

LG Electronics Inc.

**Separate Financial Statements
December 31, 2011 and 2010**

LG Electronics Inc.

Notes to the Separate Financial Statements

December 31, 2011 and 2010

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Report of Independent Auditors

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

We have audited the accompanying separate statements of financial position of LG Electronics Inc. (the "Company") as of December 31, 2011 and 2010, and the related separate statements of operations, comprehensive income, changes in equity and cash flows for the years then ended, expressed in Korean won. These separate financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these separate financial statements based on our audits.

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

In our opinion, the separate financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2011 and 2010, and its financial performance and cash flows for the years ended December 31, 2011 and 2010, in conformity with International Financial Reporting Standards as adopted by the Republic of Korea ("Korean IFRS").

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

Samuel PriceWaterhouseCoopers

Seoul, Korea
March 7, 2012

This report is effective as of March 7, 2012, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying separate financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

LG Electronics Inc.
Separate Statements of Financial Position
December 31, 2011 and 2010

<i>(in millions of Korean won)</i>	Note	2011	2010
Assets			
Current assets			
Cash and cash equivalents	4,5,40	1,364,211	868,834
Financial deposits	4,5,40	150,000	85,000
Trade receivables	4,6	5,077,362	5,487,565
Loans and other receivables	4,6	269,017	243,113
Inventories	8	885,730	1,064,792
Current income tax assets		3,276	-
Other current assets	9	400,508	340,374
Assets classified as held for sale		3,670	4,701
		<u>8,153,774</u>	<u>8,094,379</u>
Non-current assets			
Financial deposits	4,5	40,962	23,853
Loans and other receivables	4,6	414,462	361,871
Other financial assets	4,7	112,056	87,075
Property, plant and equipment	10	5,190,881	4,661,430
Intangible assets	11	915,977	725,818
Deferred income tax assets	16	658,424	439,112
Investments in subsidiaries, jointly controlled entities and associates	12	7,964,549	7,844,726
Investment property	13	5,360	5,508
Other non-current assets	9	742,785	731,237
		<u>16,045,456</u>	<u>14,880,630</u>
Total assets		<u>24,199,230</u>	<u>22,975,009</u>
Liabilities			
Current liabilities			
Trade payables	4	3,853,528	4,285,280
Borrowings	4,14,40	1,701,658	1,937,288
Other payables	4,15	2,697,795	2,604,779
Other financial liabilities	4,7	12,699	3,998
Current income tax liabilities		-	9,205
Provisions	18	169,196	166,299
Other current liabilities	19	436,315	346,135
		<u>8,871,191</u>	<u>9,352,984</u>
Non-current liabilities			
Borrowings	4,14,40	4,124,188	3,062,576
Other financial liabilities	4,7	-	37,228
Defined benefit liability	17	363,617	269,243
Provisions	18	345,373	326,850
		<u>4,833,178</u>	<u>3,695,897</u>
Total liabilities		<u>13,704,369</u>	<u>13,048,881</u>
Equity			
Paid-in capital:			
Capital stock	20	904,169	809,169
Share premium		3,088,179	2,207,919
Retained earnings	21	6,534,129	6,932,015
Accumulated other comprehensive income		1,203	9,844
Other components of equity	22	(32,819)	(32,819)
Total equity		<u>10,494,861</u>	<u>9,926,128</u>
Total liabilities and equity		<u>24,199,230</u>	<u>22,975,009</u>

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

LG Electronics Inc.
Separate Statements of Operations
Years ended December 31, 2011 and 2010

<i>(in millions of Korean won, except per share amounts)</i>	Note	2011	2010
Net sales	24	28,097,139	29,238,503
Cost of sales	25	<u>23,052,881</u>	<u>24,893,697</u>
Gross profit		5,044,258	4,344,806
Selling and marketing expenses	25,27	2,604,983	2,899,517
Administrative expenses	25,27	527,534	546,537
Research and development expenses	25,27	1,667,056	1,446,779
Service costs	25,27	540,739	575,359
Other operating income	29	1,004,523	1,339,183
Other operating expenses	25,30	<u>1,007,649</u>	<u>1,320,440</u>
Operating expense		(299,180)	(1,104,643)
Financial income	31	464,814	707,739
Financial expenses	32	<u>568,027</u>	<u>680,091</u>
Loss before income tax		(402,393)	(1,076,995)
Income tax benefit	33	<u>(124,474)</u>	<u>(441,121)</u>
Loss for the year		<u>(277,919)</u>	<u>(635,874)</u>
Losses per share during the year (in won)	34		
Losses per share profit attributable to the ordinary equity holders of the company		(1,707)	(3,853)
Losses per share for profit attributable to the preferred equity holders of the company		(1,498)	(3,903)

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

LG Electronics Inc.
Separate Statements of Comprehensive Income
Years ended December 31, 2011 and 2010

<i>(in millions of Korean won)</i>	Note	2011	2010
Loss for the year		<u>(277,919)</u>	<u>(635,874)</u>
Other comprehensive loss:			
Available-for-sale financial assets	7	(3,718)	(1,293)
Cash flow hedges	7	(4,923)	-
Actuarial loss on defined benefit liability	17	<u>(86,895)</u>	<u>(41,935)</u>
Other comprehensive loss for the year, net of tax		(95,536)	(43,228)
Total comprehensive loss for the year		<u>(373,455)</u>	<u>(679,102)</u>

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

LG Electronics Inc.

Separate Statements of Changes in Equity
Years ended December 31, 2011 and 2010

(in millions of Korean won)

	Note	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income(loss)	Other Components of Equity	Total
Balance at January 1, 2010		3,017,088	7,892,549	11,137	(32,819)	10,887,955
Comprehensive income(loss)						
Loss for the year		-	(635,874)	-	-	(635,874)
Available-for-sale financial assets	7	-	-	(1,293)	-	(1,293)
Actuarial loss on defined benefit liability	17	-	(41,935)	-	-	(41,935)
Total comprehensive income(loss)		-	(677,809)	(1,293)	-	(679,102)
Transactions with equity holders of the Company :						
Dividends		-	(282,725)	-	-	(282,725)
Total transactions with equity holders of the Company		-	(282,725)	-	-	(282,725)
Balance at December 31, 2010		<u>3,017,088</u>	<u>6,932,015</u>	<u>9,844</u>	<u>(32,819)</u>	<u>9,926,128</u>
Balance at January 1, 2011		3,017,088	6,932,015	9,844	(32,819)	9,926,128
Comprehensive income(loss)						
Loss for the year		-	(277,919)	-	-	(277,919)
Available-for-sale financial assets	7	-	-	(3,718)	-	(3,718)
Cash flow hedges	7	-	-	(4,923)	-	(4,923)
Actuarial loss on defined benefit liability	17	-	(86,895)	-	-	(86,895)
Total comprehensive income(loss)		-	(364,814)	(8,641)	-	(373,455)
Transactions with equity holders of the Company :						
Dividends	35	-	(33,072)	-	-	(33,072)
Paid-in capital	20	975,260	-	-	-	975,260
Total transactions with equity holders of the Company		975,260	(33,072)	-	-	942,188
Balance at December 31, 2011		<u>3,992,348</u>	<u>6,534,129</u>	<u>1,203</u>	<u>(32,819)</u>	<u>10,494,861</u>

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

LG Electronics Inc.
Separate Statements of Cash Flows
Years ended December 31, 2011 and 2010

(in millions of Korean won)

	Note	2011	2010
Cash flows from operating activities			
Cash generated from operations	36	617,294	(489,286)
Interest received		31,153	35,947
Interest paid		(201,159)	(136,425)
Dividends received		142,277	123,589
Income tax paid		(75,579)	(83,705)
Net cash generated from operating activities		<u>513,986</u>	<u>(549,880)</u>
Cash flows from investing activities			
Decrease in financial deposits		-	138,000
Decrease in loans and other receivables		61,125	84,219
Proceeds from disposal of other financial assets		10,303	72,380
Proceeds from disposal of investments in subsidiaries, jointly controlled entities and associates		9,687	211,332
Proceeds from disposal of property, plant and equipment		45,401	164,429
Proceeds from disposal of intangible assets		15,786	495
Decrease in other assets		1,235	4,514
Increase in financial deposits		(77,878)	(830)
Increase in loans and other receivables		(118,837)	(110,875)
Acquisition of other financial assets		(58,450)	(111,900)
Acquisition of investments in subsidiaries, jointly controlled entities and associates		(106,059)	(152,647)
Acquisition of property, plant and equipment	10	(1,047,319)	(664,974)
Acquisition of intangible assets	11	(296,296)	(258,026)
Business Combination	41	(150,300)	-
Net cash used in investing activities		<u>(1,711,602)</u>	<u>(623,883)</u>
Cash flows from financing activities			
Proceeds from borrowings		2,406,066	2,261,956
Issuance of ordinary shares	20	975,260	-
Repayments of borrowings		(1,655,261)	(726,600)
Dividends paid	35	(33,072)	(282,725)
Net cash provided by financing activities		<u>1,692,993</u>	<u>1,252,631</u>
Net increase in cash and cash equivalents		495,377	78,868
Cash and cash equivalents at the beginning of year	5	868,834	789,966
Cash and cash equivalents at the end of year	5	<u>1,364,211</u>	<u>868,834</u>

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

LG Electronics Inc.

Notes to the Separate Financial Statements

December 31, 2011 and 2010

1. General Information

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

As of December 31, 2011, LG Corp. and its related parties own 33.7% of the Company's total shares, excluding preferred shares, while financial institutions, foreign investors and others own the rest.

The Company is engaged in the manufacture and sale of electronic products including mobile phones, TV, air conditioners, refrigerators, washing machines, and personal computers. As of December 31, 2011, the Company operates four business segments and other supporting segments through the Company and subsidiaries all over the world.

2. Significant Accounting Policies

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

Certain reclassifications have been made to the December 31, 2010 financial statements to conform to the December 31, 2011 financial statement presentation. This reclassification has no effect on net loss or net asset amount for the prior year.

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 following standards, amendments to standards and interpretations have been issued and announced as of the reporting date and shall be newly adopted by the Company for the year 2012 or thereafter.

