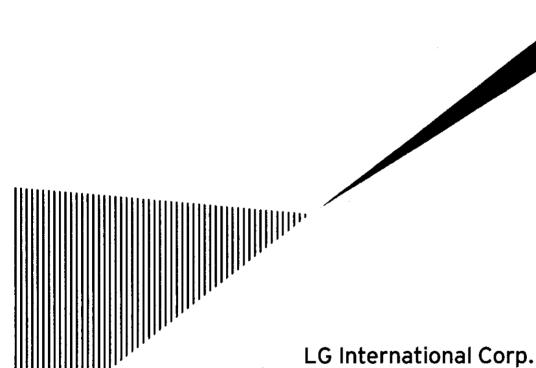
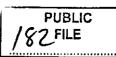
PUBLIC /83 FILE



Separate financial statements
Years ended December 31, 2011
with independent auditors' report

**■ Ernst & Young** 



# LG International Corp. December 31, 2011 and 2010

# Contents

	Page
Independent auditors' report	1
Statements of financial position	2
Statements of income	3
Statements of comprehensive income	4
Statements of changes in equity	5
Statements of cash flows	6
Notes to financial statements	7-52
Internal control over financial reporting review report	53
Report on the operations of the internal control over financial reporting	54



PUBLIC |8| FILE

#### **ERNST&YOUNG HANYOUNG**

Taeyoung Bidg., 10-2, Yeouido-dong, Yeongdeungpo-gu, Seoul 150-777 Korea

Tel: +82 2 3787 6600 Fax: +82 2 783 5890 www.ey.com/kr

# Independent auditors' report

The Board of Directors and Stockholders LG International Corp.

We have audited the accompanying financial statements of LG International Corp. ("the Company") which comprise the statement of financial position as at December 31, 2011, the statements of income and comprehensive income, changes in equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Company for the year ended December 31, 2010 were audited by us and we expressed an unqualified opinion on those statements in our report dated on February 21, 2011. The financial statements of the Company for the year ended December 31, 2010, which we have expressed our opinion thereon in the preceding sentence had not been amended to Korea International Financial Reporting Standards (K-IFRS) by applying the adjustments described in Note 29. Such adjustments were applied to the comparative 2010 financial statements, presented herein.

We conducted our audit in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we plan and perform the audit 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 audit provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of LG International Corp. as of December 31, 2011, and the results of its financial performance and its cash flows for the year ended December 31, 2011 in accordance with Korea International Financial Reporting Standards (K-IFRS).

Without qualifying our opinion, we draw attention to Note 2 to the separate financial statements which states that LG International Corp. is the parent entity of LG International Corp. and its subsidiaries and that consolidated financial statements of LG International Corp. and its subsidiaries prepared in accordance with K-IFRS have been issued separately. We have audited the consolidated financial statements of LG International Corp. and its subsidiaries as at and for the year ended December 31, 2011 and expressed an unqualified opinion thereon in our auditor's report dated February 29, 2012

As mentioned in the preceding paragraph, we have conducted our audit in accordance with auditing standards generally accepted in the Republic of Korea which may vary among countries. In addition, the procedures and practices utilized in the Republic of Korea to audit such financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report and the accompanying financial statements are for use by those who are knowledgeable about Korean auditing standards and their application in practice.

Ernot & Joung Han Young

February 29, 2012

This audit report is effective as of February 29, 2012, the auditors' report date. Accordingly, certain material subsequent events or circumstances may have occurred during the period from the auditors' report date to the time this audit report is used. Such events and circumstances could significantly affect the accompanying consolidated financial statements and may result in modifications to this report.

LG international Corp.
Separate statements of financial position
As at December 31, 2011 and 2010 and January 1, 2010
(Korean won in millions)

	Notes	De	cember 31, 2011	De	cember 31, 2010	January 1, 2010	
Assets							·
Current assets	4 = 00 07	117	204 205	₩	405.047	₩	111,696
Cash and cash equivalents	4,5,26,27	₩	304,265 129,533	W	125,017 15,035	VV	2,584
Short- term financial assets	4,12,26,27		1,046,239		983,020		801,232
Trade receivable	4,12,23,26,27 4,6,12,27		18,979		23,933		38,930
Other accounts receivable	4,0,12,27		18,427		17,950		14,314
Accrued income	4,12,27		23,179		20,532		23,549
Advance payments			6,963		6,913		5,270
Prepaid expenses	4 6 26		16,349		2,626		4,158
Derivative financial assets	4,6,26 4,12		5,399		4,678		3,916
Other current assets	7		181.508		218,152		106,050
Inventories Total current assets	,		1,750,841		1,417,856		1,111,699
Total dallow appere			.,,,-				, ,
Non-current assets	4 0 40 00 00 07		600 600		312,844		277,579
Investment assets	4,8,12,23,26,27		608,600		•		612,361
Investment in associates and subsidiaries	9,23		771,552		671,654		30,465
Property, plant and equipment	10		59,459		34,615		22,747
Investment properties	10		24,700		22,615 243,666		242,058
Intangible assets	11 22		249,779		22,728		17,633
Deferred tax assets	4,5,12		1,258		1,993		2,811
Other non-current assets Total non-current assets	4,5,12		1,715,348		1,310,115		1,205,654
Total assets		₩	3,466,189	₩	2,727,971	₩	2,317,353
Liabilities and equity							
Current liabilities	4.40.00.07	₩	457.839	₩	543,795	₩	426,008
Short-term borrowings	4,13,26,27	W	658.875	**	587,937	**	397,901
Trade payable	4,23 4,6		155,148		89,469		67,484
Other accounts payable Advance received	4,0		13,994		11,800		12.694
	4		3,632		2,758		2,039
Withholdings Current tax liabilities	22		55,411		7.661		4,185
	4		11,075		8,449		7,701
Accrued expenses Dividends payable	4		8		8		,,,,,
Current portion of bonds and long-term borrowings	4,13,26,27		195.829		130,507		189,922
Unearned income	7, 10,20,21		47		67		109
Derivative financial liabilities	4,6,27		4.103		10,146		5,386
Deposits received	4		3,297		3,835		5,037
Total current liabilities	7		1,559,258		1,396,432		1,118,472
Non-current liabilities Bonds payable and long-term borrowings	4.13.26.27		635,991		438,727		428,589
	4,13,26,27		2,721		2.558		5,613
Defined benefit liability Deferred income tax liabilities	22		10,688		2,500		, 3,013
Other non-current liabilities	4		5,656		5,656		
Total non-current liabilities	4		655,056		446,941		434,202
Total liabilities			2,214,314		1,843,373		1,552,674
Equity							
Issued capital	14		193,800		193,800		193,800
Capital surplus	14		102,124		102,124		102,124
Capital adjustments	14		(968)		(968)		(968)
Accumulated other comprehensive Income	14		157,120		35,299		38,993
Retained earnings	• •		799,799		554,343		430,730
Total equity			1,251,875		884,598		764,679
·							

LG International Corp.
Separate statements of Income
For the years ended December 31, 2011 and 2010

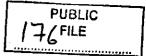
(Korean won in millions, except per share amounts)					
·	Notes		2011		2010
Sales	3,16,23	₩	7,378,210	₩	6,069,895
Cost of sales	18,23		(6,963,943)	_	(5,604,904)
Gross profit			414,267		464,991
Selling and administrative expenses	17,18,19		(314,152)		(294,544)
Other operating income	6,20		302,075		208,124
Other operating expenses	6,20		(283,742)		(208,010)
Operating income			118,448		170,561
Finance income	4,6,21		210,278		125,621
Finance expenses	4,6,21		(154,723)		(109,571)
Other non-operating incomes (expenses)	21		201,364		(30,860)
Income before income taxes			375,367		155,751
Income tax expenses	22		(113,790)		(22,854)
Profit for the year			261,577		132,897
Earnings per share:	14				
- Basic and diluted, profit for the year (Korean won)		₩	6,766	₩	3,438

LG International Corp.
Separate statements of comprehensice income for the year ended December 31, 2011 and 2010

(Korean won in miliions, except per share amounts)	•		
	Notes	2011	2010
Profit for the year		261,577	132,897
Net gain (loss) on valuation of available-for-sale financial assets	14	121,820	(3,694)
Actuarial losses on defined benefit plans	19	(2,589)	(1,552)
Other comprehensive income (loss) for the year, net of tax		119,231	(5,246)
Total comprehensive income for the year, net of tax		₩ 380,808	₩ 127,651

LG international Corp.
Separate statements of changes in equity
for the years ended December 31, 2011 and 2010
(Korean won in millions)

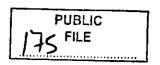
(Koledii woli ili lililikitis)							•	Accumulated				
	nes!	Issued capital	Capital surplus	surplus	8	Capital adjustments	8	other comprehensive income	5	Retained earnings		Total equity
As of January 1, 2010 Profit for the year	*	193,800	*	102,124	*	(896)	*	36,993	≱	430,730	≱	764,679 132.897
Net loss on valuation of available-for-sale financial assets				•		•		(3,694)		(1 552)		(3,694)
Total comprehensive income				1				(3,694)		131,345		127,651
Dividends As of December 31, 2010	≱	193,800	*	102,124	≱	(896)	≱	35,299	≱	(1,732) 554,343	≱	884,598
As of January 1, 2011	*	193,800	*	102,124	≱	(996)	≱	35,299	*	554,343	₩	884,598
Promit for the year  Net loss on valuation of available-for-sale financial assets  Arthorist losses on defined bandfe where		1 1						121,821		. (065.0)		121,821
Total comprehensive income  Dividends				' '		, ,		121,821		258,987		380,808
As of December 31, 2011	<b> </b>  ≱	193,800	≱	102,124	≱	(396)	≱	157,120	≱	799,799	≱	1,251,875



LG International Corp.
Separate statements of cash flows
for the years ended December 31, 2011 and 2010

(Korean won	in	millions)

	Notes		2011		2010
Operating activities		-			
Profit for the year for the year to net cash flow		₩	261,577	₩	132,897
Non-cash adjustments to reconcile profit	28		(19,510)		51,539
Working capital adjustments	28		50,904		(84,576)
Interest received			12,747		17,304
Interest paid			(31,208)		(20,882)
Dividends received			70,710		33,026
Income taxes paid			(72,857)		(23,171)
Net cash flows from operating activities			272,363		106,137
Investing activities					
Decrease (Increase) in financial assets			(103,000)		(14,784)
Proceeds from disposal of property, plant, and equipment		469		242	
Proceeds from disposal of Investments properties		6,525		-	
Proceeds from disposal of Intangible assets		2		-	
Proceeds from disposal of Investment in an associate and	subsidiaries		321,364		52,740
Proceeds from disposal of available-for-sale financial asse	ts		184		6,335
Decrease (increase) in long-term loans receivable, net		(103,376)			(73,130)
Payment of long-term guarantee deposits, net			646		(1,738)
Proceeds from disposal of other investments assets			32		(10,246) (38,718)
Additions to property, plant, and equipment			(40,764)		
Acqueitions of intangible assets			(50,334)		
Additional investment in an associate and subsidiaries			(252,377)		(83,472)
Acquisitions of available-for-sale financial assets			(201)		(5,265)
Acqusitions of other investments assets			(35)		-
Net cash flow used in investing activities			(220,865)		(168,036)
Financing activities					
Increase in finance liabilities			3,650,463		468,289
Net cash flows from other financing activities			•		6,844
Dividends paid to stockholders			(13,531)		(7,732)
Net cash flows from financing activities			3,636,932		467,401
Net increase in cash and cash equivalents			3,688,430		405,502
Cash and cash equivalents at January 1			125,017		111,696
Net foreign exchange difference			(30)		(468)
Cash and cash equivalents at December 31		₩	3,813,417	₩	516,730



# 1. Corporate information

LG International Corp. (the "Company") was incorporated on November 26, 1953 under the laws of the Republic of Korea to engage in the export and import of goods, overseas resource and business development, and other business activities. The Company changed its name from Lucky Industry to Bando Corporation on November 26, 1953, and again changed to Lucky-Goldstar International Corp. and to LG International Corp. in January 1984 and March 1995, respectively. The Company is a member of the LG Group, which consists of numerous companies under a common management control. The Company has 30 overseas subsidiaries, 23 liaison offices and 21 overseas branches as of December 31, 2011. In January 1976, the Company listed its common shares on the Korean Exchange. Also, on November 12, 1976, the Company was designated as a general trading company by the Korean government.

# 2. Significant accounting policies and basis of financial statements preparation

### 2.1 Basis of preparation

The separate financial statements have been prepared on a historical cost basis, except for available-for-sale financial assets and derivative finance assets that are valued at fair value. The carrying values of recognized assets and liabilities that are designated as hedged items in fair value hedges that would otherwise be carried at amortized cost, are adjusted to record changes in the fair values attributable to the risks that are being hedged in effective hedge relationships. The separate financial statements are presented in Korean won and all values are rounded to the nearest millions except when otherwise indicated.

### 2.1.1 Statement of compliance

The separate financial statements of the Company have been prepared in accordance with Korea International Financial Reporting Standards ("K-IFRS") enacted by the Corporate External Audit Law.

### 2.1.2 Korea International Financial Reporting Standards ("K-IFRS") first time adoption

The Company has adopted K-IFRS in preparation for its separate financial statements for the period beginning January 1, 2011 and the date of transition to K-IFRS is January 1, 2010.

In preparing these financial statements, the Company's opening statement of financial position was prepared as at January 1, 2010, the Company's date of transition to K-IFRS. Note 29 explains the principal adjustments made by the Company in restating its previous statements of financial position based on previous local GAAP ("Previous Local GAAP") as at January 1, 2010 and its previously published local GAAP financial statements for the year ended December 31, 2010.

### 2.2 Summary of significant accounting policies

### 2.2.1 Subsidiaries and associates

Pursuant to KIFRS 1027, accompanying separate financial statements are accounted for, by a parent, investor in an associate or a venture in a jointly controlled entity, on the basis of the direct equity interest rather than on the basis of the reported results and net assets of the investees. Moreover, KIFRS 1027 requires that, in a separate financial statements, investments in subsidiaries, associates or jointly controlled entity should be accounted for at cost. All dividends should be recognized in profit or iss within separate financial statements once the right to receive payments has been established.

LG International Corp. is the parent entity of LG International Corp. and its subsidiaries and that consolidated financial statements of LG International Corp. and its subsidiaries prepared in accordance with K-IFRS have been issued separately. We have audited consolidated financial statements of LG International Corp. and its subsidiaries as at and for the year ended December 31, 2011 and expressed an unqualified opinion thereon in our auditor's report dated February 29, 2012.

