
LG Innotek Co., Ltd. and Subsidiaries

Consolidated Financial Statements
December 31, 2011 and 2010



SAMIL | 삼일회계법인

LG Innotek Co., Ltd. and Subsidiaries

Index

December 31, 2011 and 2010

	Page(s)
Report of Independent Auditors	1 - 2
Consolidated Financial Statements	
Consolidated Statements of Financial Position	3
Consolidated Statements of Operations	4
Consolidated Statements of Comprehensive Income	5
Consolidated Statements of Changes in Equity	6
Consolidated Statements of Cash Flows	7
Notes to the Consolidated Financial Statements	8 - 56



Report of Independent Auditors

To the Board of Directors and Shareholders of
LG Innotek Co., Ltd.

We have audited the accompanying consolidated statements of financial position of LG Innotek Co., Ltd. and its subsidiaries (collectively the "Group") as of December 31, 2011 and 2010, and the related consolidated statements of operation, comprehensive income, changes in equity and cash flows for the years then ended, expressed in Korean won. These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of certain consolidated subsidiaries, whose financial statements represent 2.2% and 2.0% of the Group's consolidated total assets as of December 31, 2011 and 2010, respectively, and 3.6% and 3.5% of the Group's consolidated total sales for the years then ended, respectively. These statements were audited by other auditors whose reports have been furnished us and our opinion, insofar as it relates to the amounts included for those subsidiaries, is based solely on the reports of other auditors.

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

In our opinion, based on our audits and the reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Group as of December 31, 2011 and 2010, and their financial performance and cash flows for the years ended 2011 and 2010, in accordance with International Financial Reporting Standards as adopted by the Republic of Korea ("Korean IFRS").

As discussed in Note 29 to the accompanying consolidated financial statements, the Group sold a part of business to LG Display Co., Ltd. and for its subsidiary on May 1, 2010.

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

Samil Ricewaterhouse/loopers

Seoul, Korea
March 2, 2012

This report is effective as of March 2, 2012, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

LG Innotek Co., Ltd. and Subsidiaries
Consolidated Statements of Financial Position
December 31, 2011 and 2010

<i>(in millions of Korean won)</i>	Note	2011	2010
Assets			
Current assets			
Cash and cash equivalents		435,602	247,487
Financial deposits		30,000	40,000
Trade receivables	8, 32	817,097	782,472
Loans and other receivables	8	54,818	45,464
Inventories	9	375,876	364,603
Current income tax assets		928	
Other current assets	10	14,753	22,855
		<u>1,729,074</u>	<u>1,502,881</u>
Non-current assets classified as held for sale		<u>6,865</u>	<u>-</u>
Non-current assets			
Financial deposits	7	6,670	6,463
Loans and other receivables	8	18,993	15,980
Available-for-sale financial assets	11	1,551	2,582
Held-to-maturity investments	11	4,954	2,433
Property, plant and equipment	12	2,305,466	2,337,690
Intangible assets	12	131,770	121,299
Deferred income tax assets	28	158,285	116,974
Other non-current assets	10	46,339	27,558
		<u>2,674,028</u>	<u>2,630,979</u>
Total assets		<u>4,409,967</u>	<u>4,133,860</u>
Liabilities			
Current liabilities			
Trade payables	32	494,575	426,468
Borrowings	13	693,677	227,667
Other payables	14	250,653	527,534
Current income tax liabilities		4,008	8,035
Provisions	15	10,332	3,175
Other current liabilities		20,576	29,384
		<u>1,473,821</u>	<u>1,222,263</u>
Non-current liabilities			
Borrowings	13	1,551,084	1,421,162
Other payables	14	403	1,230
Defined benefit liability	16	59,819	19,223
		<u>1,611,306</u>	<u>1,441,615</u>
Total liabilities		<u>3,085,127</u>	<u>2,663,878</u>
Equity attributable to owners of the Parent Company			
Capital stock	17	100,795	100,635
Retained earnings	19	372,260	533,032
Accumulated other comprehensive income (loss)	18	3,653	(9,058)
Other components of equity	17	848,078	845,302
		<u>1,324,786</u>	<u>1,469,911</u>
Non-controlling interest		<u>54</u>	<u>71</u>
Total equity		<u>1,324,840</u>	<u>1,469,982</u>
Total liabilities and equity		<u>4,409,967</u>	<u>4,133,860</u>

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

LG Innotek Co., Ltd. and Subsidiaries
Consolidated Statements of Operations
Years ended December 31, 2011 and 2010

<i>(in millions of Korean won, except per share amounts)</i>	Note	2011	2010
Continuing operations			
Net sales	20, 32	4,553,009	4,103,477
Cost of sales	23, 32	<u>4,164,067</u>	<u>3,588,118</u>
Gross profit		388,942	515,359
Selling and marketing expenses	21	146,016	135,488
Administrative expenses	22	59,345	64,934
Research and development expenses	12	226,470	161,776
Other operating income	24	118,808	122,229
Other operating expenses	24	<u>142,755</u>	<u>118,934</u>
Operating income (loss)		(66,836)	156,456
Financial income	25	31,682	34,385
Financial expenses	25	<u>139,319</u>	<u>82,164</u>
Profit (loss) before income tax		(174,473)	108,677
Income tax benefit		<u>(29,098)</u>	<u>(17,290)</u>
Profit (loss) from continuing operations		(145,375)	125,967
Discontinued operations	29		
Profit from discontinued operations		-	69,865
Profit (loss) for the year		<u>(145,375)</u>	<u>195,832</u>
Profit for the year attributable to:			
Equity holders of the Parent Company		(145,358)	195,591
Non-Controlling interest		(17)	239
Earnings (loss) per share for profit (loss) attributable to the equity holders of the Parent Company during the year (in won)			
	26		
Basic earnings (loss) per share		(7,211)	10,325
Basic earnings (loss) per share for profit (loss) from continuing operations		(7,211)	6,637
Basic earnings per share for profit from discontinued operations		-	3,688
Diluted earnings (loss) per share		(7,211)	9,946
Diluted earnings (loss) per share for profit (loss) from continuing operations		(7,211)	6,390
Diluted earnings per share for profit from discontinued operations		-	3,556

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

LG Innotek Co., Ltd. and Subsidiaries
Consolidated Statements of Comprehensive Income
Years ended December 31, 2011 and 2010

<i>(in millions of Korean won)</i>	Note	2011	2010
Profit (loss) for the year		<u>(145,375)</u>	<u>195,832</u>
Other comprehensive income (loss):			
Currency translation differences	18	12,712	1,054
Loss on valuation of available-for-sale financial assets	18	(1)	(8)
Reclassification of loss on valuation of available-for-sale financial assets	18	-	216
Actuarial loss on defined benefit liability	16	<u>(8,370)</u>	<u>(10,703)</u>
Other comprehensive income (loss) for the year, net of tax		<u>4,341</u>	<u>(9,441)</u>
Total comprehensive income (loss) for the year		<u>(141,034)</u>	<u>186,391</u>
Comprehensive income (loss) for the year attributable to:			
Equity holders of the Parent Company		(141,017)	186,317
Non-controlling interest		<u>(17)</u>	<u>73</u>
Total comprehensive income (loss) for the year		<u>(141,034)</u>	<u>186,390</u>

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

LG Innotek Co., Ltd. and Subsidiaries
Consolidated Statements of Changes in Equity
Years ended December 31, 2011 and 2010

(In millions of Korean won)

	Attributable to equity holders of the Parent Company						Non-controlling Interest	Total Equity
	Capital Stock	Retained Earnings	Accumulated Other Comprehensive Income(loss)	Other Components of Equity	Total			
Balance at January 1, 2010	85,659	354,139	(10,487)	475,967	905,278	(7,589)	897,689	
Comprehensive Income (loss) :								
Profit for the year	-	195,591	-	-	195,591	240	195,831	
Actuarial loss on defined benefit liability	-	(10,703)	-	-	(10,703)	-	(10,703)	
Loss on valuation of available-for-sale financial assets	-	-	(8)	-	(8)	-	(8)	
Reclassification of loss on valuation of available-for-sale financial assets	-	-	216	-	216	-	216	
Currency translation differences	-	-	1,221	-	1,221	(166)	1,055	
Total comprehensive Income	-	184,888	1,429	-	188,317	74	188,391	
Transactions with equity holders of the Parent Company :								
Acquisition of subsidiary	-	-	-	(15,002)	(15,002)	7,588	(7,416)	
Issuance of new shares	12,450	-	-	310,780	323,230	-	323,230	
Bond conversion and warrant exercise	2,526	-	-	43,600	46,126	-	46,126	
Issuance of new convertible bonds	-	-	-	14,210	14,210	-	14,210	
Reclassification of derivative financial liabilities	-	-	-	15,747	15,747	-	15,747	
Dividends	-	(5,995)	-	-	(5,995)	-	(5,995)	
Total transactions with equity holders of the Parent Company	14,976	(5,995)	-	369,335	378,316	7,588	385,902	
Balance at December 31, 2010	100,635	533,032	(9,058)	845,302	1,469,911	71	1,469,982	
Balance at January 1, 2011	100,635	533,032	(9,058)	845,302	1,469,911	71	1,469,982	
Comprehensive Income (loss) :								
Loss for the year	-	(145,358)	-	-	(145,358)	(17)	(145,375)	
Actuarial loss on defined benefit liability	-	(8,371)	-	-	(8,371)	-	(8,371)	
Loss on valuation of available-for-sale financial assets	-	-	(1)	-	(1)	-	(1)	
Currency translation differences	-	-	12,712	-	12,712	-	12,712	
Total comprehensive Income (loss)	-	(153,729)	12,711	-	(141,018)	(17)	(141,035)	
Transactions with equity holders of the Parent Company :								
Bond conversion and warrant exercise	160	-	-	2,776	2,936	-	2,936	
Dividends	-	(7,043)	-	-	(7,043)	-	(7,043)	
Total transactions with equity holders of the Parent Company	160	(7,043)	-	2,776	(4,107)	-	(4,107)	
Balance at December 31, 2011	100,795	372,260	3,653	848,078	1,324,786	54	1,324,840	

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

LG Innotek Co., Ltd. and Subsidiaries
Consolidated Statements of Cash Flows
Years ended December 31, 2011 and 2010

<i>(in millions of Korean won)</i>	Note	2011	2010
Cash flows from operating activities			
Continuing operations			
Cash generated from operations	30	382,717	104,391
Interest received		11,420	8,763
Interest paid		(87,254)	(52,640)
Income tax paid		(15,670)	(18,370)
Discontinued operations		-	3,807
Net cash generated from operating activities		291,213	45,951
Cash flows from investing activities			
Continuing operations			
Decrease in financial deposits		40,002	44,035
Decrease in loans and other receivables		5,175	2,097
Proceeds from disposal of available-for-sale financial assets		-	554
Proceeds from disposal of held-to-maturity investments		1	630
Proceeds from disposal of property, plant and equipment		59,183	61,150
Proceeds from disposal of intangible assets		255	928
Increase in financial deposits		(30,208)	(76,230)
Increase in loans and other receivables		(9,096)	(6,381)
Acquisition of available-for-sale financial assets		(597)	(3,668)
Acquisition of held-to-maturity investments		(2,521)	(24)
Acquisition of property, plant and equipment		(691,517)	(1,328,906)
Acquisition of intangible assets		(50,358)	(53,970)
Incorporation of subsidiary		-	75
Discontinued operations		-	(6,583)
Cash flows from investing activities		-	234,600
Proceeds from sale of discontinued operations	29	-	-
Net cash used in investing activities		(679,681)	(1,131,693)
Cash flows from financing activities			
Continuing operations			
Proceeds from borrowings		699,452	1,071,799
Exercise of warrants		78	11,252
Issuance of new shares		-	323,229
Repayments of borrowings		(113,967)	(367,031)
Dividends paid		(7,044)	(5,995)
Acquisition of non-controlling interest		-	(7,491)
Discontinued operations		-	-
Net cash provided by financing activities		578,519	1,025,763
Exchange gains (losses) on cash and cash equivalents		(1,936)	(4,118)
Net increase (decrease) in cash and cash equivalents		188,115	(64,097)
Cash and cash equivalents at the beginning of year		247,487	311,584
Cash and cash equivalents at the end of year		435,602	247,487

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

LG Innotek Co., Ltd. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2011 and 2010

1. General Information

General information about LG Innotek Co., Ltd. (the "Parent Company") and its eight subsidiaries (collectively referred to the "Group") is as follows.