- Korean IFRS 1101 (amendment): 'Severe Hyperinflation and Removal of Fixed Dates'
- Korean IFRS 1012 (amendment): 'Income Taxes'
- Korean IFRS 1019 (amendment): 'Employee Benefits'
- Korean IFRS 1107 (amendment): 'Financial instruments: Disclosures'
- Korean IFRS 1113 (amendment): 'Fair Value Measurement'

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The Company expects additional disclosures would be necessary for the natures, carrying amounts, risks and rewards in relation to the transfer of trade receivables due to the amendment of Korean IFRS 1107, and is in the progress of understanding the potential influence from the application of Korean IFRS 1113.

The preparation of financial statements in accordance with Korean IFRS 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 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*'. The investments in subsidiaries, jointly controlled entities or associates are recorded at acquisition cost on the basis of the direct equity interest. 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 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, except qualifying cash flow hedges which are recognized in other comprehensive income.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are reported in 'financial income and expenses' in the separate 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

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other changes in carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities, such as equities held at fair value through profit or loss, are recognised in the separate 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 recognised in other comprehensive income.

Cash and Cash Equivalents

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

Financial Instruments

(a) Classification

The Company classifies its financial instruments in the following categories: financial assets and liabilities at fair value through profit or loss, loans and receivables, available-for-sale financial assets, held-to-maturity investments, and other financial liabilities measured at amortised cost. The classification depends on the purpose for which the financial instruments were acquired and the nature of the instruments. Management determines the classification of its financial instruments 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 designated as hedges and financial instruments having embedded derivatives are also included in this category. Financial assets and liabilities at fair value through profit or loss of the Company are categorised in 'other financial assets' and 'other financial liabilities' on the statement of financial position.

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 those with maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Company's loans and receivables comprise 'cash and cash equivalents', 'financial deposits', 'trade receivables', and 'loans and other receivables'.

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iii) Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity and are classified as 'other financial assets' in the separate statements of financial position. If the Company were to sell 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-derivatives that are either designated in this category or not classified in any of the other categories. They are included in 'other financial assets' as non-current assets unless their maturities are less than 12 months or management intends to dispose of them within 12 months of the end of the reporting period.

v) Financial liabilities measured at amortised cost

The Company classifies all 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 as 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 is 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 rate method.

Gains or losses arising from changes in the fair value of the financial assets carried at fair value through profit or loss are presented in the separate 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

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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 other comprehensive income in equity are reported in the separate income statement as 'financial income and expenses'.

Interest on available-for-sale securities and held-to-maturity financial assets 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 payments is established.

(c) Offsetting

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

(d) Derecognition

Financial assets are derecognised when the contractual rights to receive cash flows from the financial asset expire or the Company transfers substantially all risks and rewards of ownership of the financial assets. If substantially all risks and rewards of ownership are retained, the Company determines its retention of control to recognise the financial asset to the extent of its continuing involvement in the financial asset.

The collateral such as account receivables provided by the Company through account receivable discounts and factoring transactions was not derecognised because the risk and compensation are owned by the Company due to the recourse condition in case of defaults. The financial liabilities recognised in this kind of transaction are classified as "borrowings" in the statement of financial position.

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.

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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 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 end of each reporting period 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 asset is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously 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

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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. The resulting gain or loss that does not meet the conditions for hedge accounting is recognised in 'other operating income and expense' or 'financial income and expenses' according to the nature of transactions.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is 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 expense' 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 expense' or 'financial income and expenses'.

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 is 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). The Company periodically reviews a possibility of the significant changes in net realizable value of inventories from disuse, decrease in market value and obsolescence and recognizes as 'Allowances for Valuation of Inventories'. Net realisable value is the estimated selling price in the ordinary course of business, less applicable selling expenses.

Assets classified as Held for Sale (Group classified as held for sale)

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

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Property, Plant and Equipment

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

Subsequent costs are included in the asset's carrying amount or 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
Tools	1 - 5 years
Equipment	5 years
Other	5 years

The assets' depreciation method, residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are 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 a qualifying asset as part of the cost of that asset during an extended period in which it prepares an asset for its intended use. The Company recognises other borrowing costs as an expense in the period in which it is 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.

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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 5 - 30 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:

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

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

Impairment of Non-Financial Assets

Goodwill and intangible assets that have an indefinite useful life are not subject to 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 or its value in use.

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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. 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.

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. The Company recognises a warranty provision, a sales return provision, a provision for restoration, and a provision for litigation.

A warranty provision is accrued for the estimated costs of future warranty claims over generally one to two years of warranty periods based on historical experience. Sales return provision is for the estimated sales returns based on historical results. Where the Company, as a tenant, is required to restore its leased assets to their original state at the end of the lease-term, the Company 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 a provision for litigation in the financial statement.

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.

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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, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the 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 are provided on temporary differences arising on investments in subsidiaries, jointly controlled entities and associates, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax assets are 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.

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

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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 statement of financial position in respect of the defined benefit pension plan is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognised past-service costs. The defined benefit liability is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

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

(b) Share-based payments

The Company operates cash-settled, share-based compensation plans, under which the Company receives services from employees as consideration for the payments of the difference between market price of the stock and exercise price. The fair value of the employee services received in exchange for the grant of the options is 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 year.

(c) Other long-term employee benefits

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

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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

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

Where the Company purchases the Company's equity share capital, the consideration paid, including any directly attributable incremental costs, is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such 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. 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 historically (Note 18).

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(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 performance of the services. When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is 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

(a) *Lessees*

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 income statement on a straight-line basis over the period of the lease.

Leases which the Company has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

(b) *Lessors*

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

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

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on the same basis as the lease income.

Dividend Distribution

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

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. The excess of the cost of acquisition over the fair value of the identifiable net assets acquired is recorded as goodwill.

3. Critical Accounting Estimates and Assumptions

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

Estimated Impairment of Goodwill

The Company tests regularly 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 net fair value and value-in-use calculations. These calculations require the use of estimates.

Income Taxes

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

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 end of each

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reporting date.

Provisions

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

Defined benefit liability

The present value of the defined benefit liability depends on various factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of the defined benefit liability. The Company determines the appropriate discount rate at the end of each year. This is the interest rate that is used to determine the present value of estimated future cash outflows expected to be required to settle the defined benefit liability. In determining the appropriate discount rate, the Company considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability. Other key assumptions for defined benefit liability are based on current market conditions. Additional information is disclosed in Note 17.

4. Financial Instruments by Category

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

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

<i>(in millions of Korean won)</i>	Liabilities at fair value through		Liabilities carried at		Total
	profit or loss	Derivatives for hedge	amortised cost		
Trade payables	-	-	3,853,528		3,853,528
Borrowings	-	-	5,825,846		5,825,846
Other payables	-	-	1,467,813		1,467,813
Other financial liabilities	12,699	-	-		12,699
Total	12,699	-	11,147,187		11,159,886

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

<i>(in millions of Korean won)</i>	Assets at fair			Assets classified			Total
	value through profit or loss	Derivatives for hedge	Loans and Receivables	as available-for-sale	Held-to-maturity financial assets		
Cash and cash equivalents	-	-	868,834	-	-	-	868,834
Financial deposits	-	-	108,853	-	-	-	108,853
Trade receivables	-	-	5,487,565	-	-	-	5,487,565
Loans and other receivables	-	-	604,984	-	-	-	604,984
Other financial assets	-	-	-	28,945	58,130	-	87,075
Total	-	-	7,070,236	28,945	58,130	-	7,157,311

<i>(in millions of Korean won)</i>	Liabilities at		Liabilities		Total
	fair value through profit and loss	Derivatives for hedge	carried at amortised cost		
Trade payables	-	-	4,285,280	-	4,285,280
Borrowings	-	-	4,999,864	-	4,999,864
Other payables	-	-	1,415,001	-	1,415,001
Other financial liabilities	41,226	-	-	-	41,226
Total	41,226	-	10,700,145	-	10,741,371

Income and expenses per categorisations of financial instruments for the year ended December 31, 2011, are as follows:

<i>(in millions of Korean won)</i>	Assets at fair			Assets classified			Total
	value through profit or loss	Derivatives for hedge	Loans and Receivables	as available-for-sale	Held-to-maturity financial assets		
Interest Income	-	-	36,503	-	4,354	-	40,857
Exchange differences	-	-	(55,620)	-	(465)	-	(56,085)
Bad debt expenses	-	-	(3,601)	-	-	-	(3,601)
Loss on transfer of trade receivables	-	-	(74)	-	-	-	(74)
Gains on valuation of available-for-sale financial assets	-	-	-	(3,718)	-	-	(3,718)
Gains on sales of available-for-sale financial assets	-	-	-	356	-	-	356
Dividend income	-	-	-	452	-	-	452
Derivatives (Profit)	38,829	-	-	-	-	-	38,829
Derivatives (Other comprehensive income)	-	(4,923)	-	-	-	-	(4,923)

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<i>(in millions of Korean won)</i>	Liabilities at fair value through profit or loss	Derivatives for hedge	Liabilities carried at amortised cost	Total
Interest expenses	-	-	(215,948)	(215,948)
Exchange differences	-	-	(45,314)	(45,314)
Derivatives (Profit and loss)	(40,310)	-	-	(40,310)

Income and expenses per categorisations of financial instruments for the year ended December 31, 2010, are as follows:

<i>(in millions of Korean won)</i>	Assets at fair value through profit or loss	Derivatives for hedge	Loans and Receivables	Assets classified as available-for- sale	Held-to-maturity financial assets	Total
Interest Income	-	-	38,209	-	4,563	42,772
Exchange differences	-	-	(161,230)	-	-	(161,230)
Bad debt expenses	-	-	6,344	-	-	6,344
Loss on transfer of trade receivables	-	-	(1,685)	-	-	(1,685)
Gains on valuation of available-for-sale financial assets	-	-	-	(1,293)	-	(1,293)
Gains on sales of available- for-sale financial assets	-	-	-	6,296	-	6,296
Dividend income	-	-	-	313	-	313
Derivatives (Profit or loss)	86,236	-	-	-	-	86,236
Other	-	-	-	(3,566)	-	(3,566)

