

LG Display Co., Ltd.  
Form 20-F  
April 26, 2013  
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As filed with the Securities and Exchange Commission on April 26, 2013

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**FORM 20-F**

(Mark One)

☐ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

**OR**

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the fiscal year ended December 31, 2012

**OR**

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**OR**

☐ **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
Date of event requiring this shell company report

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For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-32238

**LG Display Co., Ltd.**

(Exact name of Registrant as specified in its charter)

**LG Display Co., Ltd.**

(Translation of Registrant's name into English)

**The Republic of Korea**

(Jurisdiction of incorporation or organization)

**LG Twin Towers, 128 Yeoui-daero, Yeongdeungpo-gu, Seoul 150-721, Republic of Korea**

(Address of principal executive offices)

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Suk Heo

LG Twin Towers, 128 Yeoui-daero, Yeongdeungpo-gu, Seoul 150-721, Republic of Korea

Telephone No.: +82-2-3777-1010

Facsimile No.: +82-2-3777-0797

(Name, telephone, e-mail and/or facsimile number and address of company contact person)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of each class	Name of each exchange on which registered
American Depositary Shares, each representing one-half of one share of Common Stock	New York Stock Exchange
Common Stock, par value 5,000 per share	New York Stock Exchange*

\* Not for trading, but only in connection with the registration of the American Depositary Shares.

Securities registered or to be registered pursuant to Section 12(g) of the Act.

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

357,815,700 shares of common stock, par value 5,000 per share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ☒ Yes ☐ No

Note: Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. ☐ Yes ☒ No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ☒ Yes ☐ No

Indicate by check mark whether the registrant has submitted electronically and posted on its Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). ☐ Yes ☐ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

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Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP ☐

International Financial Reporting Standards as issued by

Other ☐

the International Accounting Standards Board ☒

If ☐ Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. ☐ Item 17 ☐ Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ☐ Yes ☒ No

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**PRESENTATION OF FINANCIAL AND OTHER INFORMATION**

In this annual report, the terms we, us, our and LG Display refer to LG Display Co., Ltd. and, unless otherwise indicated or required by context, our consolidated subsidiaries. Notwithstanding the foregoing, in the context of any legal proceedings or governmental investigations, LG Display refers to LG Display Co., Ltd. and does not include any of its subsidiaries, or any other entities or persons.

The financial statements included in this annual report are prepared in accordance with International Financial Reporting Standards, or IFRS, as issued by the International Accounting Standards Board, or IASB. As such, we make an explicit and unreserved statement of compliance with IFRS, as issued by the IASB, with respect to our consolidated financial statements as of December 31, 2011 and 2012 and for each of the years ended in the three-year period ended December 31, 2012 included in this annual report.

In accordance with rule amendments adopted by the U.S. Securities and Exchange Commission, or the SEC, which became effective on March 4, 2008, we are not required to provide a reconciliation to generally accepted accounting principles in the United States, or U.S. GAAP.

The consolidated financial statements included in our annual reports on Form 20-F previously filed with the SEC in respect of the years ended December 31, 2009, 2008, 2007, 2006, 2005 and 2004 were prepared in accordance with U.S. GAAP. For additional information, please refer to our annual reports on Form 20-F previously filed with the SEC.

Unless expressly stated otherwise, all financial data included in this annual report are presented on a consolidated basis.

All references to Korean Won, Won or ₩ in this annual report are to the currency of the Republic of Korea, all references to U.S. dollars or US\$ are to the currency of the United States, all references to Japanese Yen, Yen or ¥ are to the currency of Japan, all references to RMB or Chinese Renminbi are to the currency of the People's Republic of China, all references to NT\$ are to the currency of Taiwan, all references to Euro or € are to the official currency of the European Economic and Monetary Union, all references to PLN are to the currency of the Republic of Poland, all references to MXN are to the currency of Mexico, and all references to SG\$ are to the currency of Singapore.

Any discrepancies in any table between the totals and the sums of the amounts listed are due to rounding.

For your convenience, this annual report contains translations of Won amounts into U.S. dollars at the noon buying rate in New York City for cable transfers in Korean Won as certified by the Federal Reserve Bank of New York for customs purposes in effect on December 31, 2012, which was 1,063.24 = US\$1.00.



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**FORWARD-LOOKING STATEMENTS**

We have made forward-looking statements in this annual report. Our forward-looking statements contain information regarding, among other things, our financial condition, future plans and business strategy. Words such as contemplate, seek to, anticipate, believe, estimate, expect, intend, plan and similar expressions, as they relate to us, are intended to identify a number of these forward-looking statements. These forward-looking statements reflect management's present expectations and projections about future events and are not a guarantee of future performance. Although we believe that these expectations and projections are reasonable, such forward-looking statements are inherently subject to risks, uncertainties and assumptions about us, including, among other things:

the cyclical nature of our industry;

our dependence on introducing new products on a timely basis;

our dependence on growth in the demand for our products;

our ability to compete effectively;

our dependence on a select group of key customers;

our ability to successfully manage our capacity expansion and allocation in response to changing industry and market conditions;

our dependence on key personnel;

general economic and political conditions, including those related to the display panel industry;

possible disruptions in commercial activities caused by events such as natural disasters, terrorist activity and armed conflict;

fluctuations in foreign currency exchange rates; and

those other risks identified in the Risk Factors section of this annual report.

Except as required by law, we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the events discussed in the forward-looking statements in this annual report might not occur and our actual results could differ materially from those anticipated in these forward-looking statements.

All subsequent forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section.

**Table of Contents****PART I****Item 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS**

Not applicable.

**Item 2. OFFER STATISTICS AND EXPECTED TIMETABLE**

Not applicable.

**Item 3. KEY INFORMATION****Item 3.A. Selected Financial Data**

The selected consolidated financial data set forth below as of and for the years ended December 31, 2009, 2010, 2011 and 2012 have been derived from our consolidated financial statements and the related notes, which have been prepared under IFRS as issued by the IASB. Our audited consolidated financial statements as of December 31, 2011 and 2012 and for each of the years in the three-year period ended December 31, 2012 and the related notes are included in this annual report.

The information set forth below is not necessarily indicative of the results of future operations and should be read in conjunction with Item 5. Operating and Financial Review and Prospects and our consolidated financial statements and related notes included in this annual report.

In addition to preparing financial statements in accordance with IFRS as issued by the IASB included in this annual report, we also prepare financial statements in accordance with Korean International Financial Reporting Standards, or K-IFRS, as adopted by the Korean Accounting Standards Board, or KASB, which we are required to file with the Financial Services Commission and the Korea Exchange under the Financial Investment Services and Capital Markets Act of Korea. See Item 10.B. Memorandum and Articles of Association Business Report. English translations of such financial statements are furnished to the SEC on Form 6-K, which are not incorporated by reference to this or any of our previous annual reports on Form 20-F. The operating profit or loss presented in the consolidated statements of comprehensive income prepared in accordance with K-IFRS for the years ended December 31, 2011 and 2012 included in the Form 6-K furnished to the SEC on February 28, 2013 is a loss of 764 billion and a profit of 912 billion, respectively. For further information, please see the Form 6-K furnished to the SEC on February 28, 2013, which is not incorporated by reference to this annual report.

Pursuant to the IFRS as issued by IASB, we are not required to separately present operating profit or loss in our consolidated statements of comprehensive income prepared in accordance with IFRS. Therefore, the financial statements included in this annual report, which are prepared in accordance with IFRS as issued by IASB, do not present operating profit or loss as a separate line item.

**Consolidated statements of comprehensive income (loss) data**

	Year Ended December 31,				2012 <sup>(1)</sup>
	2009	2010	2011	2012	
	(in billions of Won, except for per share data)				(in millions of US\$, except for per share data)
Revenue	20,038	25,512	24,291	29,430	US\$ 27,680
Cost of sales	(17,477)	(21,781)	(23,081)	(26,425)	(24,853)
Gross profit	2,561	3,731	1,210	3,005	2,826
Selling expenses	(713)	(846)	(728)	(814)	(766)
Administrative expenses <sup>(2)</sup>	(305)	(428)	(430)	(494)	(465)

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Research and development expenses <sup>(2)</sup>	(428)	(768)	(816)	(785)	(738)
Profit (loss) before income tax	1,013	1,266	(1,081)	459	432
Income tax expense (benefit)	(105)	106	(293)	222	209
Profit (loss) for the period	1,118	1,159	(788)	236	222
Total comprehensive income (loss) for the period	1,051	1,178	(757)	96	90
Basic earnings (loss) per share	3,124	3,232	(2,155)	652	0.61
Diluted earnings (loss) per share	3,124	3,152	(2,155)	652	0.61

**Table of Contents****Consolidated statements of financial position data**

	2009	2010	As of December 31,		2012 <sup>(1)</sup>
		(in billions of Won)	2011	2012	(in millions of US\$)
Cash and cash equivalents	818	1,631	1,518	2,339	US\$ 2,200
Deposits in banks	2,500	1,503	815	315	296
Trade accounts and notes receivable, net	2,950	3,001	2,740	3,334	3,136
Inventories	1,668	2,215	2,317	2,390	2,248
Total current assets	8,226	8,840	7,858	8,915	8,385
Property, plant and equipment, net	9,596	12,815	14,697	13,108	12,328
Total assets	19,703	23,858	25,163	24,456	23,001
Trade accounts and notes payable	2,031	2,962	3,783	4,147	3,900
Current financial liabilities	2,007	2,101	895	1,015	955
Other accounts payable	1,596	2,593	3,993	2,811	2,644
Total current liabilities	6,495	8,882	9,911	9,206	8,658
Non-current financial liabilities	2,076	2,543	3,722	3,441	3,236
Long-term advance received	584	945	669	1,050	988
Total liabilities	9,663	12,797	15,032	14,215	13,370
Share capital and share premium	4,040	4,040	4,040	4,040	3,800
Retained earnings	6,051	7,031	6,063	6,239	5,868
Total equity	10,040	11,061	10,131	10,240	9,631

**Other financial data**

	2009	2010	Year Ended December 31,		2012 <sup>(1)</sup>
		(in billions of Won, except for percentages)	2011	2012	(in millions of US\$, except for percentages)
Gross margin <sup>(3)</sup>	12.8%	14.6%	5.0%	10.2%	10.2%
Net margin <sup>(4)</sup>	5.6%	4.5%	(3.2)%	0.8%	0.8%
EBITDA <sup>(5)</sup>	3,845	4,200	2,657	5,086	US\$ 4,784
Capital expenditures	3,761	4,942	4,063	3,972	3,736
Depreciation and amortization <sup>(6)</sup>	2,842	2,926	3,651	4,469	4,203
Net cash provided by operating activities <sup>(7)</sup>	4,153	4,884	3,666	4,570	4,298
Net cash used in investing activities	(4,564)	(4,515)	(3,494)	(3,688)	(3,469)
Net cash provided by (used in) financing activities	(117)	408	(278)	(48)	(45)

- (1) For convenience, the Korean Won amounts are expressed in U.S. dollars at the rate of 1,063.24 to US\$1.00, the noon buying rate in effect on December 31, 2012 as certified by the Federal Reserve Bank of New York for customs purposes. This translation should not be construed as a representation that the Korean Won amounts represent, have been or could be converted to U.S. dollars at that rate or any other rate.
- (2) Amortization expenses related to certain research and development activities included in administrative expenses for the years ended December 31, 2009, 2010 and 2011 have been reclassified as research and development expenses to conform to the criteria of classification for the year ended December 31, 2012.
- (3) Gross margin represents gross profit (loss) divided by revenue.
- (4) Net margin represents profit (loss) for the period divided by revenue.
- (5) EBITDA is defined as profit (loss) for the period (x) plus interest expense, income tax expense (benefit), depreciation and amortization of intangible assets and (y) minus interest income. EBITDA is a key financial measure used by our senior management to internally evaluate the performance of our business and for other required or discretionary purposes. Specifically, our significant capital assets are in different stages of depreciation, and because we do not have separate operating divisions, our senior management uses EBITDA internally to measure the performance of these assets on a comparable basis. We also believe that the presentation of EBITDA will enhance an investor's understanding of our operating performance as we believe it is commonly reported and widely used by analysts and investors in our industry. It also provides useful information for comparison on a more comparable basis of our operating performance and those of our competitors, who follow different accounting policies. For example, depreciation on most of our equipment is made based on a

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four-year useful life while most of our competitors use different depreciation schedules from our own. EBITDA is not a measure determined in accordance with IFRS. EBITDA should not be considered as an alternative to gross profit, cash flows from operating activities or profit (loss) for the period, as determined in accordance with IFRS. Our calculation of EBITDA may not be comparable to similarly titled measures reported by other companies. A reconciliation of profit (loss) for the period to EBITDA is as follows:

	2009	Year Ended December 31,			2012 <sup>(1)</sup>
		2010	2011	2012	(in millions of US\$)
		(in billions of Won)			
<b>Profit (loss) for the period</b>	1,118	1,159	(788)	236	US\$ 222
Interest income	(123)	(91)	(58)	(29)	(27)
Interest expense	113	100	145	188	177
Income tax expense (benefit)	(105)	106	(293)	222	209
Depreciation	2,779	2,757	3,413	4,196	3,946
Amortization of intangible assets	63	169	238	273	257
<b>EBITDA</b>	<b>3,845</b>	<b>4,200</b>	<b>2,657</b>	<b>5,086</b>	<b>US\$ 4,784</b>

(6) Includes amortization of intangible assets.

(7) Effect of exchange rate change on cash and cash equivalents has been excluded from net cash provided by operating activities.

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	2009	Year Ended December 31, 2010 2011 2012 (in thousands)		
Number of panels sold by product category:				
Televisions <sup>(1)</sup>	35,316	51,184	53,084	56,490
Notebook computers <sup>(2)</sup>	50,632	70,124	90,577	116,315
Desktop monitors <sup>(3)</sup>	43,384	49,336	50,247	51,819
Mobile and other applications <sup>(4)</sup>	161,804	188,798	172,688	174,179
Total	291,136	359,442	366,596	398,803

	2009	Year Ended December 31, 2010 2011 2012 (in billions of Won)			2012 <sup>(5)</sup> (in millions of US\$)
Revenue by product category:					
Televisions <sup>(1)</sup>	10,965	14,079	11,579	13,512	US\$ 12,708
Notebook computers <sup>(2)</sup>	3,568	4,424	5,120	6,998	6,582
Desktop monitors <sup>(3)</sup>	4,640	5,390	4,975	5,039	4,739
Mobile and other applications <sup>(4)</sup>	816	1,575	2,540	3,754	3,531
Total sales of goods	19,989	25,468	24,214	29,303	US\$ 27,560
Royalties	22	23	61	38	36
Others	27	21	16	89	84
Revenue	20,038	25,512	24,291	29,430	US\$ 27,680

(1) Includes television sets manufactured and sold by our joint venture company, L&T Display Technology (Xiamen) Limited.

(2) Includes panels for certain types of tablet computers, as well as semi-finished products manufactured by LUCOM Display Technology (Kunshan) Ltd.

(3) Includes desktop monitors manufactured and sold by our joint venture company, L&T Display Technology (Fujian) Limited.

(4) Includes, among others, panels for handheld application products, including smartphones and other mobile phones, certain types of tablet computers, and industrial and other applications, including entertainment systems, automobiles, portable navigation devices and medical diagnostic equipment.

(5) For convenience, the Korean Won amounts are expressed in U.S. dollars at the rate of 1,063.24 to US\$1.00, the noon buying rate in effect on December 31, 2012 as certified by the Federal Reserve Bank of New York for customs purposes. This translation should not be construed as a representation that the Korean Won amounts represent, have been or could be converted to U.S. dollars at that rate or any other rate.

**Exchange Rates**

The table below sets forth, for the periods and dates indicated, information concerning the noon buying rate for Korean Won, expressed in Korean Won per one U.S. dollar. The noon buying rate is the rate in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York. Unless otherwise stated, translations of Korean Won amounts into U.S. dollars in this annual report were made at the noon buying rate in effect on December 31, 2012, which was 1,063.24 to US\$1.00. We do not intend to imply that the Korean Won or U.S. dollar amounts referred to herein could have been or could be converted into U.S. dollars or Korean Won, as the case may be, at any particular rate, or at all. On April 19, 2013, the noon buying rate was 1,119.03 = US\$1.00.

Fluctuation in the exchange rate between the Korean Won and the U.S. dollar will affect the amount of U.S. dollars received in respect of cash dividends or other distributions paid in Korean Won by us on, and the Korean Won proceeds received from any sales of, our common stock.

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Year Ended December 31,	At End of Period	Average Rate <sup>(1)</sup> (Korean Won per US\$1.00)	High	Low
2008	1,262.0	1,105.8	1,507.9	935.2
2009	1,163.7	1,270.0	1,570.1	1,149.0
2010	1,130.6	1,158.7	1,253.2	1,104.0
2011	1,158.5	1,105.2	1,197.5	1,049.2
2012	1,063.2	1,119.6	1,185.0	1,063.2
October	1,090.2	1,105.4	1,114.6	1,090.2
November	1,081.8	1,087.0	1,091.8	1,081.8
December	1,063.2	1,075.2	1,083.7	1,063.2
2013 (through April 19)	1,119.0	1,118.5	1,185.0	1,056.0
January	1,087.5	1,066.5	1,091.2	1,056.0
February	1,083.9	1,087.3	1,095.7	1,078.2
March	1,112.5	1,102.9	1,119.2	1,083.9
April (through April 19)	1,119.0	1,125.0	1,140.3	1,114.0

- (1) The average rate for each full year is calculated as the average of the noon buying rates on the last business day of each month during the relevant year. The average rate for a full month (or portion thereof) is calculated as the average of the noon buying rates on each business day during the relevant month (or portion thereof).

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### **Item 3.B. Capitalization and Indebtedness**

Not applicable.

### **Item 3.C. Reasons for the Offer and Use of Proceeds**

Not applicable.

### **Item 3.D. Risk Factors**

You should carefully consider the risks described below.

#### **Risks Relating to Our Industry**

*Our industry is subject to cyclical fluctuations, including recurring periods of capacity increases, that may adversely affect our results of operations.*

Display panel manufacturers are vulnerable to cyclical market conditions. Intense competition and expectations of growth in demand across the industry may cause display panel manufacturers to make additional investments in manufacturing capacity on similar schedules, resulting in a surge in capacity when production is ramped up at new fabrication facilities. During such surges in capacity growth, as evidenced by past experiences, customers can exert strong downward pricing pressure, resulting in sharp declines in average selling prices and significant fluctuations in the panel manufacturers' gross margins. Conversely, demand surges and fluctuations in the supply chain can lead to price increases.

In recent years, we have been affected by overcapacity in the industry relative to the general demand for TFT-LCD panels which, together with lingering uncertainties in the global economic environment, has resulted in a general decline in the average selling prices of a number of our TFT-LCD products. For example, our average revenue per square meter of net display area, which is derived by dividing our total revenue by total square meters of net display area shipped, decreased by 16.2% from US\$810 in 2010 to US\$679 in 2011. In 2012, however, our average revenue per square meter of net display area increased by 13.5% to US\$771 as compared to 2011, due in part to an increase in sales of increasingly larger-sized panels and differentiated specialty products based on newer technologies which in 2012 were relatively less affected by the industry-wide overcapacity problems affecting TFT-LCD products using older technologies.



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In that same period, our gross margin has also fluctuated, decreasing from 14.6% in 2010 to 5.0% in 2011, and then increasing to 10.2% in 2012. Principal factors affecting our gross margin include declines in the average selling prices of our display panels, as well as our ability to maintain or increase unit sales volume and market share, minimize the impact of fluctuations in prices of our products, foreign exchange rates and the supply and demand for principal components and raw materials, reduce unit manufacturing costs and introduce new products with higher margins in a timely manner. The sharp decrease in our gross margin in 2011 as compared to 2010 was largely a result of a decline in the average selling price of our display panels due to downward price pressure affecting TFT-LCD products generally, which in turn resulted from overcapacity in the industry relative to the demand for such products, and the appreciation of the Korean Won against the U.S. dollar. The increase in our gross margin in 2012 as compared to 2011 was due in large part to an increase in demand especially in the second half of 2012 for our differentiated specialty panels, such as those used in certain types of televisions, tablet computers and smartphones, which commanded relatively higher average selling prices, and our continued efforts to reduce cost of sales. Also, we benefited from a modest depreciation of the Korean Won against the U.S. dollar in 2012 as the annual average exchange rate rose from 1,105.2 to US\$1.00 in 2011 to 1,119.6 to US\$1.00 in 2012. However, the lingering industry-wide overcapacity issue continued to exert downward pressure on our gross margin in 2012 by causing further declines in the average selling prices of certain other TFT-LCD products, in particular those products that have reached, or are nearing, maturity in their respective technology cycles.

While we believe that overcapacity and other cyclical issues in the industry are best addressed by developing and commercializing differentiated products based on newer technologies that are tailored to our customers' evolving needs, we also address overcapacity issues by, in the short-term, adjusting the utilization rates of our existing fabrication facilities and, in the mid- to long-term, by fine-tuning our investment strategies relating to capacity growth in light of our assessment of future market conditions. For example, we reduced our utilization rates starting in July 2008 through February 2009 and then again in July 2010 through the end of 2011, in each case based on our assessment of capacity growth in the industry and its impact on the demand for our products. Since the end of 2011, as demand for certain of our products improved, we started raising our utilization rates, and by the fourth quarter of 2012, our facilities were operating at an average utilization rate of approximately 100%.

However, we cannot provide any assurance that the increase in demand in 2012, which helped to mitigate the impact of industry-wide overcapacity, can be sustained in future periods. We will therefore continue to closely monitor the overcapacity issues in the industry and respond accordingly. However, construction of new fabrication facilities and other capacity expansion projects in the display panel industry are undertaken with a multiple-year time horizon based on expectations of future market trends. Therefore, even if overcapacity issues persist in the industry, there may be continued capacity expansion in the near future due to pre-committed capacity expansion projects in the industry that were undertaken in past years. Any significant industry-wide capacity increases that are not accompanied by a sufficient increase in demand could further drive down the average selling price of our panels, which would negatively affect our gross margin. Any decline in prices may be further compounded by a seasonal weakening in demand growth for end products such as personal computer products, consumer electronics products and mobile and other application products. Furthermore, once the differentiated products that had a positive impact on our performance in 2012 mature in their technology cycle, if we are not able to develop and commercialize newer products to offset the price erosion of such maturing products in a timely manner, our ability to counter the impact of cyclical market conditions on our gross margins would be further limited. We cannot provide assurance that any future downturns resulting from any large increases in capacity or other factors affecting the industry would not have a material adverse effect on our business, financial condition and results of operations.

