

LG Electronics Inc.
Interim Separate Financial Statements
September 30, 2012 and 2011

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Report on Review of Interim Financial Statements

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

Reviewed Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to issue a report on these interim separate financial statements based on our reviews.

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

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Conclusion

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

Other matters

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

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



Seoul, Korea
November 8, 2012

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

LG Electronics Inc.
Interim Separate Statements of Financial Position
September 30, 2012 and December 31, 2011

<i>(in millions of Korean won)</i>	Notes	September 30, 2012	December 31, 2011
Assets			
Current assets			
Cash and cash equivalents	4,29	1,508,229	1,364,211
Financial deposits	4,29	150,000	150,000
Trade receivables	4,5	5,222,970	5,077,362
Loans and other receivables	4	324,897	269,017
Inventories	7	1,012,154	885,730
Current income tax assets		2,330	3,276
Other current assets		397,328	400,508
Assets classified as held for sale		3,361	3,670
		<u>8,621,269</u>	<u>8,153,774</u>
Non-current assets			
Financial deposits	4	19,973	40,962
Loans and other receivables	4	395,331	414,462
Other financial assets	4,6	93,553	112,056
Property, plant and equipment	8	5,265,061	5,190,881
Intangible assets	8	906,322	915,977
Deferred income tax assets		673,902	658,424
Investments in subsidiaries, jointly controlled entities and associates	9	7,950,091	7,964,549
Investment property		5,248	5,360
Other non-current assets		717,255	742,785
		<u>16,026,736</u>	<u>16,045,456</u>
Total assets		<u>24,648,005</u>	<u>24,199,230</u>
Liabilities			
Current liabilities			
Trade payables	4	4,223,107	3,853,528
Borrowings	4,10,29	1,218,438	1,701,658
Other payables		2,767,820	2,697,795
Other financial liabilities	4,6	-	12,699
Provisions	11	188,734	169,196
Other current liabilities		374,657	436,315
		<u>8,772,756</u>	<u>8,871,191</u>
Non-current liabilities			
Borrowings	4,10,29	4,246,906	4,124,188
Other financial liabilities	4,6	4,449	-
Defined benefit liability	12	546,860	363,617
Provisions	11	354,048	345,373
		<u>5,152,263</u>	<u>4,833,178</u>
Total liabilities		<u>13,925,019</u>	<u>13,704,369</u>
Equity			
Paid-in capital			
Capital stock	13	904,169	904,169
Share premium		3,088,179	3,088,179
Retained earnings	14	6,760,729	6,534,129
Accumulated other comprehensive income		2,728	1,203
Other components of equity	15	(32,819)	(32,819)
Total equity		<u>10,722,986</u>	<u>10,494,861</u>
Total liabilities and equity		<u>24,648,005</u>	<u>24,199,230</u>

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

LG Electronics Inc.
Interim Separate Statements of Income
Three-Month and Nine-Month Periods Ended September 30, 2012 and 2011

<i>(in millions of Korean won, except per share amounts)</i>	Notes	2012		2011	
		Three Months	Nine Months	Three Months	Nine Months
Net sales	16	6,486,976	19,323,600	6,923,984	21,430,338
Cost of sales	17	5,053,473	15,009,012	5,559,219	17,540,914
Gross profit		1,433,503	4,314,588	1,364,765	3,889,424
Selling and marketing expenses	17,18	747,546	2,018,987	639,660	2,042,952
Administrative expenses	17,18	116,168	352,309	115,829	348,656
Research and development expenses	17,18	482,890	1,338,383	423,541	1,265,311
Service costs	17,18	127,546	363,514	150,737	382,578
Other operating income	19	146,034	446,959	482,167	883,477
Other operating expenses	17,20	104,389	457,231	487,884	839,436
Operating income (expense)		998	231,123	29,281	(106,032)
Financial income	9,21	54,862	602,937	32,771	324,128
Financial expenses	22	132,125	383,669	236,672	449,460
Profit(loss) before income tax		(76,265)	450,391	(174,620)	(231,364)
Income tax expense (benefit)		(11,204)	86,469	(52,282)	(87,769)
Profit(loss) for the period		(65,061)	363,922	(122,338)	(143,595)
Earnings(loss) per share attributable to the equity holders of the Company during the period (in won)	23				
Earnings(loss) per share for profit attributable to the ordinary equity holders of the Company		(363)	2,017	(743)	(875)
Earnings(loss) per share for profit attributable to the preferred equity holders of the Company		(350)	2,055	(731)	(838)

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

LG Electronics Inc.
Interim Separate Statements of Comprehensive Income
Three-Month and Nine-Month Periods Ended September 30, 2012 and 2011

<i>(in millions of Korean won)</i>	Notes	2012		2011	
		Three Months	Nine Months	Three Months	Nine Months
Profit(loss) for the period		<u>(65,061)</u>	<u>363,922</u>	<u>(122,338)</u>	<u>(143,595)</u>
Other comprehensive loss, net of tax					
Items that will not be reclassified to profit or loss					
Actuarial gain (loss) on defined benefit liability	12	(54,360)	(100,450)	2,960	1,494
Items that may be reclassified subsequently to profit or loss					
Available-for-sale financial assets		(78)	(995)	(2,929)	(4,551)
Cash flow hedges	10	1,371	2,520	(7,053)	(11,366)
Other comprehensive loss for the period, net of tax		<u>(53,067)</u>	<u>(98,925)</u>	<u>(7,022)</u>	<u>(14,423)</u>
Total comprehensive income(loss) for the period, net of tax		<u>(118,128)</u>	<u>264,997</u>	<u>(129,360)</u>	<u>(158,018)</u>

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

LG Electronics Inc.
Interim Separate Statements of Changes in Equity
Nine-Month Periods Ended September 30, 2012 and 2011

<i>(in millions of Korean won)</i>	Notes	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income(loss)	Other Components of equity	Total
Balance at January 1, 2011		3,017,088	6,932,015	9,844	(32,819)	9,926,128
Comprehensive income						
Loss for the period		-	(143,595)	-	-	(143,595)
Available-for-sale financial assets		-	-	(4,551)	-	(4,551)
Cash flow hedges	10	-	-	(11,366)	-	(11,366)
Actuarial gain on defined benefit liability	12	-	1,494	-	-	1,494
Transactions with equity holders						
Dividends	24	-	(33,072)	-	-	(33,072)
Balance at September 30, 2011		<u>3,017,088</u>	<u>6,756,842</u>	<u>(6,073)</u>	<u>(32,819)</u>	<u>9,735,038</u>
Balance at January 1, 2012		3,992,348	6,534,129	1,203	(32,819)	10,494,861
Comprehensive income						
Profit for the period		-	363,922	-	-	363,922
Available-for-sale financial assets		-	-	(995)	-	(995)
Cash flow hedges	10	-	-	2,520	-	2,520
Actuarial loss on defined benefit liability	12	-	(100,450)	-	-	(100,450)
Transactions with equity holders						
Dividends	24	-	(36,872)	-	-	(36,872)
Balance at September 30, 2012		<u>3,992,348</u>	<u>6,760,729</u>	<u>2,728</u>	<u>(32,819)</u>	<u>10,722,986</u>

