

**LG Electronics**  
**Interim Consolidated Financial Statements**  
**June 30, 2011 and 2010**

# LG Electronics

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## Review Report on Interim Financial Information

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

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

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

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

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

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

Our responsibility is to issue a report on these interim consolidated financial statements based on our reviews. We have not reviewed the financial statements of certain consolidated subsidiaries, whose financial statements reflect 29% of the Group's consolidated total assets as of June 30, 2011, and 44% and 54% of the Group's consolidated total sales for the six-month periods ended June 30, 2011 and 2010, respectively. These financial statements were reviewed by other auditors whose reports have been furnished to us and our report, insofar as it relates to the amounts included for those consolidated subsidiaries, is based solely on the reports of the other auditors.

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

### **Conclusion**

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

### **Other matters**

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

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



Seoul, Korea  
August 12, 2011

This review report is effective as of August 12, 2011, the review report date. Certain subsequent events or circumstances, which may occur between the review report date and the time of reading this report, could have a material impact on the accompanying interim consolidated financial statements and notes thereto. Accordingly, the readers of the review report should understand that there is a possibility that the above review report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

**LG Electronics**  
**Interim Consolidated Statements of Financial Position**  
**June 30, 2011 and December 31, 2010**

<i>(in millions of Korean won)</i>	Notes	June 30, 2011	December 31, 2010
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	5, 28	2,243,312	1,944,162
Financial deposits	5, 28	45,000	85,000
Trade receivables	5, 6	7,512,017	7,001,962
Loans and other receivables	5	514,360	525,046
Other financial assets	5, 7	2,553	1,814
Inventories	8	6,091,073	5,872,420
Other current assets		1,121,322	1,079,099
Assets classified as held for sale		4,579	5,030
		<u>17,534,216</u>	<u>16,514,533</u>
<b>Non-current assets</b>			
Financial deposits	5	133,613	105,479
Loans and other receivables	5	599,809	543,562
Other financial assets	5, 7	118,330	105,601
Property, plant and equipment	9	6,809,688	6,500,484
Intangible assets	9	880,898	763,382
Deferred income tax assets		1,067,622	968,751
Investments in jointly controlled entities and associates	10	5,888,828	6,008,145
Investment property		5,897	7,295
Other non-current assets		805,690	801,267
		<u>16,310,375</u>	<u>15,803,966</u>
<b>Total assets</b>		<u>33,844,591</u>	<u>32,318,499</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade payables	5	6,319,593	5,824,392
Borrowings	5, 11	4,233,158	4,009,229
Other payables	5	4,283,395	3,730,292
Other financial liabilities	5, 7	26,435	5,314
Current income tax liabilities		135,300	98,659
Provisions	12	754,734	748,146
Other current liabilities		914,926	901,201
		<u>16,667,541</u>	<u>15,317,233</u>
<b>Non-current liabilities</b>			
Borrowings	5, 11	3,530,709	3,183,706
Other payables		17,605	11,597
Other financial liabilities	5, 7	5,908	37,492
Deferred income tax liabilities		14,378	10,253
Defined benefit liability	13	303,573	318,112
Provisions	12	557,205	577,697
Other non-current liabilities		3,726	2,772
		<u>4,433,104</u>	<u>4,141,629</u>
<b>Total liabilities</b>		<u>21,100,645</u>	<u>19,458,862</u>
<b>Equity attributable to owners of the Parent Company</b>			
Paid-in capital			
Capital stock		809,169	809,169
Share premium		2,207,919	2,207,919
Retained earnings	14	10,141,244	10,108,173
Accumulated other comprehensive income		(365,905)	(209,844)
Other components of equity	15	(271,287)	(271,277)
		<u>12,521,140</u>	<u>12,644,140</u>
<b>Non-controlling interest</b>		<u>222,806</u>	<u>215,497</u>
<b>Total equity</b>		<u>12,743,946</u>	<u>12,859,637</u>
<b>Total liabilities and equity</b>		<u>33,844,591</u>	<u>32,318,499</u>

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

**LG Electronics**  
**Interim Consolidated Income Statements**  
**Three-Month and Six-Month Periods Ended June 30, 2011 and 2010**

<i>(in millions of Korean won, except per share amounts)</i>	Notes	2011		2010	
		Three Months	Six Months	Three Months	Six Months
<b>Continuing operations</b>					
<b>Net sales</b>	16, 27	14,385,076	27,545,024	14,409,717	27,627,039
<b>Cost of sales</b>	17, 27	11,078,030	21,272,877	11,109,549	20,916,352
<b>Gross profit</b>		3,307,046	6,272,147	3,300,168	6,710,687
Selling and marketing expenses	17, 18	1,988,395	3,858,523	2,042,707	3,874,695
Administrative expenses	17, 18	344,036	646,315	355,195	681,745
Research and development expenses	17, 18	453,396	858,550	379,260	716,450
Service costs	17, 18	406,861	724,898	407,379	806,519
Other operating income	19	300,551	683,832	739,099	1,098,627
Other operating expenses	17, 20	256,677	578,615	728,483	1,122,567
<b>Operating income</b>		158,232	289,078	126,243	607,338
Financial income	21	162,315	369,013	215,280	487,675
Financial expenses	22	199,844	443,426	484,962	698,403
Income (loss) from jointly controlled entities and associates	10	29,012	(26,480)	209,612	428,399
Profit before income tax		149,715	188,185	66,173	825,009
Income tax expense		41,277	95,513	24,991	141,748
Profit from continuing operations		108,438	92,672	41,182	683,261
<b>Discontinued operations</b>	29				
Profit from discontinued operations		-	-	815,260	847,734
<b>Profit for the period</b>		108,438	92,672	856,442	1,530,995
<b>Profit for the period attributable to:</b>					
Equity holders of the Parent Company		97,804	67,709	842,209	1,492,708
Profit for the period from continuing operations		97,804	67,709	26,949	659,459
Profit for the period from discontinued operations		-	-	815,260	833,249
Non-controlling interest		10,634	24,963	14,233	38,287
Profit for the period from continuing operations		10,634	24,963	14,233	23,802
Profit for the period from discontinued operations		-	-	-	14,485
<b>Earnings per share attributable to the equity holders of the Parent Company during the period (in won)</b>	23				
Earnings per share attributable to the ordinary equity holders of the company		606	418	5,228	9,265
Earnings per share from continuing operations		606	418	167	4,093
Earnings per share from discontinued operations		-	-	5,061	5,172
Earnings per share attributable to the preferred equity holders of the company		619	443	5,240	9,290
Earnings per share from continuing operations		619	443	166	4,104
Earnings per share from discontinued operations		-	-	5,074	5,186

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

**LG Electronics**  
**Interim Consolidated Statements of Comprehensive Income**  
**Three-Month and Six-Month Periods Ended June 30, 2011 and 2010**

<i>(in millions of Korean won)</i>	Notes	2011		2010	
		Three Months	Six Months	Three Months	Six Months
<b>Profit for the period</b>		108,438	92,672	856,442	1,530,995
<b>Other comprehensive income (loss)</b>					
Actuarial gain(loss) on defined benefit liability		(1,058)	(1,844)	162	(1,154)
Share of actuarial gain (loss) of associates		131	278	34	(24)
Share of other comprehensive income(loss) from jointly controlled entities and associates	10	(8,612)	(22,921)	25,327	(9,068)
Cash flow hedges		(4,449)	(4,166)	(61)	(123)
Available-for-sale financial assets		(835)	(1,378)	1,356	191
Currency translation differences		(71,479)	(135,391)	189,430	55,038
<b>Other comprehensive income (loss) for the period, net of tax</b>		<b>(86,302)</b>	<b>(165,422)</b>	<b>216,248</b>	<b>44,860</b>
<b>Total comprehensive income (loss) for the period</b>		<b>22,136</b>	<b>(72,750)</b>	<b>1,072,690</b>	<b>1,575,855</b>
<b>Comprehensive income (loss) for the period attributable to:</b>					
Equity holders of the Parent Company		14,708	(89,918)	1,042,974	1,531,311
Non-controlling interest		7,428	17,168	29,716	44,544
<b>Total comprehensive income (loss) for the period</b>		<b>22,136</b>	<b>(72,750)</b>	<b>1,072,690</b>	<b>1,575,855</b>