### 2.2.2 Foreign currency translation

The Company's separate financial statements are presented in Korean won, which is also the parent company's functional currency.

# 2.2.2 Foreign currency translation (cont'd)

# (1) Transactions and balances

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange at the reporting date.

All differences are taken to the income statement with the exception of all monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognized in other comprehensive income until the net investment is disposed, at which time, the cumulative amount is reclassified to the income statement. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction; and non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

### (2) Translation of foreign operation

Assets and liabilities of foreign operation are translated into Korea won at the closing rate at the reporting date and income and expenses are translated using average exchange rate for the period.

These exchange differences are recognised in a separate component of equity. On the disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation are treated as assets and liabilities of the foreign operation, and translated at the spot rate of exchange at the reporting date.

### 2.2.3 Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment is being made. The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Company has concluded that it is acting as a principal in all of its revenue arrangements except for those cases where it is not the primary obligor or merchant of record and/or does not have credit risk, or where it earns a fixed manufacturing service fee.

The specific recognition criteria described below must also be met before revenue is recognized.

# (1) Sale of goods

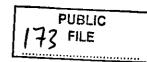
Revenue from the sale of goods is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods.

# (2) Commission revenues

Sales commission received in relation to export-import transactions where the Company acts as an agent without assuming the risks and rewards of ownership of the goods are recognized on a net basis. Revenue from sales of goods that can be returned are recognized when the goods are sold to end customer.

#### (3) Interest income

For all financial instruments measured at amortized cost and interest bearing financial assets classified as available-for-sale, interest income or expense is recorded using the effective interest rate (EIR), which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in finance income in the income statement.



# 2.2.3 Revenue recognition (cont'd)

# (4) Dividends

Revenue is recognized when the Company's right to receive the payment is established.

#### 2.2.4 Taxes

### (1) Current Income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, by the reporting date, in the countries where the Company operates and generates taxable income.

Current income tax relating to items recognized directly in equity is recognized in equity and not in the income statement. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

# (2) Deferred tax

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- > Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- > In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized except:

- > Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- > In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.



### 2.2.4 Taxes (cont'd)

### (2) Deferred tax (cont'd)

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

### 2.2.5 Pensions and other post employment benefits

The Company operates a defined benefit plan. The cost of providing benefits under the defined benefit plan is determined separately for each plan using the projected unit credit method. Actuarial gains and losses for a defined benefit plan are recognized in full in the period in which they occur in other comprehensive income. Such actuarial gains and losses are also immediately recognized in retained earnings and are not reclassified to profit or loss in subsequent periods.

Unvested past service costs are recognized as an expense on a straight line basis over the average period until the benefits become vested. Past service costs are recognized immediately if the benefits have already vested immediately following the introduction of, or changes to, a pension plan.

The defined benefit asset or liability comprises the present value of the defined benefit obligation, less unrecognized past service costs and less the fair value of plan assets out of which the obligations are to be settled. Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Company, nor can they be paid directly to the Company. Fair value is based on market price information and, in the case of quoted securities, it is the published bid price. The value of any defined benefit asset recognized is restricted to the sum of any past service costs and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

# 2.2.6 Financial instruments

### (1) Financial assets

### Initial recognition and measurement

Financial assets within the scope of K-IFRS 1039 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial assets at initial recognition.

All financial assets are recognized initially at fair value plus transactions costs, except in the case of financial assets recorded at fair value through profit and loss.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognized on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

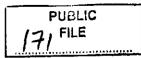
The Company's financial assets include cash and short-term deposits, trade and other receivables, unquoted financial instruments, and derivative financial instruments.

#### Subsequent measurement

The measurement of financial liabilities depends on their classification as described below:

### Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separate embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments as defined by K-IFRS 1039. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with changes in fair value recognized in finance costs in the income statement.



# 2.2.6 Financial instruments (cont'd)

# (1) Financial assets (cont'd)

Financial assets designated upon initial recognition at fair value through profit or loss are designated at their initial recognition date and only if the criteria under K-IFRS 1039 are satisfied. The Company has not designated any financial assets upon initial recognition as at fair value through profit or loss.

The Company evaluates its financial assets held for trading, other than derivatives, to determine whether the intention to sell them in the near term is still appropriate.

When in rare circumstances the Company is unable to trade these financial assets due to inactive markets and management's intention to sell them in the foreseeable future significantly changes, the Company may elect to reclassify these financial assets. The reclassification to loans and receivables, available-for-sale or held to maturity depends on the nature of the asset. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation, these instruments cannot be reclassified after initial recognition.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value though profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognized in the income statement. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

#### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate method (EIR), less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the income statement. The losses arising from impairment are recognized in the income statement in finance costs for loans and in cost of sales or other operating expenses for receivables.

# **Held-to-maturity investments**

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to maturity when the Company has the positive intention and ability to hold it to maturity. After initial measurement held-to-maturity investments are measured at amortized cost using the EIR, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the income statement. The losses arising from impairment are recognized in income statement in finance costs. The Company did not have any held-to-maturity investments during the years ended December 31, 2011 and 2010.

# Available-for-sale financial investments

Available-for-sale financial investments include equity investments and debt securities. Equity investments classified as available-for sale are those, which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value with unrealized gains or losses recognized as other comprehensive income in the available-for-sale reserve until the investment is derecognized, at which time the cumulative Gain (loss) is recognized in other operating income, or the investment is determined to be impaired, when the cumulative loss is reclassified from the available-for-sale reserve to the income statement in finance costs. Interest earned whilst holding available-for-sale financial investments is reported as interest income using the EIR method.

The Company evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term is still appropriate. When in rare circumstances, the Company is unable to trade those financial

PUBLIC 170 FILE

LG International Corp.

Notes to the separate financial statements

December 31, 2011 and 2010

### 2.2.6 Financial instruments (cont'd)

# (1) Financial assets (cont'd)

assets due to inactive markets and management's intention to do so significantly changes in the foreseeable future, the Company may elect to reclassify these financial assets. Reclassification to loans and receivables is permitted when the financial asset meets the definition of loans and receivables and has the intent and ability to hold these assets for the foreseeable future or maturity. Reclassification to the held-to-maturity category is permitted only when the entity has the ability and intention to hold the financial asset accordingly.

For a financial asset reclassified from the available-for-sale category, the fair value at the date of reclassification becomes its new amortized cost and any previous Gain (loss) on that asset that has been recognized in equity is amortized to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortized cost and the maturity amount is also amortized over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the income statement.

#### Derecognition of financial assets

A financial asset (or, where applicable a part of a financial asset or part of a Company of similar financial assets) is derecognized when:

- > The rights to receive cash flows from the asset have expired.
- > The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to

pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay. In that case, the Company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

### (2) Impairment of financial assets

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

Evidence of impairment may include indications that the debtors or a Company of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

#### Financial assets carried at amortized cost

For financial assets carried at amortized cost the Company first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a Company of financial assets with similar credit risk characteristics and collectively assesses them for

# 2.2.6 Financial Instruments (cont'd)

# (2) Impairment of financial assets (cont'd)

impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has incurred, 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 expected credit losses that have not yet been incurred).

The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the income statement income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the income statement. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Company. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in the income statement.

#### Available-for-sale financial investments

For available-for-sale financial investments, the Company assesses at each reporting date whether there is objective evidence that an investment or a Company of investments is impaired.

in the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is to be evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the income statement income statement – is removed from other comprehensive income and recognized in the income statement. Impairment losses on equity investments are not reversed through the income statement; increases in their fair value after impairment are recognized directly in other comprehensive income.

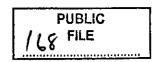
In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the income statement. Future interest income continues to be accrued based on the reduced carrying amount of the asset and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the income statement, the impairment loss is reversed through the income statement.

# (3) Financial liabilities

# Initial recognition and measurement

Financial liabilities within the scope of K-IFRS 1039 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognized initially at fair value and in the case of loans and borrowings, less directly attributable transaction costs.



# 2.2.6 Financial instruments (cont'd)

# (3) Financial liabilities (cont'd)

The Company's financial liabilities include trade and other payables, bank overdraft, loans and borrowings, financial guarantee contracts, and derivative financial instruments.

#### Subsequent measurement

The measurement of financial liabilities depends on their classification as described below:

### > Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term.

This category includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by K-IFRS 1039. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognized in the income statement. Financial liabilities designated upon initial recognition at fair value through profit or loss so designated at the initial date of recognition, and only if criteria of K-IFRS 1039 are satisfied. The Company has not designated any financial liabilities upon initial recognition as at fair value through profit or loss.

### Loans and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in the income statement when the liabilities are derecognized as well as through EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortization is included in finance cost in the income statement.

### Derecognition of financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the income statement.

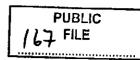
### (4) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the separate statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

# (5) Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.



# 2.2.7 Derivative financial Instruments and hedge accounting

# (1) Initial recognition and subsequent measurement

The Company uses derivative financial instruments such as forward currency contracts and interest rate swaps to hedge its foreign currency risks and interest rate risks, respectively. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

The fair value of commodity contracts that are entered into in accordance with the Company's expected purchase that fit within K-IFRS1039 definition of derivatives, is recognized as financial income and financial expense. Any gains or losses arising from changes in fair value on derivatives are taken directly to the income statement.

For the purpose of hedge accounting, hedges are classified as:

- > Fair value hedges when hedging the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment
- Cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognized firm commitment
- > Hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which the Company wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

# Fair value hedges

The change in the fair value of an hedging derivative is recognized in the income statement in finance costs. The change in the fair value of the hedged item attributable to the risk hedged is recorded as a part of the carrying value of the hedged item and is also recognized in the income statement in finance costs.

For fair value hedges relating to items carried at amortized cost, any adjustment to carrying value is amortized through the income statement over the remaining term of the hedge using the EIR method. EIR amortization may begin as soon as an adjustment exists and no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

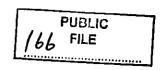
If the hedge item is derecognized, the unamortized fair value is recognized immediately in the income statement.

When an unrecognized firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognized as an asset or liability with a corresponding Gain (loss) recognized in the income statement.

#### Current versus non-current classification

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or separated into a current and non-current portion based on an assessment of the facts and circumstances.

> Where the Company will hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the reporting date, the derivative is classified as non-current (or separated into current and non-current portions) consistent with the classification of the underlying item.



# 2.2.7 Derivative financial instruments and hedge accounting (cont'd)

# (1) Initial recognition and subsequent measurement (cont'd)

- > Embedded derivates that are not closely related to the host contract are classified consistent with the cash flows of the host contract.
- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistent with the classification of the underlying hedged item. The derivative instrument is separated into a current portion and non-current portion only if a reliable allocation can be made.

# 2.2.8 Treasury shares

Own equity instruments which are reacquired (treasury shares) are recognized at cost and deducted from equity. No Gain (loss) is recognized in the income statement on the purchase, sale, issue or cancellation of the Company's own equity instruments.

# 2.2.9 Property, plant and equipment

Plant and equipment is stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the cost of replacing part of the plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced in intervals, the Company recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in the income statement as incurred.

Depreciation of property, plant and equipment is provided using the straight-line method over the estimated useful life of the assets as follows:

Estimated Heaful Lives

	Estimated Oseidi Eives
Buildings	20~40 years
Structures	20~40 years
Machinery and equipment	5~8 years
Vehicles	5~12 years
Others	5 years

An item of property, plant and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any Gain (loss) arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statements of comprehensive income when the asset is derecognized. The assets' residual values, useful lives and depreciation method are reviewed at each financial year end, and adjusted prospectively, if appropriate.

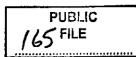
# 2.2.10 Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date: whether fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

Leases where the Company does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same bases as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

### 2.2.11 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.



### 2.2.12 Investment properties

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the period in which they arise. Fair values are evaluated annually by an accredited external, independent valuer, applying a valuation model recommended by the International Standards Committee.

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the income statement in the period of derecognition.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the Company accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

#### 2.2.13 Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in the income statement in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life is reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the income statement in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the income statement when the asset is derecognized.

A summary of the policies applied to the Company's intangible assets is as follows:

	<u>Useful-lives</u>	Amortization method
Goodwill	-	Test for Impairment annually
Industrial properties rights	5~15 years	Straight line method
Overseas resources development (*1)	Production period	Unit of production method
Others	5 years	Straight line method

(\*1) Oil and natural gas exploration and development expenditure is classified as oversea resource investment. And when proved reserves of oil are determined and development is sanctioned, it is depreciated on a unit of production basis. On the other hand, if there is any evidence or event that implies impairment of the asset, such as suspending the exploration or development before proposing its technical feasibility and possibility of commercialization, the Group is testing the assets for impairment. And when the book value of the asset is greater than estimated recoverable amounts for the residual period, the Group recognized it as impairment.



#### 2.2.14 Inventories

Inventories are valued at the lower of cost and net realizable value, with cost being determined using the weighted average method, except for materials in-transit (specific identification method) and raw materials (weighted moving-average method). Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

The Company recorded valuation allowance on a periodic basis, when significant changes with an adverse effect (an oversupply, an obsolete or decline in the price of goods) on the entity have taken place during the period, or will take place in the near future, in which case loss from inventory valuation is recognized as cost of sales.

### 2.2.15 Impairment of non-financial assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or companys of assets.

Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

Impairment losses of continuing operations, including impairment on inventories, are recognized in the income statement in expense categories consistent with the function of the impaired asset, except for property previously revalued where the revaluation was taken to other comprehensive income. In this case, the impairment is also recognized in other comprehensive income up to the amount of any previous revaluation.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's or cash-generating unit's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the income statement unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

The following criteria are also applied in assessing impairment of specific assets:

#### Goodwill

Goodwill is tested for impairment annually (as at December 31) and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each cash-generating unit (or company of cash-generating units) to which the goodwill relates.

Where the recoverable amount of the cash generating unit is less than their carrying amount an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

# Intangible assets

Intangible assets with indefinite useful lives are tested for impairment annually as at December 31 either individually or at the cash generating unit level, as appropriate and when circumstances indicate that the carrying value may be impaired.

### 2.2.16 Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks and on hand and cash equivalents with an original maturity of three months or less.

#### 2.2.17 Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

# 2.3 Significant accounting judgments, estimates and assumptions

The preparation of the Company's separate financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

#### 2.3.1 Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below. The Company based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond control of the Company. Such changes are reflected in the assumptions when they occur.

#### Impairment of non-financial assets

The Company assesses at each reporting date whether there is any objective evidence that a non financial asset is impaired. Goodwill and intangible assets with indefinite useful lives are tested when there are indications. Other non financial asset is tested when there are indications that carrying amount is not to be collected. In assessing value in use, the management should estimated future cash flows from certain asset or CGU and select appropriate discount rate for calculate the present value of future cash flow.