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

LG Electronics Inc.
Interim Separate Statements of Cash Flows
Nine-Month Periods Ended September 30, 2012 and 2011

<i>(in millions of Korean won)</i>		Nine-Month Period Ended September 30	
	Notes	2012	2011
Cash flows from operating activities			
Cash generated from operations	25	940,400	387,004
Interest received		22,668	22,685
Interest paid		(170,739)	(145,994)
Dividends received		251,353	103,507
Income tax paid		(69,571)	(52,668)
Net cash generated from operating activities		<u>974,111</u>	<u>314,534</u>
Cash flows from investing activities			
Decrease in financial deposits		20,989	40,000
Decrease in loans and other receivables		60,359	63,345
Proceeds from disposal of other financial assets		3,595	8,412
Proceeds from disposal of property, plant and equipment	8	35,765	42,673
Proceeds from disposal of intangible assets	8	1,555	1,523
Proceeds from disposal of investments in subsidiaries, jointly controlled entities and associates	9	214,757	9,687
Decrease in other assets		307	534
Increase in financial deposits		-	(10,603)
Increase in loans and other receivables		(35,505)	(98,212)
Acquisition of other financial assets		(16,304)	(41,583)
Acquisition of property, plant and equipment	8	(470,939)	(744,011)
Acquisition of intangible assets	8	(197,633)	(201,403)
Acquisition of investments in subsidiaries, jointly controlled entities and associates	9	(67,290)	(33,912)
Business combination		-	(150,300)
Net cash used in investing activities		<u>(450,344)</u>	<u>(1,113,850)</u>
Cash flows from financing activities			
Proceeds from borrowings		1,030,285	2,216,066
Repayments of borrowings		(1,373,162)	(796,289)
Dividends paid	24	(36,872)	(33,072)
Net cash provided by (used in) financing activities		<u>(379,749)</u>	<u>1,386,705</u>
Net increase in cash and cash equivalents		144,018	587,389
Cash and cash equivalents at the beginning of period		1,364,211	868,834
Cash and cash equivalents at the end of period		<u>1,508,229</u>	<u>1,456,223</u>

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

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

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 the form of global depository receipts ("DRs"), are listed on the London Stock Exchange as of the reporting date. The Company is domiciled in Korea at Yeouido-dong, Yeungdeungpo-gu, Seoul.

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

The Company is primarily engaged in the manufacture and sale of electronic products including mobile phones, TV, air conditioners, refrigerators, washing machines, and personal computers. As of September 30, 2012, the Company operates manufacturing facilities mainly in Pyeongtaek, Changwon, Cheongju and Gumi in the Republic of Korea.

2. Significant Accounting Policies

Basis of Preparation

The attached statements are the separate financial statements subject to Korean IFRS 1027, '*Consolidated and Separate Financial Statements*'. The interim separate financial statements for the nine-month period ended September 30, 2012, have been prepared in accordance with Korean IFRS 1034, '*Interim Financial Reporting*'. These interim separate financial statements have been prepared in accordance with the Korean IFRS standards and interpretations issued and effective at September 30, 2012.

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

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

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

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

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

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

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

- Korean IFRS 1113 (Enactment): '*Fair Value Measurement*'

Korean IFRS 1113, '*Fair value measurement,*' aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across Korean IFRSs. Korean IFRS 1113 does not extend the use of fair value accounting but provides guidance on how it should be applied where its use is already required or permitted by other standards within Korean IFRSs. The Company is in the process of understanding the potential impact from the application of Korean IFRS 1113.

Application of Accounting Policies

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

Meanwhile, 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*'.

3. Critical Accounting Estimates and Assumptions

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

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Estimated Impairment of Goodwill

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

Income Taxes

The Company recognizes assets and liabilities for anticipated tax issues based on the best estimates of whether additional taxes will be due. Income tax expense is recognized in each interim period based on the best estimate of the weighted average annual income tax rate expected for the full financial year. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Fair Value of Financial Instruments

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

Provisions

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

Defined Benefit Liability

The present value of the defined benefit liability depends on various factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of the defined benefit liability. The Company determines the appropriate discount rate at the end of the reporting period. This is the interest rate that is used to determine the present value of estimated future cash outflows expected to be required to settle the defined benefit liability. In determining the appropriate discount rate, the 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.

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4. Financial Instruments by Category

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

<i>(in millions of Korean won)</i>	Assets at fair value through profit or loss	Derivatives for hedge	Loans and receivables	Available-for-sale financial assets	Held-to-maturity financial assets	Total
Cash and cash equivalents	-	-	1,508,229	-	-	1,508,229
Financial deposits	-	-	169,973	-	-	169,973
Trade receivables	-	-	5,222,970	-	-	5,222,970
Loans and other receivables	-	-	720,228	-	-	720,228
Other financial assets	-	4,758	-	32,865	55,930	93,553
	-	4,758	7,621,400	32,865	55,930	7,714,953

<i>(in millions of Korean won)</i>	Liabilities at fair value through profit or loss	Derivatives for hedge	Liabilities carried at amortized cost	Total
Trade payables	-	-	4,223,107	4,223,107
Borrowings	-	-	5,465,344	5,465,344
Other payables	-	-	876,431	876,431
Other financial liabilities	-	4,449	-	4,449
	-	4,449	10,564,882	10,569,331

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

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

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

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5. Trade Receivables

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

<i>(in millions of Korean won)</i>	<u>September 30, 2012</u>	<u>December 31, 2011</u>
Trade receivables	5,257,952	5,091,527
Less: allowance for doubtful accounts	(34,982)	(14,165)
	<u>5,222,970</u>	<u>5,077,362</u>

The aging of trade receivables is as follows:

<i>(in millions of Korean won)</i>	<u>September 30, 2012</u>	<u>December 31, 2011</u>
Current	5,166,143	4,954,501
Up to 6 months	72,822	115,786
7 to 12 months	842	3,282
Over one year	1,481	1,881
Defaulted	16,664	16,077
	<u>5,257,952</u>	<u>5,091,527</u>

6. Other Financial Assets and Liabilities

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

<i>(in millions of Korean won)</i>	<u>September 30, 2012</u>	<u>December 31, 2011</u>
Other financial assets		
Derivatives	4,758	11,845
Available-for-sale	32,865	42,546
Held-to-maturity	55,930	57,665
	<u>93,553</u>	<u>112,056</u>
Current	-	-
Non-current	<u>93,553</u>	<u>112,056</u>

<i>(in millions of Korean won)</i>	<u>September 30, 2012</u>	<u>December 31, 2011</u>
Other financial liabilities		
Derivatives	4,449	12,699
	<u>4,449</u>	<u>12,699</u>
Current	-	12,699
Non-current	<u>4,449</u>	-

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

<i>(in millions of Korean won)</i>	September 30, 2012			December 31, 2011	
	Acquisition cost	Appreciation	Impairment losses	Carrying amounts	Carrying amounts
Listed equity securities	904	6,769	-	7,673	8,969
Unlisted equity securities	31,798	-	(6,606)	25,192	31,830
Debt securities	1,495	-	(1,495)	-	1,747
	<u>34,197</u>	<u>6,769</u>	<u>(8,101)</u>	<u>32,865</u>	<u>42,546</u>

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

7. Inventories

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

<i>(in millions of Korean won)</i>	September 30, 2012			December 31, 2011		
	Amounts before valuation	Valuation allowance	Carrying amounts	Amounts before valuation	Valuation allowance	Carrying amounts
Finished products and Merchandise	395,352	(22,426)	372,926	358,285	(27,554)	330,731
Half-finished products and work-in-process	151,224	(2,155)	149,069	108,826	(5,553)	103,273
Raw materials and supplies	399,567	(23,015)	376,552	417,768	(62,842)	354,926
Other	133,968	(20,361)	113,607	119,453	(22,653)	96,800
	<u>1,080,111</u>	<u>(67,957)</u>	<u>1,012,154</u>	<u>1,004,332</u>	<u>(118,602)</u>	<u>885,730</u>

The loss on valuation of inventories recognized for the nine-month periods ended September 30, 2012, amounts to ₩14,936 million (2011: ₩76,999 million).