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

LG Electronics

Interim Consolidated Statements of Changes in Shareholders' Equity

Six-Month Periods Ended June 30, 2011 and 2010

		Attributable to equity holders of the Parent Company							
<i>(in millions of Korean won)</i>	Notes	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (loss)	Other Components of Equity	Total	Non-controlling Interest	Total Equity	
<b>Balance at January 1, 2010</b>		3,017,088	9,214,309	(156,886)	(270,333)	11,804,178	621,068	12,425,246	
<b>Comprehensive income</b>									
Profit for the period		-	1,492,708	-	-	1,492,708	38,287	1,530,995	
Actuarial loss on defined benefit liability		-	(1,103)	-	-	(1,103)	(51)	(1,154)	
Share of actuarial loss of associates		-	(24)	-	-	(24)	-	(24)	
Other comprehensive expense of jointly controlled entities and associates	10	-	-	(9,068)	-	(9,068)	-	(9,068)	
Cash flow hedges		-	-	(123)	-	(123)	-	(123)	
Available-for-sale financial assets		-	-	191	-	191	-	191	
Currency translation differences		-	-	48,730	-	48,730	6,308	55,038	
<b>Total comprehensive income (loss)</b>		-	1,491,581	39,730	-	1,531,311	44,544	1,575,855	
<b>Transactions with equity holders of the Parent Company :</b>									
Dividends		-	(282,725)	-	-	(282,725)	(20,233)	(302,958)	
Change in ownership interest over subsidiaries		-	-	-	(957)	(957)	3,531	2,574	
Changes in scope of subsidiaries		-	-	-	-	-	(439,757)	(439,757)	
Changes in components of equity of associates		-	-	-	394	394	-	394	
<b>Total transactions with equity holders of the Parent Company</b>		-	(282,725)	-	(563)	(283,288)	(456,459)	(739,747)	
<b>Balance at June 30, 2010</b>		3,017,088	10,423,165	(117,156)	(270,896)	13,052,201	209,153	13,261,354	
<b>Balance at January 1, 2011</b>		3,017,088	10,108,173	(209,844)	(271,277)	12,644,140	215,497	12,859,637	
<b>Comprehensive income</b>									
Profit for the period		-	67,709	-	-	67,709	24,963	92,672	
Actuarial loss on defined benefit liability		-	(1,844)	-	-	(1,844)	-	(1,844)	
Share of actuarial gain of associates		-	278	-	-	278	-	278	
Share of other comprehensive expense of jointly controlled entities and associates	10	-	-	(22,921)	-	(22,921)	-	(22,921)	
Cash flow hedges		-	-	(4,166)	-	(4,166)	-	(4,166)	
Available-for-sale financial assets		-	-	(1,378)	-	(1,378)	-	(1,378)	
Currency translation differences		-	-	(127,596)	-	(127,596)	(7,795)	(135,391)	
<b>Total comprehensive income (loss)</b>		-	66,143	(156,061)	-	(89,918)	17,168	(72,750)	
<b>Transactions with equity holders of the Parent Company :</b>									
Dividends		-	(33,072)	-	-	(33,072)	(9,859)	(42,931)	
Other changes in equity		-	-	-	(10)	(10)	-	(10)	
<b>Total transactions with equity holders of the Parent Company</b>		-	(33,072)	-	(10)	(33,082)	(9,859)	(42,941)	
<b>Balance at June 30, 2011</b>		3,017,088	10,141,244	(365,905)	(271,287)	12,521,140	222,806	12,743,946	

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



**LG Electronics**  
**Interim Consolidated Statements of Cash Flows**  
**Six-Month Periods Ended June 30, 2011 and 2010**

<i>(in millions of Korean won)</i>	Notes	Six-Month Period Ended June 30	
		2011	2010
<b>Cash flows from operating activities</b>			
Cash generated from operations	24	1,070,710	(573,485)
Interest received		35,476	37,862
Interest paid		(141,232)	(124,017)
Dividends received		71,649	72,916
Income tax paid		(215,790)	(272,038)
<b>Net cash generated from (used in) operating activities</b>		<u>820,813</u>	<u>(858,762)</u>
<b>Cash flows from investing activities</b>			
Decrease in financial deposits		40,671	220,755
Decrease in loans and other receivables		135,804	104,345
Proceeds from disposal of other financial assets		18,466	77,601
Proceeds from disposal of property, plant and equipment	9	52,465	110,530
Proceeds from disposal of intangible assets	9	2,242	579
Proceeds from disposal of and recovery of investments in jointly controlled entities and associates		-	108,728
Increase in cash and cash equivalents due to changes in scope of subsidiaries		-	798
Decrease in other assets		1,837	177
Increase in financial deposits		(25,801)	(43,015)
Increase in loans and other receivables		(193,051)	(85,371)
Acquisition of other financial assets		(51,201)	(90,498)
Acquisition of jointly controlled entities and associates	10	(998)	(129,693)
Acquisition of property, plant and equipment	9	(824,246)	(760,538)
Acquisition of intangible assets	9	(137,378)	(137,982)
Decrease in cash and cash equivalents due to business combination and changes in scope of subsidiaries	30	(148,275)	(239,632)
Increase in other assets		(1,173)	(1,700)
<b>Net cash used in investing activities</b>		<u>(1,130,638)</u>	<u>(864,916)</u>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		2,337,983	2,946,209
Repayments of borrowings		(1,688,572)	(1,637,009)
Dividends paid		(33,509)	(295,892)
<b>Net cash provided by financing activities</b>		<u>615,902</u>	<u>1,013,308</u>
<b>Exchange losses on cash and cash equivalents</b>		<u>(6,927)</u>	<u>(29,870)</u>
<b>Net increase (decrease) in cash and cash equivalents</b>		<u>299,150</u>	<u>(740,240)</u>
Cash and cash equivalents at the beginning of period		<u>1,944,162</u>	<u>2,423,787</u>
<b>Cash and cash equivalents at the end of period</b>		<u>2,243,312</u>	<u>1,683,547</u>

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

# LG Electronics

## Notes to the Interim Consolidated Financial Statements

### June 30, 2011 and 2010

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#### 1. General Information

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

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

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

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

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

Territory	Name
<b>Domestic subsidiaries</b>	Hiplaza Co., Ltd., Hi Business Logistics Co., Ltd., Innovation Investment Fund, Hi M Solutek (formerly System Air-con Engineering Incorporation), KTB Technology Fund, HI Teleservice Co.,Ltd. LG Electronics Alliance Fund, Ace R&A Co.,Ltd.
<b>China</b>	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)
<b>Asia</b>	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.(LGS) LG Electronics Singapore PTE LTD (LGESL) LG Electronics Vietnam Co., Ltd.(LGEVN) LG Electronics Thailand Co.Ltd.(LGETH)

# LG Electronics

## Notes to the Interim Consolidated Financial Statements

### June 30, 2011 and 2010

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

#### Europe

LG Electronics Austria GmbH (LGEAG)  
LG Electronics Benelux Sales B.V.(LGEBN)  
LG Electronics CZ, s.r.o.(LGE CZ)  
LG Electronics Deutschland GmbH (LGEDG)  
LG Electronics European Holdings B.V.(LGE EH)  
LG Electronics Espana S.A.(LGEES)  
LG Electronics France S.A.R.L (LGEFS)  
LG Electronics Hellas S.A.R.L (LGEHS)  
LG Electronics Italia S.p.A (LGEIS)  
LG Electronics JIT Europe B.V.(LGEJE)  
LG Electronics Latvia, LLC (LGE LV)  
LG Electronics Mlawa Sp. z o.o (LGE MA)  
LG Electronics Mobilecomm France (LGE MF)  
LG Electronics Magyar KFT (LGE MK)  
LG Electronics Norway AS.(LGENO)  
LG Electronics Polska Sp. z o.o (LGE PL)  
LG Electronics Portugal S.A.(LGE PT)  
LG Electronics Romania S.R.L.(LGERO)  
LG Electronics European Shared Service Center B.V.(LGE SC)  
LG Electronics European Logistics & Services B.V.(LGE LS)  
LG Electronics Nordic AB (LGE SW)  
LG Electronics United Kingdom Ltd.(LGE UK)  
LG Electronics Wroclaw Sp z o.o (LGE WR)  
HI Logistics Europe B.V.

