

**LG Innotek Co., Ltd.
and Subsidiaries**
Consolidated Financial Statements
December 31, 2012 and 2011

LG Innotek Co., Ltd. and Subsidiaries

Index

December 31, 2012 and 2011

	Page(s)
Report of Independent Auditors	1 - 2
Consolidated Financial Statements	
Consolidated Statements of Financial Position	3
Consolidated Statements of Income.....	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, 2012 and 2011, and the related consolidated statements of income, 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 1.7% and 2.2% of the Group's consolidated total assets as of December 31, 2012 and 2011, respectively, and 3.4% and 3.6% 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, 2012 and 2011, and their financial performance and cash flows for the years then ended, in accordance with International Financial Reporting Standards as adopted by the Republic of Korea ("Korean IFRS").

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

Samil PricewaterhouseCoopers

Seoul, Korea
March 7, 2013

This report is effective as of March 7, 2013, 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, 2012 and 2011

<i>(in millions of Korean won)</i>	Note	2012	2011
Assets			
Current assets			
Cash and cash equivalents		352,808	435,602
Financial deposits		-	30,000
Trade receivables	8, 32	1,122,106	817,097
Loans and other receivables	8	28,491	39,129
Held-to-maturity financial assets	11	2,377	-
Inventories	9	477,943	375,876
Current income tax assets		2,148	928
Other current assets	10	87,160	30,442
		<u>2,073,033</u>	<u>1,729,074</u>
Non-current assets classified as held for sale		-	6,865
Non-current assets			
Financial deposits	7	17,860	6,670
Loans and other receivables	8	15,874	18,993
Available-for-sale financial assets	11	1,339	1,551
Held-to-maturity investments	11	2,576	4,954
Property, plant and equipment	12	2,374,702	2,305,466
Intangible assets	12	144,862	131,770
Deferred income tax assets	28	186,660	158,285
Other non-current assets	10	69,379	46,339
		<u>2,813,252</u>	<u>2,674,028</u>
Total assets		<u>4,886,285</u>	<u>4,409,967</u>
Liabilities			
Current liabilities			
Trade payables	32	740,244	494,575
Borrowings	13	670,050	693,677
Other payables	14	462,039	250,653
Current income tax liabilities		8,739	4,008
Provisions	15	5,191	10,332
Other current liabilities		122,962	20,576
		<u>2,009,225</u>	<u>1,473,821</u>
Non-current liabilities			
Borrowings	13	1,497,683	1,551,084
Other payables	14	10,055	403
Defined benefit liability	16	100,778	59,819
Deferred tax liabilities	28	238	-
		<u>1,608,754</u>	<u>1,611,306</u>
Total liabilities		<u>3,617,979</u>	<u>3,085,127</u>
Equity attributable to owners of the Parent Company			
Capital stock	17	100,854	100,795
Retained earnings	19	329,749	372,260
Accumulated other comprehensive income (loss)	18	(11,450)	3,653
Other components of equity	17	849,100	848,078
		<u>1,268,253</u>	<u>1,324,786</u>
Non-controlling interest		53	54
Total equity		<u>1,268,306</u>	<u>1,324,840</u>
Total liabilities and equity		<u>4,886,285</u>	<u>4,409,967</u>

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

LG Innotek Co., Ltd. and Subsidiaries
Consolidated Statements of Income
Years ended December 31, 2012 and 2011

<i>(in millions of Korean won, except per share amounts)</i>	Note	2012	2011
Net sales	20, 32	5,315,958	4,553,009
Cost of sales	23, 32	<u>4,754,207</u>	<u>4,160,214</u>
Gross profit		561,751	392,795
Selling and marketing expenses	21,23	146,906	153,968
Administrative expenses	22,23	65,982	59,345
Research and development expenses	12,23	<u>271,619</u>	<u>224,554</u>
Operating income (loss)		77,244	(45,071)
Other non-operating income	24	118,844	113,038
Other non-operating expenses	24	118,386	139,294
Financial income	25	23,244	31,682
Financial expenses	25	118,529	134,828
Loss before income tax		<u>(17,583)</u>	<u>(174,473)</u>
Income tax benefit	28	<u>7,422</u>	<u>(29,098)</u>
Loss for the year		<u>(25,005)</u>	<u>(145,375)</u>
Loss for the year attributable to:			
Equity holders of the Parent Company		(25,004)	(145,358)
Non-Controlling interest		(1)	(17)
Earnings (loss) per share for profit (loss) attributable to the equity holders of the Parent Company during the year (in won)	26		
Basic loss per share		(1,240)	(7,211)
Diluted loss per share		(1,240)	(7,211)

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, 2012 and 2011

<i>(in millions of Korean won)</i>	Note	2012	2011
Loss for the year		<u>(25,005)</u>	<u>(145,375)</u>
Other comprehensive income (loss):			
Currency translation differences	18	(15,103)	12,712
Loss on valuation of available-for-sale financial assets	18	-	(1)
Actuarial loss on defined benefit liability	16	<u>(17,507)</u>	<u>(8,371)</u>
Other comprehensive income (loss) for the year, net of tax		<u>(32,610)</u>	<u>4,340</u>
Total comprehensive loss for the year		<u>(57,615)</u>	<u>(141,035)</u>
Comprehensive loss for the year			
attributable to:			
Equity holders of the Parent Company		(57,614)	(141,018)
Non-controlling interest		(1)	(17)

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, 2012 and 2011

(in millions of Korean won)

	Attributable to equity holders of the Parent Company				Total	Non-controlling Interest	Total Equity
	Capital Stock	Retained Earnings	Accumulated Other Comprehensive Income(loss)	Other Components of Equity			
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
Balance at January 1, 2012	100,795	372,260	3,653	848,078	1,324,786	54	1,324,840
Comprehensive income (loss) :							
Loss for the year	-	(25,004)	-	-	(25,004)	(1)	(25,005)
Actuarial loss on defined benefit liability	-	(17,507)	-	-	(17,507)	-	(17,507)
Loss on valuation of available-for-sale financial assets	-	-	-	-	-	-	-
Currency translation differences	-	-	(15,103)	-	(15,103)	-	(15,103)
Total comprehensive income (loss)	-	(42,511)	(15,103)	-	(57,614)	(1)	(57,615)
Transactions with equity holders of the Parent Company :							
Bond conversion and warrant exercise	59	-	-	1,022	1,081	-	1,081
Total transactions with equity holders of the Parent Company	59	-	-	1,022	1,081	-	1,081
Balance at December 31, 2012	100,854	329,749	(11,450)	849,100	1,268,253	53	1,268,306

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, 2012 and 2011

<i>(in millions of Korean won)</i>	Note	2012	2011
Cash flows from operating activities			
Cash generated from operations	29	486,146	382,717
Interest received		16,413	11,420
Interest paid		(95,583)	(87,254)
Income tax paid		(26,413)	(15,670)
Net cash generated from operating activities		380,563	291,213
Cash flows from investing activities			
Decrease in financial deposits		30,002	40,002
Decrease in loans and other receivables		6,142	5,175
Proceeds from disposal of available-for-sale financial assets		330	-
Proceeds from disposal of held-to-maturity investments		-	1
Proceeds from disposal of assets classified as held for sale		6,865	1
Proceeds from disposal of property, plant and equipment		23,077	59,183
Proceeds from disposal of intangible assets		5,433	255
Increase in financial deposits		(11,192)	(30,208)
Increase in loans and other receivables		(5,464)	(9,096)
Acquisition of available-for-sale financial assets		-	(597)
Acquisition of held-to-maturity investments		-	(2,521)
Acquisition of property, plant and equipment		(350,078)	(691,517)
Acquisition of intangible assets		(43,113)	(50,358)
Cash outflows due to business combination		(44,585)	-
Net cash used in investing activities		(382,583)	(679,681)
Cash flows from financing activities			
Proceeds from borrowings		506,515	699,452
Exercise of warrants		372	78
Repayments of borrowings		(585,872)	(113,967)
Dividends paid		-	(7,044)
Net cash provided by(used in) financing activities		(78,985)	578,519
Exchange losses on cash and cash equivalents		(1,789)	(1,936)
Net increase (decrease) in cash and cash equivalents		(82,794)	188,115
Cash and cash equivalents at the beginning of year		435,602	247,487
Cash and cash equivalents at the end of year		352,808	435,602

