55	150,000	-	150,000
The Korea Development Bank	2014-12-24	4.71	140,000	-	140,000
The Korea Development Bank	2015-03-10	5.06	90,000	-	90,000
Korea Finance Corporation	2014-02-28	4.56	90,000	-	90,000
Korea Finance Corporation	2015-03-02	4.80	100,000	-	100,000
Korea Finance Corporation	2015-09-14	4.57	80,000	-	80,000
Korea Finance Corporation	2015-12-24	4.64	40,000	-	40,000
Korea Finance Corporation	2016-04-20	4.63	30,000	-	30,000
Foreign currency loans					
The Korea Development Bank	2012-06-26	3ML+0.4	235,900	235,900	-
SMBC Bank and others	-	5.99~12.4	203,827	191,316	12,511
Total			2,763,948	807,284	1,956,664

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<i>(in millions of Korean won)</i>	Latest maturity date	Annual interest rate (%) at Dec 31, 2010	December 31, 2010		
			Total	Current	Non-current
Local currency loans					
Kookmin Bank	2013-05-14	4.67	190,000	-	190,000
Kookmin Bank	2014-11-12	4.62	150,000	-	150,000
Shinhan Bank	2016-10-19	4.37	190,000	-	190,000
The Korea Development Bank	2011-10-06	3M CD + 0.88	190,000	190,000	-
The Korea Development Bank	2011-10-17	5.94	20,000	20,000	-
The Korea Development Bank	2012-03-30	5.81	190,000	-	190,000
The Korea Development Bank	2014-11-24	4.55	150,000	-	150,000
The Korea Development Bank	2014-12-24	4.71	140,000	-	140,000
Korea Finance Corporation	2015-09-14	4.57	80,000	-	80,000
Korea Finance Corporation	2015-12-24	4.64	40,000	-	40,000
Foreign currency loans					
The Korea Development Bank	2012-06-26	3ML+0.4	227,780	-	227,780
SMBC Bank and others	2017-07-08	5.99~13.65	213,386	92,256	121,130
Total			1,781,166	302,256	1,478,910

Debentures consist of:

<i>(in millions of Korean won)</i>	Latest maturity date	Annual interest rate (%) at September 30, 2011	September 30, 2011		
			Total	Current	Non-current
Fixed rate notes in local currency					
Public, non-guaranteed bonds (49 th)	2012-04-11	5.27	190,000	190,000	-
Public, non-guaranteed bonds (51 st)	2012-02-17	5.99	190,000	190,000	-
Public, non-guaranteed bonds (54 th)	2013-04-22	4.20	190,000	-	190,000
Public, non-guaranteed bonds (55 th)	2013-06-16	4.60	190,000	-	190,000
Public, non-guaranteed bonds (56 th)	2015-09-09	4.63	190,000	-	190,000
Public, non-guaranteed bonds (57 th)	2015-10-22	4.30	190,000	-	190,000
Public, non-guaranteed bonds (58-1 st)	2014-02-16	4.44	130,000	-	130,000
Public, non-guaranteed bonds (58-2 nd)	2016-02-16	4.91	60,000	-	60,000
Public, non-guaranteed bonds (60 th)	2016-05-20	4.41	190,000	-	190,000
Public, non-guaranteed bonds (61 st)	2016-06-29	4.38	190,000	-	190,000
Public, non-guaranteed bonds (62-1 st)	2013-08-05	3.89	110,000	-	110,000
Public, non-guaranteed bonds (62-2 nd)	2016-08-05	4.34	80,000	-	80,000
Public, non-guaranteed bonds (64 th)	2016-09-30	4.32	190,000	-	190,000
Floating rate notes in foreign currency					
Citibank, N.A	2012-05-15	3ML+0.65	589,750	589,750	-
Public, non-guaranteed bonds (59 th) ¹	2014-04-28	3ML+1.00	200,515	-	200,515
Public, non-guaranteed bonds (63 rd) ¹	2014-08-23	3ML+0.70	117,950	-	117,950
Less: discount on debentures			(8,793)	(931)	(7,862)

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Total	2,989,422	968,819	2,020,603
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¹ The Group entered into Cross-currency Interest Rate Swap contract amounting to US\$270 million with BTMU (Bank of Tokyo-Mitsubishi UFJ) and others to hedge cash flow risk related to floating interest rate and foreign exchange rate. At the end of the reporting period, the loss on valuation of the effective portion changes in the fair value amounting to ₩11,366 million, net of income tax, is recognised in other comprehensive loss.