***A global economic downturn may result in reduced demand for our products and adversely affect our profitability.***

In recent years, difficulties affecting the global financial sectors, adverse conditions and volatility in the worldwide credit and financial markets, fluctuations in oil and commodity prices and the general weakness of the global economy have increased the uncertainty of global economic prospects in general and have adversely affected the global and Korean economies. The recent global economic downturn has adversely affected demand for consumer products manufactured by our customers in Korea and overseas, including televisions, notebook computers, desktop monitors and mobile and other application products utilizing TFT-LCD panels, which in turn led them to reduce or plan reductions of their production beginning in the fourth quarter of 2008. Partly in response to such weak demand, we reduced our TFT-LCD production from July 2008 to February 2009. Although demand for our products, as measured by the number of panels sold, started to recover in the second half of 2009 and generally remained strong in 2010, the renewed global economic difficulties in 2011 contributed to another decline in demand for our products in that year. While uncertainties in the global economic environment continued in 2012, we saw an increase in demand for our products since the end of 2011, initially due in part to channel inventory replenishment and then, especially in the second half of 2012, due in large part to increasing demand for our differentiated specialty products used in certain types of televisions, tablet computers and smartphones. However, we cannot provide any assurance that the increased demand for our products in 2012 can be sustained in future periods or that the demand for our products will not decrease again in the future due to another such economic downturn which may adversely affect our profitability. We may decide to adjust our production levels in the future subject to market demand for our products, the production outlook of the global display panel industry, in particular, the TFT-LCD industry, and global economic conditions in general. Any decline in demand for display panel products may adversely affect our business, results of operations and/or financial condition.



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***Our industry continues to experience steady declines in the average selling prices of display panels irrespective of cyclical fluctuations in the industry, and our margins would be adversely impacted if prices decrease faster than we are able to reduce our costs.***

The average selling prices of display panels have declined in general and are expected to continually decline with time irrespective of industry-wide cyclical fluctuations as a result of, among other factors, technological advancements and cost reductions. Although we may be able to take advantage of the higher selling prices typically associated with new products and technologies when they are first introduced in the market, such prices decline over time, and in certain cases, very rapidly, as a result of market competition or otherwise. If we are unable to effectively anticipate and counter the price erosion that accompanies our products, or if the average selling prices of our display panels decrease faster than the speed at which we are able to reduce our manufacturing costs, our gross margin would decrease and our results of operations and financial condition may be materially and adversely affected.

***We operate in a highly competitive environment and we may not be able to sustain our current market position.***

The display panel industry is highly competitive. We have experienced pressure on the prices and margins of our major products due largely to additional capacity from panel makers in Korea, Taiwan, China and Japan. Our main competitors in the industry include Samsung Display (which was spun off from Samsung Electronics in 2012), Hydis Technologies, AU Optronics, Innolux, Chunghwa Picture Tubes, HannStar Display, BOE, China Star Optoelectronics Technology, Japan Display (which was founded in 2011 by integrating the LCD panel businesses of Hitachi and TMDisplay, as well as certain businesses of Sony Mobile Display), Sharp and Panasonic LCD. Some of our competitors may currently, or at some point in the future, have greater financial, sales and marketing, manufacturing, research and development or technological resources than we do. In addition, our competitors may be able to manufacture panels on a larger scale or with greater cost efficiencies than we do and we anticipate increases in production capacity in the future by other display panel manufacturers using similar display panel technologies as us. Any price erosion resulting from strong global competition or additional industry capacity may materially adversely affect our financial condition and results of operations.

In addition, industry consolidation among our competitors may result in increased competition as the entities emerging from such consolidation may have greater financial, manufacturing, research and development and other resources than we do, especially if such mergers or consolidations are sponsored by a government entity. Recently, certain of our competitors have pursued strategic alternatives such as mergers or formation of new alliances, resulting in, for example, the creation of Japan Display in 2011. Increased competition resulting from such mergers or consolidations may lead to decreased margins, which may have a material adverse effect on our financial condition and results of operations.

We and our competitors each seek to establish our own products as the industry standards. For example, in the growing large-sized television panel market, we currently manufacture primarily 32-inch, 42-inch, 47-inch and 55-inch television panels. Other display panel manufacturers produce competing large-sized television panels in slightly different dimensions, such as 39-inch, 40-inch, 46-inch and 50-inch panels. If our competitors' panels become the standard market size, we may lose market share, which may have a material adverse effect on our financial condition and results of operations.

Our ability to compete successfully also depends on factors both within and outside our control, including product pricing, performance and reliability, our relationship with customers, successful and timely investment and product development, success or failure of our end-brand customers in marketing their brands and products, component and raw material supply costs, and general economic and industry conditions. We cannot provide assurance that we will be able to maintain a competitive edge with respect to all these factors and, as a result, we may be unable to sustain our current market position.

***Our operating results fluctuate from period to period, so you should not rely on period-to-period comparisons to predict our future performance.***

Our industry is affected by market conditions that are often outside the control of manufacturers. Our results of operations may fluctuate significantly from period to period due to a number of factors, including seasonal variations in consumer demand, capacity ramp-up by competitors, industry-wide technological changes, the loss of a key customer and the postponement, rescheduling or cancellation of large orders by a key customer, any of which may or may not reflect a continued trend from one period to the next. As a result of these factors and other risks discussed in this section, you should not rely on period-to-period comparisons to predict our future performance.

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### **Risks Relating to Our Company**

***Our financial condition may be adversely affected if we cannot introduce new products to adapt to rapidly evolving customer needs on a timely basis.***

Our success will depend greatly on our ability to respond quickly to rapidly evolving customer requirements and to develop new and differentiated products in anticipation of future demand. A failure or delay on our part to develop products of such quality and technical specifications that meet our customers' evolving needs may adversely affect our business.

Close cooperation with our customers to gain insights into their product needs and to understand general trends in the end-product market is a key component of our strategy to produce successful products. In addition, when developing new products, we often work closely with equipment suppliers to design equipment that will make our production processes for such new products more efficient. If we are unable to work together with our customers and equipment suppliers, or to sufficiently understand their respective needs and capabilities or general market trends, we may not be able to introduce new products in a timely manner, which may have a material adverse effect on our financial situation.

In addition, product differentiation, especially the ability to develop and market differentiated specialty products that command higher premiums in a timely manner, has become a key competitive strategy in the display panel market. This is in part due to trends in consumer electronics and other markets, such as televisions, tablet computers and mobile devices, where the growth in demand is led by end products employing newer technologies with specifications tailored to deliver enhanced performance, convenience and user experience in a cost-efficient manner. Accordingly, we have focused our efforts on developing and marketing differentiated specialty products, including our television panels utilizing FPR 3D technology, AH-IPS panels for tablet computers, mobile devices, notebook computers and desktop monitors, OLED television panels utilizing white RGB, or WRGB, OLED technology and Shuriken notebook monitors with thin bezels. In addition, we have developed differentiated sales and marketing strategies to promote our panels for such products as part of our strategy to grow our operations to meet increasing demand for new applications in consumer electronics and other markets. However, we cannot provide assurance that the differentiated products we develop and market will be responsive to our end customers' needs nor that our products will be successfully incorporated into end products or new applications that lead market growth in consumer electronics or other markets.

***Problems with product quality, including defects, in our products could result in a decrease in customers and sales, unexpected expenses and loss of market share.***

Our products are manufactured using advanced, and often new, technology and must meet stringent quality requirements. Products manufactured using advanced and new technology such as ours may contain undetected errors or defects, especially when first introduced. For example, our latest display panels may contain defects that are not detected until after they are shipped or installed because we cannot test for all possible scenarios. Such defects could cause us to incur significant re-designing costs, divert the attention of our technology personnel from product development efforts and significantly affect our customer relations and business reputation. In addition, future product failures could cause us to incur substantial expense to repair or replace defective products. We recognize a provision for warranty obligations based on the estimated costs that we expect to incur under our basic limited warranty for our products, which covers defective products and is normally valid for eighteen months from the date of purchase. The warranty provision is largely based on historical and anticipated rates of warranty claims, and therefore we cannot provide assurance that the provision would be sufficient to cover any surge in future warranty expenses that significantly exceed historical and anticipated rates of warranty claims. In addition, if we deliver products with errors or defects, or if there is a perception that our products contain errors or defects, our credibility and the market acceptance and sales of our products could be harmed. Widespread product failures may damage our market reputation and reduce our market share and cause our sales to decline.

***We sell our products to a select group of key customers, including our largest shareholder, and any significant decrease in their order levels will negatively affect our financial condition and results of operations.***

A substantial portion of our sales is attributable to a limited group of end-brand customers and their designated system integrators. Sales attributed to our end-brand customers are for their end-brand products and do not include sales to these customers for their system integration activities for other end-brand products, if any. Our top ten end-brand customers, including LG Electronics Inc., our largest shareholder, together accounted for 75.8% of our sales in 2010, 70.9% in 2011 and 71.3% in 2012. Our top five end-brand customers together accounted for 55.0% of our sales in 2010, 53.6% in 2011 and 57.6% in 2012.

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We benefit from the strong collaborative relationships we maintain with our end-brand customers by participating in the development of their products and gaining insights about levels of future demand for our products and other industry trends. Customers look to us for a dependable supply of quality products, even during downturns in the industry, and we benefit from the brand recognition of our customers' end products. The loss of these end-brand customers, as a result of their entering into strategic supplier arrangements with our competitors or otherwise, would thus result not only in reduced sales, but also in the loss of these benefits. We cannot provide assurance that a select group of key end-brand customers, including our largest shareholder, will continue to place orders with us in the future at the same levels as in prior periods, or at all.

We engage in related party transactions with LG Electronics and its affiliates:

Sales to LG Electronics sales to LG Electronics (including its overseas subsidiaries) on an invoiced basis, which include sales to LG Electronics both as an end-brand customer and a system integrator, amounted to 24.8%, 21.4% and 21.0% of our sales in 2010, 2011 and 2012, respectively

Sales to LG International sales to LG International Corp., our affiliated trading company, and its subsidiaries on an aggregate basis amounted to 8.8%, 6.3% and 5.0% of our sales in 2010, 2011 and 2012, respectively.

We expect that we will continue to be dependent upon LG Electronics and its affiliates for a significant portion of our revenue for the foreseeable future. See Item 7.B. Related Party Transactions for a description of these related party transactions with LG Electronics and its affiliates. Our results of operations and financial condition could therefore be affected by the overall performance of LG Electronics and its affiliates.

***Any material deterioration in the financial condition of our key end-brand customers, their system integrators or our affiliated trading company will have an adverse effect on our results of operations.***

Our top ten end-brand customers together accounted for 75.8% of our sales in 2010, 70.9% in 2011 and 71.3% in 2012. Although we negotiate directly with our end-brand customers concerning the price and quantity of the sales, for some sales transactions we invoice the end-brand customers' designated system integrators. In addition, a portion of our sales to end-brand customers and their system integrators located in certain regions are sold through our affiliated trading company, LG International and its subsidiaries. Our credit policy typically requires payment within 30 to 90 days, and payments on the vast majority of our sales have typically been collected within 65 days. Although we have not experienced any material problems relating to customer payments to date, as a result of our significant dependence on a concentrated group of end-brand customers and their designated system integrators, as well as the sales we make to our affiliated trading company and its subsidiaries, we are exposed to credit risks associated with these entities.

***Consolidation and other changes at our end-brand customers could cause sales of our products to decline.***

Mergers, acquisitions, divestments or consolidations involving our end-brand customers can present risks to our business, as management at the new entity may change the way they do business, including their transactions with us, or may decide not to use us as one of their suppliers of TFT-LCD or other products. In addition, we cannot provide assurance that a combined entity resulting from a merger, acquisition or consolidation or a newly formed entity resulting from a divestment will continue to purchase TFT-LCD or other panels from us at the same level, if at all, as each entity purchased in the aggregate when they were separate companies or that a divested company will purchase panels from us at the same level, if at all, as prior to the divestment.

***Our results of operations depend on our ability to keep pace with changes in technology.***

Advances in technology typically lead to rapid declines in sales volumes for products made with older technologies and may lead to these products becoming less competitive in the marketplace, or even obsolete. As a result, we will likely be required to make significant expenditures to develop or acquire new process and product technologies. For example, the rapidly expanding mobile display market for smart devices such as smartphones and certain tablet computers has resulted in increased demand for display panels using new energy-efficient technologies that provide for greater resolutions, wider viewing angles, high light transmittance and stability of images even when used on a touchscreen device. We have introduced mobile display products based on Advanced High-Performance In-Plane Switching technology, or AH-IPS, which have helped us quickly secure a leading role in this market.

While the TFT-LCD technology undergoes continued innovation, we and our competitors are also developing new display technologies that depart from TFT-LCD technology, such as organic light-emitting diode, or OLED, and flexible display. In particular, we and some of our competitors have already commenced commercial production of OLED products. We commenced mass production of OLED panels for use mainly in mobile devices in September 2011 at our 4.5-generation production lines. In addition, we started pilot production of OLED television panels on one of our eighth-generation production lines toward the end of 2012. With the launch of retail sales of 55-inch OLED televisions by certain of our customers starting in the first quarter of 2013, we intend to deploy greater resources into expanding our large-sized OLED panel fabrication capabilities with the aim of establishing an early competitive edge in the market. We are also making preparations to commence mass production of plastic OLED products. We expect that mass production for some of our initial plastic OLED products could begin in the second half of 2013. Our ability to utilize advanced manufacturing process technologies to increase production yields while lowering production cost will be critical to our sustained competitiveness.

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However, we cannot provide assurance that we will be able to continue to successfully develop new products or manufacturing processes through our research and development efforts or through obtaining technology licenses, or that we will keep pace with technological changes in the marketplace.

***Our revenue depends on continuing demand for televisions, notebook computers, desktop monitors and mobile and other application products with panels of the type we produce. Our sales may not grow at the rate we expect if consumers do not purchase these products.***

Currently, our total sales are derived principally from customers who use our products in televisions, notebook computers, including certain types of tablet computers, desktop monitors and mobile and other application products with display devices. In particular, a substantial percentage of our sales is derived from end-brand customers, or their designated system integrators, who use our panels in their televisions, which accounted for 55.2%, 47.7% and 45.9% of our total revenue in 2010, 2011 and 2012, respectively. A substantial portion of our sales is also derived from end-brand customers, or their designated system integrators, who use our panels in their notebook computers and certain types of tablet computers, which accounted for 17.3%, 21.1% and 23.8% of our total revenue in 2010, 2011 and 2012, respectively, those who use our panels in their desktop monitors, which accounted for 21.1%, 20.5% and 17.1% of our total revenue in 2010, 2011 and 2012, respectively, and those who use our panels in their mobile and other applications, which accounted for 6.2%, 10.4% and 12.8% of our total revenue in 2010, 2011 and 2012, respectively. Although our dependence on sales of television panels decreased in 2011 and 2012, television panels remain our largest product category in terms of revenue and we will therefore continue to be dependent on the growth of the television industry. In addition, we will continue to be dependent on the growth of the personal computer industry and the mobile device industry, including the tablet computer industry, for a substantial portion of our sales. Any downturn in any of those industries in which our customers operate would result in reduced demand for our products, which may in turn result in reduced revenues, lower average selling prices and/or reduced margins.

***The introduction of alternative display panel technologies, including those currently under development by our competitors and us, may erode future sales of TFT-LCD panels, which may have a material adverse effect on our financial condition and results of operations.***

New display technologies, such as OLED and flexible display, which are at various stages of development by us and other display panel makers, may gain wider market acceptance than TFT-LCD technology for use in certain products, such as televisions, smartphones, certain types of tablet computers and industrial and other applications, including entertainment systems, automobiles, portable navigation devices and medical diagnostic equipment. If consumers do not purchase products utilizing TFT-LCD panels as we expect, or if TFT-LCD technology itself is rendered obsolete, or if we are unable to develop and commercialize OLED and other technologies in a commercially viable and timely manner, this would have a material adverse effect on our financial condition and results of operations to the extent we cannot offset such loss in demand for TFT-LCD products by selling products using other display technologies.

***We will have significant capital requirements in connection with our business strategy and if capital resources are not available we may not be able to implement our strategy and future plans.***

In connection with our strategy to further enhance the diversity and capacity of our display panel production, we estimate that we will continue to incur significant capital expenditures for the enhancement of existing production facilities, including the construction of additional production lines, and the construction of new production facilities. In March 2011, we commenced mass production at P83, the second expansion to our eighth-generation fabrication facility, P81. In June 2012, we also commenced mass production at P98, a new eighth-generation panel fabrication facility located in our Paju Display Cluster in Paju, Korea. In addition, in May 2012, we held a groundbreaking ceremony for the construction of an eighth-generation fabrication facility in Guangzhou, China. We expect mass production to commence at the Guangzhou fabrication facility in the second half of 2014, subject to market conditions and any changes in our investment timetable. In January 2011, we signed a memorandum of understanding with Gumi City regarding its administrative support for our 1.35 trillion investment to expand our module production facilities in Gumi City, Korea, over a five-year period starting in 2011, and in July 2012, we entered into an agreement with Gumi City and North Gyeongsang Province for their administrative assistance in connection with our 1.20 trillion investment to convert our P61 fabrication facility located in Gumi City into low temperature polycrystalline silicon, or LTPS, production lines. We expect mass production to commence at the converted LTPS production lines in the fourth quarter of 2013, subject to market conditions and any changes in our investment timetable. In addition, starting in the first quarter of 2013, we began expanding our large-sized OLED television panel production capacity at certain of our facilities in our Paju Display Cluster, for which we expect to invest 0.71 trillion. Mass production is expected to commence at the new large-sized OLED panel production lines in the first half of 2014, subject to market conditions and any changes in our investment timetable.

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In 2012, our total capital expenditure on a cash out basis amounted to approximately 4.0 trillion. We currently expect that, in 2013, our total capital expenditures on a cash out basis will be no more than 4 trillion or, on a delivery basis, between approximately 4 trillion and 4.5 trillion, primarily to fund the expansion of our OLED panel and LTPS backplane technology-based panel production capacities, as well as other expansions and improvements to our existing facilities. Such amounts are subject to periodic assessment, and we cannot provide any assurance that such amounts may not change materially after assessment.

These capital expenditures will be made well in advance of any additional sales that will be generated from these expenditures. However, in the event of adverse market conditions, or if our actual expenditures far exceed our planned expenditures, our external financing activities combined with our internal sources of liquidity may not be sufficient to effect our current and future operational plans, and we may decide not to expand the capacity of certain of our facilities or construct new production facilities as scheduled or at all. Our ability to obtain additional financing will depend upon a number of factors outside our control, including general economic, financial, competitive, regulatory and other considerations.

In recent years, difficulties affecting the global financial sectors, adverse conditions and volatility in the worldwide credit and financial markets, fluctuations in oil and commodity prices and the general weakness of the global economy have increased the uncertainty of global economic prospects in general and have adversely affected the global and Korean economies. Because we rely on financing both within and outside of Korea from time to time, the difficulties affecting the global and Korean economies, including any increase in market volatility and their lingering effects, could adversely affect our ability to obtain sufficient financing on commercially reasonable terms. The failure to obtain sufficient financing on commercially reasonable terms to complete our expansion plans could delay or impair our ability to pursue our business strategy, which could materially and adversely affect our business and results of operations.

***Our manufacturing processes are complex and periodic improvements to increase efficiency can expose us to potential disruptions in operations.***

The manufacturing processes for TFT-LCD, OLED and other display products are highly complex, requiring sophisticated and costly equipment that is periodically modified and updated to improve manufacturing yields and product performance, and reduce unit manufacturing costs. These updates expose us to the risk that from time to time production difficulties will arise that could cause delivery delays, reduced output or both. We cannot provide assurance that we will not experience manufacturing problems in achieving acceptable output, product delivery delays or both as a result of, among other factors, construction delays, difficulties in upgrading or modifying existing production lines or ramping up new plants, difficulties in changing manufacturing line technologies or delays in equipment deliveries, any of which could constrain our capacity and adversely affect our results of operations.

***We may be unable to successfully execute our growth strategy or manage and sustain our growth on a timely basis, if at all, and, as a result, our business may be harmed.***

We have experienced, and expect to continue to experience, rapid growth in the scope and complexity of our operations. For example, we enhanced our capacity at our Korean facilities by commencing mass production at P82, the first expansion to our P81 fabrication facility, in May 2010, at P83, the second expansion to our P81 fabrication facility, in March 2011, and at P98, our newest eighth-generation panel fabrication facility, in June 2012. In addition, we have continually made investments in our other facilities, including our LTPS fabrication facility. In particular, we expect to invest 1.20 trillion to convert our P61 fabrication facility located in Gumi City into LTPS production lines, which are expected to commence mass production in the fourth quarter of 2013. In July 2012, we entered into an agreement with Gumi City and North Gyeongsang Province for administrative assistance in connection with the investment. Also, starting in the first quarter of 2013, we began expanding our large-sized OLED television panel production capacity at certain of our facilities in our Paju Display Cluster, for which we expect to invest 0.71 trillion. Mass production is expected to commence at the new large-sized OLED panel production lines in the first half of 2014, subject to market conditions and any changes in our investment timetable. In addition, in January 2011, we signed a memorandum of understanding with Gumi City to extend administrative support for our 1.35 trillion investment to expand our module production facilities in Gumi City, Korea, over a five-year period starting in 2011. With respect to our overseas facilities in recent years, we commenced mass production at our module production plant in Reynosa, Mexico in March 2012, and we commenced construction of an eighth-generation fabrication facility in Guangzhou, China, in May 2012. We expect mass production to commence at the Guangzhou fabrication facility in the second half of 2014, subject to market conditions and any changes in our investment timetable. See also We will have significant capital requirements in connection with our business strategy and if capital resources are not available we may not be able to implement our strategy and future plans above.