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, 2012 and 2011

1. General Information

General information about LG Innotek Co., Ltd. (the "Parent Company") and its 11 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, 2012, the Parent Company has outstanding capital stock amounting to ₩ 100,854 million, and LG Electronics Inc. is the largest shareholder with 47.86% 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, 2012, are as follows:

Subsidiaries	Abbreviations ¹	Country	Closing Month	Type of Business	Percentage of Ownership (%)
Overseas subsidiaries					
LG Innotek (Yantai) Co., Ltd.	LGITYT	China	December	Production & Sales	100
LG Innotek (Huizhou) Co., Ltd.	LGITHZ	China	December	Production & Sales	100
LG Innotek (Fuzhou) Co., Ltd.	LGITFZ	China	December	Production & Sales	100
LG Innotek (Guangzhou) Co. ²	LGITGZ	China	December	Production & Sales	100
LG Innotek (Shanghai) Co. ²	LGITSH	China	December	Sales	100
PT LG Innotek Indonesia	LGITIN	Indonesia	December	Production & Sales	100
LG Innotek Poland Sp z o.o.	LGITPO	Poland	December	Production & Sales	100
LG Innotek (Taiwan) Ltd.	LGITTW	Taiwan	December	Sales	100
LG Innotek USA, Inc.	LGITUS	USA	December	Sales	100
Domestic subsidiary					
LG Innotek Alliance Fund Co., Ltd.	LGIT A-Fund	Korea	December	Investment	99
Innowith Co., Ltd. ³	Innowith	Korea	December	Cleaning	100

¹ Abbreviations are used hereinafter.

² The Group established new subsidiaries in both Guangzhou and Shanghai to compete in the Chinese market during the reporting period. LGITGZ acquired an LED-related business of the subsidiaries of LG Display Co., Ltd. (Note 31).

³ Innowith Co., Ltd. was incorporated on May 18, 2012, in order to promote the employment of the disabled people.

LG Innotek Co., Ltd. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2012 and 2011

Financial information, before elimination of intercompany transactions of major subsidiaries, as of and for the years ended December 31, 2012 and 2011, follows:

(in millions of
Korean won)

Subsidiaries	2012					
	Assets	Liabilities	Equity	Sales	Net Income (loss)	Total Comprehensive Income
LGITYT	229,416	114,501	114,915	426,531	21,368	12,276
LGITHZ	368,793	278,275	90,518	625,933	15,492	10,007
LGITFZ	51,211	46,678	4,533	59,986	1,162	873
LGITGZ	66,286	51,726	14,560	31,471	(1,710)	(1,851)
LGITSH	957	711	246	868	28	19
LGITIN	108,745	74,864	33,881	280,989	18,568	16,478
LGITPO	62,182	67,736	(5,554)	76,161	1,573	1,453
LGITTW	1,032	777	255	1,935	(57)	(68)
LGITUS	5,006	3,163	1,843	24,027	190	66
LGIT A-Fund	5,343	3	5,340	-	(82)	(82)
Innowith	105	78	27	960	16	16

(in millions of
Korean won)

Subsidiaries	2011					
	Assets	Liabilities	Equity	Sales	Net Income (loss)	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)

2. Significant Accounting Policies

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 periods presented, unless otherwise stated.

2.1 Basis of Preparation

The Group's financial statements from the annual period beginning on January 1, 2010, have been prepared in accordance with Korean IFRS. These are the standards, subsequent

LG Innotek Co., Ltd. and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2012 and 2011

amendments and related interpretations issued by the International Accounting Standards Board ("IASB") that have been adopted by the Republic of Korea.

The preparation of the consolidated financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

In 2012, the Group presents value added tax refund as other assets, not as other receivables. Such a reclassification has also been made to the statement of financial position as of December 31, 2011, to conform to the presentation as of December 31, 2012. This reclassification has no effect on the reported net income, net asset amount or cash flow of the prior year.

(a) New and amended standards adopted by the Group

The Group changed its accounting policy to present the operating income and loss after deducting cost of sales, and selling and administrative expenses from revenue, in accordance with the amendment of Korean IFRS 1001, *Presentation of Financial Statements*.

The Group applies the accounting policy retroactively in accordance with the amended standards and the comparative consolidated statement of the comprehensive income is restated by reflecting adjustments resulting from the retrospective application. As a result of the changes in the accounting policy, other income and expenses which include foreign exchange differences, gain (loss) on disposal of property, plant and equipment, and others, classified as operating income under the previous standard, were excluded from operating income or loss. Consequently, operating income for the year ended December 31, 2012, was lower by ₩2,506 million and operating loss for the year ended December 31, 2011, was lower by ₩21,765 million, as compared to the amounts under the previous standard. However, there is no impact on net income and earnings per share for the years ended December 31, 2012 and 2011.

(b) New standards and interpretations not yet adopted

New standards, amendments and interpretations issued but not effective for the financial year beginning January 1, 2012, and not early adopted by the Group are as follows:

*- Amendment of Korean IFRS 1001, *Presentation of Financial Statements**

Korean-IFRS 1001, *Presentation of Financial Statements*, requires other comprehensive income items to be presented into two groups on the basis of whether they are potentially reclassifiable to profit or loss subsequently. This is effective for annual periods beginning on or after July 1, 2012, with early adoption permitted. The Group expects that the application of this amendment would not have a material impact on its consolidated financial statements.

LG Innotek Co., Ltd. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2012 and 2011

- Amendments to Korean IFRS 1019, *Employee Benefits*

According to the amendments to Korean IFRS 1019, *Employee Benefits*, the use of a 'corridor' approach is no longer permitted, and therefore all actuarial gains and losses incurred are immediately recognized in other comprehensive income. All past service costs incurred from changes in pension plan are immediately recognized, and expected returns on interest costs and plan assets that used to be separately calculated are now changed to calculating net interest expense (income) by applying discount rate used in measuring defined benefit obligation in net defined benefit liabilities (assets). This amendment will be effective for annual periods beginning on or after January 1, 2013, and the Group expects that the application of the amendments results in increase of disclosures related to employee benefits

- 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 1113 does not extend the use of fair value accounting but provides guidance on how it should be applied where its use is already required or permitted by other standards within the Korean IFRSs. This amendment will be effective for annual periods beginning on or after January 1, 2013, and the Group expects that the application of this enactment would not have a material impact on its consolidated financial statements.

- Enactment of Korean IFRS 1110, *Consolidated Financial Statements*

Korean IFRS 1110, *Consolidated Financial Statements*, explains specific principles by identifying the concept of control as the determining factor in whether an entity should be included in the consolidated financial statements of the Parent Company. An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. This enactment will be effective for annual periods beginning on or after January 1, 2013, and the Group expects that the application of this enactment would not have a material impact on its consolidated financial statements.

- Enactment of Korean IFRS 1112, *Disclosures of Interests in Other Entities*

Korean IFRS 1112, *Disclosures of Interests in Other Entities*, provides the disclosure requirements for all forms of interests in other entities, including a subsidiary, a joint arrangement, an associate, a consolidated structured entity and an unconsolidated structured entity. This enactment will be effective for annual periods beginning on or after January 1, 2013, and the Group is reviewing the impact of this standard.

LG Innotek Co., Ltd. and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2012 and 2011

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 recognized 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 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 recognized 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 recognized 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 unrealized 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 recognized 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.

LG Innotek Co., Ltd. and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2012 and 2011

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 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 recognized in the income statement.

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

LG Innotek Co., Ltd. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2012 and 2011

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 amortized 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.

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, 2012 and 2011, 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, 2012 and 2011, consist of equity instruments.

LG Innotek Co., Ltd. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2012 and 2011

v) Financial liabilities measured at amortised cost

The Group classifies non-derivative financial liabilities as financial liabilities measured at amortized 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 amortized 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 recognized 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 recognized at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognized 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.

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 amortized 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 'other non-operating 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 recognized in equity are reported in the income statement as 'other non-operating income and expenses'.

Interest on available-for-sale securities calculated using the effective interest method is recognized in the income statement as part of 'financial income'. Dividends from available-for-sale equity instruments are recognized in the income statement as part of 'other non-operating 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

LG Innotek Co., Ltd. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2012 and 2011

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 recognized 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.

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 recognized 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 recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in the income statement.

LG Innotek Co., Ltd. and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2012 and 2011

(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 recognized in profit or loss – is removed from equity and recognized in the income statement. Impairment losses recognized 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 recognized in profit or loss, the impairment loss is reversed through the income statement.