<i>(in millions of Korean won)</i>	Liabilities at fair value through profit or loss	Derivatives for hedge	Liabilities carried at amortised cost	Total
Interest expenses	-	-	(144,923)	(144,923)
Exchange differences	-	-	96,498	96,498
Derivatives (Profit or loss)	(42,583)	-	-	(42,583)

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5. Cash and Cash Equivalents, and Financial Deposits

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

<i>(in millions of Korean won)</i>	December 31, 2011	December 31, 2010
Cash on hand	10	10
Bank deposits	1,364,201	868,824
Total	1,364,211	868,834

The financial deposits restricted in use are as follows:

<i>(in millions of Korean won)</i>	December 31, 2011	December 31, 2010
Restricted financial deposits		
Deposits for opening bank accounts	39	47
Government Funded National Projects	40,923	23,806
Deposit for Mutual Economic Cooperation Fund	50,000	35,000
Total	90,962	58,853
Current	50,000	35,000
Non-current	40,962	23,853

6. Trade Receivables, and Loans and Other Receivables

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

<i>(in millions of Korean won)</i>	December 31, 2011			December 31, 2010		
	Original amount	Less : allowance for doubtful accounts	Carrying amount	Original amount	Less : allowance for doubtful accounts	Carrying amount
Trade receivables	5,091,527	(14,165)	5,077,362	5,501,803	(14,238)	5,487,565
Loans and other receivables						
Current	323,376	(54,359)	269,017	295,489	(52,376)	243,113
Non-current	414,852	(390)	414,462	362,184	(313)	361,871

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The details of loans and other receivables are as follows:

<i>(in millions of Korean won)</i>	December 31, 2011	December 31, 2010
Current		
Loans	20,767	17,115
Non-trade Receivables	183,638	169,922
Accrued Income	62,864	55,945
Deposits	1,748	131
Sub-total	269,017	243,113
Non-Current		
Loans	161,346	130,282
Deposits	253,116	231,589
Sub-total	414,462	361,871
Total	683,479	604,984

The fair values of non-current loans and other receivables are as follows:

<i>(in millions of Korean won)</i>	December 31, 2011	December 31, 2010
Loans	127,317	110,177
Deposits	245,715	227,151
Total	373,032	337,328

The fair values of non-current loans and other receivables are based on cash flows discounted using a discount rate of 6.31% reflecting credit risks (2010: 6.12%). The carrying amount of current receivables is a reasonable approximation of fair value.

The ageing analysis of these trade receivables and loans and other receivables as of December 31, 2011, is as follows:

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

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The ageing analysis of these trade receivables and loans and other receivables as of December 31, 2010, is as follows:

<i>(in millions of Korean won)</i>	Current	Overdue				Total
		Up to 6 months	7 to 12 months	Over one year	Defaulted	
Trade receivables	5,430,249	56,861	48	391	14,254	5,501,803
Loans and other receivables						
Current	248,641	41,461	1,139	976	3,272	295,489
Non-current	347,765	13,447	314	658	-	362,184

Overdue receivables are presented prior to any bad debt allowance which is recognised based on ageing analysis and historical experience.

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

The movements in bad debts allowance for the year ended December 31, 2011, are as follows:

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

The movements in bad debts allowance for the year ended December 31, 2010, are as follows:

<i>(in millions of Korean won)</i>	At 1 January	Addition	Reversal	Write-off	Other	At 31 December
Trade receivables	21,156	-	(7,058)	(108)	248	14,238
Loans and other receivables						
Current	52,003	555	-	(182)	-	52,376
Non-current	154	159	-	-	-	313

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

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

7. Other Financial Assets and Liabilities

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

<i>(in millions of Korean won)</i>	December 31, 2011	December 31, 2010
Other financial assets		
Derivatives	11,845	-
Available-for-sale	42,546	28,945
Held-to-maturity	57,665	58,130
Total	112,056	87,075
Current	-	-
Non-current	112,056	87,075
Other financial liabilities		
Derivatives	12,699	41,226
Total	12,699	41,226
Current	12,699	3,998
Non-current	-	37,228

Details of derivatives and liabilities are as follows:

<i>(in millions of Korean won)</i>	December 31, 2011		December 31, 2010	
	Assets	Liabilities	Assets	Liabilities
Current				
Interest Swap	-	12,699	-	3,998
Sub-total	-	12,699	-	3,998
Non-current				
Currency Swap	11,845	-	-	-
Interest Swap	-	-	-	37,228
Sub-total	11,845	-	-	37,228
Total	11,845	12,699	-	41,226

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

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The details of currency swap contracts are as follows¹:

<u>December 31, 2011</u>	<u>Contracted currency rate</u>	<u>Selling amounts (in millions)</u>	<u>Purchase amounts (in millions)</u>	<u>Expiration</u>
Currency swap (KRW/USD)	1,079.9	KRW 183,583	USD 170	2014.4.28
Currency swap (KRW/USD)	1,083.4	KRW 108,340	USD 100	2014.8.23

¹The Company entered into cross-currency interest rate swap contract 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 measured at the fair value amounting to ₩4,923 million, net of income tax, is recognised in other comprehensive loss.

The details of interest swap contracts are as follows:

<u>December 31, 2011</u>	<u>Contracted amounts (in millions)</u>	<u>Interest rate (paid) (%)</u>	<u>Interest rate (received) (%)</u>	<u>Expiration</u>
Interest swap	USD 500	5.62%	3M Libor + 65bp	2012.5.15

Assets classified as available-for-sale are as follows:

<u>(in millions of Korean won)</u>	<u>December 31, 2011</u>	<u>December 31, 2010</u>
Listed Equity Securities	8,969	13,508
Unlisted Equity Securities	31,830	13,690
Debt Securities	1,747	1,747
Total	42,546	28,945

The amounts recognised as other comprehensive loss resulting from valuation of available-for-sale financial asset is ₩3,718 million (2010: ₩1,293 million) and no amount is reclassified from equity into the income statement(2010: nil). Also, no impairment losses (2010: ₩3,566 million) were recognised.

The unlisted securities mentioned above are measured at cost as they are in the beginning of their business stages that variables of cash flow are significant and their fair values cannot be reliably measured.

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Held-to-maturity financial assets consists of :

<i>(in millions of Korean won)</i>	December 31, 2011	December 31, 2010
Maturity		
1 to 5 year	57,665	58,130

The amount recognised as interest income in relation to held-to-maturity financial assets is ₩4,354 million (2010: ₩4,563 million). No impairment losses were recognized in relation to held-to-maturity financial assets.

8. Inventories

Inventories consist of:

<i>(in millions of Korean won)</i>	December 31, 2011	December 31, 2010
Merchandise and finished products	330,732	415,795
Work-in-process	103,272	131,288
Raw materials and supplies	354,925	440,729
Other	96,801	76,980
Total	885,730	1,064,792

The cost of inventories recognised as expense and included in 'Cost of Sales' amounts to ₩21,890,252 million (2010: ₩23,636,200 million) including 'Losses on Valuation of Inventories' of ₩39,858 million (2010: ₩10,135 million). No reversal of allowance for 'Losses on Valuation of Inventories' was recognised (2010: nil).

9. Other Assets

The carrying amounts of other assets as of the end of the reporting period are as follows:

<i>(in millions of Korean won)</i>	December 31, 2011	December 31, 2010
Current:		
Advances	130,188	106,061
Prepaid expenses	195,744	173,404
Prepaid value added tax	74,576	60,909
Sub-total	400,508	340,374
Non-Current:		
Long-term prepaid expenses	461,773	440,106
Long-term advances	281,012	291,131
Sub-total	742,785	731,237
Total	1,143,293	1,071,611

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10. Property, Plant and Equipment

Carrying amounts of property, plant and equipment consist of:

<i>(in millions of Korean won)</i>	Land	Buildings	Structures	Machinery	Tools	Equipment	Other	Construction -in-progress	Total
At December 31, 2011									
Cost	1,872,167	2,441,867	179,347	2,097,872	1,557,928	436,072	154,998	137,295	8,877,546
Accumulated depreciation	-	(464,555)	(71,674)	(1,526,886)	(1,207,834)	(344,210)	(40,604)	-	(3,655,763)
Accumulated Impairment	-	(2,215)	(342)	(27,585)	(661)	(77)	(22)	-	(30,902)
Net book amounts	1,872,167	1,975,097	107,331	543,401	349,433	91,785	114,372	137,295	5,190,881
At December 31, 2010									
Cost	1,742,243	2,247,982	161,233	1,832,212	1,378,465	405,732	82,190	183,895	8,033,952
Accumulated depreciation	-	(410,367)	(63,605)	(1,416,495)	(1,089,399)	(331,949)	(29,238)	-	(3,341,053)
Accumulated Impairment	-	(2,215)	(393)	(28,109)	(661)	(69)	(22)	-	(31,469)
Net book amounts	1,742,243	1,835,400	97,235	387,608	288,405	73,714	52,930	183,895	4,661,430

Changes in property, plant and equipment are as follows:

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

<i>(in millions of Korean won)</i>	2010								Total
	Land	Buildings	Structures	Machinery	Tools	Equipment	Other	Construction -in-progress	
At January 1, 2010	1,726,144	1,952,101	93,924	405,656	235,630	74,796	51,300	117,589	4,657,140
Acquisitions	18,789	19,092	1,960	65,491	177,556	31,600	9,647	340,839	664,974
Transfer-in (out)	38,887	34,242	12,165	135,032	67,700	2,369	364	(274,533)	16,226
Disposals / reclassification to assets held for sale	(41,577)	(110,209)	(3,198)	(13,048)	(7,298)	(2,160)	(1,033)	-	(178,523)
Depreciation	-	(59,818)	(7,615)	(205,496)	(184,858)	(32,862)	(7,345)	-	(497,994)
Impairment / reversal	-	(8)	(1)	(27)	(325)	(29)	(3)	-	(393)
At December 31, 2010	1,742,243	1,835,400	97,235	387,608	288,405	73,714	52,930	183,895	4,661,430

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Borrowing costs amounting to ₩2,042 million (2010: ₩779 million) are capitalised as acquisition costs and a capitalization rate of 4.85 % is applied.