#### Pension benefits

The cost of defined benefit pension plans and other post employment medical benefits and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

### 3. Segment Information

For management purposes, the Company is organized into business units based on their products and services and has four reportable segments as follows:

Field	Principal activities
Resources/ Material industrial goods 1	Crude oil /Gas, Coal/ Nonferrous metal, Plant, Green energy and others Electric /Electronic parts and others
Industrial goods 2 Others	Resin/Emulsion, Steel, machinery, Aviation and others Import distribution (plxdix. Wine and others)

No other operating segments have been added to the above operating segments.

# 3.1 Segment sales and operating income

		201	1 ·		2010						
		Revenue	Operat	ing income	F	Revenue	Operat	ing income			
Resources/Material	₩	1,772,372	₩	117,821	₩	1,455,960	₩	121,715			
industrial goods 1		1,361,661		3,021		1,788,430		27,816			
Industrial goods 2		4,237,260		28,781		2,801,606		38,783			
Other		6,917		(31,175)		23,899		(17,753)			
Total	₩	7,378,210	₩	118,448	₩	6,069,895	₩	170,561			

# 3.2 Segment assets and liabilities

		20	11			20	10			As a January		10
		Assets	L	abilities		Assets		iabilities		Assets	<u> </u>	labilities
Resources/ Material	₩	1,129,377	₩	779,021	₩	841,448	₩	590,316	₩	746,201	₩	544,958
Industrial goods 1		279,620		248,245		406,452		358,863		234,255		222,210
Industrial goods 2		853,131		786,342		631,319		609,568		560,047		543,272
Others		1,204,061		400,706		848,752		284,626		776,850		242,234
Total	₩	3,466,189	₩	2,214,314	₩	2,727,971	₩	1,843,373	₩	2,317,353	₩	1,552,674

# 3.3 Geographic sales

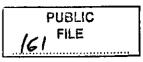
Domestic		2011	2010			
	₩	1,445,151	₩	1,329,076		
Overseas		5,933,059		4,740,819		
Total	₩	7,378,210	₩	6,069,895		

# 4. Classification of financial instruments

# 4.1 Financial assets by classification

# 4.1.1 Financial assets by classification as of December 31, 2011 are as follows (Korean won in millions):

	Financial asset at fair value through profit or loss		Loans and receivables			able-for-sale scial assets	Total		
Cash and cash equivalents	₩	_	₩	304,265	₩	-	₩	304,265	
Short-term financial assets		-		129,533		-		129,533	
Available-for sale financial assets		•		-		300,273		300,273	
Trade receivable		-		1,046,239		-		1,046,239	
Other accounts receivable		8,408		10,571		-		18,979	
Derivative financial assets		16,349		-		-		16,349	
Long-term loans		-		308,327		-		308,327	
Other financial assets				20,155				20,155	
	₩	24,757	₩	1,819,090	₩	300,273	₩	2,144,120	



# 4.1 Financial assets by classification (cont'd)

4.1.2 Financial assets by classification as of December 31, 2010 are as follows (Korean won in millions):

	Financial asset at fair value through profit or loss		-	Loans and receivables		Available-for-sale financial assets		Total		
Cash and cash equivalents	₩	-	₩	125,017	₩	-	₩	125,017		
Short-term financial assets		-		15,035		-		15,035		
Available-for sale financial assets		-		-		58,859		58,859		
Trade receivables		. <b>-</b>		983,020		-		983,020		
Other accounts receivables		10,542		13,391		-		23,933		
Derivative financial assets		2,626		-		-		2,626		
Long-term loans		_		253,984		-		253,984		
Other financial assets		<u>-</u>		20,323		<del>.</del>		20,323		
	₩	13,168	₩	1,410,770	₩	58,859	₩	1,482,797		
								·		

4.1.3 Financial assets by classification as of January 1, 2010 are as follows (Korean won in millions):

	Financial asset at fair value through profit or loss		_	oans and		ble-for-sale cial assets	Total		
Cash and cash equivalents	₩	-	₩	111,696	₩	-	₩	111,696	
Short-term financial assets	•	-		2,584		-		2,584	
Available-for sale financial assets		-		•		63,385		63,385	
Trade receivables		-		801,232		-		801,232	
Other accounts receivables		6,517		32,413		-		38,930	
Derivative financial assets		4,158		-		-		4,158	
Long-term loans				214,193		-		214,193	
Other financial assets				17,177				17,177	
	₩	10,675	₩	1,179,295	₩	63,385	₩	1,253,355	

### 4.2 Gains and losses based on financial assets

4.2.1 Gains and losses based on classification of financial instruments for the year ended December 31, 2011 are as follows (Korean won in millions):

	Financial asset at fair value through profit or loss		_	oans and ceivables		ole-for-sale ial assets	Total		
Interest income	₩	-	₩	18,356	₩	-	₩	18,356	
Dividend income		-		<b>→</b>		70,827		70,827	
Gain (loss) on foreign currency transaction		-		7,146		-		7,146	
Gain (loss) on foreign currency translation		-		17,778		-		17,778	
Gain (loss) on settlement of derivative financial instruments		66,602		•		<del>-</del>		66,602	
Gain (loss) on valuation of derivative financial assets		8,408		-		-		8,408	
Gain (loss) on valuation of firm commitment assets		16,349		-		-		16,349	
Bad debt expense (Reversal of allowance for doubtful accounts)		-		(8,375)		-		(8,375)	

# 4.2 Gains or losses based on financial assets (cont'd)

	Financial asset at fair value through profit or loss	Loans and receivables	Available-for-sale financial assets	Total
Bad debt expense of others	-	(32,168)	• -	(32,168)
Loss on disposal of receivable	<b></b>	(5,444)	-	(5,444)
Gain (loss) on disposal of long- term investment securities Gain (loss) on disposal of	-	184	-	184
short-term investment securities	-	•	(4)	(4)
•	₩ 91,359	₩ (2,523)	₩ 70,823	₩ 159,659

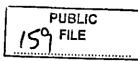
4.2.2 Gains or losses based on classification of financial instruments for the year ended December 31, 2010 are as follows (Korean won in millions):

Financial asset at fair value through profit or loss		fair value through	_	oans and ceivables		able-for-sale ocial assets	Total		
Interest income	₩	-	₩	17,346	₩	-	₩	17,346	
Dividend income		_		-		33,026		33,026	
Gain (loss) on foreign currency transaction		-		(1,766)		-		(1,766)	
Gain (loss) on foreign currency translation		-		(1,354)		-		(1,354)	
Gain (loss) on settlement of derivative financial instruments		39,494		-		-		39,494	
Gain (loss) on valuation of derivative financial instruments		10,542		•		-		10,542	
Gain (loss) on valuation of firm commitment assets		2,626		-		-		2,626	
Bad debt expense (Reversal of allowance for doubtful accounts)		•		24		-		24	
Bad debt expense of others		-		(15,134)		-		(15,134)	
Loss on disposal of receivable		-		(11,515)		-		(11,515)	
Gain (loss) on disposal of long- term investment securities		-		1,628		-		1,628	
Impairment loss on securities available for sale		-		-		(786)		(786)	
Gain (loss) on disposal of short-term investment securities						(3)		(3)	
	₩	52,662	₩	(10,771)	₩	32,237	₩	74,128	

# 4.3 Financial liabilities by classification

# 4.3.1 Financial liabilities by classification as of December 31, 2011 are as follows (Korean won in millions):

		Financial liability at fair value through profit or loss		Financial liabilities measured at amortized cost		Total
Trade payable	₩	•	₩	658,875	₩	658,875
Other accounts payable		18,915		136,233		155,148
Borrowings		-		1,053,904		1,053,904
Bonds payable		=		39,927		39,927
Current portion of bonds payable and long-term borrowings		-		195,829		195,829
Derivative financial liabilities		4,103		-		4,103
Other financial liabilities				23,667		23,667
	₩	23,019	₩	2,108,434	₩	2,131,453



# 4.3 Financial liabilities by classification (cont'd)

4.3.2 Financial liabilities by classification as of December 31, 2010 are as follows (Korean won in millions):

		Financial liability at fair value through profit or loss		Financial liabilities measured at amortized cost		Total
Trade payable	₩	-	₩	587,936	₩	587,936
Other accounts payable		6,228		83,241		89,469
Borrowings		-		852,888		852,888
Bonds payable		-		129,634		129,634
Current portion of bonds payable and long-term borrowings		-		130,507		130,507
Derivative financial liabilities		10,146		-		10,146
Other financial liabilities				20,704		20,704
	₩	16,374	₩	1,804,910	₩	1,821,284

4.3.3 Financial liabilities by classification as of January 1, 2010 are as follows (Korean won in millions):

		Financial liability at fair value through profit or loss		Financial liabilities measured at amortized cost		Total
Trade payable	₩	_	₩	397,901	₩	397,901
Other accounts payable		4,857		62,626		67,484
Borrowings		-		764,959		764,959
Bonds		-		89,638		89,638
Current portion of bonds payable and long-term borrowings		-		189,922		189,922
Derivative financial liabilities		5,386		-		5,386
Other financial liabilities		<u> </u>		14,783		14,783
	₩	10,243	₩	1,519,829	₩	1,530,072

# 4.4 Gains and losses by financial liabilities

4.4.1 Gains and losses by classification of financial instruments for the year ended December 31, 2011 are as follows (Korean won in millions):

		Financial liability at fair value through profit or loss		Financial liabilities measured at amortized cost		Total
Interest expenses	₩		₩	31,507	₩	31.507
Gain (loss) on foreign currency transaction		•		(5,113)		(5,113)
Gain (loss) on foreign currency translation		-		(25,964)		(25,964)
Gain (loss) on settlement of derivative financial instruments		(52,249)		-		(52,249)
Gain (loss) on valuation of derivative financial instruments		(17,604)		-		(17,604)
Gain (loss) on valuation of firm commitment assets		(4,103)	_	-		(4,103)
	₩	(73,956)	₩	430	₩	(73,526)

4.4.2 Gains and losses by classification of financial instruments for the year ended December 31, 2010 is as follows (Korean won in millions):

		Financial liability at fair value through profit or loss		Financial liabilities measured at amortized cost		Total
Interest expenses	₩	-	₩	21,630	₩	21,630
Gain (loss) on foreign currency transaction		-		5,732		5,732
Gain (loss) on foreign currency translation				7,565		7,565
Gain (loss) on settlement of derivative financial instruments		(45,064)		-		(45,064)
Gain (loss) on valuation of derivative financial instruments		(4,906)		_		(4,906)
Gain (loss) on valuation of firm commitment assets		(10,146)		<u> </u>		(10,146)
	₩	(60,116)	₩	34,927	₩	(25,189)

# 5. Cash and cash equivalents

Detail of cash and cash equivalents as of December 31, 2011, 2010 and January 1, 2010 are as follows (Korean won in millions):

·	2011			2010	As of January 1, 2010	
Cash on hand	₩	1,171	₩	837	₩	1,069
Cash at banks and short-term deposits		303,094		124,180		110,627
•	₩	304,265	₩	125,017	₩	111,696

The outstanding balances of restricted deposits included in long-term financial instruments as of December 31, 2011, 2010 and January 1, 2010 are as follows (Korean won in millions):

	201	1		2010	200	9
Restricted deposits	₩	13	₩	13	₩	18

### 6. Derivatives financial instruments

### 6.1 Valuation of derivative financial instruments

The valuation gain (loss) arising from the derivative financial instruments embedded in accounts receivable and payable for the year ended December 31, 2011 and 2010 are presented as follows (Korean won in millions):

		2011				2010			
Gain on val		n <u>valuation</u>	uation Loss on valuation		Gain o	n valuation	Loss on valuation		
Currency forward	₩	3,123	₩	1,074	₩	396	₩	1,298	
Commodity futures		5,285		16,530		10,147		3,608	
•	₩	8,408	₩	17,604	₩	10.543	₩	4,906	

# 6.2 Currency forward

6.2.1 As at December 31, 2011 currency forward are as follows (Korean won in millions, other currency in thousands):

tilousalius).			111	0	O = let = ==	1
Position-Buy	buying price	Position-Sell	selling price	Contract exchange rate	Gain on valuation	Loss on valuation
USD	406,037	USD	470,021	1,117.6~1,184.1	3,022	(417)
EUR	291	EUR	452	1,525~1,555.8	•	(15)
KRW	2,108	KRW	1,825	1,155	-	(12)
KRW	55,780	KRW	48,278	1,151.8~1,166.9	98	(59)
KRW	117	KRW	77	1,521	2	-
KRW	630	KRW	42,696	14.583~14.9354	-	(7)
USD	69,046	USD	69,847	0.9985~0.9886	-	(564)
USD	105	USD	81	1.3013	1	
					3,123	(1,074)

6.2.2 As at December 31, 2010 currency forward are as follows (Korean won in millions, other currency in thousands):

(nousanus).						
Position-Buy	buying price	Position-Sell	selling price	Contract exchange rate	Gain on valuation	Loss on valuation
USD	173,968	KRW	199,740	1,135.50 ~ 1,158.30	65	(912)
EUR	9,348	KRW	14,447	1,483.26 ~ 1,578.70	56	(308)
EUR	3,800	USD	5,055	1.3119 ~ 1.3326	8	(14)
USD	13,383	EUR	10,083	1.3136 ~ 1.3331	24	(43)
KRW	7,389	EUR	4,887	1,511.72 ~ 1,511.90	-	(21)
KRW	10,459	USD	8,983	1,145.80 ~ 1,177.80	174	-
USD	24,690	AUD	24,500	1.0075 ~ 1.0163	69	
					396	(1,298)

# 6.3 Commodity futures

# 6.3.1 The outstanding commodity futures as of December 31, 2011 are as follows (Korean won in millions):

	Position	Quantity (ton)	Contract price <sup>(*1)</sup>	Gain on valuation	Loss on valuation
Aluminum	Buy	8,875	18,509	3	805
	Sell	1,275	2,561	22	18
Copper	Buy	14,125	119,066	1,946	15,402
	Sell	600	5,171	715	11
Tin	Buy	250	4,873	20	113
	Sell	705	10,898	1,397	-
Copper concentrate	Buy	-	_	_	_
	Sell	3,275	24,744	-	181
Subtotal		29,105	185,822	4,103	16,530
	Position	Quantity (Oz)	Contract price <sup>(*1)</sup>	Gain on valuation	Loss on valuation
Silver	Buy	-	-	-	-
	Sell	65,000	2,151	385	-
Gold	Buy	-	-	-	-
	Sell	4,000	6,968	797	-
Subtotal	_	69,000	9,119	1,182	
	_		US\$ 194,941	₩ 5,285	₩ 16,530