#### North America

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

#### South America

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

# LG Electronics

## Notes to the Interim Consolidated Financial Statements

### June 30, 2011 and 2010

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<b>Middle-east Asia and Africa</b>	LG Electronics Egypt S.A.E (LGEEG) LG Electronics Morocco S.A.R.L (LGEMC) LG Electronics S.A. (Pty) Ltd.(LGESA) LG Electronics Africa Logistic FZE (LGEAF) LG Electronics Dubai FZE (LGEDF) LG Electronics Gulf FZE (LGEGF) LG Electronics (Levant) Jordan (LGELF) LG Electronics Middle East Co., Ltd.(LGEME) LG-Shaker Co. Ltd.(LGESR) LG Electronics Ticaret A.S.(LGETK) LG Electronics Overseas Trading FZE (LGEOT) LG Electronics Algeria SARL (LGEAS) LG Electronics Nigeria Limited.(LGENI) LG Electronics North Africa EASYTEC GLOBAL SERVICES INNOVATION LIMITED
<b>Others</b>	LG Electronics Almaty Kazakhstan (LGEAK) LG Electronics Ukraine Inc.(LGEUR) LG Electronics RUS, LLC (LGERA) LG Alina Electronics (LGERI) LG Electronics RUS-Marketing, LLC (LGERM)

## 2. Significant Accounting Policies

### Basis of Preparation

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

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

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

The following new standards, new interpretations and amendments to standards and interpretations have been issued and announced but are not effective as of June 30, 2011 and have not been early adopted:

- Korean IFRS 1012 (amendment): 'Income taxes' (applied from January 1, 2012)
- Korean IFRS 1107 (amendment): 'Financial instruments: Disclosures' (applied from July 1, 2011)

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

# **LG Electronics**

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

### **June 30, 2011 and 2010**

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

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

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

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

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

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

#### **Income Taxes**

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises 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 Group uses its judgement to select a variety of methods and makes assumptions that are mainly based on market conditions existing at the end of each reporting period.

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#### Provisions

The Group recognises provisions for product warranties and sales return as of the end of the reporting period as described in Note 12. The amounts are estimated based on historical data.

#### Defined Benefit Liability

The present value of the defined benefit liability depends on various factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of the defined benefit liability. The Group determines the appropriate discount rate at the end of each year. This is the interest rate that is used to determine the present value of estimated future cash outflows expected to be required to settle the defined benefit liability. In determining the appropriate discount rate, the Group considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability. Other key assumptions for defined benefit liability are based in part on current market conditions. Additional information is disclosed in Note 13.

#### 4. Segment Information

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

<b>Divisions</b>	<b>Products</b>
Home Entertainment	LCD TV / PDP TV, PDP Module, LCD Monitor, Audio, Video, Security device and others
Mobile Communications	Mobile communications, Tablet PC, Network and others
Home Appliance	Refrigerators, Washing machines, Microwave, Vacuum, Compressors, Motor and others
Air Conditioning & Energy Solution	Air conditioners, Solar cells, LED and others
Others	Storage Device, PC, Telematics and others

The comparative financial information has been reclassified based on the division classification on the reporting period.

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

<i>(in millions of Korean won)</i>	2011		2010	
	Segment Sales	Segment operating income(loss)	Segment sales	Segment operating income(loss)
Home Entertainment	10,699,446	172,439	11,275,268	123,809
Mobile Communications	6,154,981	(154,341)	6,575,067	(90,660)
Home Appliance	5,583,379	153,435	5,103,136	392,514
Air Conditioning & Energy Solution	3,328,324	82,799	2,800,116	102,324
<b>Sub total</b>	<b>25,766,130</b>	<b>254,332</b>	<b>25,753,587</b>	<b>527,987</b>
Other segments <sup>1</sup> and inter-segment transactions <sup>2</sup>	1,778,894	34,746	1,873,452	79,351
<b>Total</b>	<b>27,545,024</b>	<b>289,078</b>	<b>27,627,039</b>	<b>607,338</b>

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

<sup>2</sup> Segment sales are traded at fair value.

The segment information for assets and liabilities is as follows:

<i>(in millions of Korean won)</i>	June 30, 2011		December 31, 2010	
	Segment assets <sup>1</sup>	Segment liabilities <sup>1</sup>	Segment assets <sup>1</sup>	Segment liabilities <sup>1</sup>
Home Entertainment	13,777,723	11,187,294	13,531,228	10,893,636
Mobile Communications	7,505,876	4,862,752	7,619,597	4,794,633
Home Appliance	7,553,012	5,457,997	7,010,524	4,944,189
Air Conditioning & Energy Solution	4,907,825	3,507,589	3,795,705	2,483,079
<b>Sub total</b>	<b>33,744,436</b>	<b>25,015,632</b>	<b>31,957,054</b>	<b>23,115,537</b>
Other segments and inter-segment transactions	100,155	(3,914,987)	361,445	(3,656,675)
<b>Total</b>	<b>33,844,591</b>	<b>21,100,645</b>	<b>32,318,499</b>	<b>19,458,862</b>

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

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

<i>(in millions of Korean won)</i>	External sales		Non-current assets <sup>1</sup>	
	2011	2010	June 30, 2011	December 31, 2010
Korea	4,630,632	4,139,708	5,775,535	5,475,146
North America	5,717,155	5,750,548	127,965	132,619
Europe	3,804,098	4,991,544	291,438	260,976

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Central & South America	3,646,224	3,534,981	428,022	373,737
Asia & Africa	6,108,044	5,634,456	387,188	385,532
China	2,265,007	2,495,209	535,224	528,099
Commonwealth of Independent States	1,373,864	1,080,593	151,111	115,052
<b>Total</b>	<b>27,545,024</b>	<b>27,627,039</b>	<b>7,696,483</b>	<b>7,271,161</b>

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

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

**5. Financial Instruments by Category**

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

<i>(in millions of Korean won)</i>	Assets at fair	Loans and	Assets classified		Total
	value through		receivables	as available-for-	
	profit or loss		sale	financial assets	
Cash and cash equivalents	-	2,243,312	-	-	2,243,312
Financial deposits	-	178,613	-	-	178,613
Trade receivables	-	7,512,017	-	-	7,512,017
Loans and other receivables	-	1,114,169	-	-	1,114,169
Other financial assets	2,553	-	64,425	53,905	120,883
<b>Total</b>	<b>2,553</b>	<b>11,048,111</b>	<b>64,425</b>	<b>53,905</b>	<b>11,168,994</b>

<i>(in millions of Korean won)</i>	Liabilities at	Derivatives	Liabilities carried		Total
	fair value through		for hedge	at amortised cost	
	profit or loss				
Trade payables	-	-	-	6,319,593	6,319,593
Borrowings	-	-	-	7,763,867	7,763,867
Other payables	-	-	-	1,677,775	1,677,775
Other financial liabilities	26,435	5,908	-	-	32,343
Other liabilities	-	-	-	9,089	9,089
<b>Total</b>	<b>26,435</b>	<b>5,908</b>	<b>15,770,324</b>	<b>15,802,667</b>	

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

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



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

**6. Trade Receivables**

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

<i>(in millions of Korean won)</i>	June 30, 2011	December 31, 2010
Trade receivables	7,634,681	7,122,430
Less: allowance for doubtful accounts	(122,664)	(120,468)
<b>Net book amount</b>	<b>7,512,017</b>	<b>7,001,962</b>

The ageing of the trade receivables follows:

<i>(in millions of Korean won)</i>	June 30, 2011	December 31, 2010
Current	7,187,361	6,490,965
Up to 3 months	222,133	404,272
4 to 6 months	31,484	40,092
7 to 12 months	21,322	11,368
Over one year	29,166	58,173
Defaulted	143,215	117,560
<b>Total</b>	<b>7,634,681</b>	<b>7,122,430</b>

**7. Other Financial Assets and Liabilities**

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

<i>(in millions of Korean won)</i>	June 30, 2011	December 31, 2010
<b>Other financial assets</b>		
Derivatives	2,553	1,814
Available-for-sale	64,425	47,471
Held-to-maturity	53,905	58,130
<b>Total</b>	<b>120,883</b>	<b>107,415</b>
<b>Current</b>	<b>2,553</b>	<b>1,814</b>
<b>Non-current</b>	<b>118,330</b>	<b>105,601</b>
<b>Other financial liabilities</b>		
Derivatives	32,343	42,806
<b>Current</b>	<b>26,435</b>	<b>5,314</b>
<b>Non-current</b>	<b>5,908</b>	<b>37,492</b>