<i>(in millions of Korean won)</i>	Latest maturity date	Annual interest rate (%) at	December 31, 2010		
		Dec 31, 2010	Total	Current	Non-current
Fixed rate notes in local currency					
Public, non-guaranteed bonds (49 th)	2012-04-11	5.27	190,000	-	190,000
Public, non-guaranteed bonds (51 st)	2012-02-17	5.99	190,000	-	190,000
Public, non-guaranteed bonds (52 nd)	2011-05-28	4.30	190,000	190,000	-
Public, non-guaranteed bonds (53 rd)	2011-08-06	4.70	190,000	190,000	-
Public, non-guaranteed bonds (54 th)	2013-04-22	4.20	190,000	-	190,000
Public, non-guaranteed bonds (55 th)	2013-06-16	4.60	190,000	-	190,000
Public, non-guaranteed bonds (56 th)	2015-09-09	4.63	190,000	-	190,000
Public, non-guaranteed bonds (57 th)	2015-10-22	4.30	190,000	-	190,000
Floating rate notes in foreign currency					
Citibank, N.A	2012-05-15	3ML+0.65	569,450	-	569,450
Less: discount on debentures			(4,958)	(304)	(4,654)
Total			2,084,492	379,696	1,704,796

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

<i>(in millions of Korean won)</i>	September 30, 2011		December 31, 2010	
	Carrying amount	Fair value ¹	Carrying amount	Fair value ¹
Long-term borrowings	1,956,664	1,994,375	1,478,910	1,510,156
Debentures	2,020,603	2,053,143	1,704,796	1,731,695
Total	3,977,267	4,047,518	3,183,706	3,241,851

¹ The fair values are based on the cash flow discounted using return of corporate bonds in won with the same credit rating (AA) of the Group.

Payment schedule¹ of borrowings as of September 30, 2011, is as follows:

<i>(in millions of Korean won)</i>	Total	Less than			Over
		1 year	2 years	5 years	5 years
Short-term borrowings	2,774,717	2,774,717	-	-	-
Current maturities of long-term borrowings and debentures	1,777,034	1,777,034	-	-	-
Long-term borrowings	1,956,664	-	315,408	1,614,047	27,209
Debentures	2,028,465	-	490,000	1,538,465	-
Total	8,536,880	4,551,751	805,408	3,152,512	27,209

¹ The above cash flows are based on nominal amounts.

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12. Provisions

Changes in the provisions for the nine-month periods ended September 30, 2011 and 2010, are as follows:

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

<i>(in millions of Korean won)</i>	2010				
	Warranty	Sales returns	Restoration	Litigation	Total
At January 1, 2010	735,474	79,385	4,665	491,316	1,310,840
Addition	1,108,895	230,158	548	115,098	1,454,699
Utilisation	(1,119,572)	(230,794)	(149)	(123,441)	(1,473,956)
Exchange differences	(12,551)	(1,124)	(17)	816	(12,876)
Business combination and changes in scope of subsidiaries	(730)	-	-	-	(730)
At September 30, 2010	711,516	77,625	5,047	483,789	1,277,977
Current	638,969	77,625	-	-	716,594
Non-current	72,547	-	5,047	483,789	561,383

13. Defined Benefit Liability

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

<i>(in millions of Korean won)</i>	September 30, 2011	December 31, 2010
Present value of funded obligations	964,102	848,689
Present value of unfunded obligations	25,475	20,154
Sub-total	989,577	868,843
Fair value of plan assets	(644,380)	(550,731)
Liabilities	345,197	318,112

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The amounts recognised in the income statements for the three-month and nine-month periods ended September 30, 2011 and 2010, are as follows:

<i>(in millions of Korean won)</i>	2011		2010	
	Three months	Nine months	Three months	Nine months
Current service cost	45,304	144,690	37,997	122,398
Interest cost	11,324	33,919	9,914	30,855
Expected return on plan assets	(6,246)	(18,706)	(7,125)	(21,668)
Past service cost	8	24	6	(91)
Total expense	50,390	159,927	40,792	131,494

The line items in which expenses are included for the three-month and nine-month periods ended September 30, 2011 and 2010, are as follows:

<i>(in millions of Korean won)</i>	2011		2010	
	Three months	Nine months	Three months	Nine months
Cost of sales	24,165	77,966	19,760	64,180
Selling and marketing expenses	10,811	33,524	8,120	27,054
Administrative expenses	2,812	9,449	2,781	8,934
Research and development expenses	12,005	35,508	9,454	28,605
Service costs	597	3,480	677	2,721
Total expense	50,390	159,927	40,792	131,494

Cumulative actuarial losses recognised in the statement of other comprehensive loss at the end of the reporting period, are ₩53,955 million (2010: ₩54,968 million).