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

11. Intangible assets

Carrying amounts of intangible assets consist of:

<i>(in millions of Korean won)</i>	Goodwill	Industrial property rights	Development costs	Other intangible assets	In-progress	Total
At December 31, 2011						
Cost	88,885	523,876	1,033,059	404,293	75,872	2,125,985
Accumulated amortisation and impairment	-	(216,677)	(762,549)	(230,782)	-	(1,210,008)
Net book amounts	88,885	307,199	270,510	173,511	75,872	915,977
At December 31, 2010						
Cost	32,005	403,046	841,961	342,057	43,679	1,662,748
Accumulated amortisation and impairment	-	(175,533)	(563,384)	(198,013)	-	(936,930)
Net book amounts	32,005	227,513	278,577	144,044	43,679	725,818

Changes in intangible assets are as follows:

<i>(in millions of Korean won)</i>	2011					
	Goodwill	Industrial property rights	Development costs	Other intangible assets	In-progress	Total
At January 1, 2011	32,005	227,513	278,577	144,044	43,679	725,818
Acquisitions	-	-	53,239	43,735	199,322	296,296
Acquisitions by business combination	56,880	19,981	-	13,888	253	91,002
Transfer-in (out)	-	111,161	161,679	8,097	(163,163)	117,774
Disposals / reclassification to assets held for sale	-	(5,303)	(9,466)	(1,650)	(4,219)	(20,638)
Amortisation	-	(46,152)	(213,519)	(34,604)	-	(294,275)
At December 31, 2011	88,885	307,200	270,510	173,510	75,872	915,977

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<i>(in millions of Korean won)</i>	2010					Total
	Goodwill	Industrial property rights	Development costs	Other intangible assets	In-progress	
At January 1, 2010	29,894	203,592	183,976	147,547	120,908	685,917
Acquisitions	2,111	-	58,618	27,147	170,150	258,026
Transfer-in (out)	-	75,097	249,054	60	(247,164)	77,047
Disposals / reclassification to assets held for sale	-	(12,642)	(16,048)	(567)	(215)	(29,472)
Amortisation	-	(38,534)	(197,023)	(30,143)	-	(265,700)
At December 31, 2010	32,005	227,513	278,577	144,044	43,679	725,818

Amortisation of intangible assets was presented as follows:

<i>(in millions of Korean won)</i>	2011	2010
Cost of sales	52,942	52,471
Selling and marketing expenses	5,520	5,185
Administrative expenses	86,737	82,248
Research and development expenses	147,492	123,932
Service Costs	1,584	1,864
Total	294,275	265,700

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

<i>(in millions of Korean won)</i>	AE ¹	MC	Other	Total
Goodwill	56,880	29,894	2,111	88,885

AE: Air Conditioning & Energy Solution
 MC: Mobile Communications

¹As the Company acquired the air-conditioning business of LS MTRON, additional goodwill amounting to ₩56,880 million is recognised by AE company (Note 41).

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

Management determined budgeted EBIT margin based on past performance and its expectations of market development. The discount rates used are pre-tax and reflect specific

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risks relating to the relevant operating segments. Discount rates used for value-in-use calculations of AE, and MC companies are 13.4%, and 13.6%, respectively.

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

12. Investments in subsidiaries, jointly controlled entities and associates

Investments in subsidiaries, jointly controlled entities and associates are as follows:

<i>(in millions of Korean won)</i>	December 31, 2011	December 31, 2010
Subsidiaries	3,504,840	3,375,686
Jointly controlled entities and associates	4,459,709	4,469,040
Total	7,964,549	7,844,726

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

<i>(in millions of Korean won)</i>	Countries of incorporation	Percentage of ownership (%) at December 31, 2011	December 31,	December 31,
			2011	2010
LG Electronics U.S.A., Inc. (LGEUS)	USA	100.00	955,542	955,542
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)	Netherland	100.00	148,552	148,552
Hiplaza CO., LTD.	Korea	100.00	104,459	104,459
Taizhou LG Electronics Refrigeration Co., Ltd.(LGETR)	China	88.44	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	99.97	68,720	68,720
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
Hi Entech CO., LTD.	Korea	100.00	61,118	-
Other			761,440	693,404
Total			3,504,840	3,375,686

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Investments in jointly controlled entities and associates are as follows:

<i>(in millions of Korean won)</i>	Country of incorporation	Percentage of ownership (%) at December 31, 2011	December 31,	
			2011	December 31, 2010
LG Display Co., Ltd.	Korea	37.90	3,480,623	3,480,623
LG Innotek Co., Ltd.	Korea	47.89	541,538	541,538
LG-Ericsson Co., Ltd.	Korea	50.00	163,503	163,503
LG Holdings (HK) Ltd.	Hongkong	49.00	129,386	129,386
Global OLED Technology LLC	USA	32.73	53,454	53,454
Other			91,205	100,536
Total			4,459,709	4,469,040

Investments in listed subsidiaries, jointly controlled entities and associates are as follows:

<i>(in millions of Korean won)</i>	December 31, 2011			
	Shares	Market price per share (in won)	Market value	Book amount
LG Display Co., Ltd.	135,625,000	24,500	3,322,813	3,480,623
LG Innotek Co., Ltd.	9,653,181	67,800	654,486	541,538

<i>(in millions of Korean won)</i>	December 31, 2010			
	Shares	Market price per share (in won)	Market value	Book amount
LG Display Co., Ltd.	135,625,000	39,800	5,397,875	3,480,623
LG Innotek Co., Ltd.	9,653,181	134,000	1,293,526	541,538

13. Investment Property

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

<i>(in millions of Korean won)</i>	Land	Buildings	Total
At January 1	1,367	4,141	5,508
Disposals / reclassification to assets held for sale	-	-	-
Depreciation	-	(148)	(148)
At December 31	1,367	3,993	5,360

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Changes in carrying amounts of investment property for the year ended December 31, 2010, are as follows:

<i>(in millions of Korean won)</i>	Land	Buildings	Total
At January 1	5,237	4,783	10,020
Disposals / reclassification to assets held for sale	(3,870)	(475)	(4,345)
Depreciation	-	(167)	(167)
At December 31	1,367	4,141	5,508

The fair value of investment property as of December 31, 2011, is ₩4,807 million (2010: ₩5,689 million).

Rental income amounting to ₩301 million (2010: ₩412 million) and operating expenses amounting to ₩159 million (2010: ₩195 million) are recognised in the income statement relating to investment property.

14. Borrowings

The carrying amounts of borrowings are as follows:

<i>(in millions of Korean won)</i>	December 31, 2011	December 31, 2010
Current		
Short-term borrowings	325,033	1,367,592
Current maturities of long-term borrowings	420,660	190,000
Current maturities of debentures	955,965	379,696
Sub-total	1,701,658	1,937,288
Non-current		
Long-term borrowings	2,110,000	1,357,780
Debentures	2,014,188	1,704,796
Sub-total	4,124,188	3,062,576
Total	5,825,846	4,999,864

Short-term borrowings consist of:

<i>(in millions of Korean won)</i>	Latest maturity date	Annual interest rate (%) at Dec 31, 2011	Carrying amount	
			December 31, 2011	December 31, 2010
General loans				
LG Electronics European Shared Service Center B.V.	2012.12.27	3ML+1.00	148,516	139,708
Borrowings on negotiated trade bills				
Woori Bank and other	-	0.99~1.87	176,517	1,227,884
Total			325,033	1,367,592

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

<i>(in millions of Korean won)</i>	Latest maturity date	Annual interest rate (%) at Dec 31, 2011	Total	Current	Non-current
Local currency loans					
Kookmin Bank	2013.05.14	4.67	190,000	-	190,000
Kookmin Bank	2014.11.12	4.62	150,000	-	150,000
Kookmin Bank	2016.05.24	4.73	190,000	-	190,000
Nonghyup	2014.03.10	4.70	190,000	-	190,000
Shinhan Bank	2016.10.19	4.37	190,000	-	190,000
Woori Bank	2017.10.28	4.62	190,000	-	190,000
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	2014.11.24	4.55	150,000	-	150,000
The Korea Development Bank	2014.12.24	4.71	140,000	-	140,000
The Korea Development Bank	2015.03.10	5.06	90,000	-	90,000
Korea Finance Corporation	2014.02.28	4.56	90,000	-	90,000
Korea Finance Corporation	2015.03.02	4.80	100,000	-	100,000
Korea Finance Corporation	2015.09.14	4.57	80,000	-	80,000
Korea Finance Corporation	2015.12.24	4.64	40,000	-	40,000
Korea Finance Corporation	2016.04.20	4.63	30,000	-	30,000
Foreign currency loans					
The Korea Development Bank	2012.06.26	3ML+0.4	230,660	230,660	-
Total			2,530,660	420,660	2,110,000

Long-term borrowings as of December 31, 2010, consist of:

<i>(in millions of Korean won)</i>	Latest maturity date	Annual interest rate (%) at Dec 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	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
Total			1,547,780	190,000	1,357,780

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Debentures as of December 31, 2011, consist of:

<i>(in millions of Korean won)</i>	Latest maturity date	Annual interest rate (%) at Dec 31, 2011	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	576,650	576,650	-
Public, non-guaranteed bonds (59 th) ¹	2014.04.28	3ML+1.00	196,061	-	196,061
Private, non-guaranteed bonds (63 rd) ¹	2014.08.23	3ML+0.70	115,330	-	115,330
Less: discount on debentures			(7,888)	(685)	(7,203)
Total			2,970,153	955,965	2,014,188

¹The Company entered into the Cross-currency interest rate swap contract to hedge cash flow risk related to floating interest rate and foreign exchange rate (Note 7).