8. Property, Plant and Equipment, and Intangible assets

Changes in property, plant and equipment are as follows:

<i>(in millions of Korean won)</i>	2012	2011
At January 1	5,190,881	4,661,430
Acquisitions	470,939	744,011
Acquisitions by business combination	-	7,549
Transfer-in	1,589	-
Disposals and other	(36,084)	(49,059)
Depreciation	(361,950)	(342,985)
Impairment	(314)	(1,520)
At September 30	<u>5,265,061</u>	<u>5,019,426</u>

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Changes in intangible assets are as follows:

<i>(in millions of Korean won)</i>	<u>2012</u>	<u>2011</u>
At January 1	915,977	725,818
Acquisitions	34,497	32,189
Acquisitions by internal development	163,136	169,214
Acquisitions by business combination	-	91,002
Transfer-in	72,027	89,074
Disposals and other	(20,139)	(17,036)
Amortization	(259,176)	(218,227)
At September 30	<u>906,322</u>	<u>872,034</u>

9. Investments in subsidiaries, jointly controlled entities and associates

Investments in subsidiaries, jointly controlled entities and associates as of September 30, 2012 and December 31, 2011, are as follows:

<i>(in millions of Korean won)</i>	<u>September 30, 2012</u>	<u>December 31, 2011</u>
Subsidiaries	3,546,032	3,504,840
Jointly controlled entities and associates	4,404,059	4,459,709
	<u>7,950,091</u>	<u>7,964,549</u>

The status and carrying amounts of investments in subsidiaries as of September 30, 2012 and December 31, 2011, are as follows:

<i>(in millions of Korean won)</i>	Countries of incorporation	Percentage of ownership (%) at September 30, 2012	September 30, 2012	December 31, 2011
LG Electronics U.S.A., Inc.(LGEUS)	USA	100.0	955,542	955,542
LG Electronics India Pvt. Ltd.(LGEIL)	India	100.0	311,746	311,746
LG Electronics do Brasil Ltda.(LGEBR)(former:LGESP)	Brazil	100.0	270,631	270,631
LG Electronics Mlawa Sp. z o.o (LGEMA)	Poland	100.0	214,091	214,091
LG Electronics Tianjin Appliances Co., Ltd. (LGETA)	China	70.0	161,331	161,331
LG Electronics European Holdings B.V. (LGEEH)	Netherlands	100.0	148,551	148,551
Hiplaza CO., LTD.	Korea	100.0	136,459	104,459
Taizhou LG Electronics Refrigeration Co., Ltd.(LGETR)	China	88.4	97,608	97,608
PT LG Electronics Indonesia (LGEIN)	Indonesia	100.0	94,124	94,124
LG Electronics Wroclaw Sp z o.o (LGEWR)	Poland	100.0	70,014	70,014
LG Electronics Mexico S.A. DE C.V. (LGEMS)	Mexico	100.0	68,721	68,721
LG Electronics Panama, S.A.(LGEPS)	Panama	100.0	79,222	79,222
LG Electronics Thailand Co., Ltd.(LGETH)	Thailand	100.0	55,578	55,578
LG Electronics Australia Pty, Ltd.(LGEAP)	Australia	100.0	50,664	50,664

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LG Electronics Taiwan Taipei Co., Ltd. (LGETT)	Taiwan	100.0	10,865	10,853
Hi Entech Co., Ltd.	Korea	100.0	61,118	61,118
LG-Hitachi Water Solutions Co., Ltd.	Korea	51.0	9,180	-
Other			<u>750,587</u>	<u>750,587</u>
			<u>3,546,032</u>	<u>3,504,840</u>

Investments in jointly controlled entities and associates as of September 30, 2012 and December 31, 2011, are as follows:

<i>(in millions of Korean won)</i>	<u>Countries of incorporation</u>	<u>Percentage of ownership (%) at September 30, 2012</u>	<u>September 30, 2012</u>	<u>December 31, 2011</u>
LG Display Co., Ltd.	Korea	37.9%	3,480,623	3,480,623
LG Innotek Co., Ltd.	Korea	47.9%	541,538	541,538
Ericsson-LG Co., Ltd. ¹	Korea	25.0%	81,755	163,503
LG Holdings (HK) Ltd.	Hong Kong	49.0%	129,386	129,386
Global OLED Technology LLC	USA	32.7%	53,454	53,454
LG Fuel Cell Systems Inc.	USA	25.5%	26,098	-
Other			<u>91,205</u>	<u>91,205</u>
			<u>4,404,059</u>	<u>4,459,709</u>

¹ The Company disposed of its 25% of Ericsson-LG Co., Ltd. shares during the reporting period of the year, and 'financial income' in the statements of income includes gain on disposal amounting to ₩133,009 million.

10. Borrowings

The carrying amounts of borrowings are as follows:

<i>(in millions of Korean won)</i>	<u>September 30, 2012</u>	<u>December 31, 2011</u>
Current		
Short-term borrowings	415,235	325,033
Current maturities of long-term borrowings	313,750	420,660
Current maturities of debentures	<u>489,453</u>	<u>955,965</u>
	<u>1,218,438</u>	<u>1,701,658</u>
Non-current		
Long-term borrowings	2,176,250	2,110,000
Debentures	<u>2,070,656</u>	<u>2,014,188</u>
	<u>4,246,906</u>	<u>4,124,188</u>
	<u>5,465,344</u>	<u>5,825,846</u>

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Short-term borrowings consist of:

<i>(in millions of Korean won)</i>	Latest maturity date	Annual interest rate (%) at September 30, 2012	Carrying amounts	
			September 30, 2012	December 31, 2011
General loans				
LG Electronics European Shared Service Center B.V.	2012-12-27	3ML+1.00	144,112	148,516
Borrowings on negotiated trade bills				
Woori Bank and other ¹	-	0.75 ~ 4.09	271,123	176,517
			<u>415,235</u>	<u>325,033</u>

¹ At the end of the reporting period, borrowings are secured by certain trade receivables of the Company.