Changes in the defined benefit obligations for the nine-month periods ended September 30, 2011 and 2010, are as follows:

<i>(in millions of Korean won)</i>	2011	2010
At January 1	868,843	755,507
Current service cost	144,690	122,398
Interest expense	33,919	30,855
Benefits paid	(61,649)	(54,580)
Actuarial loss	259	75,661
Business combination and changes in scope of subsidiaries	3,892	(85,674)
Others	(377)	(69)
At September 30	989,577	844,098

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Changes in the fair value of plan assets for the nine-month periods ended September 30, 2011 and 2010, are as follows:

<i>(in millions of Korean won)</i>	2011	2010
At January 1	550,731	456,101
Expected return on plan assets	18,706	21,668
Employer contributions	92,955	75,943
Benefits paid	(21,549)	(36,839)
Actuarial gain (loss)	1,631	(472)
Business combination and changes in scope of subsidiaries	2,123	(23,694)
Others	(217)	764
At September 30	644,380	493,471

The actual return on plan assets for the nine-month period ended September 30, 2011, is ₩20,337 million (2010: ₩21,196 million).

The principal actuarial assumptions used are as follows:

(%)	September 30, 2011	December 31, 2010
Discount rate	5.5	5.5
Expected rate of return	4.3	4.3
Future salary increase	6.0	6.0

Plan assets consist of:

<i>(in millions of Korean won)</i>	September 30, 2011	December 31, 2010
Securities combined with derivatives (guaranteed)	407,023	341,706
Time deposits and others	237,357	209,025
Total	644,380	550,731

14. Retained Earnings

Details of retained earnings consist of:

<i>(in millions of Korean won)</i>	September 30, 2011	December 31, 2010
Legal reserve ¹	142,128	138,821
Discretionary reserve ²	6,756,716	5,643,697
Unappropriated retained earnings	2,821,186	4,325,655
Total	9,720,030	10,108,173

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

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

15. Other Components of Equity

Details of other components of equity consist of:

<i>(in millions of Korean won)</i>	September 30, 2011	December 31, 2010
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
Capital transactions within the Group ²	(238,520)	(238,458)
At December 31	(271,339)	(271,277)

¹ The Parent Company has treasury shares consisting of 763,164 (2010: 763,161 shares) of ordinary shares and 4,687 shares (2010: 4,687 shares) of preferred shares at the end of the reporting period. The Parent Company intends to either grant these treasury shares to employees and directors as compensation, or to sell them in the future.

² The amounts include gain (loss) from transactions with non-controlling interests and the deferred tax is deducted from this amount.

16. Net Sales

Net sales for the three-month and nine-month periods ended September 30, 2011 and 2010, are as follows:

<i>(in millions of Korean won)</i>	2011		2010	
	Three months	Nine months	Three months	Nine months
Net sales				
Sales of goods	12,677,826	39,841,341	13,243,957	40,490,017
Sales of services	145,465	365,694	108,125	303,840
Royalty income	73,936	235,216	76,977	262,241
Total	12,897,227	40,442,251	13,429,059	41,056,098

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17. Expenses by Nature

Expenses recorded by nature consist of: cost of sales, general operating expenses and other operating expenses in the statements of operations for the three-month and nine-month periods ended September 30, 2011 and 2010, consist of:

<i>(in millions of Korean won)</i>	2011		2010	
	Three months	Nine months	Three months	Nine months
Changes in inventories	(13,122)	(316,852)	(710,294)	(2,458,564)
Purchase of raw materials and merchandise	8,979,840	28,780,431	10,407,193	31,469,372
Employee benefits	1,117,227	3,455,652	1,055,009	3,020,191
Depreciation, amortization and impairment loss	293,644	899,820	333,185	970,717
Advertising expenses	359,286	1,210,321	354,402	1,328,240
Sales promotional expenses	205,319	644,238	245,427	658,397
Transportation expenses	440,678	1,385,015	531,000	1,518,494
Commission expenses	623,252	1,813,046	636,622	1,772,335
Other expenses	1,597,262	3,671,493	1,247,671	3,939,360
Total¹	13,603,386	41,543,164	14,100,215	42,218,542

¹ Cost of sales, selling and marketing expenses, administrative expenses, research and development expenses, service costs and other operating expenses in the statements of operation are included.

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

Details of general operating expenses for the three-month and nine-month periods ended September 30, 2011 and 2010, are as follows:

<i>(in millions of Korean won)</i>	2011		2010	
	Three months	Nine months	Three months	Nine months
Wages and salaries	563,587	1,795,511	569,577	1,627,464
Severance benefits	27,266	84,223	22,448	68,929
Welfare expense	138,261	392,380	120,636	333,789
Freight expense	433,482	1,365,271	522,064	1,493,437
Rental expense	108,185	321,799	98,244	278,918
Commission expense	468,837	1,352,659	498,509	1,401,179
Depreciation	46,898	139,196	46,956	138,878
Amortization	61,143	186,857	63,765	159,134
Taxes and dues	32,955	97,233	33,911	80,228
Advertising expense	359,286	1,210,321	354,402	1,328,240
Promotional expense	205,319	644,238	245,427	658,397
Direct R&D costs	90,848	245,473	68,830	217,407
Direct service costs	261,336	704,856	344,629	909,015
Others	166,586	512,258	198,100	571,892
Total	2,963,989	9,052,275	3,187,498	9,266,907