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 recognized 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 process comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). Cost excludes borrowing costs. Net realizable 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 recognized 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:

LG Innotek Co., Ltd. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2012 and 2011

	Estimated Useful Lives
Buildings, structures	10 - 40 years
Machinery	4 - 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 recognized within 'other non-operating income and expenses' in the income statement.

Borrowing Costs

The Group capitalizes 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 recognizes other borrowing costs as an expense in the period in which it is incurred.

Government Grants

Grants from a government are recognized 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 recognized 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 amortization. Amortization is calculated using the straight-line method over their estimated useful lives.

(b) Development costs

The Group recognizes expenditures related to general research or development project as an expense when incurred. Costs that are identifiable, controllable and directly attributable to

LG Innotek Co., Ltd. and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2012 and 2011

development projects for a new product are recognized 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 capitalized in development costs include appropriate part of costs of employee benefits and overhead expenditure for the development.

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

Capitalized development costs which are stated as intangible assets are amortized 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 amortized 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 amortized 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

LG Innotek Co., Ltd. and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2012 and 2011

Impairment of Non-Financial Assets

Intangible assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. At each reporting date, assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized 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 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 recognized 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 recognized initially at fair value, net of transaction costs incurred. Borrowings and debentures are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized 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.

LG Innotek Co., Ltd. and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2012 and 2011

Convertible bonds and Bonds with warrants

Convertible bonds and bonds with warrants are analyzed into debt components and separate embedded conversion and warrant components. The conversion right and warrants are classified as equity instruments and recognized 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 amortized 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 derecognized 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.

Current and Deferred Income Tax

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

Current tax for current and prior periods, to the extent unpaid, is recognized 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 recognized 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 recognized 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

LG Innotek Co., Ltd. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2012 and 2011

is realised or the deferred income tax liability is settled.

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

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 realize the asset and settle the liability simultaneously.

Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events and an outflow of resources required to settle the obligation is probable and can be reliably estimated. Provisions are not recognized 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

LG Innotek Co., Ltd. and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2012 and 2011

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 recognized 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 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 recognizes 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 recognized 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 recognizes provisions for product warranties based on reasonable expectation reflecting warranty obligation rates incurred historically (Note 15).

LG Innotek Co., Ltd. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2012 and 2011

(b) *Royalty income*

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

(c) *Interest income*

Interest income is recognized using the effective interest method.

(d) *Dividend income*

Dividend income is recognized 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.

Dividend Distribution

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

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 minimize 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.

LG Innotek Co., Ltd. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2012 and 2011

The principal of foreign exchange risk management is to minimize 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 minimizes 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, 2012 and 2011, 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:

<i>(in millions of Korean won)</i>	2012		2011	
	10% increase	10% decrease	10% increase	10% decrease
USD	(1,032)	1,032	16,228	(16,228)
JPY	(1,752)	1,752	(1,954)	1,954
EUR	(1,582)	1,582	(1,904)	1,904

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, 2012 and 2011, 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>	2012		2011	
	100bp increase	100bp decrease	100bp increase	100bp decrease
Interest expense	2,121	(2,121)	2,208	(2,208)

(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

LG Innotek Co., Ltd. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2012 and 2011

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 authorized 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, 2012, 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*

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, 2012, the Group copes with the liquidity risk by maintaining total committed credit lines of ₩ 471,300 million, including general borrowings, commercial paper and bank overdraft agreements with Shinhan Bank and Hana Bank.

Payment schedule¹ of borrowings as of December 31, 2012, is as follows:

<i>(in millions of Korean won)</i>	Less than			Over
	1 year	2 years	5 years	5 years
Trade payables	740,244	-	-	-
Short-term borrowings	116,424	-	-	-
Other payables	462,039	3,642	7,283	-
Long-term borrowings	407,636	266,603	268,987	-
Debentures	221,766	180,575	820,678	-
Convertible bonds	-	216,572	-	-
Total	1,948,109	667,392	1,096,948	-

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 liabilities divided by total equity. The Group's strategy is to maintain the level of same industries'

LG Innotek Co., Ltd. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2012 and 2011

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>	<u>December 31, 2012</u>	<u>December 31, 2011</u>
Liabilities (A)	3,617,979	3,085,126
Equity (B)	1,268,307	1,324,840
Cash and cash equivalents and current financial deposits (C)	370,668	472,271
Borrowings (D)	2,167,733	2,244,762
Debt-to-equity ratio (A/B)	285%	233%
Net Borrowings ratio (D-C)/B	142%	134%

Methods and Assumptions in Determining Fair Value

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

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

For trade receivables and other short-term financial assets, the carrying amount is the assumed reasonable approximation of fair value. The unlisted securities are measured at cost as they are in the beginning of their business stages that variables of cash flow are significant and their fair values cannot be reliably measured.

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

<i>(In millions of Korean won)</i>	<u>December 31, 2012</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Available-for-sale financial assets				
- Listed equity instruments	1	-	-	1

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

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, an entity within the same industry, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is

LG Innotek Co., Ltd. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2012 and 2011

the current bid price. These instruments are included in level 1. The financial instruments included in level 1 consist of listed equity investments classified as available for sale.

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 preparation of consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. 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. Actual results may differ from these estimates.

The Group changed the estimated useful life of the property, plant and equipment associated with the motor business from five to eight years. The changes in accounting estimates are to accurately reflect the substance of transactions and economic reality. This resulted in a depreciation expense that is lower by ₩ 2,088 million for the reporting period compared to that under the previous method.

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

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.

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

LG Innotek Co., Ltd. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2012 and 2011

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

Until last year, the Group had three business divisions (Display and Network; LED; and Materials and Components) and supporting divisions engaged in general management, business, and R&D activities, but through its reorganization during the current period, the former Materials and Components division has been subdivided into Substrate & Material and Optics Solution and others. The comparative information has been represented according to current classification of segments.

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
Substrate & Material	PCB, Tape Substrate, Lead Frame, Photomask
Optics Solution and others	Camera Module, ABS Motor, other

(a) Information about each reportable segment of the Group

The segment information for assets and liabilities is as follows:

	December 31, 2012		December 31, 2011	
	Assets	Liabilities	Assets	Liabilities
<i>(in millions of Korean won)</i>				
Display and Network	408,372	249,538	495,910	399,264
LED	1,835,784	1,341,707	1,835,426	1,391,025
Substrate & Material	1,460,998	1,000,753	1,359,538	703,184
Optics Solution and others	1,181,131	1,025,981	719,093	591,653
Total	4,886,285	3,617,979	4,409,967	3,085,126

LG Innotek Co., Ltd. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2012 and 2011

The segment information for sales and profit (including specified revenues and expenses included in reported segment profit) for the years ended December 31, 2012 and 2011, is as follows:

<i>(in millions of Korean won)</i>	2012				
	Display /	LED	Substrate &	Optics Solution	Total
	Network		Material	and others	
I. Sales	900,720	996,149	1,409,185	2,009,904	5,315,958
II. Profit (loss) before income tax	48,059	(224,328)	126,949	31,738	(17,582)
III. Other income and expenses					
Selling and marketing expenses	30,537	42,687	40,987	32,695	146,906
Administrative expenses	16,123	13,862	14,046	21,951	65,982
Research and development expenses	50,717	108,859	41,614	70,429	271,619
Interest income	2,967	3,122	3,819	5,671	15,579
Interest expense	20,707	23,846	27,299	37,700	109,552
Depreciation	21,219	226,045	139,977	56,901	444,142
Amortization	3,881	7,938	10,733	4,788	27,340
Impairment loss on property, plant and equipment	21	-	2,243	428	2,692
Impairment loss on intangible assets	597	2,205	494	102	3,398

<i>(in millions of Korean won)</i>	2011				
	Display /	LED	Substrate &	Optics Solution	Total
	Network		Material	and others	
I. Sales	1,017,153	904,946	1,129,175	1,501,735	4,553,009
II. Profit (loss) before income tax	14,259	(248,882)	33,531	26,619	(174,473)
III. Other income and expenses					
Selling and marketing expenses	33,212	48,375	41,160	31,221	153,968
Administrative expenses	18,437	13,045	12,854	15,009	59,345
Research and development expenses	49,854	88,138	42,195	44,367	224,554
Interest income	3,178	2,675	2,769	3,208	11,830
Interest expense	28,352	22,352	24,427	26,254	101,385
Depreciation	23,369	210,718	135,313	28,664	398,064
Amortization	3,438	4,848	9,729	2,718	20,733
Impairment loss on property, plant and equipment	526	9,119	465	591	10,701
Impairment loss on intangible assets	5,680	4,738	4,948	7,358	22,724

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.