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

<i>(in millions of Korean won)</i>	Latest maturity date	Annual interest rate (%) at September 30, 2012	September 30, 2012		
			Total	Current	Non-current
Local currency loans					
Kookmin Bank	2013-05-14	4.67	190,000	190,000	-
Kookmin Bank	2014-11-12	4.62	150,000	-	150,000
Kookmin Bank	2016-05-24	4.73	190,000	-	190,000
Nonghyup	2014-03-10	4.70	190,000	-	190,000
Shinhan Bank	2016-10-19	4.37	190,000	23,750	166,250
Shinhan Bank	2017-02-16	Financial bond 6M+0.94	190,000	-	190,000
Woori Bank	2017-10-28	4.62	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
Korea Finance Corporation	2017-03-29	4.62	190,000	-	190,000
			<u>2,490,000</u>	<u>313,750</u>	<u>2,176,250</u>

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

(in millions of Korean won)	Latest maturity date	Annual interest rate (%) at December 31, 2011	December 31, 2011		
			Total	Current	Non-current
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	-
			<u>2,530,660</u>	<u>420,660</u>	<u>2,110,000</u>

Debentures as of September 30, 2012, consist of:

(in millions of Korean won)		Latest maturity date	Annual interest rate (%) at September 30, 2012	September 30, 2012		
				Total	Current	Non-current
Fixed rate notes in local currency	Public, non-guaranteed bonds (54 th)	2013-04-22	4.20	190,000	190,000	-
Fixed rate notes in local currency	Public, non-guaranteed bonds (55 th)	2013-06-16	4.60	190,000	190,000	-
Fixed rate notes in local currency	Public, non-guaranteed bonds (56 th)	2015-09-09	4.63	190,000	-	190,000
Fixed rate notes in local currency	Public, non-guaranteed bonds (57 th)	2015-10-22	4.30	190,000	-	190,000
Fixed rate notes in local currency	Public, non-guaranteed bonds (58-1 st)	2014-02-16	4.44	130,000	-	130,000
Fixed rate notes in local currency	Public, non-guaranteed bonds (58-2 nd)	2016-02-16	4.91	60,000	-	60,000
Floating rate notes in foreign currency	Public, non-guaranteed bonds (59 th) ¹	2014-04-28	3ML+1.00	190,162	-	190,162
Fixed rate notes in local currency	Public, non-guaranteed bonds (60 th)	2016-05-20	4.41	190,000	-	190,000
Fixed rate notes in local currency	Public, non-guaranteed bonds (61 st)	2016-06-29	4.38	190,000	-	190,000
Fixed rate notes in local currency	Public, non-guaranteed bonds (62-1 st)	2013-08-05	3.89	110,000	110,000	-
Fixed rate notes in local currency	Public, non-guaranteed bonds (62-2 nd)	2016-08-05	4.34	80,000	-	80,000
Floating rate notes in foreign currency	Private, non-guaranteed bonds (63 rd) ¹	2014-08-23	3ML+0.70	111,860	-	111,860

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Fixed rate notes in local currency	Public, non-guaranteed bonds (64 th)	2016-09-30	4.32	190,000	-	190,000
Fixed rate notes in foreign currency	Public, non-guaranteed bonds (65 th) ²	2016-12-02	2.00	256,506	-	256,506
Fixed rate notes in local currency	Public, non-guaranteed bonds (66-1 st)	2015-09-10	3.18	170,000	-	170,000
Fixed rate notes in local currency	Public, non-guaranteed bonds (66-2 nd)	2017-09-10	3.28	130,000	-	130,000
Less: discount on debentures				(8,419)	(547)	(7,872)
				<u>2,560,109</u>	<u>489,453</u>	<u>2,070,656</u>

Debentures as of December 31, 2011, consist of:

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

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

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

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

<i>(in millions of Korean won)</i>	September 30, 2012		December 31, 2011	
	Carrying amounts	Fair value	Carrying amounts	Fair value
Long-term borrowings	2,176,250	2,277,178	2,110,000	2,169,131
Debentures	2,070,656	2,116,813	2,014,188	2,059,063
	<u>4,246,906</u>	<u>4,393,991</u>	<u>4,124,188</u>	<u>4,228,194</u>

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

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

<i>(in millions of Korean won)</i>	Total	Less than			Over
		1 year	2 years	5 years	5 years
Short-term borrowings	415,725	415,725	-	-	-
Current maturities of long-term borrowings	322,739	322,739	-	-	-
Current maturities of debentures	506,819	506,819	-	-	-
Long-term borrowings	2,479,648	100,499	608,480	1,578,474	192,195
Debentures	2,354,104	81,867	503,080	1,769,157	-
	<u>6,079,035</u>	<u>1,427,649</u>	<u>1,111,560</u>	<u>3,347,631</u>	<u>192,195</u>

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

11. Provisions

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

<i>(in millions of Korean won)</i>	2012				
	Warranty	Sales returns	Restoration	Contingent	Total
At January 1	177,586	493	4,568	331,922	514,569
Addition	250,805	4,467	1,589	54,744	311,605
Utilisation	(231,648)	(3,612)	(566)	(47,566)	(283,392)
At September 30	<u>196,743</u>	<u>1,348</u>	<u>5,591</u>	<u>339,100</u>	<u>542,782</u>
Current	187,386	1,348	-	-	188,734
Non-current	<u>9,357</u>	<u>-</u>	<u>5,591</u>	<u>339,100</u>	<u>354,048</u>

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<i>(in millions of Korean won)</i>	2011				
	Warranty	Sales returns	Restoration	Contingent	Total
At January 1,	171,470	654	3,971	317,054	493,149
Addition	262,384	3,188	580	24,875	291,027
Business combination	1,671	-	-	-	1,671
Utilisation	(248,905)	(2,610)	(70)	(7,031)	(258,616)
At September 30	186,620	1,232	4,481	334,898	527,231
Current	175,227	1,232	-	-	176,459
Non-current	11,393	-	4,481	334,898	350,772

12. Defined Benefit Liability

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

<i>(in millions of Korean won)</i>	September 30, 2012	December 31, 2011
Present value of funded obligations	1,331,976	1,073,728
Fair value of plan assets	(785,116)	(710,111)
Liability	546,860	363,617

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

<i>(in millions of Korean won)</i>	2012		2011	
	Three months	Nine months	Three months	Nine months
Current service cost	49,034	147,102	39,544	118,301
Interest cost	11,996	35,989	10,568	31,634
Expected return on plan assets	(7,220)	(21,661)	(5,968)	(17,868)
	53,810	161,430	44,144	132,067

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

<i>(in millions of Korean won)</i>	2012		2011	
	Three months	Nine months	Three months	Nine months
Cost of sales	28,046	84,298	23,053	68,592
Selling and marketing expenses	7,829	23,683	6,533	19,636
Administrative expenses	2,747	7,951	2,195	6,934
Research and development expenses	14,400	43,109	11,641	34,981
Service costs	788	2,389	722	1,924
	53,810	161,430	44,144	132,067

Cumulative actuarial losses after applying the tax effect recognized as other comprehensive loss at the end of reporting period are ₩230,466 million (2011: ₩130,016 million).