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19. Other Operating Income

Other operating income for the three-month and nine-month periods ended September 30, 2011 and 2010, consists of:

<i>(in millions of Korean won)</i>	2011		2010	
	Three months	Nine months	Three months	Nine months
Rental income	8,487	24,224	8,600	22,120
Foreign exchange gains	635,848	1,227,212	435,607	1,440,778
Gain on settlement of derivatives	5,699	10,437	(459)	9,322
Gain on disposal of property, plant and equipment	1,747	5,490	1,094	10,017
Others	22,492	90,742	41,130	102,362
Total	674,273	1,358,105	485,972	1,584,599

20. Other Operating Expenses

Other operating expenses for the three-month and nine-month periods ended September 30, 2011 and 2010, consist of:

<i>(in millions of Korean won)</i>	2011		2010	
	Three months	Nine months	Three months	Nine months
Foreign exchange loss	762,490	1,303,016	335,709	1,409,591
Loss on settlement of derivatives	3,502	8,760	9,824	12,493
Loss on disposal of property, plant and equipment	8,802	12,768	6,531	13,061
Others	13,840	42,705	5,594	45,080
Total	788,634	1,367,249	357,658	1,480,225

21. Financial Income

Financial income for the three-month and nine-month periods ended September 30, 2011 and 2010, consists of:

<i>(in millions of Korean won)</i>	2011		2010	
	Three months	Nine months	Three months	Nine months
Interest income	22,328	64,720	17,035	55,151
Dividend income	16	474	58	320
Foreign exchange gain	26,362	325,262	138,563	515,825
Gain on settlement of derivatives	4,295	30,596	6,041	77,793
Others	-	962	-	283
Total	53,001	422,014	161,697	649,372

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22. Financial Expenses

Financial expenses for the three-month and nine-month periods ended September 30, 2011 and 2010, consist of:

<i>(in millions of Korean won)</i>	2011		2010	
	Three months	Nine months	Three months	Nine months
Interest expense	85,042	232,559	59,419	167,920
Foreign exchange loss	179,599	423,823	33,621	575,395
Loss on settlement of derivatives	8,138	31,381	8,823	32,076
Others	14,941	43,383	14,513	39,388
Total	287,720	731,146	116,376	814,779

23. Earnings(loss) per Share

Basic earnings per share for the three month and nine-month periods ended September 30, 2011 and 2010, is calculated by dividing the profit attributable to shareholders of the Parent Company by the weighted average number of shares in issue excluding shares purchased by the Parent Company and held as treasury shares. Preferred shares have rights to participate in the profits of the Parent Company. These participation rights have been considered in presenting the EPS for ordinary shares and preferred shares. As of the reporting date, the Parent Company has no potential ordinary shares.

<i>(in millions of Korean won)</i>	2011		2010	
	Three months	Nine months	Three months	Nine months
Profit (loss) attributable to ordinary shares ¹	(379,116)	(319,014)	(5,519)	1,327,575
Profit (loss) from continuing operations attributable to ordinary shares	(379,116)	(319,014)	(5,519)	583,425
Profit from discontinued operations attributable to ordinary shares	-	-	-	744,150
Weighted average number of ordinary shares outstanding (unit: shares) ²	143,884,651	143,884,651	143,884,653	143,884,655
Basic earnings (loss) per share (in won)	(2,635)	(2,217)	(39)	9,226
Earnings (loss) per share from continuing operations	(2,635)	(2,217)	(39)	4,053
Earnings per share from discontinued operations	-	-	-	5,173

<i>(in millions of Korean won)</i>	2011		2010	
	Three months	Nine months	Three months	Nine months
Profit (loss) attributable to preferred shares ¹	(45,057)	(37,450)	(444)	159,170
Profit (loss) from continuing operations attributable to preferred shares	(45,057)	(37,450)	(444)	70,071
Profit from discontinued operations attributable to preferred shares	-	-	-	89,099

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Weighted average number of preferred shares outstanding (unit: shares) ²	17,181,305	17,181,305	17,181,306	17,181,306
Basic Earnings (loss) per preferred share (in won)	(2,623)	(2,180)	(26)	9,264
Earnings (loss) per preferred share from continuing operations	(2,623)	(2,180)	(26)	4,078
Earnings per preferred share from discontinued operations	-	-	-	5,186

¹ Profit attributable to ordinary and preferred shares are as follows:

<i>(in millions of Korean won)</i>	2011		2010	
	Three months	Nine months	Three months	Nine months
Profit (loss) from continuing operations	(424,173)	(356,464)	(5,963)	653,496
Ordinary shares dividends	7,195	21,583	62,950	118,571
Preferred shares dividends	1,073	3,221	7,732	14,563
Undistributed earnings(loss) from continuing operations	(432,441)	(381,268)	(76,645)	520,362
Undistributed earnings(loss) from continuing operations available for ordinary shares	(386,311)	(340,597)	(68,469)	464,854
Undistributed earnings(loss) from continuing operations available for preferred shares	(46,130)	(40,671)	(8,176)	55,508
Profit(loss) from continuing operations attributable to ordinary shares	(379,116)	(319,014)	(5,519)	583,425
Profit(loss) from continuing operations attributable to preferred shares	(45,057)	(37,450)	(444)	70,071
Profit(loss) from discontinued operations	-	-	-	833,249
Ordinary shares dividends	-	-	-	70,278
Preferred shares dividends	-	-	-	8,632
Undistributed earnings from discontinued operations	-	-	-	754,339
Undistributed earnings from discontinued operations available for ordinary shares	-	-	-	673,872
Undistributed earnings from discontinued operations available for preferred shares	-	-	-	80,467
Profit from discontinued operations attributable to ordinary shares	-	-	-	744,150
Profit from discontinued operations attributable to preferred shares	-	-	-	89,099
Profit(loss) attributable to ordinary shares	(379,116)	(319,014)	(5,519)	1,327,575
Profit(loss) attributable to preferred shares	(45,057)	(37,450)	(444)	159,170

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² Weighted average numbers of shares are calculated as follows:

	2011		2010	
	Three months	Nine months	Three months	Nine months
Ordinary shares issued	144,647,814	144,647,814	144,647,814	144,647,814
Ordinary treasury shares	(763,164)	(763,164)	(763,161)	(763,161)
Ordinary shares outstanding	143,884,650	143,884,650	143,884,653	143,884,653
Weighted average number of ordinary shares outstanding	143,884,651	143,884,651	143,884,653	143,884,655
Preferred shares issued	17,185,992	17,185,992	17,185,992	17,185,992
Preferred treasury shares	(4,687)	(4,687)	(4,687)	(4,687)
Preferred shares outstanding	17,181,305	17,181,305	17,181,305	17,181,305
Weighted average number of preferred shares outstanding	17,181,305	17,181,305	17,181,306	17,181,306

24. Cash Generated from Operations

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

<i>(in millions of Korean won)</i>	2011	2010
Profit(loss) for the period	(321,244)	1,538,565
Adjustments :		
Interest expense, net	167,839	123,047
Foreign exchange loss (gain), net	182,035	(84,259)
Gain on settlement of derivatives, net	(893)	(28,863)
Depreciation	669,772	766,451
Amortisation	226,446	203,553
Loss on disposal of property, plant and equipment, intangible assets, net	22,815	7,297
Provisions for severance benefits	159,927	131,494
Provisions, net	1,172,987	1,454,699
Tax income (expense)	(21,513)	113,427
Expense (income) from jointly controlled entities and associates	290,817	(551,569)
Gain on the measurement to fair value of discontinued operations	-	(815,260)
Others	42,702	(5,306)
	<u>2,912,934</u>	<u>1,314,711</u>
Changes in operating assets and liabilities		
Decrease (increase) in trade receivables	333,599	(534,285)
Decrease (increase) in other receivables	70,859	(54,062)
Increase in inventories	(286,173)	(2,414,135)
Increase in other assets	(61,916)	(249,198)
Increase (decrease) in trade payables	(52,003)	1,214,355

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Increase in other payables	445,340	192,487
Decrease in provisions	(1,194,881)	(1,473,956)
Decrease in other liabilities	(32,581)	(138,172)
Payment of defined benefit liability	(40,100)	(17,741)
Payment of plan assets, net	(92,955)	(75,943)
	<u>(910,811)</u>	<u>(3,550,650)</u>
Cash generated from (used in) operations	1,680,879	(697,374)

Significant transactions not affecting cash flows are as follows:

<i>(in millions of Korean won)</i>	2011	2010
Reclassification of construction-in-progress of property, plant and equipment	703,800	399,838
Reclassification of construction-in-progress of intangible assets	122,487	198,040
Reclassification to intangible assets from long-term advances	89,074	57,676
Reclassification of current maturities of borrowings	1,592,474	503,228

25. Contingencies

(a) At the end of the reporting period, borrowings are secured on property, plant and equipment including land, buildings and machinery for the book value of ₩149,685 million (2010: ₩190,071 million).

(b) At the end of the reporting period, the Parent Company and certain domestic subsidiaries are provided with a performance guarantee of ₩96,901 million (2010: ₩85,709 million) from Seoul Guarantee Insurance relating to the sales contracts.