LG Innotek Co., Ltd. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2012 and 2011

(b) External sales by geographic areas for the years ended December 31, 2012 and 2011, and non-current assets by geographic areas are as follows:

<i>(in millions of Korean won)</i>	2012			
	Korea	China	Other	Total
External sales	4,524,085	518,862	273,011	5,315,958
Property, plant and equipment and intangible assets.	2,209,417	258,524	51,623	2,519,564

<i>(in millions of Korean won)</i>	2011			
	Korea	China	Other	Total
External sales	3,870,501	464,833	217,675	4,553,009
Property, plant and equipment and intangible assets.	2,193,581	182,851	60,804	2,437,236

(3) Sales from external customer who contributes at least 10% of the total sales of the Group for the years December 31, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	2012	2011	Related reporting segment
Customer 1	1,512,362	1,066,060	Substrate & Material, Optics Solution and others
Customer 2	1,124,539	1,053,107	Substrate & Material, Optics Solution and others

6. Financial Instruments by Category

Categorizations of financial instruments as of December 31, 2012, are as follows:

<i>(in millions of Korean won)</i>	Assets at fair value through		Financial assets		Total
	profit or loss	Loans and receivables	classified as available-for-sale	Held-to-maturity financial assets	
Cash and cash equivalents	-	352,808	-	-	352,808
Financial deposits	-	17,860	-	-	17,860
Trade receivables	-	1,122,106	-	-	1,122,106
Loans and other receivables	-	44,365	-	-	44,365
Other financial assets	-	-	1,339	4,954	6,293
Total	-	1,537,139	1,339	4,954	1,543,432
Related profit or loss	-				
Exchange difference	-	(57,164)	-	-	(57,164)
Interest income	-	15,421	-	158	15,579
Reversal of impairment losses	-	1,082	-	-	1,082
Gain (loss) on disposal of available-for-sale financial assets	-	-	117	-	117

LG Innotek Co., Ltd. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2012 and 2011

Loss on disposal of trade receivables	-	(1,503)	-	-	(1,503)
---------------------------------------	---	---------	---	---	---------

<i>(in millions of Korean won)</i>	Liabilities at fair value through profit or loss	Liabilities carried at amortized cost	Total
Trade payables	-	740,244	740,244
Borrowings	-	2,167,733	2,167,733
Other payables	-	472,094	472,094
Total	-	3,380,071	3,380,071
Related profit or loss			
Exchange difference	-	49,906	49,906
Interest expenses	-	(109,552)	(109,552)

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

<i>(in millions of Korean won)</i>	Assets at fair value through profit or loss		Financial assets classified as		Total
	Loans and receivables	Held-to-maturity financial assets	available-for-sale	Held-to-maturity financial assets	
Cash and cash equivalents	-	435,602	-	-	435,602
Financial deposits	-	36,670	-	-	36,670
Trade receivables	-	817,097	-	-	817,097
Loans and other receivables	-	58,122	-	-	58,122
Other financial assets	-	-	1,551	4,954	6,505
Total	-	1,347,491	1,551	4,954	1,353,996
Related profit or loss					
Exchange difference	-	3,112	-	-	3,112
Interest income	-	11,730	-	100	11,830
Impairment losses	-	(1,869)	(1,992)	-	(3,861)
Loss on disposal of trade receivables	-	(1,235)	-	-	(1,235)

<i>(in millions of Korean won)</i>	Liabilities at fair value through profit or loss	Liabilities carried at amortized 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			
Exchange difference	-	(8,669)	(8,669)
Interest expenses	-	(101,385)	(101,385)

LG Innotek Co., Ltd. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2012 and 2011

7. Restricted Financial Deposit

<i>(in millions of Korean won)</i>	December 31, 2012	December 31, 2011	Description
Non-current financial deposits	28	30	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, 2012			December 31, 2011		
	Original amount	Less : allowance for doubtful accounts	Carrying amount	Original amount	Less : allowance for doubtful accounts	Carrying amount
Current						
Trade receivables	1,131,178	(9,072)	1,122,106	827,929	(10,832)	817,097
Loans and other receivables	28,877	(386)	28,491	40,253	(1,124)	39,129
Non-Current						
Loans and other receivables	15,874	-	15,874	18,993	-	18,993

The details of loans and other receivables are as follows:

<i>(in millions of Korean won)</i>	December 31, 2012	December 31, 2011
Current		
Loans	3,478	933
Non-trade Receivables	23,320	35,472
Accrued Income	1,083	1,927
Deposits	610	797
	<u>28,491</u>	<u>39,129</u>
Non-Current		
Loans	3,532	9,486
Deposits	12,342	9,507
	<u>15,874</u>	<u>18,993</u>
	<u>44,365</u>	<u>58,122</u>

LG Innotek Co., Ltd. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2012 and 2011

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>	<u>December 31, 2012</u>	<u>December 31, 2011</u>
Loans ¹	6,489	9,604
Deposits	11,961	9,502

¹The amounts include current maturities of short-term loans.

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, 2012, is as follows:

<i>(in millions of Korean won)</i>	<u>Current</u>	<u>Overdue</u>				<u>Defaulted</u>	<u>Total</u>
		<u>Up to 3 months</u>	<u>4 to 6 months</u>	<u>7 to 12 months</u>	<u>Over one year</u>		
Trade receivables	1,121,784	1,051	108	20	7,369	846	1,131,178
Loans and other receivables							
Current	28,403	87	-	1	-	386	28,877
Non-current	15,874	-	-	-	-	-	15,874

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>	<u>Current</u>	<u>Overdue</u>				<u>Defaulted</u>	<u>Total</u>
		<u>Up to 3 months</u>	<u>4 to 6 months</u>	<u>7 to 12 months</u>	<u>Over one year</u>		
Trade receivables	810,713	7,669	213	231	7,825	1,278	827,929
Loans and other receivables							
Current	35,256	3,409	2	462	-	1,124	40,253
Non-current	18,993	-	-	-	-	-	18,993

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 recognized based on ageing analysis and historical experience.

LG Innotek Co., Ltd. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2012 and 2011

The movements in bad debt allowance for the year ended December 31, 2012, are as follows:

<i>(in millions of Korean won)</i>	<u>At January 1</u>	<u>Addition (Reversal)</u>	<u>Write-off</u>	<u>Exchange differences</u>	<u>At December 31</u>
Trade receivables	10,832	(931)	(368)	(461)	9,072
Loans and other receivables					
Current	1,124	(151)	(587)	-	386
Non-current	-	-	-	-	-

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

<i>(in millions of Korean won)</i>	<u>At January 1</u>	<u>Addition (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 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 non-operating expenses'. Amounts charged to the allowance account are generally written off, when there is no expectation of recovering additional cash.

Details of transferred financial assets that are not derecognized in their entirety as of December 31, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	<u>December 31, 2012</u>	<u>December 31, 2011</u>
Carrying amount of the assets		
Trade receivables	7,926	-
Carrying amount of the associated liabilities		
Short-term loans	(7,926)	-
Net position	-	-

The carrying amount is a reasonable approximation of fair value as the above financial assets and liabilities are short-term which are due within one year from the end of reporting period.

9. Inventories

<i>(in millions of Korean won)</i>	<u>December 31, 2012</u>	<u>December 31, 2011</u>
Merchandise and finished products	140,933	92,862
Work-in-process	170,365	134,453
Raw materials	164,478	146,890
Others	2,167	1,671
	<u>477,943</u>	<u>375,876</u>

The cost of inventories recognized as expense and included in 'Cost of sales' amounted to ₩ 4,754,207 million (2011: ₩ 4,160,214 million), and losses (reversal) on valuation of inventories

LG Innotek Co., Ltd. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2012 and 2011

of ₩ (-)27,923 million (2011: ₩ 27,611 million).

