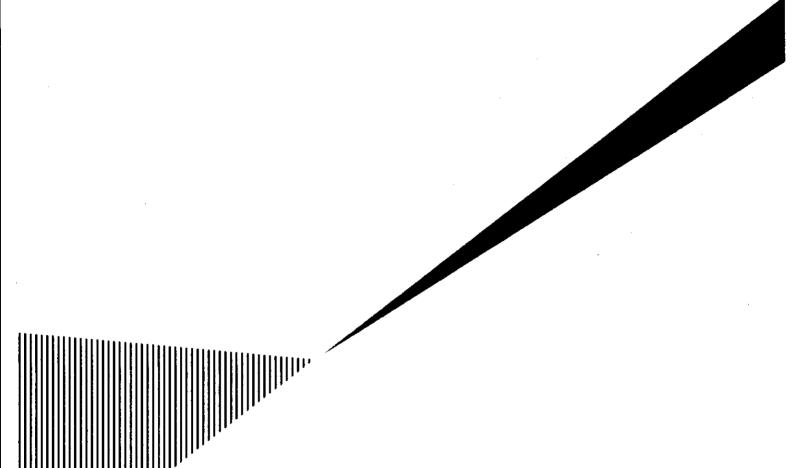
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LG International Corp. and its subsidiaries
Consolidated financial statements

Years ended December 31, 2011 with independent auditors' report

**II ERNST & YOUNG** 

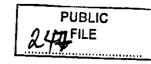


## LG International Corp. and its subsidiaries December 31, 2011

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#### 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 consolidated financial statements of LG International Corp. ("the Company") and its subsidiaries (the "Group") which comprise the consolidated statement of financial position as at December 31, 2011, and the consolidated statements of comprehensive income, of income, of changes in equity and of 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 April 28, 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 31. 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.

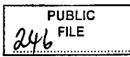
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of LG International Corp. as of December 31, 2011, and the results of its financial performance and its cash flows for the year ended December 31, 2011 in accordance with Korea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

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.

Ernst 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. and its subsidiaries
Consolidated statements of financial position
as at December 31, 2011 and 2010 and January 1, 2010.

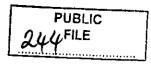
(Korean won in millions)	Notes	0	ecember 31, 2011	_	December 31, 2010		January 1, 2010
Assets							
Current assets							
Cash and cash equivalents	4,5,28,29	₩	390,666	₩	199,932	₩	180,605
Short-term financial assets	4,28		155,103		19,216		590
Trade receivables	4,12,24,28,29		1,654,113		1,515,683		1,535,886
Other accounts receivable	4,6,12,29		92,056		76,993		103,494
Accrued Income	12,29		21,310		22,105		19,202
Advance payments			82,817 8,453		98,939 13,092		82,016 17,444
Prepaid expenses Derivative financial assets	4,6,29		17,703		8,170		8,960
Other current assets	4,0,25		34,488		23,025		4,825
Inventories	7		657,115		824,831		435,000
Total current assets	,		3,113,824	_	2,801,986		2,388,022
on-current assets							
Investments assets	4,8,24,28,29		456,317		215,637		233,854
Investment in associates	8		645,969		771,833		535,365
Property, plant, and equipment	9		118,281		106,869		70,027
Investment properties	9		38,918		16,090		16,160
Intangible assets	10		506,299		344,980		320,439
	11		38,881		20,676		020,400
Biological assets	23						44 750
Deferred tax assets			6,727		5,069		11,258
Other non-current assets  Total non-current assets	4,5		15,792 1,827,184	_	22,363 1,503,517	_	28,079 1,215,182
otel essets			4,941,008	111		₩	3,603,204
		₩	4,541,000	₩	4,305,503	**	3,003,20
labilities and equity							
current liabilities	4 40 00 00		200 044		005 000		005 700
Short-term borrowings	4,13,28,29	₩	823,041	₩	825,932	₩	665,726
Trade payable	4,24		1,331,423		1,402,055		1,264,597
Other accounts payable	4,6		240,529 62,177		176,550		204,900 25,560
Advance received			26,762		56,523 19,284		25,560 8,642
Withholdings	23		66,865		13,764		5,002
Current tax liabilities Accrued expenses	23 4		38,086		26,960		23,810
Dividends payable	4		8		8		20,010
Current portion of bonds and long-term borrowings	4,13,28,29		198,379		130,731		195,718
Uneamed income	*, . 0, 20, 20		56		76		117
Derivative financial liabilities	4,6,29		11,014		10,146		5,534
Deposits received	4		3,298		3,834		5,037
Total current liabilities			2,801,638		2,665,863		2,404,649
ion-current liabilities							
Bonds payables	4,13,28,29		39,927		131,634		89,838
Long-term borrowings	4,13,28,29		716,400		414,799		371,089
Defined benefit liabilities	20		4,883		4,637		7,664
Deferred income tax liabilities	23		13,413		33,698		3,262
Provisions	14		3,840		17,059		271
Other non-current liabilities		_	6,028		6,345		788
Total non-current liabilities Total liabilities		_	784,491 3,586,129		608,172 3,274,035		472,712 2,877,361
			. ,				
iquity Issued capital	15		193,800		193,800		193,800
Capital surplus	15		102,125		102,125		102,125
Capital adjustments	15		(1,312)		(1,175)		(1,112
Accumulated other comprehensive income	15		147,067		74,130		82,933
Retained earnings			897,659	_	664,494		356,503
Equity attributable to owners of the parent			1,339,339	_	1,033,374		734,249
Non-controlling interests Total equity			15,540 1,354,879		(1,906) 1,031,468		(8,40 <del>8</del> 725,843
otal liabilities and equity		₩	4,941,008	₩	4,305,503	₩	3,603,204

See accompanying notes.

LG International Corp. and its subsidiaries Consolidated statements of income for the year ended December 31, 2011 and 2010

Korean won in millions, except per share amounts)					
	Notes		2011		2010
Sales	3,17,24	₩	13,986,834	₩	14,386,136
Cost of sales	19,24		(13,357,450)		(13,717,202)
Gross profit			629,384		668,934
Selling and administrative expenses	18,19,20,25		(466,856)		(430,081)
Other operating Income	21		419,827		403,115
Other operating expenses	21		(381,620)		(410,465)
Operating Income			200,735		231,503
Financial income	3,22		180,119		133,483
Financial expenses	3,22		(209,354)		(162,502)
Other non-operating income/expenses	22		200,927		211,056
income before income tax			372,427		413,540
income tax expenses	23		(110,645)		(89,316)
Profit for the year			261,782	_	324,224
Attributable to:					
Owners of the parent			247,777		319,235
Non-controlling intersts			14,005		4,989
Earnigs per share attributable to ordinary equity holders of the parent - Basic earnings per share	15	₩	6.409	₩	8.258
- Diluted earnings per share		₩	6,409	₩	8.258

See accompanying notes.



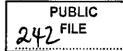
LG International Corp. and its subsidiaries Consolidated statements of comprehensice income for the year ended December 31, 2011 and 2010

(Korean won in millions, except per share amounts)			
	Notes	2011	2010
Profit for the year		261,782	324,224
Net gain (loss) on valuation of available-for-sale financial assets		45,769	(12,690)
Actuariat losses on defined benefit plans		(2,711)	(1,552)
Equity adjustments in equity method		14,510	17,981
Exchange differences on translation of foreign operations		17,714	(19,243)
Total comprehensive income for the year, net of tax		337,064	308,720
Attributable to:			
Owners of the parent		317,895	309,441
Non-controlling interests		19,169	(721)

See accompanying notes.

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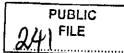
As of January 1, 2010  When for the year														
of social half	enssi	Issued capital	Capital	Capital surplus	Capital adjustment	stment	Accumulated other comprehensive income		Retained eemings	Equity a to equif of the	Equity attributable to equity holders of the parent	Non- controlling interests	ľ	Total equity
of social billion for your property of the social s		400	:	4 00					250.500	:				705.0
New Again, on the testion of estational fact and formatical assessed	Ł	3	<b>*</b>	6. 1.201	<b>*</b>	. (211,1)	W 82,933	<b>≱</b>	319,235	<b>*</b>	319,235	₩ (o,400) 4.989	≱ § 88	324,224
iver gain on valuation of available for safe in lancial assets		٠				,	(12,747)	6	•		(12,747)	_	24	(12,690)
Actuarial losses on defined benefit plans		•		•		•	•	٠,	(1,552)		(1,552)		•	T,
Equity adjustments in equity method		٠		٠		,	17,276	9	•		17,276	_	202	17,981
Exchange differences on translation of foreign operations		٠		•		٠	(12,771)	₽	•		(12,771)	(6,472)	(2)	(19, 243)
Total comprehensive income		ľ		<b>,</b>		ľ	(8,242)	  ଗ	317,683		309,441	()	(721)	308,720
Dividends		1		•		,		. ,	(7,732)		(7,732)			(7,732)
Change in consolidation scope		1		,		,			1		•	2,5	2,506	7,506
Others		•		•		(83)	(261)	1)	(1,960)		(2,584)	(2	(286)	(2,870)
As of December 31, 2010	*	193,800	*	102,125	A	(1,175)	₩ 74,130	<b>≱</b>	664,494	≱	1,033,374	M, (1,9	W (1,907)	1,031,467
As of January 1, 2011	*	193,800	*	102,125	*	(1,175)	₩ 74,130	<b>≱</b>	664,494	≱	1,033,374	¥ (1,9	₩ (706,1)	1,031,467
Profit for the year		1		•		•			247,777		247,777	14,005	8	261,782
Net gain on valuation of available-for-sale financial assets		•		•		•	45,814	4	•		45,814	_	( <del>5</del>	45,769
Actuarial losses on defined benefit plans		•		•		•			(2,711)		(2,711)		,	(2,711)
Equity adjustments in equity method		•		1		•	14,806	9	1		14,806	Ø	(236)	14,510
Exchange differences on translation of foreign operations		1		,		(107)	12,317	7	•		12,210	5,5	5,504	17,714
Total comprehensive income		•				(107)	72,937	37	245,066		317,896	19,	19,168	337,064
Dividends		1		٠					(13,531)		(13,531)		,	(13,531)
Change in consolidation scope		٠		•		٠			1		•	9,5)	(1,649)	(1,649)
Others		•		•		8			1,630		1,600	)	(72)	1,528
As of December 31, 2011	A	193,800	≱	102,125	#	(1,312)	W 147,067	. AM	897,659	*	1,339,339	W 15,540		W 1,354,879



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

(Korean		

	Notes	2011	2010
Cash flows from operating activities:			
Profit for the year	₩	-	₩ -
Non-cash adjustments to reconcile profit for the year to net cash flows	30	•	-
Working capital adjustments	30	(20,717)	(193,267)
Interest received		1 <b>7,38</b> 6	13,678
Interest paid		(44,945)	(44,667)
Dividends received		40,080	12,580
income taxes paid		(91,236)	(101,882)
Net cash flows from operating activities		(99,432)	(313,558)
Cash flows from investing activities:			
Decrease (increase) in financial assets		(100,851)	17,143
Proceeds from disposal of property, plant, and equipment		61,344	1,712
Proceeds from disposal of Investment properties		-	•
Proceeds from disposal of intangible assets		18,184	•
Proceeds from disposal of Investment in an associate and others		321,770	61,784
Proceeds from disposal of available-for-sale financial assets		317	6,688
Decrease (increase) in long-term loans receivable, net		(474)	22,360
Payment of long-term guarantee deposits, net		5,670	(440)
Proceeds from disposal of other investments assets		-	-
Additions to property, plant, and equipment		(124,340)	(16,891)
Acquiitions of intangible assets		(164,557)	(48,054)
Acqueitions of Investment in an associate and others		(183,100)	(122,271)
Acqueitions of available-for-sale financial assets		(622)	(5,265)
Acqueitions of other investments assets		3,832	
Net cash used in investing activities		(162,827)	(83,234)
Cash flows from financing activities:			
Increase (decrease) in finance liabilities		146,116	72,675
Net cash flows from other financing activities		1	•
Dividends paid to the stockholders		•	•
Net cash flows from financing activities		146,117	72,675
Net increase in cash and cash equivalents		(116,142)	(324,117)
Cash and cash equivalents at January 1		199,932	180,605
Net foreign exchange difference  Cash and cash equivalents at December 31	W	4,641 390,666	3,137 ₩ 199,932



#### 1. Organization and business

The organization and business of LG International Corp. ("LGI" or the "Company"), the parent company, and its consolidated subsidiaries, which consist of three domestic subsidiaries including Twinwine Co., Ltd. and 29 foreign subsidiaries including LG International (America) Inc., (collectively, the "Group") are described below.

#### 1.1 The parent company

LGI was incorporated on November 26, 1953 under the laws of the Republic of Korea. LGI is a member of the LG group, which consist of numerous companies under common management control.

Lucky Industry was established in November 1953 as an import and export specialty company amongst the Lucky Group and changed its name to Bando Corporation in April 1956, and to Lucky-Goldstar International Corp. and to LG International Corp. in January 1984 and March 1995, respectively.

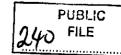
LGI is currently engaged in the import and export business, overseas resource and business development, and other business activities. LGI has 30 directly owned overseas subsidiaries, 23 liaison offices and 21 overseas branch offices as of December 31, 2011.

In January 1976, LGI listed its common shares on Korea Exchange. Also on November 12, 1976, LGI was designated as a general trading company by the Korean government.