Debentures as of December 31, 2010, consist of:

<i>(in millions of Korean won)</i>	Latest maturity date	Annual interest rate (%) at 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

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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>	December 31, 2011		December 31, 2010	
	Carrying amount	Fair value ¹	Carrying amount	Fair value
Long-term borrowings	2,110,000	2,169,131	1,357,780	1,381,684
Debentures	2,014,188	2,059,063	1,704,796	1,731,695
Total	4,124,188	4,228,194	3,062,576	3,113,379

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

Payment schedule¹ of borrowings as of December 31, 2011, is as follows:

<i>(in millions of Korean won)</i>	Total	1 year	Less than 2 years	5 years	Over 5 years
Short-term borrowings	325,033	325,033	-	-	-
Current maturities of long-term borrowings	420,660	420,660	-	-	-
Current maturities of debentures	956,650	956,650	-	-	-
Long-term borrowings	2,110,000	-	337,500	1,582,500	190,000
Debentures	2,021,391	-	490,000	1,531,391	-
Total	5,833,734	1,702,343	827,500	3,113,891	190,000

¹The above cash flow is undiscounted amount.

15. Other Payables

<i>(in millions of Korean won)</i>	December 31, 2011	December 31, 2010
Non-trade payables	1,451,165	1,401,024
Accrued expenses	1,229,982	1,189,778
Deposits received	16,648	13,977
Total	2,697,795	2,604,779

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16. Deferred Income Tax

The analysis of deferred tax assets and deferred tax liabilities before the offsetting is as follows:

<i>(in millions of Korean won)</i>	December 31, 2011	December 31, 2010
Deferred tax assets		
Deferred tax asset to be recovered within 12 months	365,473	345,892
Deferred tax asset to be recovered after more than 12 months	1,256,499	918,967
Deferred tax assets before offsetting	1,621,972	1,264,859
Deferred tax liabilities:		
Deferred tax liability to be recovered within 12 months	63,028	19,122
Deferred tax liability to be recovered after more than 12 months	900,520	806,625
Deferred tax liabilities before offsetting	963,548	825,747
Deferred tax assets, net	658,424	439,112

The movement in deferred income tax assets and liabilities during the years ended December 31, 2011 and 2010, without the offsetting of balances within the same tax jurisdiction, is as follows:

<i>(in millions of Korean won)</i>	At January 1	2011		At December 31
		Charged/ (credited) to the income Statement	Charged/ (credited) to other comprehensive income	
Changes in temporary differences				
Investments in subsidiaries, jointly controlled entities and associates	(256,996)	(26,054)	-	(283,050)
Property, plant and equipment	(180,703)	(18,993)	-	(199,696)
Trade receivables	(9,784)	1,615	-	(8,169)
Accrued expenses	276,398	21,970	-	298,368
Provisions	41,496	1,480	-	42,976
Gain on foreign currency translation	25,634	12,502	-	38,136
Gain (loss) on valuation of derivatives	9,158	(149)	-	9,009
Reserve for research and manpower development	(140,085)	(14,008)	-	(154,093)
Severance and retirement benefits	9,204	(3,320)	29,347	35,231
Other	(9,006)	24,841	2,393	18,228
Sub-total	(234,684)	(116)	31,740	(203,060)

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<i>(in millions of Korean won)</i>	At January 1	2011		At December 31
		Charged/ (credited) to the income Statement	Charged/ (credited) to other comprehensive income	
Tax credits carryforwards	366,777	81,453	-	448,230
Loss carryforwards	307,019	106,235	-	413,254
Deferred tax assets (liabilities)	439,112	187,572	31,740	658,424

<i>(in millions of Korean won)</i>	At January 1	2010		At December 31
		Charged/ (credited) to the income statement	Charged/ (credited) to other comprehensive income	
Changes in temporary differences				
Investments in subsidiaries, jointly controlled entities and associates	(262,144)	5,148	-	(256,996)
Property, plant and equipment	(186,955)	6,252	-	(180,703)
Trade receivables	(6,371)	(3,413)	-	(9,784)
Accrued expenses	273,056	3,342	-	276,398
Provisions	47,396	(5,900)	-	41,496
Gain (loss) on foreign currency translation	75,053	(49,419)	-	25,634
Gain (loss) on valuation of derivatives	27,187	(18,029)	-	9,158
Reserve for research and manpower development	-	(140,085)	-	(140,085)
Severance and retirement benefits(expenses)	(3,365)	407	12,162	9,204
Other	(12,073)	4,845	(1,778)	(9,006)
Sub-total	(48,216)	(196,852)	10,384	(234,684)
Tax credits carryforwards	-	366,777	-	366,777
Loss carryforwards	-	307,019	-	307,019
Deferred tax assets (liabilities)	(48,216)	476,944	10,384	439,112

At the reporting date, deferred tax liabilities of ₩45,267 million (2010: ₩41,152 million) were not recognised for the temporary differences on the unremitted earnings of subsidiaries which are expected to be permanently reinvested.

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Tax effects recognised in other comprehensive income directly are as follows:

<i>(in millions of Korean won)</i>	December 31, 2011			December 31, 2010		
	Before Tax	Tax effects	After Tax	Before Tax	Tax effects	After Tax
Other comprehensive income						
Available-for-sale financial assets	8,082	(1,956)	6,126	12,621	(2,777)	9,844
Actuarial gain/loss	(171,525)	41,509	(130,016)	(55,283)	12,162	(43,121)
Cash flow hedges	(6,495)	1,572	(4,923)	-	-	-
Total	(169,938)	41,125	(128,813)	(42,662)	9,385	(33,277)

Expirations of unrecognised tax loss and tax credit carryforwards as of December 31, 2011, are as follows:

<i>(in millions of Korean won)</i>	Tax loss	Tax credit
Within 1 year	-	-
Within 2 years	-	-
Within 3 years	-	76,163
Over 3 years	413,254	372,067
Total	413,254	448,230

The deferred tax asset related to tax loss and tax credits carryforwards is recognised when the related tax benefit has high possibility to be realised through future taxable income. The Company did not recognise ₩54,594 million of the deferred tax asset related to tax credit carryforwards that can be deducted from future taxable income.

17. Defined Benefit Liability

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

<i>(in millions of Korean won)</i>	December 31, 2011	December 31, 2010
Present value of funded obligations	1,073,728	805,656
Fair value of plan assets	(710,111)	(536,413)
Liabilities	363,617	269,243

The amounts recognised in the income statements for the years ended December 31, 2011 and 2010, are as follows:

<i>(in millions of Korean won)</i>	2011	2010
Current service cost	157,822	126,789
Interest cost	42,202	36,931
Expected return on plan assets	(23,835)	(27,955)
Total expense	176,189	135,765

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The line items in which expenses are included for the years ended December 31, 2011 and 2010, are as follows:

<i>(in millions of Korean won)</i>	2011	2010
Cost of sales	91,595	68,552
Selling and marketing expenses	26,243	20,408
Administrative expenses	9,260	8,293
Research and development expenses	46,541	36,314
Service costs	2,550	2,198
Total expense	176,189	135,765

Cumulative actuarial losses recognised in the statement of other comprehensive income as of December 31, 2011, are ₩130,016 million (2010: ₩43,121 million).

Changes in the defined benefit obligations for the years ended December 31, 2011 and 2010, are as follows:

<i>(in millions of Korean won)</i>	2011	2010
At January 1	805,656	627,159
Current service cost	157,822	126,789
Interest expense	42,202	36,931
Benefits paid	(54,475)	(37,567)
Liabilities taken over by business combination	3,438	-
Actuarial loss	119,085	52,344
At December 31	1,073,728	805,656

Changes in the fair value of plan assets for the years ended December 31, 2011 and 2010, are as follows:

<i>(in millions of Korean won)</i>	2011	2010
At January 1	536,413	423,879
Expected return on plan assets	23,835	27,955
Employer contributions	170,000	100,000
Benefits paid	(25,103)	(13,668)
Actuarial gain(loss)	2,843	(1,753)
As taken over by business combination	2,123	-
At December 31	710,111	536,413

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The actual return on plan assets for the year ended December 31, 2011, is ₩26,678 million (2010: ₩26,202 million).

The principal actuarial assumptions used are as follows:

(%)	December 31, 2011	December 31, 2010
Discount rate	4.6	5.5
Expected rate of return	3.9	4.3
Future salary increase	6.0	6.0

Plan assets consist of:

(in millions of Korean won)	December 31, 2011	December 31, 2010
Securities combined with derivatives (guaranteed)	460,724	341,706
Time deposits	249,387	194,707
Total	710,111	536,413

The amounts of experience adjustments arising on the plan liabilities and the plan assets are as follows:

(in millions of Korean won)	December 31, 2011	December 31, 2010	December 31, 2009	December 31, 2008
Present value of obligation	1,073,728	805,656	627,159	657,467
Fair value of plan assets	(710,111)	(536,413)	(423,879)	(443,780)
Deficit in the plan	363,617	269,243	203,280	213,687
Experience adjustments on plan liabilities	(34,872)	(4,411)	25,760	-
Experience adjustments on plan assets	2,843	(1,753)	4,634	-

18. Provisions

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

(in millions of Korean won)	Warranty	Sales returns	Restoration	Litigation	Total
At January 1, 2011	171,470	654	3,971	317,054	493,149
Addition	367,780	3,681	667	26,571	398,699
Acquisition by business combination	1,671	-	-	-	1,671
Utilisation	(363,335)	(3,842)	(70)	(11,703)	(378,950)
At December 31, 2011	177,586	493	4,568	331,922	514,569
Current	168,703	493	-	-	169,196
Non-current	8,883	-	4,568	331,922	345,373

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Changes in provisions during the year ended December 31, 2010, are as follows:

<i>(in millions of Korean won)</i>	Warranty	Sales returns	Restoration	Litigation	Total
At January 1, 2010	195,853	1,037	3,188	323,345	523,423
Addition	345,758	3,773	1,353	6,015	356,899
Utilisation	(370,141)	(4,156)	(570)	(12,306)	(387,173)
At December 31, 2011	171,470	654	3,971	317,054	493,149
Current	165,645	654	-	-	166,299
Non-current	5,825	-	3,971	317,054	326,850

19. Other Liabilities

Other liabilities consist of:

<i>(in millions of Korean won)</i>	December 31, 2011	December 31, 2010
Advances from customers	299,071	237,390
Unearned income	45,278	45,126
Withholding	91,966	63,619
Total	436,315	346,135

20. Paid-in Capital

As of December 31, 2011 and 2010, the number of shares authorised is 600 million shares.