# (\*1) US dollars in thousands

# 6.3.2 The outstanding commodity futures as of December 31, 2010 are as follows (Korean won in millions):

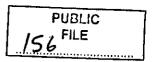
	Position	Quantity (ton)	Contract price <sup>(*1)</sup>	Gain on valuation	Loss on valuation
Aluminum	Buy	5,100	12,051	559	-
	Sell	2,225	5,229	-	278
Copper	Buy	4,000	30,369	9,259	-
,,	Sell	2,500	22,988	97	1,322
Tin	Buy	190	4,955	177	61
	Sell	705	18,126	54	965
Copper concentrate	Buy	-	-	<b>-</b> ,	_
	Sell	1,750	15,845		982
		16,470	US\$ 109,562	₩ 10,147	₩ 3,608

(\*1) US dollars in thousands

# 7. Inventories

Inventories as of December 31, 2011, 2010 and January 1, 2010 are as follows (Korean won in millions):

	2011		2010	Ja	As at nuary 1, 2010
Commodities	₩ 142,	343 ₩	163,911	₩	58,667
Stored goods	•	-	-		2
Materials in transit	40,	046	54,869		47,504
	182,	389	218,780		106,173
Less: Valuation allowance	(8	381)	(628)		(123)
Book value	₩ 181,	508 ₩	218,152	₩	106,050



#### 8. Investment assets

Investment assets as of December 31, 2011, 2010 and January 1, 2010 are as follows (Korean won in millions):

		2011		2010	Ja	nuary 1, 2010
Available for sale financial assets	₩	300,273	₩	58,859	₩	63,385
Long term loans		308,327		253,984		214,193
Total investments	₩	608,600	₩	312,843	₩	277,578

### 8.1 Available for sale financial assets

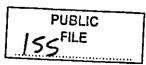
8.1.1 As at December 31, 2011 available-for-sale financial assets are as follows (Korean won in millions):

	Number of shares	Ownership (%)	A	cquisition cost	Bc	ook value
GS Retail	4,923,648	11.97	₩	179,756	₩	213,403
LG fasion	69,761	0.24		575		2,818
LG U+	198,366	0.04	,	8,681		1,468
KORAS(Qatar LNG business)	1,558,666	5.6		2,410		73,007
Shinil Todimax International.	-	19		279		279
Vietnam Korea Exchange Ltd.	-	10		322		322
LS VINA Industrial System	-	10		223		223
LG VINA Chemical Joint Venture	-	10		299		299
KC KAZAKH B.V.(ZHAMBYL)	2,000	10		66		66
LG Int'l(Saudi) LLC <sup>(*1)</sup>	-	90		118		118
Russia J/V Joint Venture (*1)	2,501,000	25.01		100		100
Mongolia resources Investment Limited (Adamas) (*1)	1,141,112	100		1,295		1,295
MINERA COROCOBRE S.A.	-	11.1		1,286		1,286
Zion Middelen B.V. (*1)	180	100		32		32
AROMATICS OMAN LLC	-	1		4,611		4,611
Yancheng Hyundai hysco	-	10		946		946
Others	-	•		7,419		_
			₩	208,418	₩	300,273

(\*1) December 31, 2011, these investees are excluded from subsidiaries as they are under liquidation and the amount of assets and liabilities of those investees are not material.

8.1.2 Change in the net book value of available-for-sale financial assets as of December 31, 2011 and 2010 are as follows (Korean won in millions):

•	2011								
	Ownership (%)	Jan.1, 2011	Acquisition (Disposal)		Valuation	Substitution	Dec.31, 2011		
GS Retail <sup>(*2)</sup>	11.97	₩ -	₩	-	₩ 133,980	₩ 79,423	₩213,403		
LG Fasion Corp.	0.24	2,187			631	-	2,818		
LG Uplus Corp.	0.04	1,422		-	46	-	1,468		
KORAS(Qatar LNG business)	5.60	45,519		-	27,488	-	73,007		
Shinil Todimax International.	19.00	279		-	-	-	279		
Vietnam Korea Exchange Ltd.	10.00	322		-	-	-	322		
LS VINA Industrial System	10.00	223		-	-	•	223		
LG VINA Chemical Joint									
Venture	10.00	299		-	-	-	299		
KÇ KAZAKH B.V.(ZHAMBYL)	10.00	66		-	-	-	66		
LG Int'l(Saudi) LLC	90.00	118		-	-	-	118		
Russia J/V Joint Venture	25.01	100		-	-	-	100		
Mongolia resources Investment Limited									
(Adamas)	100.00	1,295		-	-	-	1,295		



### 8.1 Available for sale financial assets (cont'd)

	Ownership (%)	Jan.1, 2010	Acquisition (Disposal)	Valuation	Substitution	Dec.31, 2010
MINERA COROCOBRE S.A	11.10	1,085	201		-	1,286
Zion Middelen B.V.	100.00	32	-	-	-	32
Oversease resourses						
development fund	22.39	85	-	•	(85)	-
Heungkuk Investment fund	33.33	270	-	-	(270)	-
AROMATICS OMAN LLC	1.00	4,611	-	(118)	118	4,611
Yancheng Hyundai hysco	10.00	946			<u>.</u>	946
• • •		₩ 58,859	₩ 201	₩ 162,027	₩ 79,186	₩ 300,273

(\*1) Non-marketable equity securities are carried at acquisition cost after recognizing impairment due to the lack of reliable information necessary for determining the fair market value of the securities.

(\*2) Due to disposal (20% out of 31.97%) of interests during the year ended December 31, 2011, the Company lost significant influence over this investee and thus it was reclassified to available-for-sale securities.

			2	2010		
	Ownership (%)	Jan.1, 2010	Acquisition (Disposal)	Valuation	Substitution	Dec.31, 2010
LG Fasion Corp.	0.24	₩ 2,201	₩ -	₩ (14)	₩ -	₩ 2,187
LG Uplus Corp.	0.04	1,643	-	(221)	-	1,422
KORAS(Qatar LNG business)	5.60	50,112	-	(4,593)	-	45,519
Shinil Todimax International.	19.00	279	-	` · · · · ·	_	279
Vietnam Korea Exchange Ltd.	10.00	322	-	-	-	322
LS VINA Industrial System	10.00	223	-	•	-	223
LG VINA Chemical Joint Venture	10.00	299	-	-	-	299
SK Eurochem Sp.zo.o.	10.00	4,348	(4,348)	-	-	-
KC KAZAKH B.V.(ZHAMBYL)	10.00	66	-	-	-	66
LG Int'I(Saudi) LLC	90.00	118	-	-	-	118
Ko-Uz Gas Chemical Investment Ltd.(Surgil business)	10.00	634	-	(634)	•	-
Russia J/V Joint Venture	25.01	96	4	-	-	100
Mongolia resources Investment Limited (Adamas)	100.00	1,262	33	-	•	1,295
MINERA CÓROCOBRE S.A	11.10	445	640	-	-	1,085
Zion Middelen B.V.	100.00	32	•	-	-	32
PT. Golden Hyundai Machinery(PT.GHM)	48.60	359	(359)	-	-	-
Korea Carbon International	60,00	-	839	-	(839)	-
Oversease resourses development fund	22.39	-	85	-	•	85
Heungkuk Investment fund	33.33	-	270	-	-	270
DAWOO LOGISTICS CORP.	0.06	-	151	(151)	-	-
AROMATICS OMAN LLC	1.00	-	-	-	<b>4</b> ,611	4,611
Yancheng Hyundai hysco	10.00	946	-			946
		₩ 63,385	₩ (2,685)	₩ (5,613)	₩ 3,772	₩ 58,859

(\*1) Those available-for-sale financial assets for which no active market exists or no fair value can be reliably measured or differences between fair value and acquisition cost are not materials are recorded at acquisition cost.

# 9. Investment in subsidiaries, associates

As at December 31, investment in subsidiaries, associates is as follows (Korean won in millions):

	2	011	20	010	As at January 1, 2010		
	Ownership		Ownership		Ownership		
	(%)	Book value	(%)	Book value	(%)	Book value	
Subsidiaries investment							
LG Int'l(America) Inc.	100	₩ 32,794	100	₩ 32,794	100	₩ 32,794	
LG Int'I(Japan) Ltd.	100	26,905	100	26,905	100	26,905	
LG Int'l(H.K) Ltd.	100	16,040	100	16,040	100	16,040	
LG Int'I(S'pore) Pte. Ltd.	100	18,636	100	18,636	100	18,636	
LG Int'I(Deutshland)	100	5,928	100	5,928	100	5,928	

# 9. Investment in subsidiaries, associates (cont'd)

	2	011	2	010	As at Janu	uary 1, 2010
	Ownership		Ownership		Ownership	
	(%)	Book value	(%)	Book value	(%)	Book value
LG Int'l(China) Corp.	100	₩ 9,881	100	₩ 9,881	100	₩ 9,881
LG Int'l(Aust) Pty. Ltd.	100	28,276	100	4,723	100	4,723
LG Properties (S'pore) Pty. Ltd.	70	20,270	70	-,, 20	70	.,,,==
PHILCO RESOURCES LTD(RAPU	, -					
RAPU)	60	-	60	-	60	-
Korea Commercial Vehicle Co., Ltd.	100	-	100	-	100	-
LG TIMOR SEA(JPDA)	100	-	100	•	100	-
BATUBARA GLOBAL						
ENERGY(MPP flaming coal	400	45.049	100	15,048	100	4,233
mine)	100	15,048	100	13,040	100	4,200
PT. TUTUI BATUBARA	75	_	75	_	75	-
UTAMA(TBU) DZP B.V.(BLOCK8)	90	- -	-	_	-	-
Tianjin Steel Flower Electric	•					
Machinery Co.,Ltd.	70	3,621	70	3,571	•	-
Tianjin Steel Flower Electric		·				
Machinery (Guangzhou)	100	6,131	-	<del>-</del>	<del>.</del>	
Twin wine	100	3,978	100	3,978	100	3,978
Resource Investment(H.K.) Limited	400	57.700	400	57.782	100	57,782
(Wantugou)	100	57,782	100 100		100 100	23,346
Pixdix Co., Ltd	100	23,346 65.086	100	23,346 9,242	100	2,342
PT. Green global lestari	100 100	67,570	100	46,336	100	13,017
Indonesia Renewable Resources)	51	9,016	51	9,016		10,011
KUMAH Steel Co., Ltd LG International Yakutsk	100	5,325	100	5,325	100	5,325
Korea Carbon International	60	839	60	839	-	-,
LG International Investments		-				
(Canada) Ltd (Raven)	100	5,891	100	5,891	100	5,605
Geovine Co.,Ltd.	100	700	100	700	100	100
Habukwooneung Trading Co.,Ltd.	100	3,346	100	3,346	-	-
YANTAI VMI HÜB LG						
INTERNATIONA	100	1,070	-	•	-	-
Colmineral SA(Maxico iron ore)	100	5	-	111, 000, 007	-	₩ 230,635
Subtotal	100	₩ 407,214		₩ 299,327		W 230,633
Associate investments						
GS retail			31.97	212,107	31.97	212,107
LG Holdings	25	47,811	25	47,811	25	47,811
GS Haipong	30	1,845	<sub>.</sub> 30	1,845	30	1,845
Oman Polypropylene L.L.C	•		20	-	20	2,280
Sakha-Korean J.V "Erel Itd"	35.2	-	35.2	-	35.2	2,875
Tianjin LG Dagu Chem. (*1)	10	9,119	10	9,119	10	9,119
Tianjin LG Bohai (*1)	10	15,569	10	15,569	10	15,569
		13,308		10,000	10	
AROMATICS OMAN LLC(*1)	-	4 700	-	4 700		46,106
Kernhem B.V. (ADA OIL)	30	4,706	30	4,706	30	4,706
DZP B.V.(BLOCK8)	-	-	40	-	40	-
ADA OIL LLP(*1)	12.5	21,047	12.5	21,047	12.5	21,047
POS-IPC(Mumbai coil center)	35	12,735	35	12,735	35	12,735
Fosco BV(EGIZKARA)	33,33	· .	-		_	
POS-PPC(Poland coil center)	40	5,857	40	5,857	30	4,389
Tianjin Steel Flower Electric	40	0,001		4,447		.,
Machinery Co.,Ltd.	-	-	-	-	21.2	1,137
United Copper & Moly LLC	50	39,425	50	20,725	-	-
Sal de Vida korea	33,33	6,000	33.33	3,000	_	-
Galaz & Company LLP	40	17,806	40	17,806	_	_
	40	17,000	70	17,000	-	_
Oversease resourses development fund <sup>(*1)</sup>	7,14	357		_	_	=
· <del>*</del> ··=			-	-	-	-
Heungkuk Investment fund	33.33	814	-	-	-	-
Geo park <sup>(*1)</sup>	10	178,742	-	•	-	-
Thai Dongbu Steel	20	2,505		<del>-</del>	-	
				137 070 007		171 004 500
Subtotal		<u>₩ 364,338</u>		₩ 372,327		₩ 381,726

<sup>(\*1)</sup> Although ownership is below 20%, the Company is considered to have significant influence because it designates executive management who participates in the management of the investees.