10. Other Assets

<i>(in millions of Korean won)</i>	<u>December 31, 2012</u>	<u>December 31, 2011</u>
Current:		
Prepaid expenses	24,856	13,349
Advances to suppliers	3,247	1,404
Others	59,057	15,689
	<u>87,160</u>	<u>30,442</u>
Non-Current:		
Long-term prepaid expenses	69,379	46,339
	<u>156,539</u>	<u>76,781</u>

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>	<u>Percentage of ownership (%)</u>	<u>December 31, 2012</u>	<u>December 31, 2011</u>
Marketable securities			
Hyundai IT Corp.	0.01	1	1
Non-marketable securities			
Newco Display Co., Ltd.	7.41	-	-
Eron Technologies Corporation	0.49	-	-
INKEL. Corp.	0.01	1	1
Force4 Co., Ltd.	8.10	100	100
Quantum Device Inc.	4.04	97	309
EGNICS Corporation	7.28	-	-
Join Energy Co., Ltd.	0.12	-	-
Top Thermal Management Co., Ltd.	5.71	500	500
Exploitation of Next Generation Co., Ltd.	14.90	-	-
Surfacetech Co., Ltd. ¹	6.06	43	43
Epivalley Co., Ltd. ¹	0.41	-	-
Intellectual Discovery Co., Ltd.	0.89	397	397
DecaWave Ltd. ¹	1.87	-	-
MBI Co., Ltd. ¹	3.63	-	-
E-World Co., Ltd.	9.98	200	200
Total		<u>1,339</u>	<u>1,551</u>

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

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 of their businesses are in the early stage.

LG Innotek Co., Ltd. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2012 and 2011

Held-to-maturity securities as of December 31, 2012, consist of government and municipal bonds. The interest income from the held-to-maturity securities for the year ended December 31, 2012, amounts to ₩ 158 million (2011: ₩ 100 million).

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>	Land	Buildings	Structures	Machinery and equipment	Tools	Construction-in-progress	Others	Total
At January 1, 2012	156,965	838,467	17,617	1,152,793	44,953	48,126	46,545	2,305,466
Acquisitions	85	25,623	945	140,394	5,363	314,869	32,418	519,697
Business combination	-	-	-	31,111	876	-	1,443	33,430
Disposal	-	-	(10)	(20,607)	(425)	(766)	(121)	(21,929)
Depreciation	-	(37,348)	(1,749)	(375,835)	(17,561)	-	(11,649)	(444,142)
Impairment / reversal	-	-	-	(2,600)	(92)	-	-	(2,692)
Transfer-in (out)	-	76,891	174	241,646	23,355	(314,292)	(27,774)	-
Exchange differences	(129)	(5,890)	(33)	(7,073)	(767)	(615)	(621)	(15,128)
At December 31, 2012	156,921	897,743	16,944	1,159,829	55,702	47,322	40,241	2,374,702
Acquisition cost	156,921	1,073,649	37,088	2,674,487	168,437	47,322	103,977	4,261,881
Accumulated depreciation	-	(174,446)	(20,144)	(1,505,138)	(107,268)	-	(63,633)	(1,870,629)
Accumulated impairment	-	(1,002)	-	(9,442)	(885)	-	(103)	(11,432)
Government grant	-	(458)	-	(78)	(4,582)	-	-	(5,118)

<i>(in millions of Korean won)</i>	Land	Buildings	Structures	Machinery and equipment	Tools	Construction-in-progress	Others	Total
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, 2011	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)

As of December 31, 2012, property, plant and equipment are partly pledged as collaterals for various borrowings from banks for up to ₩ 411,321 million and for China Construction Bank up to

LG Innotek Co., Ltd. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2012 and 2011

the total credit limit of USD 48,141 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 ₩2,692 million (2011: ₩10,675 million) was recognized in 2012.

Borrowing costs amounting to ₩ 84 million (2011: ₩ 901 million) are capitalized as acquisition costs and a capitalization rate of 4.72% (2011: 4.64 %) is applied.

The book value of assets classified as held for sale amounts to ₩ 6,865 million, which were related with the assets used by LED division in 2011, and these assets were disposed of during 2012.

(a) Intangible assets

Changes in intangible assets are as follows:

<i>(in millions of Korean won)</i>	Industrial property rights	Development costs	Other intangible assets¹	Total
At January 1, 2012	10,469	36,323	84,978	131,770
Acquisitions	14,755	3,074	31,233	49,062
Business combination	-	-	1,478	1,478
Disposals	(79)	-	(6,469)	(6,548)
Amortization	(2,108)	(11,734)	(13,498)	(27,340)
Impairment / reversal ²	-	(3,398)	-	(3,398)
Exchange differences	-	-	(162)	(162)
At December 31, 2012	23,037	24,265	97,560	144,862
Cost	29,255	72,124	161,117	262,496
Accumulated amortization	(6,218)	(47,859)	(63,557)	(117,634)

<i>(in millions of Korean won)</i>	Industrial property rights	Development costs	Other intangible assets¹	Total
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)
Amortization	(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)

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 recognized it as right to use donated assets to be amortized over the contractual period of 25 years.

² In relation to the development of new products, impairment loss has been recognized considering

LG Innotek Co., Ltd. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2012 and 2011

technological feasibility and expected changes in market conditions.

Amortization of intangible assets was presented as follows:

<i>(in millions of Korean won)</i>	<u>2012</u>	<u>2011</u>
Cost of sales	16,723	11,381
Selling and marketing expenses	13	64
Administrative expenses	5,865	5,797
Research and development expenses	4,739	3,491
	<u>27,340</u>	<u>20,733</u>

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

<i>(in millions of Korean won)</i>	<u>2012</u>	<u>2011</u>
Research and development expenses		
Cost of materials	42,753	28,225
Employee benefits	124,347	95,288
Other expenses	104,519	101,041
	<u>271,619</u>	<u>224,554</u>

13. Borrowings

Short-term borrowings consist of:

<i>(in millions of Korean won)</i>	<u>Latest</u>	<u>Annual interest rate</u>	<u>Carrying amount</u>	
	<u>Maturity</u>	<u>(%) at Dec 31, 2012</u>	<u>December 31,</u>	<u>December 31,</u>
			<u>2012</u>	<u>2011</u>
Bank borrowings				
Kookmin Bank and others	-	-	-	255,000
Korea EXIM Bank	2013.2.28	4.02	30,000	90,763
Shinhan Bank	2013.6.28	1.90 ~ 3.12	14,684	15,570
Korea Development Bank	-	-	-	35,000
Nordea Bank Polska S.A	2013.11.29	1.61	1,562	20,351
Others	2013.8.27	1.06 ~ 5.04	69,387	29,865
Current maturities of long-term borrowings and debentures				
Long-term borrowings and debentures	-	1.75 ~ 5.88	554,515	249,461
Less: discount on debentures			(98)	(2,333)
			<u>670,050</u>	<u>693,677</u>

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

LG Innotek Co., Ltd. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2012 and 2011

Long-term borrowings consist of:

<i>(in millions of Korean won)</i>	Payment schedule	Latest Maturity date	Interest rate (%) at Dec 31, 2012	December 31, 2012	December 31, 2011
Korea Development Bank	Installment payments for 3 months	-	-	-	348
Hana Bank	Installment payments for 3 months	2016.3.28	1.75 ~ 3.04	4,782	7,372
Shinhan Bank	Installment payments for 3 months	2017.9.15	1.75 ~ 4.78	53,779	83,901
Korea EXIM Bank	Installment payments for 6 months after a year	2014.5.31	4.90 ~ 5.50	170,000	220,000
Korea Finance Corporation	Lump sum payment at maturity date	2016.7.27	3.71 ~ 4.91	310,000	180,000
Kookmin Bank	Installment payments for a year after 2 years	2015.3.4	4.72 ~ 5.16	160,000	160,000
Industrial Bank of Korea securities	Lump sum payment at maturity date	2016.10.14	3.35	90,000	-
Korea EXIM Bank	Lump sum payment at maturity date	2015.8.24	2.41 ~ 3.22	57,450	14,957
Others	Lump sum payment at maturity date	2015.7.31	2.01 ~ 3.43	30,937	63,282
Sub-total				876,948	729,860
Less: Current portion				(374,514)	(94,560)
				<u>502,434</u>	<u>635,300</u>

Debentures consist of:

<i>(in millions of Korean won)</i>	Issuance date	Latest Maturity date	Interest rate (%) at Dec 31, 2012	December 31, 2012	December 31, 2011
16 th non-guaranteed debenture	2009.3.5	2012.3.5	-	-	50,000
17-2 nd non-guaranteed debenture	2007.2.9	2012.2.9	-	-	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	5.7	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	5.1	200,000	200,000
29 th non-guaranteed debenture	2011.2.24	2015.2.24	5.01	200,000	200,000
30-1 st non-guaranteed debenture	2012.2.9	2015.2.9	4.32	50,000	-
30-2 nd non-guaranteed debenture	2012.2.9	2017.2.9	4.9	50,000	-
31-1 st non-guaranteed debenture	2012.11.12	2016.11.12	3.61	70,000	-
31-2 nd non-guaranteed debenture	2012.11.12	2017.11.12	3.73	80,000	-
Sub-total				980,000	820,000
Less: Current portion				(180,000)	(90,000)
Discount on debentures				(2,198)	(2,064)
				<u>797,802</u>	<u>727,936</u>

LG Innotek Co., Ltd. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2012 and 2011

Convertible bonds and bonds with warrants consist of:

<i>(in millions of Korean won)</i>	Issuance date	Latest Maturity date	December 31, 2012	December 31, 2011
22 nd Convertible bonds ¹	2009.8.11	2012.8.11	-	10,081
23 rd Bonds with warrant ¹	2009.8.11	2012.8.11	-	54,820
27 th Convertible bonds ²	2010.11.11	2014.11.11	216,572	216,572
			216,572	281,473
Less: Current portion			-	(64,901)
Discount on bonds			(19,125)	(28,724)
			<u>197,447</u>	<u>187,848</u>

¹ The Group redeemed the 22nd convertible bonds and the 23rd bonds with warrant amounting to ₩ 9,341 million and ₩ 54,819 million, respectively, at maturity on August 13, 2012.

² On November 11, 2010, the Parent Company issued convertible bonds with a zero coupon rate. On or after November 11, 2013 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 issuance date and will be repaid at 8.3071 % of their principal amount at maturity. The bonds also contain early redemption option that can be exercised by the Parent Company when they fulfil specified terms.

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

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

<i>(in millions of Korean won)</i>	December 31, 2012		December 31, 2011	
	Carrying amount	Fair value	Carrying amount	Fair value
Long-term borrowings ¹	876,949	886,624	729,862	736,642
Debentures ¹	1,175,152	1,213,384	1,068,351	1,100,037
	<u>2,052,101</u>	<u>2,100,008</u>	<u>1,798,213</u>	<u>1,836,679</u>

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>	December 31, 2012	December 31, 2011
Current		
Non-trade payables	377,281	176,778
Accrued expenses	84,758	73,875
	<u>462,039</u>	<u>250,653</u>

LG Innotek Co., Ltd. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2012 and 2011

Non-current		
Non-trade payables	10,055	365
Deposits received	-	38
	10,055	403
	472,094	251,056

15. Provisions

Changes in provisions during the years ended December 31, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	2012			2011
	Warranty provisions ¹	Other provisions ²	Total	Warranty provisions
Beginning balance	2,380	7,952	10,332	3,175
Addition (Reversal)	17,637	(5,239)	12,398	23,119
Utilisation	(14,823)	(2,713)	(17,536)	(15,975)
Exchange differences	(3)	-	(3)	13
Ending balance	5,191	-	5,191	10,332

¹ As of December 31, 2012, the Group accrues the estimated costs of product warranties based on historical experience.

² As of December 31, 2012, the Company provides for expected loss from onerous contract in relation to the purchase contract of materials at fixed quantities.

16. Defined Benefit Liability

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

<i>(in millions of Korean won)</i>	December 31, 2012	December 31, 2011
Present value of funded obligations	170,941	120,565
Fair value of plan assets	(70,750)	(61,219)
	100,191	59,346
Present value of unfunded obligations	587	473
Liabilities	100,778	59,819

The amounts recognized in the statements of income for the years ended December 31, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	2012	2011
Current service cost	33,229	27,901
Interest cost	5,402	3,710
Past service cost ¹	-	2,740
Expected return on plan assets	(2,561)	(3,015)
	36,070	31,336

LG Innotek Co., Ltd. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2012 and 2011

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 recognized in the statement of comprehensive income for the years ended December 31, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	2012	2011
Actuarial losses before tax	(23,096)	(11,043)
Tax effects	5,589	2,672
Actuarial losses after tax	(17,507)	(8,371)

Cumulative actuarial losses recognized in the statement of comprehensive income as of December 31, 2012, are ₩ 51,983 million (2011: ₩ 34,431 million).

The line items in which total expenses are included for the years ended December 31, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	2012	2011
Cost of sales	24,595	19,334
Selling and marketing expenses	1,955	1,776
Administrative expenses	1,277	3,395
Development costs and research and development expenses	8,243	6,831
	36,070	31,336

Changes in the defined benefit obligations for the years ended December 31, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	2012	2011
At January 1	121,038	82,537
Current service cost	33,229	27,901
Transfer-in from related companies	2,677	563
Interest expense	5,402	3,710
Actuarial loss	23,435	11,064
Benefits paid	(14,213)	(7,485)
Past service cost	-	2,740
Exchange differences	(40)	8
At December 31	171,528	121,038

LG Innotek Co., Ltd. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2012 and 2011

Changes in the fair value of plan assets for the years ended December 31, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	<u>2012</u>	<u>2011</u>
At January 1	61,219	63,314
Expected return on plan assets	2,561	3,015
Actuarial gain (loss)	339	21
Employer contributions	15,202	-
Benefits paid	(8,571)	(5,131)
At December 31	<u>70,750</u>	<u>61,219</u>

The actual return on plan assets for the year ended December 31, 2012, was ₩2,900 million (2011: ₩3,036 million).

The principal actuarial assumptions used were as follows:

	<u>December 31, 2012</u>	<u>December 31, 2011</u>
Discount rate ¹	3.7%	4.6%
Expected rate of return	4.4%	4.6%
Future salary increase	6.4%	6.4%

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

<i>(in millions of Korean won)</i>	<u>December 31, 2012</u>	<u>Increase</u>	<u>Decrease</u>
Defined benefit obligations	171,528	156,749	188,833
Discount rate	3.7%	4.7%	2.7%
Future salary increase	6.4%	6.4%	6.4%

Plan assets consist of:

<i>(in millions of Korean won)</i>	<u>December 31, 2012</u>	<u>December 31, 2011</u>
Debt securities (principal and interest guaranteed)	45,807	38,285
Derivative linked securities	24,936	22,932
Other deposits	7	2
	<u>70,750</u>	<u>61,219</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>	<u>December 31, 2012</u>	<u>December 31, 2011</u>	<u>December 31, 2010</u>	<u>December 31, 2009</u>
Present value of obligation	(171,528)	(121,038)	(82,537)	(83,102)
Fair value of plan assets	70,750	61,219	63,314	23,836
Deficit in the plan	(100,778)	(59,819)	(19,223)	(59,266)
Experience adjustments on defined benefit liabilities	(6,800)	(1,906)	(1,378)	(8,891)
Experience adjustments on plan assets	339	21	(176)	572

LG Innotek Co., Ltd. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2012 and 2011

The Group recognized severance benefits amounting to ₩576 million (2011: ₩312 million) in relation to defined contribution plan.

17. Capital Stock and Other Components of Equity

As of December 31, 2012 and 2011, the number of shares authorized 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, 2012 and 2011, 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 ¹	Total
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	20,156,443	100,795	821,012	27,386	(321)	948,872
At January 1, 2012	20,156,443	100,795	821,012	27,386	(321)	948,872
Exercise of conversion rights and warrants	11,711	59	1,192	(169)	-	1,082
At December 31, 2012	20,168,154	100,854	822,204	27,217	(321)	949,954

¹ The Group acquired 2,600 treasury shares for ₩ 321 million to handle the odd shares arising from the merger with LG Micron Ltd. on July 1, 2009, and it is deducted from other components of equity.

18. Accumulated Other Comprehensive Income

The changes in accumulated other comprehensive income for the years ended December 31, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	Available-for-sale financial assets	Currency translation	Total
At January 1, 2012	(9)	3,662	3,653
Available-for-sale financial assets	-	-	-
Currency translation differences on translating foreign operations	-	(15,103)	(15,103)
At December 31, 2012	(9)	(11,441)	(11,450)

<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 on translating foreign operations	-	12,712	12,712
At December 31, 2011	(9)	3,662	3,653

LG Innotek Co., Ltd. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2012 and 2011

19. Retained Earnings

Details of retained earnings consist of:

<i>(in millions of Korean won)</i>	December 31, 2012	December 31, 2011
Legal reserve¹	17,280	17,280
Discretionary reserve		
Reserve for business rationalization ²	17,042	17,042
Reserve for technology development ²	18,046	18,046
Reserve for facilities ²	42,000	42,000
Others ³	36,470	36,470
Unappropriated retained earnings	198,911	241,422
	329,749	372,260

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

² These reserve may be distributed as dividends with the ratification of the Company's majority shareholders.