The Parent Company was incorporated in February 1976 to engage in manufacturing and distributing the electronic, electrical and other machinery parts.

The Parent Company's main manufacturing facilities are located in Gumi, Osan and Gwangju in the Republic of Korea. The Parent Company listed its shares on the Korea Exchange on July 24, 2008, and merged with LG Micron Ltd. on July 1, 2009. As of December 31, 2011, the Parent Company has outstanding capital stock amounting to ₩ 100,795 million, and LG Electronics Inc. is the largest shareholder with 47.89% ownership.

The Group is engaged in the manufacture and sale of mobile products including camera modules, vibration motors and printed circuit boards (PCBs), display products including tuners, power modules, tape substrates and photo masks as well as electrical and electronics products including light emitting diodes (LEDs), network components and automotive components. The Group operates three business segments (Note 5) and other supporting segments through the Parent Company and subsidiaries located in China, Indonesia and Poland.

Consolidated subsidiaries as of December 31, 2011, are as follows:

Subsidiaries	Abbreviations ¹	Type of Business	Percentage of Ownership (%)
Overseas subsidiaries			
LG Innotek (Yantai) Co., Ltd.	LGITYT	Production & Sales	100
LG Innotek (Huizhou) Co., Ltd.	LGITHZ	Production & Sales	100
LG Innotek (Fuzhou) Co., Ltd.	LGITFZ	Production & Sales	100
PT LG Innotek Indonesia	LGITIN	Production & Sales	100
LG Innotek Poland Sp z o.o.	LGITPO	Production & Sales	100
LG Innotek (Taiwan) Ltd.	LGITTW	Sales	100
LG Innotek USA, Inc.	LGITUS	Sales	100
Domestic subsidiary			
LG Innotek Alliance Fund Co., Ltd.	LGIT A-Fund	Investment	99

¹ Abbreviations are used hereinafter.

² The former subsidiary, LG Innotek (Yantai) Electronic. Co., Ltd.(LGITYT_FPCB), has been liquidated during the year.

LG Innotek Co., Ltd. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2011 and 2010

Financial information of major subsidiaries, as of December 31, 2011 and 2010, are as follows:
(Before elimination of intercompany transaction)

2011						
Subsidiaries	Assets	Liabilities	Equity	Sales	Net Income	Total Comprehensive Income
LGITYT	219,676	73,459	146,217	553,533	9,588	17,621
LGITHZ	238,927	158,416	80,511	324,420	14,345	18,784
LGITFZ	44,335	40,675	3,660	39,616	(334)	(94)
LGITIN	106,340	88,937	17,403	209,491	2,193	2,561
LGITPO	50,538	57,546	(7,008)	54,317	(7,357)	(6,779)
LGITTW	1,171	849	322	1,831	152	149
LGITUS	3,920	2,143	1,777	12,097	(117)	(91)
LGIT A-Fund	5,577	155	5,422	-	(1,727)	(1,727)

2010						
Subsidiaries	Assets	Liabilities	Equity	Sales	Net Income	Total Comprehensive Income
LGITYT	286,650	158,054	128,596	702,073	59,415	59,582
LGITHZ	155,124	93,397	61,727	208,257	14,400	15,047
LGITFZ	44,504	41,158	3,346	33,774	3,646	3,691
LGITYT_FCB	131	-	131	-	-	-
LGITIN	85,548	70,706	14,842	205,799	3,705	3,304
LGITPO	64,998	65,481	(483)	153,712	(3,381)	(2,600)
LGITTW	535	362	173	1,058	358	376
LGITUS	2,640	773	1,867	7,642	(192)	(259)
LGIT A-Fund	7,150	-	7,150	-	(350)	(350)

2. Significant Accounting Policies

The Group has prepared these consolidated financial statements in accordance with Korean IFRS 1027, 'Consolidated and separate financial statements' and these statements are the financial statements of the Group presented as those of a single economic entity.

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

In 2011, the Group presents unused government grant as other liability, not as a deduction from cash and cash equivalents. Such a reclassification has also been made to the statement of

LG Innotek Co., Ltd. and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2011 and 2010

financial position as of December 31, 2010 to conform to the presentation as of December 31, 2011. This reclassification has no effect on the reported net income or net asset amount of the prior year.

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 preparation of financial statements in accordance with Korean IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the 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 4.

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

- Amendments to Korean IFRS 1101, Hyperinflation and Removal of Fixed Dates for first-time adopters

As an exception to retrospective application requirements, this amendment to Korean IFRS 1101 allows a prospective application of derecognition of financial assets for transactions occurring on or after the date of transition to Korean IFRS, instead of fixed date (January 1, 2004). Accordingly, the Group is not required to restate and recognize those assets or liabilities that were derecognized as a result of a transaction that occurred before the dated of transition to Korean-IFRS. This amendment will be effective for the Group as of January 1, 2012. The Group expects that the application of this amendment would not have material impact on its consolidated financial statements.

- Amendments to Korean IFRS 1012, Income Taxes

According to the amendments to Korean-IFRS1012, Income Taxes, for the investment property that is measured using the fair value model, the measurement of deferred tax liability and deferred tax asset should reflect the tax consequences of recovering the carrying amount of the investment property entirely through sale, unless evidences support otherwise. This amendment will be effective for the Group as of January 1, 2012. The Group expects that the application of this amendment would not have material impact on its consolidated financial statements.

- Amendment to Korean IFRS 1019, Employee Benefits

The amendment does not allow the corridor approach any more. It requires the Group recognise all actuarial gains and losses in other comprehensive income as they occur, immediately recognise

LG Innotek Co., Ltd. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2011 and 2010

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 expects that the application to this amendment would not have material impact on its consolidated financial statements.

- Amendments to Korean IFRS 1107, Financial Instruments: Disclosures

According to the amendment, an entity should provide the required disclosures of nature, carrying amount, risk and rewards associated with all transferred financial instruments that are not derecognized from an entity's financial statements. In addition, an entity is required to disclose additional information related to transferred and derecognized financial instruments for any continuing involvement in transferred assets. This amendment is effective for the Group as of January 1, 2012. The Group expects additional disclosures would be necessary for the natures, carrying amounts, risks and rewards in relation to the transfer of trade receivable due to the amendment of Korean IFRS 1107.

- Enactment of Korean IFRS 1113, 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 1101 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. This amendment will be effective for the Group as of January 1, 2013, and the Group is in the process of understanding the potential influence from the application of Korean IFRS 1113.

Consolidation

(a) Subsidiaries

Subsidiaries are all entities over which the Parent Company has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Parent Company controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Parent Company. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. The consideration includes any assets or liability resulting from a contingent consideration arrangement. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received. Identifiable assets acquired and liabilities and contingent liabilities assumed

LG Innotek Co., Ltd. and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2011 and 2010

in a business combination are measured initially at their fair values at the acquisition date. Non-controlling interest in the acquiree is measured at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

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

However, as Korean IFRS 1103, 'Business Combination' gives no explicit guidance for the business combination under common control, the Group adopts a policy that the acquired assets and liabilities are measured as carrying amounts of consolidated financial statement and the differences between acquisition cost and acquired net asset are recognised as other components of equity based on accounting practices and policies from the other standard-setting bodies that use a similar conceptual framework.

Inter-company transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated.

(b) Transactions with non-controlling interests

The Group applies a policy of treating transactions with non-controlling interests as transactions with owners of the Group. The difference between any consideration paid and the relevant share of the carrying value of net assets of the subsidiary is recorded in equity. Gains and losses on disposal of non-controlling interests are also recognised in other comprehensive income. When control ceases, any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in the income statement.

Segment Reporting

Operating segments are established on the basis of business divisions whose internal reporting is provided to the chief operating decision-maker who is the chief executive officer.

Foreign Currency Translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's companies are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in 'Korean won', which is the Parent Company's functional and the Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign

LG Innotek Co., Ltd. and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2011 and 2010

exchange gains and losses resulting from the settlement of such transactions and from the translation at each reporting date of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

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

(c) Group companies

The results and financial position of all Group companies whose functional currency is different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities are translated at the closing rate as of the reporting date;
- Income and expenses are translated at monthly average exchange rates (unless this average is not a reasonable approximation of the effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- All resulting exchange differences are recognised in other comprehensive income.

When the Parent Company ceases to control the subsidiary, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

Cash and Cash Equivalents

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

Financial Instruments

(a) Classification

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

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

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

LG Innotek Co., Ltd. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2011 and 2010

ii) Loans and receivables

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

iii) Held-to-maturity investments

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months after the end of the reporting period, which are classified as current assets. All held-to-maturity securities as of December 31, 2011 and 2010, consist of government and municipal bonds.

iv) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are classified as non-current assets unless maturities are less than 12 months or management intends to dispose of them within 12 months after the end of the reporting period. All available-for-sale financial assets as of December 31, 2011 and 2010, consist of equity instruments.

v) Financial liabilities measured at amortised cost

The Group classifies non-derivative financial liabilities as financial liabilities measured at amortised cost except for financial liabilities at fair value through profit or loss or financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition. Financial liabilities measured at amortised cost are included in non-current liabilities, except for maturities less than 12 months after the end of the reporting period, which are classified as current liabilities.

(b) Recognition and Measurement

Financial assets or financial liabilities are recognised on the statement of financial position when, and only when, the Group becomes a party to their contractual provisions. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

LG Innotek Co., Ltd. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2011 and 2010

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. However, investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are subsequently carried at cost.

Loans and receivables are subsequently carried at amortised cost using the effective interest rate method. However, short-term receivables and payables with no stated interest rate are measured at the original invoice amount since the effect of discounting is immaterial.

Gains or losses arising from changes in the fair value of the financial assets carried at fair value through profit or loss are presented in the income statement within 'financial income and expenses' in the period in which they arise.

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

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

(c) Derecognition

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

(d) Offsetting

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

Impairment of Financial Assets

(a) *Assets carried at amortised cost*

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

LG Innotek Co., Ltd. and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2011 and 2010

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

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

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the income statement. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the income statement.

(b) Assets classified as available-for-sale

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

LG Innotek Co., Ltd. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2011 and 2010

Trade Receivables

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

Inventories

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

Property, Plant and Equipment

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

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

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

	Estimated Useful Lives
Buildings, structures	10 - 40 years
Machinery	5 - 10 years
Tools	5 years
Furniture and fixtures	5 years
Vehicles	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'other operating income and expenses' in the income statement.