# 10. Tangible assets and investment properties

# 10.1 Property, plant and equipment

10.1.1 Property, plant and equipment as of December 31, 2011, 2010 and January 1, 2010 consist of the following (Korean won in millions):

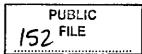
		2011		2010		As at January 1, 2010		
Land	₩	6,055	₩	5,394	₩	5,394		
Buildings		27,300		14,927		14,659		
Accumulated depreciation		(7,230)		(5,919)		(5,549)		
Structures		1,569		1,456		1,328		
Accumulated depreciation		(438)		(380)		(325)		
Machinery and equipment		12,722		12,505		4,233		
Accumulated depreciation		(5,413)		(3,608)		(2,317)		
Vehicles		9,502		3,606		3,717		
Accumulated depreciation		(1,925)		(1,324)		(1,233)		
Others		12,153		9,613		9,727		
Accumulated depreciation		(6,652)		(7,132)		(6,618)		
Construction-in- progress		11,817		5,477		7,448		
Net book value	₩	59,460	₩	34,615	₩	30,464		

10.1.2 Change in the net book value of property, plant and equipment for the years ended December 31, 2011 and 2010 are as follows (Korean won in millions):

						2	D11					
	Jar	1. 1, 2011	Ad	ditions	Disposals		Dep	reciation		ransfer <sup>1</sup>	Dec	. 31, 2011
Land	₩	5,394	₩	•	₩	(61)	₩	•	₩	722	₩	6.055
Buildings		9,008		-		(86)		(401)		11,549		20,070
Structures		1,076		5		(4)		(60)		114		1,131
Machinery and equipment		8,897		380		(256)		(2,231)		519		7,309
Vehicles		2,282		174		(7)		(720)		5,848		7,577
Others		2,481		4,015		(30)		(1,059)		94		5,501
Construction -in-progress		5,477		36,189						(29,849)		11,817
	₩	34,615	₩	40,763	₩	(444)	₩	(4,471)	₩	(11,003)	₩	59,460

						2	010					
	Jar	1, 1, 2010	Ad	ditions	Disposals		Dep	reclation	<u>T</u>	Transfer <sup>1</sup>		31, 2010
Land	₩	5,394	₩	-	₩	-	₩	-	₩	-	₩	5,394
Buildings		9,110		-		-		(370)		268		9,008
Structures		1,003		-		(108)		(56)		237		1,076
Machinery and equipment		1,916	•	35		(15)		(1,352)		8,313		8,897
Vehicles		2,484		225		(18)		(409)		-		2,282
Others		3,109		489		(39)		(1,128)		50		2,481
Construction -in-progress		7,448		9,497				<u> </u>		(11,468)		5,477
	₩	30,464	₩	10,246	₩	(180)	₩	(3,315)	₩	(2,800)	₩	34,615

(\*1) Refer to the amount transferred to investment properties and intangible assets.



# 10.2 Investment properties

10.2.1 Investment property as of December 31, 2011, 2010 and January 1, 2010 consist of the following (Korean won in millions):

		2011		2010	As at		
Land	₩	5,627	₩	10,738	₩	10,738	
Buildings		26,271		19,877		19,516	
Accumulated depreciation		(7,198)		(8,000)		(7,507)	
Net book value	₩	24,700	₩	22,615	₩	22,747	

10.2.2 Change in the net book value of investment properties for the years ended December 31, 2011 and 2010 are as follows (Korean won in millions):

			2010	
At January 1	₩	22,615	₩	22,747
Transfer		9,068		361
Disposals		(6,468)		-
Depreciation		(515)		(493)
At December 31	₩	24,700	₩	22,615

The evaluation of fair value of investment property was performed independently by an independent appraisal firm Nara Appraisal. The fair values of land, buildings and structures were determined using various methods including average method of assessment value and cost method. As a result, the fair value of land and buildings are \$\pm 79,400\$ million and \$\pm 59,900\$ million, respectively. Included in such fair value are those utilized by the Company.

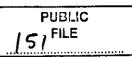
### 11. Intangible assets

11.1 Intangible assets as of December 31, 2011, 2010 and January 1, 2010 consist of the following (Korean won in t millions):

		2011		2010	As at January 1, 2010		
Industrial property rights	₩	25	₩	36	₩	48	
License		22,622		21,884		21,530	
Overseas resources development		221,909		216,285		214,544	
Others		5,223		5,461		5,936	
Net book value	₩	249,779	₩	243,666	₩	242,058	

11.2 Change in the net book value of intangible assets for the years ended December 31, 2011 and 2010 are as follows (Korean won in millions):

	2011											
	Industrial proprietary rights		L	icense	re	Overseas esources velopment		Others		Total		
At January 1, 2011	₩	36	₩	21,884	₩	216,285	₩	5,481	₩	243,666		
Acquisition		-		1,719		47,943		670		50,332		
Transfer		-		133		-		1,803		1,936		
Disposals		(1)		-		-		-		(1)		
Amortization- Selling and administrative expenses	ı	(11)		(245)		-		(2,711)		(2,967)		
Amortization-cost of sales		-		-		(42,319)		-		(42,319)		
Impairment				(869)	-		-			(869)		
At December 31, 2011	₩	25	₩	22,622	₩	221,909	₩	5,223	₩	249,779		



# 11. Intangible assets (cont'd)

2010 Industrial Overseas proprietary resources Total License Others rights development 242,058 21,530 214,544 ₩ 5,936 ₩ At January 1, 2010 48 ₩ 38,719 36,245 46 Acquisition 2,428 2,240 2,240 Transfer Amortization- Selling and administrative (3,019)(2,761)(12)(245)expenses (34,504)(34,504) Amortization- cost of sales (1,827)(1,827)Impairment ₩ ₩ 5,461 243,666 36 21,884 216,285 At December 31, 2010

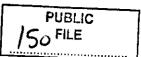
### 12. Trade and other receivables

12.1 Trade and other receivables as of December 31, 2011, 2010 and January 1, 2010 are as follows (Korean won in millions):

	20	11	20	110	As at			
	Current	Non-current	Current	Non-current	Current	Non-current		
Trade receivables	₩ 1,139,768	₩ -	₩ 1,075,374	₩ -	₩ 893,835	₩ -		
doubtful accounts	(93,529)	-	(92,354)	-	(92,603)	-		
Other accounts receivable	41,236	-	46,214	-	71,123	-		
Allowance for doubtful accounts	(22,257)	-	(22,281)	-	(32,193)			
Accrued income	32,958	-	27,212	-	20,799	-		
Allowance for doubtful accounts	(14,531)	-	(9,262)	-	(6,485)	-		
Loan recelvable	11,533	385,838	35	305,994	2,583	243,931		
Allowance for doubtful accounts	-	(77,511)	-	(52,010)	-	(29,738)		
Deposits	469	1,246	380	1,980	53	2,792		
Allowance for doubtful accounts	-		-	-	-	-		
Long term bank deposits	-	13	-	13	-	18		
Allowance for doubtful accounts			<u>-</u> _					
	₩ 1,095,647	₩ 309,586	₩ 1,025,318	₩ 255,977	₩ 857,112	₩ 217,003		

12.2 Changes in allowance for doubtful accounts for the years ended December 31, 2011 and 2010 are as follows (Korean won in millions):

			2011		2010							
	Trade receivables		Other receivables			Total	Trade receivables		Other recelvables		Total	
At January 1	uary 1 ₩ 92		92,354 ₩ 83,553		₩	175,907	₩	92,603	₩	68,416	₩	161,019
Bad debt expense		8,375		32,167		40,542				15,134		15,134
Reversal of allowance for doubtful accounts				-				(24)		-		(24)
Other(foreign currency translation differences)		(7,200)		(1,421)		(8,621)		(225)		3		(222)
At December 31	₩	93,529	₩	114,299	₩	207,828	₩	92,354	₩	83,553	₩	175,907



### 12. Trade and other receivables (cont'd)

12.3 The ageing analysis of trade receivables as of December 31, 2011, 2010 and January 1, 2010 are as follows (Korean won in millions):

		Past due but not impaired								
		ss than 3 nonths	3 to 6 months	6 to 12 months	>12 months		Total			
At December 31, 2011	₩	798,872	182,429	60,472	97,995	₩	1,139,768			
At December 31, 2010	₩	801,051	117,897	47,520	108,906	₩	1,075,374			
At January 1, 2010	₩	752,046	10,7 <b>4</b> 7	10,620	120,422	₩	893,835			

# 13. Borrowings and bonds

13.1 Short-term borrowings as of December 31, 2011, 2010 and January 1, 2010 consist of the following (Korean won in millions):

Financial institution	Description	Annual interest rate (%) as of Dec 31, 2011		2011		2010		As at ary 1, 2010
Deutsche Bank	Banker's usance	-	₩	-	₩	1,924	₩	7,546
Kookmin Bank	Banker's usance	1.38~1.71		8,673		-		-
Hana Bank .	Banker's usance	1.18~1.86		4,621		13,496		6,388
Woori Bank	Banker's usance	-		-		270		191
Korea Exchange Bank	Short term operating loans	1ML+1 ~3ML+1		-		-		-
Woori Bank <sup>(*1)</sup>	Commercial paper discount	-		444,545		528,105	٠	411,882
			₩	457,839	₩	543,795	₩	426,007

(\*1) The Company entered into commercial paper discounts agreement with financial institutions such as Woori Bank, Shinhan Bank, Hana Bank, Daegu Bank.

Those amounts that are net due as of reporting date and that do not satisfy the derecognition criteria are recorded as short-term borrowings.

The Company entered into bank overdraft facilities agreement (credit limit of \(\foatimus 48,000\) million) with Woori Bank and four other banks as of December 31, 2011. In relation to bank overdraft facilities, long-term financial instruments are provided as collateral.

13.2 Long-term borrowings as of December 31, 2011, 2010 and January 1, 2010 consist of the following (Korean won in millions):

Description	Financial institution	Annual interest rate (%) as of Dec 31, 2011		2011		2010		As at January 1, 2010
Local currency	Korea Mining Promotion Corporation	(Special energy fund rate-2.25%)~5%	₩	13,876	₩	5,451	₩	6,185
	Export-import Bank of Korea	6M Korlbor + 2.6%		5,000		15,000		20,000
	Industrial Bank of Korea	(Industrial Financial Debentures 1year + 3.65%), 5%		52,700		17,700		17,700
	Forestry Cooperative In Korea	1.50%		3,196		3,196		-
		Subtotal		74,772		41,347		43,885
		Less: Current portion		(8,837)		(11,162)		(5,992)
		Local currency total	₩	65,935	₩	30,185	₩	37,893

# 13. Borrowings and bonds (cont'd)

Description	Financial institution	Annual Interest rate (%) as of Dec 31, 2011		2011		2010		As at January 1, 2010
Foreign currency	Korea Mining Promotion Corporation	(Special energy fund rate -2.25%)~5%		12,437		10,828		13,828
	Export-import Bank of Korea	6ML + (0.69%~5.8%)		467,435		257,901		297,812
	Korea national oil corporation	(Special energy fund rate -2.25%)~5%		101,633		73,134		75,543
	Credit agricloe	6ML+1.20%		45,682		56,390		57,811
		Subtotal		627,187		398,253		444,994
		Less: Current portion		(97,058)		(119,344)		(143,936)
		Foreign currency total	₩	530,129	₩	278,909	₩	301,058
			₩	596,064	₩	309,094	₩	338,951

# 13.3 As at December 31, details of bonds issued are as follows (Korean won in millions):

Series	Issue date	Maturity date	Annual interest rate (%) as of Dec 31, 2011		2011		2010	J	As at anuary 1, 2010
108th	Feb 28, 2007	Feb 28, 2014	-	₩	-	₩	-	₩	40,000
109th	Mar 12, 2009	Mar 12, 2012	6.10%		50,000		50,000		50,000
110th	Oct 16, 2009	Oct 16, 2012	5.65%		40,000		40,000		40,000
111th	Mar 2, 2010	Mar 2, 2013	5.27%		40,000		40,000		-
		Less: discount	on Bonds		(73)		(366)		(362)
		Less: current p	ortion		(90,000)		-		(40,000)
				₩	39,927	₩	129,634	₩	89,638

Unsecured bonds including 109th, 110th, 111th were issued at discounts at the reporting date. Such bonds are fully redeemable 3 years from the issuance date, and interest is payable 3 months in arrears. Bond discount is amortized using the effective interest rate method during redemption period and it is recognized as financial expenses.

# 14. Capital stock, capital surplus and capital adjustments

# 14.1 Capital stock

Capital stock as of December 31, 2011, 2010 and January 1, 2010 are as follows:

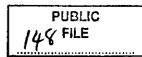
Number of common shares issued : 38,760,000 shares

There is no change in number of shares, capital stock amounts and paid-in capital in excess of par value during the years ended December 31, 2011 and 2010.

# 14.2 Capital surplus

Capital surplus of the Company as of December 31, 2011, 2010 and as of January 1, 2010 are as follows (Korean won in millions):

	2011			2010	As of January 1, 2010		
Paid-in capital in excess of par value	₩	47,106	₩	47,106	₩	47,106	
Asset revaluation surplus(*1)		37,286		37,286		37,286	
Galn on disposal of treasury stock		17,732		17,732		17,732	
	₩	102,124	₩	102,124	₩	102,124	



# 14.2 Capital surplus (cont'd)

### 14.3 Capital adjustments

Capital adjustments as of December 31, 2011, 2010 and as at January 1, 2010 are as follows (Korean won in millions):

	201	11	2010	)	as of Ja	nuary 1, 2010
Treasury stock	₩	(968)	₩	(968)	₩	(968)

# 14.4 Accumulated other comprehensive income

Accumulated other comprehensive income (loss) as of December 31, 2011, 2010 and as at January 1, 2010 accumulated are as follows (Korean won in millions):

·		2011		2010	as of	January 1, 2010
Net gain on valuation of available-for-sale financial assets	₩	157,120	₩	35,299	₩	38,993

# 14.5 Earnings per share

The Company's earnings per share for the years ended December 31, 2011 and 2010 are as follows (Korean won in millions):

•		2011		2010
Profit for the year attributable to equity holders of the parent	₩	261,577	₩	132,897
Weighted-average number of common stock outstanding <sup>(*1)</sup>		38,659,249		38,659,249
Basic earnings per share	₩	6,766	₩	3,438

(\*1) Weighted-average number of common stock outstanding is calculated after deducting treasury stock (100,751) from issued and outstand number of common shares (38,760,000). There is no change in number of common shares issued and outstanding and treasury stock for the years ended December 31, 2011 and 2010.

# 14.6 Statement of appropriations of retained earnings

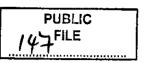
As at December 31, Statement of appropriations of retained earnings are as follows (Korean won in millions):

		2011		2010
Retained earnings before appropriations:	₩	758,347,078,460	₩	514,243,413,799
Unappropriated retained earnings carried forward from the prior year <sup>(1)</sup>		499,359,602,934		289,240,364,608
Equity method adjustment debit		-		(15,688,033,649)
Cumulative effects of accounting changes <sup>(*2)</sup>		-		109,346,373,706
Actuarial losses on defined benefit plans		(2,589,424,807)		(1,551,993,972)
Profit for the year		261,576,900,333		132,896,703,106
Appropriations:		21,262,586,950		14,883,810,865
Legal reserve		1,932,962,450		1,353,073,715
Cash dividends		19,329,624,500		13,530,737,150
Unappropriated retained earnings to be carried forward to the next year	₩	737,084,491,510	₩	499,359,602,934

<sup>(\*1)</sup> Unappropriated retained earnings carried forward from the prior year is recognized pursuant to Previous Local GAAP.

(\*2) Refer to effects from transition to K-IFRS.

<sup>(\*3)</sup> Statement of appropriation of retained earnings for the year ended December 31, 2011 is scheduled to be approved on March 9, 2012. Statement of appropriation of retained earnings for the year ended December 31, 2010 was confirmed on March 11, 2011.