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

<i>(in millions of Korean won)</i>	<u>2012</u>	<u>2011</u>
At January 1	1,073,728	805,656
Current service cost	147,102	118,301
Interest expense	35,989	31,634
Benefits paid	(58,881)	(45,787)
Actuarial loss	134,038	-
Business combination	-	3,438
At September 30	<u>1,331,976</u>	<u>913,242</u>

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

<i>(in millions of Korean won)</i>	<u>2012</u>	<u>2011</u>
At January 1	710,111	536,413
Expected return on plan assets	21,661	17,868
Employer contribution	90,000	90,000
Benefits paid	(38,327)	(20,621)
Actuarial gain	1,671	1,917
Business combination	-	2,123
At September 30	<u>785,116</u>	<u>627,700</u>

The actual return on plan assets for the nine-month period ended September 30, 2012, is ₩23,332 million (2011: ₩19,785 million).

The principal actuarial assumptions used are as follows:

<i>(%)</i>	<u>September 30, 2012</u>	<u>December 31, 2011</u>
Discount rate	3.5	4.6
Expected rate of return	3.9	3.9
Future salary increase	6.0	6.0

Plan assets consist of:

<i>(in millions of Korean won)</i>	<u>September 30, 2012</u>	<u>December 31, 2011</u>
Securities combined with derivatives (guaranteed)	510,793	460,724
Time deposits	274,323	249,387
	<u>785,116</u>	<u>710,111</u>

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13. Capital Stock

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

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

¹ The Company issued new shares as approved by the Board of Directors on November 3, 2011.

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

14. Retained Earnings

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

<i>(in millions of Korean won)</i>	September 30, 2012	December 31, 2011
Legal reserve ¹	145,816	142,129
Discretionary reserve ²	6,351,342	6,756,715
Unappropriated retained earnings (unappropriated deficit)	263,571	(364,715)
	<u>6,760,729</u>	<u>6,534,129</u>

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

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

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15. Other Components of Equity

Details of other components of equity consist of:

<i>(in millions of Korean won)</i>	<u>September 30, 2012</u>	<u>December 31, 2011</u>
Treasury shares ¹	(44,893)	(44,893)
Consideration for conversion rights	9,891	9,891
Gain on disposal of treasury shares	2,183	2,183
	<u>(32,819)</u>	<u>(32,819)</u>

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

16. Net Sales

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

<i>(in millions of Korean won)</i>	<u>2012</u>		<u>2011</u>	
	<u>Three months</u>	<u>Nine months</u>	<u>Three months</u>	<u>Nine months</u>
Sales of goods	6,245,269	18,654,633	6,710,718	20,803,008
Sales of services	143,220	405,197	144,003	379,084
Royalty income	98,487	263,770	69,263	248,246
	<u>6,486,976</u>	<u>19,323,600</u>	<u>6,923,984</u>	<u>21,430,338</u>

17. Expenses by Nature

Expenses that are recorded by nature as cost of sales, general operating expenses and other operating expenses in the statements of income for the three-month and nine-month periods ended September 30, 2012 and 2011, consist of¹:

<i>(in millions of Korean won)</i>	<u>2012</u>		<u>2011</u>	
	<u>Three months</u>	<u>Nine months</u>	<u>Three months</u>	<u>Nine months</u>
Changes in inventories	29,947	(126,424)	7,236	(78,705)
Purchase of raw materials and merchandise	4,218,485	12,793,064	4,852,973	15,460,070
Employee benefit expenses	765,779	2,248,676	605,751	1,948,003
Depreciation, amortization and impairment loss	209,135	621,440	188,024	562,732
Advertising expenses	236,552	479,700	155,975	517,161
Sales promotional expenses	55,832	160,105	51,842	158,239
Transportation expenses	163,932	477,428	164,615	544,161
Commission expenses	361,431	1,001,089	342,816	989,373
Other expenses	590,919	1,884,358	1,007,638	2,318,813
	<u>6,632,012</u>	<u>19,539,436</u>	<u>7,376,870</u>	<u>22,419,847</u>

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

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

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

<i>(in millions of Korean won)</i>	2012		2011	
	Three months	Nine months	Three months	Nine months
Wages and salaries	283,324	850,769	219,150	745,224
Severance benefits	26,232	78,447	21,316	64,924
Welfare expenses	47,931	132,155	46,686	126,854
Freight expenses	163,241	464,197	163,092	539,499
Rental expenses	35,307	105,743	36,271	104,065
Commission expenses	255,076	683,320	229,158	649,590
Depreciation	27,367	82,778	26,274	79,534
Amortization	68,163	205,257	58,630	179,948
Taxes and dues	7,900	14,889	5,081	11,228
Advertising expenses	236,552	479,700	155,975	517,161
Sales promotional expenses	55,832	160,105	51,842	158,239
Direct R&D costs	122,197	300,632	129,919	355,738
Direct service costs	83,444	245,364	111,862	275,057
Bad debt expenses	(24,769)	20,810	(147)	2,167
Other	86,353	249,027	74,658	230,269
	<u>1,474,150</u>	<u>4,073,193</u>	<u>1,329,767</u>	<u>4,039,497</u>

19. Other Operating Income

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

<i>(in millions of Korean won)</i>	2012		2011	
	Three months	Nine months	Three months	Nine months
Rental income	6,645	20,168	6,698	19,532
Foreign exchange gain	131,700	403,219	462,472	809,875
Gain on disposal of property, plant and equipment	1,949	3,236	1,157	3,178
Gain on disposal of intangible assets	28	724	-	-
Other	5,712	19,612	11,840	50,892
	<u>146,034</u>	<u>446,959</u>	<u>482,167</u>	<u>883,477</u>

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20. Other Operating Expenses

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

<i>(in millions of Korean won)</i>	2012		2011	
	Three months	Nine months	Three months	Nine months
Foreign exchange loss	91,784	381,444	469,502	801,450
Loss on disposal of property, plant and equipment	1,117	3,555	8,255	9,564
Loss on disposal of intangible assets	6,520	19,308	5,416	15,513
Other	4,968	52,924	4,711	12,909
	<u>104,389</u>	<u>457,231</u>	<u>487,884</u>	<u>839,436</u>

21. Financial Income

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

<i>(in millions of Korean won)</i>	2012		2011	
	Three months	Nine months	Three months	Nine months
Interest income	10,438	31,732	10,025	29,750
Dividend income	5,681	280,359	7,686	106,536
Foreign exchange gain	38,135	141,202	14,069	165,819
Gain on settlement of derivatives	-	15,943	5	20,878
Gain on disposal of investments in subsidiaries, jointly controlled entities and associates	-	133,009	357	357
Other	608	692	629	788
	<u>54,862</u>	<u>602,937</u>	<u>32,771</u>	<u>324,128</u>

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22. Financial Expenses

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

<i>(in millions of Korean won)</i>	2012		2011	
	Three months	Nine months	Three months	Nine months
Interest expense	56,524	172,362	58,183	155,791
Foreign exchange loss	71,295	174,914	173,690	262,944
Loss on settlement of derivatives	-	16,304	2,653	23,443
Impairment on available-for-sale financial assets	-	8,101	-	-
Other	4,306	11,988	2,146	7,282
	<u>132,125</u>	<u>383,669</u>	<u>236,672</u>	<u>449,460</u>

23. Earnings(loss) 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. In the prior period, the diluted earnings per ordinary share is not computed due to anti-dilution. For the current period, the Company had no potential dilutive ordinary shares. Accordingly, basic earnings (loss) per share is identical to diluted earnings (loss) per share.