LG Innotek Co., Ltd. and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2011 and 2010

Borrowing Costs

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

Government Grants

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

Government grants related to income are deferred and recognised in the income statement by deducting the expense that they are intended to compensate.

Government grants related to assets are presented as a deduction of related assets and are credited to depreciation over the expected lives of the related assets.

Intangible Assets

(a) Industrial property rights

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

(b) Development costs

The Group recognises expenditures related to general research or development project as an expense when incurred. Costs that are identifiable, controllable and directly attributable to development projects for a new product are recognised as intangible assets when all the following criteria are met.

- The technical feasibility of completing the intangible asset so that it will be available for use or sale.
- The Group's intention to sell the new product.
- The Group's ability to sell the new product.
- The ability to prove how the new product will generate probable future economic benefits.
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the new product.
- The ability to measure reliably the expenditure attributable to the intangible asset during its development.

Directly attributable costs that are capitalised in development costs include appropriate part of

LG Innotek Co., Ltd. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2011 and 2010

costs of employee benefits and overhead expenditure for the development.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred.

Capitalised development costs which are stated as intangible assets are amortised using the straight-line method over their estimated useful life when the assets are available for use.

(c) Other intangible assets

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

(d) Useful Lives of intangible assets

	Estimated Useful Lives
Development costs	1 ~3 years
Industrial property rights	10 years
Other intangible assets	5 ~ 25 years

Impairment of Non-Financial Assets

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

Non-current Assets Classified as Held for Sale (Group Classified as Held for Sale) and Discontinued Operations

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

When a component of the Group representing a separate major line of business or geographical

LG Innotek Co., Ltd. and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2011 and 2010

area of operation has been disposed of, or is subject to a sale plan involving loss of control of a subsidiary, the Group discloses in the income statement the post-tax profit or loss of discontinued operations and the post-tax gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or disposal groups constituting the discontinued operations. The net cash flows attributable to the operating, investing and financing activities of discontinued operations are presented separately in the financial statements.

Trade Payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payable are classified as current liabilities if payment is due within one year. If not, they are presented as non-current liabilities.

Borrowings and Debentures

Borrowings and debentures are recognised initially at fair value, net of transaction costs incurred. Borrowings and debentures are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method. The Group classifies the liability as current as long as it does not have an unconditional right to defer its settlement for at least 12 months after the reporting date.

Convertible bonds and Bonds with warrants

Convertible bonds and bonds with warrants are analysed into debt components and separate embedded conversion and warrant components. The conversion right and warrants are classified as equity instruments and recognised as other component of equity when the Group can settle the contract by delivering a fixed number of its own equity instruments in exchange for a fixed exercise price. If not, they are classified as derivatives.

The Group determines the initial fair value of the debt component by measuring the fair value of a similar liability that does not have an associated equity component (the conversion rights and warrants). The amounts of the conversion right and warrants are then determined by deducting the fair value of the financial liability from the fair value of the convertible bonds and bonds with warrants.

After initial recognition, the debt component is measured at amortised cost using the effective interest method. If the conversion rights and warrants are classified as equity instruments, they are not subsequently remeasured. If the conversion rights and warrants are classified as derivative liabilities, they are subsequently remeasured at fair value because they meet the definition of financial liabilities at fair value through profit or loss. However, the derivative liabilities are derecognised from the statements of financial position when, and only when, the obligation specified in the contract is discharged or cancelled or expires and the definition of financial liability is not met after initial recognition.

The conversion rights and warrants issued by the Group and outstanding at the end of reporting

LG Innotek Co., Ltd. and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2011 and 2010

period were initially classified as derivative instruments and subsequently measured at fair value as they did not meet the definition of equity component when issued. However as the exercise prices become fixed during last year, they do not meet the definition of financial liabilities, and are reclassified into other components of equity (Note 13).

Current and Deferred Income Tax

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

Current tax for current and prior periods, to the extent unpaid, is recognised as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess is recognised as an asset. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date in the countries where the Group operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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

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

Deferred income tax liabilities are provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention either to settle the balances on a net basis or to realise the asset and settle the liability simultaneously.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a

LG Innotek Co., Ltd. and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2011 and 2010

result of past events and an outflow of resources required to settle the obligation is probable and can be reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the probability that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Although the likelihood of outflow for any one item may be small, it may well be probable that some outflow of resources will be needed to settle the class of obligations as a whole. If that is the case, a provision is recognised.

Defined Benefit Liability

The Group has both defined benefit and defined contribution plans.

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions even if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans. The Group has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due.

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

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

Share Capital

Ordinary shares are classified as equity and the transaction costs are accounted for as a deduction from equity to the extent they are incremental costs directly attributable to the equity transaction.

Where any Group company purchases the Parent Company's equity share capital, the consideration paid, including any directly attributable incremental costs, is deducted from equity

LG Innotek Co., Ltd. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2011 and 2010

attributable to the Parent Company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received is included in equity attributable to the Parent Company's equity holders.

Revenue Recognition

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

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

(a) Sales of goods

The Group manufactures and sells main components of mobile phone, related components of display, LED, network components, automotive components, electronics and their related components. Sales of goods are recognised when the Group has delivered products to the customer. Delivery does not occur until the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, or the Group has objective evidence that all criteria for acceptance have been satisfied. The Group recognises provisions for product warranties based on reasonable expectation reflecting warranty obligation rates incurred historically (Note 15).

(b) Royalty income

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

(c) Interest income

Interest income is recognised using the effective interest method.

(d) Dividend income

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

Leases

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

LG Innotek Co., Ltd. and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2011 and 2010

Dividend Distribution

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

Approval of Financial Statements

The December 31, 2011 consolidated financial statements were approved by the Board of Directors on January 30, 2012.

3. Financial Risk Management

The Group's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Financial Risk Factors

(a) Market risk

i) Foreign exchange risk

The Group is exposed to foreign exchange risk arising from sales and purchase transaction in foreign currencies and focuses on managing the foreign exchange risk with the purpose of financial soundness and sustainable business. Especially, the Group concentrates to balance assets and liabilities denominated in foreign currency and sales and purchases to reduce foreign exchange risk that results from inconsistency of assets and liabilities denominated in foreign currency.

To manage foreign exchange risk systematically and continuously, the Group has set up a foreign exchange management policy and assigned related task to the people who are fully in charge of this work.

The principal of foreign exchange risk management is to minimise the risk from foreign exchange rate fluctuation and secure stable cash flow. Accordingly, the Group prohibits speculative foreign exchange trading and eliminates foreign exchange risk by using internal exchange management strategy to match the assets and liabilities denominated in foreign currency including corresponding receivable collection period with payable payment period. In addition, the Group minimises the exchange risk from foreign exchange rate fluctuation by using external foreign exchange management strategy and derivative financial instruments transactions that need the approval of the CEO and CFO depending on the scale and discretion.

As of December 31, 2011 and 2010, if the foreign exchange rate of each functional currencies fluctuated by 10% while other variables were fixed, the effects on income before tax would be as follows:

LG Innotek Co., Ltd. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2011 and 2010

<i>(in millions of Korean won)</i>	2011		2010	
	10% increase	10% decrease	10% increase	10% decrease
USD	16,228	(16,228)	6,345	(6,345)
JPY	(1,954)	1,954	(5,197)	5,197
EUR	(1,904)	1,904	(3,325)	3,325

The above sensitivity analysis is done with foreign currency denominated assets and liabilities which are not in each entities' functional currency. The selling price and gross profit can be influenced by the change in future foreign exchange rate.

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 with variable interest rates linked to market interest rate changes in the future. For the corporate bonds and some borrowings with fixed interest rate, there are no effects on profit and equity with interest rate fluctuation.

As of December 31, 2011 and 2010, if interest rates fluctuate by 100bp without other variables changing, the effects on expenses related to borrowings with variable interest rates are as follows:

<i>(in millions of Korean won)</i>	2011		2010	
	100bp increase	100bp decrease	100bp increase	100bp decrease
Interest expense	2,208	(2,208)	4,868	(4,868)

(b) Credit risk

The purpose of credit risk is minimising the loss and maximizing collection rate of receivable by global credit risk management based on the Group's policy, real-time monitoring and securing programmes.

The credit policy is composed of credit management, trade receivable management, global monitoring by system, order blocking management and others. The credit policy is operated and monitored on per Group basis. The credit limits of customers are assessed by the evaluation standards based on external rating of the customers, collection history, terms and conditions of the transaction, operating period of customers, transaction amounts, credit rating of the countries and other factors. The credit limits are approved by authorised people according to the Group's policy.

The Group operates global credit and trade receivable management policy and system to mitigate the credit risk. In order to manage the risk, the Group enters credit insurance programme (domestic/overseas) for trade receivables and holds collaterals which are real estates, guarantee insurance, bank guarantees and others. Accordingly, as of December 31, 2011, the credit quality of financial assets that are neither past due nor impaired can be assessed, if available, by reference to external credit ratings or to historical information about counterparty default rates.

(c) Liquidity risk

LG Innotek Co., Ltd. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2011 and 2010

The Group forecasts cash flows in operating, investing and financing activities by planning the cash inflows and outflows in every three months. This helps the Group to manage the liquidity risk proactively that would arise in the future by securing needed liquidity budget in advance and maintaining it. In addition, the Group adopts the pooling system among three Chinese subsidiaries to share the internal funds and secure additional credit limit of short-term borrowings. As of December 31, 2011, the Group copes with the liquidity risk by maintaining total committed credit lines of ₩ 389,100 million, including general borrowings, commercial paper and bank overdraft agreements with Shinhan Bank and Hana Bank.

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

<i>(in millions of Korean won)</i>	Less than			Over
	1 year	2 years	5 years	5 years
Trade payables	494,575	-	-	-
Short-term borrowings	458,273	-	-	-
Other payables	250,653	365	-	38
Long-term borrowings	128,346	410,791	253,474	169
Debentures	130,155	216,100	585,063	-
Convertible bonds and bonds with warrants	64,901	-	216,572	-
Total	1,526,903	627,256	1,055,109	207

¹ The above cash flow is undiscounted amount and includes interest payment.

Capital Risk Management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to continuously provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group monitors capital on the basis of the debt-to-equity ratio. This ratio is calculated as total liability divided by total equity. The Group's strategy is to maintain the level of same industries' debt-to-equity ratio and improve the credit rating to AA by Nice Investors Service Co., Ltd.

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

<i>(in millions of Korean won, except for ratios)</i>	December 31, 2011	December 31, 2010
Liability (A)	3,085,126	2,663,878
Equity (B)	1,324,840	1,469,983
Cash and cash equivalents and current financial deposits (C)	472,271	293,950
Borrowings (D)	2,244,762	1,648,829
Debt-to-equity ratio (A/B)	233%	181%
Net Borrowings ratio (D-C)/B	134%	92%

Methods and Assumptions in Determining Fair Value

LG Innotek Co., Ltd. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2011 and 2010

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).

For trade receivables and other short-term financial assets, the carrying amount is the assumed reasonable approximation of fair value.

The Group's assets and liabilities measured at fair value are as follows:

<i>(In millions of Korean won)</i>	December 31, 2011			
	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets				
- Listed equity instruments	1	-	-	1

<i>(In millions of Korean won)</i>	December 31, 2010			
	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets				
- Listed equity instruments	2	-	-	2

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. Financial instruments included in level 1 consists of listed equity investments classified as available for sale and listed warrants classified as derivatives.