	Par value per share	December 31, 2011		December 31, 2010	
		Number of shares issued	Amount (in millions)	Number of shares issued	Amount (in millions)
Common stock ¹	5,000	163,647,814	818,239	144,647,814	723,239
Preferred stock ²	5,000	17,185,992	85,930	17,185,992	85,930
Total		180,833,806	904,169	161,833,806	809,169

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

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

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

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Share premium balances are as follows:

<i>(in millions of Korean won)</i>	<u>December 31, 2011</u>	<u>December 31, 2010</u>
Share premium ¹	3,088,179	2,207,919

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

21. Retained Earnings

Retained earnings consist of:

<i>(in millions of Korean won)</i>	<u>December 31, 2011</u>	<u>December 31, 2010</u>
Legal reserve ¹	142,129	138,821
Discretionary reserve ²	6,756,715	5,643,697
Unappropriated retained earnings	(364,715)	1,149,497
Total	6,534,129	6,932,015

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 Discretionary reserve for research and manpower development is subject to dividend according to the special tax treatment control law.

Changes in unappropriated retained earnings are as follows:

<i>(in millions of Korean won)</i>	<u>2011</u>	<u>2010</u>
At January 1	6,932,015	7,892,549
Loss for the year	(277,919)	(635,874)
Actuarial losses	(86,895)	(41,935)
Dividend	(33,072)	(282,725)
At December 31	6,534,129	6,932,015

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Appropriation of retained earnings for the years ended December 31, 2011 and 2010, are as follows:

Date of Appropriation: March 16, 2012 and March 18, 2011
for the years ended December 31, 2011 and 2010, respectively

<i>(in millions of Korean won)</i>	2011	2010
Retained earnings before appropriation		
Unappropriated retained earnings carried over from prior year	99	1,827,306
Actuarial loss	(86,895)	(41, 935)
Loss for the year	(277,919)	(635,874)
	<u>(364,715)</u>	<u>1,149,497</u>
Transfer from discretionary reserve		
Reserve for research and manpower development	<u>6,119,965</u>	<u>5,006,947</u>
Total	<u>5,755,250</u>	<u>6,156,444</u>
Appropriation of retained earnings		
Legal reserve	3,687	3,307
Reserve for research and manpower development	5,714,592	6,119,966
Dividends	36,872	33,072
Dividends(ratio) per share		
Common stock :		
₩ 200 (4%) in 2011,		
₩ 200 (4%) in 2010.		
Preferred stock :		
₩ 250 (5%) in 2011,		
₩ 250 (5%) in 2010,		
	<u>5,755,151</u>	<u>6,156,345</u>
Unappropriated retained earnings to be carried forward to subsequent year	<u>99</u>	<u>99</u>

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22. Other Components of Equity

Details of other components of equity consist of:

<i>(in millions of Korean won)</i>	December 31, 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
At December 31	(32,819)	(32,819)

¹ The Company has treasury shares consisting of 763,165 shares (2010: 763,161 shares) of ordinary shares and 4,687 shares (2010: 4,687 shares) of preferred shares at the reporting date. The Company intends to either grant these treasury shares to employees and directors as compensation, or to sell them in the future.

23. Share-Based Payments

The Company operates cash-settled, share-based compensation plans (stock appreciation rights) which were granted to its executives and employees on March 23, 2005, and are exercisable between March 23, 2008 and March 22, 2012. Exercise price per share is determined to be ₩69,500, which is lower by 3.6% than weighted average stock price of ₩72,065 at the reporting date.

Movements in the number of stock appreciation rights outstanding and their related weighted average stock prices are as follows:

	Weighted average stock price (in won) ¹		Number of options (unit; shares)	
	2011	2010	2011	2010
Beginning	101,507	115,514	275,500	305,500
Exercised ²	114,810	114,144	16,250	30,000
Ending	72,065	101,507	259,250	275,500

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

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

The fair value of stock appreciation rights determined using the Black-Scholes valuation model was ₩1,753 million (2010: ₩8,946 million). The significant inputs into the model were the weighted average share price of ₩72,065 (2010: ₩101,507), exercise price shown above, volatility of 15.09% (2010: 26.15%), dividend yield of 0.69% (2010: 0.95%), an expected option life of 0.25 years (2010:

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1.25 years) and an annual risk-free interest rate of 2.99% (2010: 3.04%).

24. Net Sales

Details of net sales for the years ended December 31, 2011 and 2010, are as follows:

<i>(in millions of Korean won)</i>	2011	2010
Net sales		
Sales of goods	27,431,007	28,572,249
Sales of services	291,103	353,673
Royalty income	375,029	312,581
Total	28,097,139	29,238,503

25. Expenses by Nature

Expenses that are recorded by nature as cost of sales, general operating expenses and other operating expenses in the income statements for the years ended December 31, 2011 and 2010, consist of:

<i>(in millions of Korean won)</i>	2011	2010
Changes in inventories	179,062	(297,773)
Purchase of raw materials and merchandise	20,014,898	22,642,387
Employee benefit expenses (Note 26)	2,504,645	2,173,483
Depreciation, amortisation	756,434	764,088
Advertising expenses	582,249	557,310
Sales promotional expenses	222,673	306,501
Transportation expenses	708,120	828,552
Commission expenses	1,435,137	1,436,687
Other expenses	2,997,624	3,271,094
Total ¹	29,400,842	31,682,329

¹ Selling and marketing expenses, administrative expenses, research and development expenses and service costs are included.

26. Employee Benefit Expense

<i>(in millions of Korean won)</i>	2011	2010
Wages and salaries	1,931,506	1,677,156
Welfare expense	384,042	341,822
Stock options (Note 23)	(7,256)	(6,581)
Defined contribution plans	1,776	1,505
Defined benefit plans (Note 17)	176,189	135,765
Other post-employment benefits	16,158	19,239

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Termination expense	2,230	4,577
Total	2,504,645	2,173,483

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

Details of general operating expenses for the years ended December 31, 2011 and 2010, are as follows:

<i>(in millions of Korean won)</i>	2011	2010
Wages and salaries	924,095	823,640
Severance benefits	86,312	71,176
Welfare expense	180,786	161,875
Freight expense	701,737	821,103
Rental expense	141,290	120,295
Commission expense	968,196	1,063,336
Depreciation	107,407	112,329
Amortization	241,333	213,230
Taxes and dues	15,484	14,248
Advertising expense	582,249	557,310
Promotional expense	222,673	306,501
Direct R&D costs	470,339	425,459
Direct service costs	390,830	456,685
Other	307,581	321,005
Total	5,340,312	5,468,192

28. Research and Development Expenditure

Research and development expenditure recognised in the income statements consist of:

<i>(in millions of Korean won)</i>	2011	2010
Uncapitalised research and development expenditure	2,227,827	2,074,083
Amortised development costs (Note 11)	213,519	197,023
Total	2,441,346	2,271,106

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29. Other Operating Income

Other operating income for the years ended December 31, 2011 and 2010, consists of:

<i>(in millions of Korean won)</i>	2011	2010
Rental income	26,120	31,070
Foreign exchange gain	899,806	1,179,377
Gain on disposal of property, plant and equipment	3,925	9,273
Gain on disposal of intangible assets	14,111	17
Other	60,561	119,446
Total	1,004,523	1,339,183

30. Other Operating Expenses

<i>(in millions of Korean won)</i>	2011	2010
Foreign exchange loss	950,123	1,218,406
Losses on disposal of property, plant and equipment	15,169	18,666
Losses on disposal of intangible assets	18,963	28,994
Other	23,394	54,374
Total	1,007,649	1,320,440

31. Financial Income

<i>(in millions of Korean won)</i>	2011	2010
Interest income	40,857	42,772
Dividend income	143,345	121,857
Foreign exchange gain	240,039	449,369
Gain on settlement of derivatives	38,829	86,236
Other	1,744	7,505
Total	464,814	707,739

32. Financial Expenses

<i>(in millions of Korean won)</i>	2011	2010
Interest expense	215,948	144,923
Foreign exchange loss	303,083	466,082
Loss on settlement of derivatives	40,310	42,583
Other	8,686	26,503
Total	568,027	680,091

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33. Income Tax

Details of income tax expense are as follows:

<i>(in millions of Korean won)</i>	2011	2010
Current income taxes		
Current tax on profits for the year ¹	44,928	37,283
Adjustments in respect of prior years	18,170	(1,460)
Total current tax	63,098	35,823
Deferred tax		
Changes in temporary differences	(187,572)	(476,944)
Total deferred income tax	(187,572)	(476,944)
Income tax expense (income)	(124,474)	(441,121)

¹Direct foreign taxes are included.

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

<i>(in millions of Korean won)</i>	2011		2010	
	Tax expense	Tax rate	Tax expense	Tax rate
Profit (loss) before income tax	(402,393)		(1,076,995)	
Tax expense based on statutory tax rate	(97,379)	24.2%	(260,633)	24.2%
Tax adjustments:				
Income not subject to tax	(9,601)	2.4%	(28,439)	2.6%
Expenses not deductible for tax purposes	6,759	(-)1.7%	11,420	(-)1.1%
Tax loss and credits carry-forwards	(99,348)	24.7%	(192,273)	17.9%
Adjustments in respect of prior years	5,437	(-)1.4%	(1,460)	0.1%
Changes in unrecognised deferred tax assets	40,930	(-)10.2%	(1,838)	0.2%
Change in tax rates ¹	28,644	(-)7.1%	31,555	(-)2.9%
Other	84	0.0%	547	(-)0.1%
Income tax	(124,474)	30.9%	(441,121)	40.9%

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

34. Earnings per Share

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

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<i>(in millions of Korean won)</i>	2011	2010
Loss attributable to ordinary shares ¹	(252,178)	(568,811)
Weighted average number of ordinary shares outstanding (unit: shares) ²	147,768,109	147,642,834
Basic loss per ordinary share (in won)	(1,707)	(3,853)

<i>(in millions of Korean won)</i>	2010	2009
Loss attributable to preferred shares ¹	(25,741)	(67,063)
Weighted average number of preferred shares outstanding (unit: shares) ²	17,181,305	17,181,306
Basic loss per preferred share (in won)	(1,498)	(3,903)

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

<i>(in millions of Korean won)</i>	2011	2010
Loss for the year (A)	(277,919)	(635,874)
Ordinary shares dividends (B)	32,577	28,777
Preferred shares dividends (C)	4,295	4,295
Undistributed loss (D=A-B-C)	(314,791)	(668,946)
Undistributed loss available for ordinary shares (E)	(284,755)	(597,588)
Undistributed loss available for preferred shares (F)	(30,036)	(71,358)
Loss attributable to ordinary shares (G=B+E)	(252,178)	(568,811)
Loss attributable to preferred shares (H=C+F)	(25,741)	(67,063)

² Weighted average numbers of shares are calculated as follows:

	2011	2010
Ordinary shares outstanding	163,647,814	144,647,814
Ordinary treasury shares	(763,165)	(763,161)
Ordinary shares	162,884,649	143,884,653
Weighted average number of ordinary shares outstanding*	147,768,109	147,642,834
Preferred shares outstanding	17,185,992	17,185,992
Preferred treasury shares	(4,687)	(4,687)
Preferred shares	17,181,305	17,181,305
Weighted average number of preferred shares outstanding	17,181,305	17,181,306

*The comparative number of ordinary shares outstanding during 2010 has been adjusted to reflect bonus element from rights issue in 2011.