<i>(in millions of Korean won)</i>	2012		2011	
	Three months	Nine months	Three months	Nine months
Profit (loss) attributable to ordinary shares ¹	(59,047)	328,615	(109,777)	(129,203)
Weighted average number of ordinary shares outstanding(unit: shares) ²	162,884,648	162,884,649	147,642,832	147,642,833
Basic earnings (loss) per share (in won)	(363)	2,017	(743)	(875)

<i>(in millions of Korean won)</i>	2012		2011	
	Three months	Nine months	Three months	Nine months
Profit (loss) attributable to preferred shares ¹	(6,014)	35,307	(12,561)	(14,392)
Weighted average number of preferred shares outstanding(unit: shares) ²	17,181,303	17,181,304	17,181,305	17,181,305
Basic earnings (loss) per preferred share (in won)	(350)	2,055	(731)	(838)

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¹ Profit (loss) attributable to ordinary and preferred shares is as follows:

<i>(in millions of Korean won)</i>	2012		2011	
	Three months	Nine months	Three months	Nine months
Profit (loss) for the period (A)	(65,061)	363,922	(122,338)	(143,595)
Ordinary shares dividends(B)	8,145	24,433	7,382	22,146
Preferred shares dividends(C)	1,073	3,221	1,073	3,221
Undistributed earnings (loss) (D=A-B-C)	(74,279)	336,268	(130,793)	(168,962)
Undistributed earnings (loss) available for ordinary shares(E)	(67,192)	304,182	(117,159)	(151,349)
Undistributed earnings (loss) available for preferred shares(F)	(7,087)	32,086	(13,634)	(17,613)
Profit (loss) attributable to ordinary shares (G=B+E)	(59,047)	328,615	(109,777)	(129,203)
Profit (loss) attributable to preferred shares (H=C+F)	(6,014)	35,307	(12,561)	(14,392)

² Weighted average numbers of shares are calculated as follows:

	2012		2011	
	Three months	Nine months	Three months	Nine months
Ordinary shares outstanding	163,647,814	163,647,814	144,647,814	144,647,814
Ordinary treasury shares	(763,166)	(763,166)	(763,164)	(763,164)
Ordinary shares	162,884,648	162,884,648	143,884,650	143,884,650
Weighted average number of ordinary shares outstanding³	162,884,648	162,884,649	147,642,832	147,642,833
Preferred shares outstanding	17,185,992	17,185,992	17,185,992	17,185,992
Preferred treasury shares	(4,689)	(4,689)	(4,687)	(4,687)
Preferred shares	17,181,303	17,181,303	17,181,305	17,181,305
Weighted average number of preferred shares outstanding	17,181,303	17,181,304	17,181,305	17,181,305

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

24. Dividends

The dividends in respect of the year ended December 31, 2011, amounting to ₩36,872 million, were paid in April 2012 (2011: ₩33,072 million).

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25. Cash Generated from Operations

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

<i>(in millions of Korean won)</i>	<u>2012</u>	<u>2011</u>
Profit (loss) for the period	363,922	(143,595)
Adjustments :		
Interest expense, net	140,630	126,041
Foreign exchange loss (gain), net	(27,357)	110,047
Loss on derivatives, net	360	2,565
Depreciation	361,950	342,985
Amortization	259,176	218,227
Loss on disposal of property, plant and equipment and intangible assets, net	18,903	21,899
Provisions, net	311,605	291,027
Impairment on available-for-sale financial assets	8,101	-
Dividends income	(280,359)	(106,536)
Income tax expense (benefit)	86,469	(87,769)
Gain on disposal of investments in subsidiaries, jointly controlled entities and associates	(133,009)	(357)
Provisions for severance benefits	161,430	132,067
Other	45,889	81,424
	<u>953,788</u>	<u>1,131,620</u>
Changes in operating assets and liabilities		
Increase in trade receivables	(192,381)	(157,388)
Increase in other receivables	(34,114)	(34,976)
Increase in inventories	(142,176)	(141,105)
Increase in other assets	(43,970)	(147,260)
Increase in trade payables	394,635	11,956
Increase in other payables	96,299	219,471
Decrease in provisions	(283,392)	(258,616)
Increase(decrease) in other liabilities	(61,657)	22,063
Payment of defined benefit liability	(20,554)	(25,166)
Payment of plan assets, net	(90,000)	(90,000)
	<u>(377,310)</u>	<u>(601,021)</u>
Cash generated from operations	<u>940,400</u>	<u>387,004</u>

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

<i>(in millions of Korean won)</i>	<u>2012</u>	<u>2011</u>
Reclassification of construction-in-progress of property, plant and equipment	170,806	365,818
Reclassification of intangible assets in progress	158,243	117,170
Reclassification of long-term prepayment to intangible assets	71,852	89,074
Reclassification of current maturities of borrowings	803,059	1,394,297

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26. Contingencies

(a) At the end of the reporting period, the Company is provided with a performance guarantee of ₩158,883 million (2011: ₩114,376 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 guarantees amounting to ₩2,619,443 million (2011: ₩2,549,537 million) on the indebtedness of its subsidiaries. Details are as follows:

<i>(in millions of Korean won)</i>	<u>September 30, 2012</u>	<u>December 31, 2011</u>
LG Electronics European Shared Service Center		
B.V.(LGESC)	540,046	529,221
LG Electronics U.S.A., Inc. (LGEUS)	329,987	340,224
LG Electronics Ticaret A.S.(LGETK)	268,748	229,688
LG Electronics (China) Co. Ltd. (LGECH)	202,545	171,986
LG Electronics do Brasil		
Ltda.(LGEBR)(former:LGESP)	139,825	34,599
LG-Shaker Co. Ltd.(LGESR)	115,410	122,756
LG Electronics Algeria SARL(LGEAS)	112,749	111,791
LG Electronics Thailand Co.Ltd.(LGETH)	87,518	90,130
LG Electronics Inc Chile Ltda.(LGECL)	87,475	14,993
LG Electronics Argentina S.A.(LGEAR)	86,193	62,631
LG Electronics Vietnam Co., Ltd.(LGEVN)	78,838	105,989
LG Electronics Morocco S.A.R.L(LGEMC)	70,552	72,685
LG Electronics Philippines Inc.(LGEPH)	68,757	60,086
LG Electronics Ukraine Inc.(LGEUR)	68,660	71,805
LG Electronics S.A. (Pty) Ltd.(LGESA)	53,589	21,161
LG Electronics RUS, LLC (LGERA)	44,744	110,788
LG Electronics Monterrey Mexico S.A.de		
C.V.(LGEMM)	42,798	8,732
LG Electronics Tianjin Appliances Co.,		
Ltd.(LGETA)	6,712	10,570
LG Electronics Wroclaw Sp z o.o(LGEWR)	-	89,646
Other	214,297	290,056
	<u>2,619,443</u>	<u>2,549,537</u>

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

<i>(in millions of Korean won)</i>	2012			
	<u>Less than 1 year</u>	<u>Less than 2 years</u>	<u>Less than 5 year</u>	<u>Over 5 years</u>
	2,237,053	339,090	43,300	-

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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 Cathode Ray Tube (CRT) manufacturers. The Company recognized a reasonably estimated loss related to this investigation as a litigation provision. The ultimate amount of loss resulting from the investigation may differ from the estimated loss accrued by the 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 Company recognized a reasonably estimated loss related to this investigation as a litigation provision. The ultimate amount of loss resulting from the investigation may differ from the estimated loss accrued by the Company.