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**8. Inventories**

Inventories consist of:

<i>(in millions of Korean won)</i>	<b>June 30, 2011</b>	<b>December 31, 2010</b>
Merchandise and finished products	3,512,682	3,480,831
Work-in-process	239,294	237,413
Raw materials and supplies	2,100,773	1,917,378
Others	238,324	236,798
<b>Total</b>	<b>6,091,073</b>	<b>5,872,420</b>

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

Changes in property, plant and equipment are as follows:

<i>(in millions of Korean won)</i>	<b>2011</b>	<b>2010</b>
<b>At January 1</b>	6,500,484	7,708,933
Acquisitions	824,246	760,538
Transfer-in(out)	475	(1,919)
Disposals and others	(52,688)	(214,626)
Depreciation	(446,726)	(511,867)
Impairment / reversal	(2,985)	(494)
Business combination and changes in scope of subsidiaries	27,450	(1,488,191)
Exchange differences	(40,568)	3,613
<b>At June 30</b>	<b>6,809,688</b>	<b>6,255,987</b>

Changes in intangible assets are as follows:

<i>(in millions of Korean won)</i>	<b>2011</b>	<b>2010</b>
<b>At January 1</b>	763,382	803,828
Acquisitions	137,378	137,982
Transfer-in	48,621	37,889
Disposals and others	(12,359)	(8,030)
Amortisation	(156,465)	(124,907)
Impairment	-	(264)
Business combination and changes in scope of subsidiaries	100,960	(88,234)
Exchange differences	(619)	74
<b>At June 30</b>	<b>880,898</b>	<b>758,338</b>

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

<i>(in millions of Korean won)</i>	2011	2010
<b>At January 1</b>	6,008,145	4,404,163
Acquisitions <sup>1</sup>	998	1,437,601
Income and (loss) of jointly controlled entities and associates <sup>2</sup>	(25,422)	439,246
Other comprehensive expense of jointly controlled entities and associates	(22,921)	(9,068)
Dividends / recovery of investment	(71,191)	(169,619)
Disposal	(1,058)	(32,020)
Others	277	(7,044)
<b>At June 30</b>	<b>5,888,828</b>	<b>6,063,259</b>

<sup>1</sup> The Group additionally acquired the equity of MTH Co.,Ltd. during the six-month period ended June 30, 2011.

<sup>2</sup> Loss on disposal amounting to ₩1,058 million is included in the "Income and loss of jointly controlled entities and associates" in the income statement.

**11. Borrowings**

The carrying amounts of borrowings are as follows:

<i>(in millions of Korean won)</i>	June 30, 2011	December 31, 2010
<b>Current</b>		
Short-term borrowings	2,382,357	3,327,277
Current maturities of long-term borrowings	742,869	302,256
Current maturities of debentures	1,107,932	379,696
<b>Sub-total</b>	<b>4,233,158</b>	<b>4,009,229</b>
<b>Non-current</b>		
Long-term borrowings	2,023,035	1,478,910
Debentures	1,507,674	1,704,796
<b>Sub-total</b>	<b>3,530,709</b>	<b>3,183,706</b>
<b>Total</b>	<b>7,763,867</b>	<b>7,192,935</b>

Short-term borrowings consist of:

<i>(in millions of Korean won)</i>	Latest maturity date	Annual interest rate (%) at June 30, 2011	Carrying amount	
			June 30, 2011	December 31, 2010
General loans				
HSBC and others	2012-06-19	1.37~19.5	1,504,407	1,191,907
Borrowings on negotiated trade bills				
Citibank and others	-	0.97~2.42	877,950	2,135,370
<b>Total</b>			<b>2,382,357</b>	<b>3,327,277</b>

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Long-term borrowings consist of:

<i>(in millions of Korean won)</i>	Latest maturity date	Annual interest rate (%) at June 30, 2011	June 30, 2011		
			Total	Less: current	Non-current
<b>Local currency loans</b>					
Kookmin Bank	2013-05-14	4.67	190,000	-	190,000
Kookmin Bank	2014-11-12	4.62	150,000	-	150,000
Kookmin Bank	2016-05-24	4.73	190,000	-	190,000
Nonghyup	2014-03-10	4.70	190,000	-	190,000
Shinhan Bank	2016-10-19	4.37	190,000	-	190,000
Woori Bank	2014-02-18	5.67	10,000	-	10,000
Small & medium Business Corporation	2014-11-17	4.39	238	68	170
The Korea Development Bank	2011-10-06	3M CD + 0.88	190,000	190,000	-
The Korea Development Bank	2012-03-30	5.81	190,000	190,000	-
The Korea Development Bank	2013-03-11	4.59	100,000	-	100,000
The Korea Development Bank	2014-04-07	4.45	190,000	-	190,000
The Korea Development Bank	2014-06-24	5.56	8,000	-	8,000
The Korea Development Bank	2014-11-24	4.55	150,000	-	150,000
The Korea Development Bank	2014-12-24	4.71	140,000	-	140,000
The Korea Development Bank	2015-03-10	5.06	90,000	-	90,000
Korea Finance Corporation	2014-02-28	4.56	90,000	-	90,000
Korea Finance Corporation	2015-03-02	4.80	100,000	-	100,000
Korea Finance Corporation	2015-09-14	4.57	80,000	-	80,000
Korea Finance Corporation	2015-12-24	4.64	40,000	-	40,000
Korea Finance Corporation	2016-04-20	4.63	30,000	-	30,000
<b>Foreign currency loans</b>					
The Korea Development Bank	2012-06-26	3ML+0.4	215,620	215,620	-
SMBC Bank and others	-	5.99~12.4	232,046	147,181	84,865
<b>Total</b>			<b>2,765,904</b>	<b>742,869</b>	<b>2,023,035</b>

<i>(in millions of Korean won)</i>	Latest maturity date	Annual interest rate (%) at Dec 31, 2010	December 31, 2010		
			Total	Less: current	Non-current
<b>Local currency loans</b>					
Kookmin Bank	2013-05-14	4.67	190,000	-	190,000
Kookmin Bank	2014-11-12	4.62	150,000	-	150,000
Shinhan Bank	2016-10-19	4.37	190,000	-	190,000
The Korea Development Bank	2011-10-06	3M CD + 0.88	190,000	190,000	-
The Korea Development Bank	2011-10-17	5.94	20,000	20,000	-
The Korea Development Bank	2012-03-30	5.81	190,000	-	190,000
The Korea Development Bank	2014-11-24	4.55	150,000	-	150,000
The Korea Development Bank	2014-12-24	4.71	140,000	-	140,000
Korea Finance Corporation	2015-09-14	4.57	80,000	-	80,000

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Korea Finance Corporation	2015-12-24	4.64	40,000	-	40,000
Foreign currency loans					
The Korea Development Bank	2012-06-26	3ML+0.4	227,780	-	227,780
SMBC Bank and others	2017-07-08	5.99~13.65	213,385	92,256	121,130
<b>Total</b>			<b>1,781,165</b>	<b>302,256</b>	<b>1,478,910</b>

Debentures consist of:

<i>(in millions of Korean won)</i>	Latest maturity date	Annual interest rate (%) at June 30, 2011	June 30, 2011		
			Total	Less: current	Non-current
Fixed rate notes in local currency					
Public, non-guaranteed bonds (49 <sup>th</sup> )	2012-04-11	5.27	190,000	190,000	-
Public, non-guaranteed bonds (51 <sup>st</sup> )	2012-02-17	5.99	190,000	190,000	-
Public, non-guaranteed bonds (53 <sup>rd</sup> )	2011-08-06	4.70	190,000	190,000	-
Public, non-guaranteed bonds (54 <sup>th</sup> )	2013-04-22	4.20	190,000	-	190,000
Public, non-guaranteed bonds (55 <sup>th</sup> )	2013-06-16	4.60	190,000	-	190,000
Public, non-guaranteed bonds (56 <sup>th</sup> )	2015-09-09	4.63	190,000	-	190,000
Public, non-guaranteed bonds (57 <sup>th</sup> )	2015-10-22	4.30	190,000	-	190,000
Public, non-guaranteed bonds (58-1 <sup>st</sup> )	2014-02-16	4.44	130,000	-	130,000
Public, non-guaranteed bonds (58-2 <sup>nd</sup> )	2016-02-16	4.91	60,000	-	60,000
Public, non-guaranteed bonds (60 <sup>th</sup> )	2016-05-20	4.41	190,000	-	190,000
Public, non-guaranteed bonds (61 <sup>st</sup> )	2016-06-29	4.38	190,000	-	190,000
Citibank, N.A	2012-05-15	3ML+0.65	539,050	539,050	-
Floating rate notes in foreign currency					
Public, non-guaranteed bonds (59 <sup>th</sup> ) <sup>1</sup>	2014-04-28	3ML+1.00	183,277	-	183,277
Less: discount on debentures			(6,721)	(1,118)	(5,603)
<b>Total</b>			<b>2,615,606</b>	<b>1,107,932</b>	<b>1,507,674</b>

<sup>1</sup> The Group entered into currency swap contract amounting to US\$170 million with BTMU (Bank of Tokyo-Mitsubishi UFJ) and others for cash flow hedges related to the Group's floating interest rate and foreign exchange rate on borrowings. As of June 30, 2011, the loss on valuation of the effective portion of changes in the fair value amounting to ₩4,313 million, net of income tax, is recognised in other comprehensive loss.

<i>(in millions of Korean won)</i>	Latest maturity date	Annual interest rate (%) at Dec 31, 2010	December 31, 2010		
			Total	Less: current	Non-current
Fixed rate notes in local currency					
Public, non-guaranteed bonds (49 <sup>th</sup> )	2012-04-11	5.27	190,000	-	190,000
Public, non-guaranteed bonds (51 <sup>st</sup> )	2012-02-17	5.99	190,000	-	190,000
Public, non-guaranteed bonds (52 <sup>nd</sup> )	2011-05-28	4.30	190,000	190,000	-
Public, non-guaranteed bonds (53 <sup>rd</sup> )	2011-08-06	4.70	190,000	190,000	-
Public, non-guaranteed bonds (54 <sup>th</sup> )	2013-04-22	4.20	190,000	-	190,000
Public, non-guaranteed bonds (55 <sup>th</sup> )	2013-06-16	4.60	190,000	-	190,000
Public, non-guaranteed bonds (56 <sup>th</sup> )	2015-09-09	4.63	190,000	-	190,000

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Public, non-guaranteed bonds (57 <sup>th</sup> )	2015-10-22	4.30	190,000	-	190,000
Floating rate notes in foreign currency					
Citibank, N.A	2012-05-15	3ML+0.65	569,450	-	569,450
Less: discount on debentures			(4,958)	(304)	(4,654)
<b>Total</b>			<b>2,084,492</b>	<b>379,696</b>	<b>1,704,796</b>

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

<i>(in millions of Korean won)</i>	June 30, 2011		December 31, 2010	
	Carrying amount	Fair value <sup>1</sup>	Carrying amount	Fair value <sup>1</sup>
Long-term borrowings	2,023,035	2,047,758	1,478,910	1,510,156
Debentures	1,507,674	1,520,218	1,704,796	1,731,695
<b>Total</b>	<b>3,530,709</b>	<b>3,567,976</b>	<b>3,183,706</b>	<b>3,241,851</b>

<sup>1</sup> The fair values are based on the cash flows discounted using the borrowing rate of 4.86% (2010: 5.00%).

Payment schedule<sup>1</sup> of borrowings is as follows:

<i>(in millions of Korean won)</i>	June 30, 2011				
	Total	1 year	Less than 2 years	5 years	Over 5 years
Short-term borrowings	2,382,357	2,382,357	-	-	-
Current maturities of long-term borrowings and debentures	1,851,919	1,851,919	-	-	-
Long-term borrowings	2,023,035	-	406,104	1,585,836	31,095
Debentures	1,513,277	-	380,000	1,133,277	-
<b>Total</b>	<b>7,770,588</b>	<b>4,234,276</b>	<b>786,104</b>	<b>2,719,113</b>	<b>31,095</b>

<sup>1</sup> The above cash flow is undiscounted amount.

## 12. Provisions

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

<i>(in millions of Korean won)</i>	2011				
	Warranty	Sales returns	Restoration	Litigation	Total
<b>At January 1, 2011</b>	742,852	81,914	5,853	495,224	1,325,843
Addition	575,799	142,027	284	21,566	739,676
Utilisation	(580,234)	(154,262)	(72)	(14,631)	(749,199)
Exchange differences	(8,188)	(891)	(2)	2,567	(6,514)
Business combination and changes in scope of subsidiaries	2,133	-	-	-	2,133
<b>At June 30, 2011</b>	<b>732,362</b>	<b>68,788</b>	<b>6,063</b>	<b>504,726</b>	<b>1,311,939</b>
<b>Current</b>	647,999	68,788	-	37,947	754,734
<b>Non-current</b>	84,363	-	6,063	466,779	557,205

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<i>(in millions of Korean won)</i>	2010				
	Warranty	Sales returns	Restoration	Litigation	Total
<b>At January 1, 2010</b>	735,474	79,385	4,665	491,316	1,310,840
Addition	671,642	152,785	320	122,705	947,452
Utilisation	(667,084)	(154,925)	(148)	(109,876)	(932,033)
Exchange differences	(12,224)	(1,376)	(20)	1,286	(12,334)
Business combination and changes in scope of subsidiaries	(730)	-	-	-	(730)
<b>At June 30, 2010</b>	<b>727,078</b>	<b>75,869</b>	<b>4,817</b>	<b>505,431</b>	<b>1,313,195</b>
<b>Current</b>	<b>653,126</b>	<b>75,869</b>	<b>-</b>	<b>-</b>	<b>728,995</b>
<b>Non-current</b>	<b>73,952</b>	<b>-</b>	<b>4,817</b>	<b>505,431</b>	<b>584,200</b>

**13. Defined Benefit Liability**

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

<i>(in millions of Korean won)</i>	June 30, 2011	December 31, 2010
Present value of funded obligations	921,225	848,689
Present value of unfunded obligations	22,572	20,154
<b>Sub-total</b>	<b>943,797</b>	<b>868,843</b>
Fair value of plan assets	(640,224)	(550,731)
<b>Liabilities</b>	<b>303,573</b>	<b>318,112</b>

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

<i>(in millions of Korean won)</i>	2011		2010	
	Three Months	Six Months	Three Months	Six Months
Current service cost	48,835	99,386	41,571	84,401
Interest cost	11,313	22,595	9,909	20,941
Expected return on plan assets	(6,238)	(12,460)	(7,125)	(14,543)
Past service cost	8	16	7	(97)
<b>Total expense</b>	<b>53,918</b>	<b>109,537</b>	<b>44,362</b>	<b>90,702</b>

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

<i>(in millions of Korean won)</i>	2011		2010	
	Three Months	Six Months	Three Months	Six Months
Cost of sales	26,148	53,801	21,518	44,420
Selling and marketing expenses	11,202	22,713	10,941	18,934
Administrative expenses	3,093	6,637	3,586	6,153
Research and development expenses	11,614	23,503	7,056	19,151
Service costs	1,861	2,883	1,261	2,044
<b>Total expense</b>	<b>53,918</b>	<b>109,537</b>	<b>44,362</b>	<b>90,702</b>

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Cumulative actuarial losses recognised in the statement of other comprehensive income as of June 30, 2011, are ₩56,812 million (2010: ₩54,968 million).

Changes in the defined benefit obligations are as follows:

<i>(in millions of Korean won)</i>	2011	2010
<b>At January 1</b>	868,843	755,507
Current service cost	99,386	84,401
Interest expense	22,595	20,941
Benefits paid	(50,313)	(44,792)
Business combination and changes in scope of subsidiaries	3,892	(85,674)
Others	(606)	449
<b>At June 30</b>	<b>943,797</b>	<b>730,832</b>

Changes in the fair value of plan assets are as follows:

<i>(in millions of Korean won)</i>	2011	2010
<b>At January 1</b>	550,731	456,101
Expected return on plan assets	12,460	14,543
Employer contributions	92,433	73,373
Benefits paid	(15,238)	(29,912)
Actuarial loss	(2,042)	(643)
Business combination and changes in scope of subsidiaries	2,123	(23,694)
Others	(243)	847
<b>At June 30</b>	<b>640,224</b>	<b>490,615</b>

The actual return on plan assets for the six-month period ended June 30, 2011, is ₩10,418 million (2010: ₩13,900 million).