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

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

In addition, the Parent Company and certain foreign subsidiaries have been named as defendants in a number of class actions brought by purchasers of CRT products in the United States and in Canada in connection with the alleged anti-competitive activities among CRT manufacturers. The outcome of the cases and effect on financial statements could not

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be ascertained at the end of the reporting period.

In addition, the Parent 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 the financial statements could not be ascertained at the end of the reporting period.

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

26. Commitments

(a) At the end of the reporting period, the Parent Company has overdraft facility agreements with various banks including Shinhan Bank, with a limit of ₩245,500 million (2010: ₩250,500 million). Its overseas subsidiaries, including LG Electronics European Shared Service Center B.V. and LG Electronics (China) Co. Ltd., have overdraft facility agreements with a limit of ₩1,188,957 million (2010: ₩926,808 million) with various banks including Citibank and HSBC.

The Group's domestic subsidiaries including Hi Plaza Inc. have overdraft facility agreements with various banks including Woori Bank with a limit of ₩2,350 million (2010: ₩8,000 million).

(b) At the end of the reporting period, the Parent Company has sales agreements for export trade receivables with Shinhan Bank and other 33 various banks amounting to ₩6,811,613 million (2010: ₩6,372,146 million) and for domestic trade receivables with Shinhan Bank and other two banks amounting to ₩380,000 million (2010: ₩375,680 million). The Parent Company has corporate electronic settlement services contracts for collection of trade receivables with two banks including Hana Bank of up to ₩110,000 million (2010: ₩130,000 million).

At the end of the reporting period, three domestic subsidiaries including Hi Business Logistics Co., Ltd., have borrowing agreement on negotiated trade receivables with various banks, including Shinhan Bank, of up to ₩19,969 million.

The subsidiaries, LG Electronics UK., Ltd., LG Electronics Deutschland GmbH, LG Electronics Espana S.A., LG Electronics France S.A.S., LG Electronics Benelux Sales B.V., LG Electronics Italia S.P.A and LG Electronics Portugal S.A., transfer their accounts receivable to Societe Generale Bank on a revolving basis, for up to US\$577 million (2010: US\$932 million).

LG Electronics U.S.A., Inc. and LG Electronics MobileComm U.S.A. Inc., subsidiaries of the Parent Company, transfer their accounts receivable to JP Morgan Chase Bank and Sumitomo Bank on a revolving basis, for up to US\$195 million (2010: US\$350 million).

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(c) At the end of the reporting period, the Parent Company has corporate electronic settlement services contracts with Shinhan Bank and other seven banks of up to ₩935,450million (2010: ₩965,450 million) which guarantee the payment of trade accounts payable in case the suppliers sell their trade receivables.

In addition, two domestic subsidiaries including Hi Plaza Inc. provided payment guarantees to financial institutions, including Woori Bank, amounting to ₩30,000 million (2010: ₩30,000 million) in connection with discount of notes which are paid to their suppliers.

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

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

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

<i>(in millions of Korean won)</i>	September 30, 2011	December 31, 2010
Property, plant and equipment	75,849	66,285
Intangible assets	3,533	1,424
Total	79,382	67,709

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

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

<i>(in millions of Korean won)</i>	September 30, 2011			
	No later than 1 year	Later than 1 year and no later than 5 years	Over 5 years	Total lease payments
Buildings and offices	79,352	173,851	55,526	308,729
Vehicles	29,330	19,659	-	48,989
Equipment	36,748	65,726	-	102,474
Total	145,430	259,236	55,526	460,192

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

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

<i>(in millions of Korean won)</i>	September 30, 2011			
	No later than 1 year	Later than 1 year and no later than 3 years	Over 3 years	Total lease payments
Healthcare rental	33,315	72,543	37,824	143,682

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The Group recognised ₩10,203 million lease income during the nine-month period ended September 30, 2011.

(h) *Trademark licenses commitments*

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

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

27. Related Party Transactions

Significant transactions for the nine-month periods ended September 30, 2011 and 2010, are as follows:

<i>(in millions of Korean won)</i>	2011		2010	
	<u>Sales</u>	<u>Purchases</u>	<u>Sales</u>	<u>Purchases</u>
LG Corp.	5,909	90,341	915	101,361
Jointly controlled entities and associates	598,565	4,580,417	669,210	5,684,113
Other related parties	91,984	1,049,013	87,422	987,860
Total	696,458	5,719,771	757,547	6,773,334

The balances of significant transactions are as follows:

<i>(in millions of Korean won)</i>	September 30, 2011		December 31, 2010	
	<u>Receivables</u>	<u>Payables</u>	<u>Receivables</u>	<u>Payables</u>
LG Corp.	20,168	-	4,245	692
Jointly controlled entities and associates	222,051	736,966	228,021	889,871
Other related parties	90,744	310,734	92,850	204,171
Total	332,963	1,047,700	325,116	1,094,734

At the end of the reporting period, jointly controlled entities and associates of the Group include LG Display Co., Ltd., LG Innotek Co., Ltd., LG-Ericsson Co., Ltd. and others, and other related parties include Serveone Co.,Ltd., LG CNS Co., Ltd. and others.