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

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

27. 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 (2011: ₩245,500 million).

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

(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 (2011: ₩935,450 million) which guarantee the payment of trade accounts payable in case the suppliers sell their trade receivables.

(d) At the end of the reporting period, the Company has other trade financing agreements and

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loan commitments with financial institutions including Industrial Bank of Korea in addition to the above commitments.

(e) Contractual commitments for the acquisition of assets

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

<i>(in millions of Korean won)</i>	<u>September 30, 2012</u>	<u>December 31, 2011</u>
Property, plant and equipment	28,063	55,190
Intangible assets	2,584	5,161
	<u>30,647</u>	<u>60,351</u>

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

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

<i>(in millions of Korean won)</i>	<u>September 30, 2012</u>			<u>Total lease payments</u>
	<u>Within 1 year</u>	<u>Within 1 year and no later than 5 years</u>	<u>Over 5 years</u>	
Buildings and offices	35,468	41,371	2,586	79,425
Vehicles	15,541	3,279	-	18,820
Equipments	16,897	11,561	-	28,458
	<u>67,906</u>	<u>56,211</u>	<u>2,586</u>	<u>126,703</u>

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

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

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

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

(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	LG Electronics Inc.	Panasonic Corporation and other

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28. Related Party Transactions

Subsidiaries at the end of the reporting period are as follows:

Territory	Name
Domestic subsidiaries	Hiplaza CO., Ltd., Hi Business Logistics, Innovation Investment Fund, Hi M Solutek, KTB Technology Fund, Hi Teleservice CO., Ltd., LG Electronics Alliance Fund , Ace R&A Co., Ltd., HiEntech Co., Ltd. LG-Hitachi Water Solutions Co., Ltd.
China	LG Electronics (China) Co., Ltd.(LGECH) Taizhou LG Electronics Refrigeration Co., Ltd.(LGETR) LG Electronics HK Ltd.(LGEHK) LG Electronics (Hangzhou) Co., Ltd.(LGEHN) LG Electronics Huizhou Ltd.(LGEHZ) LG Electronics (Kunshan) Computer Co., Ltd.(LGEKS) LG Electronics Nanjing Display Co., Ltd.(LGEND) NanJing LG-Panda Appliances Co., Ltd.(LGEPN) Qingdao LG Inspur Digital Communication Co., Ltd.(LGEQD) LG Electronics Qinhuangdao Inc.(LGEQH) LG Electronics (China) Research and Development Centre Co., Ltd.(LGERD) Shanghai LG Electronics Co., Ltd.(LGESH) LG Electronics Shenyang Inc.(LGESY) LG Electronics Tianjin Appliances Co., Ltd.(LGETA) Inspur LG Digital Mobile Communications Co., Ltd.(LGEYT) Hi Logistics (China) Co., Ltd. LG Electronics (Shanghai) Research and Development Center.(LGCRC) Tianjin Lijie Cartridge Heater Co., Ltd.(LGETL) LG Electronics Air-Conditioning(Shandong) Co., Ltd.(LGEQA)
Asia	LG Electronics Philippines Inc.(LGEPH) LG Electronics India Pvt. Ltd.(LGEIL) PT LG Electronics Indonesia (LGEIN) LG Electronics Malaysia SDN. BHD (LGEML) LG Soft India Private Limited.(LGSIL) LG Electronics Singapore PTE LTD (LGESL) LG Electronics Vietnam Co., Ltd.(LGEVN) LG Electronics Thailand Co., Ltd.(LGETH) LG Electronics Taiwan Taipei Co., Ltd.(LGETT) LG Electronics Australia Pty, Ltd.(LGEAP) LG Electronics Japan, Inc.(LGEJP) LG Electronics Japan,Lab.(LGEJL) Hi Logistics India Private Limited HI LOGISTICS MALAYSIA SDN BHD
Europe	LG Electronics Austria GmbH (LGEAG) LG Electronics Benelux Sales B.V.(LGEBN) LG Electronics CZ, s.r.o.(LGE CZ) LG Electronics Deutschland GmbH (LGEDG) LG Electronics European Holdings B.V.(LGE EH) LG Electronics Espana S.A.(LGEES) LG Electronics France S.A.R.L (LGEFS) LG Electronics Hellas S.A.R.L (LGEHS) LG Electronics Italia S.p.A (LGEIS) LG Electronics JIT Europe B.V.(LGEJE) LG Electronics Latvia, LLC (LGE LV) LG Electronics 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)

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<u>Territory</u>	<u>Name</u>
	LG Electronics Romania S.R.L.(LGERO) LG Electronics European Shared Service Center B.V.(LGESC) LG Electronics Nordic AB (LGESW) LG Electronics United Kingdom Ltd.(LGEUK) LG Electronics Wroclaw Sp z o.o (LGEWR) HI Logistics Europe B.V.
North America	LG Electronics Alabama Inc.(LGIEAI) LG Electronics Canada, Inc.(LGECL) 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(Zenith) Triveni Digital Inc. Zenith Electronics Corporation of Pennsylvania Servicios Integrales LG S.A DE C.V Servicios LG Monterrey Mexico S.A. de C.V. LG Receivable Funding LLC
South America	LG Electronics Argentina S.A.(LGEAR) LG Electronics Colombia Ltda.(LGECLB) LG Electronics Inc, Chile Ltda.(LGECL) LG Electronics Peru S.A.(LGEPR) LG Electronics Panama, S.A.(LGEPS) LG Electronics do Brasil Ltda.(LGEBR)(former LGESP) LG Electronics Venezuela S.A.(LGEVZ) C & S America Solution LG Electronics Guatemala S.A. SOCIO VIP Ltda LG Armagem Geral Ltda. LG Consulting corp. LG Electronics Honduras S.de R.L.
Middle-east Asia and Africa	LG Electronics Egypt S.A.E (LGEEG) LG Electronics Morocco S.A.R.L (LGEMC) LG Electronics S.A. (Pty) Ltd.(LGESA) LG Electronics Africa Logistic FZE (LGEAF) LG Electronics Dubai FZE (LGEDF) LG Electronics Gulf FZE (LGEGF) LG Electronics (Levant) Jordan (LGELF) LG Electronics Middle East Co., Ltd.(LGEME) LG-Shaker Co. Ltd.(LGERs) LG Electronics Ticaret A.S.(LGETK) LG Electronics Overseas Trading FZE (LGEOT) LG Electronics Algeria SARL (LGEAS) LG Electronics Nigeria Limited.(LGENI) LG Electronics North Africa Service Company S.A.R.L Easytec Global Services Innovation Limited LG Electronics Angola Limitada (LGEAO) LG Electronics Service Kenya Limited(LGESK) LG Electronics Saudi Arabia Limited
Other	LG Electronics Almaty Kazakhstan (LGEAK) LG Electronics Ukraine Inc.(LGEUR) LG Electronics RUS, LLC (LGERA) LG Alina Electronics (LGERI) LG Electronics RUS-Marketing, LLC (LGERM)