As of the end of the reporting period, there is no financial instrument measured at fair value by level 2 and level 3.

4. 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 date are addressed below.

Income Taxes

LG Innotek Co., Ltd. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2011 and 2010

The Group is subject to income taxes in numerous jurisdictions. 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.

Realisation of the future tax benefits related to the deferred tax assets is dependent on many factors, including the Group's ability to generate taxable profit within the period during which the temporary differences reverse, the outlook of the economic environment and the overall future industry outlook. Management periodically considers these factors.

Provisions

The Group recognises provisions for product warranties as of the reporting date as described in Note 15. The amounts are estimated based on historical data.

Defined Benefit Liability

Actuarial assumptions used to calculate the amount of defined benefit liability include the rate of salary increase, discount rate and several variables. Any changes in these assumptions will impact the carrying amount of the defined benefit liability. Other key assumptions for defined benefit liability are based in part on current market conditions. 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 defined benefit liability.

5. Segment Information

The Group has three business divisions (Display and Network; LED; and Materials and Components) and supporting divisions that are engaged in general management and R&D activities.

The main products of each business division are as follows:

Divisions	Products
Display and Network	Tuner, Power Module, Wireless Modem, other
LED	LED BLU, LED for Mobile, LED Lighting, other
Materials and Components	PCB, Tape Substrate, Lead Frame, Photo Mask, Camera Module, ABS Motor, other

LG Innotek Co., Ltd. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2011 and 2010

(a) Information about each reportable segment of the Group

The segment information for assets and liabilities is as follows:

(in millions of Korean won)	December 31, 2011		December 31, 2010	
	Assets	Liabilities	Assets	Liabilities
Display and Network	495,910	399,264	481,882	333,367
LED	1,835,426	1,391,025	1,918,957	1,220,025
Materials and Components	2,078,631	1,294,837	1,733,021	1,110,486
Total	4,409,967	3,085,126	4,133,860	2,663,878

The segment information for sales and profit (including specified revenues and expenses included in reported segment profit) for the years ended December 31, 2011 and 2010, is as follows:

(in millions of Korean won)	Display / Network	LED	Materials / Components	Total
I. Sales	1,017,153	904,946	2,630,910	4,553,009
II. Profit (loss) before income tax	14,259	(248,882)	60,150	(174,473)
III. Other income and expenses				
Selling and marketing expenses	33,212	40,423	72,381	146,016
Administrative expenses	18,437	13,045	27,863	59,345
Research and development expenses	50,353	88,548	87,569	226,470
Interest income	3,178	2,675	5,977	11,830
Interest expenses	28,352	22,352	50,681	101,385
Depreciation	23,369	210,718	163,977	398,064
Amortisation	3,438	4,848	12,447	20,733
Impairment (Property, Plant and Equipment)	526	9,118	1,057	10,701
Impairment (Intangible assets)	5,680	4,738	12,306	22,724

(in millions of Korean won)	Display / Network	LED	Materials / Components	Total
I. Sales	1,129,932	900,291	2,261,645	4,291,868
II. Profit before income tax	38,659	(13,840)	170,257	195,076
III. Other income and expenses				
Selling and marketing expenses	36,110	28,738	73,945	138,793
Administrative expenses	20,733	13,007	33,600	67,340
Research and development expenses	49,291	53,809	61,332	164,432
Interest income	2,570	1,895	4,461	8,926
Interest expenses	17,713	11,830	31,012	60,555
Depreciation	21,501	113,279	146,666	281,446
Amortisation	1,785	2,314	8,405	12,504

LG Innotek Co., Ltd. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2011 and 2010

Impairment (Property, Plant and Equipment)	2	1,967	1,040	3,009
Impairment (Intangible assets)	495	841	2,212	3,548

Sales of each reporting segment are revenues from external customers after elimination of intragroup transactions and include continuing and discontinued operations. The assets, liabilities, revenues and expenses of each segment include the allocated amounts from supporting divisions on a reasonable basis.

(b) Reconciliations of total segment information to consolidated financial statements

The small LCD Module business classified as discontinued operations is included in the Materials and Components division and the difference between total segment information and consolidated financial statement is as follows (Note 29):

i) Reconciliations of reportable segments' total revenues to the Group revenues

(in millions of Korean won)	<u>2010</u>
Total segment revenues	4,291,868
Revenue of discontinued operations	<u>(188,391)</u>
Group revenues	<u>4,103,477</u>

ii) Reconciliations of reportable segments' total profit before tax to Group's profit before tax

(in millions of Korean won)	<u>2010</u>
Total segment profit before tax	195,076
Profit before tax of discontinued operations	<u>(86,399)</u>
Group profit before tax	<u>108,677</u>

(c) External sales by geographic areas for the years ended December 31, 2011 and 2010, and non-current assets by geographic areas are as follows:

	<u>2011</u>			
<i>(in millions of Korean won)</i>	Korea	China	Other	<u>Total</u>
External sales	3,870,501	464,833	217,675	4,553,009
Non-current assets ¹	2,193,581	182,851	60,804	<u>2,437,236</u>

	<u>2010</u>			
<i>(in millions of Korean won)</i>	Korea	China	Other	<u>Total</u>
External sales	3,491,527	496,334	304,007	4,291,868
Non-current assets ¹	2,221,154	173,240	64,595	<u>2,458,989</u>

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

LG Innotek Co., Ltd. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2011 and 2010

6. Financial Instruments by Category

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

<i>(in millions of Korean won)</i>	Assets at fair value through profit or loss	Loans and receivables	Financial assets classified as available-for-sale	Held-to-maturity financial assets	Total
Cash and cash equivalents	-	435,602	-	-	435,602
Financial deposits	-	36,670	-	-	36,670
Trade receivables	-	817,097	-	-	817,097
Loans and other receivables	-	73,811	-	-	73,811
Other financial assets	-	-	1,551	4,954	6,505
Total	-	1,363,180	1,551	4,954	1,369,685
Related profit or loss					
Gains on foreign currency translation	-	1,997	-	-	1,997
Interest income	-	11,730	-	100	11,830
Impairment losses	-	1,869	1,992	-	3,861

<i>(in millions of Korean won)</i>	Liabilities at fair value through profit or loss	Liabilities carried at amortised cost	Total
Trade payables	-	494,575	494,575
Borrowings	-	2,244,762	2,244,762
Other payables	-	251,056	251,056
Total	-	2,990,393	2,990,393
Related profit or loss			
Loss on foreign currency translation	-	(4,012)	(4,012)
Interest expenses	-	101,385	101,385

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

<i>(in millions of Korean won)</i>	Assets at fair value through profit or loss	Loans and receivables	Financial assets classified as available-for-sale	Held-to-maturity financial assets	Total
Cash and cash equivalents	-	247,487	-	-	247,487
Financial deposits	-	46,463	-	-	46,463
Trade receivables	-	782,472	-	-	782,472
Loans and other receivables	-	61,444	-	-	61,444
Other financial assets	-	-	2,582	2,433	5,015
Total	-	1,137,866	2,582	2,433	1,142,881
Related profit or loss					
Losses on foreign currency translation	-	(2,500)	-	-	(2,500)

LG Innotek Co., Ltd. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2011 and 2010

Interest income	-	8,849	-	77	8,926
Impairment losses	-	(86)	2,653	-	2,567

<i>(in millions of Korean won)</i>	Liabilities at		Total
	fair value through profit or loss	Liabilities carried at amortised cost	
Trade payables	-	426,468	426,468
Borrowings	-	1,648,829	1,648,829
Other payables	-	528,764	528,764
Total	-	2,604,061	2,604,061
Related profit or loss			
Losses on foreign currency translation	-	(1,620)	(1,620)
Interest expenses	-	60,555	60,555

7. Restricted Financial Deposit

<i>(in millions of Korean won)</i>	December 31, 2011	December 31, 2010	Description
Non-current financial deposits	30	31	Maintaining checking accounts

8. Trade Receivables, and Loans and Other Receivables

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

<i>(in millions of Korean won)</i>	December 31, 2011			December 31, 2010		
	Original amount	Less : allowance for doubtful accounts	Carrying amount	Original amount	Less : allowance for doubtful accounts	Carrying amount
Current						
Trade receivables	827,929	(10,832)	817,097	791,419	(8,947)	782,472
Loans and other receivables	55,942	(1,124)	54,818	46,175	(711)	45,464
Non-Current						
Loans and other receivables	18,993	-	18,993	15,980	-	15,980

The details of loans and other receivables are as follows:

<i>(in millions of Korean won)</i>	December 31, 2011	December 31, 2010
Current		
Loans	933	981
Non-trade Receivables	51,161	41,335
Accrued Income	1,927	1,535
Deposits	797	1,613

LG Innotek Co., Ltd. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2011 and 2010

	54,818	45,464
Non-Current		
Loans	9,486	4,900
Deposits	9,507	11,080
	18,993	15,980
	73,811	61,444

The carrying amount of current receivables is a reasonable approximation of fair value. The fair values of non-current loans and other receivables are as follows:

<i>(in millions of Korean won)</i>	December 31, 2011	December 31, 2010
Loans	9,604	4,938
Deposits	9,502	11,106

The fair values of non-current loans and other receivables are based on cash flows discounted using a discount rate reflecting credit risks.

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

<i>(in millions of Korean won)</i>	Current	Overdue				Defaulted	Total
		Up to 3 months	4 to 6 months	7 to 12 months	Over one year		
Trade receivables	810,713	7,669	213	231	7,825	1,278	827,929
Loans and other receivables							
Current	50,945	3,409	2	462	-	1,124	55,942
Non-current	18,993	-	-	-	-	-	18,993

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

<i>(in millions of Korean won)</i>	Current	Overdue				Defaulted	Total
		Up to 3 months	4 to 6 months	7 to 12 months	Over one year		
Trade receivables	778,704	3,768	-	-	7,395	1,552	791,419
Loans and other receivables							
Current	43,223	1,914	16	3	981	38	46,175
Non-current	15,980	-	-	-	-	-	15,980

The maximum exposure to credit risk at the end of reporting period is the carrying value of each class of trade receivables and other receivables.

The Group computes recoverable amounts of individually impaired receivables by individual assessment and analysis. The amount of the loss is measured as the difference between the asset's carrying amount and the recoverable amounts. Overdue receivables are presented net of bad-debt allowance which is recognised based on ageing analysis and historical experience.

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

LG Innotek Co., Ltd. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2011 and 2010

<i>(in millions of Korean won)</i>	<u>At January 1</u>	<u>Addition</u>	<u>Reversal</u>	<u>Write-off</u>	<u>Exchange differences</u>	<u>At December 31</u>
Trade receivables	8,947	1,455	-	-	430	10,832
Loans and other receivables						
Current	711	413	-	-	-	1,124
Non-current	-	-	-	-	-	-

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

<i>(in millions of Korean won)</i>	<u>At January 1</u>	<u>Addition</u>	<u>Reversal</u>	<u>Write-off</u>	<u>Exchange differences</u>	<u>At December 31</u>
Trade receivables	9,717	-	(86)	(554)	(130)	8,947
Loans and other receivables						
Current	592	11	-	(85)	193	711
Non-current	109	-	-	(109)	-	-

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

9. Inventories

<i>(in millions of Korean won)</i>	<u>December 31, 2011</u>	<u>December 31, 2010</u>
Merchandise and finished products	92,862	81,182
Work-in-process	134,453	128,212
Raw materials	146,890	149,710
Others	1,671	5,499
	<u>375,876</u>	<u>364,603</u>

The cost of inventories recognised as expense and included in 'Cost of sales' amounted to ₩ 4,164,067 million (2010: ₩ 3,767,966 million), including cost of sales related to discontinued operations and losses on valuation of inventories of ₩ 7,611 million (2010: ₩ 8,362 million).