#### 1.2 Consolidated subsidiaries

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

	Location	Ownership (%)	Reporting Date	Principal activities
LG International (America) Inc.	USA	100.00	Dec. 31	Export and import
LG International (Japan) Ltd.	Japan	100.00	Dec. 31	#
LG International (Honkong) Ltd.	Hong Kong	100.00	Dec. 31	Ħ
LG International (Singapore) Pte. Ltd.	Singapore	100.00	Dec. 31	*
LG International (Deutschland) GmbH	Germany	100.00	Dec. 31	Ħ
LG International (China) Ltd.	China	100.00	Dec. 31	,
Najing LG International VMI Co., Ltd.	China	100.00	Dec. 31	Hub
Yantai VMI Hub LG International Co., Ltd.	China	100.00	Dec. 31	#
Guangzhou Steel Flower Electric Machinary Co., Ltd.	China	100.00	Dec. 31	Steel frames
LG International (Australia) Pty. Ltd.	Australia	100.00	Dec. 31	Mining
Resource investment (Marree) Pty. Ltd.	Australia	100.00	Dec. 31	Uranium
Twinwine Co., Ltd.	Когеа	100.00	Dec. 31	Alcoholic liquors
Pixdix	Korea	100.00	Dec. 31	Optical Instruments
Geovine	Korea	100.00	Dec. 31	Alcoholic liquors
PT. Batubara Global Energy(BGE)	Indonesia	100.00	Dec. 31	Flaming coal
PT. Mega Global Energy(MGE)	Indonesia	100.00	Dec. 31	*
PT. Megaprima Persada(MPP)	indonesia	75.00	Dec. 31	*
KUMAH Steel Co., Ltd	Korea	51.00	Dec. 31	Steel frames
PT. Green Global Lestari(GGL)	Indonesia	100.00	Dec. 31	Palm oil
PT. Parna Agromas(PAM)	Indonesia	95.00	Dec. 31	-
PT. Indonesia Renewable Resources(IRR)	Indonesia	100.00	Dec. 31	industrial planting
Hebel Youneng Trading Ltd.	China	100.00	Dec. 31	Export and import
Tlanjin Steel Flower Electric Machinary Co., Ltd.	China	70.00	Dec. 31	Steel frames
De Zwarte Ponk BV	Netherlands	90.00	Dec. 31	Oil & Gas
EPC Munai LLP	Kazakhstan	90.00	Dec. 31	•
LG International Properties (Singapore) Pte. Ltd.	Singapore	70.00	Dec. 31	Real estate
Philco Resources Ltd.	Malaysia	60.00	Dec. 31	Copper mining
PT. Tutui Batubara Utama	Indonesia	75.00	Dec. 31	Flaming coal
Resource Investment (Honkong) Ltd.	Hong Kong	100.00	Dec. 31	n
LG International Investment (Canada) Ltd.	Canada	100.00	Dec. 31	rr
LG International Yakutsk Ltd.	Russia	100.00	Dec. 31	Real estate
LG (Timor Sea 06-102) Ltd.	Marshal Islands	100.00	Dec. 31	Oil & Gas
Korea Carbon International Inc.	Hong Kong	60.00	Dec. 31	Power plant
Colmineral, S.A.DE.C	Maxico	100.00	Dec. 31	Ironstone



#### 1.3 Changes in consolidation scope

The following table presents the information of subsidiaries newly included in the consolidated financial statements in 2011:

Subsidiary name	Reason for inclusion
De Zwarte Ponk BV	Acquired in 2011
Yantai VMI Hub LG International Co., Ltd.	•
Guangzhou Steel Flower Electric Machinary Co.,	•
Colmineral, S.A.DE.C	•
Korea Commercial Vehicle Co., Ltd.	Disposed in 2011

The summary of the consolidated subsidiaries' financial position as of December 31, 2011, and the results of their financial performance for the year then ended are as follows (Korean won in millions):

	Assets	Liabilities	Revenue	Profit for the year
LG International (America) inc.	112,381	73,457	526,105	2,425
LG International (Japan) Ltd.	458,855	428,527	2,937,533	8,873
LG International (Honkong) Ltd.	552,287	534,579	2,711,542	5,906
LG International (Singapore) Pte. Ltd.	384,309	357,191	1,679,758	4,897
LG International (Deutschland) GmbH	35,619	25,887	582,179	4,920
LG International (China) Ltd.	46,718	38,131	77,532	(2,662)
Najing LG International VMI Co., Ltd.	1,285	30	2,905	257
Yantai VMI Hub LG International Co., Ltd.	1,079	24	6	(117)
Guangzhou Steel Flower Electric Machinary Co., Ltd.	6,199	6	-	-
LG International (Australia) Pty. Ltd.	134,070	97,235	40,480	3,639
Resource Investment (Marree) Pty. Ltd.	1,507	14	-	(14)
Twinwine Co., Ltd.	3,475	2,560	5,846	(1,004)
Pixdix	19,039	2,356	97,605	(4,289)
Geovine	619	25	2,288	12
PT. Batubara Global Energy(BGE)	45,426	35,803	418,722	2,216
PT. Mega Global Energy(MGE)	43,586	(2,358)	136,169	23,861
PT. Megaprima Persada(MPP)	102,083	89,502	230,503	4,848
KUMAH Steel Co., Ltd	40,878	31,810	146,194	1,045
PT. Green Głobal Lestari(GGL)	22,829	12,714	-	(6,278)
PT. Parna Agromas(PAM)	60,410	17,073	3,753	(6,729)
PT. Indonesia Renewable Resources(IRR)	57,360	3,276	2,457	(7,446)
Hebei Youneng Trading Ltd.	3,309	-	-	(265)
Tianjin Steel Flower Electric Machinary Co., Ltd.	16,694	11,900	31,743	488
De Zwarte Ponk BV	121,119	121,455	-	6
EPC Munal LLP	82,568	128,392	-	(30,977)
LG International Properties (Singapore) Pte. Ltd.	37,711	73,229	-	879
Philco Resources Ltd.	137,344	71,264	-	39,301
PT. Tutui Batubara Utama	8,617	22,770	11,659	(699)
Resource Investment (Honkong) Ltd.	71,643	-	-	16,923
LG International Investment (Canada) Ltd.	6,338	-	-	(39)
LG International Yakutsk Ltd.	16,326	13,313	831	(1,134)
LG (Timor Sea 06-102) Ltd.	8,261	19,003	-	3,065
Korea Carbon International Inc.	8,784	8,248	-	(755)
Colmineral, S.A.DE.C	5			
	2,648,733	2,217,416	9,645,810	61,153

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

#### 2.1 Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for Derivative financial instruments and available-for-sale financial assets that have been measured 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 consolidated financial statements are presented in Korean won and all values are rounded to the nearest thousand except when otherwise indicated.

#### 2.1.1 Statement of compliance

The consolidated financial statements of the Group 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 Group has adopted K-IFRS in preparation for its consolidated 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 Group's opening statement of financial position was prepared as at January 1, 2010, the Group's date of transition to K-IFRS. Note 31 explains the principal adjustments made by the Group 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.

#### 2.1.3 Basis of consolldation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at December 31, 2011.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, income and expenses, unrealized gains and losses and dividends resulting from intra-group transactions are eliminated in full.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. Losses are attributed to the non-controlling interest even if that results in a deficit balance. If the Group loses control over a subsidiary, it:

- > Derecognizes the assets (including goodwill) and liabilities of the subsidiary
- > Derecognizes the carrying amount of any non-controlling interest
- > Derecognizes the cumulative translation differences, recorded in equity
- Recognizes the fair value of the consideration received
- > Recognizes the fair value of any investment retained
- Recognizes any surplus or deficit in profit or loss
- > Reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss.

#### 2.2 Summary of significant accounting policies

#### 2.2.1 Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognized in accordance with K-IFRS 1039 either in profit or loss or as change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured. until it is finally settled within equity. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of K-IFRS 1039, it is measured in accordance with the appropriate K-IFRS.

Goodwill is initially measured at cost, being the excess of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units that are expected to benefit from the business combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

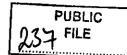
Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

#### 2.2.2 Investment in an associate

The Group's investment in its associate is accounted for using the equity method. An associate is an entity in which the Group has significant influence.

Under the equity method, the investment in the associate is carried on the statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The income statement reflects the share of the results of operations of the associate. Where there has been a change recognized directly in the equity of the associate, the Group recognizes its share of any changes and discloses this, when applicable, in the statement of changes in equity. Unrealized gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.



#### 2.2 Symmary of significant accounting policies continued

#### 2.2.2 Investment in an associate continued

The Group's share of profit of associates is shown on the face of the income statement. This is the profit attributable to equity holders of the associate and, therefore, is profit after tax and non-controlling interests in the subsidiaries of the associates.

The financial statements of the associate are prepared for the same reporting period as the parent company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognize an additional impairment loss on the Group's investment in its associates. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount in the 'share of profit of an associate' in the income statement.

Upon loss of significant influence over the associate, the Group measures and recognizes any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal is recognized in profit or loss.

#### 2.2.3 Foreign currency translation

The Group's consolidated financial statements are presented in Korean won, which is also the parent company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

#### (1) Transactions and balances

Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

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 rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

#### (2) Group companies

On consolidation the assets and liabilities of foreign operations are translated into Korean won at the rate of exchange prevailing at the reporting date and their income statement are translated at exchange rates prevailing at the date of the transactions. The exchange differences arising on the translation are recognized in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognized in the income statement.

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 are treated as assets and liabilities of the foreign operations and translated at the spot rate of exchange at the reporting date.

#### 2.2 Summary of significant accounting policies continued

### 2.2.4 Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements. 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 Group 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.

(4) Dividends

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

#### 2.2.5 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 Group 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.

#### 2.2 Summary of significant accounting policies continued

#### 2.2.5 Taxes continued

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.

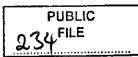
Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

#### 2.2.6 Pensions and other post employment benefits

The Group operates two defined benefit pension plans, both of which require contributions to be made to separately administered funds. The Group has also agreed to provide certain additional post employment healthcare benefits to senior employees in Korea. These benefits are unfunded. The cost of providing benefits under the defined benefit plans is determined separately for each plan using the projected unit credit method. Actuarial gains and losses for both defined benefit plans 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 Group, nor can they be paid directly to the Group. 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 Summary of significant accounting policies continued

#### 2.2.7 Financial instruments - initial recognition and subsequent measurement

#### (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 Group 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 Group commits to purchase or sell the asset.

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

#### Subsequent measurement

The subsequent measurement of financial assets 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.

The Group has not designated any financial assets upon initial recognition as at fair value through profit or loss.

The Group 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 Group 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 Group 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.

#### 2.2 Summary of significant accounting policies continued

#### 2.2.7 Financial instruments - initial recognition and subsequent measurement continued

**Held-to-maturity investments** 

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to maturity when the Group 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.

#### 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 or 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.

The Group 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 Group is unable to trade those financial assets due to inactive markets and management's intention to do so significantly changes in the foreseeable future, the Group 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 or 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.

#### Derecognition

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

- > The rights to receive cash flows from the asset have expired.
- > The Group 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 Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group 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 Group's continuing involvement in the asset. In that case, the Group 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 Group has retained. 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 Group could be required to repay.

- 2.2 Summary of significant accounting policies continued
- 2.2.7 Financial Instruments initial recognition and subsequent measurement continued

#### (2) Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group 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 group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group 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 Group 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 Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for 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. 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 Group. 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 Group assesses at each reporting date whether there is objective evidence that an investment or a group 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. 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 – 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.

#### 2.2 Summary of significant accounting policies continued

## 2.2.7 Financial instruments - initial recognition and subsequent measurement continued

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 Group 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.

The Group's financial liabilities include trade and other payables, loans and borrowings, 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 Group that are not designated as hedging instruments in hedge relationships as defined by K-IFRS 1039. Gains or losses on liabilities held for trading are recognized in the income statement. The Group has not designated any financial liabilities upon initial recognition as at fair value through profit or loss.

#### Loans and borrowings

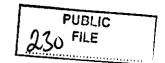
After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in the income statement when the liabilities are derecognized as well as through EIR amortization process.

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

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.



#### 2.2 Summary of significant accounting policles continued

#### 2.2.7 Financial Instruments - Initial recognition and subsequent measurement continued

#### (4) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated 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.

Unquoted equity instrument and its related derivative instrument are carried at cost.

#### 2.2.8 Derivative financial instruments and hedge accounting

#### (1) Initial recognition and subsequent measurement

The Group uses derivative financial instruments such as commodity contracts to hedge its commodity price risks. 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 Group's expected purchase 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, except for the effective portion of cash flow hedges, which is recognized in other comprehensive income.

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 Group formally designates and documents the hedge relationship to which the Group 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:

#### 2.2 Summary of significant accounting policies continued

#### 2.2.8 Derivative financial instruments and hedge accounting continued

Fair value hedges

The change in the fair value of an interest rate 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 or 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 Group 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.
- 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.

#### 2.2.9 Treasury shares

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

## 2.2.10 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 if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced in intervals, the Group 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. The present value of the expected cost for the decommissioning of the asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

## 2.2 Summary of significant accounting policies continued

#### 2.2.10 Property, plant and equipment continued

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

	Years
Buildings	8 ~ 40
Structures	8 ~ 40
Machinery	5~8
Vehicles	5 ~12
Others	5

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 or 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 income statement when the asset is derecognized.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end, and adjusted prospectively, if appropriate.

#### 2.2.11 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 Group 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.

#### 2.2.12 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.

#### 2.2.13 Investment properties

Investment properties are measured initially at cost, including transaction costs and replacement costs which satisfied asset recognition requirements when they incurred. However, costs incurred during common maintenance activities are recognized as expenses when they occurred. Subsequent to initial recognition, investment properties are stated at cost, net of accumulated depreciation and/or accumulated impairment losses.

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 Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

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## LG International Corp. and subsidiaries Notes to consolidated financial statements Years ended December 31, 2011 and 2010

#### 2.2 Summary of significant accounting policies continued

#### 2.2.14 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.

	Years	Amortization method
Goodwill	•	Test for impairment annually
Industrial proprietary rights	5~15	Straight-line method
Overseas resource development (*1)	Production period	Units of production method
Others	5	Straight-line method

(\*1) Oil and natural gas exploration and development expenditure is classified as oversea resource development. 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.

#### 2.2.15 Inventories

Inventories are valued at the lower of cost and net realizable value, with cost being determined using the specific identification method and 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.

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## LG International Corp. and subsidiaries Notes to consolidated financial statements Years ended December 31, 2011 and 2010

### 2.2 Summary of significant accounting policies continued

#### 2.2.16 Impairment of non-financial assets

The Group 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 Group 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 groups 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 Group 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 group 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.

#### 2.2.17 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.

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## LG International Corp. and subsidiaries Notes to consolidated financial statements Years ended December 31, 2011 and 2010

### 2.2 Summary of significant accounting policies continued

#### 2.2.18 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, 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.