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This sustained growth may strain our managerial, financial, manufacturing and other resources. We may experience manufacturing difficulties in starting new production lines, upgrading existing facilities or ramping up new plants as a result of cost overruns, construction delays or shortages of, or quality problems with, materials, labor or equipment, any of which could result in a loss of future revenues. In addition, failure to keep up with our competitors in future investments in next-generation panel fabrication facilities or in the upgrading of manufacturing capacity of existing facilities would impair our ability to effectively compete within the display panel industry. Failure to obtain intended economic benefits from expansion projects could adversely affect our business, financial condition and results of operations.

***If we cannot maintain high capacity utilization rates, our profitability will be adversely affected.***

The production of TFT-LCD and OLED panels entails high fixed costs resulting from considerable expenditures for the construction of complex fabrication and assembly facilities and the purchase of costly equipment. We aim to maintain high capacity utilization rates so that we can allocate these fixed costs over a greater number of panels produced and realize a higher gross margin. However, due to any number of reasons, including fluctuating demand for our products or overcapacity in the TFT-LCD industry, we may need to reduce production, resulting in lower-than-optimal capacity utilization rates. For example, partly due to weak demand, we reduced our TFT-LCD production from July 2008 to February 2009 and again starting from July 2010 through the end of 2011. As such, we cannot provide assurance that we will be able to sustain our capacity utilization rates in the future nor can we provide assurance that we will not reduce our utilization rates once again in the future as market and industry conditions change.

***Limited availability of raw materials, components and manufacturing equipment could materially and adversely affect our business, results of operations or financial condition.***

Our production operations depend on obtaining adequate supplies of quality raw materials and components on a timely basis. As a result, it is important for us to control our raw material and component costs and reduce the effects of fluctuations in price and availability. In general, we source most of our raw materials as well as key components, such as glass substrates, driver integrated circuits, polarizers and color filters used in both our TFT-LCD and OLED products, backlight units and liquid crystal materials used in our TFT-LCD products and hole transport materials and emission materials used in our OLED products, from two or more suppliers for each key component. However, we may establish a working relationship with a single supplier if we believe it is advantageous to do so due to performance, quality, support, delivery, capacity, price or other considerations. We may experience shortages in the supply of these key components, as well as other components or raw materials, as a result of, among other things, anticipated capacity expansion in the display industry or our dependence on a limited number of suppliers. Our results of operations would be adversely affected if we were unable to obtain adequate supplies of high-quality raw materials or components in a timely manner or make alternative arrangements for such supplies in a timely manner.

Furthermore, we may be limited in our ability to pass on increases in the costs of raw materials and components to our customers. We do not typically enter into binding long-term contracts with our customers, and even in those cases where we do enter into long-term agreements with certain of our major end-brand customers, the price terms are contained in the purchase orders which are generally placed by them one month in advance of delivery. Except under certain special circumstances, the price terms in the purchase orders are not subject to change. Prices for our products are generally determined through negotiations with our customers, based generally on the complexity of the product specifications and the labor and technology involved in the design or production processes. However, if we become subject to any significant increase in the costs of raw materials or components that were not anticipated when negotiating the price terms after the purchase orders have been placed, we may be unable to pass on such cost increases to our customers.

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We have purchased, and expect to purchase, a substantial portion of our equipment from a limited number of qualified foreign and local suppliers. From time to time, increased demand for new equipment may cause lead times to extend beyond those normally required by the equipment vendors. The unavailability of equipment, delays in the delivery of equipment, or the delivery of equipment that does not meet our specifications, could delay implementation of our expansion plans and impair our ability to meet customer orders. This could result in a loss of revenues and cause financial stress on our operations.

***Earthquakes, tsunamis, floods and other natural calamities could materially adversely affect our business, results of operations or financial condition.***

If earthquakes, tsunamis, floods or any other natural calamities were to occur in the future in any area where any of our assets, suppliers or customers are located, our business, results of operations or financial condition could be adversely affected. A number of suppliers of our raw materials, components and manufacturing equipment, as well as customers of our products, are located in Japan, which suffered an earthquake and tsunami in March 2011 (which also resulted in the release of radioactive materials from a nuclear plant that had been damaged by the earthquake). While we believe the impact was not material to our financial condition or operating results as of and for the years ended December 31, 2011 and 2012, any future recurrence of such natural calamities in Japan or any other countries where our suppliers are located may lead to shortages or delays in the supply of raw materials, components or manufacturing equipment. In addition, natural calamities in areas where our customers are located, including Japan, may cause disruptions in their businesses, which in turn could adversely impact their demand for our products.

***Purchase orders from our customers, which are placed generally one month in advance of delivery, vary in volume from period to period, and we operate with a modest inventory, which may make it difficult for us to efficiently allocate capacity on a timely basis in response to changes in demand.***

Our major customers and their designated system integrators provide us with three- to six-month rolling forecasts of their product requirements. However, firm orders are not placed until one month before delivery when negotiations on purchase prices are also finalized. Firm orders may be less than anticipated based on these three- to six-month forecasts. Due to the cyclical nature of the display industry, purchase order levels from our customers have varied from period to period. Although we typically operate with a two- to four-week inventory, it may be difficult for us to adjust production costs or to allocate production capacity in a timely manner to compensate for any such volatility in order volumes. Our inability to respond quickly to changes in overall demand for display products as well as changes in product mix and specifications may result in lost revenue, which would adversely affect our results of operations.

***We may experience losses on inventories.***

Frequent new product introductions in the computer and consumer electronics industries can result in a decline in the average selling prices of our TFT-LCD and other panels and the obsolescence of our existing TFT-LCD or other panel inventory. This can result in a decrease in the stated value of our panel inventory, which we value at the lower of cost or market value.

We manage our inventory based on our customers' and our own forecasts and typically operate with a two- to four-week inventory. Although adjustments are regularly made based on market conditions, we typically deliver our goods to the customers one month after a firm order has been placed. While we maintain open channels of communication with our major customers to avoid unexpected decreases in firm orders or subsequent changes to placed orders, and try to minimize our inventory levels, such actions by our customers may have an adverse effect on our inventory management.

***Sanctions or judgments against us and other TFT-LCD panel producers for possible anti-competitive activities may have a direct and indirect material impact on our operations.***

In December 2006, LG Display received notices of investigation by the U.S. Department of Justice, the European Commission, the Korea Fair Trade Commission and the Japan Fair Trade Commission with respect to possible anti-competitive activities in the TFT-LCD industry. LG Display subsequently received similar notices from the Competition Bureau of Canada, the Secretariat of Economic Law of Brazil, the Taiwan Fair Trade Commission and the Federal Competition Commission of Mexico.

In November 2008, LG Display executed an agreement with the U.S. Department of Justice whereby LG Display and LG Display America pleaded guilty to a Sherman Antitrust Act violation and agreed to pay a single total fine of US\$400 million. In December 2008, the U.S. District Court for the Northern District of California accepted the terms of the plea agreement and entered a judgment against LG Display and LG Display America and ordered the payment of US\$400 million. The agreement resolved all federal criminal charges against LG Display and LG Display America in the United States in connection with this matter, provided that LG Display continues to cooperate with the U.S. Department

of Justice in connection with the ongoing proceedings.

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In December 2010, the European Commission issued a decision finding that LG Display engaged in anti-competitive activities in the TFT-LCD industry in violation of European Union competition laws, and imposed a fine of 215 million. In February 2011, LG Display filed with the European Union General Court an application for partial annulment and reduction of the fine imposed by the European Commission. As of April 25, 2013, the European Union General Court has not ruled on LG Display's application. In November 2011, LG Display received a request for information from the European Commission relating to certain alleged anti-competitive activities in the TFT-LCD industry and has responded to the request.

In November 2009, the Taiwan Fair Trade Commission terminated its investigation without any finding of violations or levying of fines. Also, in February 2012, the Competition Bureau of Canada terminated its investigation without any finding of violations or levying of fines. As of April 25, 2013, no decision has been issued by the Japan Fair Trade Commission, and we believe the statutory time period by which the Commission was required to have issued a decision has already lapsed. As of April 25, 2013, investigations by the Federal Competition Commission of Mexico and the Secretariat of Economic Law of Brazil are ongoing.

In December 2011, the Korea Fair Trade Commission imposed a fine of 31.4 billion after finding that LG Display and certain of its subsidiaries engaged in anti-competitive activities in violation of Korean fair trade laws. In December 2011, LG Display filed an appeal of the decision with the Seoul High Court. As of April 25, 2013, the Seoul High Court has not ruled on LG Display's appeal.

After the commencement of the U.S. Department of Justice investigation, a number of class action complaints were filed against LG Display, LG Display America and other TFT-LCD panel manufacturers in the United States and Canada alleging violation of respective antitrust laws and related laws. In a series of decisions in 2007 and 2008, the class action lawsuits in the United States were transferred to the Northern District of California for pretrial proceedings, which we refer to as the MDL Proceedings. In March 2010, the federal district court granted the class certification motion filed by the indirect purchaser plaintiffs, and granted in part and denied in part the class certification motion filed by the direct purchaser plaintiffs. In January 2011, 78 entities (including groups of affiliated entities) submitted requests for exclusion from the direct purchaser class. In April 2012, ten entities (including groups of affiliated companies) submitted requests for exclusion from the indirect purchaser class. In addition, since 2010, the attorneys general of Arkansas, California, Florida, Illinois, Michigan, Mississippi, Missouri, New York, Oklahoma, Oregon, South Carolina, Washington, West Virginia and Wisconsin filed complaints against LG Display, alleging similar antitrust violations as alleged in the MDL Proceedings.

In June 2011, LG Display reached a settlement with the direct purchaser class, which the federal district court approved in December 2011. In July 2012, LG Display reached a settlement with the indirect purchaser class plaintiffs and with the state attorneys general of Arkansas, California, Florida, Michigan, Missouri, New York, West Virginia and Wisconsin, which was approved by the federal district court in April 2013 and, in the case of the state attorneys general actions, by their respective state governments. In March 2013, the attorney general of Oklahoma dismissed its action as to LG Display pursuant to a separate settlement agreement. As of April 25, 2013, the Illinois, Mississippi, Oregon, South Carolina and Washington attorneys general actions remain pending. While the Oregon attorney general action is pending in the MDL Proceedings, the Illinois and Washington attorneys general actions are pending in their respective state courts, and the Mississippi and South Carolina attorneys general actions are pending in federal courts in their respective districts.

In addition, in relation to the MDL Proceedings, in 2009, ATS Claim, LLC (assignee of Ricoh Electronics, Inc.), AT&T Corp. and its affiliates, Motorola Mobility, Inc., and Electrograph Technologies Corp. and its subsidiary filed separate claims in the United States, and all of the actions were subsequently consolidated into the MDL Proceedings. In November 2010, ATS Claim, LLC dismissed its action as to LG Display pursuant to a settlement agreement. In addition, in 2010, TracFone Wireless Inc., Best Buy Co., Inc. and its affiliates, Target Corp., Sears, Roebuck and Co., Kmart Corp., Old Comp Inc., Good Guys, Inc., RadioShack Corp., Newegg Inc., Costco Wholesale Corp., Sony Electronics, Inc. and its affiliate, SB Liquidation Trust and the trustee of the Circuit City Stores, Inc. Liquidation Trust filed claims in the United States. In addition, in 2011, the AASI Creditor Liquidating Trust on behalf of All American Semiconductor Inc., CompuCom Systems, Inc., Interbond Corporation of America, Jaco Electronics, Inc., Office Depot, Inc., P.C. Richard & Son Long Island Corporation, MARTA Cooperative of America, Inc., ABC Appliance, Inc., Schultze Agency Services, LLC on behalf of Tweeter Opco, LLC and its affiliate, T-Mobile U.S.A., Inc., Tech Data Corporation and its affiliate filed similar claims in the United States. In 2012, ViewSonic Corp., NECO Alliance LLC, Rockwell Automation LLC, Proview Technology Inc. and its affiliates filed similar claims. To the extent these claims were not filed in the MDL Proceedings, they have been transferred or are expected to be transferred to the MDL Proceedings for pretrial proceedings. In December 2012, Sony Europe Limited and its affiliate filed similar claims in the High Court of Justice in the United Kingdom. In January 2013, AT&T Corp. and its affiliates dismissed their action as to LG Display pursuant to a settlement agreement. In January 2013, the trustee of Circuit City Stores, Inc. Liquidation Trust dismissed its action as to LG Display pursuant to a settlement agreement, which was approved by the U.S. Bankruptcy Court. In April 2013, Sony Electronics, Inc. and Sony Europe Limited, together with their respective affiliates, dismissed their actions as to LG Display pursuant to a settlement agreement. LG Display reached a settlement with T-Mobile, U.S.A., Inc. in April 2013.



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In Canada, the Ontario Superior Court of Justice certified the class action complaints filed by the direct and indirect purchasers in May 2011. LG Display is pursuing an appeal of the decision as well as defending the on-going class actions in Quebec and British Columbia.

In each of these ongoing matters, we are continually evaluating the merits of the respective claims and vigorously defending ourselves. Irrespective of the validity or the successful assertion of the claims described above, we may incur significant costs with respect to litigating or settling any or all of the asserted claims. See Item 8.A. Consolidated Statements and Other Financial Information Legal Proceedings Antitrust and Others for a description of these matters. While we continue to vigorously defend the various proceedings described above, it is possible that one or more proceedings may result in an unfavorable outcome. We have recognized provisions in 2012 with respect to those contingencies in which our management has concluded that the likelihood of an unfavorable outcome is probable and the amount of loss is reasonably estimable. However, actual liability may be materially different from that estimated as of December 31, 2012 and may have a material adverse effect on our operating results or financial condition.

***We need to observe certain financial and other covenants under the terms of our debt obligations, the failure to comply with which would put us in default under such debt obligations.***

We are subject to financial and other covenants, including maintenance of credit ratings and debt-to-equity ratios, under certain of our debt obligations. The documentation for such debt also contains negative pledge provisions limiting our ability to provide liens on our assets as well as cross-default and cross-acceleration clauses, which give related creditors the right to accelerate the amounts due under such debt if an event of default or acceleration has occurred with respect to our existing or future indebtedness, or if any material part of our indebtedness or indebtedness of our subsidiaries is capable of being declared payable before the stated maturity date. In addition, such covenants restrict our ability to raise future debt financing.

If we breach the financial or other covenants contained in the documentation governing our debt obligations, our financial condition will be adversely affected to the extent we are not able to cure such breaches, obtain a waiver from the relevant lenders or debtholders or repay the relevant debt.

***Our results of operations are subject to exchange rate fluctuations.***

There has been considerable volatility in foreign exchange rates in recent years, including rates between the Korean Won and the U.S. dollar and between the Korean Won and the Japanese Yen. To the extent that we incur costs in one currency and make sales in another, our profit margins may be affected by changes in the exchange rates between the two currencies.

Our sales of display panels are denominated mainly in U.S. dollars, whereas our purchases of raw materials are denominated mainly in U.S. dollars and Japanese Yen. Our expenditures on capital equipment are denominated principally in Korean Won. In 2012, 96.7% of our sales were denominated in U.S. dollars. During the same period, 79.6% of our purchases of raw materials and components were denominated in U.S. dollars and 19.2% in Japanese Yen. In addition, approximately 68.1% of our equipment purchases and construction costs, which represented almost all of our total capital expenditures in 2012, were denominated in Korean Won.

Accordingly, fluctuations in exchange rates, in particular between the U.S. dollar and the Korean Won as well as between the Japanese Yen and the Korean Won, affect our pre-tax income. After a period of wide fluctuation from the second half of 2008 through the first half of 2010, the value of the Korean Won relative to the U.S. dollar and the Japanese Yen saw periods of relative stability through most of 2012. However, starting in the fourth quarter of 2012, there have been signs of relative increase in the volatility of the exchange rates. The Korean Won appreciated against the U.S. dollar in the second half of 2012 and against the Japanese Yen in the fourth quarter of 2012. In the first quarter of 2013, the Korean Won depreciated against the U.S. dollar while the value of Korean Won relative to the Japanese Yen appreciated but at a slower rate as compared to the fourth quarter of 2012. See Item 3.A. Selected Financial Data Exchange Rates. Although a depreciation of the Korean Won against the U.S. dollar increases the Korean Won value of our export sales and enhances the price-competitiveness of our products in foreign markets in U.S. dollar terms, it also increases the cost of imported raw materials and components in Korean Won terms and our cost in Korean Won of servicing our U.S. dollar denominated debt. A depreciation of the Korean Won against the Japanese Yen increases the Korean Won cost of our Japanese Yen denominated purchases of raw materials and components and, to the extent we have any debt denominated in Japanese Yen, our cost in Korean Won of servicing such debt, but has relatively little impact on our sales as most of our sales are denominated in U.S. dollars. In addition, continued exchange rate volatility may also result in foreign exchange losses for us. Although a depreciation of the Korean Won against the U.S. dollar, in general, has a net positive impact on our results of operations that more than offsets the net negative impact caused by a depreciation of the Korean Won against the Japanese Yen, we cannot provide assurance that the exchange rate of the Korean Won against foreign currencies will not be subject to significant fluctuations, including a sharp appreciation of the Korean Won against the U.S. dollar or the Japanese Yen, or that the impact of such fluctuations will not adversely affect the results of our operations.



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### ***Our business relies on our patent rights which may be narrowed in scope or found to be invalid or otherwise unenforceable.***

Our success will depend, to a significant extent, on our ability to obtain and enforce our patent rights both in Korea and worldwide. The coverage claimed in a patent application can be significantly reduced before a patent is issued, either in Korea or abroad. Consequently, we cannot provide assurance that any of our pending or future patent applications will result in the issuance of patents. Patents issued to us may be subjected to further proceedings limiting their scope and may not provide significant proprietary protection or competitive advantage. Our patents also may be challenged, circumvented, invalidated or deemed unenforceable. In addition, because patent applications in certain countries generally are not published until more than 18 months after they are first filed, because we currently monitor patent applications filed only by other parties in Korea, Japan and the United States, and because publication of discoveries in scientific or patent literature often lags behind actual discoveries, we cannot be certain that we were, or any of our licensors was, the first creator of inventions covered by pending patent applications, that we or any of our licensors will be entitled to any rights in purported inventions claimed in pending or future patent applications, or that we were, or any of our licensors was, the first to file patent applications on such inventions.

Furthermore, pending patent applications or patents already issued to us or our licensors may become subject to dispute, and any dispute could be resolved against us. For example, we may become involved in re-examination, reissue or interference proceedings and the result of these proceedings could be the invalidation or substantial narrowing of our patent claims. We also could be subject to court proceedings that could find our patents invalid or unenforceable or could substantially narrow the scope of our patent claims. In addition, depending on the jurisdiction, statutory differences in patentable subject matter may limit the protection we can obtain on some of our inventions.

### ***Failure to protect our intellectual property rights could impair our competitiveness and harm our business and future prospects.***

We believe that developing new products and technologies that can be differentiated from those of our competitors is critical to the success of our business. We take active measures to obtain international protection of our intellectual property by obtaining patents and undertaking monitoring activities in our major markets. However, we cannot assure you that the measures we are taking will effectively deter competitors from improper use of our proprietary technologies. Our competitors may misappropriate our intellectual property, disputes as to ownership of intellectual property may arise and our intellectual property may otherwise become known or independently developed by our competitors.

Any failure to protect our intellectual property could impair our competitiveness and harm our business and future prospects.

### ***Our rapid introduction of new technologies and products may increase the likelihood that third parties will assert claims that our products infringe upon their proprietary rights.***

The rapid technological changes that characterize our industry require that we quickly implement new processes and components with respect to our products. Often with respect to recently developed processes and components, a degree of uncertainty exists as to who may rightfully claim ownership rights in such processes and components. Uncertainty of this type increases the risk that claims alleging that such components or processes infringe upon third party rights may be brought against us. Although we take and will continue to take steps to ensure that our new products do not infringe upon third party rights, if our products or manufacturing processes are found to infringe upon third party rights, we may be subject to significant liabilities and be required to change our manufacturing processes or be prohibited from manufacturing certain products, which could have a material adverse effect on our operations and financial condition.



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We may be required to defend against charges of infringement of patent or other proprietary rights of third parties. Although patent and other intellectual property disputes in our industry have often been settled through licensing or similar arrangements, such defense could require us to incur substantial expense and to divert significant resources of our technical and management personnel, and could result in our loss of rights to develop or make certain products or require us to pay monetary damages or royalties to license proprietary rights from third parties.

Furthermore, we cannot be certain that the necessary licenses would be available to us on acceptable terms, if at all. Accordingly, an adverse determination in a judicial or administrative proceeding or failure to obtain necessary licenses could prevent us from manufacturing and selling certain of our products. Any such litigation, whether successful or unsuccessful, could result in substantial costs to us and diversions of our resources, either of which could adversely affect our business.

In December 2006, LG Display filed a complaint in the U.S. District Court for the District of Delaware against Innolux Corp. (formerly known as Chimei Innolux Corp. or Chimei Optoelectronics Corp.) and AU Optronics Corp. claiming infringement of patents related to liquid crystal displays and the manufacturing processes for TFT-LCDs and seeking, among other things, monetary damages for past infringement and an injunction against future infringement. In March 2007, AU Optronics filed a counter-claim against LG Display and its U.S. subsidiary, LG Display America, in the U.S. District Court for the Western District of Wisconsin for alleged infringement of patents related to the manufacturing processes for TFT-LCDs, but the suit was transferred to the U.S. District Court for the District of Delaware in May 2007. In May 2007, Innolux filed a counter-claim against LG Display and LG Display America for patent infringement in the U.S. District Court for the Eastern District of Texas, but the suit was transferred to the U.S. District Court for the District of Delaware in March 2008. The U.S. District Court for the District of Delaware bifurcated the trial between AU Optronics and Innolux, holding the first trial against AU Optronics in June 2009.