10. Other Assets

<i>(in millions of Korean won)</i>	<u>December 31, 2011</u>	<u>December 31, 2010</u>
Current:		
Prepaid expenses	13,349	14,604
Advances to suppliers	1,404	8,223
Others	-	28
	<u>14,753</u>	<u>22,855</u>
Non-Current:		
Long-term prepaid expenses	46,339	27,558
	<u>61,092</u>	<u>50,413</u>

LG Innotek Co., Ltd. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2011 and 2010

11. Available-for-sale and Held-to-maturity financial assets

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

<i>(in millions of Korean won)</i>	Percentage of ownership (%)	December 31, 2011	December 31, 2010
Marketable securities			
Hyundai IT Corp.	0.01	1	2
Non-marketable securities			
Newco Display Co., Ltd.	7.41	-	-
Eron Technologies Corporation	0.49	-	-
INKEL Corp.	0.01	1	1
Force4 Co., Ltd.	7.49	100	100
Quantum Device Inc.	13.13	309	309
EGNICS Corporation	7.28	-	-
Join Energy Co., Ltd.	0.12	-	-
Top Thermal Management Co., Ltd.	6.56	500	500
Exploitation of Next Generation Co., Ltd.	14.90	-	-
Surfacetech Co., Ltd. ¹	9.98	43	378
Epivalley Co., Ltd. ¹	0.41	-	-
Intellectual Discovery Co.Ltd	0.99	397	-
DecaWave Ltd. ¹	1.87	-	292
MBI Co., Ltd ¹	3.92	-	1,000
E-World Co., Ltd	18.10	200	-
Total		1,551	2,582

¹ As the book value of Surfacetech Co., Ltd and Epivalley Co., Ltd. and DecaWave Ltd., and MBI Co., Ltd exceeded recoverable value, the Group recognised impairment loss of ₩ 1,992 million.

The unlisted securities mentioned above are measured at cost as expected cashflows fluctuate significantly and the probability of diverse estimates cannot be measured reliably since most business is in early stage.

Held-to-maturity securities as of December 31, 2011, consist of government and municipal bonds. The interest income from the held-to-maturity securities for the year ended December 31, 2011, amounts to ₩ 100 million (2010: ₩ 77 million).

LG Innotek Co., Ltd. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2011 and 2010

12. Property, Plant and Equipment, and Intangible assets

(a) Changes in property, plant and equipment are as follows:

<i>(in millions of Korean won)</i>								Total
	Land	Buildings	Structures	Machinery and equipment	Tools	Construction-in-progress	Others	
At January 1, 2011	151,169	736,480	18,783	1,060,847	40,495	244,096	85,820	2,337,690
Acquisitions	124	27,601	820	63,715	5,493	309,112	28,654	435,519
Disposal	(4,503)	(8,863)	(268)	(44,282)	(1,003)	(73)	(898)	(59,890)
Depreciation	-	(32,994)	(1,740)	(334,855)	(17,206)	-	(11,269)	(398,064)
Impairment / reversal	-	(393)	-	(10,287)	(21)	-	26	(10,675)
Transfer-in (out)	10,324	112,684	10	420,360	16,579	(504,585)	(55,372)	-
Reclassification to assets held for sale	-	-	-	(6,855)	(10)	-	-	(6,865)
Exchange differences	(149)	3,952	12	4,150	626	(424)	(416)	7,751
At December 31, 2010	156,965	838,467	17,617	1,152,793	44,953	48,126	46,545	2,305,466
Acquisition cost	156,965	978,210	36,761	2,370,753	148,302	48,126	104,218	3,843,335
Accumulated depreciation	-	(138,487)	(19,144)	(1,210,424)	(98,208)	-	(57,562)	(1,523,825)
Accumulated impairment	-	(1,256)	-	(7,447)	(894)	-	(111)	(9,708)
Government grant	-	-	-	(89)	(4,247)	-	-	(4,336)

<i>(in millions of Korean won)</i>								Total
	Land	Buildings	Structures	Machinery and equipment	Tools	Construction-in-progress	Others	
At January 1, 2010	149,886	401,979	18,537	480,082	42,218	168,950	128,071	1,389,723
Acquisitions	1,051	110,435	1,584	203,149	10,809	1,007,478	61,673	1,396,179
Disposal	-	(54,640)	(308)	(104,137)	(5,616)	-	(1,629)	(166,330)
Depreciation	-	(23,475)	(1,604)	(232,373)	(14,733)	-	(9,261)	(281,446)
Impairment / reversal	-	(1,074)	-	(1,232)	(574)	-	(119)	(2,999)
Transfer-in (out)	410	301,550	572	714,601	8,256	(932,373)	(93,016)	-
Exchange differences	(178)	1,705	2	757	135	41	101	2,563
At December 31, 2010	151,169	736,480	18,783	1,060,847	40,495	244,096	85,820	2,337,690
Acquisition cost	151,169	844,517	36,647	2,030,806	132,923	244,096	134,990	3,575,148
Accumulated depreciation	-	(106,114)	(17,864)	(964,749)	(87,523)	-	(48,983)	(1,225,233)
Accumulated impairment	-	(1,923)	-	(5,133)	(2,244)	-	(187)	(9,487)
Government grant	-	-	-	(77)	(2,661)	-	-	(2,738)

Property, plant and equipment are partly pledged as collaterals for various borrowings from banks as of December 31, 2011, for the amount of ₩ 425,504 million and a total credit limit of USD 31,650 thousand (Note 13).

For the assets not in use whose recoverable value is evaluated as being significantly lower than their carrying amounts, impairment loss of ₩10,675 million was recognised in 2011.

Borrowing costs amounting to ₩ 901 million (2010: ₩ 2,242 million) are capitalised as acquisition

LG Innotek Co., Ltd. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2011 and 2010

costs and a capitalization rate of 4.64 % (2010: 4.93%) is applied.

The book value of assets classified as held for sale amounts to ₩ 6,865, which are related with the assets used by LED division.

(a) Intangible assets

Changes in intangible assets are as follows:

<i>(in millions of Korean won)</i>	<u>Industrial property rights</u>	<u>Development costs</u>	<u>Other intangible assets¹</u>	<u>Total</u>
At January 1, 2011	7,530	34,210	79,559	121,299
Acquisitions	4,976	31,177	18,131	54,284
Disposals	(63)	-	(255)	(318)
Depreciation	(1,309)	(7,005)	(12,419)	(20,733)
Impairment / reversal ²	(665)	(22,059)	-	(22,724)
Exchange differences	-	-	(38)	(38)
At December 31, 2011	10,469	36,323	84,978	131,770
Cost	14,621	69,050	137,055	220,726
Accumulated amortization	(4,152)	(32,727)	(52,077)	(88,956)

<i>(in millions of Korean won)</i>	<u>Industrial property rights</u>	<u>Development costs</u>	<u>Other intangible assets¹</u>	<u>Total</u>
At January 1, 2010	4,414	14,271	62,045	80,730
Acquisitions	4,213	28,550	27,049	59,812
Disposals	(91)	(2,029)	(1,177)	(3,297)
Depreciation	(1,006)	(2,997)	(8,501)	(12,504)
Impairment / reversal ²	-	(3,585)	37	(3,548)
Exchange differences	-	-	106	106
At December 31, 2010	7,530	34,210	79,559	121,299
Cost	9,745	37,874	120,288	167,907
Accumulated amortization	(2,215)	(3,664)	(40,729)	(46,608)

¹ Other intangible assets consist of software, membership rights and right to use donated assets. The Parent Company donated research facilities to Hanyang University, and recognised it as right to use donated assets to be amortised over the contract period of 25 years.

² In relation to the development of new products, impairment loss has been recognized considering technological feasibility and expected changes in market conditions.

Amortisation of intangible assets was presented as follows:

<i>(in millions of Korean won)</i>	<u>2011</u>	<u>2010</u>
Cost of sales	11,381	5,427
Selling and marketing expenses	64	59
Administrative expenses	5,797	3,916
Research and development expenses	3,491	3,102
	20,733	12,504

LG Innotek Co., Ltd. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2011 and 2010

Research and development expenses recognised in the income statement consist of:

<i>(in millions of Korean won)</i>	<u>2011</u>	<u>2010</u>
Research and development expenses		
Cost of materials	30,141	21,813
Employee benefits	77,616	76,579
Other expenses	118,713	66,040
Discontinued operations expenses	-	(2,656)
	<u>226,470</u>	<u>161,776</u>

13. Borrowings

Short-term borrowings consist of:

<i>(in millions of Korean won)</i>	Annual interest rate (%) at Dec 31, 2011	Carrying amount	
		December 31, 2011	December 31, 2010
Bank borrowings			
Kookmin Bank and others	4.88~5.33	255,000	40,000
Korea EXIM Bank	4.55~4.8	90,763	20,958
Shinhan Bank and others	2.77	15,570	15,375
Hana Bank and others	-	-	532
Korea Development Bank	4.53	35,000	-
SCB(SZ)	-	-	17,136
Nordea Bank Polska S.A	1.10~1.65	20,351	9,270
Others	1.98~2.75	29,865	22,618
Current maturities of long-term borrowings and debentures			
Long-term borrowings and debentures	2.25~6.05	249,461	101,785
Less: discount on debentures		(2,333)	(7)
		<u>693,677</u>	<u>227,667</u>

Certain buildings, structures, machinery and land use right of the Group are pledged as collaterals for the Group's short-term borrowings (Note 12).

LG Innotek Co., Ltd. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2011 and 2010

Long-term borrowings consist of:

<i>(in millions of Korean won)</i>	Payment schedule	Interest rate (%) at Dec 31, 2011	December 31, 2011	December 31, 2010
Korea Development Bank	Installment payments for 3 months	2.25	348	59,696
Hana Bank	Installment payments for 3 months	2.25 ~ 3.8	7,372	9,797
Shinhan Bank	Installment payments for 3 months	2.25 ~ 4.78	83,901	91,451
The Daegu Bank Ltd.	-	-	-	15,000
Korea EXIM Bank	Installment payments for 6 months after a year	4.90 ~ 5.50	220,000	220,000
Korea Finance Coporation	Lump sum payment at maturity date	4.20 ~ 4.93	180,000	152,400
Kookmin Bank	Installment payments for a year after 2 years	4.72~5.16	160,000	10,000
Nordea Bank Polska S.A.	Lump sum payment at maturity date	3.03	14,957	15,119
Others	Lump sum payment at maturity date	2.52~4.82	63,282	50,819
			<u>729,860</u>	<u>624,282</u>
Less: Current portion			<u>(94,560)</u>	<u>(61,785)</u>
			<u>635,300</u>	<u>562,497</u>

Debentures consist of:

<i>(in millions of Korean won)</i>	Issuance date	Maturity date	Interest rate (%) at 2011.12.31	December 31, 2011	December 31, 2010
16 th non-guaranteed debenture	2009.3.5	2012.3.5	6.05	50,000	50,000
17-2 nd non-guaranteed debenture	2007.2.9	2012.2.9	5.26	40,000	40,000
20 th non-guaranteed debenture	2009.2.13	2011.2.13	-	-	40,000
24 th non-guaranteed debenture	2009.10.6	2013.10.6	5.88	100,000	100,000
25-1 st non-guaranteed debenture	2010.2.9	2013.2.9	5.29	50,000	50,000
25-2 nd non-guaranteed debenture	2010.2.9	2014.2.9	5.70	150,000	150,000
26 th non-guaranteed debenture	2010.5.17	2013.5.17	5.26	30,000	30,000
28 th non-guaranteed debenture	2010.11.29	2015.11.29	5.10	200,000	200,000
29 th non-guaranteed debenture	2011.2.24	2015.2.24	5.01	200,000	-
				<u>820,000</u>	<u>660,000</u>
Less: Current portion				<u>(90,000)</u>	<u>(40,000)</u>
Discount on debentures				<u>(2,064)</u>	<u>(1,887)</u>
				<u>727,936</u>	<u>618,113</u>

LG Innotek Co., Ltd. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2011 and 2010

Convertible bonds and bonds with warrants consist of:

<i>(in millions of Korean won)</i>	<u>Issuance date</u>	<u>Maturity date</u>	<u>December 31, 2011</u>	<u>December 31, 2010</u>
22 nd Convertible bonds ¹	2009.8.11	2012.8.11	10,081	13,193
23 rd Bonds with warrant ²	2009.8.11	2012.8.11	54,820	54,822
27 th Convertible bonds ³	2010.11.11	2014.11.11	216,572	216,614
			281,473	284,629
Less: Current portion			(64,901)	-
Discount on bonds			(28,724)	(44,077)
			<u>187,848</u>	<u>240,552</u>

¹ On August 11, 2009, the Parent Company issued convertible bonds with a zero coupon rate. On or after September 11, 2009 through July 11, 2012, the bonds are convertible into ordinary shares at a conversion price of ₩ 90,600 per share of ordinary shares, subject to adjustment based on certain events. The bonds will mature in three years from the issue date and will be repaid at 111.0202 % of their principal amount at maturity.

² On August 11, 2009, the Parent Company issued bonds with warrants with a zero coupon rate. On or after September 11, 2009 through July 11, 2012, the warrants are exercisable into common shares at an exercise price of ₩ 90,600 per share of common stock, subject to adjustment based on certain events. The bonds will mature in three years from the issue date and will be repaid at 111.0202 % of their principal amount at maturity.

³ On November 11, 2010, the Parent Company issued convertible bonds with a zero coupon rate. On or after December 11, 2010 through October 11, 2014, the bonds are convertible into ordinary shares at a conversion price of ₩ 150,000 per share of ordinary shares. The bonds will mature in four years from the issue date and will be repaid at 108.3071 % of their principal amount at maturity. The bonds also contain a pre-payment option that can be exercised by the Parent Company when they fulfill specified terms.

The conversion rights and warrants issued by the Group and outstanding at the end of reporting period were initially classified as derivative instruments and subsequently measured at fair value as they did not meet the definition of equity component when issued. However as the exercise prices become fixed during last year, the derivative liabilities amounting to ₩ 15,747 million (after tax effects) are reclassified into other components of equity. In relation to this, the Group recognized gain on valuation of derivatives amounting to ₩ 5,714 million during last year.

The early redemption options embedded in the 27th convertible bonds are not separated from the host contract as the exercise price is approximately equal to the amortised cost of the debt instrument.

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

<i>(in millions of Korean won)</i>	<u>December 31, 2011</u>		<u>December 31, 2010</u>	
	<u>Carrying amount</u>	<u>Fair value</u>	<u>Carrying amount</u>	<u>Fair value</u>
Long-term borrowings ¹	729,862	736,642	624,282	631,266
Debentures ¹	1,068,351	1,100,037	898,658	946,920
	<u>1,798,213</u>	<u>1,836,679</u>	<u>1,522,940</u>	<u>1,578,186</u>

LG Innotek Co., Ltd. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2011 and 2010

¹ The amounts include current maturities of long-term borrowings and debentures.

Fair value of the debentures is measured by using quoted market price in an active market and fair value of long-term borrowings is indirectly measured by yields of the Group's debentures traded in an active market.

14. Other Payables

Other payables consist of:

<i>(in millions of Korean won)</i>	<u>December 31, 2011</u>	<u>December 31, 2010</u>
Current		
Non-trade payables	176,778	426,453
Accrued expenses	73,875	101,081
	<u>250,653</u>	<u>527,534</u>
Non-current		
Non-trade payables	365	1,192
Deposits received	38	38
	<u>403</u>	<u>1,230</u>
	<u>251,056</u>	<u>528,764</u>

15. Provisions

Changes in provisions during the years ended December 31, 2011 and 2010, are as follows:

<i>(in millions of Korean won)</i>	<u>2011</u>			<u>2010</u>
	<u>Warranty provisions¹</u>	<u>Other provisions²</u>	<u>Total</u>	<u>Warranty provisions</u>
At January 1, 2011	3,175	-	3,175	4,985
Addition	15,167	7,952	23,119	9,199
Reversal	-	-	-	(277)
Utilisation	(15,975)	-	(15,975)	(10,730)
Exchange differences	13	-	13	(2)
At December 31, 2011	<u>2,380</u>	<u>7,952</u>	<u>10,332</u>	<u>3,175</u>

¹ As of December 31, 2011, the Group accrues the estimated costs of product warranties based on historical experience.

² As of December 31, 2011, the Company provides for expected loss from onerous contract in relation to the purchase contract of materials at fixed quantities.

LG Innotek Co., Ltd. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2011 and 2010

16. Defined benefit liability

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

<i>(in millions of Korean won)</i>	<u>December 31, 2011</u>	<u>December 31, 2010</u>
Present value of funded obligations	120,565	82,275
Fair value of plan assets	<u>(61,219)</u>	<u>(63,314)</u>
	59,346	18,961
Present value of unfunded obligations	<u>473</u>	<u>262</u>
Liabilities	<u>59,819</u>	<u>19,223</u>

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

<i>(in millions of Korean won)</i>	<u>2011</u>	<u>2010</u>
Current service cost	27,901	24,106
Interest cost	3,710	4,473
Past service cost ¹	2,740	-
Expected return on plan assets	<u>(3,015)</u>	<u>(1,221)</u>
	<u>31,336</u>	<u>27,358</u>

¹ Past service costs incurred as the Group introduced retirement pension plan as of January 1, 2011, and total costs have been expensed as vesting conditions were met.

Actuarial losses recognised in the statement of comprehensive income for the years ended December 31, 2011 and 2010, are as follows:

<i>(in millions of Korean won)</i>	<u>2011</u>	<u>2010</u>
Actuarial losses before tax	(11,043)	(13,722)
Tax effects	<u>2,672</u>	<u>3,019</u>
Actuarial losses after tax	<u>(8,371)</u>	<u>(10,703)</u>

Cumulative actuarial losses recognised in the statement of comprehensive income as of December 31, 2011, are ₩ 34,341 million (2010: ₩ 26,060 million).

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

<i>(in millions of Korean won)</i>	<u>2011</u>	<u>2010</u>
Cost of sales	19,334	18,444
Selling and marketing expenses	1,776	1,625
Administrative expenses	3,395	1,490
Development costs and research and development expenses	<u>6,831</u>	<u>5,799</u>
	<u>31,336</u>	<u>27,358</u>

LG Innotek Co., Ltd. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2011 and 2010

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

<i>(in millions of Korean won)</i>	<u>2011</u>	<u>2010</u>
At January 1	82,537	83,102
Current service cost	27,901	24,106
Transfer-in from related companies	563	888
Interest expense	3,710	4,473
Actuarial loss	11,064	13,546
Benefits paid	(7,485)	(41,294)
Past service cost	2,740	-
Net decrease due to disposal of business	-	(2,277)
Exchange differences	8	(7)
At December 31	<u>121,038</u>	<u>82,537</u>

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

<i>(in millions of Korean won)</i>	<u>2011</u>	<u>2010</u>
At January 1	63,314	23,836
Expected return on plan assets	3,015	1,221
Actuarial gain (loss)	21	(176)
Employer contributions	-	48,200
Benefits paid	(5,131)	(9,767)
At December 31	<u>61,219</u>	<u>63,314</u>

The actual return on plan assets for the year ended December 31, 2011, was ₩3,036 million (2010: ₩1,045 million).

The expected rate of return on plan assets was set based on the long-term government bond yield at the valuation date (4.4% per annum) and net of fee (0.4% per annum).

The principal actuarial assumptions used were as follows:

	<u>December 31, 2011</u>	<u>December 31, 2010</u>
Discount rate ¹	4.6%	4.9%
Expected rate of return	4.4%	4.6%
Future salary increase	6.4%	6.0%

¹ A one percentage point change in assumed discount rates would have the following effects:

<i>(in millions of Korean won)</i>	<u>December 31, 2011</u>	<u>Increase</u>	<u>Decrease</u>
Defined benefit obligations	121,038	111,208	132,484
Discount rate	4.60%	5.60%	3.60%
Future salary increase	6.40%	6.40%	6.40%

LG Innotek Co., Ltd. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2011 and 2010

Plan assets consist of:

<i>(in millions of Korean won)</i>	December 31, 2011	December 31, 2010
Debt securities (principal and interest guaranteed)	38,285	40,164
Derivative linked securities	22,932	23,100
Other deposits	2	50
	<u>61,219</u>	<u>63,314</u>

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

<i>(in millions of Korean won)</i>	December 31, 2011	December 31, 2010	December 31, 2009	January 1, 2009
Present value of obligation	(121,038)	(82,537)	(83,102)	(29,406)
Fair value of plan assets	61,219	63,314	23,836	7,270
Deficit in the plan	(59,819)	(19,223)	(59,266)	(22,136)
Experience adjustments on defined benefit liabilities	(1,906)	(1,378)	(8,891)	-
Experience adjustments on plan assets	21	(176)	572	-

The Company recognized severance benefits amounting to ₩312 million in relation to defined contribution plan.

17. Capital stock and other components of equity

As of December 31, 2011 and 2010, the number of shares authorised is 200 million shares of common stock at ₩5,000 par value per share.