The principal actuarial assumptions used are as follows:

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

Plan assets consist of:

<i>(in millions of Korean won)</i>	June 30, 2011	December 31, 2010
Securities combined with derivatives (guaranteed)	405,311	341,706
Time deposits and others	234,913	209,025
<b>Total</b>	<b>640,224</b>	<b>550,731</b>



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**14. Retained Earnings**

Details of retained earnings consist of:

<i>(in millions of Korean won)</i>	June 30, 2011	December 31, 2010
Legal reserve <sup>1</sup>	142,128	138,821
Discretionary reserve <sup>2</sup>	6,756,716	5,643,697
Unappropriated retained earnings	3,242,400	4,325,655
<b>Total</b>	<b>10,141,244</b>	<b>10,108,173</b>

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

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

**15. Other Components of Equity**

Details of other components of equity consist of:

<i>(in millions of Korean won)</i>	June 30, 2011	December 31, 2010
Treasury shares <sup>1</sup>	(44,893)	(44,893)
Consideration for conversion rights	9,891	9,891
Gain on disposal of treasury shares	2,183	2,183
Capital transactions within the Group <sup>2</sup>	(238,468)	(238,458)
<b>At December 31</b>	<b>(271,287)</b>	<b>(271,277)</b>

<sup>1</sup> The Parent Company has treasury shares consisting of 763,162 (2010: 763,161 shares) of ordinary shares and 4,687 shares (2010: 4,687 shares) of preferred shares at the end of the reporting period. The Parent Company intends to either grant these treasury shares to employees and directors as compensation, or to sell them in the future.

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

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**16. Net Sales**

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

<i>(in millions of Korean won)</i>	2011		2010	
	Three months	Six months	Three months	Six months
Net sales				
Sales of goods	14,184,778	27,163,515	14,236,262	27,246,060
Sales of services	122,597	220,229	89,583	195,715
Royalty income	77,701	161,280	83,872	185,264
<b>Total</b>	<b>14,385,076</b>	<b>27,545,024</b>	<b>14,409,717</b>	<b>27,627,039</b>

**17. Expenses by Nature**

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

<i>(in millions of Korean won)</i>	2011		2010	
	Three months	Six months	Three months	Six months
Changes in inventories	246,451	(303,730)	(446,934)	(1,748,270)
Purchase of raw materials and merchandise	9,908,259	19,800,591	10,736,610	21,062,179
Employee benefit expenses	1,199,933	2,338,425	1,008,140	1,965,182
Depreciation, amortization and impairment loss	305,480	606,175	361,474	637,533
Advertising expenses	406,166	851,035	474,987	973,838
Sales promotional expenses	260,752	438,919	250,657	412,970
Transportation expenses	474,879	944,337	521,543	897,494
Commission expense	655,999	1,189,794	624,182	1,135,713
Other expenses	1,069,476	2,074,232	1,491,914	2,691,689
<b>Total<sup>1</sup></b>	<b>14,527,395</b>	<b>27,939,778</b>	<b>15,022,573</b>	<b>28,118,328</b>

<sup>1</sup> Cost of sales, selling and marketing expenses, administrative expenses, research and development expenses, service costs and other operating expenses in the income statements 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 six-month periods ended June 30, 2011 and 2010, are as follows:

<i>(in millions of Korean won)</i>	2011		2010	
	Three months	Six months	Three months	Six months
Wages and salaries	628,514	1,231,924	541,885	1,057,887
Severance benefits	28,007	56,957	23,536	46,481

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Welfare expense	132,965	254,119	110,220	213,153
Freight expense	468,983	931,789	513,847	971,373
Rental expense	110,914	213,614	91,057	180,674
Commission expense	481,813	883,822	492,920	902,670
Depreciation	47,018	92,298	45,607	91,922
Amortization	64,309	125,714	51,968	95,369
Taxes and dues	34,721	64,278	26,098	46,317
Advertising expense	406,166	851,035	474,987	973,838
Promotional expense	260,752	438,919	250,657	412,970
Direct R&D costs	89,745	154,625	81,737	148,577
Direct service costs	254,915	443,520	278,608	564,386
Other	183,866	345,672	201,414	373,792
<b>Total</b>	<b>3,192,688</b>	<b>6,088,286</b>	<b>3,184,541</b>	<b>6,079,409</b>

**19. Other Operating Income**

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

<i>(in millions of Korean won)</i>	2011		2010	
	Three months	Six months	Three months	Six months
Rental income	9,480	15,737	7,445	13,520
Foreign exchange gain	261,679	591,364	686,394	1,005,171
Gain on settlement of derivatives	3,024	4,738	8,742	9,781
Gain on disposal of property, plant and equipment	1,928	3,743	4,697	8,923
Others	24,440	68,250	31,821	61,232
<b>Total</b>	<b>300,551</b>	<b>683,832</b>	<b>739,099</b>	<b>1,098,627</b>

**20. Other Operating Expenses**

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

<i>(in millions of Korean won)</i>	2011		2010	
	Three months	Six months	Three months	Six months
Foreign exchange loss	240,153	540,526	693,363	1,073,882
Loss on settlement of derivatives	2,626	5,258	1,748	2,669
Loss on disposal of property, plant and equipment	3,339	3,966	3,148	6,530
Loss on disposal of intangible assets	5,752	10,117	5,000	5,177
Others	4,807	18,748	25,224	34,309
<b>Total</b>	<b>256,677</b>	<b>578,615</b>	<b>728,483</b>	<b>1,122,567</b>

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**21. Financial Income**

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

<i>(in millions of Korean won)</i>	2011		2010	
	Three months	Six months	Three months	Six monthsq
Interest income	21,639	42,392	17,723	38,116
Dividend income	21	458	5	239
Foreign exchange gain	121,046	298,900	156,981	377,262
Gain on settlement of derivatives	18,974	26,301	40,265	71,752
Others	635	962	306	306
<b>Total</b>	<b>162,315</b>	<b>369,013</b>	<b>215,280</b>	<b>487,675</b>

**22. Financial Expenses**

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

<i>(in millions of Korean won)</i>	2011		2010	
	Three months	Six months	Three months	Six months
Interest expense	78,285	147,517	55,967	108,501
Foreign exchange loss	87,654	244,224	401,589	541,774
Loss on settlement of derivatives	18,405	23,243	13,206	23,253
Others	15,500	28,442	14,200	24,875
<b>Total</b>	<b>199,844</b>	<b>443,426</b>	<b>484,962</b>	<b>698,403</b>

**23. Earnings per Share**

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

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<i>(in millions of Korean won)</i>	2011		2010	
	Three months	Six months	Three months	Six months
Profit attributable to ordinary shares <sup>1</sup>	87,179	60,102	752,177	1,333,094
Profit from continuing operations attributable to ordinary shares	87,179	60,102	24,092	588,944
Profit from discontinued operations attributable to ordinary shares	-	-	728,085	744,150
Weighted average number of ordinary shares outstanding (unit: shares) <sup>2</sup>	143,884,652	143,884,652	143,884,656	143,884,656
Basic earnings per share (in won)	606	418	5,228	9,265
Earnings per share from continuing operations	606	418	167	4,093
Earnings per share from discontinued operations	-	-	5,061	5,172

<i>(in millions of Korean won)</i>	2011		2010	
	Three months	Six months	Three months	Six months
Profit attributable to preferred shares <sup>1</sup>	10,625	7,607	90,032	159,614
Profit from continuing operations attributable to preferred shares	10,625	7,607	2,857	70,515
Profit from discontinued operations attributable to preferred shares	-	-	87,175	89,099
Weighted average number of preferred shares outstanding (unit: shares) <sup>2</sup>	17,181,305	17,181,305	17,181,306	17,181,307
Basic earnings per preferred share (in won)	619	443	5,240	9,290
Earnings per preferred share from continuing operations	619	443	166	4,104
Earnings per preferred share from discontinued operations	-	-	5,074	5,186