#### 2.2.19 Blological assets

A biological assets are measured on initial recognition and at the end of each reporting period at its fair value less costs to sell. Gain or loss arising on initial recognition of a biological asset at fair value less costs to sell and from a change in fair value of a biological asset shall be included in profit or loss for the period in which it arises. Agricultural products harvested from the Company's biological assets are measured at its fair value less costs to sell at the point of harvest which becomes the cost at that date. If an active market exists for a biological asset or agricultural products in its present location and condition, the quoted price in that market is the appropriate basis for determining the fair value of that asset. If an entity has access to different active markets, the entity uses the most relevant one. If an active market doesn't exist, the most recent market price, market price of similar asset can be used to assess fair value.

## 2.3 Significant accounting judgments, estimates and assumptions

The preparation of the Group's consolidated 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 Group 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 Group. Such changes are reflected in the assumptions when they occur.

#### Impairment of non-financial assets

The Group 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.

#### **Recovery provisions**

As a environmental rehabilitation of the resource development regions, the Group has recognized recovery provisions. In determining the fair value of the provision, assumptions and estimates are made in relation to discount rates and restoration expenses. The carrying amount of the recovery provision as at December 31, 2011 was \(\forall 3.729\)million (2010: \(\forall 1.821\) million, January 1, 2010: \(\forall (-)\)million).

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## LG International Corp. and subsidiaries Notes to consolidated financial statements Years ended December 31, 2011 and 2010

#### 2.4 Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Group's financial statements are listed below.

K-IFRS 1012 Income Taxes - Recovery of Underlying Assets

The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in K-IFRS 1040 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in K-IFRS 1016 always be measured on a sale basis of the asset. The amendment becomes effective for annual periods beginning on or after January 1, 2012.

#### K-IFRS 1019 Employee Benefits (Amendment)

The KASB has issued numerous amendments to K-IFRS 1019. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The amendment becomes effective for annual periods beginning on or after January 1, 2013.

K-IFRS 1107 Financial Instruments: Disclosures - Enhanced Derecognition Disclosure Requirements

The amendment requires additional disclosures about financial assets that have been transferred but not derecognized to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognized and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in those derecognized assets. The amendment becomes effective for annual periods beginning on or after July 1, 2011.

#### K-IFRS 1113 Fair Value Measurement

K-IFRS 1113 establishes a single source of guidance under K-IFRS for all fair value measurements. K-IFRS 1103 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under K-IFRS when fair value is required or permitted. This standard becomes effective for annual periods beginning on or after January 1, 2013.

The Group does not believe adoption of the above standards will have material impact on the consolidated financial statements.

#### 3. Segment information

For management purposes, the group is organized into business units based on their products and services and has four reportable operating segments as follows (Korean won in millions):

	Principal activities
Resources/ Material	Crude oil /gas, coal/ nonferrous metal, plant, green energy and others
Industrial goods 1	Electric /electronic parts and others
Industrial goods 2	Resin/Emulsion, steel, machinery, aviation and others
Others	Import distribution (Fixdix. Wine and others)

No other operating segments have been aggregated to form the above reportable operating segments.

#### 3.1 Segment sales and operating income

		20		2010					
		Revenue		Operating income		Revenue	Oper	ating income	
Resources/ Material	₩	4,408,172	₩	189,905	₩	2,799,294	₩	172,188	
Industrial goods 1		6,857,883		70,070		9,850,836		106,968	
Industrial goods 2		5,625,726		72,525		3,951,664		68,532	
Others		149,898		(139,125)		273,699		(108,972)	
Subtotal		17,041,679		193,375		16,875,493		238,716	
Consolidation elimination		(3,054,845)		7,360		(2,489,357)		(7,213)	
Total	₩	13,986,834	₩	200,735	₩	14,386,136	₩	231,503	

## 3. Segment information continued

#### 3.2 Segment assets and liabilities

		201	011 2010						As at January 1, 2010			
		Assets		Liabilities		Assets		Liabilities		Assets		_iabilities
Resources/ Material	₩	2,289,224	₩	1,676,006	₩	1,440,472	₩	1,056,175	₩	1,075,855	₩	850,627
Industrial goods 1		1,190,793		1,121,227		1,693,685		1,475,965		1,447,637		1,263,169
Industrial goods 2		1,059,107		979,710		941,649		762,109		791,236		626,256
Others		1,722,862		657,264		1,203,524		597,960		955,447		571,783
Subtotal		6,261,986		4,434,207		5,279,330		3,892,209		4,270,175		3,311,835
Consolidation elimination		(1,320,978)		(848,078)		(973,827)		(618,174)		(666,971)		(434,474)
Total	₩	4,941,008	₩	3,586,129	₩	4,305,503	₩	3,274,035	₩	3,603,204	₩	2,877,361

### 3.3 Geographic sales

		2011	2010		
Korea	₩	6,094,194	₩ 6,427,041		
USA		570,224	800,671		
Europe		1,398,174	1,639,794		
Asia		9,901,134	8,240,734		
Others		383,491	534,164		
Consolidation elimination		(4,360,383)	(3,256,268)		
Total	₩	13,986,834	₩ 14,386,136		

#### 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 value throu profit or los		e through	fair Loans and receivables			able-for-sale ncial assets	Total	
Cash and cash equivalents	₩	-	₩	390,666	₩	-	₩	390,666
Short-term financial assets		-		155,103		-		155,103
Available-for-sale financial assets		-		-		306,953		306,953
Trade receivables		-		1,654,113		-		1,654,113
Held-to-maturity financial assets		-		60		-		60
Other accounts receivable		15,320		76,736		-		92,056
Long-term loans		-		149,304	*	-		149,304
Derivative financial assets		17,703		-		-		17,703
Other financial assets		_		37,620				37,620
	₩	33,023	₩	2,463,602	₩	306,953	₩	2,803,578

### 4.1 Financial assets by classification continued

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

	Financial ass value thr profit or	ough	_	oans and ceivables	Available financia		Total		
Cash and cash equivalents	₩		₩	199,932	₩	-	₩	199,932	
Short-term financial assets		-		19,215		-		19,215	
Available-for-sale financial assets		-		•		64,392		64,392	
Trade receivables		-		1,515,683		-		1,515,683	
Held-to-maturity financial assets		-		60		-		60	
Other accounts receivable		11,154		65,839		-		76,993	
Long-term loans		-		151,184		-		151,184	
Derivative financial assets		8,170		-		-		8,170	
Other financial assets				48,24 <u>4</u>		<u></u>		48,244	
Other menoral assets	₩	19,324	₩	2,000,157	₩	64,392	₩	2,083,873	

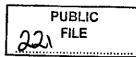
## 4.1.3 Financial assets by classification as of January 1, 2010 are as follows (Korean won in millions):

	value	il asset at fair a through fit or loss	_	oans and celvables	Available-for-sale financial assets		Total	
Cash and cash equivalents	₩	-	₩	180,605	₩	-	₩	180,605
Short-term financial assets		-		590		-		590
Available-for-sale financial assets		•		-		66,122		66,122
Trade receivables		-		1,535,886		-		1,535,886
Other accounts receivable		6,664		96,829		-		103,493
Long-term loans		-		167,732		-		167,732
Derivative financial assets		8,960		-		-		8,960
Other financial assets		_		47,352				47,352
Office (Marrow) and the	₩	15,624	₩	2,028,994	₩	66,122	₩	2,110,740

#### 4.2 Financial liabilities by classification

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

		pilities at fair value		ncial liabilities ed at amortized cost	Total		
Trade payables	₩	-	₩	1,331,423	₩	1,331,423	
Other current financial liabilities		20,269		220,259		240,528	
Borrowings		-		1,539,441		1,539,441	
Bonds payable		-		39,927		39,927	
Current portion of bonds payable and long-term borrowings		-		198,379		198,379	
Derivative financial liabilities		11,014		-		11,014	
Other financial liabilities		<u> </u>		77,957		77,957	
	₩	31,283	₩	3,407,386	₩	3,438,669	



### 4.2 Financial liabilities by classification continued

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

	at fair v	cial liabilities value through ofit or loss		ncial liabilities red at amortized cost	Total		
Trade payables	₩	-	₩	1,402,055	₩	1,402,055	
Other current financial liabilities		11,774		164,776		176,550	
Borrowings		-		1,240,731		1,240,731	
Bonds payable Current portion of bonds payable and		-		131,63 <del>4</del>		131,634	
long-term borrowings		-		130,731		130,731	
Derivative financial liabilities		10,146		-		10,146	
Other financial liabilities		<u>-</u> _		73,492		73,492	
	₩	21,920	₩	3,143,419	₩	3,165,339	

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

	at fair v	cial liabilities value through fit or loss		red at amortized cost	Total		
Trade payables	₩	-	₩ .	1,264,597	₩	1,264,597	
Other current financial liabilities		10,189		194,711		204,900	
Borrowings		-		1,036,816		1,036,816	
Bonds payable Current portion of bonds payable and		-		89,638		89,638	
long-term borrowings		-		195,718		195,718	
Derivative financial liabilities		5,534		-		5,534	
Other financial liabilities				38,554		38,554	
	₩	15,723	₩	2,820,034	₩	2,835,757	

## 4.3 Gain and losses based on financial assets and financial liabilities

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

	fair va	cial asset at liue through fit or loss	Loans and receivables		Available-for- sale financial assets			Total
Interest income	₩	-	₩	16,623	₩	-	₩	16,623
Dividends income		-		-		12,580		12,580
Gain (loss) on foreign currency transaction		-		(7,360)		-		(7,360)
Gain (loss) on foreign currency translation		-		29,132		-		29,132
Gain (loss) on settlement of derivative financial instruments Gain (loss) on valuation of derivative		89,350		-		•		89,350
financial instruments		15,049		-		-		15,049
Gain (loss) on valuation of firm commitment assets		17,649		•		-		17,649
Bad debt expenses		-		429		-		429
Bad debt expenses of the others		-		(1,062)		-		(1,062)
Loss on disposal of receivables		-		(15,509)		=		(15,509)
Gain (loss) on disposal of available-for-sale financial assets		-		-		184		184
Gain (loss) on disposal of short-term investment				-		(4)		(4)
•	₩	122,048	₩	22,253	₩	12,760	₩	157,061

## 4.3 Gain and losses based on financial assets and financial liabilities continued

	valu	liabilities at fair ie through fit or loss	me	cial liabilities asured at ortized cost	Total		
Interest expense	₩	-	₩	47,818	₩	47,818	
Gain (loss) on foreign currency transaction		•		(38,224)		(38,224)	
Gain (loss) on foreign currency translation		-		38,691		38,691	
Gain (loss) on foreign currency translation		66,180		-		66,180	
Gain (loss) on settlement of derivative financial instruments		17,932		-		17,932	
Gain (loss) on valuation of firm commitment assets		10,743		<u>-</u> _		10,743	
	₩	94,855	₩	48,285_	₩	143,140	

# 4.3.2 Gain and losses based on classification of financial instruments for the year ended December 31, 2010 is as follows (Korean won in millions):

	Financial asset at fair value through profit or loss		Loans and receivables		Available-for- sale financial assets		Total	
Interest Income	₩	-	₩	17,548	₩	-	₩	17,548
Dividend income		-		-		8,985		8,985
Gain (loss) on foreign currency transaction		-		(26,615)		-		(26,615)
Gain (loss) on foreign currency translation				(2,091)		-		(2,091)
Gain (loss) on settlement of derivative financial instruments		52,739		-		-		52,739
Gain (loss) on valuation of derivative financial instruments		11,154		-		-		11,154
Gain (loss) on valuation of firm commitment assets		8,255		-		-		8,255
Bad debt expenses		-		(8,171)		-		(8,171)
Bad debt expenses of the others		-		(1,385)		-		(1,385)
Loss on disposal of receivables		-		(19,560)		-		(19,560)
Gain (loss) on disposal of available-for-sale financial assets		-		-		1,628		1,628
Gain (loss) on disposal of short-term investment		<u>-</u>				(3)		(3)
	₩	72,148	₩	(40,274)	₩	10,610	₩	42,484

	1	ncial liabilities at through rofit or loss	me	cial liabilities asured at ortized cost	Total		
Interest expense	₩	-	₩	(38,738)	₩	(38,738)	
Gain (loss) on foreign currency transaction		-		29,130		29,130	
Gain (loss) on foreign currency translation		-		14,169		14,169	
Gain (loss) on foreign currency translation Gain (loss) on settlement of derivative financial		(52,027)		-		(52,027)	
instruments Gain (loss) on valuation of firm commitment		(11,550)		-		(11,550)	
assets		(10,146)				(10,146)	
	₩	(73,723)	₩	4,561	₩	(69,162)	

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## LG International Corp. and subsidiaries Notes to consolidated financial statements Years ended December 31, 2011 and 2010

#### 5. Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise the following at December 31 (Korean won in millions):

		2011		2010	Janu	iary 1, 2010
Cash on hand	₩	201,791	₩	31,529	₩	8,251
Cash at banks and short-term deposits		188,875		168,403		172,354
	₩	390,666	₩	199,932	₩	180,605

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

						As at
	2	2011		2010	Janua	ry 1, 2010
Restricted deposits	₩	13	₩	13	₩	18

#### 6. Derivative 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 valuation L		Loss on valuation		Gain on valuation		Loss on valuation	
Currency forwards	₩	3,124	₩	1,074	₩	1,008	₩	1,299
Commodity futures		11,925		16,858		10,146		10,252
•	₩	15,049	₩	17,932	₩	11,154	₩	11,551

#### 6.2 Currency forward

6.2.1 As at December 31, 2011 and 2010, currency forwards are as follows (Korean won in millions, other currency in thousands):

<	2	U	1	1	>

Position-Buy	Buying price	Position-Sell	Selling price	Contract exchange rate	_	ain on luation		Loss on valuation
USD	406,308	KRW	470,021	1,117.6 ~ 1,184.1	₩	3,016	₩	417
EUR	291	KRW	452	1,525.0 ~ 1,555.8		-		15
USD	69,046	AUD	69,847	0.9885 ~0.9886		-		564
KRW	2,108	AUD	1,825	1,154.7		-		12
USD	106	EUR	81	1.3013		1		-
KRW	117	EUR	77	1,520.67		2		-
KRW	630	JPY	42,697	14.583 ~ 14.935		-		7
KRW	55,780	USD	48,278	1,151.8 ~ 1,166.9		98		59
USD	230	JPY	17,845	77.49 ~ 77.74		7		<u>-</u>
					₩	3,124	₩	1,074