Although LG Display had a total of nine patents to be tried and AU Optronics had a total of seven patents to be tried in the first trial against AU Optronics, the trial was further bifurcated so that only four patents from each side were tried. In February 2010, the U.S. District Court for the District of Delaware found that the four AU Optronics patents were valid and were infringed by LG Display and LG Display America, and in April 2010, the court further found that LG Display's four patents were valid but were not infringed by AU Optronics. In October and November 2010, LG Display filed a motion for a new trial and to amend certain findings on the AU Optronics patents and LG Display's patents, respectively. In September 2011, LG Display and AU Optronics filed a stipulation for dismissal of the case and amicably settled all claims and counterclaims as between the parties. The stay of the Innolux case was lifted in January 2012, and in May 2012, the parties filed a stipulation for dismissal of the case and amicably settled all claims and counterclaims between the parties.

In February 2007, Anvik Corporation filed a complaint in the U.S. District Court for the Southern District of New York against LG Display and LG Display America, along with other TFT-LCD manufacturing companies, for alleged patent infringement in connection with the use of photo-masking equipment manufactured by Nikon Corporation. In April 2012, the district court granted Nikon Corporation's motion for summary judgment of invalidity of the patents-in-suit and entered a judgment in favor of Nikon Corporation, LG Display and LG Display America and the other TFT-LCD manufacturing companies, dismissing the case. Anvik Corporation appealed the district court's decision to the U.S. Court of Appeals for the Federal Circuit in April 2012. In March 2013, the U.S. Court of Appeals for the Federal Circuit reversed the district court's summary judgment ruling and remanded the case back to the district court for further proceedings.

In February 2012, the United States International Trade Commission, or USITC, granted a motion by Industrial Technology Research Institute, or ITRI, to add LG Display and LG Display America as additional respondents in a Section 337 investigation pending before the USITC. ITRI is seeking an exclusion order prohibiting the importation of televisions and monitors incorporating LG Display's products into the United States for alleged patent infringement. In October 2012, USITC issued a preliminary finding that LG Display and LG Display America had not infringed ITRI's patents. A final decision by the USITC is expected to be issued in June 2013.

In September 2012, Samsung Display filed a complaint in the Seoul Central District Court against LG Display claiming misappropriation of trade secrets relating to OLED technology and seeking injunctive relief. In September 2012, LG Display filed a complaint in the Seoul Central District Court against Samsung Display and Samsung Electronics claiming infringement of certain of LG Display's patents relating to OLED display technology and manufacturing methods and sought monetary damages. In addition, in December 2012, Samsung Display filed a complaint in the Seoul Central District Court against LG Display and LG Electronics claiming infringement of certain of Samsung Display's patents relating to LCD technology and sought monetary damages. Also, in December 2012, LG Display filed an application in the Seoul Central District Court seeking temporary injunctive relief to prohibit Samsung Display and Samsung Electronics from manufacturing and selling products that we claimed to be infringing upon certain of LG Display's patents relating to IPS technology and the related manufacturing methods. In February 2013, under the mediation of the Korean government, LG Display, Samsung Display and Samsung Electronics agreed in principle to work toward resolving the foregoing patent infringement proceedings through an amicable settlement. Accordingly, as of April 25, 2013, Samsung Display has withdrawn its complaint filed in September 2012 and LG Display has withdrawn its application for injunctive relief filed in December 2012. As of the same date, the complaint filed by LG Display against Samsung Display and Samsung Electronics in September 2012 and the complaint filed by Samsung Display against LG Display in December 2012 have not yet been withdrawn.



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***We rely on technology provided by third parties and our business will suffer if we are unable to renew our licensing arrangements with them.***

From time to time, we have obtained licenses for patent, copyright, trademark and other intellectual property rights to process and device technologies used in the production of our display panels. We have entered into key licensing arrangements with third parties, for which we have made, and continue to make, periodic license fee payments. In addition, we also have cross-license agreements with certain other third parties. These agreements terminate upon the expiration of the respective terms of the patents. See Item 5.C. Research and Development, Patents and Licenses, etc. Intellectual Property License Agreements.

If we are unable to renew our technology licensing arrangements on acceptable terms, we may lose the legal protection to use certain of the processes we employ to manufacture our products and be prohibited from using those processes, which may prevent us from manufacturing and selling certain of our products, including our key products. In addition, we could be at a disadvantage if our competitors obtain licenses for protected technologies on more favorable terms than we do.

In the future, we may also need to obtain additional patent licenses for new or existing technologies. We cannot provide assurance that these license agreements can be obtained or renewed on acceptable terms or at all, and if not, our business and operating results could be adversely affected.

***We rely upon trade secrets and other unpatented proprietary know-how to maintain our competitive position in the display panel industry and any loss of our rights to, or unauthorized disclosure of, our trade secrets or other unpatented proprietary know-how could negatively affect our business.***

We also rely upon trade secrets, unpatented proprietary know-how and information, as well as continuing technological innovation in our business. The information we rely upon includes price forecasts, core technology and key customer information. We enter into confidentiality agreements with each of our employees and consultants upon the commencement of an employment or consulting relationship. These agreements generally provide that all inventions, ideas, discoveries, improvements and copyrightable material made or conceived by the individual arising out of the employment or consulting relationship and all confidential information developed or made known to the individual during the term of the relationship is our exclusive property. We cannot provide assurance that these types of agreements will be fully enforceable, or that they will not be breached. We also cannot be certain that we will have adequate remedies for any such breach. The disclosure of our trade secrets or other know-how as a result of such a breach could adversely affect our business. Also, our competitors may come to know about or determine our trade secrets and other proprietary information through a variety of methods. Disputes may arise concerning the ownership of intellectual property or the applicability or enforceability of our confidentiality agreements, and there can be no assurance that any such disputes would be resolved in our favor. Furthermore, others may acquire or independently develop similar technology, or if patents are not issued with respect to technologies arising from our research, we may not be able to maintain information pertinent to such research as proprietary technology or trade secrets and that could have an adverse effect on our competitive position within the display panel industry.

***We rely on key researchers and engineers, senior management and production facility operators, and the loss of the services of any such personnel or the inability to attract and retain them may negatively affect our business.***

Our success depends to a significant extent upon the continued service of our research and development and engineering personnel, and on our ability to continue to attract, retain and motivate qualified researchers and engineers, especially during periods of rapid growth. In particular, our focus on leading the market in introducing new products and advanced manufacturing processes has meant that we must aggressively recruit research and development personnel and engineers with expertise in cutting-edge technologies.

We also depend on the services of experienced key senior management, and if we lose their services, it would be difficult to find and integrate replacement personnel in a timely manner, if at all. We also employ highly skilled line operators at our various production facilities.

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The loss of the services of any of our key research and development and engineering personnel, senior management or skilled operators without adequate replacement, or the inability to attract new qualified personnel, would have a material adverse effect on our operations.

*The interests of LG Electronics, our largest shareholder, and any directors or officers nominated by it, may differ from or conflict with those of us or our other shareholders.*

When exercising its rights as our largest shareholder, LG Electronics may take into account not only our interests but also its interests and the interests of its affiliates. The interests of display businesses of LG Electronics may at times conflict with ours since the growth of our business depends, in part, on successful competition with other display technologies. These conflicts may result in alternative display technologies gaining wider market acceptance than TFT-LCDs or a decision by our largest shareholder to sell products using other display technologies.

Various other conflicts of interest between LG Electronics and us may arise in the future in a number of areas relating to our business, including potential acquisitions of businesses or properties, incurrence of indebtedness, financial commitments, sales and marketing functions, indemnity arrangements, service arrangements and the exercise by LG Electronics of significant influence over our management and affairs. See Item 6.A. Directors and Senior Management for a description of the composition of our current board of directors and senior management.

*Labor unrest may disrupt our operations.*

As of December 31, 2012, approximately 76.0% of our total employees, including those of our subsidiaries, were union members, and production employees accounted for substantially all of these members. We have a collective bargaining arrangement with our labor union, which is negotiated once a year. Any deterioration in our relationship with our employees or labor unrest resulting in a work stoppage or strike may have a material adverse effect on our financial condition and results of operations.

*We are subject to strict environmental regulations and we may be subject to fines or restrictions that could cause our operations to be interrupted.*

Our manufacturing processes generate chemical waste, waste water and other industrial waste at various stages in the manufacturing process, and we are subject to a variety of laws and regulations relating to the use, storage, discharge and disposal of such chemical by-products and waste substances. We have installed various types of anti-pollution equipment, consistent with industry standards, for the treatment of chemical waste and equipment for the recycling of treated waste water at our various facilities. See Item 4.B. Business Overview Environmental Matters for a description of the anti-pollution equipment that we have installed in our various facilities. However, we cannot provide assurance that environmental claims will not be brought against us or that the local or national governments will not take steps toward adopting more stringent environmental standards.

Any failure on our part to comply with any present or future environmental regulations could result in the assessment of damages or imposition of fines against us, suspension of production or a cessation of operations. In addition, environmental regulations could require us to acquire costly equipment or to incur other significant compliance expenses that may materially and negatively affect our financial condition and results of operations.

### **Risks Relating to our American Depositary Shares, or ADSs, or our Common Stock**

*Future sales of shares of our common stock in the public market may depress our stock price and make it difficult for you to recover the full value of your investment in our common stock or our ADSs.*

We cannot predict the effect, if any, that market sales of shares of our common stock or the availability of our common stock for sale will have on the market price of our common stock prevailing from time to time. Our largest shareholder, LG Electronics, currently owns approximately 37.9% of our voting stock. There is no assurance that LG Electronics will not sell all or a part of its ownership interest in us.

Any future sales by LG Electronics or any future issuance by us of a significant number of shares of our common stock in the public market, or the perception that any of these events may occur, could cause the market price of our common stock to decrease or to be lower than it might be in the absence of these events or perceptions.

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***Our public shareholders may have more difficulty protecting their interests than they would as shareholders of a U.S. corporation.***

Our corporate affairs are governed by our articles of incorporation and by the laws governing Korean corporations. The rights and responsibilities of our shareholders and members of our board of directors under Korean law may be different from those that apply to shareholders and directors of a U.S. corporation. For example, minority shareholder rights afforded under Korean law often require the minority shareholder to meet minimum shareholding requirements in order to exercise certain rights. In the case of public companies, a shareholder must own, individually or collectively with other shareholders, at least 0.01% of our common stock for at least six consecutive months in order to file a derivative suit on our behalf. While the facts and circumstances of each case will differ, the duty of care required of a director under Korean law may not be the same as the fiduciary duty of a director of a U.S. corporation. Therefore, holders of our common stock or our ADSs may have more difficulty protecting their interests against actions of our management, members of our board of directors or controlling shareholders than they would as shareholders of a U.S. corporation.

***You may be limited in your ability to deposit or withdraw the common stock underlying the ADSs, which may adversely affect the value of your investment.***

Under the terms of our deposit agreement, holders of common stock may deposit such common stock with the depositary's custodian in Korea and obtain ADSs, and holders of ADSs may surrender ADSs to the depositary and receive common stock. However, to the extent that a deposit of common stock exceeds the difference between:

the aggregate number of shares of common stock we have consented to allow to be deposited for the issuance of ADSs (including deposits in connection with offerings of ADSs and stock dividends or other distributions relating to ADSs); and

the number of shares of common stock on deposit with the custodian for the benefit of the depositary at the time of such proposed deposit,

such common stock will not be accepted for deposit unless (1) our consent, subject to governmental authorization, with respect to such deposit has been obtained or (2) such consent is no longer required under Korean laws and regulations.

Under the terms of the deposit agreement, no consent is required if the shares of common stock are obtained through a dividend, free distribution, rights offering or reclassification of such stock. The current limit on the number of shares that may be deposited into our ADR facility is 68,095,700 as of April 25, 2013. The number of shares issued or sold in any subsequent offering by us or our major shareholders, subject to government authorization, raises the limit on the number of shares that may be deposited into the ADR facility, except to the extent such deposit is prohibited by applicable laws or violates our articles of incorporation, or we decide with the ADR depositary to limit the number of shares of common stock so offered that would be eligible for deposit under the deposit agreement in order to maintain liquidity for the shares in Korea as may be requested by the relevant Korean authorities. We might not consent to the deposit of any additional shares of common stock. As a result, if a holder surrenders ADSs and withdraws common stock, it may not be able to deposit the common stock again to obtain ADSs.

***Holders of ADSs will not have preemptive rights in some circumstances.***

The Korean Commercial Code of 1962, as amended, and our articles of incorporation require us, with some exceptions, to offer shareholders the right to subscribe for new shares of our common stock in proportion to their existing shareholding ratio whenever new shares are issued, except under certain circumstances as provided in our articles of incorporation. Accordingly, if we issue new shares to non-shareholders based on such exception, a holder of our ADSs may experience dilution in its holdings. Furthermore, if we offer any right to subscribe for additional shares of our common stock or any rights of any other nature to existing shareholders subject to their preemptive rights, the depositary, after consultation with us, may make the rights available to holders of our ADSs or use reasonable efforts to dispose of the rights on behalf of such holders and make the net proceeds available to such holders. The depositary, however, is not required to make available to holders any rights to purchase any additional shares of our common stock unless it deems that doing so is lawful and feasible and

a registration statement filed by us under the U.S. Securities Act of 1933, as amended, is in effect with respect to those shares; or

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the offering and sale of those shares is exempt from or is not subject to the registration requirements of the Securities Act. We are under no obligation to file any registration statement with the SEC or to endeavor to cause such a registration statement to be declared effective. Moreover, we may not be able to establish an exemption from registration under the Securities Act. Accordingly, a holder of our ADSs may be unable to participate in our rights offerings and may experience dilution in its holdings. If a registration statement is required for a holder of our ADSs to exercise preemptive rights but is not filed by us or is not declared effective, the holder will not be able to exercise its preemptive rights for additional ADSs and it will suffer dilution of its equity interest in us. If the depositary is unable to sell rights that are not exercised or not distributed or if the sale is not lawful or feasible, it will allow the rights to lapse, in which case the holder will receive no value for these rights.

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***Holders of ADSs will not be able to exercise dissent and appraisal rights unless they have withdrawn the underlying shares of our common stock and become our direct shareholders.***

In some limited circumstances, including the transfer of the whole or any significant part of our business and our merger or consolidation with another company, dissenting shareholders have the right to require us to purchase their shares under Korean law. However, a holder of our ADSs will not be able to exercise such dissent and appraisal rights if the depositary refuses to do so on their behalf. Our deposit agreement does not require the depositary to take any action in respect of exercising dissent and appraisal rights. In such a situation, holders of our ADSs must initiate the withdrawal of the underlying common stock from the ADS facility (and incur charges relating to that withdrawal) by the day immediately following the date of public disclosure of our board of directors' resolution of a merger or other events triggering appraisal rights and become our direct shareholder prior to the record date of the shareholders' meeting at which the relevant transaction is to be approved, in order to exercise dissent and appraisal rights.

***Dividend payments and the amount you may realize upon a sale of our common stock or ADSs that you hold will be affected by fluctuations in the exchange rate between the U.S. dollar and the Korean Won.***

Cash dividends, if any, in respect of the shares represented by our ADSs will be paid to the depositary in Korean Won and then converted by the depositary into U.S. dollars, subject to certain conditions. Accordingly, fluctuations in the exchange rate between the Korean Won and the U.S. dollar will affect, among other things, the amounts a holder will receive from the depositary in respect of dividends, the U.S. dollar value of the proceeds that a holder would receive upon sale in Korea of the shares of our common stock obtained upon surrender of ADSs and the secondary market price of ADSs. Such fluctuations will also affect the U.S. dollar value of dividends and sales proceeds received by holders of our common stock.

## **Risks Relating to Korea**

***If economic conditions in Korea deteriorate, our current business and future growth could be materially and adversely affected.***

In recent years, adverse conditions and volatility in the worldwide financial markets, fluctuations in oil and commodity prices and the general weakness of the U.S. and global economy have contributed to the uncertainty of global economic prospects in general and have adversely affected, and may continue to adversely affect, the Korean economy. From the second half of 2008 to the first half of 2010, the value of the Won relative to major foreign currencies in general and the U.S. dollar in particular fluctuated widely. While the value of the Korean Won generally stabilized starting in the second half of 2010, there has been signs of relative increase in the volatility of exchange rates starting in the fourth quarter of 2012. Given the lingering uncertainty in the global economic environment, there is no guarantee that exchange rates will not once again fluctuate in the future at such levels as we experienced in the second half 2008 through the first half of 2010. See Item 3.A. Selected Financial Data Exchange Rates. A depreciation of the Won increases the cost of imported goods and services and the Won revenue needed by Korean companies to service foreign currency denominated debt. An appreciation of the Won, on the other hand, causes export products of Korean companies to be less competitive by raising their prices in terms of the relevant foreign currency and reduces the Won value of such export sales. Furthermore, as a result of adverse global and Korean economic conditions, there has been an overall decline and continuing volatility in the stock prices of Korean companies. The Korea Composite Stock Price Index, or KOSPI, declined from 1,897.1 on December 31, 2007 to 938.8 on October 24, 2008. While the KOSPI has recovered to a significant extent since 2008, closing at 1,951.6 on April 25, 2013, there is no guarantee that the stock prices of Korean companies will not decline again in the future. Future declines in the KOSPI and large amounts of sales of Korean securities by foreign investors and subsequent repatriation of the proceeds of such sales may continue to adversely affect the value of the Won, the foreign currency reserves held by financial institutions in Korea, and the ability of Korean companies to raise capital. Any future deterioration of the Korean or global economy could adversely affect our business, financial condition and results of operations.

Developments that could have an adverse impact on Korea's economy in the future include:

difficulties in the financial sectors in Europe and elsewhere and increased sovereign default risks in selected countries and the resulting adverse effects on the global financial markets;

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adverse changes or volatility in foreign currency reserve levels, commodity prices (including oil prices), exchange rates (including fluctuation of the U.S. dollar or Japanese Yen exchange rates or revaluation of the Chinese Renminbi), interest rates, inflation rates or stock markets;

continuing adverse conditions in the economies of countries that are important export markets for Korea, such as the United States, Japan and China, or in emerging market economies in Asia or elsewhere;

further decreases in the market prices of Korean real estate;

increasing delinquencies and credit defaults by consumer and small- and medium-sized enterprise borrowers;

declines in consumer confidence and a slowdown in consumer spending;

the continued emergence of the Chinese economy, to the extent its benefits (such as increased exports to China) are outweighed by its costs (such as competition in export markets or for foreign investment and the relocation of the manufacturing base from Korea to China);

social and labor unrest;

a decrease in tax revenues and a substantial increase in the Korean government's expenditures for fiscal stimulus measures, unemployment compensation and other economic and social programs that, together, would lead to an increased Korean government budget deficit;

financial problems or lack of progress in the restructuring of large troubled companies, their suppliers or the financial sector;

loss of investor confidence arising from corporate accounting irregularities or corporate governance issues at certain Korean companies;

the economic impact of any pending or future free trade agreements;

geo-political uncertainty and risk of further attacks by terrorist groups around the world;

the occurrence of severe health epidemics in Korea or other parts of the world;

deterioration in economic or diplomatic relations between Korea and its trading partners or allies, including deterioration resulting from territorial or trade disputes or disagreements in foreign policy;

political uncertainty or increasing strife among or within political parties in Korea;



natural disasters that have a significant adverse economic or other impact on Korea or its major trading partners;

hostilities or political or social tensions involving oil producing countries in the Middle East or North Africa and any material disruption in the supply of oil or increase in the price of oil; and

an increase in the level of tensions or an outbreak of hostilities between North Korea and Korea or the United States.

***Escalations in tensions with North Korea could have an adverse effect on us and the market value of our common stock.***

Relations between Korea and North Korea have been tense throughout Korea's modern history. The level of tension between the two Koreas has fluctuated and may increase abruptly as a result of future events. In particular, since the death of Kim Jong-il in December 2011, there has been increased uncertainty with respect to the future of North Korea's political leadership and concern regarding its implications for political and economic stability in the region. Although Kim Jong-il's third son, Kim Jong-eun, has assumed power as his father's designated successor, the long-term outcome of such leadership transition remains uncertain.

In addition, there have been heightened security concerns in recent years stemming from North Korea's nuclear weapon and long-range missile programs as well as its hostile military and other actions against Korea. Some of the significant incidents in recent years include the following:

In early April 2013, North Korea blocked access to the inter-Korean industrial complex in its border city of Gaeseong to South Koreans, while the United States deployed nuclear-capable stealth bombers and destroyers to Korean air and sea space as part of its joint military exercises with Korea.

In late March 2013, North Korea stated that it had entered a state of war with Korea, declaring the 1953 armistice invalid, and put its artillery at the highest level of combat readiness to protest the Korea-U.S. joint military exercises and additional international sanctions imposed on North Korea for its missile and nuclear tests.

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North Korea renounced its obligations under the Nuclear Non-Proliferation Treaty in January 2003 and conducted three rounds of nuclear tests between October 2006 to February 2013, which increased tensions in the region and elicited strong objections worldwide. In response, the United Nations Security Council unanimously passed resolutions that condemned North Korea for the nuclear tests and expanded sanctions against North Korea, most recently in March 2013.

In December 2012, North Korea launched a satellite into orbit using a long-range rocket, despite concerns in the international community that such a launch would be in violation of the agreement with the United States as well as United Nations Security Council resolutions that prohibit North Korea from conducting launches that use ballistic missile technology.

In November 2010, North Korea fired more than one hundred artillery shells that hit Korea's Yeonpyeong Island near the Northern Limit Line, which acts as the de facto maritime boundary between Korea and North Korea on the west coast of the Korean peninsula, causing casualties and significant property damage. The Korean government condemned North Korea for the attack and vowed stern retaliation should there be further provocation. In March 2010, a Korean naval vessel was destroyed by an underwater explosion, killing many of the crewmen on board. The Korean government formally accused North Korea of causing the sinking, while North Korea denied responsibility.

North Korea's economy also faces severe challenges. For example, in November 2009, the North Korean government redenominated its currency at a ratio of 100 to 1 as part of a currency reform undertaken in an attempt to control inflation and reduce income gaps. In tandem with the currency redenomination, the North Korean government banned the use or possession of foreign currency by its residents and closed down privately run markets, which led to severe inflation and food shortages. Such developments may further aggravate social and political tensions within North Korea.

There can be no assurance that the level of tension on the Korean peninsula will not escalate in the future. Any further increase in tensions, which may occur, for example, if North Korea experiences a leadership crisis, high level contacts between Korea and North Korea break down or military hostilities occur, could have a material adverse effect on our operations and the market value of our common stock and ADSs.