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35. Dividends

The numbers of shares entitled to dividends are as follows:

<i>(unit: shares)</i>	2011	2010
Ordinary shares	162,884,649	143,884,653
Preferred shares	17,181,305	17,181,305

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

<i>(in millions of Korean won)</i>	Calculation	Amounts
Ordinary shares	162,884,649 X 5,000 X 4% =	32,577
Preferred shares	17,181,305 X 5,000 X 5% =	4,295
Total		36,872

Details of the Company's dividends declared as of December 31, 2010, are as follows:

<i>(in millions of Korean won)</i>	Calculation	Amounts
Ordinary shares	143,884,653 X 5,000 X 4% =	28,777
Preferred shares	17,181,305 X 5,000 X 5% =	4,295
Total		33,072

The Company's dividend payout ratios and dividend yield ratio for the years ended December 31, 2011 and 2010, are computed as follows:

<i>(in millions of Korean won)</i>	Calculation	2011	2010
Dividend payout ratio	Total dividends/ Profit (loss) for the year	- ¹	- ¹
	Dividend per share/ Market price ²		
Dividend yield ratio	Common shares	0.27%	0.17%
	Preferred shares	1.05%	0.57%

¹ Dividend payout ratio is not calculated for the either year due to the net loss of the Company.

² Average of prices in stock market for the week preceding business days before the closing date of the shareholder's lists for general meetings of stockholders related to above dividends.

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36. 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
Loss for the year	(277,919)	(635,874)
Adjustments :		
Interest expense, net	175,091	102,151
Loss(gain) on foreign currency translation, net	88,291	(12,945)
Loss(gain) on derivatives	1,481	(43,653)
Depreciation	460,059	497,994
Amortisation	294,275	265,700
Loss on disposal of property, plant and equipment and intangible assets	16,096	38,370
Provisions for severance benefits	176,189	135,765
Provisions	398,699	356,899
Dividend income	(143,345)	(121,857)
Income tax benefit	(124,474)	(441,121)
Other	13,362	10,717
	<u>1,355,724</u>	<u>788,020</u>
Changes in operating assets and liabilities		
Decrease(Increase) in trade receivables	468,499	(324,491)
Decrease(increase) in loans and other receivables	(21,060)	71,950
Decrease(Increase) in inventories	188,286	(297,774)
Decrease(Increase) in other assets	(179,103)	22,392
Increase in trade payables	(484,150)	465,119
Decrease in other payables	60,524	80,002
Decrease in provisions	(378,950)	(387,173)
Increase(Decrease) in other liabilities	84,815	(147,558)
Payment of defined benefit liability	(29,372)	(23,899)
Deposit of plan assets, net	(170,000)	(100,000)
	<u>(460,511)</u>	<u>(641,432)</u>
Cash Generated from Operations	<u>617,294</u>	<u>(489,286)</u>

Significant transactions not affecting cash flows for the years ended December 31, 2011 and 2010, are as follows:

<i>(in millions of Korean won)</i>	2011	2010
Reclassification of construction-in-progress of property, plant and equipment	695,698	274,533
Reclassification of construction-in-progress of intangible assets	163,163	247,164
Reclassification to intangible assets from long-term advances	111,162	75,097
Reclassification of current maturities of borrowings	1,376,625	569,696

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37. Contingencies

(a) At the end of the reporting period, the Company is provided with a performance guarantee of ₩114,376 million (2010: ₩85,605 million) from Seoul Guarantee Insurance and other two banks relating to the sales contracts.

(b) At the end of the reporting period, the Company is contingently liable for maximum guarantees of up to ₩2,549,537 million (2010: ₩2,412,377 million) on the indebtedness of its subsidiaries. Details are as follows:

<i>(in millions of Korean won)</i>	December 31, 2011	December 31, 2010
LG Electronics European Shared Service Center B.V.(LGESC)	529,221	441,336
LG Electronics U.S.A., Inc. (LGEUS)	340,224	256,253
LG Electronics Ticaret A.S.(LGETK)	229,688	194,957
LG Electronics (China) Co. Ltd. (LGECH)	171,986	108,695
LG-Shaker Co. Ltd.(LGESR)	122,756	66,485
LG Electronics Algeria SARL(LGEAS)	111,791	74,501
LG Electronics RUS, LLC (LGERA)	110,788	109,405
LG Electronics Vietnam Co., Ltd.(LGEVN)	105,989	79,723
LG Electronics Thailand Co.Ltd.(LGETH)	90,130	100,787
LG Electronics Wroclaw Sp z o.o(LGEWR)	89,646	117,810
LG Electronics Morocco S.A.R.L(LGEMC)	72,685	45,334
LG Electronics Ukraine Inc.(LGEUR)	71,805	-
LG Electronics Argentina S.A.(LGEAR)	62,631	63,814
LG Electronics Philippines Inc.(LGEPH)	60,086	60,971
LG Electronics S.A. (Pty) Ltd.(LGESA)	21,161	67,630
LG Electronics Tianjin Appliances Co., Ltd.(LGETA)	10,570	92,417
LG Electronics Monterrey Mexico S.A.de C.V.(LGEMM)	8,732	52,412
Other	339,648	479,847
Total	2,549,537	2,412,377

Out of maximum guarantees above, amounts actually guaranteed by the Company are expired in the following periods as of the end of the reporting period:

<i>(in millions of Korean won)</i>				2011
Less than 1 year	Less than 2 years	Less than 5 year	Over 5 years	
418,221	23,066	34,599	13,593	

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(c) 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 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 Company.

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 at the end of the reporting period.

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 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.

38. Commitments

(a) At the end of the reporting period, the Company has overdraft facility agreements with various banks including Shinhan Bank, with a limit of ₩245,500 million (2010: ₩250,500 million).

(b) At the end of the reporting period, the Company has sales agreements for export trade receivables with Shinhan Bank and other 32 various banks amounting to ₩6,141,323 million (2010: ₩6,372,146 million) and for domestic trade receivables with Shinhan Bank and other two banks amounting to ₩374,705 million (2010: ₩375,680 million). The Company has corporate electronic settlement services contracts for collection of trade receivables with two banks including Hana Bank of up to ₩130,000 million (2010: ₩130,000 million).

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

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

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

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

<i>(in millions of Korean won)</i>	December 31, 2011	December 31, 2010
Property, plant and equipment	55,190	48,578
Intangible assets	5,161	1,424
Total	60,351	50,002

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

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

<i>(in millions of Korean won)</i>	December 31, 2011			Total lease payments
	No later than 1 year	Later than 1 year and no later than 5 years	Over 5 years	
Buildings and offices	30,188	51,299	8,404	89,891
Vehicles	16,420	5,860	-	22,280
Equipment	34,714	55,960	-	90,674
Total	81,322	113,119	8,404	202,845

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

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

<i>(in millions of Korean won)</i>	December 31, 2011			Total lease payments
	No later than 1 year	Later than 1 year and no later than 3 years	Over 3 years	
Healthcare rental	36,707	79,376	43,336	159,419

The Company recognised ₩19,786 million lease income during the year ended December 31, 2011.

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(h) *Trademark licenses commitments*

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

<u>Purpose</u>	<u>Related products</u>	<u>Provided by</u>	<u>Used by</u>
Use of license	Mobile	QUALCOMM incorporated and other	LG Electronics Inc.
Provision of license	Home appliance and Home entertainment	LG Electronics Inc.	Panasonic Corporation and other

39. Related Party Transactions

Subsidiaries as of December 31, 2011, are as follows:

<u>Territory</u>	<u>Name</u>
Domestic subsidiaries	Hiplaza CO., Ltd., Hi Business Logistics, 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., HiEntech 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.(LGESI) LG Electronics Singapore PTE LTD (LGESL) LG Electronics Vietnam Co., Ltd.(LGEVN) LG Electronics Thailand Co., Ltd.(LGETH) LG Electronics Taiwan Taipei Co., Ltd.(LGETT) LG Electronics Australia Pty, Ltd.(LGEAP) LG Electronics Japan, Inc.(LGEJP) LG Electronics Japan,Lab.(LGEJL)
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)

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	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 Miawa Sp. z o.o (LGEMA) LG Electronics Mobilecomm France (LGEMF) LG Electronics Magyar KFT (LGEMK) LG Electronics Norway AS.(LGENO) LG Electronics Polska Sp. z o.o (LGEPL) LG Electronics Portugal S.A.(LGEPT) LG Electronics Romania S.R.L.(LGERO) LG Electronics European Shared Service Center B.V.(LGESC) LG Electronics 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 Miami Inc.(LGEMI) LG Electronics Monterrey Mexico S.A.de C.V.(LGEMM) LG Electronics Mobilecomm U.S.A., Inc.(LGEMU) LG Electronics Mobile Research U.S.A., L.L.C.(LGEMR) LG Electronics Mexicali, 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. Zenith Electronics Corporation of Pennsylvania Servicios Integrales LG S.A DE C.V Servicios LG Monterrey Mexico S.A. de C.V. LG Receivable Funding LLC
South America	LG Electronics Argentina S.A.(LGEAR) LG Electronics da Amazonia Ltda.(LGEAZ) LG Electronics Colombia Ltda.(LGECEB) 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) LG Electronics Venezuela S.A.(LGEVZ) 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. 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)