### 6.2 Currency forward continued

~~	O 1	ı٨	•
~ ~	LJ I		_

Val	luation	vali	uation
₩	65	₩	913
	56		308
	8		14
	24		43
	-		21
	174		-
	69		-
	612		
₩	1,008	₩	1,299
	₩	17 <b>4</b> 69 612	174 69 612

### 6.3 Commodity futures

The outstanding commodity futures as of December 31, 2011 and 2010 are as follows (Korean won in millions):

<2011	>
-------	---

	Position	Quantity (ton)	(	Contract Price		Gain on valuation		Loss on valuation
Aluminum	Buy	9,475	₩	19,708	₩	12	₩	807
	Sell	23,700		50,887		3,880		24
Copper	Buy	17,750		135,663		2,014		15,672
	Sell	14,800		53,379		3,420		62
Tin	Buy	250		4,873		20		113
	Sell	705		14,731		1,397		-
Copper concentrate	Buy	-		-				-
.,	Sell	3,275 Quantity		24,744 Contract		Gain on		181 Loss on
	Position	(oz)		Price		valuation		valuation
Silver	Buy	-		-		•		-
	Sell	65,000		2,151		385		-
Gold	Buy	-		-		-		-
	Sell	4,000		6,968		797		
			₩	313,104	₩	11,925	₩	16,859
<2010>	Position	Quantity (ton)		Contract Price		Gain on valuation		Loss on valuation
Aluminum	Buy	37,200	₩	86,289	₩	559	₩	5,676
	Sell	2,950		6,987		-		232
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	•		-		-		-
	Sell	2,150		18,821				1,996

10,252

10,146

188,535

#### 7. Inventories

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

_	7	ብ	4	4	
⋖	,	11	-	- 1	~

	Acqu	isition cost	<u>Valuatio</u>	on allowance		Book value
Commodities	₩	566,353	₩	(1,577)	₩	564,776
Finished goods		21,499		(120)		21,379
Raw materials		14,474		(452)		14,022
Stored goods		362		•		362
Materials in-transit		56,576				56,57 <u>6</u>
	₩	659,264	₩	(2,149)	₩	657,115

#### <2010>

	Acqu	Isition cost	<u>Valuati</u>	on allowance	B	ook value
Commodities	₩	729,205	₩	(2,659)	₩	726,546
Finished goods		7,019		(89)		6,930
Raw materials		15,186		(1,104)		14,082
Stored goods		500		-		500
Materials in-transit		76,773				76,773
	₩	828,683	₩	(3,852)	₩	824,831
					_	

< As at January 1, 2010>

,		Acquisition cost		Valuation allowance		Book value
Commodities	₩	369,058	₩	(1,492)	₩	367,566
Finished goods		440				440
Raw materials		761		-		761
Work in progress		1,003		•		1,003
Stored goods		236		-		236
Materials in-transit		64,994				64,994
	₩	438,492	₩	(1,492)	₩	435,000

## 8. Investment assets and investment in associates

#### 8.1 Investment assets

		2011		2010	Janu	As at ary 1, 2010
Available-for-sale financial assets	₩	306,953	₩	64,393	₩	66,122
Held-to-maturity financial assets		60		60		
Long-term loans		149,30 <u>4</u>		151,184		167,732
	₩	456,317	₩	215,637	₩	233,854

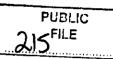
#### 8.1 Investment assets continued

#### 8.1.1 Available-for-sale financial assets

The details of changes in carrying amount of available-for sale financial assets for the years ended December 31, 2011 and 2010, as well as at January 1, 2010 are as follows (Korean won in millions):

<	20	11	1	>

<2011>			A .4.414				
	Ownership (%)	Jan. 1, 2011	Addition and disposals	Valuation (*1)	Transfer	Others	Dec. 31. 2011 <sup>(*1)</sup>
GS retail	11.97	₩ -	. ₩ -	₩ 33,647	₩179,755	₩ -	₩ 213,402
LG Fashion Corp.	0.24	2,187	-	631	-	· -	2,818
LG Uplus Corp.	0.04	1,422	•	46	-	-	1,468
KORAS	5.60	45,519	-	27,488	-	-	73,007
Shinil Todimax International Vietnam Korea	19.00	279	-	-	-	-	279
Exchange Ltd. LS VINA Industrial	. 10.00	322	•	-	-	*	322
System LG VINA Chemical	10.00	223	-	-	-	-	223
Joint Venture KC KAZAKH	10.00	299	-	-	-	-	299
BV(Zhambyl) LG Int'l (Saudi) LLC	10.00	66	•	-	-	•	66
(2)	90.00	118	-	-	-	-	118
Ventilation System (*2) Mongolia Resources Investment	25.01	101	-	-	-	-	101
Ltd.(Adamas) (*2)	100.00	1,296	-	-	-	-	1,296
Minera Corocbre SA	11.10	1,084	201	-	-	-	1,285
Zion Middelen BV (*2) Overseas Resources	100.00	32	-	-	-	-	. 32
Development Fund Heungkuk Investment	7.14	85	-	-	(85)	-	-
Fund	33.33	270	-	-	(270)	-	-
Aromatics Oman LLC	1.00	4,779	-	-	-	-	4,779
Hyundai Hysco	10.00	946	-	-	-	•	946
Sarobal Investments EIC Properties Pte.	10.00	74	-	-	-	1	75
Ltd.	15.50	3,842	-	-	-	930	4,772
Cauldron Energy Ltd.	12.50	1,158	-	-	-	333	1,491
Posco C&C	15.50	291		(117)			174
		₩64,393	₩ 201	₩ 61,695	₩179,400	₩ 1,264	₩ 306,953



#### 8.1 Investment assets continued

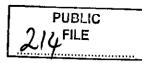
#### 8.1.1 Available-for-sale financial assets continued

<2010>

	Ownership (%)	Jan. 1, 2010	Addition and disposals	Valuation	Transfer	Others	Dec. 31. 2010 <sup>(*1)</sup>
LG Fashion Corp.	0.24	₩ 2,201	₩ -	₩ (14)	₩ -	₩ -	₩ 2,187
LG Uplus Corp.	0.11	1,643	-	(221)	-	-	1,422
KORAS Shinil Todimax	5.60	50,112	-	(4,593)	-	-	45,519
International Vietnam Korea	19.00	279	-		-	-	279
Exchange Ltd. LS VINA Industrial	10.00	322	-	-	-	-	322
System LG VINA Chemical	10.00	223	-	-	•	-	223
Joint Venture SK Eurochem	10.00	299	•	-	-	-	299
Sp.zo.o. KC KAZAKH	10.00	4,348	(4,348)	-	-	-	-
BV(Zhambyl) LG Int'l (Saudi) LLC	10.00	66	-	-	-	-	66
Ko-Uz Gas Chemical	90.00	118	-	-	•	-	118
Investment Ltd.	10.00	634	-	-	(634)	-	-
Ventilation System Mongolia Resources Investment	25.01	97	4	-	-	-	101
Ltd.(Adamas) (*2)	100.00	1,262	34	-	-	-	1,296
Minera Corocbre SA	11.10	444	640	-	-	-	1,084
Zion Middelen BV <sup>(*2)</sup> PT. Golden Hyundai	100.00	32		-	-	-	32
Machinery(GHM) Korea Carbon	48.60	359	(359)	-	-	-	-
International Inc. Overseas Resources	70.00	-	839	-	(839)	-	•
Development Fund Heungkuk Investment	22.39	-	85	-	-	-	85
Fund	33.33	•	270	-	-	-	270
Daewoo Logistics	0.06	-	151	-	(151)	-	-
Aromatics Oman LLC	1.00	-	-	(92)	4,871	-	4,779
Hyundai Hysco	10.00	946	•		-	-	946
Sarobal Investments	10.00	76	•	•	-	(2)	74
GFTZ(GZ) EIC Properties Pte.	100.00	234	(234)	-	-	-	-
Ltd.	15.50	2,427	-	1,519	-	(104)	3,842
Cauldron Energy Ltd.	12.50	-	1,158	•	-	-	1,158
Posco C&C	15.50				-	291	291_
		₩66,122	₩ (1,760)	₩ (3,401)	₩ 3,247	₩ 185	₩ 64,393

<sup>(\*1)</sup> 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.

<sup>(\*2)</sup> These companies are excluded from consolidation entity, as they are under liquidation process and amounts of assets and liabilities are insignificant.



#### 8.2 Investment in associates

## 8.2.1 Ownership interests in associates and others

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

						As at January 1,
		20	11		2010	2010
	Ownership (%)	Acquisition cost	Net asset value (*1)	Bookvalue	Book value	Bookvalue
Overseas Resources Development Fund (*2.3)	7.14	₩ 231	₩ 192	₩ 288	₩ -	₩ -
Heungkuk Investment Fund (*2) Tianjin Steel Flower Electric Machinary Co., Ltd.	33.33	613 -	5 <b>44</b> -	544 -	•	1,137
GS Retail Co., Ltd (*4)	-	•	-	-	390,610	209,567
LG Holdings(LG Building) (*2) GS HP Sunflower Village Int'l Corp. (*1)	25.00	57,104	56,973	56,973	49,970	47,811
	30.00	2,911	2,024	2,024	2,057	1,845
Oman Polypropylene LLC	-	-	=	-	-	2,280
Erel Ltd.(Sakha-Korean JV) <sup>(*2)</sup> Tianjin LG Dagu Chem Co., Ltd.	35.20	1,395	-	-	49	2,875
Tianjin LG Bohai Chem Co., Ltd.	10.00	2,327	9,203	9,204	8,927	9,119
	10.00	9,883	23,511	23,370	16,903	15,569
Aromatics Oman LLC	· -	-	-	-	-	46,106
Kernhem BV(ADA Oil LLP) (*2)	30.00	2,006	(171)	6,443	245	4,706
ADA Oil LLP (*2.3) POS-IPPC(Posco India Coil	12.50	22,011	2,988	20,590	17,183	21,047
Center) (1)	35.00	9,184	8,133	7,929	16,163	12,735
POS-PWPC(Posco Poland Coil Center) (23)	40.00	5,244	5,054	5,115	5,7 <del>9</del> 8	4,389
United Copper & Moly LLC (12)	50.00	39,425	40,298	40,309	20,725	-
Sal de Vida Korea Corp. (*2)	33.33	6,000	5,978	5,975	3,000	-
Galaz & Company LLP (*1)	40.00	17,806	(5,050)	16,606	17,806	-
Geopark Chile SA (*2)	20.00	178,742	48,596	181,073	-	·-
Thai Dongbu Steel Co., Ltd. (*2)	20.00		-	2,505	-	-
Shaanxi BBM Blomass Power Generation Co., Ltd. <sup>(*2)</sup>	30.00	8,255	8,359	8,359	8,255	•
KM Resources Ltd.(Rapu-Rapu)	70.00	40,493	100,694	101,582	59,257	40,275
KOTA Wisata(Chibubur Project)	25.00	91,982	98,683	37,797	32,495	52,298
Mongolia Boyuan Coal(Wantugou) <sup>(*2)</sup>	30.00	54,801	40,744	72,159	68,781	57,712
Comox JV(Canada Raven) (*2)	20.00	6,355	39,576	6,305	6,355	5,895
PT. Metra Duta Lestari(MDL) (*2)	40.00	52,523	40,819	40,819	47,254	-
. ,		₩ 609,291	₩ 527,148	₩645,969	₩771,833	₩ 535,366

<sup>(\*1)</sup> Net asset values of non-marketable equity securities are computed based on the most recent available audited financial statements.

<sup>(\*2)</sup> Net assets values of non-marketable equity securities are computed based on the most recent available financial statements which have not been audited or reviewed.

<sup>(\*3)</sup> Although, ownership is below 20%, the Group is the considered to have significant influence because it designates executive management who participates in management of the investees.

- 8.2 Investment in associates continued
- 8.2.1 Ownership interests in associates and others continued
- (\*4) The Group classified GS Retail as available-for-sale financial assets because its ownership was less than 20% through disposing some of its interests.
- (\*5) The Group has more than 70% ownership interests in this investee, but it was classified as investment in associates as the Group does not control this investee.
- 8.2.2 The summary of associate's financial position as of December 31, 2011, and the results of their financial performance for the year ended December 31, 2011 are as follows (Korean won in millions):

<2011>

	Total assets	Total liabilities	Revenues	Net income		
Overseas Resources Development Fund	₩ 3,679	₩ . 226	₩ 25	₩ (850)		
Heungkuk Investment Fund	1,634	1	1	-		
LG Holdings(LG Building[Beijing])	233,920	7	-	11		
GS HP Sunflower Village Int'l Corp.	9,537	2,791	5,107	1,683		
Erel Ltd.(Sakha-Korean JV)	492	699	283	(261)		
Tianjin LG Dagu Chem Co., Ltd.	211,132	119,098	484,730	(1,937)		
Tianjin LG Bohai Chem Co., Ltd.	407,343	173,645	517,019	55,980		
Kernhem B.V.(ADA Oil LLP)	135,402	135,973	2,416	118		
ADA OII LLP	110,317	86,416	42,739	9,639		
POS-IPPC(Posco Mumbai Coil Center)	168,309	145,655	211,431	(16,627)		
POS-PWPC(Posco Poland Coil Center)	62,709	49,981	72,853	(1,483)		
United Copper & Moly LLC	202,868	122,250	-	(220)		
Sal de Vida Korea Corp.	17,926	-	•	(74)		
Galaz & Company LLP	34,310	46,822	-	(2,695)		
Geopark Chile S.A.	542,956	299,978	102,658	27,416		
Thai Dongbu Steel Co., Ltd.	454,837	-	-	-		
Shaanxi BBM Blomass Power	-	•	•	-		
Generation Co., Ltd.	13,931	•	-	-		
KM Resources(Rapu-Rapu)	200,250	56,401	•	54,963		
KOTA Wisata(Chibubur Project)	185,547	34,359	30,601	10,910		
Mongolia Boyuan Coal(Wantugou)	383,957	143,426	165,799	58,487		
Comox JV(Canada Raven)	31,525	-	-	-		
PT. Metra Duta Lestari(MDL)	161,570	64,425	5,186	(16,467)		
	₩ 3,574,151	₩ 1,482,153	₩ 1,640,848	₩ 178,593		

# 8.2 Investment in associates continued

8.2.3 The details of changes in carrying amount of investment in associates for the years ended December 31, 2011 and 2010 are as follows (Korean won in millions):