### 15. Dividends

As at December 31, dividends are as follows (Korean won in millions):

		2011		2010
vidends	₩	13,531	₩	7,732

# 16. Sales

, Sales for the year ended December 31, 2011 and 2010 are as follows (Korean won in millions):

		2011		2010	
Export of commodities	₩	6,435,717	₩	5,146,730	
Sales of commodities		792,807		779,552	
Commission fees		149,686		143,613	
	w	7,378,210	₩	6,069,895	

# 17. Selling and administrative expenses

Selling and administrative expenses for the years ended December 31, 2011 and 2010 are as follows (Korean won in millions):

	2011	2010
Salarles	₩ 53,642	₩ 52,722
Retirement benefits	4,585	4,194
Employee benefits	9,077	7,392
Travel expenses	6,953	5,687
Communication expenses	1,521	1,420
Utility expenses	1,202	594
Taxes and dues	1,501	1,257
Rental expenses	6,730	2,644
Depreciation	4,986	3,808
Repairs expenses	499	648
Insurance	7,179	5,494
Entertainment expenses	2,528	2,790
Advertising and marketing expenses	12,431	9,445
Custody charges	2,420	1,231
Samples expenses	220	143
Packaging cost	. 64	20
Transportation expenses	98,392	93,107
Commission	42,579	29,364
Supplies expenses	234	211
Publication expenses	482	270
Vehicles maintenance expenses	427	522
Loading and unloading expenses	5,203	3,591
Training expenses	2,467	2,473
Conference expenses	82	84
Customs clearance expenses	647	247
Amortization of intangible assets	2,967	3,019
Bad debt expense	8,375	-
Sales commissions	15,888	43,435
Purchases commissions	1,696	716
Expenses for overseas branch office	19,175	18,016
	₩ 314,152	₩ 294,544

### 18. Classification based on nature of expense

Detail of classification based on nature of expense for the years ended December 31, 2011 and 2010 are as follows (Korean won in millions):

	2011		2010	
Cost of merchandise sales	₩	6,963,943	₩	5,604,904
Employee benefits (Salaries, Retirement benefits)		58,227		56,916
Distribution costs (Custody charges, Packaging cost, Transportation				
expenses)		100,876		94,359
Other cost		155,049		143,269
Cost of sales and selling and administrative expenses	₩	7,278,095	₩	5,899,448

### 19. Employment benefit

The Company has two defined benefit pension plans, final salary plan and average salary plan, covering substantially all of its employees, both of which require contributions to be made to separately administered funds.

19.1 Change in the defined benefit liability for the years ended December 31, 2011 and 2010 are as follows (Korean won in millions):

	2011			2010	
Variation of defined benefit obligation:					
At January 1	₩	2,558	₩	5,613	
Total cost recognized in profit or loss		4,540		4,194	
Actuarial losses (gains)		3,416		2,047	
Contribution payments		(6,934)		(4,552)	
Benefits paid		(792)		-	
Transfer between affiliates		(66)		(4,744)	
At December 31		2,722		2,558	
Configuration items of financial statements:					
— Present value of defined benefit obligation		29,220		21,960	
— Fair value of plan assets		(26,498)		(19,402)	
	₩	2,722	₩	2,558	

19.2 The components of net benefit expense recognized in the income statement are as follows (Korean won in millions):

		2011		2010
Current service cost	₩	4,218	₩	.3,611
Interest cost		1,150		1,226
Expected return on plan assets		(828)		(879)
Past service cost				236
	₩	4,540	₩	4,194

The Company operates defined contribution plans for some employees for which expenses amounting to \text{\psi}45 million were recognized for the years ended December 31, 2011.

19.3 Change in present value of defined benefit obligation for the years ended December 31, 2011 and 2010 are as follows (Korean won in millions):

		2011		2010	
At January 1	₩	21,960	₩	23,793	
Current service cost		4,218		3,611	
Interest cost		1,150		1,226	
Benefits paid		(1,694)		(4,067)	



# 19. Employment benefit (cont'd)

	2011	2010
Transfer in (out)	(66	(4,758)
Actuarial losses (gains)	3,652	1,919
Past service cost		236
At December 31	₩ 29,220	₩ 21,960

19.4 Change in fair value of plan assets for the years ended December 31, 2011 and 2010 are as follows (Korean won in millions):

		2011	2010	
At January 1	₩	19,402	₩	18,180
Expected return on plan assets		828		879
Contribution payments		6,934		4,552
Benefits paid		(902)		(4,067)
Transfer in (out)		-		(14)
Actuarial losses (gains)		236		(128)
At December 31	₩	26,498	₩	19,402

The Company's severance and retirement benefits are funded (90.68% of total) through insurance plans with LIG, Shinhan bank, Korea Development Bank, Woori Bank and Mirae Asset Securities with employees as beneficiaries.

Expected of return on plan assets is estimated taking into account maturity of defined benefit liabilities and expected return of the market at the time of estimation.

19.5 The principal assumptions used in actuarial calculation as of December 31, 2011 and 2010 and January 1, 2010 are as follows:

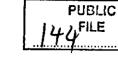
			As of January 1,
	2011	2010	2010
Future salary increase rate (%)	7.00%	6.40%	7.60%
Discount rate (%)	4.60%	5.50%	5.70%
Expected rate of return on plan assets	3.70%	4.40%	5.00%

## 20. Other operating income and expenses

## 20.1 Other operating income

Other operating income for the years ended December 31, 2011 and 2010 are as follows (Korean won in millions):

		2011		2010
Gain on foreign currency transaction	₩	200,317	₩	154,648
Gain on foreign currency translation		17,580		6,081
Gain on settlement of derivative financial instruments		14,910		18,331
Gain on valuation of derivative financial instruments		8,250		10,229
Gain on valuation of firm commitment assets		16,349		2,626
Gain on disposal of tangible assets		132		62
Gain on disposal of intangible assets		1		
Other income		44,536		16,123
Reversal of allowance for credit losses		-		24
	₩	302,075	₩	208,124



# 20.2 Other operating expenses

Other operating expenses for the years ended December 31, 2011 and 2010 are as follows (Korean won in millions):

		2011		2010	
Other Bad debt expense	₩	32,167	₩	15,134	
Loss on foreign currency transaction		203,443		152,708	
Loss on foreign currency translation		16,560		5,622	
Loss on settlement of derivative financial instruments		6,622		13,496	
Loss on valuation of derivative financial instruments		17,195		4,426	
Loss on valuation of firm commitment assets		4,103		10,146	
Loss on disposal of tangible assets		51		15	
Other expense		2,731		4,635	
Impairment of Intangible assets		869		1,827	
•	₩	283,741	₩	208,009	

## 21. Finance income and expenses

## 21.1 Finance income

Finance income for the years ended December 31, 2011 and 2010 are as follows (Korean won in millions):

		2010		
Interest income	₩	18,356	₩	17,346
Dividend Income		70,827		33,026
Commission revenue guarantees		1,553		1,617
Gain on foreign currency transaction		57,801		40,549
Gain on foreign currency translation		9,890		11,606
Gain on settlement of derivative financial instruments		51,693		21,163
Gain on valuation of derivative financial instruments		158		314
	₩	210,278	₩	125,621

## 21.2 Finance expenses

Finance expenses for the years ended December 31, 2011 and 2010 are as follows (Korean won in millions):

	2011			2010		
Interest expense	₩	31,507	₩	21,630		
Loss on foreign currency transaction		52,640		38,524		
Loss on foreign currency translation		19,097		5,854		
Loss on settlement of derivative financial instruments		45,627		31,568		
Loss on valuation of derivative financial instruments		409		480		
Loss on disposal of receivables		5,444		11,515		
	₩	154,724	₩	109,571		

# 21.3 Other non-operating income and expenses

Other non-operating income and expenses for the years ended December 31, 2011 and 2010 are as follows (Korean won in millions):

		2011			
Gain on disposal of long-term investment securities	₩	184	₩	1,628	
Gain on disposal of Investment In associates		186,224		11,245	
Other income			-		
Loss on disposal of short-term investment assets		(4)			
Impairment of long-term investment securities		-		(786)	
Impairment of investment in associates		-		(40,155)	
Loss on disposal of other investment assets			- (2)		
Miscellaneous losses		(22)		-	
Donation		(3,319)		(2,787)	
	₩	201,365	₩	(30,860)	

#### 22. Income tax

## 22.1 Income tax expense in the Income statement

The major components of income tax expense in the income statement for the years ended December 31, 2011 and 2010 are (Korean won in millions):

	<u></u>		2010	
Current income tax	₩	118,439	₩	26,275
Change in deferred tax assets and liabilities		33,416		(5,095)
Income tax charged directly to equity		(38,065)		1,674
Income tax expense reported in the income statement	₩	113,790	₩	22,854

# 22.2 Income tax expense in the statements of comprehensive income

The major components of income tax expense in the statements of comprehensive income for the years ended December 31, 2011 and 2010 consist of the following (Korean won in millions):

	2011			2010
Deferred tax charged directly to equity:				
Unrealized gain (loss) on valuation of available for sale financial assets	₩	(38,892)	₩	1,179
Actuarial losses (gains) on defined benefit plans		827		495
Income tax charged directly in the statements of comprehensive income	₩	(38,065)	₩	1,674

22.3 Reconciliation between tax expense and the product of accounting profit multiplied by statutory tax rate for the years ended December 31, 2011 and 2010 is as follows (Korean won in millions):

		2011	2010		
Accounting profit before income tax from continuing operations	₩	375,366	₩	155,751	
At statutory income tax rate of 24.2%		90,839		37,692	
Adjustment					
Permanent difference		18,523		(4,296)	
Tax credit and exemptions		(40,414)		(25,243)	
Foreign tax credit		44,402		14,701	
Special tax for rural development		440		-	
Income tax expense	₩	113,790	₩	22,854	
Effective tax rate (Income tax expense / Accounting profit before tax)		30.31%		14.67%	



PUBLIC 7 FILE

# 22.4 Deferred tax

LG International Corp.

December 31, 2011 and 2010

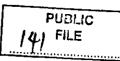
Deferred tax for the years ended December 31, 2011 and 2010 consist of the following (Korean won in millions):

Trimotoj.	201	1	2	2010	Jan	As at luary 1, 2010
Impairment loss on investment securities	₩	5,601	₩	5,127	₩	4,998
Stock Dividend		3,146		2,860		2,860
Exchange rate adjustments		(3)		(7)		(11)
Allowance for doubtful accounts		39,060		34,311		31,738
Accrued income		(316)		(318)		(331)
Interest income		375		302		264
Denial on bad debt expense		313		254		249
Allowance for overvaluation of inventories		213		152		30
amortization of exchange rate adjustment		11		28		45
Gain on settlement of derivative financial instruments		(5,235)		(3,187)		(2,583)
Loss on valuation of derivative financial instruments		4,993		3,643		2,479
Reserve fund of compressed register (Land)		(2,081)		(1,892)		-
Accrued expenses		235		201		149
Admission and denial on Depreciation cost		996		(17,421)		(1,807)
Bonus		3,400		4,118		3,699
Reserve fund of compressed registe (division marginal profit)		(2,261)		(5,490)		(5,491)
Interest related to loan for construction		(477)		(490)		(592)
Brand loyalty		746		1,385		(327)
Advance received income		11		16		26
allowance for retirement benefits		6,438		3,957		3,589
Severance benefits		(5,602)		(3,957)		(3,589)
Gain (loss) on foreign currency translation		(6,581)		(5,918)		2,564
Actuarial processing		574		522		293
interest and translation of debt related on success		1,815		648		(7,984)
Rewards for long term employee		71		60		489
Adjustment of bad debt rate		(634)		(634)		62
Impairment right of glof membership		653		402		(592)
adjustment on the amount based		-		-		212
investment in associates		(3,705)		15.965		(10,389)
available for sale financial assets	(	(52,444)		(11,909)		(2,417)
Deferred tax asset ( liability)	(	(10,688)		22,728		17,633
accounts of recognized in the balance sheet	<del></del>					
Deferred tax liability, net	₩	(10,688)	₩	22,728	₩	17,633

# 22.5 Change in deferred tax for the years 2011 and 2010 are as follows (Korean won in millions):

			2010	
At January 1	₩	22,728	₩	17,633
Income tax expense recognized in profit or loss		4,649		3,421
Income tax charged directly to equity		(38,065)		1,674
At December 31	₩	(10,688)	₩	22,728

The temporary differences associated with investments in subsidiaries, its associate and its joint venture, for which a deferred tax liability has not been recognized amounts to ₩7,062 million (2010: ₩15,039 million, January 1, 2010: ₩6,507 million).