At the end of the reporting period, there is no financial guarantee provided for related parties other than the Group.

At the end of the reporting period, no allowance for doubtful receivables for related parties is recognised.

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28. Risk Management

Financial Risk Management

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

While cooperating with other divisions, the finance team in the Group 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 Group 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 in a global business environment preemptively and systematically. RTC contributes by improving the overseas subsidiaries' business competitiveness by operating integrated financial functions.

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

(a) *Market risk*

i) Foreign exchange risk

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

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

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

The Group manages foreign exchange risk by matching inflow and outflow of each currency performing Leading & Lagging. The Group 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.

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

At the end of the reporting period, if the following value of foreign currency fluctuated by 10% while other variables were fixed, the effects on income before tax would be as follows:

<i>(in millions of Korean won)</i>	September 30, 2011		December 31, 2010	
	10% increase	10% decrease	10% increase	10% decrease
USD	(355,782)	355,782	(415,020)	415,020
EUR	30,520	(30,520)	29,550	(29,550)

At the end of the reporting period, the above sensitivity analysis is done with foreign currency denominated assets and liabilities which are not in the functional currencies.

ii) Interest rate risk

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

To mitigate interest rate risk, the Group 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.

At the end of the reporting period, the Group is in a net borrowing situation and is partially exposed to a risk of increase in interest rates. However, the Group minimises risks from changes in interest rate fluctuations by matching variable interest bearing short-term borrowings with variable interest bearing financial deposits adequately.

At the end of the reporting period, if interest rates fluctuate by 100bp without other variables changing, the effects on income and expenses related to borrowings and financial deposits with variable interest rates are as follows:

<i>(in millions of Korean won)</i>	September 30, 2011		December 31, 2010	
	100bp increase	100bp decrease	100bp increase	100bp decrease
Interest expense	34,670	(34,670)	35,855	(35,855)
Interest income	27,279	(27,279)	19,664	(19,664)

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Gain (loss) on valuation of derivatives (IRS ¹)	4,903	(4,931)	7,114	(7,114)
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¹ Interest rate swaps mainly create fair market value risk from changes in interest rates.

(b) *Credit risk*

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

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

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

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

As of September 30, 2011, trade receivable balance of the Group is ₩ 7,114,533 million (December 31, 2010: ₩7,001,962 million) and its risk is managed appropriately with insurer's credit limit of ₩ 32,728,886million (December 31, 2010: ₩28,733,704 million).

(c) *Liquidity risk*

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

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

In addition, the Group copes with potential financial distress by maintaining adequate amount of cash and committed credit facilities. The balance of cash and cash equivalents, and current-financial deposits at September 30, 2011, is ₩ 2,794,813 million (December 31, 2010: ₩2,029,162 million). The Group maintains total committed credit lines of ₩600,000 million (December 31, 2010: ₩600,000 million) in various banks including Woori Bank, Kookmin Bank, and Shinhan Bank in Korea at September 30, 2011.

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At the end of the reporting period, the cash and cash equivalents balance of the Group is about 61% (December 31, 2010: 51%) of current borrowings with due date in 12 months. If committed credit lines are included, the balance covers about 75% (December 31, 2010: 66%) of short-term borrowings.

In addition, as of October, 2011, the Group is able to source funds any time in domestic and international financial markets because it has credit grades AA0 Stable from Korea Investors Service, Korea Ratings, and Nice Information, along with investment credit grades from Standard & Poors and Moody's of BBB- Stable and Baa2 Negative (December 31, 2010: BBB Negative and Baa2 Stable), respectively.

Cash flow information on maturity of borrowings is presented in Note 11.

Capital Risk Management

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

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

<i>(in millions of Korean won, except for ratios)</i>	September 30, 2011	December 31, 2010
Liabilities (A)	21,803,981	19,458,862
Equity (B)	12,572,295	12,859,637
Cash and cash equivalents and current financial deposits (C)	2,794,813	2,029,162
Borrowings (D)	8,528,087	7,192,935
Debt-to-equity ratio (A/B)	173%	151%
Net Borrowings ratio (D-C)/B	46%	40%