<2011>

<2011>							
	Jan. 1, 2011	Equity in eamings (losses) of investee	Equity adjustments in equity method	Addition, disposals and transfer	Dividends	Others	Dec. 31. 
Overseas Resources Development Fund Heungkuk	₩ -	₩ (69)	₩ -	₩ 357	₩ -	₩ -	₩ 288
Investment Fund	-	(270)	-	814	-	-	544
GS Retail Co., Ltd. LG Holdings(LG	390,610	31,562	(841)	(409,022)	(12,309)	-	
Building)	49,970	4,554	2,449	-	-	-	56,973
GS HP Sunflower Village Int'l Corp. Erel Ltd.(Sakha-	2,057	498	(181)	-	(350)	-	2,024
Korean JV) Tianjin LG Dagu	49	(49)		•	-	-	-
Chem Co., Ltd.	8,927	(227)	503	-	-	-	9,203
Tianjin LG Bohai Chem Co., Ltd. Kernhem BV(ADA	16,903	5,609	1,292	-	(434)	-	23,370
Oil LLP)	245	311	5,887	-	· -	-	6,443
ADA Oil LLP POS-IPPC(Posco	17,183	171	3,236	•	-	-	20,590
India Coll Center) POS-PWPC(Posco	16,163	(6,504)	(1,730)	-	-	-	7,929
Poland Coil Center) United Copper &	5,798	(21)	(662)	-	-	-	5,115
Moly LLC(Rosemont) Sal de Vida Korea	20,725	(134)	1,018	18,700	•	-	40,309
Corp. Galaz & Company	3,000	(25)	•	3,000	-	-	5,975
LLP(NW Konys)	17,806	(1,159)	(41)		-	•	16,606
Geopark Chile SA Thai Dongbu Steel	-	(565)	2,896	178,742	-	-	181,073
Co., Ltd. De Zwarte Ponk	-	-	-	2,505	-	-	2,505
BV(EPC Munai LLC) Shaanxi BBM	-	353	(556)	-	-	203	-
Biomass Power Generation Co., Ltd. KM Resources	8,255	-	-	-	-	104	8,359
Ltd.(Rapu-Rapu) KOTA	59,257	39,603	-	-	•	2,722	101,582
Wisata(Chibubur Project) Mongolia Boyuan	32,495	2,714	689	*		1,900	37,798
Coal(Wantugou) Comox JV(Canada	68,781	16,923	3,380		(14,048)	(2,877)	72,159
Raven) PT. Metra Duta	6,355	-	-	<b>-</b>	-	(50)	6,305
Lestari(MDL)	47,254	(6,587)				152	40,819
	₩771,833	₩86,688	₩ 17,339	₩(204,904)	₩(27,141)	₩2,154	₩ 645,969

# 8.2 Investment in associates continued

<2010>

<2010>	Jan. 1, 2010	Equity in earnings (losses) of investee	Equity adjustments in equity method	Addition, disposal and transfer	<u>Dividends</u>	Others	Dec. 31. 2010
GS Retail Co., Ltd.	₩209,567	₩188,145	₩776	₩-	₩ (7,878)	₩-	₩390,610
LG Holdings(LG Building)	47,811	1,948	211	-	-	-	49,970
GS HP Sunflower Village Int'l Corp. Oman Polypropylene	1,845	433	(149)	-	(73)	•	2,056
LLC	2,280	(2,280)	-	-	•	•	•
Erel Ltd.(Sakha- Korean JV) Tlanjin LG Dagu	2,875	(2,831)	5	-	•	-	49
Chem Co., Ltd. Tianjin LG Bohal	9,119	906	15	-	(1,113)	-	8,927
Chem Co., Ltd. Aromatics Oman	15,569	1,770	118	•	(554)	-	16,903
LLC Kernhern BV(ADA	46,106	-	2,608	(48,714)	-	-	-
Oll LLP)	4,706	(4,449)	(12)	•	-	-	245
ADA Oil LLP POS-IPPC(Posco	21,047	(3,776)	(88)	-	-	-	17,183
India Coll Center) POS-PWPC(Posco	12,735	3,569	(141)		-	-	16,163
Poland Coil Čenter) United Copper &	4,389	199	(257)	1,467	•	<del>-</del>	5,798
Moly LLC(Rosemont) Sal de Vida Korea	-	-	-	20,725	-	-	20,725
Corp.	-	-	-	3,000	-	-	3,000
Galaz & Company LLP(NW Konys) Shaanxi BBM	•	٠,	-	17,806	-	-	17,806
Biomass Power Generation Co., Ltd. KM Resources	-	-	-	8,255	-	-	8,255
Ltd.(Rapu-Rapu) KOTA	40,275	13,766	-	-	-	(1,642)	59,257
Wisata(Chibubur Project)	52,298	1,842	2,349	-	-	(23,994)	32,495
Mongolia Boyuan Coal(Wantugou) Comox JV(Canada	57,712	10,834	1,751	-	-	(1,515)	68,782
Raven) PT. Metra Duta	5,895	-	-	460	*	-	6,355
Lestari(MDL)  De Zwarte Ponk	-	(5,264)	-	52,523	-	(5)	47,254
BV(EPC Munai LLC)	-	(58)	86	•	-	-	-
Fosco BV(Egizkara) Tianjin Steel Flower Electric Machinary	-	(756)	199	*	-	-	-
Co., Ltd.	1,137	31	(16)			(1,152)	
	₩535,366	₩204,029	₩ 7,455	₩ 55,522	₩ (9,618)	₩(27,156)	₩771,833

# 9. Property, plant and equipment / investment property

# 9.1 Property, plant and equipment

# 9.1.1 As at December 31, property, plant and equipment consist of the following (Korean won in millions):

<2011>	Ac	equisition cost		ccumulated epreciation	Accumulated impairment			Book value		
Land	₩	15,759	₩	•	₩	-	₩	15,759		
Buildings		37,069		(10,182)		-		26,887		
Structures		18,267		(2,278)		-		15,989		
Machinery and equipment		21,721		(9,389)		-		12,332		
Vehicles		15,547		(3,799)		•		11,748		
Others		25,021		(13,475)		(268)		11,278		
Construction in-progress		24,287		_				24,287		
	₩	157,671	₩	(39,123)	₩	(268)	₩	118,280		

<2010>	Ac	quisition cost		ccumulated epreciation		Accumulated impairment	Book value		
Land	₩	21,082	₩	. <del>.</del>	₩	-	₩	21,082	
Buildings		30,747		(9,134)		-		21,613	
Structures		21,376		(3,485)		-		17,891	
Machinery and equipment		21,522		(7,536)		-		13,986	
Vehicles		7,572		(2,932)		-		4,640	
Others		23,133		(14,798)		(121)		8,214	
Construction in-progress		19,443		-				19,443	
	₩	144,875	₩	(37,885)	₩	(121)	₩	106,869	

< As at January 1, 2010>	Ac	quisition cost		Accumulated depreciation	Accumulated impairment	<u></u>	Book value
Land	₩	14,728	₩	•	₩	- ₩	14,728
Buildings		24,894		(7,770)		-	17,124
Structures		10,564		(953)		-	9,611
Machinery and equipment		6,014		(2,798)		-	3,216
Vehicles		4,871		(1,948)		-	2,923
Others		19,692		(11,609)		-	8,083
Construction in-progress		14,343				<u> </u>	14,343
	₩	95,106	₩	(25,078)	₩	- ₩	70,028

### 9.1 Property, plant and equipment continued

9.1.2 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):

<2011>

2011		Jan. 1	Additions		Transfers		Disposals		Depreciation		Others			Dec. 31
Land	₩	21,082	₩	12	₩	722	₩	(6,434)	₩	-	₩	377	₩	15,759
Buildings		21,613		5,889		22,465		(22,587)		(928)		435		26,887
Structures		17,891		10,361		-		(10,706)		(1,685)		127		15,988
Machinery		13,986		2,595		•		(2,512)		(2,735)		998		12,332
Vehicles		4,640		2,741		5,848		(169)		(1,007)		(305)		11,748
Other		8,214		23,074		-		(17,849)		(2,715)		555		11,279
Construction in-progress		19,443		52,255		(48,061)						650		24,287
,	₩	106,869	₩	96,927	₩	(19,026)	₩	(60,257)	₩	(9,070)	₩	2,837	₩	118,280

- (\*1) Construction in-progress are transferred to investment property amounting to ₩19,026 million.
- (\*2) Property, plant and equipment are transferred to investment property amounting to \(\forall 10,999\) million.
- (\*3) Refer to effects from changes in consolidation scope and exchange rate fluctuations.

<2010>

<2010>	Jan. 1 Additio		ditions _	Transfers (*1) Disposais			Dep	reciation		Others (*2)	Dec. 31			
Land	₩	14,728	₩	138	₩	(1,845)	₩	-	₩	-	₩	8,061	₩	21,082
Buildings		17,124		247		-		-		(1,069)		5,311		21,613
Structures		9,611		363		8,875		(1,321)		(77)		440		17,891
Machinery		3,216		664		-		(184)		(1,354)		11,644		13,986
Vehicles		2,923		240		-		(169)		(556)		2,202		4,640
Other Construction in-		8,083		1,521		-		(38)		(2,530)		1,178		8,214
progress		14,343		13,718		(11,326)		-				2,708		19,443
	₩	70,028	₩	16,891	₩	(4,296)	₩	(1,712)	₩	(5,586)	₩	31,544	₩	108,869

- (\*1) Construction in-progress are transferred to intangible assets amounting to \(\psi\_4,296\) million.
- (\*2) Refer to effects from changes in consolidation scope and exchange rate fluctuations.

### 9.2 Investment properties

# 9.2.1 As at December 31, investment properties consist of the following (Korean won in millions):

<2011>		Acquisition cost		Accumulated depreciation		Book value
Land	₩	5,627	₩	-	₩	5,627
Buildings		40,489		(7,198)		33,291
	₩	46,116	₩	(7,198)	₩	38,918
<2010>		Acquisition cost		Accumulated depreciation		Book value
Land	₩	6,348	₩		₩	6,348
Buildings		17,398		(7,656)		9,742
	₩	23,746	₩	(7,656)	₩	16,090
< As at January 1, 2010>		Acquisition cost		Accumulated depreciation		Book value
Land	₩	6,348	₩	-	₩	6,348
Buildings		17,037		(7,225)		9,812
	₩	23,385	₩	(7,225)	₩	16,160

9.2.2 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):

		2011		2010
Jan. 1	₩	16,090	₩	16,160
Transfer		23,286		361
Depreciation		(458)		(431)
Dec. 31	₩	38,918	₩	16,090

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 by using various methods including average method of assessment value and cost method. As a result, the fair value of the land and buildings are W79,400 million and W59,900 million respectively. Included in such fair values are those utilized by the Group.

### 10. Intangible assets

10.1. As at December 31, intangible assets consist of the following (Korean won in millions):

		2011		2010	As at January 1, 2010		
Goodwill	₩	20,959	₩	21,464	₩	9,406	
Industrial proprietary rights		30		44		53	
License		24,148		23,281		22,870	
Overseas resource development		436,508		257,993		232,688	
Others		24,654		<b>4</b> 2,1 <u>98</u>		55,4 <u>23</u>	
	₩	506,299	₩	344,980	₩	320,440	

10.2 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>

		Jan. 1	A	dditions	Tn	ansfers	D	sposals	Am	ortization	0	thers <sup>(*1)</sup>		Dec. 31
Goodwill	₩	21,464	₩	-	₩	-	₩	(680)	₩	(26)	₩	201	₩	20,959
Industrial proprietary rights		44		~		-		(2)		(12)		-		30
License		23,281		1,719		-		-		(245)		(607)		24,148
Overseas resource development		257,993		153,994		3,836		•		(53,073)		73,758		436,508
Others		42,198		8,844				(17,502)		(8,515)		(371)		24,654
	₩	344,980	₩	164,557	₩	3,836	₩	(18,184)	₩	(61,871)	₩	72,981	₩	506,299

(\*1) Includes the effects from changes in consolidation scope and fluctuation in exchange rates.

#### <2010>

		Jan. 1	Add	ditions		ransfers	Disp	osals	Am	ortization	<u> </u>	thers <sup>(*1)</sup>		Dec. 31
Goodwill industrial proprietary	₩	9,406	₩	-	₩	11,407	₩	-	₩	(17)	₩	668	₩	21,464
rights		53		4		-		-		(14)		1		44
License Overseas resource		22,870		2,790		(2,134)		-		(245)		-		23,281
development		232,688		20,800		38,924		-		(34,504)		85		257,993
Others		55,423		1,328		(47,225)		151		(2,877)		35,398		42,198
	₩	320,440	₩	24,922	₩	972	₩	151	₩	(37,657)	₩	36,152	₩	344,980

(\*1) Includes the effects from changes in consolidation scope and fluctuation in exchange rates.

### 11. Biological asset

11.1. As at December 31, biological asset consist of the following (Korean won in millions):

	2011		2010		As at January	1, 2010
Book value	₩	38,881	₩	20,677	₩	-
Fair value (*1)		38,881		20,677		-

(\*1) The Group performs evaluation of fair value of the biological assets each year.