# 23. Related party disclosures

23.1 Transactions with related parties for the years ended December 31, 2011 and 2010 are as follows (Korean won in millions):

	Sales and others			Purchases and others				
		2011		2010	2011			2010
Subsidiaries								
LG International (America) Inc.	₩	208,268	₩	337,777	₩	9,089	₩	25,761
LG International (Japan) Ltd.		43,396		132,181		28,376		39,730
LG International (Honkong) Ltd.		548,582		178,483		382,691		354,253
LG International (Singapore) Pte. Ltd.		437,466		220,083		149,743		139,677
LG International (Deutschland) GmbH		310,334		584,353		984		4,901
LG International (China) Ltd.		165		103		•		-
LG International (Australia) Pty. Ltd.		3,257		2,183		-		-
Philco Resources Ltd.(Rapu-Rapu)		3,608		1,865		18,833		-
PT. Tutui Batubara Utama(TBU)		682		688		-		-
Pixdix Co., Ltd.		346		331		1		5
Korea Commercial Vehicle Co., Ltd.		4,633		21,363		4,234		-
Twin wine Co., Ltd.		217		216		-		-
PT. Batubara Global Energy		763		971		224,886		152,211
PT. Mega Global Energy		-		206		-		-
PT. Megaprima Persada		33		39		-		-
PT. Indonesia Renewable Resources		72		133		-		-
LG (Timor Sea 06-102) Ltd.(JPDA)				245		-		-
LG International Yakutsk Ltd.		749		304		53		_
De Zwarte Ponk BV		1,915		767		_		_
EPC Munai LLP		69		86		-		57
KUMAH Steel Co., Ltd		7,706		4,945		50,136		19,457
PT. Green Global Lestari		2,549		1,331		-		
Subtotal	₩	1,574,810	₩	1,488,653	₩	869,026	₩	736,052
Associates								
Kernhem BV(ADA OIL LLP)		1,572		1,336		•		-
ADA OIL LLP		184		132		•		6
Fosco BV(Egizkara)		_		371		-		-
GS HP Sunflower Village Int'l Corp.		49		64		_		_
Tianjin LG Bohai Chemical Co., Ltd.		111,473		133,274		8,683		-
Tianjin LG Dagu Chemical Co., Ltd.		8,894		11,764		3,749		1,199
Oman Polypropylene LLC		-		4,863		-		131,011
POS-IPPC(POSCO India Ciol Center)		48,141		37,425		_		-
Galaz & Company LLP(NW Konys)		769		461		_		-
Subtotal	₩	171,082	₩	189,690	₩	12,432	₩	132,216
Other related parties		701,276		709,248		738,099		913,638
Total	₩	2,447,168	₩	2,387,591	₩	1,619,557	₩	1,781,906

# 23. Related party disclosures (cont'd)

23.2 The outstanding receivables and payables arising from the transactions with related parties as of December 31, 2011 and 2010, as well as at January 1, 2010 are as follows (Korean won in millions):

			Re	ceivables					Pa	yables		
		2011		2010	Ja	As at anuary 1, 2010		2011		2010	Jar	As at nuary 1, 2010
Subsidiaries												
LG International (America) Inc.	₩	31,465	₩	13,978	₩	21,405	₩	2,836	₩	2,572	₩	3,896
LG International (Japan) Ltd.		4,320		10,221		7,214		3,174		6,021		3,684
LG international (Honkong) Ltd.		33,016		9,014		7,908		68,476		61,054		10,007
LG International (Singapore) Pte. Ltd.		172,318		40,114		8,347		11,665		17,487		18,875
LG International (Deutschland) GmbH		9,376		49,073		56,983		88		562		2,197
LG International (China) Ltd.		173		89		34		-		-		-
LG International (Australia) Pty. Ltd.		335		27,543		25,984		7		1		15
Philco Resources Ltd.(Rapu-Rapu)		5,541		39,393		36,054		-		5		-
PT. Tutul Batubara Utama		1,800		11,066		10,190		-		_		-
Korea Commercial Vehicle Co., Ltd.		_		28,237		60,028		-		_		-
Twin wine Co., Ltd.		_		-		17		_		-		-
PT. Batubara Global Energy		188		10,310		19,425		12,241		17,663		14,532
PT. Mega Global Energy		10		6		-		1		123		٠.
PT. Megaprima Persada		55		53		-		10		-		-
PT. Indonesia Renewable Resources		376		7,779		-		-		5		-
LG (Timor Sea 06-102) Ltd.(JPDA)		468		22,119		18,149		•		48		-
LG International Yakutsk Ltd.		1,060		6,760		1,553		53		-		-
De Zwarte Ponk BV		6,039		38,444		32,272		-		-		_
EPC Munai LLP		2		12		-		1		_		21
KUMAH Steel Co., Ltd		3,915		402		-		783		1,961		
PT. Green Global Lestari		426		32,880								· <u>-</u>
Subtotal	₩	270,883	₩	347,493	₩	305,563	₩	99,335	₩	107,502	₩	53,227
Associates												
Kernhem BV(ADA OIL LLP)		7,964		54,763		46,426				-		-
ADA OIL LLP		_		39	-			-		3		-
Fosco BV(Egizkara)		1,910		23,317		19,020		-		-		-
GS HP Sunflower Village Int'l Corp.		4		1,672		2,294		-		-		-
Tlanjin LG Bohai Chemical Co, Ltd.		5,835		-		-		_		-		8
Tłanjin LG Dagu Chemical Co., Ltd.		-		-		-		_		-		137
LG International (U.K) Ltd.		-		-		-		-		-		12
Oman Polypropylene LLC		-		4,972		40,132		-		6,203		16,956
POS-IPPC(POSCO India Ciol Center)		9,944		278		47		-		-		-
Galaz & Company LLP(NW Konys)		1,230		461						<u>-</u>		<u>-</u>
Subtotal	₩	26,887	₩	85,502	₩	107,919	₩	-	₩	6,206	₩	17,113
Other related parties		94,500		71,218		103,525		95,846		110,832		70,120
Total	₩	392,270	.₩	504,213	₩	517,007	₩	195,181	₩	224,540	₩	140,460



# 24. Compensation of key management personnel of the Company

The compensation of key management personnel are as follows (Korean won in millions):

		2011		2010
Short-term employee benefits	₩	8,153	₩	8,544
Retirement benefits		1,082		5,547
Other long-term employee benefits		5,341		6,088
	₩	14,576	₩	20,179

## 25. Commitments and contingencles

#### 25.1 Guarantees

The Company received guarantees as of December 31, 2011 as follows (Korean won in millions and foreign currencies in thousand):

		Guara	intee amount	Description
BOND	Export-import bank	₩	44,735	USD 38,790
	Other banks		50,314	USD 37,525, SAR 3,736, EUR1,465
Secul qua	arantee insurance, etc.		12,255	
	·	₩	107,305	

As of December 31, 2011, the Company is contingently liable for payment guarantees issued on behalf of certain foreign affiliated companies amounting to \\ \text{\$\text{W}}1,647,103 \text{ million} \text{ (US\$ 477,163 thousand) out of which \\ \text{\$\text{W}}550,360 \text{ million is outstanding as of December 31, 2011.}

#### 25.2 Notes as collaterals and checks

The Company has provided its customers, creditors and guarantors with 13 checks and 45 notes as collaterals for various guarantees and borrowings as of December 31, 2011.

### 25.3 License agreement

As of December 31, 2011, the Company has a license agreement with LG Corp. for the use of "LG" brand.

## 25.4 Joint liability on guarantee

The Company and newly incorporated entity, LG Fashion Corporation, are jointly and severally liable for the obligations of LGI existing before the spin-off.

### 26. Financial risk management objectives and policies

The Company's principal financial liabilities, other than derivatives, comprise loans and borrowings, trade and other payables. The main purpose of these financial liabilities is to raise finances for the Company's operations. The Company has loan and other receivables, trade and other receivables, and cash and short-term deposits that arrive directly from its operations. The Company also holds available-for-sale investments, and enters into derivative transactions.

The Company is exposed to market risk, credit risk and liquidity risk.

The Board of Directors reviews and agrees policies for managing each of these risks which are summarized below. It is the Company's policy that no trading in derivatives for speculative purposes shall be undertaken.

## 26. Financial risk management objectives and policies (cont'd)

#### 26.1 Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise three types of risk: interest rate risk, currency risk, commodity price risk and other price risk, such as equity risk. Financial instruments affected by market risk include loans and borrowings, deposits, available-for-sale investments, and derivative financial instruments.

The sensitivity analysis is in the following sections relate to the financial position as at December 31, 2011 and 2010.

The sensitivity analysis has been prepared on the basis that the amount of net debt, the ratio of fixed to floating interest rates of the debt and derivatives and the proportion of financial instruments in foreign currencies are all held constant and on the basis of the hedge designations in place at December 31, 2011.

The analysis excludes the impact of movements in market variables on the carrying value of pension and other post-retirement obligations, provisions and on the non-financial assets and liabilities of foreign operations.

The following assumptions have been made in calculating the sensitivity analyses:

- > The statement of financial position sensitivity relates to derivatives and available-for-sale debt instruments.
- > The sensitivity of the relevant income statement item is the effect of the assumed changes in respective market risks. This is based on the financial assets and financial liabilities held at December 31, 2011 and 2010 including the effect of hedge accounting.
- > The sensitivity of equity is calculated by taking into account the effect of any associated cash flow hedges and hedges of a net investment in a foreign subsidiary at December 31, 2011 associate with changes in underlying assets.

#### 26.1.1 Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's long-term debt obligations with floating interest rates.

The Company's position with regard to interest rate risk exposure is mainly related to debt obligations such as bonds and interest-bearing deposits and investments. The Company has a risk management program in place to monitor and actively manage such risks.

Interest rate sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on profit before income taxes. There is only an immaterial impact on the Company's equity (Korean won in millions).

			)11			20	110	
	Incres	ase by 1%	Decre	ase by 1%	Increa	ase by 1%	Decre	ase by 1%
Interest income	₩	6,517	₩	(6,517)	₩	4,028	₩	(4,028)
Interest expense	·	5,290		(5,290)		4,738		(4,738)
Net effect	₩	1,227	₩	(1,227)	₩	710	₩	(710)

The assumed movement in basis points for interest rate sensitivity analysis is based on the currently observable market environment.

# 26. Financial risk management objectives and policies (cont'd)

# 26.1.2 Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company's exposure to the risk of changes in foreign exchange rates relates primarily to the Company's operating activities (when revenue or expense are denominated in a different currency from the Company's functional currency) and the Company's net investments in foreign subsidiaries.

The Company is exposed to foreign exchange risk arising from international operations and transactions with different foreign currencies. Most widely used foreign currencies are the US Dollar, EURO and Japanese Yen. The Company manages its foreign currency risk periodically. Especially, the Company entered into currency forward contracts to hedge the risks from changes in foreign currency.

Foreign currency sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in the US\$ exchange rate, with all other variables held constant, on the Company's profit before tax (due to changes in the fair value of monetary assets and liabilities including non designated foreign currency derivatives)

		2011				2010				
	Increa	ase by 10%	Decre	ase by 10%	Incre	ase by 10%	Decre	ase by 10%		
Gain (loss) on foreign currency translation	₩	20,254	₩	(20,254)	₩	27,263	₩	(27,263)		
Gain (loss) on valuation of derivative financial instruments		39,127		(39,127)		20,532		(20,532)		
Net effect	₩	59,381_	₩	(59,381)	₩	47,795	₩	(47,795)		

#### 26.2 Credit risk

Credit risk is the risk that a counter party will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company is exposed to credit risk from its operating activities (primarily for trade receivables and loan notes) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments

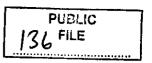
Book value of financial assets represents maximum exposure to credit risk. Maximum exposure to credit risk as of December 31, 2011, 2010 and as of January 1, 2010 is as follows (Korean won in millions):

		2011		2010		As at ary 1, 2010
Cash and cash equivalents	₩	304,265	₩	125,017	₩	111,696
Short-term financial assets		129,533		15,035		2,584
Trade receivable		1,046,239		983,020		801,232
Long-term loans		308,327		253,984		214,193
Other accounts receivable		335,601		85,418		106,473
Other financial assets		20,155		20,323		17,177
	₩	2,144,120	₩	1,482,797	₩	1,253,355

### 26.3 Maturity profile of financial assets

The table below summarizes the maturity profile of the Group's financial assets based on contractual undiscounted payments (Korean won in millions):

·	Less than 1 year		1 to 3 year		3 to 5 year		>5year		Total	
Cash and cash equivalents	₩	304,265	₩	-	₩	-	₩	-	₩	304,265
Short-term financial assets		129,533		-		-		<u></u>		129,533
Available-for sale financial assets		-		-		-		300,273		300,273
Trade accounts and notes receivable		1,033,200		11,275		1,764		-	1	,046,239
Other accounts receivable		18,979		-		-		-		18,979
Long-term loans		7,879		16,872		50,658		232,917		308,327
Derivative financial instruments		16,349		-		-		-		16,349
Other financial assets		18,896		1,216		43		-		20,155
	₩	1,529,101	₩	29,364	₩	52,465	₩	533,190	₩ 2	2,144,120



As at

# 26. Financial risk management objectives and policies (cont'd)

# 26.4 Liquidity risk

Liquidity risk refers to the risk that the Company may default on the contractual obligations that become due.

The table below summarizes the maturity profile of the Company's financial liabilities based on contractual undiscounted payments (Korean won in millions).

	7.7	s than year	1 t	o 3 year	3 to	5 уеаг	>5	year	Total
Borrowings	W	563,735	₩	216,571	₩	307,417	₩	72,076	₩ 1,159,799
Bonds		89,934		39,927		-		-	129,861
Other financial liabilities	i	836,138		5,655					841,793
	₩ 1,	489,807	₩	262,153	₩	307,417	₩	72,076	₩ 2,131,453

The table above illustrates maturities of the financial liabilities as of each reporting date.

### 26.5 Capital management

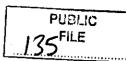
The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholders value.

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

No changes were made in the objectives, policies or processes during the years ending December 31, 2011 and 2010.

Debt ratio is calculated total liabilities divided by total equity, whereas net debt ratio calculated by dividing net debt (sum of interest bearing loans and borrowings, trade and other payables less cash and cash equivalents) by total equity.

	2011	2010	January 1, 2010
Total liability (A)	₩ 2,214,314	₩ 1,843,373	₩1,552,674
Total equity (B)	1,251,875	884,598	764,679
Cash and cash equivalents (C)	304,265	125,017	111,696
Total borrowing (D)	1,289,660	1,113,029	1,044,519
Debt ratio (A / B)	176.88%	208.39%	203.05%
Net borrowing ratio ((D-C) / B)	78.71%	111.69%	121.99%



#### 27. Fair value

### 27.1 Fair value of financial instruments

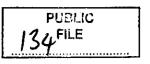
Book value and fair value of financial instruments as of December 31, 2011, 2010 and January 1, 2010 are as follows (Korean won in millions):

					As	at
	20	11	20	10	January	1, 2010
	Book value	Fair value	Book value	Fair value	Book value	Fair value
Financial assets						
Financial assets measured at amortized cost						
- Cash and cash equivalents	₩ 304,265	₩ 304,265	₩ 125,017	₩ 125,017	₩ 111,696	₩ 111,696
<ul> <li>Trade accounts and notes receivable</li> </ul>	1,046,239	1,046,239	983,020	983,020	801,232	801,232
- Long-term loans	308,327	308,327	253,984	253,984	214,193	214,193
- Other accounts receivable	10,571	10,571	13,391	13,391	32,413	32,413
- Short-term financial assets	129,533	129,533	15,035	15,035	2,584	2,584
- Other financial assets	20,155	20,155	20,323	20,323	17,177	17,177
Subtotal	₩1,819,090	₩1,819,090	₩1,410,770	₩1,410,770	₩1,179,295	₩1,179,295
Financial assets recognized at fair value						
- Derivative financial assets	16,349	16,349	2,626	2,626	4,158	4,158
<ul> <li>accounts receivable related derivatives</li> </ul>	8,408	8,408	10,542	10,542	6,517	6,517
- Available-for-sale financial assets	300,273	300,273	58,859	58,859	63,385	63,385
Subtotal	₩ 25,030	₩ 325,030	₩ 72,027	₩ 72,027	₩ 74,060	₩ 74,060
Total	₩2,144,120	₩2,144,120	₩1,482,797	₩1,482,797	₩1,253,355	₩1,253,355
Financial liabilities Financial liabilities measured at amortized cost						
- Borrowings	₩1,053,904	₩1,053,904	₩ 852,888	₩ 852,888	₩ 764,959	₩ 764,959
- Bonds	39,927	39,927	129,634	129,634	89,638	89,638
<ul> <li>Current portion of bonds payable and long-term borrowings</li> </ul>	195,829	195,829	130,507	130,507	189,922	189,922
- Other	818,774	818,774	691,881	691,881	475,310	475,310
Subtotal	₩2,108,434	₩2,108,434	₩1,804,910	₩1,804,910	₩1,519,829	₩1,519,829
Financial liabilities recognized a t fair value						
- Derivative financial liabilities	4,103	4,103	10,146	10,146	5,386	5,386
<ul> <li>accounts payable related derivatives</li> </ul>	18,915	18,915	6,228	6,228	4,857	4,857
Subtotal	₩ 23,019	₩ 23,019	₩ 16,374	₩ 16,374	₩ 10,243	₩ 10,243
Total	₩2,131,453	₩2,131,453	₩1,821,284	₩1,821,284	₩1,530,072	₩1,530,072

# 27.2 Fair value measurement of assets and liabilities recorded in statements of financial position

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- ➤ Level1: quoted (unadjusted) prices in active markets for identical assets or liabilities
- > Level2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly
- > Level3: techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data.