***If the Korean government deems that emergency circumstances are likely to occur, it may restrict holders of our ADSs and the depositary from converting and remitting dividends and other amounts in U.S. dollars.***

Under the Korean Foreign Exchange Transaction Law, if the Korean government deems that certain emergency circumstances, including sudden fluctuations in interest rates or exchange rates, extreme difficulty in stabilizing the balance of payments or substantial disturbance in the Korean financial and capital markets, are likely to occur, it may impose any necessary restrictions as requiring Korean or foreign investors to obtain prior approval from the Minister of Strategy and Finance for the acquisition of Korean securities or the repatriation of interest, dividends or sales proceeds arising from disposition of such securities or other transactions involving foreign exchange. See Item 10.D. Exchange Controls.

## **Item 4. INFORMATION ON THE COMPANY**

### **Item 4.A. History and Development of the Company**

We are a leading innovator of thin-film transistor liquid crystal display, or TFT-LCD, technology and other display panel technologies, including organic light-emitting display, or OLED, and flexible display products. We manufacture display panels in a broad range of sizes and specifications primarily for use in televisions, notebook computers, desktop monitors and various other applications, including mobile products.

The origin of our TFT-LCD business can be traced to the TFT-LCD research that began in 1987 at the Goldstar R&D Center, which was then part of LG Electronics Inc. TFT-LCD research continued at the Anyang R&D Center, a research and development center established by LG Electronics in 1990 in Anyang, Korea, which was subsequently moved to our Paju Display Cluster in 2008, and which today continues to lead our technology innovation efforts. In 1993, the TFT-LCD business division was launched within LG Electronics, and in September 1995 mass production of TFT-LCD panels began at P1, its first fabrication facility, producing mainly TFT-LCD panels for notebook computers and other applications. In December 1997, LG Semicon Inc., a subsidiary of LG Electronics, began mass production at P2, producing mainly TFT-LCD panels for notebook computers.



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We were incorporated in 1985 under the laws of the Republic of Korea under the original name of LG Soft, Ltd., a subsidiary of LG Electronics whose main business was the development and marketing of software. At the end of 1998, LG Electronics and LG Semicon transferred their respective TFT-LCD-related businesses to LG Soft, which, as part of the business transfer, changed its name to LG LCD Co., Ltd.

In July 1999, LG Electronics entered into a joint venture agreement with Koninklijke Philips Electronics N.V., pursuant to which Philips Electronics acquired a 50% interest in LG LCD. In connection with this transaction, LG LCD transferred its existing software-related business to LG Electronics in order to focus solely on the TFT-LCD business. The joint venture, which was renamed LG.Philips LCD Co., Ltd., was officially launched in August 1999. In July 2004, we completed our initial public offering and listed shares of our common stock on the Korea Exchange under the identifying code 034220 and our ADSs on the New York Stock Exchange under the symbol LPL. Prior to the listings, LG Electronics and Philips Electronics terminated the joint venture agreement and entered into a shareholders' agreement to reflect new arrangements between them as controlling shareholders. The shareholders' agreement automatically terminated upon Philips Electronics' sale of all of its remaining ownership interest in us in March 2009. Effective March 3, 2008, we changed our name from LG.Philips LCD Co., Ltd. to LG Display Co., Ltd.

Our principal executive offices are located at LG Twin Towers, 128 Yeoui-daero, Yeongdeungpo-gu, Seoul 150-721 (telephone number +82-2-3777-1010).

We have continued to develop our manufacturing process technologies and expand our production facilities. Each of our new fabrication facilities, or fabs, has been designed to process increasingly larger-size glass substrates, which allows us to cut a larger number of panels, sometimes with larger sizes, from each glass substrate. The ability to process larger glass substrates allows us to produce a larger variety of display sizes to accommodate evolving business and consumer demands. For example, in order to respond to business and consumer demands for large-sized panels, in May 2010, we commenced mass production at P82, our first expansion to P81, which is optimized to produce 32-inch and 55-inch display panels for televisions and 20-inch and 23-inch display panels for desktop monitors. In March 2011, we commenced mass production at P83, our second expansion to P81, which is optimized to produce 32-inch and 47-inch display panels for televisions. In addition, in June 2012, we commenced mass production at P98, a new eighth-generation fab, which is optimized to produce 9.7-inch display panels for tablet computers and 21.5-inch and 23-inch display panels for desktop monitors. For a description of cash outflows relating to our capital expenditures in the past three fiscal years, see Item 5.A. Operating Results Overview Manufacturing Productivity and Costs.

In addition, we are currently constructing an eighth-generation fabrication facility in Guangzhou, China, which is expected to commence mass production in the second half of 2014, subject to market conditions and any changes in our investment timetable. We are also in the process of expanding our LTPS production capacity mainly through the conversion of our P61 fabrication facility located in Gumi City, Korea, and the converted LTPS production lines are expected to commence mass production in the fourth quarter of 2013, subject to market conditions and any changes in our investment timetable. In connection with this investment, we entered into an agreement with Gumi City and North Gyeongsang Province in July 2012 for their administrative assistance. See Item 4.D. Property, Plants and Equipment Expansion Projects.

With respect to our assembly facilities, from 1995 to early 2003, we assembled all panels in our Gumi assembly facility adjacent to our P1 facility. In May 2003, we commenced operations at a new assembly facility in Nanjing, China, which we built and have since expanded, in order to manage our expanding display capacity and better serve the growing needs of our global customers with manufacturing facilities in China. In November 2005, we commenced operations at a new assembly facility in Paju, Korea. In March 2007, we commenced mass production at our module production plant in Wroclaw, Poland. In January 2008, we commenced mass production at our module production plant in Guangzhou, China, our second such module production site in China. In January 2011, we signed a memorandum of understanding with Gumi City regarding its administrative support for our 1.35 trillion investment to expand our module production facilities in Gumi City, Korea, over a five-year period starting in 2011. In addition, in March 2012, we commenced mass production at our module production plant in Reynosa, Mexico.

### **Item 4.B. Business Overview**

#### **Overview**

We manufacture TFT-LCD panels in a broad range of sizes and specifications primarily for use in televisions, notebook computers and desktop monitors, and we are one of the world's leading suppliers of high-definition television panels. We also manufacture TFT-LCD panels for other application products, such as mobile phones, including certain types of mobile phones commonly referred to as smartphones, certain types of tablet computers and industrial and other applications, including entertainment systems, automobiles, portable navigation devices and medical diagnostic equipment. In 2012, we sold a total of 216.7 million display panels that are nine inches or larger. According to DisplaySearch, we had a global market share for display panels of nine inches or larger of approximately 28% based on sales revenue in 2012.



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In addition to TFT-LCD panels, we also manufacture OLED panels and flexible display products. Our OLED business began with our acquisition of LG Electronics' active matrix OLED, or AMOLED, business in January 2008 by way of taking over its inventory, intellectual property rights and employees related to the AMOLED business. In December 2009, we launched our Mobile/OLED Business Division in anticipation of future growth of the OLED business. In September 2011, we commenced mass production of OLED panels for use mainly in mobile devices at our 4.5-generation production lines. In 2012, partly in recognition of the growing importance of OLED to the future of our business, especially in connection with large-sized products, we restructured our internal organization relating to our OLED business, breaking up the Mobile/OLED Business Division and transferring our mobile-related business (including OLED products for mobile and other applications) to the newly created IT/Mobile Business Division and transferring our OLED television panel business to the Television Business Division. In addition, we started pilot production of 55-inch OLED television panels on one of our eighth-generation production lines toward the end of 2012. With the launch of retail sales of 55-inch OLED televisions by certain of our customers beginning in the first quarter of 2013, we intend to deploy greater resources into expanding our large-sized OLED panel fabrication capabilities with the aim of establishing an early competitive edge in the market. We are also making preparations to start mass production of plastic OLED panel products. We expect that mass production for some of our initial plastic OLED panel products could begin in the second half of 2013.

We currently operate a total of thirteen panel fabrication facilities, including expansions to certain facilities, located in our Display Clusters in Gumi and Paju, Korea. We also currently operate module facilities located in China (Nanjing, Guangzhou and Yantai), Korea (Gumi and Paju), Poland (Wroclaw) and Mexico (Reynosa). For a full description of our current facilities, see Item 4.D. Property, Plants and Equipment Current Facilities.

We seek to build our market position based on collaborative relationships with our customers and suppliers, a focus on high-end differentiated specialty display products and manufacturing productivity. Our end-brand customers include many of the world's leading manufacturers of televisions, notebook computers and desktop monitors. In 2012, for example, our display panels were included in products sold by LG Electronics, Apple, Skyworth, Dell, Hewlett-Packard, among others. For a description of our sales to LG Electronics, our largest shareholder, see Item 7.B. Related Party Transactions.

At the direction of our end-brand customers, we typically ship our display panels to their original equipment manufacturers, known as system integrators, who use our display panels in products they assemble on a contract basis for our end-brand customers. Our sales are conducted through our multi-channel sales and distribution network, including direct sales to end-brand customers and their system integrators, sales through our overseas subsidiaries and sales through our affiliated trading company, LG International, and its subsidiaries. For a description of our sales arrangements with LG International, see Item 7.B. Related Party Transactions.

Our sales were 25,512 billion in 2010, 24,291 billion in 2011 and 29,430 billion (US\$27,680 million) in 2012.

## **Technology Description**

### ***TFT-LCD Technology***

A TFT-LCD panel consists of two thin glass substrates and polarizer films between which a layer of liquid crystals is deposited and behind which a light source called a backlight unit is mounted. The frontplane glass substrate is fitted with a color filter, while the backplane glass substrate, also called a TFT array, has a thin film of transistors, or TFT, formed on its surface. The liquid crystals are normally aligned to allow the polarized light from the backlight unit to pass through the two glass panels to form a picture element, or pixel. When voltage is applied to the transistors on the TFT array, the liquid crystals change their alignment and alter the amount of light that passes through them. Meanwhile, the color filter on the frontplane glass substrate gives each pixel its own color. The combination of these pixels in different colors and levels of brightness forms the image on the panel.

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The process for manufacturing a TFT-LCD panel consists of four steps:

*TFT array process* involves fabricating a large number of thin film transistors on the backplane glass substrate. The number of transistors corresponds to the number of pixels on the screen. The process is similar to the process for manufacturing semiconductor chips, except that transistors are fabricated on large glass substrates instead of silicon wafers. Unlike in the semiconductor industry, however, the number of transistors per glass substrate is not a primary driver of the manufacturing costs for TFT-LCDs. Once the TFT array process on glass substrates is completed, the substrates are cut into panel-sized pieces;

*Color filter process* involves fabricating a large number of color regions on the frontplane glass substrate that will overlay the TFT array after the cell process. The colored dots of red, green and blue combine to form various colors. The process is similar to the TFT array process but involves depositing colored dyes instead of transistors;

*Cell process* involves joining together the backplane glass substrate that is arrayed with transistors and the frontplane glass substrate that is patterned with a color filter. The space between the two glass substrates is filled with liquid crystal materials. The resulting panel is called a cell; and

*Module assembly process* involves connecting additional components, such as driver integrated circuits and backlight units, to the cell.

The TFT array, color filter and cell processes are capital-intensive and require highly automated production equipment and are the primary determinants of fixed manufacturing cost. In contrast, the module assembly process involves semi-automated production equipment and manual labor to assemble the various components. Materials are the primary drivers of variable manufacturing cost.

### ***IPS Technology***

In-Plane Switching, or IPS, is a liquid crystal switching technology that was developed to address commonly faced problems with TFT-LCD panels that utilized other liquid crystal technologies, namely narrow viewing angles, inconsistent picture uniformity and slow response times. Unlike other liquid crystal technologies where the liquid crystals are aligned vertically or at an angle in relation to the glass substrate, with IPS technology, the liquid crystals are aligned horizontally in parallel to the glass substrate, which allows for wider viewing angles, greater picture uniformity and faster response times. Our TFT-LCD display panels, including our TFT-LCD television panels, utilize IPS technology.

Advanced High Performance IPS, or AH-IPS, is our next-generation IPS technology that integrates ultra-fine pitch technology and high transmittance technology, which allows for ultra-high resolution imagery, increased luminance and greater energy efficiency. For example, in May 2012, we released a 5-inch panel with a resolution of 440 pixels-per-inch. AH-IPS is currently utilized in our smartphone panels and other mobile display products, as well as certain of our panels for notebook computers, tablet computers and desktop monitors.

### ***OLED Technology***

An OLED panel consists of a thin film of organic material encased between anode and cathode electrodes. When a current is applied, light is emitted directly from the organic material. Because a separate backlight is not needed, OLED panels can be lighter and thinner compared to TFT-LCD panels, which require a separate backlight. In addition, images projected on OLED panels have higher contrast ratios and more realistic color reproduction compared to images projected on TFT-LCD panels. We commenced mass production of OLED panels for mobile and other applications in September 2011. We produce OLED products for mobile and other applications using LTPS backplane technology and large-sized OLED products primarily for use in televisions using oxide TFT backplane technology, as described in greater detail below. In addition, we are developing plastic OLED products for mobile and other applications using LTPS backplane technology.

Our large-sized OLED products, including the 55-inch OLED television panel, the pilot production of which began in 2012, are produced using OLED technologies and processes that are different from the ones we use for our smaller-sized OLED products. Our large-sized OLED products are produced using oxide TFT backplane technology as compared to our smaller-sized OLED products which utilize LTPS backplane technology, as described in greater detail below. Our OLED products are produced at fabrication facilities in our Paju Display Cluster.





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### ***Backplane Technology***

#### ***Oxide TFT***

We use oxide TFT technology to produce backplanes for use in our large-sized OLED panels, such as the panels used in OLED television products. The traditional amorphous silicon-based TFT, or a-Si TFT, backplane technology has certain limitations that render it unsuitable for producing backplanes for use in large-sized OLED panels with high resolutions and fast refresh rates. For example, in larger and higher-resolution display panels, a-Si TFT backplanes consume increased rates of power and experience a decrease in the rate at which each transistor is able to switch between images, or the rate of mobility.

As an alternative to a-Si TFT backplane technology, we have successfully adopted a metal oxide-based TFT, or simply oxide TFT, backplane technology. In place of the amorphous silicon film used in a-Si TFT backplanes, oxide TFT backplanes utilize metal oxide-based film, which consumes less energy, has a higher rate of mobility and allows for construction of display panels with narrower bezels as compared to display panels with traditional a-Si TFT backplanes.

We were the first company in the display industry to successfully adopt oxide TFT technology in large-sized OLED products, which has been a key factor in reducing the costs of manufacturing large-sized OLED panels in large quantities. Because the manufacturing process of oxide TFT-based OLED panels are similar to the process used to manufacture TFT-LCD panels, we are able to use our existing TFT-based fabrication lines with relatively little modification to mass produce large-sized OLED panels.

#### ***Low Temperature Polycrystalline Silicon***

Low temperature polycrystalline silicon, or LTPS, backplanes consume less energy while producing brighter images at higher rates of mobility compared to a-Si TFT backplanes. However, the production costs of LTPS backplanes can be uneconomical for large-sized panels. As a result, LTPS backplanes, with their superior current-driving capacity, are better suited for producing smaller-sized panels than a-Si TFT backplanes in the case of TFT-LCD panels and oxide TFT backplanes in the case of OLED panels. We utilize LTPS backplane technology in both our smaller-sized TFT-LCD and OLED panels.

### ***3D Technology***

#### ***Film-Type Patterned Retarder***

Film-Type Patterned Retarder 3D, or FPR 3D, technology is utilized in display panels to display three-dimensional imagery when viewed with polarized glasses. A patterned retarder film polarizes images projected on the display panel into left and right images, which are then received by the respective side of the polarized glasses worn by the viewer to create a 3D effect. As both the right and left images are received simultaneously by the polarized glasses, there is no flicker effect commonly associated with display panels utilizing shutterglass technology, which projects left and right images in alternative succession. Since 3D television sets using our FPR 3D television panel products were first introduced to the market in March 2011, television sets using FPR 3D technology rapidly increased their market share. According to DisplaySearch, television sets using FPR 3D technology accounted for 43.2% of the global 3D television market in 2012.

### **Products**

We manufacture display panels of various specifications that are integrated by our customers into principally the following products:

Televisions, which typically utilize large-sized display panels ranging from 15 inches to 84 inches in size, including full high-definition television panels;

Notebook computers, which typically utilize display panels ranging from 7 inches to 20.1 inches in size, including certain types of tablet computers;

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Desktop monitors, which typically utilize large-sized display panels ranging from 15 inches to 30 inches in size; and

Mobile and other applications, which utilize a wide array of display panel sizes, including smartphones and other types of mobile phones, certain smaller types of tablet computers that are not classified in our notebook computer category, and industrial and other applications, including entertainment systems, automotives, portable navigation devices and medical diagnostic equipment.

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Unless otherwise specified, when we refer to panels in this annual report, we mean assembled cells with added components, such as driver integrated circuits and backlight units.

We design and manufacture our panels to meet the various size and performance specifications of our customers, including specifications relating to thinness, weight, resolution, color quality, power consumption, response times and viewing angles. The specifications vary from product to product. For television panels, a premium is placed on faster response times, wider viewing angles, higher resolution and greater color fidelity. Notebook computer panels require an emphasis on thinness, light weight and power efficiency, while desktop monitor panels demand a greater focus on brightness, color brilliance and wide viewing angles.

In addition to manufacturing and selling display panels, we also manufacture and sell television sets and desktop monitors through our joint venture companies. See [Joint Ventures](#).

### ***Televisions***

Our television display panels range from 15 inches to 84 inches in size. We began mass production of television display panels in 2001. Television display panels constitute our largest product category in terms of revenue. Our sales of display panels for televisions were 14,079 billion, or 55.2% of our total revenue, in 2010, 11,579 billion, or 47.7% of our total revenue, in 2011 and 13,512 billion (US\$12,708 million), or 45.9% of our total revenue, in 2012.

Our product portfolio includes panels of various sizes such as 17-inch, 19-inch, 20-inch, 22-inch, 26-inch, 32-inch, 37-inch, 42-inch, 47-inch, 55-inch, 72-inch and 84-inch display panels. In 2012, our principal products in this category in terms of sales revenue consisted of 32-inch, 42-inch, 47-inch and 55-inch display panels. A substantial portion of our larger panels shipped in 2012 were equipped with FPR 3D technology.

Brand manufacturers of televisions and their distribution channels prefer long-term arrangements with a limited number of display panel suppliers that can offer a full product line, and we believe that we are well positioned to meet their requirements with our strengths in technology, manufacturing scale and efficiency as well as the breadth of our product portfolio.

### ***Notebook Computers***

Our display panels for notebook computers, which include display panels for certain types of tablet computers, range from 7 inches to 20.1 inches in size in a variety of display formats. Revenue from sales of our display panels for notebook computers was 4,424 billion, or 17.3% of our total revenue, in 2010, 5,120 billion, or 21.1% of our total revenue, in 2011 and 6,998 billion (US\$6,582 million), or 23.8% of our total revenue, in 2012.

In 2010, notebook computer display panels constituted our third largest product category in terms of sales revenue, but in 2011, due in large extent to a significant increase in demand for tablet computer displays that are included in this category, it surpassed desktop monitor display panels and became our second largest product category. The relative share of our notebook computer display panels of our total revenue as compared to our desktop monitor display panels increased further in 2012, with the latter's share of our total revenue decreasing from 20.5% in 2011 to 17.1% in 2012. In 2012, our principal products in terms of sales revenue in this category were 9.7-inch and 15.6-inch display panels. In particular, there continued to be strong demand for our panels employing AH-IPS technology, such as our 9.7-inch panels. In addition, we have experienced growing demand for our hinge-up display panels with thin bezels, also known as Shuriken displays, which are optimized for use in ultra-slim notebooks.

### ***Desktop Monitors***

Our desktop monitor display panels range from 15 inches to 30 inches in size in a variety of display resolutions and formats. Revenue from sales of our display panels for desktop monitors was 5,390 billion, or 21.1% of our total revenue, in 2010, 4,975 billion, or 20.5% of our total revenue, in 2011 and 5,039 billion (US\$4,739 million), or 17.1% of our total revenue, in 2012.

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Desktop monitor display panels constitute our third largest product category in terms of sales revenue. In recent years, consumer demand for larger panels for desktop monitors has steadily grown. In 2012, our principal products in terms of sales revenue in this category were 21.5-inch and 23-inch display panels.

### ***Mobile and Other Applications***

Our product portfolio also includes panels for mobile and other applications, which utilize a wide array of display panel sizes, including smartphones and other types of mobile phones, certain types of smaller-sized tablet computers that are not included in the notebook computer category and industrial and other applications, including entertainment systems, automotives, portable navigation devices and medical diagnostic equipment. TFT-LCD panels that are nine inches and smaller are referred to as small and medium-sized panels, with those smaller than four inches being considered small-sized panels.

This is our fastest growing category of products in terms of revenue growth, with revenue from sales of mobile and other applications more than doubling in 2012 compared to 2010, driven largely by an increase in demand for smartphone panels during that period. Revenue from sales of our display panels for mobile and other applications was 1,575 billion, or 6.2% of our total revenue, in 2010, 2,540 billion, or 10.4% of our total revenue, in 2011, and 3,754 billion (US\$3,531 million), or 12.8% of our total revenue, in 2012. In 2012, sales of small-sized panels continued to constitute a significant majority in terms of both sales revenue and sales volume in the mobile and other applications category.

Some of the panels we produce for industrial products, such as medical diagnostic equipment, are highly specialized niche products manufactured to the specifications of our clients, while others, such as industrial controllers, may be manufactured by slightly modifying a standard product design for our other products, such as desktop monitors. Display panels for these other applications broaden our sales base and product mix. They are also often a good channel through which we can commercialize a particular technology that we have developed. We generally determine the production level and specification of our TFT-LCD panels for mobile and other applications by assessing various business opportunities as they arise.

## **Sales and Marketing**

### ***Customer Profile***

Our display panels are included primarily in televisions, notebook computers, desktop monitors and mobile and other applications sold by our global end-brand customers. In 2012, our top ten end-brand customers included LG Electronics, Apple, Skyworth, Dell, Hewlett-Packard, TP Vision, Lenovo, Panasonic, TPV and Toshiba. LG Electronics is our largest shareholder, and the terms of our sales to LG Electronics are negotiated based on then-prevailing market prices as adjusted for LG Electronics' requirements, including volume and specifications. See Item 7.B. Related Party Transactions for further description of our sales to LG Electronics.