### 12. Trade and other receivables

12.1 As at December 31, trade and other receivables consist of the following (Korean won in millions):

<2011>				Allo	wance for doubtful		
			Amount		accounts		Book value
Current	Trade receivables	₩	1,757,531	₩	(103,418)	₩	1,654,113
Current	Other account receivables		115,449		(23,392)		92,057
	Accrued income		28,596		(7,286)		21,310
•	Advance payments		85,359		(2,542)		82,817
	Short-term loans		37,019		(127)		36,892
	Short-term deposits		<u>516</u>				51 <u>6</u>
Subtotal			2,024,470		(136,765)		1,887,705
Non-current	Long-term loan s		171,971		(22,667)		149,304
	Bank deposits		167		-		167
	Long-term deposits		15,520		•		15,520
Subtotal	-		187,658		(22,667)		164,99 <u>1</u>
Total		₩	2,212,128	₩	(159,432)	₩	2,052,696
<2010>				Allo	wance for doubtful		Book value
			Amount	₩	accounts	₩	1,515,683
Current	Trade receivables	₩	1,622,524	₩	(106,841)	44.	
	Other account receivables		100,325		(23,332)		76,993 22,105
	Accrued income		29,148		(7,043)		98.939
	Advance payments		101,452		(2,513)		2,012
	Short-term loans		2,012		-		3.775
	Short-term deposits		3,775		(139,729)		1,719,507
Subtotal			1,859,236		(27,235)		151,184
Non-current	Long-term loans		178,419 325		(21,200)		325
	Bank deposits		18,395		_		18.395
0.14.4.1	Long-term deposits		197,139		(27,235)		169,904
Subtotal		₩	2.056.375	₩	(166,964)	₩	1,889,411
Total		**	2,050,375	<u> </u>	(100,304)	44	1,000,411
< As at Janua	ary 1, 2010>		Amount	Alle	owance for doubtful accounts		Book value
Current	Trade receivables	₩	1,636,551	₩	(100,665)	₩	1,535,886
Odiron	Other account receivables		135,917		(32,423)		103,494
	Accrued income		23,778		(4,576)		19,202
	Advance payments		83,143		(1,127)		82,016
	Short-term loan receivables		249		-		249
	Short-term deposits		70		(138,791)		70 1,740,917
Subtotal Non-current	Long-term loans		1879,708 180,065		(12,333)		167,732
.10., 03,1011	Bank deposits		42		-		42
	Long-term deposits		23,892		_		23,892
Subtotal	•	-	203,999		(12,333)		191,666
Total		₩	2,083,707	₩	(151,124)	₩	1,932,583

### 12.2 Allowance for doubtful accounts

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

		2010		2011				
	Trade accounts receivables Others			Others	Trade accounts receivables			thers
Jan. 1	₩	106,841	₩	60,123	₩	100,665	₩	50,459
Bad debt expense		205		1,062		8,255		1,385
Reversal of allowance for doubtful accounts		(634)		-		-		(84)
Others		(2,994)		(5,171)		(2,079)		8,363

		2010		2011		
		accounts elvables	Others	Trade accounts receivables	Others	
Dec. 31	₩	103,418 ¥	¥ 56,014	₩ 106,841	₩ 60,123	
12.3 As at December 31, the ageing analysis of	of trade rece	ivables is as	follows (Ke	orean won in millio	ons):	

Past due but not impaired

				•			
	Less than 3		1 to 6 months	6 to 12 months	> 12 months		Total
2011	₩	1,438,671	166,696	60,575	91,589	₩	1,757,531
2010	₩	1,237,933	214,753	74,852	94,986	₩	1,622,524
As at January 1, 2010	₩	1,321,689	156,625	18,885	139,352	₩	1,636,551

### 13. Borrowings

# 13.1 As at December 31, bonds issued consist of the following (Korean won in millions):

	Annual interest rate (%) as of Dec 31, 2011		2011		2010	As a	t January 1, 2010
Non-guaranteed debentures Less current portion	5.27 ~ 6.10	₩	129,861 (89,934)	₩	131,634 -	₩	129,632 (39,994)
		₩	39,927	₩	131,634	₩	89,638

# 13.2 As at December 31, short-term borrowings consist of the following (Korean won in millions):

	Financial Institution	Annual interest rate (%) as of Dec 31, 2011		2011		2010		at January I, 2010
Short-term operating loans Banker's usance	Korea Exchange Bank and others Hana Bank and others	3ML +1 and others 0.96~1.23	₩	231,811 13,294	₩	127,321 15,690	₩	142,405 14,126
Commercial paper discount Others				486,202 91,734		530,216 152,705		426,217 82,978
			₩	823,041	₩	825,932	₩	665,726

# 13.3 As at December 31, long-term borrowings consist of the following (Korean won in millions):

	Financial institution	Annual interest rate (%) in 2011		2011		2010	As	at January 1, 2010
Local currency long-term debt Foreign currency	Korea Development Bank and others The Export-Import Bank of	Industrial Financial Debentures + 3.65 and others 6ML+(069~2.6) and	₩	78,208	₩	42,936	₩	43,885
long-term debt Subtotal	Korea and others	others		746,638 824,846		502,594 545,530		482,928 526.813
Less current portion Total			₩	(108,446) 716,400	₩	(130,731) 414,799	₩	(155,724) 371,089

### 14. Provisions

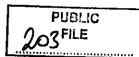
As at December 31, provisions consist of the following (Korean won in millions):

<2011>	J	an. 1	Re	cognition		Use	,	Others	De	ec. 31
Provision related to customer card Recovery provision	₩	238 16,821	₩	111 3,729	₩	(238) (96)	₩	(16,725)	₩	111 3,729
	₩	17,059	₩	3,840	₩	(334)	₩	(16,725)	₩	3,840
<2010>	J	an. 1	Re	cognition		Use	·	Others	De	ec. 31
Provision related to customer card	W	271	₩	182	₩	(215)	₩	-	₩	238

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# LG International Corp. and subsidiaries Notes to consolidated financial statements Years ended December 31, 2011 and 2010

Recovery provision		_		16,821				_		16,821
·	₩	271	₩	17,003	₩	(215)	₩	-	₩	17,059



### 15. Capital stock, capital surplus and capital adjustments

### 15.1 Capital stock

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

	2011	2010	As at January 1, 2010
Number of common shares issued (Par value per share: ₩5,000)	38,760	38,760	38,760

### 15.2 Capital surplus

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

		2011		2010		January 1, 2010
Paid-in capital in excess at par value	₩	47,106	₩	47,106	₩	47,106
Asset revaluation surplus		38,286		38,286		38,286
Gain on disposal of treasury stock		17,732		17,732		17,732
•	₩	102,124	₩	102,124	₩	102,124

### 15.3 Capital adjustments

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

	2	011	20	)10		January 1, 2010
Treasury stock	₩	968	₩	968	₩	968
Other capital adjustments		343		207		144
•	₩	1,311	₩	1,175	₩	1,112

### 15.4 Accumulated other comprehensive income

Details of accumulated other comprehensive income as of December 31, 2011, 2010 and January 1, 2010 are as follows:

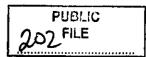
		2011		2010	As a	t January 1, 
Net gain on valuation of available-for-sale financial assets	₩	83,872	₩	38,058	₩	50,805
Equity adjustments in equity method		43,304		26,174		13,132
Equity adjustments in equity method – debit		(23,233)		(20,908)		(25,143)
Revaluation differences		(561)		(561)		-
Exchange differences on translation of foreign operations		43,685		31,368		44,139
•	₩	147,067	₩	74,131	₩	82,933

### 15.5 Earnings per share

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

		2011		2010
Net income attributable to owners of the parent	₩	247,777	₩	319,235
Weighted-everage number of shares of common stock outstanding(*1)		38,659,249		38,659,249
Basic earnings per share (Korean won)		6,409		8,258

(\*1) Weighted-average number of common stock outstanding is calculated after deducting treasury stock (100,751) from issued and outstanding number 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.



### 16. Dividends

As at December 31, Dividends consist of the following (Korean won in millions):

	2011			2010
Dividends paid in 2011:				
Dividend per share ₩350 (Dividend per share in 2010: ₩200)	₩	13,531	₩	7,732

### 17. Şales

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

		2011	-	2010
Sales of goods	₩	13,876,435	₩	14,166,527
Rendering of services		1,940		2,018
Royalty revenues		108,459		217,591
	₩	13,986,834	₩	14,386,136

# 18. Selling and administrative expense

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

		2011	2010
Salaries	₩	83,172 ₩	79,491
Retirement benefits		5,735	5,237
Employ benefits		16.445	14,192
Travel expenses		9.854	8,458
Communication expenses		2.686	2,527
Utility expenses		1.812	1,243
Taxed and dues		17.889	3,466
Rental expenses		14,531	10,130
Depreciation		7.546	5.550
Repairs expenses		607	630
Insurance		7,960	6,559
Entertainment expenses		5,027	5,105
Advertising and marketing expenses		14,751	14,470
Custody charges		5,898	5,058
Samples expenses		393	457
Packaging cost		368	394
Transportation expenses		129,058	125,362
Commission		83,321	49,993
Supplies expenses		693	700
Publication expenses		581	371
Vehicles maintenance expenses		1,406	1,313
Loading and unloading expenses		5,237	3,752
Training expenses		2,727	2,633
Conference expenses		248	331
Customs clearance expenses		1,030	579
Amortization of intangible assets		4,765	3,154
Bad debt expense		205	8,255
Sales commissions		18,489	48,470
Purchases commissions		2,782	1,923
Expenses for overseas branch office		21,640	20,278
·	₩	466,856 ₩	430,081

# 19. 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	₩	12,911,111	₩	13,514,528
Employee benefits (Salary, Retirement benefit)		88,907		84,728
Distribution costs (Custody charges, Packaging cost, Transportation expenses)		135,324		130,814
Others		688,965		417,213
	₩	13,824,307	₩	14,147,283

### 20. Employment benefit

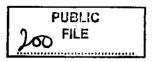
The Group has two defined benefit pension plans, final salary plan and average salary plan, covering substantially all of its employees, both of which require contributions to be made to separately administered funds.

# 20.1 Changes in the defined benefit liability are as follows (Korean won in millions):

		2011	2010	
At January 1	₩	4,637	₩	7,664
Benefit expense recognized in the income statement		5,667		5,064
Actuarial losses/gains		3,577		2,047
Contributions by employer		(7,335)		(4,944)
Benefits paid		(1,080)		27
Change in consolidation scope		-		142
Transfer in/out		(390)		(4,597)
Others		(193)		(766)
At December 31	₩	4,883	₩	4,637
Present value of defined benefit obligation	₩	32,604	₩	25,011
Fair value of plan assets		(27,721)		(20,374)
Defined benefit liability	₩	4,883	₩	4,637

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

	·2	011	2010		
Current service cost	₩	5,345	₩	4,481	
Interest cost on benefit obligation		1,150		1,226	
Expected return on plan assets		(828)		(879)	
Past service cost	******	-		236	
Net benefit expense	₩	5,667	₩	5,064	



20.3 Changes in the defined benefit obligation are as follows (Korean won in millions):

		2011	2010		
At January 1	₩	25,011	₩	26,269	
Current service cost		5,345		4,481	
Interest cost on benefit obligation		1,150		1,226	
Benefits paid		(2,141)		(4,040)	
Change in consolidation scope		-		300	
Transfer in (out)		(381)		(4,614)	
Actuarial losses/(gains) on obligation		3,813		1,919	
Past service cost		-		236	
Others		(193)		(766)	
At December 31	₩	32,604	₩	25,011	

20.4 Changes in the fair value of plan assets are as follows (Korean won in millions):

		2010		
At January 1	₩	20,374	₩	18,605
Expected return on plan assets		828		879
Contributions by employer		7,335		4,944
Benefits paid		(1,061)		(4,067)
Change in consolidation scope		-		158
Transfer in (out)		9		(17)
Actuarial gains/(losses) on obligation		236		(128)
Others				
At December 31	₩	27,721	₩	20,374

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

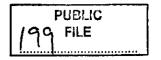
	2011	2010	As at January 1, 2010		
Future salary increase rate (%)	7.40	6.40	7.60		
Discount rate (%)	4.60	5.50	5.70		
Expected rate of return on assets (%)	3.70	4.40	5.00		

20.6 The Group operates defined contribution plans for some employees, for which expenses amounting ₩68 million and ₩173 million were recognized for the years ended December 31, 2011 and 2010, respectively.

### 21. Other operating income/expense

21.1 The components of other operating income recognized in the income statement are as follows (Korean won in millions):

		2011	2010		
Gains on foreign currency transaction Gains on foreign currency translation Gains on settlement of derivative financial instruments Gains on valuation of derivative financial instruments Gains on valuation of firm commitment assets Gains on disposition of intangible assets Gains on disposition of property, plant, and equipment Miscellaneous revenue Reversal of allowance for doubtful accounts Recovery of impairment losses on intangible assets	₩	270,390 25,664 37,657 14,890 17,649 175 1,235 51,012 634 521	₩	305,512 22,432 31,575 10,230 8,255 - 197 24,830 84	
Recovery of impairment losses on intangible assets	₩	419,827	₩	403,115	



21.2 The components of other operating expense recognized in the income statement are as follows (Korean won in millions):

		2011	2010		
Bad debt expenses from the others	₩	1,062	₩	1,385	
Losses on foreign currency transaction		267,938		308,243	
Losses on foreign currency translation		26,477		17,739	
Losses on settlement of derivative financial instruments		20,552		20,116	
Losses on valuation of derivative financial instruments		17,523		11,485	
Losses on valuation of firm commitment assets		10,743		10,146	
Losses on disposition of property, plant, and equipment		1,226		316	
Losses on disposition of intangible assets		1,091		•	
Miscellaneous losses		4,145		11,801	
Impairment losses on property, plant, and equipment		748		4,574	
Impairment losses on intangible assets		30,115		24,660	
,	₩	381,620	₩	410,465	

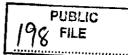
# 22. Financial income/expense and other non-operating income/expense

22.1 The components of other financial income recognized in the income statement are as follows (Korean won in millions):

		2011	2010		
Interest revenues	₩	16,623	₩	17,548	
Dividends income		12,580		8,985	
Commission revenues on guarantees		17		4	
Gains on foreign currency transaction		70,969		65,243	
Gains on foreign currency translation		28,078		19,615	
Gains on settlement of derivative financial instruments		51,693		21,163	
Gains on valuation of derivative financial instruments		159		925	
	₩	180,119	₩	133,483	

22.2 The components of other financial expense recognized in the income statement are as follows (Korean won in millions):

		2011	2010		
Interest expenses	₩	47,818	₩	38,737	
Losses on foreign currency transaction		63,166		59,998	
Losses on foreign currency translation		36,824		12,231	
Losses on settlement of derivative financial instruments		45,627		31,912	
Losses on valuation of derivative financial instruments		410		65	
Losses on disposal of trade receivables		15,509		19,560	
	₩	209,354	₩	162,503	



# 22. Financial income/expense and other non-operating income/expense continued

22.3 The components of other non-operating income/expense recognized in the income statement are as follows (Korean won in millions):