The changes in the number of shares issued, capital stock and other components of equity for the years ended December 31, 2011 and 2010, are as follows:

<i>(in millions of Korean won)</i>	Number of shares issued	Capital stock	Paid-in capital in excess of par value	Other capital surplus	Treasury shares	Total
At January 1, 2010	17,129,223	85,659	456,516	19,772	(321)	561,626
Issuance of new shares	2,490,000	12,450	310,780	-	-	323,230
Exercise of conversion rights and warrants	505,153	2,526	50,520	(6,919)	-	46,127
Issuance of convertible bonds	-	-	-	14,210	-	14,210
Reclassification of derivative financial liabilities	-	-	-	15,747	-	15,747
Additional acquisition of shares of subsidiary	-	-	-	(15,003)	-	(15,003)
At December 31, 2010	<u>20,124,376</u>	<u>100,635</u>	<u>817,816</u>	<u>27,807</u>	<u>(321)</u>	<u>945,937</u>
At January 1, 2011	20,124,376	100,635	817,816	27,807	(321)	945,937
Exercise of conversion rights and warrants	32,067	160	3,196	(421)	-	2,935
At December 31, 2011	<u>20,156,443</u>	<u>100,795</u>	<u>821,012</u>	<u>27,386</u>	<u>(321)</u>	<u>948,872</u>

LG Innotek Co., Ltd. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2011 and 2010

18. Accumulated Other Comprehensive Income

The changes in accumulated other comprehensive income for the years ended December 31, 2011 and 2010, are as follows:

<i>(in millions of Korean won)</i>	Available-for-sale financial assets	Currency translation	Total
At January 1, 2011	(8)	(9,050)	(9,058)
Available-for-sale financial assets	(1)	-	(1)
Currency translation differences	-	12,712	12,712
At December 31, 2011	(9)	3,662	3,653
	Available-for-sale financial assets	Currency translation	Total
<i>(in millions of Korean won)</i>			
At January 1, 2010	(216)	(10,271)	(10,487)
Available-for-sale financial assets	208	-	208
Currency translation differences	-	1,221	1,221
At December 31, 2010	(8)	(9,050)	(9,058)

19. Retained Earnings

Details of retained earnings consist of:

<i>(in millions of Korean won)</i>	December 31, 2011	December 31, 2010
Legal reserve	17,280	16,576
Discretionary reserve	113,558	113,558
Unappropriated retained earnings	241,422	402,898
	372,260	533,032

Changes of unappropriated retained earnings are as follows:

<i>(in millions of Korean won)</i>	2011	2010
At January 1	402,898	224,605
Net income(loss) attributable to equity holders of the Parent Company	(145,357)	195,591
Actuarial losses	(8,371)	(10,703)
Dividend	(7,044)	(5,995)
Discretionary reserve	(704)	(600)
At December 31	241,422	402,898

20. Revenue

The amount of each significant category of revenue recognised for the years ended December 31, 2011 and 2010, are as follows:

<i>(in millions of Korean won)</i>	2011 ¹	2010 ¹
Sales of goods	4,553,009	4,103,477

LG Innotek Co., Ltd. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2011 and 2010

Interest income	11,830	8,926
-----------------	--------	-------

¹ Other operating income and revenue from discontinued operations are excluded (Notes 24 and 29).

21. Selling and marketing expenses

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

<i>(in millions of Korean won)</i>	2011	2010
Wages and salaries	23,562	21,906
Severance benefits	1,801	1,625
Welfare expense	4,407	3,833
Freight expense	24,550	23,437
Rental expense	3,389	3,011
Commission expense	38,568	36,543
Insurance premium	1,795	2,454
Advertising expense	2,129	2,433
Travel expense	5,435	3,909
Product warranty expense	15,167	14,819
Sample expense	17,126	17,219
Others	8,087	7,604
Discontinued operations expenses	-	(3,305)
	146,016	135,488

22. Administrative expenses

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

<i>(in millions of Korean won)</i>	2011	2009
Wages and salaries	14,456	18,745
Severance benefits	3,725	1,490
Welfare expense	5,106	5,832
Freight expense	49	65
Rental expense	3,369	3,031
Commission expense	12,387	17,319
Depreciation	2,535	2,130
Amortisation	5,797	3,916
Insurance premium	348	366
Advertising expense	930	832
Travel expense	1,000	1,700
Others	9,643	11,914
Discontinued operations expenses	-	(2,406)
	59,345	64,934

LG Innotek Co., Ltd. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2011 and 2010

23. Expenses by Nature

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

<i>(in millions of Korean won)</i>	<u>2011</u>	<u>2010</u>
Changes in inventories	(14,093)	(84,526)
Processed raw materials	2,189,169	2,503,308
Employee benefit expenses	474,696	469,395
Depreciation, amortisation	418,797	293,950
Freight expenses	26,751	26,103
Outsourcing expenses	405,772	440,439
Supplies expenses	92,047	93,393
Utility expenses	64,813	53,806
Commission expenses	122,706	110,093
Other expenses	815,241	232,570
Discontinued operations expenses	-	(188,215)
	<u>4,595,899</u>	<u>3,950,316</u>

24. Other Operating Income and Expenses

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

<i>(in millions of Korean won)</i>	<u>2011</u>	<u>2010</u>
Foreign exchange gain	96,858	98,177
Gain on disposal of property, plant and equipment	7,925	108,266
Others	14,025	16,248
Discontinued operations income	-	(100,462)
	<u>118,808</u>	<u>122,229</u>

Other operating expenses for the years ended December 31, 2011 and 2010, consist of:

<i>(in millions of Korean won)</i>	<u>2011</u>	<u>2010</u>
Foreign exchange loss	90,515	104,914
Loss on disposal of property, plant and equipment	8,632	17,347
Impairment loss on property, plant and equipment	10,701	3,009
Impairment loss on intangible assets	22,724	3,548
Depreciation on assets not in use	428	1,637
Others	9,755	2,718
Discontinued operations expense	-	(14,239)
	<u>142,755</u>	<u>118,934</u>

LG Innotek Co., Ltd. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2011 and 2010

25. Financial Income and Expenses

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

<i>(in millions of Korean won)</i>	<u>2011</u>	<u>2010</u>
Interest income	11,830	8,926
Foreign exchange gain	19,852	19,684
Gain on settlement of derivatives	-	5,715
Others	-	60
	<u>31,682</u>	<u>34,385</u>

Financial expenses for the years ended December 31, 2011 and 2010, consist of:

<i>(in millions of Korean won)</i>	<u>2011</u>	<u>2010</u>
Interest expense	101,385	60,555
Foreign exchange loss	31,753	15,234
Others	6,180	6,375
	<u>139,318</u>	<u>82,164</u>

26. Earnings per Share

Basic earnings (loss) per share for the years ended December 31, 2011 and 2010, is calculated as follows:

<i>(in millions of Korean won)</i>	<u>2011</u>	<u>2010</u>
Profit (loss) attributable to ordinary shares	(145,357)	195,591
Profit (loss) from continuing operations attributable to ordinary shares	(145,357)	125,727
Profit from discontinued operations attributable to ordinary shares	-	69,865
Weighted average number of ordinary shares outstanding ¹ (unit: shares)	20,156,443	18,944,184
Basic earnings (loss) per ordinary share (in won)	(7,211)	10,325
Earnings (loss) per ordinary share from continuing operations	(7,211)	6,637
Earnings per ordinary share from discontinued operations	-	3,688

¹ Weighted average number of ordinary shares is calculated as follows:

	<u>2011</u>	<u>2010</u>
Beginning balance	20,124,376	17,129,223
Adjustments		
Add: Paid-in capital increase	-	1,309,808
Exercise of conversion rights and warrants ²	32,067	505,153
Weighted average number of ordinary shares outstanding	<u>20,156,443</u>	<u>18,944,184</u>

² Conversion rights and warrants in connection with convertible bonds and bonds with warrants are deemed to have been exercised at the beginning of each year (or issuance date in the issuance year) in accordance with the articles of incorporation.

LG Innotek Co., Ltd. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2011 and 2010

Diluted earnings per share for the year ended December 31, 2011, was not separately calculated since the convertible bonds and bonds with warrants have no dilutive effects.

Diluted earnings per share for the year ended December 31, 2010, is calculated as follows:

<i>(in millions of Korean won)</i>	<u>2010</u>
Profit attributable to ordinary shares	195,386
Profit from continuing operations attributable to ordinary shares ¹	125,521
Profit from discontinued operations attributable to ordinary shares	69,865
Adjusted weighted average number of ordinary shares outstanding ² (unit: shares)	19,644,712
Diluted earnings per share (in won)	9,946
Diluted earnings per share from continuing operations	6,390
Diluted earnings per share from discontinued operations	3,556

¹ Profit from continuing operations attributable to ordinary shares is as follows:

<i>(in millions of Korean won)</i>	<u>2010</u>
Profit from continuing operations attributable to ordinary shares	125,727
Interest expenses on diluted share (after tax)	4,252
Gain on settlement of derivatives on diluted share (after tax)	(4,458)
Adjusted Profit from continuing operations attributable to ordinary shares	<u>125,521</u>

² Adjusted weighted average number of ordinary shares is calculated as follows:

	<u>2010</u>
Weighted average number of ordinary shares outstanding	18,944,184
Adjustments	
Add: convertible bonds	317,465
bonds with warrants	383,063
Adjusted weighted average number of ordinary shares outstanding	<u>19,644,712</u>

27. Dividends

The dividends paid in 2011 and 2010 were ₩7,044 million and ₩5,995 million, respectively. No dividends for the year ended December 31, 2011, are to be proposed at the shareholders' meeting on March 16, 2012.

28. Income tax expense and Deferred Income tax

Details of income tax benefit are as follows:

<i>(in millions of Korean won)</i>	<u>2011</u>	<u>2010</u>
Current income taxes		
Current tax on profits for the year	10,839	23,465
Adjustment in respect of prior years	(373)	(1,305)
Total current tax	<u>10,466</u>	<u>22,160</u>
Deferred tax		
Changes in temporary differences and tax credit	(38,850)	(27,354)

LG Innotek Co., Ltd. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2011 and 2010

Adjustment in respect of prior years	(714)	4,438
Total deferred tax	(39,564)	(22,916)
Income tax benefit ¹	(29,098)	(756)

¹ Income tax benefit consist of :

<i>(in millions of Korean won)</i>	<u>2011</u>	<u>2010</u>
Income tax on continuing operations	(29,098)	(17,290)
Income tax on discontinued operations	-	16,534
Income tax benefit	(29,098)	(756)

The reconciliation between profit (loss) before income tax and income tax benefit for the years ended December 31, 2011 and 2010, is as follows:

<i>(in millions of Korean won)</i>	<u>2011</u>	<u>2010</u>
Profit (loss) before income tax including discontinued operations.	(174,473)	195,076
Income tax based on weighted average applicable tax rate	(41,826)	37,607
Adjustments :		
Expense not deductible for tax purpose	1,631	819
Assessment of realisable deferred tax assets	39,404	8,039
Adjustment in respect of prior year	(1,087)	3,133
Tax effect of distributed and undistributed profit of subsidiaries	(1,406)	26,594
Tax credit	(24,775)	(77,777)
Tax rate differences and others	(1,039)	829
Income tax benefit	(29,098)	(756)

¹ The weighted average applicable tax rate was 23.97% (2010: 19.28%) for profit before tax expenses. The increase is caused by the increase in statutory tax rates for subsidiaries located in China.