We negotiate directly with our end-brand customers concerning the terms and conditions of the sales, but typically ship our display panels to designated system integrators at the direction of these end-brand customers. Sales data to end-brand customers include direct sales to these end-brand customers as well as sales to their designated system integrators, including through our affiliated trading company, LG International, and its subsidiaries, as further discussed below under Sales.

A substantial portion of our sales is attributable to a limited number of our end-brand customers. Our top ten end-brand customers together accounted for 75.8% of our sales in 2010, 70.9% in 2011 and 71.3% in 2012. Our top five end-brand customers together accounted for 55.0% of our sales in 2010, 53.6% in 2011 and 57.6% in 2012.

The following table presents our top five end-brand customers based on sales in our principal product categories for 2012:

Televisions	Computer Products		Mobile and Other Applications
	Notebook Computers	Desktop Monitors	
LG Electronics	Apple	Dell	Apple
Skyworth	Hewlett-Packard	Apple	LG Electronics
TP Vision	Dell	TPV	Amazon
Panasonic	Acer	Hewlett-Packard	HTC
Konka	Lenovo	LG Electronics	Continental



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In addition to our top ten end-brand customers, we sell our TFT-LCD panels to a variety of other manufacturers of computers and electronic products. Sales to these other manufacturers constituted 24.2% of our sales in 2010, 29.1% in 2011 and 28.7% in 2012, respectively.

The following table sets forth for the periods indicated the geographic breakdown of our sales by the region where purchase orders are originated, without regard to the location of end-brand customers. The figures below therefore reflect orders from our end-brand customers, their system integrators and our affiliated trading company, LG International, and its subsidiaries:

	2010		Year Ended December 31, 2011		2012		
	Sales	%	Sales	%	Sales	Sales <sup>(3)</sup>	%
	(in billions of Won and millions of US\$, except for percentages)						
Korea	1,705	6.7%	1,964	8.1%	2,150	US\$ 2,022	7.3%
China	14,077	55.1	14,293	58.9	16,767	15,771	57.0
Europe	4,125	16.2	3,526	14.5	4,403	4,141	15.0
Americas	2,853	11.2	2,217	9.1	3,209	3,018	10.9
Asia (excluding China)	2,746	10.8	2,248	9.3	2,736	2,573	9.3
Others <sup>(1)</sup>	6	0.0	43	0.2	165	155	0.5
Total <sup>(2)</sup>	25,512	100.0%	24,291	100.0%	29,430	US\$ 27,680	100.0%

(1) Includes Oceania, Africa and the Middle East.

(2) Figures provided in this table include our revenue attributable to royalty and others.

(3) For convenience, the Korean Won amounts are expressed in U.S. dollars at the rate of 1,063.24 to US\$1.00, the noon buying rate in effect on December 31, 2012 as certified by the Federal Reserve Bank of New York for customs purposes. This translation should not be construed as a representation that the Korean Won amounts represent, have been or could be converted to U.S. dollars at that rate or any other rate.

**Sales**

Our sales and marketing departments seek to maintain and strengthen relationships with our current customers in existing markets as well as expand our business in new markets and with new customers. We currently have wholly-owned sales subsidiaries in the United States, Japan, Germany, Taiwan, China and Singapore. As of December 31, 2012, our sales and marketing force employed a total of approximately 1,559 employees in regional offices in these countries and in our head office in Korea.

The focus of our sales activities is on strengthening our relationships with large end-brand customers, with whom we maintain strong collaborative relationships. Customers look to us for a reliable supply of a wide range of display products. We believe our reliability and scale as a supplier helps support our customers' product positions. We view our relationships with our end-brand customers as important to their product development strategies, and we collaborate with our end-brand customers in the design and development stages of their new products. In addition, our sales teams coordinate closely with our end-brand customers' designated system integrators to ensure timely delivery. For each key customer, we appoint an account manager who is primarily responsible for our relationship with that specific customer, complemented by a product development team consisting of engineers who participate in meetings with that customer to understand the customer's specific needs.

We do not typically enter into binding long-term contracts with our customers. However, we have in place long-term supply and purchase agreements with certain major end-brand customers, whereby we and our end-brand customers agree on general volume parameters and, in some cases, product specifications and delivery terms. These agreements serve as an indication of the size and key components of a customer's order, and neither party is committed to supply or purchase any products until a firm purchase order is issued.

Our sales are conducted through our multi-channel sales and distribution network, including direct sales to end-brand customers and their system integrators, sales through our overseas subsidiaries and sales through our affiliated trading company, LG International, and its subsidiaries. Our sales subsidiaries procure purchase orders from, and distribute our products to, system integrators and end-brand customers located in their region. In regions where we do not have a sales subsidiary, or where doing so is consistent with local market practices, we sell our products to LG International and its subsidiaries. These subsidiaries of LG International process orders from and distribute products to customers located in their region. Sales to LG International and its subsidiaries on an aggregate basis amounted to 5.0% in 2012. See Item 7.B. Related Party Transactions for further discussion of these sales arrangements.



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We may establish sales subsidiaries in the relevant geographical markets when the benefit of doing so outweighs the cost of solely utilizing LG International or its subsidiaries, and where local market practice permits. For example, in January 2009, we established a sales subsidiary in Singapore to replace LG International Singapore Ltd. in conducting sales to system integrators located in Singapore. We may establish additional sales subsidiaries in the future in these or other regions as sales volumes to customers located in these regions increase and/or market practice warrants.

Our end-brand customers or their system integrators generally place purchase orders with us one month prior to delivery based on our non-binding supply and purchase agreements with them. Generally, the head office of an end-brand customer provides us with three- to six-month forecasts, which, together with our own forecasts, enable us to plan our production schedule in advance. Our customers usually issue monthly purchase orders containing prices we have negotiated with the end-brand customer one month prior to delivery, at which point the customer becomes committed to the order at the volumes and prices indicated in the purchase orders. Under certain special circumstances, however, a negotiated price may be subject to change during the one-month period prior to delivery.

Prices for our products are generally determined based on negotiations with our end-brand customers. Pricing of our display panel products is generally market-driven, based on the complexity of the product specifications and the labor and technology involved in the design or production processes.

We generally provide a limited warranty to our end-brand customers, including the provision of replacement parts and after-sale services for our products. Costs incurred under our warranty liabilities consist primarily of repairs. We set aside a warranty reserve based on our historical experience and future expectations as to the rate and cost of claims under our warranties.

Our credit policy typically requires payment within 30 to 90 days, and payments on the vast majority of our sales have typically been collected within 65 days. Where system integrators located in certain regions are invoiced directly, we have established certain measures, such as factoring arrangements and accounts receivable insurance programs, to protect us from excessive exposure to credit risks. To date we have not experienced any material problems relating to customer payments.

## **Competition**

The display panel industry is highly competitive. Due to the capital intensive nature of the display panel industry and the high production volumes required to achieve economies of scale, the international market for display devices is characterized by significant barriers to entry, but the competition among the relatively small number of major producers is intense. In the case of TFT-LCD panel manufacturers, currently almost all of them are located in Asia, and we compete principally with manufacturers from Korea, Taiwan, China and Japan.

The principal elements of competition for customers in the display panel market include:

product portfolio range and availability;

product specifications and performance;

price;

capacity allocation and reliability;

customer service, including product design support; and

logistics support and proximity of regional stocking facilities.

Our principal competitors are:



Samsung Display and Hydis Technologies in Korea;

AU Optronics, Innolux, Chunghwa Picture Tubes and HannStar Display in Taiwan;

Japan Display, Sharp and Panasonic LCD in Japan; and

BOE and China Star Optoelectronics in China.

According to DisplaySearch, in 2012, Korean display panel manufacturers had a market share of 54% of the 9-inch or larger panel market based on revenue, Taiwanese manufacturers had 31%, Japanese manufacturers had 8% and Chinese manufacturers had 7%. Our market share of the 9-inch or larger panel market based on revenue was approximately 28%.

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### **Components, Raw Materials and Suppliers**

Components and raw materials accounted for 71.9% of our cost of sales in 2010, 69.2% in 2011 and 68.5% in 2012. The key components and raw materials of our display products include glass substrates, driver integrated circuits, polarizers and color filters used in both our TFT-LCD and OLED products, backlight units and liquid crystal materials used in our TFT-LCD products, and hole transport materials and emission materials used in our OLED products. We source these components and raw materials from outside sources, although, unlike many other display panel manufacturers, we produce a substantial portion of the color filters we use. With respect to glass substrates, Paju Electric Glass Co., Ltd., a joint venture company of which we and Nippon Electric Glass Co., Ltd. own 40% and 60%, respectively, provides us with a stable supply at competitive prices.

We generally negotiate non-binding master supply agreements with our suppliers several times a year, but pricing terms are negotiated on a quarterly basis, or if necessary, on a monthly basis. Firm purchase orders are issued generally six weeks prior to the scheduled delivery, except in the case of purchase orders for driver integrated circuits, which are issued generally six to ten weeks prior to the scheduled delivery. We purchase our components and raw materials based on forecasts from our end-brand customers as well as our own assessments of our end-brand customers' needs.

In order to reduce our component and raw material costs and our dependence on any one supplier, we generally develop compatible components and raw materials and purchase our components and raw materials from more than one source. However, we source certain key components and raw materials from a limited group of suppliers in order to ensure timely supply and consistent quality. Also, in order to facilitate implementation of our cost reduction strategies, we continually review for potential cost savings in sourcing our components and raw materials from suppliers based in Korea and those based abroad, including competitiveness of the prices offered by such suppliers and any potential for reduction in logistics and transportation costs. We perform periodic evaluations of our component and raw material suppliers based on a number of factors, including the quality and price of the components, delivery and response time, the quality of the services and the financial health of the suppliers. We reassess our supplier pool accordingly.

We maintain a strategic relationship with many of our material suppliers, and from time to time, we make equity investments in our material suppliers as part of our efforts to secure a stable supply of key components and raw materials. In January 2010, we invested US\$10.8 million in Can Yang Investment Limited, a company that manufactures LED chips, in return for approximately 18.0% of its then outstanding equity interests. More recently, in April 2012, we invested 2.0 billion in Glonix Co., Ltd., a supplier of tempered glass used for touchscreens, in return for approximately 19.8% of its then outstanding capital stock.

We generally maintain a component and raw material inventory sufficient for approximately 10 days, or 20 days for driver integrated circuits, as a safeguard against potential disruptions in supply.

In addition to components and raw materials, the manufacturing of our products requires significant quantities of electricity and water. In order to obtain and maintain reliable electric power and water supplies, we have our own back-up power generation facilities and water storage tanks as well as easy access to nearby water sources. To date we have not experienced any material problems with our electricity and water supplies.

### **Equipment, Suppliers and Third Party Processors**

We depend on a limited number of equipment manufacturers for equipment tailored to specific requirements. Since our manufacturing processes depend on the quality and technological capacity of our equipment, we work closely with the equipment manufacturers in the design process to ensure that the equipment meets our specifications. The principal types of equipment we use to manufacture TFT-LCD panels include chemical deposition equipment, steppers, developers and coaters.

We purchase equipment from a small number of qualified vendors to ensure consistent quality, timely delivery and performance. We maintain strategic relationships with many equipment manufacturers as part of our efforts to ensure quality while reducing costs. For example, in September 2010, we invested 10 billion in YAS Co., Ltd., a developer and manufacturer of OLED deposition equipment, in return for approximately 20.0% of its then outstanding common stock. In April and June 2011, we invested a total of 30 billion in return for an aggregate 23.0% of the then outstanding equity interests of Narae Nanotech Corporation, a Korean equipment manufacturer that supplies us with coaters.

Historically, we have relied on overseas vendors for equipment purchases, but in recent years, we have diversified and localized our equipment purchases by shifting some of our purchases to local vendors. For example, in 2012, approximately 62.8% of our equipment for our facilities in Korea was purchased from local vendors on an invoiced basis. We plan to maintain this localization effort as part of our sourcing diversification and cost reduction strategy. A large majority of the equipment purchased from overseas vendors are from Japanese vendors. In the procurement of equipment from Japan, we also use LG International's subsidiary in Japan in order to take advantage of their relationships with vendors,

experience in negotiations and logistics as well as their ability to obtain volume discounts. See Item 7.B. Related Party Transactions.

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Our engineers begin discussions with equipment manufacturers far in advance of the planned installation of equipment in a new fab, and we typically execute a letter of intent with the vendors in advance of our planned installation to ensure timely delivery of main equipment with long-term delivery schedules. Engineers from our vendors typically accompany the new equipment to our fabs to assist in the installation process to ensure proper operation. To date, we have not experienced any material problems with our equipment supplies or after-delivery services.

In addition, we outsource certain manufacturing processes to third party processors from time to time to supplement our processing capacity, and in certain cases, we maintain strategic relationships with such third party processors. For example, in December 2011, we invested approximately 11 billion in AVATEC Co., Ltd., a third party processor that etches glass substrates, in return for 20.3% of its then outstanding common stock.

## **Quality Control**

We believe that our advanced production capabilities and our reputation for high quality and reliable products have been important factors in attracting and retaining key customers. We have implemented quality inspection and testing procedures at all of our fabs and assembly facilities. Our quality control procedures are carried out at three stages of the manufacturing process:

incoming quality control with respect to components and raw materials;

in-process quality control, which is conducted at a series of control points in the manufacturing process; and

outgoing quality control, which focuses on packaging, delivery and post-delivery services to customers.

With respect to incoming quality control, we perform quality control procedures for the raw materials and components that we purchase. These procedures include testing samples of large batches, obtaining vendor testing reports and testing to ensure compatibility with other components and raw materials, as well as vendor qualification and vendor rating. Our in-process quality control includes various programs designed to detect, as well as prevent, quality deviations, reduce manufacturing costs, ensure on-time delivery, increase in-process yields and improve field reliability of our products. We perform outgoing quality control based on burn-in testing and final visual inspection of our products and accelerated life testing of samples. We inspect and test our completed display panels to ensure that they meet our high production standards. We also provide post-delivery services to our customers, and maintain warranty exchange inventories in regional hubs to meet our customers' needs.

Our quality assurance team works to ensure effective and consistent application of our quality control procedures, which includes six-sigma quality control procedures, and to introduce new methodologies that could further enhance our quality control procedures. Our quality assurance programs have received accredited ISO/TS 16949 certifications. The ISO/TS certification process involves subjecting our manufacturing processes and quality management systems to reviews and observation for various fixed periods. ISO/TS certification is required by certain European countries and the United States in connection with sales of industrial products in those countries, and provides independent verification to our customers regarding the quality control measures employed in our manufacturing and assembly processes.

## **Insurance**

We currently have insurance coverage for our production facilities in Gumi and Paju, Korea, for up to 2.4 trillion per claim, which includes business interruption coverage. We also have insurance coverage for work-related injuries to our employees, accidents during overseas business travel, damage during construction, damage to products and equipment during shipment, damage to equipment during installation at our fabs, automobile accidents, bodily injury and property damage from gas accidents, as well as mandatory unemployment insurance for our workers and director and officer liability insurance. In addition, we maintain general and product liability, employment practice liability and aviation product liability insurance. Our dormitories in Gumi and Paju, Korea have fire insurance coverage for up to 461 billion per claim. Our subsidiaries also have insurance coverage for damage to office fixtures and equipment, cargo insurance and life and disability insurance for their employees. Our overseas manufacturing subsidiaries in Nanjing, Guangzhou, Xiamen, Fujian, Dongguan, Kunshan and Yantai, China, Wroclaw, Poland, and Reynosa, Mexico, also carry property insurance, business interruption insurance and commercial general liability insurance.



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### **Environmental Matters**

Our production processes generate various forms of chemical waste, waste water and other industrial waste at various stages in the manufacturing process. We have installed various types of anti-pollution equipment for the treatment of chemical waste and waste water and equipment for the recycling of treated waste water in our facilities in Korea. In addition, as a member of the World LCD Industry Cooperation Committee, or WLICC, a TFT-LCD industry organization focusing on environmental issues, we have voluntarily agreed to reduce emission of greenhouse gases, such as nitrogen trifluoride, or NF<sub>3</sub>, and sulfur hexafluoride, or SF<sub>6</sub>, gases, by developing and adopting cost-effective abatement technologies and systems and increasing the number of abatement systems installed in our facilities.

We installed NF<sub>3</sub> abatement systems at all of our production lines when the production facilities were being constructed. In April 2005, we voluntarily installed SF<sub>6</sub> abatement systems in P1, and in December 2009 and January 2012, we installed SF<sub>6</sub> abatement systems in P61 and P7, respectively, as part of the implementation of Clean Development Mechanism, or CDM, projects under the Kyoto Protocol to the United Nations Framework Convention on Climate Change, or UNFCCC, which allows participants in CDM projects to earn certified emission reduction, or CER, credits for meeting certain reduction targets under the Kyoto Protocol. We manage our CDM projects jointly with LG International. Pursuant to the terms of our arrangement with LG International relating to our CDM projects, LG International provides the funds necessary for the procurement, installation and operation of SF<sub>6</sub> abatement systems in our facilities and, in return, LG International is allocated all CER credits earned through the CDM projects, which it can then sell in the CER credit markets. We are entitled to a portion of the proceeds from such sales that exceed certain agreed levels. In July 2010, we became the first TFT-LCD manufacturer in the world to obtain validation from the CDM Executive Board with respect to our CDM project for SF<sub>6</sub> decomposition. TÜV-SÜD, which is certified as a designated operational entity for CDM projects by the CDM Executive Board, verified our reductions in emissions during the period from August 2010 to December 2010, based on which UNFCCC issued to us CER credits in the amount of 343,971 tonnes of CO<sub>2</sub> equivalent, which were allocated to LG International. All of these CER credits were subsequently sold to a third party purchaser in December 2011. We were also issued CER credits in the total amount of 579,583 tonnes of CO<sub>2</sub> equivalent from January 2011 to January 2012, all of which were also allocated to LG International.

Under the Framework Act on Low Carbon, Green Growth, the Korean government designated us in September 2010 as one of the companies that will be subject to greenhouse gas emission and energy consumption targets. We have submitted greenhouse gas emission and energy usage statements for the years 2007 through 2012, which were certified by government-designated third party certification agencies, to the Korean government. We have also submitted a performance report on the target assignment for the year 2012. In October 2012, we received greenhouse gas emission and energy consumption targets, and we submitted our greenhouse gas emission and energy usage reduction plan for 2013 to the Korean government at the end of 2012.

Operations at our manufacturing plants are subject to regulation and periodic monitoring by the Korean Ministry of Environment and local environmental protection authorities. We believe that we have adopted adequate anti-pollution measures for the effective maintenance of environmental protection standards consistent with local industry practice, and that we are in compliance in all material respects with the applicable environmental laws and regulations in Korea. Expenditures related to such compliance may be substantial. Such expenditures are generally included in capital expenditures. As required by Korean law, we employ licensed environmental specialists for each environmental area, including air quality, water quality, toxic materials and radiation.

We also have an internal monitoring system to control the use of hazardous substances in the manufacture of our products as we are committed to compliance with all applicable environmental laws and regulations, including European Union Restriction of Hazardous Substances, or RoHS, Directive 2011/65/EU, which restricts the use of certain hazardous substances in the manufacture of electrical and electronic equipment. Furthermore, we are operating a green purchasing system, which excludes the hazardous materials at the purchasing stage. This system has enabled us to comply with various environmental legislations of hazardous substances, including the European Union RoHS. Moreover, we participated in reforming IEC 62321, a RoHS international testing standard, by including a halogen-free combustion ion chromatography method in our committee draft that we submitted to the International Electrotechnical Commission in June 2010.

We have been certified by the Korean Ministry of Environment as a Green Company, with respect to our environmental record for P1 and our module production plant in Gumi since 1997, with respect to our operations at P2 and P3 since 2006, and with respect to our operations at P4, P5 and P61 since 2008. In addition, we currently have ISO 14001 certifications with respect to our environmental management systems for P1 through P98 facilities, our Gumi and Paju module production plants, as well as our module production plants in Nanjing and Guangzhou, China. Furthermore, we have received KS 7001 and 7002 certifications from the Korean Standards Service Network for our Green Management System for P1 through P98 facilities and our Gumi and Paju module production plants.

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### **Joint Ventures**

We consider joint ventures an important part of our business, both operationally and strategically. We have used joint ventures to enter into new geographic markets, in particular China, to gain new customers and/or strengthen positions with existing customers and to procure certain components and raw materials. When entering new geographic markets where we do not have substantial local experience and infrastructure, teaming up with a local partner can reduce capital investment by leveraging the pre-existing infrastructure of local partners. In addition, local partners in these markets can provide knowledge and insight into local customs and practices and access to local suppliers of raw materials and components. All of these advantages can reduce the risk, and thereby enhance the prospects for the success, of an entry into a new geographic market. If the partner of the joint venture already has an established customer base, it can also be an effective means to acquire such new customers. Joint venture arrangements also allow us to access technology we would otherwise have to develop independently, thereby reducing the time and cost of development. They can also provide the opportunity to create synergies and applications of technology that would not otherwise be possible.

In recent years, we have pursued a number of joint venture initiatives. For example:

In August 2010, we entered into a joint venture agreement with Everlight Electronics Co., Ltd. and AmTRAN Technology Co., Ltd., to establish Eralite Optoelectronics (Jiangsu) Co., Ltd. We invested US\$4 million in return for a 20.0% equity interest in the joint venture company. Eralite Optoelectronics specializes in LED packaging and manufacturing.

In November 2010, we entered into a joint venture agreement with Compal Electronics, Inc., a Taiwanese company, and established LUCOM Display Technology (Kunshan) Ltd. in Kunshan, China. We invested US\$2.3 million and acquired a 51.0% equity interest in LUCOM Display Technology. In February and April 2011, we invested an additional US\$3.1 million and US\$2.3 million, respectively, in LUCOM Display Technology, but the additional investments did not change our percentage interest in LUCOM Display Technology. LUCOM Display Technology specializes in notebook borderless hinge-up display manufacturing.