<sup>1</sup> Profit attributable to ordinary and preferred shares are as follows:

<i>(in millions of Korean won)</i>	2011		2010	
	Three months	Six months	Three months	Six months
<b>Profit from continuing operations</b>	97,804	67,709	26,949	659,459
Ordinary shares dividends	7,194	14,388	(5,588)	55,621
Preferred shares dividends	1,074	2,148	(687)	6,831
<b>Undistributed earnings from continuing operations</b>	89,536	51,173	33,224	597,007
Undistributed earnings from continuing operations available for ordinary shares	79,985	45,714	29,680	533,323
Undistributed earnings from continuing operations available for preferred shares	9,551	5,459	3,544	63,684
<b>Profit from continuing operations attributable to ordinary shares</b>	87,179	60,102	24,092	588,944
<b>Profit from continuing operations attributable to preferred shares</b>	10,625	7,607	2,857	70,515
<b>Profit from discontinued operations</b>	-	-	815,260	833,249
Ordinary shares dividends	-	-	68,537	70,278
Preferred shares dividends	-	-	8,418	8,632

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Undistributed earnings from discontinued operations	-	-	738,305	754,339
Undistributed earnings from discontinued operations available for ordinary shares	-	-	659,548	673,872
Undistributed earnings from discontinued operations available for preferred shares	-	-	78,757	80,467
<b>Profit from discontinued operations attributable to ordinary shares</b>	-	-	728,085	744,150
<b>Profit from discontinued operations attributable to preferred shares</b>	-	-	87,175	89,099
<b>Profit attributable to ordinary shares</b>	87,179	60,102	752,177	1,333,094
<b>Profit attributable to preferred shares</b>	10,625	7,607	90,032	159,614

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

	2011		2010	
	Three Months	Six Months	Three Months	Six Months
Ordinary shares issued	144,647,814	144,647,814	144,647,814	144,647,814
Ordinary treasury shares	(763,162)	(763,162)	(763,158)	(763,158)
Ordinary shares outstanding	143,884,652	143,884,652	143,884,656	143,884,656
<b>Weighted average number of ordinary shares outstanding</b>	143,884,652	143,884,652	143,884,656	143,884,656
Preferred shares issued	17,185,992	17,185,992	17,185,992	17,185,992
Preferred treasury shares	(4,687)	(4,687)	(4,686)	(4,686)
Preferred shares outstanding	17,181,305	17,181,305	17,181,306	17,181,306
<b>Weighted average number of preferred shares outstanding</b>	17,181,305	17,181,305	17,181,306	17,181,307

**24. Cash Generated from Operations**

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

<i>(in millions of Korean won)</i>	2011	2010
Profit for the period	92,672	1,530,995
Adjustments :		
Interest expense, net	105,125	80,664
(Gain) Loss on foreign currency translation, net	(77,673)	8,592
Gain on derivatives, net	(2,538)	(41,929)
Depreciation and amortisation	603,191	636,774
Loss on disposal of property, plant and equipment, intangible assets, net	10,340	2,920
Provisions, net	739,676	947,452
Income tax expense	95,513	137,689
Expense (income) from jointly controlled entities and associates	26,480	(428,399)

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Gain on the measurement to fair value of discontinued operations	-	(815,260)
Provisions for severance benefits	109,537	90,702
Others	(11,760)	25,947
	<u>1,597,891</u>	<u>645,152</u>
<b>Changes in operating assets and liabilities</b>		
Increase in trade receivables	(633,722)	(1,263,059)
Increase in loans and other receivables	(13,292)	(78,920)
Increase in inventories	(267,895)	(1,745,017)
Increase in other assets	(19,483)	(247,228)
Increase in trade payables	602,939	1,438,230
Increase in other payables	607,350	152,744
Decrease in provisions	(749,199)	(932,033)
(Decrease) increase in other liabilities	(19,043)	13,904
Payment of defined benefit liability	(35,075)	(14,880)
Payment of plan assets, net	(92,433)	(73,373)
	<u>(619,853)</u>	<u>(2,749,632)</u>
<b>Cash Generated from Operations</b>	<u>1,070,710</u>	<u>(573,485)</u>

Significant transactions not affecting cash flows are as follows:

<i>(in millions of Korean won)</i>	<u>2011</u>	<u>2010</u>
Reclassification of construction-in-progress of property, plant and equipment	484,422	192,795
Reclassification of construction-in-progress of intangible assets	79,123	122,993
Reclassification of current maturities of borrowings	1,469,506	269,171

**25. Contingencies**

At the end of the reporting period, borrowings are secured on property, plant and equipment including land, buildings and machinery and intangible assets including land use rights for the book value of ₩144,102 million (2010: ₩190,071 million).

At the end of the reporting period, the Parent Company and a certain domestic subsidiary are provided with a performance guarantee of ₩82,954 million (2010: ₩85,709 million) from Seoul Guarantee Insurance relating to the sales contracts.

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

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

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

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

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

#### **26. Commitments**

(a) At the end of the reporting period, the Parent Company has overdraft facility agreements with various banks including Shinhan Bank, with a limit of ₩250,500 million (2010: ₩250,500 million). Its overseas subsidiaries, including LG Electronics European Shared Service Center B.V. and LG Electronics (China) Co. Ltd., have overdraft facility agreements with a limit of ₩920,955 million (2010: ₩926,808 million) with various banks including Citibank and HSBC.

The Group's domestic subsidiaries including Hi Plaza Inc. have overdraft facility agreements with various banks including Woori Bank with a limit of ₩14,350 million (2010: ₩8,000 million).

(b) At the end of the reporting period, the Parent Company has sales agreements for export trade receivables with Shinhan Bank and other 33 various banks amounting to ₩6,312,275 million (2010: ₩6,372,146 million) and for domestic trade receivables with Shinhan Bank and other two banks amounting to ₩380,000 million (2010: ₩375,680 million). The Parent Company has corporate electronic settlement services contracts for collection of trade receivables with two banks including Hana Bank of up to ₩110,000 million (2010: ₩130,000 million).



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At the end of the reporting period, Hi Business Logistics Co., Ltd., a domestic subsidiary of the Parent Company, has borrowing agreement on negotiated trade receivables with various banks, including Shinhan Bank, of up to ₩15,308 million.

The subsidiaries, LG Electronics UK., Ltd., LG Electronics Deutschland GmbH, LG Electronics Espana S.A., LG Electronics France S.A.R.L., LG Electronics Benelux Sales B.V., LG Electronics Italia S.P.A and LG Electronics Portugal S.A., transfer their accounts receivable to Societe Generale Bank on a revolving basis, for up to US\$882 million (2010: US\$932 million).

LG Electronics U.S.A., Inc. and LG Electronics MobileComm U.S.A. Inc., subsidiaries of the Parent Company, transfer their accounts receivable to JP Morgan Chase Bank and Sumitomo Bank on a revolving basis, for up to US\$200 million (2010: US\$350 million).

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

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

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

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

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

<i>(in millions of Korean won)</i>	<u>June 30, 2011</u>	<u>December 31, 2010</u>
Property, plant and equipment	60,154	66,285
Intangible assets	6,460	1,424
<b>Total</b>	<b>66,614</b>	<b>67,709</b>

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

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

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<i>(in millions of Korean won)</i>	June 30, 2011			
	No later than 1 year	Later than 1 year and no later than 5 years	Over 5 years	Total lease payments
Buildings and offices	87,539	166,331	57,108	310,978
Vehicles	23,950	20,724	-	44,674
Equipment	37,533	68,467	-	106,000
<b>Total</b>	<b>149,022</b>	<b>255,522</b>	<b>57,108</b>	<b>461,652</b>

*(g) Trademark licenses commitments*

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

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

**27. Related Party Transactions**

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

<i>(in millions of Korean won)</i>	2011		2010	
	Sales	Purchases	Sales	Purchases
LG Corp.	5,784	60,516	569	70,360
Jointly controlled entities and associates	404,743	3,251,366	559,082	3,683,889
Other related parties	66,494	697,307	61,494	668,745
<b>Total</b>	<b>477,021</b>	<b>4,009,189</b>	<b>621,145</b>	<b>4,422,994</b>

The balances of significant transactions are as follows:

<i>(in millions of Korean won)</i>	June 30, 2011		December 31, 2010	
	Receivables	Payables	Receivables	Payables
LG Corp.	17,565	-	4,245	692
Jointly controlled entities and associates	199,927	962,103	228,021	889,871
Other related parties	100,866	330,280	92,850	204,171
<b>Total</b>	<b>318,358</b>	<b>1,292,383</b>	<b>325,116</b>	<b>1,094,734</b>

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

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

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

**28. Risk Management**

**Financial Risk Management**

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

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

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

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

*(a) Market risk*

*i) Foreign exchange risk*

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

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

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

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

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

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

<i>(in millions of Korean won)</i>	June 30, 2011		December 31, 2010	
	10% increase	10% decrease	10% increase	10% decrease
USD	(311,687)	311,687	(415,020)	415,020
EUR	16,803	(16,803)	29,550	(29,550)

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

ii) Interest rate risk

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

To mitigate interest rate risk, the Group manages interest rate risk proactively by: minimising external borrowings by maximising internal cash sharing, reducing borrowings with high interest rates, maintaining an adequate mix between short-term and long-term liabilities and between fixed and variable interest rates and monitoring weekly and monthly interest rate trends in domestic and international markets.