Methods and Assumptions in Determining Fair Value

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

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

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	September 30, 2011			
<i>(In millions of Korean won)</i>	Level 1	Level 2	Level 3	Total
Assets				
Financial assets at fair value through profit or loss				
- Derivatives for trading	-	5,372	-	5,372
Derivatives for hedge	-	10,717	-	10,717
Available-for-sale financial assets				
- Listed securities	7,673	-	-	7,673
Total	7,673	16,089	-	23,762
Liabilities				
Financial liabilities at fair value through profit or loss				
- Derivatives for trading	-	31,179	-	31,179
Derivatives for hedge	-	19	-	19
Share-based payments	-	1,411	-	1,411
Total	-	32,609	-	32,609
	December 31, 2010			
<i>(In millions of Korean won)</i>	Level 1	Level 2	Level 3	Total
Assets				
Financial assets at fair value through profit or loss				
- Derivatives for trading	-	1,814	-	1,814
Derivatives for trading	-	-	-	-
Available-for-sale financial assets				
- Listed securities	13,508	-	-	13,508
Total	13,508	1,814	-	15,322
Liabilities				
Financial liabilities at fair value through profit or loss				
- Derivatives for trading	-	42,543	-	42,543
Derivatives for hedge	-	263	-	263
Share-based payments	-	8,946	-	8,946
Total	-	51,752	-	51,752

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 Group is the current bid price. These instruments are included in level 1. Instruments included in level 1 comprise primarily equity investments classified as available for sale.

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

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

29. Discontinued Operations

On April 22, 2010, due to a decrease in its ownership interest caused by the exercise of conversion right and warrants, the Group lost control over LG Innotek Co., Ltd. Therefore, LG Innotek Co., Ltd. ceases to be a subsidiary but as the significant influence by the Group is retained, the remaining interest is accounted for in accordance with Korean IFRS 1028, *Investment in associates*. The financial performance of LG Innotek Co., Ltd. prior to its classification as an associate is presented as discontinued operations in these financial statements. Comparative financial performance was re-presented for consistency as required by Korean IFRS 1105, *Non-current Assets Held for Sale and Discontinued Operations*. In addition to the financial performance, the gain recognised on the measurement to fair value and the related income tax expenses are recognised under discontinued operations.

The financial performance and cash flow information presented are for the period from January 1, 2010, to the date of the deconsolidation.

<i>(in millions of Korean won)</i>	2010. 1. 1 ~ deconsolidation
Sales	482,457
Operating income	48,275
Profit before income tax	27,564
Income tax expense (benefit)	(4,910)
Profit after income tax of discontinued operations	32,474
Gain on the measurement to fair value	839,152
Income tax expense	23,892
Gain on the measurement to fair value after income tax	815,260
Post-tax profit from discontinued operations	847,734
Equity holders of the Parent Company	833,249
Non-controlling Interest	14,485
 <i>(in millions of Korean won)</i>	 2010. 1. 1 ~ deconsolidation
Net cash outflow from operating activities	(30,636)
Net cash outflow from investing activities	(195,120)
Net cash inflow from financing activities	163,086
Exchange losses	(1,271)
 Net cash flow from discontinued operations	 (63,941)

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ii) Details of the gain on the measurement to fair value

<i>(in millions of Korean won)</i>	Amount
Fair value of the discontinued operations	1,307,908
Carrying amount of the discontinued operations ¹	468,756
Pre-tax gain on the measurement	839,152
Income tax expense on the gain	23,892
Post-tax gain on the measurement	815,260

¹ Carrying amounts of assets and liabilities of the discontinued operations were as follows:

<i>(in millions of Korean won)</i>	Amount
Assets	
Current assets	1,443,469
Non-current assets	1,743,044
Total	3,186,513
Liabilities	
Current liabilities	1,474,152
Non-current liabilities	795,002
Total	2,269,154

Non-controlling interest and accumulated other comprehensive income	448,603
Carrying amount of the discontinued operations	468,756

30. Business Combination

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

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

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

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

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

¹ The purchase consideration that might result due to changes in the amounts of consideration and goodwill based on certain conditions.

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

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

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The gross contractual amount for trade receivables is ₩88,496 million, of which ₩3,569 million is expected to be uncollectible.

The revenue and net loss, included in the consolidated statement of operations, contributed by air-conditioning business of LS Mtron Co., Ltd. after the day of aquisition were ₩91,662 million and ₩(-)1,589 million, respectively. Had LS Mtron Co., Ltd. been consolidated from January 1, 2011, revenue of ₩167,421 million and loss of ₩(-)2,804 million would have been included in the consolidated income statement for the nine-month period ended September 30, 2011.

31. Events after the Reporting Period

On November 3, 2011, the Board of the Parent Company decided to issue 19 million shares of new common stock at ₩55,900 per share (expected issuance price to be fixed on December 15, to be paid on December 28, 2011) to source funds for capital investment and operation. New shares will be offered to the shareholders as of November 19, 2011, the record date for allotment, and shares not sold could be acquired by third parties after.