In September 2012, we entered into a joint venture agreement with Guangzhou GET Technologies Development Co., Ltd., or GET Tech, and Shenzhen SKYWORTH-RGB Electronic Co., Ltd., or Skyworth, establishing LG Display (China) Co., Ltd., which will own and operate the new eighth-generation fabrication facility that is currently under construction in Guangzhou, China. See Item 4.D. Property, Plants and Equipment Expansion Projects. We acquired a 70.0% equity interest in LG Display (China) and have committed to invest a total of approximately US\$934 million over a period of two years from the date of incorporation of LG Display (China). Each of Get Tech and Skyworth owns a 20.0% and 10.0% equity interest in LG Display (China), respectively.

We intend to continue to seek strategic acquisition and joint venture opportunities and conduct feasibility studies with respect to establishing new manufacturing subsidiaries in strategic locations to deepen our market penetration, achieve economies of scale, increase our customer base, expand our geographical reach and reduce costs.

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The following table sets forth summary information for our subsidiaries as of December 31, 2012:

Subsidiary	Main Activities	Jurisdiction of Organization	Date of Organization	Total Equity Investment	Percentage of Our Ownership Interest	Percentage of Our Voting Power
LG Display Taiwan Co., Ltd.	Sales	Taiwan	April 1999	NT\$ 115,500,000	100%	100%
LG Display America, Inc. <sup>(1)</sup>	Sales	U.S.A.	September 1999	US\$ 260,000,000	100%	100%
LG Display Japan Co., Ltd.	Sales	Japan	October 1999	¥ 95,000,000	100%	100%
LG Display Germany GmbH	Sales	Germany	November 1999	960,000	100%	100%
LG Display Nanjing Co., Ltd. <sup>(2)</sup>	Manufacturing					
	and sales	China	July 2002	RMB 2,834,206,315	100%	100%
LG Display Shanghai Co., Ltd.	Sales	China	January 2003	RMB 4,138,650	100%	100%
LG Display Poland Sp. zo.o.	Manufacturing					
	and sales	Poland	September 2005	PLN 410,327,700	80%	80%
LG Display Guangzhou Co., Ltd.	Manufacturing					
	and sales	China	June 2006	RMB 895,904,754	90%	90%
LG Display Shenzhen Co., Ltd.	Sales	China	August 2007	RMB 3,775,250	100%	100%
LG Display Singapore Pte. Ltd.	Sales	Singapore	January 2009	SG\$ 1,400,000	100%	100%
LG Display Yantai Co., Ltd. <sup>(3)</sup>	Manufacturing					
	and sales	China	April 2010	RMB 525,016,000	100%	100%
L&T Display Technology (Xiamen) Ltd.	Manufacturing					
	and sales	China	January 2010	RMB 41,785,824	51%	51%
L&T Display Technology (Fujian) Ltd.	Manufacturing					
	and sales	China	January 2010	RMB 59,197,026	51%	51%
L&I Electronic Technology (Dongguan) Ltd.	Manufacturing					
	and sales	China	September 2010	RMB 17,062,560	51%	51%
Image & Materials, Inc. <sup>(4)</sup>	Manufacturing					
	and sales	Korea	May 2006	43,999,839,152	100%	100%



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LUCOM Display  
Technology (Kunshan) Ltd.

Manufacturing

and sales	China	December 2010	RMB	50,353,677	51%	51%
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LG Display  
USA Inc.

Manufacturing

and sales	U.S.A.	October 2011	US\$	10,920,000	100%	100%
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LG Display  
Reynosa S.A. de C.V.

Manufacturing

Mexico	November 2011	MXN	111,998,058	100%	100%
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Subsidiary	Main Activities	Jurisdiction of Organization	Date of Organization	Total Equity Investment	Percentage of Our Ownership Interest	Percentage of Our Voting Power
Nanumnuri Co., Ltd.	Workplace services	Korea	March 2012	800,000,000	100%	100%
LG Display (China) Co., Ltd.	Manufacturing and sales	China	December 2012	RMB 176,361,123	70%	70%

- (1) In June 2012, we made an additional investment of US\$75 million in LG Display America, Inc.
- (2) In May 2012, we made an additional investment of RMB 282 million in LG Display Nanjing Co., Ltd.
- (3) In October 2012, we made an additional investment of RMB 252 million in LG Display Yantai Co., Ltd.
- (4) December 2012, we commenced the dissolution procedures for Image & Materials, Inc., a wholly owned subsidiary of ours that developed and manufactured e-book deposition components. We had initially acquired a 100% equity interest in Image & Materials in November 2010 for a purchase price of 35 billion and, since our acquisition, made additional investments of 9 billion in the aggregate.

### Item 4.C. Organizational Structure

These matters are discussed under Item 4.B. where relevant.

### Item 4.D. Property, Plants and Equipment Current Facilities

We currently operate a total of thirteen panel fabrication facilities, including expansions to certain facilities (P1 through P83, located in our Display Clusters in Gumi and Paju, Korea and AP2, located in our Paju Display Cluster). Recent expansions that are currently in operation include P98, a new eighth-generation panel fabrication facility that commenced mass production in June 2012, and P82 and P83, expansions to our P8 fabrication facility that commenced mass production in May 2010 and March 2011, respectively. Our AP2 facility, a LTPS backplane technology-based panel fabrication facility, began mass production in May 2010.

The following table sets forth the size, primary use and capacity of our fabrication facilities.

Facility	Generation <sup>(1)</sup>	Gross Floor Area (in square meters)	Input Substrates Size (in mm)/ Mass Production Commencement	Nominal TFT Capacity as of December 31, 2012 (in input substrates per month) <sup>(2)</sup>	Primary Size of Panels Produced or Other Activity
P1	2	38,838	370 x 470 September 1995	12,000	10.4 , 6.4
P2	3.5	71,149	590 x 670 December 1997	76,000	7.0 , 4.3 , 4.0
P3	4	71,149	680 x 880 July 2000	82,000	7.0 , 4.5 , 4.0

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P4	5	93,278	1,000 x 1,200	149,000	14.0 , 13.3 , 17.3
March 2002					
P5	5	93,278	1,100 x 1,250	134,000	14.0 , 15.4 , 15.6
May 2003					
P61	6	288,602	1,500 x 1,850	159,000	21.5 , 37.0 , 9.7
August 2004					
P7	7	310,136	1,950 x 2,250	202,000	42.0 , 27.0 , 19.0
January 2006					
P81	8	172,083	2,200 x 2,500	136,000	55.0 , 32.0 , 23.0
March 2009					
P62	6	101,607	1,500 x 1,850	63,000	15.6 , 14.0 , 18.5
April 2009					
P82	8	172,083	2,200 x 2,500	142,000	47.0 , 32.0 , 21.5
May 2010					

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Facility	Generation <sup>(1)</sup>	Gross Floor Area (in square meters)	Input Substrates Size (in mm)/ Mass Production Commencement	Nominal TFT Capacity as of December 31, 2012 (in input substrates per month) <sup>(2)</sup>	Primary Size of Panels Produced or Other Activity
P83	8	78,536	2,200 x 2,500  March 2011	68,000	32.0 , 47.0 <sup>(3)</sup>
P98	8	85,950	2,200 x 2,500  June 2012	58,000	9.7 , 21.5 , 23.0
AP2	4.5	86,042	730 x 920 May 2010	71,000	3.5 , 4.0 and  backplanes for OLED (mobile)

- (1) Based on internal reference to evolutions in facility design, material flows and input substrate sizes. There are several definitions of generations in the display industry. There has been no consensus in the display industry on a uniform definition. References to fab generations made in this annual report are based on our current definition of generations as indicated in the table below.

Substrate Sizes (in millimeters)	Gen 2	Gen 3	Gen 4	Gen 5	Gen 6	Gen 7	Gen 8
	360 x 465	550 x 650	680 x 880	1,000 x 1,200	1,500 x 1,800	1,870 x 2,200	2,200 x 2,500
	370 x 470	590 x 670	730 x 920	1,100 x 1,250	1,500 x 1,850	1,950 x 2,250	
	400 x 500	600 x 720		1,100 x 1,300			
		620 x 750		1,200 x 1,300			
		650 x 830					
<b>Fabs</b>							
P1	370 x 470						
P2		590 x 670					
P3			680 x 880				
P4				1,000 x 1,200			
P5				1,100 x 1,250			
P61					1,500 x 1,850		
P7						1,950 x 2,250	
P81							2,200 x 2,500
P62					1,500 x 1,850		
P82							2,200 x 2,500
P83							2,200 x 2,500
P98							2,200 x 2,500
AP2			730 x 920				

- (2) Reflects processing capacity for TFT glass substrates only. All of our fabs except P1 and AP2 have the capacity to process both TFT and color filter substrates.

- (3) In addition, production lines in P83 were used for pilot production of backplanes for OLED television panels.

We also currently operate module assembly facilities located in China (Nanjing, Guangzhou and Yantai), Korea (Gumi and Paju), Poland (Wroclaw) and Mexico (Reynosa). In addition, we operate a research and development facility in Paju, Korea, which we refer to as the R&D Center. We opened the R&D Center in April 2012 to consolidate our research and development efforts for next-generation display technologies. The following table sets forth the size of our R&D Center and module assembly facilities.

Facility

Mass Production  
Commencement

	<b>Gross Floor Area (in square meters)</b>	
R&D Center	69,857	
Gumi assembly facility	164,210	January 1995
Nanjing assembly facility	165,002	May 2003
Paju assembly facility	223,664	November 2005
Wroclaw assembly facility	106,928	March 2007
Guangzhou assembly facility	139,590	January 2008
Yantai assembly facility	78,285	May 2010
Reynosa assembly facility	76,129	March 2012
<b>Expansion Projects</b>		

We are currently constructing an eighth-generation fabrication facility in Guangzhou, China. We held a groundbreaking ceremony in May 2012, and we expect to commence mass production at the Guangzhou fabrication facility in the second half of 2014, subject to market conditions and any changes in our investment timetable. In connection with the construction of the Guangzhou fabrication facility, we entered into a joint venture agreement with GET Tech and Skyworth in September 2012, establishing LG Display (China) Co., Ltd. which will own and operate the Guangzhou fabrication facility. Under the terms of the joint venture agreement, we own a 70.0% equity interest in LG Display (China) and each of GET Tech and Skyworth owns a 20.0% and a 10.0% equity interest, respectively.

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We are also in the process of expanding our LTPS production capacity mainly through the conversion of P61 located in Gumi City, Korea, for which we expect to invest 1.20 trillion. In July 2012, we entered into an agreement with Gumi City and North Gyeongsang Province for their administrative assistance in connection with the investment. We expect mass production to commence at the converted LTPS production lines in the fourth quarter of 2013, subject to market conditions and any changes in our investment timetable.

Starting in the first quarter of 2013, we began expanding our large-sized OLED television panel production capacity at certain of our facilities in our Paju Display Cluster, for which we expect to invest 0.71 trillion. Mass production is expected to commence at the new large-sized OLED panel production lines in the first half of 2014, subject to market conditions and any changes in our investment timetable.

In addition, in January 2011, we signed a memorandum of understanding with Gumi City regarding its administrative support for our 1.35 trillion investment to expand our module production facilities in Gumi City, Korea, over a five-year period starting in 2011.

We currently expect that, in 2013, our total capital expenditures on a cash out basis will be no more than 4 trillion or, on a delivery basis, between approximately 4 trillion and 4.5 trillion, primarily to fund the expansion of our OLED panel and LTPS backplane technology-based panel production capacities, as well as other expansions and improvements to our existing facilities. This amount is subject to periodic assessment, and we cannot provide any assurance that this amount may not change materially after assessment. We may undertake further expansion projects in the future with respect to our existing facilities as our overall business strategy may require.

### **Item 4A. UNRESOLVED STAFF COMMENTS**

We do not have any unresolved comments from the SEC staff regarding our periodic reports under the Exchange Act.

## **Item 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS**

### **Item 5.A. *Operating Results* Overview**

Our results of operations are affected principally by overall market conditions, our manufacturing productivity and costs, and our product mix.

#### ***Market Conditions***

The industry in which we operate is affected by market conditions that are often outside the control of individual manufacturers. Our results of operations might fluctuate significantly from period to period due to market factors, such as seasonal variations in consumer demand, surges in production capacity by competitors and changes in technology. Over the past decade, our industry has grown significantly as a result of cost reductions and product improvements that stimulated consumer demand and supported the technology substitution of traditional CRT-based displays for TFT-LCD panels. According to DisplaySearch, total unit sales in the TFT-LCD industry grew from 117 million units in 2001 to 2,706 million units in 2012. Market revenue grew from US\$14 billion to US\$92 billion during the same period.

In recent years, the display industry has witnessed the introduction of display products based on new technologies, such as OLED, that could potentially compete with TFT-LCD panels. In particular, we and some of our competitors have already commenced commercial production of OLED panels. Currently, small-sized panels for use in mobile devices such as smartphones make up the bulk of the OLED panel market, accounting for almost 90% of industry revenue from global sales of OLED panels in 2012. These small-sized OLED panels compete with more advanced TFT-LCD products such as our AH-IPS products. However, as of 2012, the OLED market was relatively small compared to the TFT-LCD market. According to DisplaySearch, 188 million OLED panel units were sold in 2012, with market revenue of approximately US\$7 billion in that same year. We believe, however, the market may change rapidly as large-sized OLED panels are introduced to the market and advances in the related technology and manufacturing processes enable mass production in a cost-efficient manner. We have already developed a 55-inch OLED panel, which was unveiled at the Consumer Electronics Show in Las Vegas in January 2012, and certain of our customers have already launched retail sales of television products using our 55-inch OLED panels in the first quarter of 2013.



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While the display industry has grown rapidly, it has also experienced business cycles with significant and rapid price declines from time to time. Historically, TFT-LCD manufacturers have increased display area fabrication capacity rapidly. Capacity expansion occurs especially rapidly when several manufacturers ramp-up new factories at the same time. During such surges in the rate of supply growth, our customers are able to exert downward pricing pressure, leading to sharp declines in average selling prices and significant fluctuations in our gross margin. In addition, regardless of relative capacity expansion, we expect average selling prices of our existing products will decline as the cost of manufacturing declines due to technology advances and component cost reductions. Conversely, constraints in the industry supply chain or increased demand for new technology products have led to increased prices for TFT-LCD panels in some past periods, most recently in 2010. In 2011, however, the industry saw a general decrease in the average selling price of TFT-LCD panels that are nine inches or larger due to, among other reasons, overcapacity in the industry and depressed consumer demand due to continued difficulties in the global economy, increased consumer demand for tablet computers, which use smaller TFT-LCD panels relative to other TFT-LCD products and which therefore command lower average selling prices, as well as further advancement along the technology lifecycle that tends to erode premiums. According to DisplaySearch, the average selling price of TFT-LCD panels that are nine inches or larger decreased by approximately 17.8% from approximately US\$129 in 2010 to approximately US\$106 in 2011, primarily as a result of excess supply in the industry. In 2012, the TFT-LCD industry recovered as a whole compared to 2011, with total market revenues growing from US\$85 billion in 2011 to US\$92 billion in 2012, according to DisplaySearch. According to the same source, the average selling price of TFT-LCD panels that are nine inches or larger increased during the same period by 6.6% from approximately US\$106 in 2011 to approximately US\$113 in 2012. We believe that while our industry continued to be affected by lingering global economic uncertainties and overcapacity issues in 2012, industry-wide demand grew for premium products for use in large-sized televisions, ultra-slim notebooks, tablet computers and smartphones, helped in particular by a surge in seasonal demand in the second half of 2012.

We strive to mitigate the effect of industry cyclicalities and the resulting price fluctuations by planning capacity expansions and capacity allocations, or shifting our product mix, to capture premium prices in specific emerging product categories. For example, in the face of industry-wide overcapacity, we have tried to carefully balance the need to scale back our production by lowering the utilization rate of some of our facilities with respect to certain products, while carefully selecting and pursuing areas of expansion in anticipation of future growth with respect to certain other products. In July 2010, we started to scale back our production by lowering our utilization rates in response to industry-wide overcapacity issues. Since the end of 2011, we saw an increase in demand for our products, initially due in part to channel inventory replenishment and then, especially in the second half of 2012, due in large part to increasing demand for our differentiated specialty products used in certain types of televisions, tablet computers and smartphones. As a result, we raised our utilization rates since the end of 2011, and by the fourth quarter of 2012, our facilities were operating at an average utilization rate of approximately 100%. However, we cannot provide any assurance that the increase in demand in 2012, which helped to mitigate the impact of industry-wide overcapacity, can be sustained in future periods. While we continue to closely monitor market conditions and adjust our production levels accordingly, we have also been proceeding with the construction of new fabrication facilities and additional investments to existing facilities that are important to our growth strategy. For example, we started mass production at P83, the second expansion to our P8 fab, and at P98, our new eighth-generation fab, in March 2011 and June 2012, respectively. Construction of an eighth-generation fab in Guangzhou, China is currently under way and we expect mass production to commence at that fab in the second half of 2014, subject to market conditions and any changes in our investment timetable. In addition, we are making a 1.20 trillion investment to convert our P61 fabrication facility located in Gumi, Korea into LTPS production lines, and we expect to begin mass production at the converted LTPS production lines in the fourth quarter of 2013, subject to market conditions and any changes in our investment timetable. Also, starting in the first quarter of 2013, we began expanding our large-sized OLED television panel production capacity at certain of our facilities in our Paju Display Cluster, for which we expect to invest 0.71 trillion. Mass production is expected to commence at the new large-sized OLED panel production lines in the first half of 2014, subject to market conditions and any changes in our investment timetable. In addition, since 2011, we have been making investments to expand our module production facilities in Gumi, Korea, which investments are being undertaken with a five-year investment horizon, amounting to 1.35 trillion in total.

In addition, we are vigorously pursuing our strategy to develop differentiated specialty products and technologies that better address our customers' needs, thereby delivering greater value to our customers. In many cases, these efforts go hand-in-hand with our efforts to develop products based on new technologies that allow us to realize greater premiums. For example, we have allocated greater amounts of our resources to the development and production of FPR 3D television panels, public display panels, display panels utilizing AH-IPS technology for various tablet computers, smartphones, notebook computers, desktop monitors and other applications and hinge-up display products for notebook computers. In addition, we are deploying greater resources into large-sized OLED panels to establish an early competitive edge in the market.



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Another key aspect of our strategy is to foster close cooperation with our customers and build on our strategic relationships with many of our key suppliers. Success of a new product depends on, among other things, working closely with our customers to gain insights into their product needs and to understand general trends in the market. At the same, we often work with our equipment suppliers to design equipment that can enhance the efficiency of our production processes for such new products.

**Manufacturing Productivity and Costs**

We seek to continually enhance our manufacturing productivity and thereby reduce the cost of producing each panel. We have significantly expanded our production capacity by investing in fabs that can process increasingly larger-size glass substrates. The following table shows the input substrate size, initial design capacity and year-end input capacity as a result of ramp-up for each of our fabs as of the dates indicated:

Fabrication Facility	Mass Production Commencement	Input Substrates Size (in millimeters)	Initial Design Capacity (in input substrates per month)	Year-end Input Capacity <sup>(1)</sup>		
				2010 (in input substrates per month)	2011	2012 (in input substrates per month) <sup>(2)</sup>
P1	September 1995	370x470	30,000	60,000	42,000	12,000
P2	December 1997	590x670	60,000	90,000	84,000	76,000
P3	July 2000	680x880	60,000	122,000	111,000	82,000
P4	March 2002	1,000x1,200	60,000	154,000	147,000	149,000
P5	May 2003	1,100x1,250	60,000	175,000	166,000	134,000
P61	August 2004	1,500x1,850	90,000	205,000	190,000	159,000
P7	January 2006	1,950x2,250	90,000	200,000	196,000	202,000
P81	March 2009	2,200x2,500	83,000	123,000	116,000	136,000
P62	April 2009	1,500x1,850	60,000	62,000	63,000	63,000
P82	May 2010	2,200x2,500	83,000	107,000	133,000	142,000
P83	March 2011	2,200x2,500	68,000	N/A	64,000	68,000
P98	June 2012	2,200x2,500	60,000	N/A	N/A	58,000
AP2	May 2010	730x920	21,000	24,000	68,000	71,000

N/A = Not applicable.

(1) Year-end input capacity is the total input substrates for the month that had the highest monthly input substrates during the fiscal year.

(2) Reflects processing capacity for TFT glass substrates only. All of our fabs except P1 and AP2 have the capacity to process both TFT and color filter substrates.

Our cash outflows for capital expenditures amounted to 4,942 billion in 2010, 4,063 billion in 2011 and 3,972 billion (US\$3,736 million) in 2012. Such capital expenditures relate mainly to the construction of new fabrication and module production facilities and expansions to, and other investments in, existing facilities, including the construction and equipping of P82, P83, P98 and AP2 in 2010, the construction and equipping of P98 and our module production plant in Reynosa, Mexico, as well as additional investments in our AP2 facility and module production facilities in Gumi, in 2011, and the construction and equipping of P98, the construction of the fabrication facility in Guangzhou, China and investments undertaken to convert certain of our existing production lines in P61 into LTPS production lines, as well as continuing investments to expand our module production facilities in Gumi, in 2012. Capital expenditures were also incurred for the acquisition of new equipment during the same period. Our depreciation expense as a percentage of revenue increased from 10.8% in 2010 to 14.1% in 2011 and 14.3% in 2012. The increase in 2011 was primarily due to recognition of depreciation expenses for newly constructed facilities such as P83 and newly purchased equipment. Similarly, the increase in 2012 was primarily due to recognition of depreciation expenses for P98 and other newly purchased equipment. We currently expect that, in 2013, our total capital expenditures on a cash out basis will be no more than 4 trillion or, on a delivery basis, between approximately 4 trillion and 4.5 trillion, primarily to fund the expansion of our OLED panel and LTPS backplane technology-based panel production capacities, as well as other expansions and improvements to our existing facilities. Such amounts are subject to periodic assessment, and we cannot provide any assurance that such amounts may not change materially after assessment.