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

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

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<i>(in millions of Korean won)</i>	June 30, 2011		December 31, 2010	
	100bp increase	100bp decrease	100bp increase	100bp decrease
Interest expense	32,901	(32,901)	35,855	(35,855)
Interest income	22,239	(22,239)	19,664	(19,664)
Gain (loss) on valuation of derivatives (IRS <sup>1</sup> )	6,511	(6,822)	7,114	(7,114)

<sup>1</sup> Interest rate swaps mainly create fair market value risk from changes in interest rates.

*(b) Credit risk*

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

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

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

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

As of June 30, 2011, trade receivable balance of the Group is ₩7,512,017 million (December 31, 2010: ₩7,001,962 million) and its risk is managed appropriately with insurer's credit limit of ₩29,331,115 million (December 31, 2010: ₩28,733,704 million).

*(c) Liquidity risk*

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

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

In addition, the Group copes with potential financial distress by maintaining adequate amount of cash and committed credit facilities. The balance of cash and cash equivalents, and current-financial deposits at June 30, 2011, is ₩2,288,312 million (December 31, 2010: ₩2,029,162 million). The Group maintains total committed credit lines of ₩600,000 million

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(December 31, 2010: ₩600,000 million) in various banks including Woori Bank, Kookmin Bank, and Shinhan Bank in Korea at June 30, 2011.

As of June 30, 2011, the cash and cash equivalents balance of the Group is about 54% (December 31, 2010: 51%) of current borrowings with due date in 12 months. If committed credit lines are included, the balance covers about 68% (December 31, 2010: 66%) of short-term borrowings.

In addition, the Group 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 Negative and Baa2 Stable (December 31, 2010: BBB Negative and Baa2 Stable), respectively.

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

**Capital Risk Management**

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

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

<i>(in millions of Korean won, except for ratios)</i>	<b>June 30, 2011</b>	<b>December 31, 2010</b>
Liability (A)	21,100,645	19,458,862
Equity (B)	12,743,946	12,859,637
Cash and cash equivalents and current financial deposits (C)	2,288,312	2,029,162
Borrowings (D)	7,763,867	7,192,935
Liability-to-equity ratio (A/B)	166%	151%
Net Borrowings ratio (D-C)/B	43%	40%

**Methods and Assumptions in Determining Fair Value**

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

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

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<i>(In millions of Korean won)</i>	June 30, 2011			
	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Financial assets at fair value through profit or loss				
- Derivatives for trading	-	2,553	-	2,553
Available-for-sale financial assets				
- Listed securities	13,561	-	-	13,561
<b>Total</b>	<b>13,561</b>	<b>2,553</b>	<b>-</b>	<b>16,114</b>
<b>Liabilities</b>				
Financial liabilities at fair value through profit or loss				
- Derivatives for trading	-	26,435	-	26,435
Derivatives for hedge	-	5,908	-	5,908
Share-based payments	-	5,304	-	5,304
<b>Total</b>	<b>-</b>	<b>37,647</b>	<b>-</b>	<b>37,647</b>

<i>(In millions of Korean won)</i>	December 31, 2010			
	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Financial assets at fair value through profit or loss				
- Derivatives for trading	-	1,814	-	1,814
Available-for-sale financial assets				
- Listed securities	13,508	-	-	13,508
<b>Total</b>	<b>13,508</b>	<b>1,814</b>	<b>-</b>	<b>15,322</b>
<b>Liabilities</b>				
Financial liabilities at fair value through profit or loss				
- Derivatives for trading	-	42,543	-	42,543
Derivatives for hedge	-	263	-	263
Share-based payments	-	8,946	-	8,946
<b>Total</b>	<b>-</b>	<b>51,752</b>	<b>-</b>	<b>51,752</b>

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

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses various valuation techniques and makes judgments based on current market conditions.

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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.

**29. Discontinued Operations**

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

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

<i>(in millions of Korean won)</i>	<b>2010</b>
Sales	482,457
Operating income	48,275
Profit before income tax	27,564
Income tax benefit	4,910
Profit after income tax of discontinued operations	32,474
Gain on the measurement to fair value	839,152
Income tax expense	23,892
Gain on the measurement to fair value after income tax	815,260
Post-tax profit from discontinued operations	847,734
Equity holders of the Parent Company	833,249
Non-controlling Interest	14,485



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<i>(in millions of Korean won)</i>	<b>2010</b>
Net cash outflow from operating activities	(30,636)
Net cash outflow from investing activities	(195,120)
Net cash inflow from financing activities	163,086
Exchange losses	(1,271)
<b>Net cash flow from discontinued operations</b>	<b>(63,941)</b>

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

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

<sup>1</sup> Carrying amounts of assets and liabilities of the discontinued operations were as follows:

<i>(in millions of Korean won)</i>	<b>Amount</b>
<b>Assets</b>	
Current assets	1,443,469
Non-current assets	1,743,044
<b>Total</b>	<b>3,186,513</b>
<b>Liabilities</b>	
Current liabilities	1,474,152
Non-current liabilities	795,002
<b>Total</b>	<b>2,269,154</b>
Non-controlling interest and accumulated other comprehensive income	448,603
Carrying amount of the discontinued operations	468,756

**30. Business Combination**

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

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

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The goodwill amounting to ₩64,429 million arising from the acquisition is due to the synergy benefits, increasing overseas market share and reducing R&D costs, resulting from combining business operations of the Group and acquired air-conditioning business.

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

<i>(in millions of Korean won)</i>	<b>Amount</b>
Consideration <sup>1</sup>	150,300
Recognised amounts of identifiable assets acquired and liabilities assumed <sup>2</sup>	
Current assets	
Cash and cash equivalents	2,025
Trade receivables	85,029
Other receivables	1,233
Inventories	18,156
Other assets	25,100
Non-current assets	
Financial deposits	5,888
Other receivables	868
Other financial assets	40
Property, plant and equipment	27,450
Intangible assets	36,531
Other assets	558
Current liabilities	
Trade payables	(46,765)
Borrowings	(19,504)
Other payables	(4,858)
Current income tax liabilities	(20)
Provisions	(2,133)
Other liabilities	(32,625)
Non-current liabilities	
Borrowings	(8,450)
Other payables	(224)
Defined benefit liabilities	(1,769)
Deferred income tax liabilities	(659)
<b>Total identifiable net assets</b>	<b>85,871</b>
Goodwill <sup>1</sup>	64,429
<b>Total</b>	<b>150,300</b>

<sup>1</sup> The Group is under the settlement with LS Mtron Co.,Ltd. for the purchase consideration that might result in changes of the amounts of consideration and goodwill.

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

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

The gross contractual amount for trade receivables is ₩88,598 million, of which ₩3,569 million is expected to be uncollectible.

The revenue and net loss included in the consolidated statement of operations from May 1, 2011 to June 30, 2011, contributed by air-conditioning business of LS Mtron Co.,Ltd. were ₩41,145 million and ₩(823) million, respectively. Had LS Mtron Co.,Ltd. been consolidated from January 1, 2011, revenue of ₩116,904 million and loss of ₩(2,038) million would have been included in the consolidated income statement for the six-month period ended June 30, 2011.