³ This reserve is not available for the payment of cash dividends but may be transferred to capital stock or used to reduce accumulated deficit.

Changes of unappropriated retained earnings are as follows:

<i>(in millions of Korean won)</i>	2012	2011
At January 1	241,422	402,898
Net loss attributable to equity holders of the Parent Company	(25,004)	(145,357)
Actuarial losses	(17,507)	(8,371)
Dividend	-	(7,044)
Discretionary reserve	-	(704)
At December 31	198,911	241,422

20. Revenue

The amount of each significant category of revenue recognized for the years ended December 31, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	2012	2011
Sales of goods	5,315,958	4,553,009
Interest income	15,579	11,830

LG Innotek Co., Ltd. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2012 and 2011

21. Selling and marketing expenses

Details of selling and marketing expenses for the years ended December 31, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	<u>2012</u>	<u>2011</u>
Wages and salaries	26,120	23,562
Severance benefits	2,082	1,801
Welfare expense	4,794	4,407
Freight expense	32,967	24,550
Rental expense	3,399	3,389
Commission expense	41,466	38,568
Insurance premium	1,944	1,795
Advertising expense	7,962	19,255
Travel expense	6,817	5,435
Product warranty expense	17,637	15,167
Others	1,718	16,039
	<u>146,906</u>	<u>153,968</u>

22. Administrative expenses

Details of administrative expenses for the years ended December 31, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	<u>2012</u>	<u>2011</u>
Wages and salaries	18,794	14,456
Severance benefits	1,377	3,725
Welfare expense	4,701	5,106
Freight expense	175	49
Rental expense	3,507	3,369
Commission expense	14,679	12,387
Depreciation	2,911	2,535
Amortization	5,865	5,797
Insurance premium	685	348
Advertising expense	1,895	930
Travel expense	1,164	1,000
Others	10,229	9,643
	<u>65,982</u>	<u>59,345</u>

LG Innotek Co., Ltd. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2012 and 2011

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, 2012 and 2011, consist of:

<i>(in millions of Korean won)</i>	<u>2012</u>	<u>2011</u>
Changes in inventories	(84,479)	(14,093)
Processed raw materials	3,368,879	2,759,023
Employee benefit expenses	571,144	474,696
Depreciation, amortisation	471,482	418,797
Freight expenses	36,287	26,751
Outsourcing expenses	324,664	405,772
Supplies expenses	114,368	92,047
Utility expenses	73,482	64,813
Commission expenses	134,408	122,706
Other expenses	228,479	247,569
	<u>5,238,714</u>	<u>4,598,081</u>

24. Other Non-Operating Income and Expenses

Other non-operating income for the years ended December 31, 2012 and 2011, consists of:

<i>(in millions of Korean won)</i>	<u>2012</u>	<u>2011</u>
Foreign exchange gain	100,228	96,858
Gain on disposal of property, plant and equipment	7,946	7,925
Others	10,670	8,255
	<u>118,844</u>	<u>113,038</u>

Other non-operating expenses for the years ended December 31, 2012 and 2011, consist of:

<i>(in millions of Korean won)</i>	<u>2012</u>	<u>2011</u>
Foreign exchange loss	100,087	90,515
Loss on disposal of property, plant and equipment	6,797	8,632
Loss on disposal of intangible assets	1,188	-
Impairment loss on property, plant and equipment	2,692	10,701
Impairment loss on intangible assets	3,398	22,724
Others	4,224	6,722
	<u>118,386</u>	<u>139,294</u>

LG Innotek Co., Ltd. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2012 and 2011

25. Finance Income and Expenses

Finance income for the years ended December 31, 2012 and 2011, consists of:

<i>(in millions of Korean won)</i>	<u>2012</u>	<u>2011</u>
Interest income	15,579	11,830
Foreign exchange gain	7,665	19,852
	<u>23,244</u>	<u>31,682</u>

Finance expenses for the years ended December 31, 2012 and 2011, consist of:

<i>(in millions of Korean won)</i>	<u>2012</u>	<u>2011</u>
Interest expense	109,552	101,385
Foreign exchange loss	6,329	31,753
Others	2,648	1,690
	<u>118,529</u>	<u>134,828</u>

26. Earnings per Share

Basic earnings (loss) per share for the years ended December 31, 2012 and 2011, is calculated as follows:

<i>(in millions of Korean won)</i>	<u>2012</u>	<u>2011</u>
Loss attributable to ordinary shares	(25,004)	(145,357)
Weighted average number of ordinary shares outstanding ¹ (unit: shares)	20,168,154	20,156,443
Basic earnings (loss) per ordinary share (in won)	(1,240)	(7,211)

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

	<u>2012</u>	<u>2011</u>
Beginning balance	20,156,443	20,124,376
Adjustments :		
Exercise of conversion rights and warrants ²	11,711	32,067
Weighted average number of ordinary shares outstanding	<u>20,168,154</u>	<u>20,156,443</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.

Diluted earnings per share for the years ended December 31, 2012 and 2011, is the same as basic earnings per share since the convertible bonds and bonds with warrants have no dilutive effects.

LG Innotek Co., Ltd. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2012 and 2011

27. Dividends

No dividends were paid in 2012, but dividends paid in 2011 were ₩7,044 million. No dividends for the year ended December 31, 2012, are to be proposed at the shareholders' meeting on March 15, 2013.

28. Income Tax Expense and Deferred Income Tax

Details of income tax benefit are as follows:

<i>(in millions of Korean won)</i>	<u>2012</u>	<u>2011</u>
Current income taxes		
Current tax on profits for the year	29,009	10,839
Adjustment in respect of prior years	468	(373)
Total current tax	<u>29,477</u>	<u>10,466</u>
Deferred tax		
Changes in temporary differences and tax credit	(20,087)	(38,850)
Adjustment in respect of prior years	(1,968)	(714)
Total deferred tax	<u>(22,055)</u>	<u>(39,564)</u>
Income tax expense(benefit)	<u>7,422</u>	<u>(29,098)</u>

The reconciliation between profit (loss) before income tax and income tax benefit for the years ended December 31, 2012 and 2011, is as follows:

<i>(in millions of Korean won)</i>	<u>2012</u>	<u>2011</u>
Loss before income tax benefit	(17,583)	(174,473)
Income tax based on weighted average applicable tax rate ¹	(4,050)	(41,826)
Adjustments :		
Expense not deductible for tax purpose	1,560	1,631
Assessment of realizable deferred tax assets	27,009	39,404
Adjustment in respect of prior year	(1,500)	(1,087)
Tax effect of distributed and undistributed profit of subsidiaries	111	(1,406)
Tax credit	(15,708)	(24,775)
Tax rate differences and others	-	(1,039)
Income tax expense(benefit)	<u>7,422</u>	<u>(29,098)</u>

¹ The weighted average applicable tax rate was 23.03% (2011: 23.97%) for profit before tax expenses.

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, 2012</u>	<u>December 31, 2011</u>
Deferred tax assets:		
Deferred tax asset to be settled within 12 months	80,620	69,400
Deferred tax asset to be settled after more than 12 months	129,190	117,037
Deferred tax assets before offsetting	<u>209,810</u>	<u>186,437</u>

LG Innotek Co., Ltd. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2012 and 2011

Deferred tax liabilities:		
Deferred tax liability to be settled within 12 months	(1,096)	(784)
Deferred tax liability to be settled after more than 12 months	(22,292)	(27,368)
Deferred tax liabilities before offsetting	(23,388)	(28,152)
Deferred tax assets (net)	186,660	158,285
Deferred tax liabilities (net)	(238)	-

The movements in deferred income tax assets and liabilities for the years ended December 31, 2012 and 2011, are as follows:

	2012					At December 31
	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	
<i>(in millions of Korean won)</i>						
Property, plant and equipment, Intangible assets	14,973	(1,373)	(1,238)	-	(44)	12,318
Severance benefits	8,679	(49)	1,740	5,589	-	15,959
Inventories	12,704	-	(6,835)	-	-	5,869
Accrued expenses	10,026	(153)	(454)	-	-	9,419
Convertible bonds and bonds with warrants	(1,119)	-	1,025	(14)	-	(108)
Investments in subsidiaries ¹	(8,389)	-	5,883	596	-	(1,910)
Others	4,173	1,105	(703)	-	(44)	4,531
Tax credit	117,238	2,438	20,669	-	-	140,345
Deferred tax assets (liabilities)	158,285	1,968	20,087	6,171	(88)	186,423
	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
<i>(in millions of Korean won)</i>						
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

¹At the end of reporting period, deferred tax liabilities amounting to ₩ 1,910 million were recognized for the temporary differences from subsidiaries expected to be realized through dividends.