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LG-Shaker Co. Ltd.(LGESR)
 LG Electronics Ticaret A.S.(LGETK)
 LG Electronics Overseas Trading FZE (LGEOT)
 LG Electronics Algeria SARL (LGEAS)
 LG Electronics Nigeria Limited.(LGENI)
 LG Electronics North Africa Service Company S.A.R.L
 EASYTEC GLOBAL SERVICES INNOVATION LIMITED
 LG Electronics Angola Limitada (LGEAO)

Other LG Electronics Almaty Kazakhstan (LGEAK)
 LG Electronics Ukraine Inc.(LGEUR)
 LG Electronics RUS, LLC (LGERA)
 LG Alina Electronics (LGERI)
 LG Electronics RUS-Marketing, LLC (LGERM)

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

Significant transactions for the years ended December 31, 2011 and 2010, are as follows:

<i>(in millions of Korean won)</i>	2011		2010	
	Sales	Purchases	Sales	Purchases
LG Corp.	7,519	123,094	990	130,191
Subsidiaries	20,655,484	1,083,223	21,995,006	1,852,637
Jointly controlled entities and associates	671,457	2,301,696	792,207	2,342,096
Other related parties	113,205	1,291,807	91,718	1,144,590
Total	21,447,665	4,799,820	22,879,921	5,469,514

The balances of significant transactions are as follows:

<i>(in millions of Korean won)</i>	December 31, 2011		December 31, 2010	
	Receivables	Payables	Receivables	Payables
LG Corp.	23,136	691	4,245	692
Subsidiaries	3,688,981	1,493,291	4,572,270	1,691,391
Jointly controlled entities and associates	166,882	346,796	188,866	259,142
Other related parties	86,474	307,729	90,578	180,411
Total	3,965,473	2,148,507	4,855,959	2,131,636

Key management compensation costs of the Company for the years ended December 31, 2011 and 2010, consist of:

<i>(in millions of Korean won)</i>	2011	2010
Wages and salaries	9,315	8,668
Other post-employment benefits	144	3,042
Pension costs	1,665	2,403
Share-based compensation	(3,253)	(1,422)

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Total	7,871	12,691
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Key management refers to the directors who have significant control and responsibilities on the Company's business plans, operations and controls.

The Company recognised dividend income amounting to ₩67,063 million (2010: ₩49,893 million) from subsidiaries and ₩75,569 million (2010: ₩71,651 million) from associates including LG Display Co., Ltd for the year ended December 31, 2011.

The payment guarantees for related parties as of the end of the reporting period are written in Note 37.

The Company has not recognised bad debts expense nor allowance for trade receivables against the related parties for the years ended December 31, 2011 and 2010.

40. Risk Management

Financial Risk Management

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

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

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

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

(a) Market risk

i) Foreign exchange risk

Due to its multinational business operations, the Company 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.

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The purpose of foreign exchange risk management is to maximise 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 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 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 considering factors highly related to foreign exchange rate fluctuation 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.

For the years ended December 31, 2011 and 2010, if the foreign exchange rate of the Korean won fluctuated by 10% while other variables were fixed, the effects on income before tax would be as follows:

<i>(in millions of Korean won)</i>	December 31, 2011		December 31, 2010	
	10% increase	10% decrease	10% increase	10% decrease
USD/KRW	(170,234)	170,234	(206,158)	206,158
EUR/KRW	40,283	(40,283)	41,081	(41,081)

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 expense.

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

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and between fixed and variable interest rates and monitoring weekly and monthly interest rate trends in domestic and international markets.

As of December 31, 2011, the Company is in a net borrowing situation and is partially exposed to a risk of increase in interest rates. However, the Company minimises risks from changes in interest rate fluctuations by matching variable interest bearing short-term borrowings with variable interest bearing financial deposits adequately.

For the years ended December 31, 2011 and 2010, 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>	<u>December 31, 2011</u>		<u>December 31, 2010</u>	
	<u>100bp increase</u>	<u>100bp decrease</u>	<u>100bp increase</u>	<u>100bp decrease</u>
Interest expense	11,323	(11,323)	15,904	(15,904)
Interest income	15,142	(15,142)	9,188	(9,188)
Gain (loss) on valuation of derivatives (IRS ¹)	3,943	(3,977)	7,114	(7,114)

¹ Interest rate swaps mainly create fair 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 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 Korea Trade Insurance Corporation (K-Sure) and Seoul Guarantee Insurance.

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

As of December 31, 2011, trade receivable balance of the Company, excluding for the trade receivables from the subsidiaries, is ₩1,454,423 million (2010: ₩979,367 million) and its risk is managed appropriately with insurer's credit limit of ₩2,298,513 million (2010: ₩2,047,968 million).

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(c) Liquidity risk

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

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

In addition, the Company copes with potential financial distress by maintaining adequate amount of cash and committed credit facilities. The balance of cash and cash equivalents, and current-financial deposits at December 31, 2011, is ₩1,514,211 million (2010: ₩953,834 million). The Company maintains total committed credit lines of ₩600,000 million (2010: ₩600,000 million) in Woori Bank , Kookmin Bank, and Shinhan Bank in Korea at December 31, 2011.

As of December 31, 2011, the cash and cash equivalents balance of the Company is about 89% (2010: 49%) of current borrowings with due date in 12 months. If committed credit lines are included, the balance covers about 124% (2010: 80%) of short-term borrowings.

In addition, the Company is able to source funds any time in domestic and international financial markets because it has good investment credit grades from Standard & Poors and Moody's of BBB- Stable and Baa2 Negative (2010: BBB Negative and Baa2 Stable), respectively.

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

Capital Risk Management

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

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

<i>(in millions of Korean won, except for ratios)</i>	<u>December 31, 2011</u>	<u>December 31, 2010</u>
Liability (A)	13,704,369	13,048,881
Equity (B)	10,494,861	9,926,128
Cash and cash equivalents and current financial deposits (C)	1,514,211	953,834
Borrowings (D)	5,825,846	4,999,864

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*(in millions of Korean won,
except for ratios)*

	December 31, 2011	December 31, 2010
Liability-to-equity ratio (A/B)	131%	131%
Net Borrowings ratio (D-C)/B	41%	41%

Methods and Assumptions in Determining Fair Value

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

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

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

<i>(In millions of Korean won)</i>	December 31, 2010			
	Level 1	Level 2	Level 3	Total
Assets				
Available-for-sale financial assets				
- Listed securities	13,508	-	-	13,508
Total	13,508	-	-	13,508
Liabilities				
Financial liabilities at fair value through profit or loss				
- Derivatives for trading	-	41,226	-	41,226
Total	-	41,226	-	41,226

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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 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'.

41. Business Combination

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

The goodwill amounting to ₩56,880 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 Company and acquired air-conditioning business.

The following table summarizes the consideration paid for LS Mtron Co., Ltd. and the amounts of the assets acquired and liabilities assumed 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	
Trade receivables	50,726
Other receivables	4
Inventories	9,223
Other assets	888
Non-current assets	
Financial deposits	4,232
Other receivables	786

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Investments in subsidiaries, jointly controlled entities and associates	23,095
Other assets	149
Property, plant and equipment	7,549
Intangible assets	34,122
Current liabilities	
Trade payables	(26,771)
Other payables	(2,233)
Provisions	(1,671)
Other liabilities	(5,364)
Non-current liabilities	
Defined benefit liabilities	(1,315)
Total identifiable net assets	<u>93,420</u>
Goodwill ¹	<u>56,880</u>
Total	<u>150,300</u>

¹ The Company is under the settlement process with LS Mtron Co., Ltd. for the purchase consideration that might result in changes of the amounts of consideration and goodwill.

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.

The gross contractual amount for trade receivables is ₩53,168 million, of which ₩2,442 million is expected to be uncollectible.

The revenue and net income contributed by air-conditioning business of LS Mtron Co., Ltd. after the day of acquisition were ₩81,350 million and ₩ (-)4,841 million, respectively. Had the business been consolidated from January 1, 2011, revenue of ₩28,146,768 million and net income of ₩ (-)277,226 million would have been included in the statement of operations for the year ended December 31, 2011.

42. Approval of Financial Statements

The separate financial statements for the year ended December 31, 2011, were approved by the Board of Directors on January 31, 2012.

**Report of Independent Accountants'
Review of Internal Accounting Control System**

To the President of
LG Electronics Inc.

We have reviewed the accompanying management's report on the operations of the Internal Accounting Control System ("IACS") of LG Electronics Inc. (the "Company") as of December 31, 2011. The Company's management is responsible for designing and operating IACS and for its assessment of the effectiveness of IACS. Our responsibility is to review the management's report on the operations of the IACS and issue a report based on our review. The management's report on the operations of the IACS of the Company states that "based on its assessment of the operations of the IACS as of December 31, 2011, the Company's IACS has been designed and is operating effectively as of December 31, 2011, in all material respects, in accordance with the IACS standards established by the Internal Accounting Control System Operations Committee (IACSOC) of the Korea Listed Companies Association."

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

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

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

Our review is based on the Company's IACS as of December 31, 2011, and we did not review management's assessment of its IACS subsequent to December 31, 2011. This report has been prepared pursuant to the Acts on External Audit for Stock Companies in Korea and may not be appropriate for other purposes or for other users.

Samil PricewaterhouseCoopers
March 7, 2012

Report on the Operations of the Internal Accounting Control System

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

I, as the Internal Accounting Control Officer ("IACO") of LG Electronics Inc. ("the Company"), assessed the status of the design and operations of the Company's internal accounting control system ("IACS") for the year ended December 31, 2011.

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

Based on the assessment on the operations of the IACS, the Company's IACS has been effectively designed and is operating as of December 31, 2011, in all material respects, in accordance with the IACS standards.

January 31, 2012

Do-hyun Jung
Internal Accounting Control Officer

Bon-Joon Koo
Chief Executive Officer and President