# 27.2 The level of hierarchy of Fair value of financial instruments (cont'd)

As at December 31, 2011, the Company hold the following financial instruments carried at fair value in the statements of financial position ( Korean won in millions):

·	Level 1	Level 2	Level 3
Financial assets at fair value through profit or loss:			
Derivative financial assets	• *	16,349	-
Accounts receivable related derivatives	•	8,408	-
Available-for-sale financial assets:			
Equity securities <sup>(1)</sup>	217,689	-	82,584
Financial ilabilities at fair value through profit or loss:			
Derivative financial liabilities	-	4,103	•
Accounts payable related derivatives	· -	18,915	-

(\*1) Available-for-sales securities were recorded at cost since the fair value of those securities could not be measured reliably.

### 28. Statement of cash flows

28.1 Non-cash adjustments to reconcile profit for the year to net cash flows for the years ended December 31, 2011 and 2010 are as follows (Korean won in millions):

	2011		2010			
Depreciation	. ₩	4,986	₩	3,808		
Amortization		45,287		37,522		
Retirement benefits		4,585		4,194		
Bad debt expense		40,542		15,13 <del>4</del>		
Interest income		(18,356)				
Gain on foreign currency translation		(27,470)		(17,687)		
Interest expense		31,507		21,630		
Loss on foreign currency translation		35,656		11,476		
Gain on disposal of equity method investments		(186,224)		11,245		
Impairment of equity method investments		-		40,155		
Other income		49,977		(58,592)		
	₩	(19,510)	₩	51,539		

28.2. Working capital adjustments for the years ended December 31, 2011 and 2010 are as follows (Korean won in millions):

		2011		2010	
Increase in trade receivable	₩	(64,779)	₩	(195,120)	
Decrease in other receivable		13,893		34,521	
Decrease (Increase) in advance payments		(2,647)		3,017	
Decrease (Increase) in inventory		36,023		(113,329)	
Decrease (Increase) in other operating assets		2,480		(9,109)	
Increase in trade payable		66,106		192,218	
Increase in other accounts payable		25,808		17,252	
Increase (decrease) in advance received		2,193		(894)	
Benefits paid		(1,806)		(8,825)	
Increase in plan assets		(6,033)		(471)	
Increase(decrease) in other operating liabilities		(20,334)		(3,836)	
	₩	50,904	₩	(84,576)	

PUBLIC 133 FILE

LG International Corp. Notes to the separate financial statements December 31, 2011 and 2010

## 28. Statement of cash flows (cont'd)

28.3 Non-cash transactions for the years 2011 and 2010 are as follows (Korean won in millions):

		2011	2	010
Conversion of loan into equity	₩	5,538	₩	-

### 29. Transition to K-IFRS

For all periods up to and including the year ended December 31, 2010, the Company prepared its financial statements in accordance with Previous Local GAAP. These financial statements, for the year ended December 31, 2011, are the first the Company has prepared in accordance with Korea International Financial Reporting Standards (K-IFRS).

Accordingly, the Company has prepared financial statements which comply with K-IFRS applicable for periods beginning on or after January 1, 2011 as described in the accounting policies. In preparing these financial statements, the Company's opening statement of financial position was prepared as at January 1, 2010, the Company's date of transition to K-IFRS. This note explains the principal adjustments made by the Company in restating its Previous Local GAAP statement of financial position as at January 1, 2010 and its previously published local GAAP financial statements for the year ended December 31, 2010.

### 29.1 Exemptions applied

K-IFRS 1101 First-Time Adoption of Korean International Financial Reporting Standards allows first-time adopters certain exemptions from the retrospective application of certain K-IFRS effective for December 2011 year-ends.

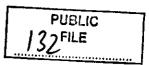
The Company has applied the following exemptions:

- > K-IFRS 1103 Business Combinations has not been applied to acquisitions of subsidiaries or of interests in associates and joint ventures that occurred before January 1, 2010.
- > Certain items of property, plant and equipment were carried in the statement of financial position prepared in accordance with Previous Local GAAP on the basis of valuations performed in 2006. The Company has elected to regard those fair values as deemed cost at the date of the revaluation.
- The Company has recognized all cumulative actuarial gains and losses on pensions and other postretirement benefits as at January 1, 2010, directly in equity. The Company has elected to disclose amounts required by paragraph 120A(16) of K-IFRS 1019 prospectively from the date of transition.
- > Cumulative currency translation differences for all foreign operations are deemed to be zero as at January 1, 2010.
- ➤ K-IFRS 1102 Share-based Payment has not been applied to equity instruments in share-based payment transactions that were granted on or before November 7, 2002, nor has it been applied to equity instruments granted after November 7, 2002 that vested before January 1, 2010. For cash-settled share-based payment transactions, the Company has not applied K-IFRS 1102 to liabilities that were settled before January 1, 2010.
- The Company has applied the transitional provision in K-IFRS 2104 Determining Whether an Arrangement Contains a Lease and has assessed all arrangements as at the date of transition.

### 29.2 Explanation of transition to K-IFRS

# 29.2.1 Investment in subsidiary and associate and jointly controlled entities

In accordance with KIFRS 1027, investments in subsidiaries, associates and jointly controlled entities, that are accounted for using the equity method under Previous Local GAAP, are accounted for at cost. Moreover, in accordance with KIFRS 1101, carrying amounts of those investments based on Previous Local GAAP at transition date to KIFRS are deemed to be cost. Therefore, amounts recorded in capital surplus and other components of equity based on Previous Local GAAP are reclassified into retained earnings.



## 29.2.2 Reassessment of impairment

Under Previous Local GAAP, the provision for impairment of receivables consists of both a specific and general amount. Under K-IFRS, recognition of general reserve is not permitted. Moreover, Impairment is performed annually on goodwill and indefinite intangible assets.

### 29.2.3 Derecognition of financial assets

Under Previous Local GAAP, trade receivables are derecognized upon receipt of payments from the financial institutions for to which those trade receivable with recourse are sold. Under K-IFRS, trade receivables with recourse are derecognized when all the risks and rewards of ownership are transferred.

#### 29.2.4 Valuation of financial assets

Under Previous Local GAAP, available-for-sale financial assets were carried at the lower of cost and realizable value. Under K-IFRS, available-for-sale financial assets are measured at fair value.

## 29.2.5 Reassessment of depreciation method of assets in overseas resource development

Under K-IFRS, assets in overseas resource development are amortized based on patterns and period of consumption of future economic benefits of the asset.

#### 29.2.6 Income tax effect

Under Previous Local GAAP, deferred tax assets and liabilities had been classified as current or non-current assets and liabilities according to their liquidity. Under K-IFRS, all of the deferred tax assets and liabilities are reclassified as non-current items. The difference arising from adopting K-IFRS been properly reflected in income tax.

## 29.2.7 Employee benefit

Under Previous Local GAAP, the provision for employment benefits was calculated assuming all employees with at least one year of services were to terminate their employment as of the reporting date. Under K-IFRS, the Company has recorded estimated amount using the projected unit credit method as defined benefit liabilities. The difference arising from applying K-IFRS has been recorded in retained earnings.

Under Previous Local GAAP, the Company recognized accumulating paid leaves and bonuses as expenses when the Company's obligation to pay is determined. Under K-IFRS, the Company recognized accumulating paid leaves and bonuses as expenses when the employee render services.

### 29.2.8 Reclassification of account

Under Previous Local GAAP, membership and facilities usage rights were recognized as non-current assets but under K-IFRS, they are reclassified as intangible assets with indefinite useful lives. Under Previous Local GAAP, land and buildings for rental purpose were recognized as tangible assets but under K-IFRS, they are reclassified as investment properties.

# 29.3 Adjustments between Previous Local GAAP and K-IFRS

29.3.1 Reconciliation of equity as at January 1, 2010 (date of transition to IFRS) (Korean won in millions):

	2011	2010	As at January 1, 2010
Previous Local K-GAAP	₩ 1,835,230	₩ 1,143,728	₩ 691,502
1.Derecognition of financial assets	411,882	411,882	-
2. Valuation of financial assets	47,702	-	47,702
3. Change the depreciation method of overseas resource development	36,290	-	36,290
4. Income tax effect	10,692	18,226	(7,534)
5. Other	(24,443)	(21,162)	(3,281)
The amount of adjustment	482,123	408,946	73,177
K-IFRS	₩ 2,317,353	₩ 1,552,674	₩ 764,679

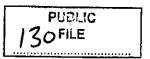
29.3.2 Reconciliation of equity as at December 31, 2010 (Korean won in millions):

	2011	2010	As at January 1, 2010
Previous Local K-GAAP	₩ 2,307,358	₩ 1,346,233	₩ 961,125
1. Subsidiaries and associates	(171,392)	-	(171,392)
2. Recalculation of impaired assets	(56,644)	-	(56,644)
3. The removal of financial assets	528,105	528,105	-
4. Fair value of financial assets	43,109	-	43,109
5. Change the depreciation method of overseas resource development	82,451	-	82,451
6. Income tax effect	10,692	(18,511)	29,203
7. Other	(15,708)	(12,454)	(3,254)
The amount of adjustment	420,613	497,140	(76,527)
K-IFRS	₩ 2,727,971	₩ 1,843,373	₩ 884,598

29.4 Reconciliation of total comprehensive income for the year ended December 31, 2010 (Korean won in millions):

	Total comprehensive income	
Previous Local K-GAAP	₩	289,504
1. Subsidiaries and associates		(182,542)
2. Recalculation of impaired assets		(56,644)
3. Change the depreciation method of overseas resource development		46,161
4. income tax effect		35,727
5. Actuarial assessment about defined benefit obligation		(1,268)
6. Fair value of available for sale financial assets		(5,603)
7. Other		2,316
The amount of adjustment		(161,853)
K-IFRS	₩	127,651

29.5 The transition from Previous Local K-GAAP to K-IFRS has not had a material impact on the statement of cash flows.



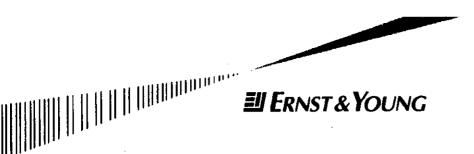
# 30. Operating income

Reconciliation of operating income for the year ended December 31,2011 and 2010 (Korean won in millions):

	2011		2010	
Operating Income		118,448	₩	170,561
Other operating income		(302,075)		(208,124)
Other operating expenses		283,742		208,010
Operating income (Previous Local GAAP)	₩	100,115	₩	170,447

# 31. Approval of the financial statements.

The separate financial statements were approved and authorized for issue by the board of directors on February 29, 2012.



PUBLIC 129 FILE

#### ERNST&YOUNG HANYOUNG

Taeyoung Bidg., 10-2, Yeouldo-dong, Yeongdeungpo-gu, Seoul 150-777 Korea

Tel: +82 2 3787 6600 Fax: +82 2 783 5890 www.ey.com/kr

## Internal control over financial reporting review report

The Chief Executive Officer LG International Corp.

We have reviewed the accompanying management's report on the operations of the internal control over financial reporting ("ICFR") of LG International Corp. (the "Company") as of December 31, 2011. The Company's management is responsible for the design and operations of its ICFR, including the reporting of its operations. Our responsibility is to review management's ICFR report and issue a report based on our review. Management's report on the operations of the ICFR of the Company states that "Based on its assessment of the operations of the ICFR as of December 31, 2011, the Company's ICFR has been effectively designed and has operated as of December 31, 2011, in all material respects, in accordance with the ICFR standard."

We conducted our review in accordance with the ICFR review standards established by the Korean Institute of Certified Public Accountants. These standards require that we plan and perform our review to obtain less assurance than an audit as to management's report on the operations of the ICFR. A review includes the procedures of obtaining an understanding of the ICFR, inquiring as to management's report on the operations of the ICFR and performing a review of related documentation within limited scope, if necessary.

A company's ICFR consists of an establishment of related policies and organization to ensure that it is designed to provide reasonable assurance on the reliability of financial reporting and the preparation of financial statements for external financial reporting purposes in accordance with Korea International Financial Reporting Standards (K-IFRS) However, because of its inherent limitations, the ICFR may not prevent or detect material misstatements of the financial statements. Also, projections of any assessment of the ICFR on future periods are subject to the risk that ICFR may become inadequate due to the changes in conditions, or that the degree of compliance with the policies or procedures may be significantly reduced.

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

We conducted our review of the ICFR in place as of December 31, 2011, and we did not review the ICFR subsequent to December 31, 2011. This report has been prepared for Korean regulatory purposes pursuant to the Act on External Audit for Stock Companies, and may not be appropriate for other purposes or for other users.

Ernot & Joung Han Young

February 29, 2012

This report is annexed in relation to the audit of the financial statements as of December 31, 2011 and the review of internal accounting control system pursuant to Article 2-3 of the Act on External Audit for Stock Companies of the Republic of Korea.

# Report on the operations of the internal control over financial reporting

To the Board of Directors and Audit Committee of LG International Corp.

I, as the internal control over financial reporting officer ("ICFR Officer") of LG International Corp. ("the Company"), assessed the status of the design and operations of the Company's internal control over financial reporting ("ICFR") for the year ended December 31, 2011.

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

Based on the assessment of the operations of the ICFR, the Company's ICFR has been effectively designed and has operated as of December 31, 2011, in all material respects, in accordance with the ICFR standard.

January 26, 2012

Sung Huh
Internal Control over Financial Reporting Officer

Young-Bong Ha Chief Executive Officer