		2011	2010		
Equity in earnings of investee	₩	102,298	₩	223,474	
Gains on disposal of available-for-sale financial assets		184		1,628	
Gains on disposal of investment in an associates		90,159		8,898	
Gains on disposal of other investment assets		558		121	
Rental income		108		-	
Gains on bargain purchase		9,508		-	
Miscellaneous income		18,445		-	
Equity in losses of equity method investees		(15,610)		(19, <del>44</del> 5)	
Losses on disposal of short-term investment assets		(4)		(3)	
Impairment loss on available-for-sale financial investments		-		(786)	
Losses on disposal of other investment assets		(930)		(2)	
Donations		(3,621)		(2,829)	
Miscellaneous losses		(168)			
	₩	200,927	₩	211,056	

#### 23. Income tax

### 23.1 Income tax expense

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

	2011			2010
Current income tax charge	₩	151,075	₩	53,462
Changes in deferred income taxes		(21,943)		36,626
Income tax charged directly to equity		(18,488)		(772)
Income tax expense reported in the consolidated income statement	₩	110,644	₩	89,316

The major components of Income tax charged directly to equity for the years ended December 31, 2011 and 2010 are (Korean won in millions):

		2011	2010		
Unrealized gain/loss on available-for-sale financial assets	₩	(14,627)	₩	4,070	
Equity adjustments in equity method		(5,469)		(4,164)	
Equity adjustments in equity method debit		742		(1,352)	
Revaluation difference		-		179	
Actuarial losses/gains		866		495_	
	₩	(18,488)	₩	(772)	

### 23. Income tax continued

23.2 A 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	₩	372,427	₩	413,540	
Tax at the statutory income tax (2011:24,2%,2010:24.2%)		90,127		100,077	
Permanent differences		14,400		(4,296)	
Tax credits and exemptions		(40,400)		(25,243)	
Foreign tax credit		44,402		14,701	
Others (tax rate difference and others)		2,115		4,077	
Income tax expense reported in the consolidated income statement		110,644		89,316	
At the effective income tax rate (%)		29.71		21.60	

23.3 The components of deferred income taxes recognized in the income statement are as follows (Korean won in millions):

		2011		2010		January 1, 2010
	₩		₩			4,998
impairment losses on investment securites	777	5,601	₩	5,127	44	,
Stock dividends		3,146		2,860		2,860
Exchange rate adjustment		(3)		(7)		(11)
Allowance for doubtful accounts		31,302		34,311		31,739
Accrued income		(316)		(318)		(331)
Interest income		375		302		264
Denial on bad debts		313		254		249
Losses on valuation of inventories		213		152		30
Amortization on exchange rate adjustment		11		28		45
Gains on settlement of derivative financial instruments		(5,235)		(3,187)		(2,583)
Gains on valuation of derivative financial instruments		4,993		3,643		2,479
Reserve fund of compressed register (Land)		(2,081)		(1,892)	-	
Accrued expenses (Annual leave)		235		201		149
Admission or denial on depreciation		996		(17,421)		(1,807)
Bonus		3,400		4,118		3,699
Reserve fund of compressed register (division marginal profit)		(2,261)		(5,490)		(5,490)
interest related to loan for construction		(477)		(490)		(592)
Brand royalty		746		1,385		(327)
Advance received income		11		16		26
Allowance for retirement benefit		6,438		3,957		3,589
Severance benefits		(5,602)		(3,957)		(3,589)
Gains/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 on longtime employee		71		60		62
Bad debt ratio adjustment		(634)		(634)		488
Impairment losses on golf membership		653		402		(592)
Available-for-sale investments		(34,274)		(11,804)		(13,108)
Investments in equity method		(20,265)		(35,762)		(14,830)
Others		10,150		265		5,707
Deferred tax asset (liability)		(6,686)		(28,629)		7,997
Account recognized in the balance sheet		(-,,,-,)		, ,,		· ·
Deferred tax asset (liability) net	₩	(6,686)	₩	(28,629)	₩	7,997

#### 23. Income tax continued

### 23.4 Deferred tax asset/liability, net

Changes in the deferred tax liabilities are as follows (Korean won in millions):

At January 1		2011	2010		
	₩	(28,629)	₩	7,997	
income taxes recognized in the income statement		40,431		(35,854)	
Income tax charged directly to equity		(18,488)		(772)	
At December 31	₩	(6,686)	₩	(28,629)	

The temporary differences associated with investments in subsidiaries, its associate and its joint venture, for which a deferred tax liability has not been recognized aggregate to \wxi26,019 million (2010: \wxi45,048 million, January 1, 2010: \wxi46,507 million).

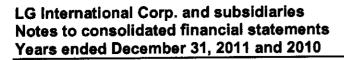
### 24. Related party disclosures

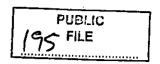
24.1 Transactions with related parties for the years ended December 31, 2011 and 2010 are as follows (Korean won in millions):

	2011				2010			
	Sales and others		Purchases and others		Sales and others			chases and others
Associates								
Tianiin LG Bohai Chemical Co., Ltd.	₩	111,473	₩	8,683	₩	133,274	₩	-
Tianjin LG Dagu Chemical Co., Ltd.		8,894		3,749		11,764		1,199
Aromatics Oman LLC				-		56		-
POS-IPPC(Posco India Coil Center)		48,141		•		37,425		-
ADA OII LLP		184		-		132		6
Others								
LG Electronics Inc.		2,191,497		141,720		3,445,460		24,044
LG Chem Ltd.		314,823		568,798		313,542		732,850
LG Display Co., Ltd.		1,065,463		1,339,331		1,909,598		1,929,424
Others		228,086		487,393		142,240		608,548
<del></del>	₩	3,968,561	₩	2,549,674	₩	5,993,491	₩	3,296,071

24.2 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):

	20	011	20	110	As at January 1, 2010			
	Receivables	Payables	Receivables	Payables	Receivables	Payables		
Associates Kernhem BV(ADA Oil LLP)	₩	. ₩	₩ 48,371	₩ .	₩ 48,426	₩ -		
Tianjin LG Bohai Chemical Co., Ltd. Tianjin LG Dagu Chemical Co., Ltd. Fosco BV(Egizkara)	5,855		15,386 3,124 21,323	-	- 19,020	8 137		
Aromatics Oman LLC POS-IPPC(Posco India Coil Center)	10,055	5,558	3,109	5,489	164 47	56 -		
ADA Oil LLP De Zwarte Ponk BV			39	3	24 32,272	5		
EPC Munai LLC GS HP Sunflower Village Int'l Corp. Others			-	-	2,29 <b>4</b>	21		
LG Electronics Inc. LG Chem Ltd.	323,340 46,336					14,853 55,383		
LG Display Co., Ltd. Others	210,151 13,560	136,864	417,751	446,221	151,017	300,594 103,874		
	₩ 609,297	₩ 399,269	₩ 789,036	₩ 804,711	₩ 812,286	₩ 474,931		





# 25. Compensation of key management personnel of the Group

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

		2010		
Short-term employee benefits	₩	10,595	₩	9,854
Severance benefits		1,082		5,547
Other long-term employee benefits		6,171		6,650
•	₩	17,848_	₩	22,051

### 26. Commitments and contingencies

#### 26.1 Guarantees

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

		Gu	arantee	Description
Bond and	The Export-Import Bank of Korea and others	₩	44,736	USD 38,789.69
others	Other banks		50,314	USD 37,575.23 SAR 3,735.94 EUR 1,464.58
Seoul Guara	intee Insurance		12,255	
		₩	107,305	

As of December 31, 2011, The Group is contingently liable for payment guarantees issued on behalf of certain foreign affiliated companies amounting to \widetilde{W}144,490 million out of which 47,631 million is outstanding as of December 31, 2011.

#### 26.2 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.

#### 26.3 Pending lawsuits

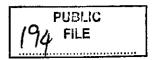
As of December 31, 2011, the Group has several pending lawsuits with total claims against the Group amounting to approximately \$3,041 million. The outcomes of the pending lawsuits cannot presently be determined.

### 26.4 License agreement

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

### 26.5 Joint liability on guarantee

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



#### 27. Business combinations

### 27.1 de Zwarte Ponk BV

The Group acquired additional 50% of De Zwarte Ponk BV(Netherlands) on Mar. 31, 2011, and current ownership is 90 which made it a subsidiary. The fair value of assets and liabilities acquired at the acquisition date are as follows (Korean won in millions):

		Amount
Current assets	₩	10,645
Cash and cash equivalents		7,414
Accounts receivable		82
Other current assets		3,149
Non-current assets		89,509
Property, Plant and Equipment		100
Other non-current assets		89,409
Total assets		100,154
Current liabilities		12,090
Non-current liabilities		88,064
Total liabilities		100,154
Net identifiable assets		-
Consideration transferred		-

### 27.2 Yantai VMI Hub LG Int'l Co., Ltd.

The Group established Yantai VMI Hub LG Int'l Co., Ltd. on Jul. 31, 2011 in China, which became a subsidiary of the Group. The fair value of assets and liabilities acquired at the acquisition date are as follows (Korean won in millions):

	Aı	mount
Current assets	₩	1,070
Cash and cash equivalents		1,070
Non-current assets		-
Total assets		1,070
Current liabilities		-
Non-current liabilities		•
Total liabilities		-
Net identifiable assets		1,070
Consideration transferred	·	1,070

### 27.3 Guangzhou Steel Flower Electric Machinary Co., Ltd.

The Group established China Guangzhou Steel Flower Electric Machinary Co., Ltd on Oct. 7, 2011 in Guangzhou, which became a subsidiary. The fair value of assets and liabilities acquired at the acquisition date are as follows (Korean won in millions):

	A	mount
Current assets	₩	6,131
Cash and cash equivalents		6,131
Non-current assets		-
Total assets		6,131
Current liabilities		-
Non-current liabilities		-
Total liabilities		-
Net identifiable assets		6,131
Consideration transferred		6,131

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# LG International Corp. and subsidiaries Notes to consolidated financial statements Years ended December 31, 2011 and 2010

### 27.4 Colmineral, S.A.DE.C

The Group established Colmineral, S.A.DE.C on Oct. 7, 2011 in Maxico, which became a subsidiary. The fair value of assets and liabilities acquired at the acquisition date are as follows (Korean won in millions):

	Am	ount
Current assets	₩	5
Cash and cash equivalents		5
Non-current assets		-
Total assets		5
Current liabilities		-
Non-current liabilities		-
Total liabilities		-
Net identifiable assets		5
Consideration transferred		5

### 28. Financial risk management objectives and policies

The Group'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 Group's operations. The Group has loan and other receivables, trade and other receivables, and cash and short-term deposits that arrive directly from its operations. The Group also holds available-for-sale investments, and enters into derivative transactions.

The Group 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 Group's policy that no trading in derivatives for speculative purposes shall be undertaken.

#### 28.1 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 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 associated with changes in underlying assets

#### 28.1.1 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 Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates.

The Group'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 Group 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 tax. There is only an immaterial impact on the Group's equity (Korean won in millions).

		2011					2010				
	Increa	Increase by 1%		Decrease by 1%	Increase by 1%			Decrease by 1%			
Interest income	₩	4,251	₩	(4,251)	₩	2,647	₩	(2,647)			
Interest expenses		5,290		(5,290)		4,738		(4,738)			
Net effect	₩	(1,039)	₩	1,039	₩	(2,091)	₩	2,091			

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

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 Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when revenue or expense are denominated in a different currency from the Group's functional currency) and the Group's net investments in foreign subsidiaries.

The Group 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 Group manages its foreign currency risk periodically. Especially, the Group 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 Group's profit before tax (due to changes in the fair value of monetary assets and liabilities including non designated foreign currency derivatives).

			201	11	2010				
		Increase by 109	<u>6</u>	Decrease by 10%	Increase by 10%	Decrease by 10%			
Gain (loss) on	Parent company	₩ 20	,254 3	₩ (20,254)	₩ 27,263	₩ (27,263)			
foreign currency translation	Subsidiary <sup>(*1)</sup>	108	495	(108,495)	51,956	(51,956)			
Subtotal		128	,749	(128,749)	79,219	(79,219)			
Gain (loss) on valuation of	Parent company	39	,127	(128,749)	79,219	(79,219)			
derivative financial instruments	Subsidlary <sup>(*1)</sup>	(2,	849)	(39,127)	20,532	(20,532)			
Subtotal		36	278	(36,278)	24,975	(24,975)			
Net effect		₩ 165	,027	₩ (165,027)	₩ 104,194	₩ (104,194)			

<sup>(\*1)</sup> Foreign currency of the subsidiaries is related to inventory on hand at the book closing date, and such risk is hedged upon settlement of related transactions.

### 28.2 Credit risk

Credit risk is the risk that counterparties will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company's exposure to the credit risk relates to operating and financial activities.