LG Innotek Co., Ltd. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2012 and 2011

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

<i>(in millions of Korean won)</i>	<u>December 31, 2012</u>	<u>December 31, 2011</u>
Investments in subsidiaries	82,594	81,600
Land and other property, plant and equipment	43,930	47,012
Others	7,420	8,880
Tax Loss	53,185	59,724
Tax credits carryforwards	64,507	37,636

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

<i>(in millions of Korean won)</i>	<u>December 31, 2012</u>			<u>December 31, 2011</u>		
	<u>Before Tax</u>	<u>Tax effects</u>	<u>After Tax</u>	<u>Before Tax</u>	<u>Tax effects</u>	<u>After Tax</u>
Equity						
Exercise of conversion rights and warrants	58	(14)	44	91	(20)	71
Other comprehensive income						
Available-for-sale financial assets	1	-	1	(2)	1	(1)
Actuarial gain/loss	(23,097)	5,589	(17,508)	(11,043)	2,672	(8,371)
Currency translation differences	(15,699)	596	(15,103)	13,681	(969)	12,712
	<u>(38,737)</u>	<u>6,171</u>	<u>(32,566)</u>	<u>2,727</u>	<u>1,684</u>	<u>4,411</u>

Expirations of unrecognized tax loss and tax credits carryforwards as of December 31, 2012, are as follows:

	<u>Tax loss</u>	<u>Tax credit</u>
Within 1 year	-	5,634
Within 2 years	13,058	10,464
Within 3 years	40,131	59,681
Within 4 years	-	32,098
Over 5 years	252,356	35,906
	<u>305,545</u>	<u>143,783</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 ₩ 53,189 million and ₩ 64,507 million, respectively, as they are not certain to be realized in the future.

LG Innotek Co., Ltd. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2012 and 2011

29. 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>	<u>2012</u>	<u>2011</u>
Loss for the year before income tax	(17,583)	(174,473)
Adjustments :		
Interest expense	109,552	101,385
Depreciation	444,142	398,064
Amortization	27,340	20,733
Loss on foreign currency translation	14,348	14,007
Severance benefits	36,070	31,336
Interest income	(15,579)	(11,830)
Gains on foreign currency translation	(26,868)	(11,992)
Others	17,389	60,735
	<u>606,394</u>	<u>602,438</u>
Changes in operating assets and liabilities		
Increase in trade receivables	(332,812)	(21,445)
Decrease (increase) in non-trade receivables	17,689	(15,758)
Increase in prepaid expenses	(40,611)	(20,837)
Decrease (increase) in other assets	(45,258)	14,302
Increase in inventories	(104,191)	(9,340)
Increase in trade payables	272,669	56,772
Increase in other payables	43,361	4,778
Increase (decrease) in accrued expenses	9,346	(29,473)
Increase (decrease) in other liabilities	112,845	(6,481)
Decrease in provisions	(17,536)	(15,975)
Payment of severance benefit	(5,642)	(2,354)
Payment of plan assets, net	(15,202)	-
Transfer-in of severance benefits liability, net	2,677	563
Cash generated from operations	<u>486,146</u>	<u>382,717</u>

Significant transactions not affecting cash flows for the years ended December 31, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	<u>2012</u>	<u>2011</u>
Reclassification of current maturities of debentures	179,705	151,046
Reclassification of current maturities of long-term borrowings	388,954	94,018
Acquisition of plant, property and equipment	171,334	(254,468)

LG Innotek Co., Ltd. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2012 and 2011

30. Commitments and Contingencies

As of December 31, 2012, the Group export and import financing facility agreement with financial institutions for a total credit limit of ₩705,000 million.

As of December 31, 2012, the Group has trade receivable financing agreements amounting to ₩ 354,580 million with various banks, including Hana Bank and others.

As of December 31, 2012, the Group has bank overdraft agreements amounting to ₩ 118,085 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 ₩ 34,000 million. However, in relation to the agreements, as of December 31, 2012, there is no outstanding balance of unmatured discounted notes receivable.

As of December 31, 2012, the Group has bank general agreements amounting to ₩ 319,183 million with various banks, including Hana Bank and others

As of December 31, 2012 and 2011, the Parent Company is contingently liable for guarantees of ₩ 214,651 million and ₩ 121,831 million, respectively, on the indebtedness of its subsidiaries, as follows:

(in thousands of US dollars, Euros and Chinese Yuan)

	December 31, 2012		December 31, 2011	
LG Innotek (Taiwan) Co., LTD. (LGITTW)	USD	531	USD	497
LG Innotek Poland Spz o.o. (LGITPO)	EUR	10,000	EUR	10,000
LG Innotek (Huizhou) Co., Ltd. (LGITHZ)	USD	21,175	USD	17,585
LG Innotek (Fuzhou) Co., Ltd. (LGITFZ)	USD	44,800	USD	15,000
LG Innotek (Shanghai) Co., Ltd. (LGITSH)	USD	29,500	USD	30,000
LG Innotek (Indonesia) Co., Ltd. (LGITIN)	CNY	3,906		-
	USD	25,600	USD	29,600

As of December 31, 2012, guarantees provided by the Parent Company for the branch in Japan amount to ₩ 437 million and its outstanding portion is ₩ 225 million.

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

(in millions of Korean won)

	Amount
No later than 1 year	1,291
Later than 1 year and no later than 5 years	648
Total lease payments	1,939

LG Innotek Co., Ltd. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2012 and 2011

LG Innotek Co. Ltd., LG Electronics Inc. and Osram AG have agreed to dismiss all the LED related disputes that were pending in five countries, namely, the United States, Germany, South Korea, Japan and China. These companies have also entered into a cross-license contracts related to LED patents as of October 31, 2012.

31. Business Combination

On September 1, 2012, LGITGZ, a subsidiary, acquired an LED-related business of LG Display Guangzhou Co., Ltd. and LG Display Nanjing Co., Ltd., subsidiaries of LG Display Co., Ltd., for ₩ 44,585 million.

The assets acquired for business combination are measured at fair value in accordance with Korean IFRS 1103 'Business combinations', and none of additional intangible assets or goodwill was arising from the acquisition.

The following table summarizes the consideration paid for business combination, the fair value of assets acquired and liabilities assumed at the acquisition date :

<i>(in millions of Korean won)</i>	<u>Amount</u>
Consideration	
Cash equivalents	44,585
Recognized amounts of identifiable assets acquired and liabilities assumed	
Inventories	3,199
Property, plant and equipment & Intangible assets	34,908
non-trade receivables	6,478
Identifiable net assets at fair value	
Goodwill	-
Total	<u>44,585</u>

Revenue and net loss of LGITGZ included in the consolidated statement of income are ₩ 31,471 million and ₩ 1,710 million, respectively.

The revenue and profit or loss of the combined business for the current reporting period as though the acquisition date had been as of the beginning of the annual reporting period is not disclosed since it is impracticable to get proper financial information as the acquired business is only a part of production process of the seller.

LG Innotek Co., Ltd. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2012 and 2011

32. Related Party Transactions

The related parties are as follows:

	<u>2012</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, 2012 and 2011, and their related balances as of December 31, 2012 and 2011, 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	807,261	26,871	233,147	19,119
Other related parties	319,394	1,942	58,675	153
2012	<u>1,126,655</u>	<u>28,813</u>	<u>291,822</u>	<u>19,272</u>
2011	1,052,747	17,220	230,511	2,306

Key management compensation of the Group for the years ended December 31, 2012 and 2011, consists of:

<i>(in millions of Korean won)</i>	<u>2012</u>	<u>2011</u>
Wages and salaries	10,878	12,901
Severance benefits	1,844	1,800
	<u>12,722</u>	<u>14,701</u>

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

33. Approval of Financial Statements

The December 31, 2012 consolidated financial statements were approved by the Board of Directors on January 31, 2013.