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

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

<i>(in millions of Korean won)</i>	2012		2011	
	Sales	Purchases	Sales	Purchases
LG Corp.	2,416	95,789	5,909	90,341
Subsidiaries	12,870,586	739,165	15,683,521	718,218
Jointly controlled entities and associates	343,267	1,787,263	510,700	1,729,070
Other related parties	64,412	878,587	87,874	937,221
	<u>13,280,681</u>	<u>3,500,804</u>	<u>16,288,004</u>	<u>3,474,850</u>

The balances of significant transactions are as follows:

<i>(in millions of Korean won)</i>	September 30, 2012		December 31, 2011	
	Receivables	Payables	Receivables	Payables
LG Corp.	28,106	216	23,136	691
Subsidiaries	4,008,058	1,902,869	3,696,517	1,493,291
Jointly controlled entities and associates	104,210	407,199	166,882	346,796
Other related parties	82,596	299,093	86,474	307,729
	<u>4,222,970</u>	<u>2,609,377</u>	<u>3,973,009</u>	<u>2,148,507</u>

The Company recognized dividend income amounting to ₩243,743 million (2011: ₩30,517 million) from subsidiaries and ₩36,341 million (2011: ₩75,569 million) from associates, including LG Display Co., Ltd., for the nine-month period ended September 30, 2012.

The payment guarantees for related parties at the end of the reporting period are presented in Note 26.

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

29. 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 enhance cost competitiveness through cost-efficient financing cost by improving financial structure and effective cash management.

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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 the 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 the overseas subsidiaries' business competitiveness by operating integrated financial functions.

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

(a) Market risk

i) Foreign exchange risk

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

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

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

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

Speculative foreign exchange trading is strictly prohibited.

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

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<i>(in millions of Korean won)</i>	September 30, 2012		December 31, 2011	
	10% increase	10% decrease	10% increase	10% decrease
USD/KRW	(42,048)	42,048	(170,234)	170,234
EUR/KRW	25,721	(25,721)	40,283	(40,283)

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

ii) Interest rate risk

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

As of September 30, 2012, as interest rate increases, net interest expense would decrease because the amounts of financial deposits with variable interest rate are greater than those of borrowings with variable interest rate. However, to mitigate interest rate risk, the Company manages interest rate risk proactively by reducing borrowings with high interest rates, maintaining an adequate mix between short-term and long-term liabilities and between fixed and variable interest rates, monitoring daily, weekly, and monthly interest rate trends in domestic and international markets, setting up counter measures and managing short term borrowings and financial deposits with variable interest rate.

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

<i>(in millions of Korean won)</i>	September 30, 2012		September 30, 2011	
	100bp increase	100bp decrease	100bp increase	100bp decrease
Interest expense	2,719	(2,719)	11,627	(11,606)
Interest income	11,312	(11,312)	10,922	(10,922)

iii) Price risk

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

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

The effect of price index's fluctuation related to the listed securities on the equity (before applying the tax effect) is set out in the below table. The analysis is performed in respect of 30% increase/decrease of price index under the assumption that other variations are consistent and the listed securities owned by the Company have correlation with the relevant past index.

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<i>(in millions of Korean won)</i>	September 30, 2012		December 31, 2011	
	30% increase	30% decrease	30% increase	30% decrease
KOSPI	4	(4)	-	-
KOSDAQ	1,638	(1,638)	1,975	(1,975)

(b) Credit risk

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

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

Assumed TR risk is especially mitigated with credit insurance, guarantees / collateral, and internal credit limits. In order to manage the risk, Korea Trade Insurance Corporation (K-Sure), Seoul Guarantee Insurance (Coface) and the Global Credit Insurance Program are operated.

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

As of September 30, 2012, trade receivable balance of the Company is ₩1,397,943 million (2011: ₩1,454,423 million) and its risk is managed appropriately with insurer's credit limit of ₩2,591,214 million (2011: ₩2,298,513 million).

(c) Liquidity risk

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

The Company forecasts its cash 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 September 30, 2012, is ₩1,658,229 million (2011: ₩1,514,211 million). The Company maintains total committed credit lines of ₩600,000 million (2011: ₩600,000 million) in Woori Bank, Kookmin Bank and Shinhan Bank in Korea at September 30, 2012.

As of September 30, 2012, the cash and cash equivalents balance of the Company is 136% (2011: 89%) of current borrowings with due date in 12 months. If committed credit lines are included, the balance covers about 185% (2011: 124%) of short-term borrowings.

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In addition, as of September 30, 2012, the Company is able to source funds any time in domestic and international financial markets because it has credit grades of AA0(Stable) from Korea Investors Service, Korea Ratings, and Nice Information Service, along with investment credit grades from Standard & Poors and Moody's of BBB- Stable and Baa2 Negative, respectively.

Annual payment schedule of the related borrowings is presented in Note 10.

Capital Risk Management

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

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

<i>(in millions of Korean won, except for ratios)</i>	<u>September 30, 2012</u>	<u>December 31, 2011</u>
Liabilities (A)	13,925,019	13,704,369
Equity (B)	10,722,986	10,494,861
Cash and cash equivalents and current financial deposits (C)	1,658,229	1,514,211
Borrowings (D)	5,465,344	5,825,846
Liability-to-equity ratio (A/B) (%)	130%	131%
Net Borrowings ratio (D-C)/B (%)	36%	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 those are observable for the asset or liability, either directly or indirectly.
- Level 3: inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

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<i>(In millions of Korean won)</i>	September 30, 2012			
	Level 1	Level 2	Level 3	Total
Assets				
Available-for-sale financial assets				
- Listed securities	7,673	-	-	7,673
Derivatives for hedge	-	4,758	-	4,758
	<u>7,673</u>	<u>4,758</u>	<u>-</u>	<u>12,431</u>
Liabilities				
Derivatives for hedge	-	4,449	-	4,449
	<u>-</u>	<u>4,449</u>	<u>-</u>	<u>4,449</u>
	December 31, 2011			
<i>(In millions of Korean won)</i>	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
	<u>8,969</u>	<u>11,845</u>	<u>-</u>	<u>20,814</u>
Liabilities				
Financial liabilities at fair value through profit or loss				
- Derivatives for trading	-	12,699	-	12,699
	<u>-</u>	<u>12,699</u>	<u>-</u>	<u>12,699</u>

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, an entity in the same industry, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Company is the current bid price. These instruments are included in 'level 1.' Instruments included in 'level 1' comprise primarily equity investments classified as available for sale.

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

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

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30. Share-Based Payments

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

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

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

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

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

31. Business Combination

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

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

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

<i>(in millions of Korean won)</i>	Amount
Consideration ¹	150,300
Recognized amounts of identifiable assets acquired and liabilities assumed ²	
Current assets	
Trade receivables	50,726
Other receivables	4
Inventories	9,223
Other assets	888
Non-current assets	
Financial deposits	4,232
Other receivables	786

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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	<u>56,880</u>
	<u>150,300</u>

¹ The consideration is within the measurement period.

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

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