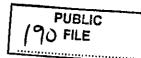
Book value of financial assets represents maximum exposure amount for credit risk. The maximum exposure amounts for credit risk are as follows (Korean won in millions):

	2011	2010	As at January 1, 2010
Cash and cash equivalents	₩ 390,666	₩ 199,932	₩ 180,605
Short-term financial instruments	155,103	19,215	590
Available-for-sale financial assets	306,953	64,392	66,122
Accounts receivables	1,654,113	1,515,683	1,535,886
Held-to-maturity investments	60	60	-
Non-trade receivables	92,056	76,993	103,493
Long-term loans	149,304	151,184	167,732
Derivative financial instruments	17,703	8,170	8,960
Others	37,6 <u>20</u>	48,244	47,352
	₩ 2,803,578	₩ 2,083,873	₩ 2,110,740

# 28.3 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).

<2011>	l acc t	han 1 year	1 to :	3 vears	3 to :	5 years	> 5	years		Total
Cash and cash equivalents	₩	390,666	₩	-	₩		₩	-	₩	390,666
Short-term financial assets		155,103		-		-		-		155,103
Available-for-sale financial assets		· -		-		-		306,953		306,953
Trade receivables		-		-		-		60		60
Held-to-maturity investments		1,641,072		11,275		1,766		-		1,654,113
Other account receivables		92,056		-		-		-		92,056
Long-term loans		81,774		16,872		50,658		-		149,304
Derivative financial instruments		17,703		-				-		17,703
Others		21,828		15,750		42				37,620
	₩	2,400,202	₩	43,897	₩	52,466	₩	307,013	₩	2,803,578
<2010>										
	Less	han 1 year		3 years		5 years		years		Total
Cash and cash equivalents	₩	199,932	₩	•	₩	-	₩	-	₩	199,932
Short-term financial assets		19,215		-		-		<del>-</del>		19,215
Available-for-sale financial assets		-		-		-		64,392		64,392
Trade receivables		-		<del>-</del>				60		60
Held-to-maturity investments		1,497,518		15,795		2,372		-		1,515,683
Other account receivables		76,993		-		40.000		-		76,993 151,184
Long-term loans		114,371		26,114		10,699		-		8,170
Derivative financial instruments		8,170		22 224		42		•		48,244
Others		25,881	111	22,321	111		₩	64.452	₩	2.083.873
	₩	1,942,078	₩	64,230	₩	13,113	**	04,402	- VV	2,003,073
< As at January 1, 2010>				•	•	<b>.</b>				Total
		than 1 year		3 years		5 years		years	₩	Total
Cash and cash equivalents	₩	180,605	₩	-	₩	-	₩	-	W	180,605
Short-term financial assets		590		-		-		20.400		590
Available-for-sale financial assets				40.070		0.550		66,122		66,122
Trade receivables		1,520,958		12,372		2,556		-		1,535,886 103,494
Other account receivables		103,494		25 200		1.440		-		167,732
Long-term loans		130,906		35,386		1,440		-		8,960
Derivative financial instruments		8,960 19,272		28,047		32		-		47,351
Others	₩	1.964.785	₩	75,805	₩	4,028	₩	66,122	₩	2,110,740
	₩	1 MM4 /X5	77	(2.8(12)	77	4.UZÖ	YY	00.122	¥¥	Z.110./40



### 28.4 Liquidity risk

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

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

<2011>	lessi	than 1 year	1 to	3 years	3 to	5 years	> 5	years		Total
Borrowings	₩	931,487	₩	216,571	₩	307,417	₩	192,412	₩	1,647,887
Bonds		89,933		39,927		-		-		129,860
Other payables		1,651,119		9,803				-		1,660,922
Olioi payaoloo	₩	2,672,539	₩	266,301	₩	307,417	₩	192,412	₩	3,438,669
<2010>										
	Less	than 1 year	<u>1 to</u>	3 years	3 to	5 years		years		Total
Borrowings	₩	956,663	₩	152,856	₩	81,991	₩	179,953	₩	1,371,463
Bonds		-		131,634		-		-		131,634
Other payables		1,638,837		23,404				-		1,662,241
	₩	2,595,500	₩	307,894	₩	81,991	₩	179,953	₩	3,165,338
< As at January 1, 2010>										
•	Less	than 1 year	_1 to	3 years	3 to	5 years		years		Total
Borrowings	₩	821,450	₩	225,796	₩	21,218	₩	124,076	₩	1,192,540
Bonds		39,994		89,638		-		-		129,632
Other payables		1,512,526		1,059				-		1,513,585
• •	₩	2,373,970	₩	316,493	₩	21,218	₩	124,076	₩	2,835,757

The tables above illustrate maturities of the financial liabilities as of each reporting date.

#### 28.5 Capital management

The primary objective of the Group'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 Group manages its capital structure and makes adjustment to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to share holders, return capital to shareholders or issue new shares.

No changes wew 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		As at January 1, 2010	
Total liabilities (A)	₩	3,586,129	₩	3,274,035	₩	2,877,361	
Total equity (B)		1,354,879		1,031,468		725,843	
Cash and cash equivalents (C)		390,666		199,932		180,605	
Total borrowings (D)		1,777,7 <b>47</b>		1,503,097		1,322,172	
Debt ratio (A/B), (%)		264.68		317. <del>4</del> 2		396.42	
Net debt ratio ((D-C)/B), (%)		102.38		126.34		157.27	

#### 29. Fair value

# 29.1 Fair value of financial instruments.

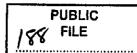
Book value and fair value of financial instruments as of December 31, 2010 and 2011 are as follows (Korean won in millions):

	2(	011	2010 As at Janua		As at January	ary 1, 2010	
	Book value	Fair value	Book value	Fair value	Book value	Fair value	
Financial asset Financial assets recognized In amortized cost							
Cash and cash equivalents	₩ 390,666	₩ 390,666	₩ 199,932	₩ 199,932	₩ 180,605 ₩	180,605	
Short-term financial assets	155,103	155,103	19,215	19,215	590	590	
Trade receivables	1,654,113	1,654,113	1,515,683	1,515,683	1,535,886	1,535,886	
Held-to-maturity investments	60	60	60	60			
Long-term loans	149,304	149,304	151,184	151,184	167,732	167,732	
Other account receivables	76,736	76,736	65,803	65,803	96,829	96,829	
Others	37,620	37,620	48,244	48,244	47,352	47,352	
Financial asset carried recognized in cost	2,463,602	2,463,602	2,000,121	2,000,121	2,028,994	2,028,994	
Financial assets recognized in fair value							
Derivative financial assets	17,703	17,703	8,170	8,170	8,960	8,960	
Account receivables related to derivative investment	15,320	15,320	11,190	11,190	6,664	6,664	
Available-for-sale financial assets	306,953	306,953	64,392	64,392	66,122	66,122	
Total financial assets recognized in fair value	339,976	339,976	83,752	83,752	81,746	81,746	
Total financial assets	2,803,578	2,803,578	2,083,873	2,083,873	2,110,740	2,110,740	
Financial liability Financial liability recognized in amortized cost							
Borrowings	1,539,441	1,539,441	1,240,731	1,240,731	1,036,816	1,036,816	
Bonds	39,927	39,927	131,634	131,634	89,638	89,638	
Current portion of bonds and long-term borrowings	198,379	198,379	130,731	130,731	195,718	195,718	
Others	1,629,638	1,629,638	1,640,322	1,640,322	1,497,862	1,497,862	
Total financial liability recognized in amortized cost	3,407,385	3,407,385	3,143,418	3,143,418	2,820,034	2,820,034	
Financial liability recognized in fair value							
Derivative financial liabilities	11,014	11,014	10,146	3 10,146	5,534	5,534	
Account payables related to derivative investment Total financial liability recognized	20,269	20,269	11,774	11,774	10,189	10,189	
in fair value	31,284	31,284	21,920	21,920	15,722	15,722	
Total financial liabilities	₩ 3,438,669	₩ 3,438,669	₩ 3,165,338	3,165,338	₩ 2,835,757 ₹	₩ 2,835,757	

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

The Group 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.



### 29. Fair value continued

29.2 Fair value measurement of assets and liabilities recorded in statements of financial position continued

As at December 31, 2011 and 2010, the Group held the following financial instruments carried at fair value in the statements of financial position.

### <2011>

	Leve	el 1 Lo	evel 2	Level 3
Financial asset at fair value through profit or loss				
Derivative financial assets	₩	- ₩	17,703 ₩	-
Account receivables related to derivative investment		-	15,320	-
Available-for-sale financial assets				
Equity securities <sup>(*1)</sup>		217,863	-	89,090
Financial liability at fair value through profit or loss				
Derivative financial liabilities		-	11,014	
Account payables related to derivative investment		-	20,269	•
<2010>				
	Lev	el 1 L	evel 2	Level 3
Financial asset at fair value through profit or loss				
Derivative financial assets	₩	- ₩	8,170 ₩	
Account receivables related to derivative investment		-	11,190	
Available-for-sale financial assets				
Equity securities <sup>(*1)</sup>		3,900		22,247
Financial liability at fair value through profit or loss				
Derivative financial liabilities		-	10,146	
Account payables related to derivative investment		-	11,774	
< As at January 1, 2010>				
	Lev	el 1	evel 2	Level 3
Financial asset at fair value through profit or loss				
Derivative financial assets	₩	- ₩	8,960 ₩	
Account receivables related to derivative investment		-	6,664	
Available-for-sale financial assets				
Equity securities <sup>(*1)</sup>		3,844		22,870
Financial liability at fair value through profit or loss				
Derivative financial Habilities		-	5,534	
Account payables related to derivative investment		-	10,189	

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

#### 30. Statement of cash flows

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

		2011	2010		
Depreciation expenses	₩	9,561	₩	5,688	
Amortization expenses		61,872		37,657	
Retirement benefits		5,665		5,237	
Interest income		(16,874)		(17,548)	
Gains on foreign currency translation		(53,748)		(42,047)	
Interest expenses		48,313		38,738	
Losses on foreign currency translation		62,966		29,970	
Others		(63,879)		(38,367)	
	₩	53,876	₩	19,328	

30.2 Working capital adjustments as of December 31, 2011 and 2010 are as follows (Korean won in millions):

		2011		2010
Decrease (increase) in accounts receivables	₩	(115,347)	₩	30,505
Decrease (increase) in non-trade receivables		(10,566)		28,031
Decrease (increase) in advance payments		16,491		(16,923)
Decrease (increase) in inventories		182,153		(389,830)
Decrease (increase) in other operating assets		(8,946)		(13,058)
Increase (decrease) in trade Payables		(115,949)		143,252
Increase (decrease) in non-trade Payables		35,360		(26,437)
increase (decrease) in advances received		3,136		30,963
Increase (decrease) in payments of severance benefit		(1,132)		(9,048)
Decrease (Increase) in plan assets		(6,619)		(1,563)
Increase (decrease) in provisions		1,808		16,788
Increase (decrease) in other operating liabilities		(1,105)		14,053
	₩	(20,717)	₩	(193,267)

#### 31. Transition to K-IFRS

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

Accordingly, the Group 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 Group's opening statement of financial position was prepared as at January 1, 2010, the Group's date of transition to K-IFRS. This note explains the principal adjustments made by the Group 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.

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# LG International Corp. and subsidiaries Notes to consolidated financial statements Years ended December 31, 2011 and 2010

### 31.1 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 Group 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 1998. The Group has elected to regard those fair values as deemed cost at the date of the revaluation.

### 31.2 Explanation of transition to K-IFRS

# 31.2.1 Changes in consolidation scope

Under Previous Local GAAP, some of subsidiaries were excluded from the consolidated financial statements as total assets as of prior year end were less than the #10 billion threshold according to the Corporate External Audit Law. Under K-IFRS, these subsidiaries are included in the consolidated financial statements.

#### 31.2.2 Investments in associates

Under Previous Local GAAP, equity method accounting was net applied to some of associates whose assets as of prior year end. Under K-IFRS, those associates are accounted for using the equity method accounting.

#### 31.2.3 Business combinations

Under Previous Local GAAP, goodwill was amortized over a period of within 20 years using the straight-line method. Under K-IFRS, goodwill is not amortized but, instead, is required to be tested for impairment.

### 31.2.4 Reassessment of impairment

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

#### 31,2.5 Derecognition of financial assets

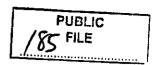
Under Previous Local GAAP, trade receivables are derecognized upon receipt of payments from the financial institutions to which those trade receivables with recourse are sold. Under K-IFRS, trade receivables with recourse are derecognized when all the risks and rewards of ownership are transferred.

#### 31.2.6 Valuation of financial assets

Under Previous Local GAAP, available-for-sale financial assets were carried at the lower of cost and realizable value. The resulting gains at the date of transition are included in the other comprehensive income in equity. Under K-IFRS, available-for-sale financial assets are measured at fair value.

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

Under Previous Local GAAP, assets in overseas resource development are amortized based on patterns and period of consumption of future economic benefits of the asset.



### 31.2 Explanation of transition to K-IFRS continued

#### 31.2.8 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.

### 31.2.9 Employee benefits

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 Group recognized accumulating paid leaves and bonuses as expenses when the Group's obligation to pay is determined. Under K-IFRS, the Group recognizes accumulating paid leaves and bonuses as expenses when the employees render services.

#### 31.2.10 Reclassification of accounts

Under Previous Local GAAP, membership and facilities usage right were recognized as other 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.

#### 31.3 Adjustments between Previous Local GAAP and K-IFRS

#### 31.3.1 Reconciliation of equity as at January 1, 2010 (date of transition to IFRS)

	Total assets		Total liabilities		Total equity	
Previous Local GAAP	₩	3,153,047	₩	2,498,601	₩	654,446
Changes in consolidation scope		48,008		47,402		606
Business combinations		26,666	-			26,666
Reassessment of impairment		(15,072)	-			(15,072)
Derecognition of financial assets		334,296		334,296	-	
Valuation of financial assets		47,702	•			47,702
Reassessment of method of depreciation of						
assets in overseas resource development		36,290	-			36,290
Income tax effect	-			21,119		(21,119)
Investment in an associate		(2,540)	•			(2,540)
Others		(25,192)		(24,057)		(1,135)
Total		450,158		378,760		71,398
K-IFR\$	₩	3,603,205	₩	2,877,361	₩	725,844

# 31.3.2 Reconciliation of equity as at December 31, 2010

	Total assets		Total liabilities		Total equity	
Previous Local GAAP	₩	3,740,420	₩	2,805,556	₩	934,864
Changes in consolidation scope		23,567		20,922		2,645
Business combinations		18,772		-		18,772
Reassessment of impairment		(15,072)		-		(15,072)
Derecognition of financial assets		381,139		381,139		-
Valuation of financial assets		43,109		· -		43,109
Reassessment of method of depreciation of		•				
assets in overseas resource development		82,451		-		82,451
Income tax effect		-		27,179		(27,179)
Investment in an associate		(5,085)				(5,085)
Others		36,203		39,239		(3,036)
Total		565,084		468,479		96,605
K-IFRS	₩	4,305,504	₩	3,274,035	₩	1,031,469

# 31.3.3 Reconciliation of total comprehensive income for the year ended December 31, 2010

	Total comprehensive income		
Previous Local GAAP	₩	280,709	
Changes in consolidation scope		(93)	
Business combinations		(6,122)	
Reassessment of method of depreciation of assets			
in overseas resource development		46,161	
Income tax effect		(5,830)	
Investment in an associate		(2,544)	
Valuation of available-for-sale financial assets		(4,593)	
Actuarial losses/gains on obligation		13,140	
Others		(687)	
Total		39,432	
K-IFRS	₩	320,141	

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

# 32. Reconciliation of operating Income for the year ended December 31, 2010 and 2011

Operating income		2011		
	₩	200,735	₩	231,503
Other operating income		(419,827)		(403,115)
Other operating expenses		381,620		410,465
Previous Local GAAP	₩ .	162,528	₩	238,853

### 33. Business liquidation

The Group liquidated Korea Commercial Vehicle Co., Ltd. through disposal to CXC on December 21, 2011.

### 34. Approval of the consolidated financial statements

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