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

<i>(in millions of Korean won)</i>	<u>December 31, 2011</u>	<u>December 31, 2010</u>
Deferred tax assets:		
Deferred tax asset to be settled within 12 months	69,400	42,242
Deferred tax asset to be settled after more than 12 months	117,037	104,750
Deferred tax assets before offsetting	186,437	146,992
Deferred tax liabilities:		
Deferred tax liability to be settled within 12 months	(784)	(707)
Deferred tax liability to be settled after more than 12 months	(27,368)	(29,311)
Deferred tax liabilities before offsetting	(28,152)	(30,018)
Deferred tax assets (net)	158,285	116,974

LG Innotek Co., Ltd. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2011 and 2010

The movements in deferred income tax assets and liabilities for the years ended December 31, 2011 and 2010, are as follows:

<i>(in millions of Korean won)</i>	2011					
	At January 1	Adjustment of prior year Income taxes	Charged/ (credited) to the income statement	Charged/ (credited) to other comprehensive income and equity component	Exchange differences	At December 31
Property, plant and equipment, Intangible assets	15,225	169	(475)	-	54	14,973
Severance benefits	3,225	(306)	3,086	2,672	2	8,679
Inventories	6,225	-	6,479	-	-	12,704
Accrued expenses	17,978	47	(7,999)	-	-	10,026
Convertible bonds and bonds with warrants	(3,496)	-	2,397	(20)	-	(1,119)
Investments in subsidiaries ¹	(8,826)	-	1,406	(969)	-	(8,389)
Others	2,333	123	1,709	1	7	4,173
Tax credit	84,310	681	32,247	-	-	117,238
Deferred tax assets (liabilities)	116,974	714	38,850	1,684	63	158,285

<i>(in millions of Korean won)</i>	2010					
	At January 1	Adjustment of prior year Income taxes	Charged/ (credited) to the income statement	Charged/ (credited) to other comprehensive income and equity component	Exchange differences	At December 31
Property, plant and equipment, Intangible assets	20,623	681	(6,212)	-	133	15,225
Severance benefits	7,524	-	(7,318)	3,019	-	3,225
Inventories	3,810	-	2,415	-	-	6,225
Accrued expenses	10,348	71	7,559	-	-	17,978
Convertible bonds and bonds with warrants	(662)	-	1,071	(3,905)	-	(3,496)
Derivative liability	4,391	-	(1,383)	(3,008)	-	-
Investments in subsidiaries ¹	-	-	(8,857)	31	-	(8,826)
Others	3,429	307	(1,344)	(59)	-	2,333
Tax credit	48,384	(5,497)	41,423	-	-	84,310
Deferred tax assets (liabilities)	97,847	(4,438)	27,354	(3,922)	133	116,974

¹ At the end of reporting period, deferred tax liabilities amounting to ₩ 8,389 million were recognised for the temporary differences from subsidiaries expected to be realised through dividends.

The details of temporary differences of which deferred tax assets (liabilities) were not recognised are as follows:

<i>(in millions of Korean won)</i>	December 31, 2011	December 31, 2010
Investments in subsidiaries	81,600	80,167
Land and other property, plant and equipment	47,012	47,168
Others	8,880	8,426
Tax credits carryforwards	37,636	-

LG Innotek Co., Ltd. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2011 and 2010

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

<i>(in millions of Korean won)</i>	December 31, 2011			December 31, 2010		
	Before Tax	Tax effects	After Tax	Before Tax	Tax effects	After Tax
Equity						
Reclassification of derivative financial liabilities	-	-	-	18,755	(3,008)	15,747
Issuance of convertible bonds	-	-	-	18,218	(4,008)	14,210
Exercise of conversion rights and warrants	91	(20)	71	(467)	103	(364)
Other comprehensive income						
Available-for-sale financial assets	(2)	1	(1)	267	(59)	208
Actuarial gain/loss	(11,043)	2,672	(8,371)	(13,722)	3,019	(10,703)
Currency translation differences	13,681	(969)	12,712	1,190	31	1,221
	<u>2,727</u>	<u>1,684</u>	<u>4,411</u>	<u>24,241</u>	<u>(3,922)</u>	<u>20,319</u>

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

	Tax loss	Tax credit
Within 1 year	-	3,725
Within 2 years	-	5,634
Within 3 years	16,742	10,469
Within 4 years	42,982	61,108
Over 5 years	177,985	30,866
	<u>237,709</u>	<u>111,802</u>

Deferred tax assets relating to tax loss and tax credits carryforwards are recognized only when it is probable that taxable profit will be available against them. The Group did not recognize deferred tax assets relating to tax loss and tax credits carryforwards amounting to ₩ 59,724 million and ₩ 37,636 million, respectively, as they are not certain to be realised in the future.

29. Discontinued Operations

On February 25, 2010, the Board of Directors approved the sale of the Parent Company's small LCD module business to LG Display Co., Ltd. for the purpose of efficiency of management through business restructuring, and focusing on managerial resources. The said sale took effect on April 9, 2010, with the approval of the Parent Company's shareholders. The sale of business was completed on May 1, 2010, according to related contracts.

In addition, LG Innotek (Yantai) Co., Ltd. sold its small LCD Module and Cell business (including factory building and property) to LG Display Yantai Co., Ltd., a subsidiary of LG Display Co., Ltd., in the form of asset transfer on May 1, 2010.

The Group presents discontinued operations and continuing operations separately in the income statement and statement of cash flow for the prior year.

LG Innotek Co., Ltd. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2011 and 2010

The financial performance relating to the discontinued operations is as follows:

<i>(in millions of Korean won)</i>	<u>2010</u>
Profit for the year from discontinued operations	
Sales	188,391
Cost of sales	<u>179,848</u>
Gross profit	8,543
Selling and marketing expenses	3,305
Administrative expenses	2,406
Research and development expenses	2,656
Other operating income	7,400
Other operating expenses	<u>3,665</u>
Profit before income tax	3,911
Income tax expense	<u>1,068</u>
Profit for the year from discontinued operations	<u>2,843</u>
Gains on sale of discontinued operations	
Gains on sale of discontinued operation before income tax	82,488
Income tax expense	<u>15,466</u>
Gains on sale of discontinued operations	<u>67,022</u>

The carrying amounts of assets and liabilities of sold segment as at 2010 were as follows:

<i>(in millions of Korean won)</i>	<u>2010</u>
Assets	
Inventories	36,832
Property, plant and equipment	113,099
Intangible assets	2,110
Other assets	<u>2,348</u>
	<u>154,389</u>
Liabilities	
Defined benefit liability	<u>2,277</u>
Net assets	<u>152,112</u>

Details of gain on sale of discontinued operations are as follows:

<i>(in millions of Korean won)</i>	<u>2010</u>
Proceeds from sale	234,600
Carrying amount of net assets sold	<u>152,112</u>
Gain on sale of discontinued operations before income tax	82,488
Income tax expense	<u>15,466</u>
Gain on sale of discontinued operations after income tax	<u>67,022</u>

LG Innotek Co., Ltd. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2011 and 2010

30. Cash flow information

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

<i>(in millions of Korean won)</i>	2011	2010
Profit (loss) for the year before income tax	(174,473)	108,677
Adjustments :		
Interest expense	101,385	60,555
Depreciation	398,064	271,366
Amortisation	20,733	12,114
Loss on foreign currency translation	14,007	7,378
Severance benefits	31,336	26,997
Loss on derivatives	-	-
Interest income	(11,830)	(8,926)
Gains on foreign currency translation	(11,992)	(6,731)
Gain on derivatives	-	(5,714)
Others	60,735	12,047
	602,438	369,086
Changes in operating assets and liabilities		
Increase in trade receivables	(21,445)	(276,157)
Decrease (increase) in non-trade receivables	(9,242)	2,166
Increase in prepaid expenses	(20,837)	(24,891)
Decrease (increase) in other assets	7,786	(2,872)
Increase in inventories	(9,340)	(156,500)
Increase in trade payables	56,772	137,263
Increase in other payables	4,778	1,262
Increase (decrease) in accrued expenses	(29,473)	29,199
Increase (decrease) in other liabilities	(6,481)	5,950
Decrease in provisions	(15,975)	(10,617)
Payment of severance benefit	(2,354)	(30,863)
Payment of plan assets, net	-	(48,200)
Transfer-in of severance benefits liability, net	563	888
Cash generated from operations	382,717	104,391

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

<i>(in millions of Korean won)</i>	2011	2010
Reclassification of current maturities of debentures	151,046	40,000
Reclassification of current maturities of long-term borrowings	94,018	73,254
Acquisition of plant, property and equipment	(254,468)	61,284

31. Commitments and Contingencies

As of December 31, 2011, the Group maintains trade receivable financing agreement and export and import financing facility agreement with financial institutions for a total credit limit of ₩740,510 million.

LG Innotek Co., Ltd. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2011 and 2010

As of December 31, 2011, the Group has bank overdraft agreements amounting to ₩ 123,111 million with various banks, including Shinhan Bank and HSBC.

The Parent Company has entered into agreements for discounted notes with various financial institutions up to an aggregate maximum of ₩ 44,000 million. However, in relation to the agreements, as of December 31, 2011, there is no outstanding balance of unmatured discounted notes receivable.

As of December 31, 2011 and 2010, the Parent Company is contingently liable for guarantees of ₩ 121,831 million and ₩ 90,506 million, respectively, on the indebtedness of its subsidiaries, as follows:

<i>(in thousands)</i>	December 31, 2011		December 31, 2010	
LG Innotek (Taiwan) Co., LTD. (LGITYT)	USD	497	USD	-
LG Innotek Poland Spz o.o. (LGITPO)	EUR	10,000	EUR	20,000
	USD	17,585	USD	7,888
LG Innotek (Huizhou) Co., Ltd. (LGITHZ)	USD	15,000	USD	5,000
LG Innotek (Fuzhou) Co., Ltd. (LGITFJ)	USD	30,000	USD	30,000
LG Innotek (Indonesia) Co., Ltd. (LGITIN)	USD	29,600	USD	10,000

The Parent Company leases equipment such as laptops under operating leases. The minimum lease payments schedule is as follows:

<i>(in millions of Korean won)</i>	Amount
No later than 1 year	2,134
Later than 1 year and no later than 5 years	1,034
Total lease payments	3,168

As of December 31, 2011, Osram AG has filed a suit against LG Electronics Co., Ltd., LG Innotek Co., Ltd., and its respective US subsidiaries in the Northern District of California alleging infringement of its LED patents and seeking damages, and has requested International Trade Commission(ITC) to ban the importation of the goods subject to the suit.

In addition, Osram AG has requested injunction against the patent infringement, compensation of damages, and patent invalidation trials in Germany, China, Japan, and Korea, and requested the Korean Trade Commission to order a relief from unfair trade practices.

LG Electronics and LG Innotek countered by filing for invalidation of Osram AG's patent in Korea and filing a suit with the Korean Trade Commission for injunction against patent infringement, compensation of damages, and an order for relief from unfair trade practices against Osram Korea and other related entities. Both companies also filed a suit against foreign car dealers in Korea that incorporated Osram products for injunction against patent infringement and damages.

LG Innotek Co., Ltd. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2011 and 2010

Both companies also filed with the US ITC to ban the importation of Osram AG's goods, filed with the District Court of Delaware for an injunction against the patent infringement and compensation for damages. In China, the companies have filed for a patent invalidation trial, an injunction against patent infringement, and compensation for damages. Furthermore, the companies have filed for patent invalidation trial in Japan and Germany.

As of the end of the reporting period, it is difficult to reasonably predict the outcome of the foregoing lawsuits or its potential effect on the financial statements of both companies.

32. Related Party Transactions

LG Electronics Inc. is not controlling the Group, but only exercises significant influence due to a decrease in its ownership interest. As a result, LG Corporation and its subsidiaries are excluded from related parties.

The related parties are as follows:

	<u>2011</u>
The entity with significant influence	LG Electronics Inc.
Other related parties	Subsidiaries of LG Electronics Inc.

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

<i>(in millions of Korean won)</i>	<u>Sales</u>	<u>Purchases</u>	<u>Receivables</u>	<u>Payables</u>
The entity with significant influence	735,256	14,791	177,642	1,858
Other related parties	317,491	2,429	52,869	448
2011	<u>1,052,747</u>	<u>17,220</u>	<u>230,511</u>	<u>2,306</u>
2010	<u>1,476,297</u>	<u>30,942</u>	<u>216,736</u>	<u>6,433</u>

Key management compensation costs of the Group for the years ended December 31, 2011 and 2010, are as follows:

<i>(in millions of Korean won)</i>	<u>2011</u>	<u>2010</u>
Wages and salaries	12,901	12,100
Severance benefits	1,800	1,694
	<u>14,701</u>	<u>13,794</u>

Key management refers to the directors who have significant control and responsibilities on the Group's operations and business.