Since inception we have designed our fabs in-house and co-developed most equipment sets with our suppliers. These efforts have enabled us to gain valuable experience in designing and operating next generation fabs capable of processing increasingly larger-size glass substrates. We have been able to leverage this experience to achieve and maintain high production output and yields at our fabs, thereby lowering costs. For

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example, our P81 facility reached an initial design capacity of 83,000 input sheets of glass substrate per month in the first quarter of 2010 and an expanded capacity of 136,000 input sheets of glass substrate per month in the fourth quarter of 2012. In addition, in recent years, we have substituted a portion of our equipment purchased from overseas vendors with purchases from local vendors to diversify our supply source and reduce costs. For example, in 2012, we purchased approximately 62.8% of our equipment for our facilities in Korea from local suppliers on an invoiced basis. We also fabricate certain components internally, such as color filters, which are one of the industry's higher-cost components.

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We also continue to make various process improvements at our fabs, including enhancing the performance of process equipment, efficiency of material flows and quality of process and product designs. For example, we have reduced the number of mask steps in the TFT process from four to three with respect to certain models, thereby enabling us to process a higher number of substrates in a given period of time. Such process improvements result in increased unit output of our fabs without significant capital investment, thus enabling us to reduce fixed costs on a per panel basis. In addition, as we prepare for the mass production of large-sized OLED products, we have been making modifications to certain of our existing TFT-LCD fabrication lines to convert them into OLED panel fabrication lines. Because our large-sized OLED panels employ oxide TFT backplane technology, which can be produced using manufacturing processes similar to the processes used to manufacture TFT-LCD panels, relatively little modification has been necessary, thereby reducing the costs of additional investments needed for the conversion of our fabrication lines.

Raw materials comprise the largest component of our costs. In 2012, approximately 86.1% of the raw materials procured for our facilities in Korea were sourced from local suppliers. To the extent overseas suppliers are able to provide raw materials at competitive prices, we intend to diversify our supplier base by also procuring raw materials from such overseas suppliers. We have also been able to leverage our scale and leading industry position to obtain competitive prices from our suppliers. Certain strategic decisions, such as fabricating our own color filters, one of the higher cost components, have also been important drivers of our cost control.

The size of our operations has also expanded considerably from 2002 to date, enabling us to benefit from economies of scale. As a result of the above factors, our cost of sales per square meter of net display area, which is derived by dividing total cost of sales by total square meters of net display area shipped, decreased by 6.7% from US\$691 per square meter of net display area in 2010 to US\$645 in 2011. However, our cost of sales per square meter of net display area increased by 7.4% to US\$693 in 2012. While we continued to benefit from increasing cost efficiencies in 2012, the cost of sales per square meter of net display area increased compared to 2011 because of a shift in our product mix in 2012 caused mainly by higher demand for our differentiated specialty products that tend to have high-end specifications and employ the latest technologies, and therefore entail higher per square meter cost. Also, a number of our differentiated specialty products, which include products used in ultra-slim notebooks, tablet computers and mobile devices, such as smartphones, have a smaller size per unit than our traditional products, which contributed to the increase in the cost of sales per square meter of display area.

***Product Mix***

Our product mix reflects our strategic capacity allocation among various product markets, and is continually reviewed and adjusted based on the demand for, and our assessment of the profitability of, display panels in different markets and size categories. In recent years, we believe market demand has been shaped by a shift toward larger-sized panels, especially in the television and desktop panel markets, and a shift toward differentiated specialty products based on newer technologies, especially in the relatively new markets for 3D televisions, ultra-thin notebooks, tablet computers and smartphones. In response to such market trends, we have increased our production capacity and sales of larger-sized panels, as well as developing and commercializing differentiated specialty products for a variety of applications. For example, while sales of our 32-inch and 37-inch television panels have declined in the period between 2010 and 2012, sales of our 42-inch, 47-inch and 55-inch television panels have increased during the same period. In addition, we have expanded our desktop monitor product portfolio to offer panels with full high-definition resolution ranging from 21.5 inches to 27 inches in a variety of formats in order to capture the market for large-size desktop monitors. At the same time, in response to increasing market demand for differentiated specialty products, we have developed and commercialized, for example, tablet computer and smartphone panels based on AH-IPS technology with increasingly higher resolution and other features, Shuriken hinge-up notebook display panels with thin bezels, and large-sized television panels utilizing our FPR 3D technology.

Our product mix has an impact on our average selling prices. In addition to business cycles, industry-wide supply and demand balances and other market- or industry-wide variables, our product cost and price vary with the product display area, as well as the technology and specification of such product. Therefore, the average selling price of our products can vary over time as a result of business cycles and the choices we make in capacity allocation for specific products. The overall average selling price of our display panels can fluctuate significantly. Our average selling price per panel, which is derived by dividing total sales of goods by the total number of panels sold, decreased by 6.8% from 70,854 per panel in 2010 to 66,051 in 2011 but increased by 11.2% to 73,477 (US\$69) in 2012. While the market- and industry-wide downward pressure on our average selling price in 2011 more than offset improvements to our average selling price resulting from our shift toward higher-premium product mix in 2011 compared to 2010, we believe the positive impact of the continued shift in our product mix in 2012, along with slightly improved market conditions in 2012 compared to 2011, contributed to the increase in our average selling price in 2012 compared to 2011.

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Our average selling price per panel of panels used in televisions, notebook computers (including certain types of table computers) and desktop monitors decreased by 20.2% from 140,017 per panel in 2010 to 111,775 in 2011 but increased by 1.8% to 113,741 (US\$107) in 2012. In particular, an increase in demand for larger-sized television panels and panels used in certain types of tablet computers that are included in our notebook computer panel category, coupled with a recovery in market demand in 2012, contributed to the increase in our average selling prices of products in this category in 2012 compared to 2011. For example, the number of our 42-inch, 47-inch and 55-inch television panels sold increased by 32.7% from approximately 20.5 million units in 2011 to approximately 27.2 million in 2012. In addition, in the case of our tablet computer panels, certain models of which are included in our notebook computer panel category and certain other models are included in our mobile and other applications category, the number of units sold increased by 58.7% from approximately 35.6 million units in 2011 to approximately 56.5 million in 2012.

Our product portfolio also includes panels for mobile and other applications, comprising a wide array of display panel sizes, including smartphones and other types of mobile phones, certain types of tablet computers and industrial and other applications, including entertainment systems, automotives, portable navigation devices and medical diagnostic equipment. Unit sales of our small and medium-sized display panels, or panels smaller than nine inches, for these applications decreased from 188.1 million units in 2010 to 171.9 million units in 2011, largely due to decrease in demand for certain smaller-sized panels used in certain end products that are being, or have been, phased out of the market, including smaller-sized panels used in older mobile phones that have been increasingly superseded in the market by smartphones equipped with larger-sized panels. Unit sales of these small and medium-sized display panels increased slightly to 173.3 million units in 2012, due in part to increase in sales of panels used in smartphones and panels used in medium-sized tablet computers included in this category. In contrast, in part as a result of the shift in our product mix toward higher-end products in this category, the average selling price per panel of our panels for mobile and other applications increased by 76.3% from 8,342 per panel in 2010 to 14,709 in 2011, which increased further by 46.5% to 21,553 (US\$20) in 2012.

The following table sets forth our revenue by product category for the periods indicated and revenue in each product category as a percentage of our total revenue:

	2010		Year Ended December 31, 2011		2012		
	Sales	%	Sales	%	Sales	Sales <sup>(5)</sup>	%
(in billions of Won and millions of US\$, except for percentages)							
Panels for:							
Televisions <sup>(1)</sup>	14,079	55.2%	11,579	47.7%	13,512	US\$ 12,708	45.9%
Notebook Computers <sup>(2)</sup>	4,424	17.3	5,120	21.1	6,998	6,582	23.8
Desktop Monitors <sup>(3)</sup>	5,390	21.1	4,975	20.5	5,039	4,739	17.1
Mobile and Other Applications <sup>(4)</sup>	1,575	6.2	2,540	10.4	3,754	3,531	12.8
Sales of Goods	25,468	99.8%	24,214	99.7%	29,303	US\$ 27,560	99.6%
Royalties and Others	44	0.2	77	0.3	127	120	0.4
Revenue	25,512	100.0%	24,291	100.0%	29,430	US\$ 27,680	100.0%

(1) Includes television sets manufactured and sold by our joint venture company, L&T Display Technology (Xiamen) Limited.

(2) Includes panels for certain types of tablet computers, as well as semi-finished products manufactured by LUCOM Display Technology (Kunshan) Ltd.

(3) Includes desktop monitors manufactured and sold by our joint venture company, L&T Display Technology (Fujian) Limited.

(4) Includes, among others, panels for handheld application products, including mobile phones, including smartphones, certain types of tablet computers, and industrial and other applications, including entertainment systems, automotives, portable navigation devices and medical diagnostic equipment.

(5) For convenience, the Korean Won amounts are expressed in U.S. dollars at the rate of 1,063.24 to US\$1.00, the noon buying rate in effect on December 31, 2012 as certified by the Federal Reserve Bank of New York for customs purposes. This translation should not be construed as a representation that the Korean Won amounts represent, have been or could be converted to U.S. dollars at that rate or any other rate.

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The following table sets forth our sales volume by product category for the periods indicated and as a percentage of our total panels sold:

Panels for	2010		Year Ended December 31, 2011		2012	
	Number of Panels	%	Number of Panels	%	Number of Panels	%
(in thousands, except for percentages)						
Televisions <sup>(1)</sup>	51,184	14.3%	53,084	14.5%	56,490	14.1%
Notebook Computers <sup>(2)</sup>	70,124	19.5	90,577	24.7	116,315	29.2
Desktop Monitors <sup>(3)</sup>	49,336	13.7	50,247	13.7	51,819	13.0
Mobile and Other Applications <sup>(4)</sup>	188,798	52.5	172,688	47.1	174,179	43.7
Total	359,442	100.0%	366,596	100.0%	398,803	100.0%

(1) Includes television sets manufactured and sold by our joint venture company, L&T Display Technology (Xiamen) Limited.

(2) Includes panels for certain types of tablet computers, as well as semi-finished products manufactured by LUCOM Display Technology (Kunshan) Ltd.

(3) Includes desktop monitors manufactured and sold by our joint venture company, L&T Display Technology (Fujian) Limited.

(4) Includes, among others, panels for handheld application products, including mobile phones, including smartphones, certain types of tablet computers, and industrial and other applications, including entertainment systems, automobiles, portable navigation devices and medical diagnostic equipment.

The following table sets forth our average selling price per panel by markets for the periods indicated:

	Average Selling Price <sup>(5)</sup> Year Ended December 31,			
	2010	2011	2012 <sup>(6)</sup>	
Televisions <sup>(1)</sup>	275,066	218,126	239,193	US\$ 225
Notebook Computers <sup>(2)</sup>	63,088	56,526	60,164	57
Desktop Monitors <sup>(3)</sup>	109,251	99,011	97,242	91
Mobile and Other Applications <sup>(4)</sup>	8,342	14,709	21,553	20

(1) Includes television sets manufactured and sold by our joint venture company, L&T Display Technology (Xiamen) Limited.

(2) Includes panels for certain types of tablet computers, as well as semi-finished products manufactured by LUCOM Display Technology (Kunshan) Ltd.

(3) Includes desktop monitors manufactured and sold by our joint venture company, L&T Display Technology (Fujian) Limited.

(4) Includes, among others, panels for handheld application products, including smartphones and other mobile phones, certain types of tablet computers, and industrial and other applications, including entertainment systems, automobiles, portable navigation devices and medical diagnostic equipment.

(5) Average selling price for each market represents revenue per market divided by unit sales per market.

(6) For convenience, the Korean Won amounts are expressed in U.S. dollars at the rate of 1,063.24 to US\$1.00, the noon buying rate in effect on December 31, 2012 as certified by the Federal Reserve Bank of New York for customs purposes. This translation should not be construed as a representation that the Korean Won amounts represent, have been or could be converted to U.S. dollars at that rate or any other rate.

Our average revenue per square meter of net display area, which is derived by dividing our total revenue by total square meters of net display area shipped, decreased by 16.2% from US\$810 per square meter of net display area in 2010 to US\$679 in 2011. In 2012, our average revenue per square meter of net display area shipped increased by 13.5% to US\$771.

## Critical Accounting Policies

We have prepared our consolidated financial statements in accordance with IFRS as issued by the IASB. These accounting principles require us to make certain estimates and judgments that affect the reported amounts in our consolidated financial statements. Our estimates and judgments are based on historical experience, forecasted future events and various other assumptions that we believe to be reasonable under the circumstances. Estimates and judgments may differ under different assumptions or conditions. We evaluate our estimates and judgments on an ongoing basis. We believe the critical accounting policies discussed below are the most important to the portrayal of our financial condition and

results of operations. Each of them is dependent on projections of future market conditions and they require us to make the most difficult, subjective or complex judgments.

***Inventories***

We state our inventory at the lower of cost and net realizable value. We make adjustments to reduce the cost of inventory to its net realizable value, if required, for estimated excess, obsolescence or impaired balances. Factors influencing these adjustments include changes in demand, technological changes, product life cycle, component cost trends, product pricing, and physical deterioration. Revisions to these adjustments would be required if these factors differ from our estimates. If future demand or market conditions for our products are less favorable than forecasted, we may be required to recognize additional write-downs, which would negatively affect our results of operations in the period in which the write-downs are recognized. The write-downs of inventories amounted to 155.1 billion, 133.3 billion and 135.7 billion (US\$127.6 million) in 2010, 2011 and 2012, respectively. The amount of any such adjustment is recognized as cost of sales in the period the adjustment occurs.

**Table of Contents*****Income Taxes***

We have significant deferred income tax assets that may be used to offset taxable income in future periods. Our ability to utilize deferred income tax assets is dependent on our ability to generate future taxable income sufficient to utilize these deferred income tax assets before their expiration. Changes in estimates of our ability to realize our deferred tax assets are generally recognized in earnings as a component of our income tax (benefit) expense. At each reporting date, we review our deferred tax assets for recoverability considering historical profitability, projected future taxable income, the expected timing of reversals of existing temporary differences and expiration of unused tax losses and tax credits. If we are unable to generate sufficient future taxable income, or if we are unable to identify suitable tax planning strategies, the deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized. An increase in unrecognized deferred tax assets would result in an increase in our effective tax rate and could materially adversely impact our operating results. Conversely, if conditions improve and we determine that previously unrecognized deferred tax assets should be recognized because of changes in estimates in future taxable income or other conditions that affect our expected recovery of deferred tax assets, this would result in an increase in reported earnings in such period. As of December 31, 2010, there was no unrecognized deferred tax asset. As of December 31, 2011 and 2012, unused tax credit carryforwards of 209.1 billion and 428.6 billion (US\$403.1 million), respectively, were not recognized as deferred tax assets because we did not believe that their realization would be probable. The increase of 219.5 billion in unrecognized tax credit carryforwards in 2012 compared to 2011 was due to lowered estimates of future taxable income. If the unrecognized deferred tax assets are recognized as deferred tax assets in a future period, the effective tax rate for the period could decrease. In estimating projected future taxable income, we considered a variety of factors, including recent overcapacity issues in the display industry and the industry-wide response to scale back capacity expansion plans and adjust utilization rates, as well as trends in demand for display products.

***Provisions Warranty Obligations***

We recognize a provision for warranty obligations based on the estimated costs that we expect to incur under our basic limited warranty for our products. This warranty covers defective products and is normally valid for eighteen months from the date of purchase. These liabilities are accrued when product revenue are recognized. Warranty costs primarily include raw materials and labor costs. Factors that affect our warranty liability include historical and anticipated rates of warranty claims on repairs, calculated based on our sales volume and cost per claim to satisfy our warranty obligation. There were no changes in assumptions or methods used which had a significant impact on the amount of warranty obligations from 2010 to 2012. As these factors are impacted by actual experience and future expectations, we periodically assess the adequacy of our recorded warranty liabilities and adjust the amounts as necessary. We recognized warranty obligations amounting to 121.8 billion, 61.7 billion and 55.4 billion (US\$52.1 million) as of December 31, 2010, 2011 and 2012, respectively. Warranty expenses decreased from 188.5 billion in 2010 to 55.5 billion in 2011. The decrease in warranty expenses in 2011 compared to 2010 was due largely to the resolution of the product defects issue that had resulted in an increase in our warranty expense in 2010, a general decrease in the historical and anticipated rates of warranty claims, and continued reductions in the per unit cost of warranty services resulting from improvements in our product quality through the feedback of experiences gained through providing warranty services and our cost reduction efforts in general, partially offset by an increase in warranty expenses resulting from an increase in sales volume in 2011 compared to 2010. In 2012, however, warranty expenses increased to 78.5 billion (US\$73.8 million). The increase in warranty expenses in 2012 compared to 2011 was due largely to an increase in sales volume in 2012 compared to 2011 and an increase in per unit warranty expenses as a result of the continued shift in our product mix toward larger-sized panels equipped with relatively newer technologies, partially offset by decreases resulting from continued improvements in our product quality and our cost reduction efforts in general.

***Long-Lived Assets: Useful Lives, Valuation and Impairment***

Property, plant and equipment are recorded at cost less accumulated depreciation over the estimated useful lives of the individual assets, with depreciation calculated on a straight line basis. The determination of an asset's useful life and salvage value requires judgment based on our historical and anticipated use of the asset. Since 1999, all new machinery is being depreciated on a straight-line basis over four years. For goodwill and other intangible assets that have indefinite useful lives or that are not yet available for use, as the case may be, the recoverable amount is estimated each year at the same time irrespective of whether there is any indication of impairment.

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We review the carrying amounts of long-lived assets or cash-generating units at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the recoverable amount of the relevant asset or cash generating unit is estimated. If circumstances require that a long-lived asset or cash-generating unit be tested for possible impairment, and the carrying value of such long-lived asset or cash-generating unit is considered impaired after such test, an impairment charge is recorded for the amount by which the carrying value of the long-lived asset or cash-generating unit exceeds its estimated recovery value. The recoverable amount of a long-lived asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. Fair value is determined by employing a variety of valuation techniques as necessary, including discounted cash flow models, quoted market values and third-party independent appraisals. The determination of the value in use and the fair value requires our judgments and assumptions about future operations. The determination of an asset's useful life, and the potential impairment of our long-lived assets could have a material effect on our results of operations. We had no such impairment losses in 2010, but in 2011, such impairment losses amounted to approximately 9.2 billion. In 2012, we recorded impairment losses of 40.0 billion (US\$37.6 million) resulting primarily from lowered estimates of economic benefits from certain goodwill and in-process research and development assets. Impairment loss is recognized as other expenses.

**Employee Benefits**

Our accounting for employee benefits, which mainly consists of our defined benefit plan, involves judgments about uncertain events including, but not limited to, discount rates, life expectancy, future pay inflation and expected rate of return on plan assets. The discount rates are determined by reference to the yield at the reporting date on high quality corporate bonds that have maturity dates approximating the terms of our benefits obligations and that are denominated in the same currency in which the benefits are expected to be paid. The expected rate of returns assumptions on plan assets are based on the portfolio as a whole and determined on the assumptions considering long-term historical returns and asset allocations. Due to changing market and economic conditions, the underlying key assumptions may differ from actual developments and may lead to significant changes in our defined benefit plan. We immediately recognize all actuarial gains and losses arising from defined benefit plans in retained earnings.

**Provisions Legal Proceedings**

We are involved from time to time in certain routine legal proceedings and governmental investigations incidental to our business. See Item 8.A. Consolidated Statements and Other Financial Information Legal Proceedings. We recognize liabilities for loss contingencies arising from claims, assessments, litigation, fines, and penalties and other sources when it is probable that a liability has been incurred and the amount of the assessment and/or remediation can be reasonably estimated. In determining whether a loss should be accrued, we evaluate, among other factors, the probability of an unfavorable outcome and the ability to make a reasonable estimate of the amount of loss, considering factors such as the nature of the litigation, claim, or assessment, the progress of the case and the opinions or views of legal counsel and other advisers. These estimates have been based on our assessment of the facts and circumstances at each reporting date and are subject to change based upon new information and intervening events. Revisions to estimates may significantly impact future net income. If any of the legal proceedings or governmental investigations results in an unfavorable outcome that exceeds our estimates, we may incur charges in excess of the recorded provisions for such proceeding or investigation and our results of operations or financial position may be materially adversely affected. We recognized provisions for litigation and claims amounting to 514.4 billion, 222.7 billion and 200.6 billion (US\$188.7 million) in the statements of financial position as of December 31, 2010, 2011 and 2012, respectively. Legal costs incurred in connection with loss contingencies are expensed as incurred.

**Operating Results**

The following presents our consolidated results of operation information and as a percentage of our revenue for the periods indicated:

	2010	%	Year Ended December 31,		2012	2012 <sup>(1)</sup>	%
			2011	%			
	(in billions of Won and in millions of US\$, except for percentages)						
Revenue	25,512	100.0%	24,291	100.0%	29,430	US\$ 27,680	100.0%
Cost of sales	(21,781)	85.4	(23,081)	95.0	(26,425)	(24,853)	89.8
Gross profit	3,731	14.6	1,210	5.0	3,005	2,826	10.2
Selling expenses	(846)	3.3	(728)	3.0	(814)	(766)	2.8
Administrative expenses <sup>(2)</sup>	(428)	1.7	(430)	1.8	(494)	(465)	1.8
Research and development expenses <sup>(2)</sup>	(768)	3.0	(816)	3.4	(785)	(738)	2.6
Other income	1,483	5.8	1,224	5.0	1,261	1,186	4.3



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Other expenses	(1,877)	7.4	(1,400)	5.8	(1,614)	(1,518)	5.5
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	Year Ended December 31,						
	2010	%	2011	%	2012	2012 <sup>(1)</sup>	%
	(in billions of Won and in millions of US\$, except for percentages)						
Finance income	241	0.9	207	0.9	293	276	1.0
Finance costs	(288)	1.1	(363)	1.5	(437)	(411)	1.5
Equity income on investments, net	18	0.1	16	0.1	43	40	0.1
Profit (loss) before income tax	1,266	5.0	(1,081)	4.5	459	432	1.6
Income tax expense (benefit)	106	0.4	(293)	1.2	222	209	0.8
Profit (loss) for the period	1,159	4.5	(788)	3.2	236	222	0.8
Other comprehensive income (loss) for the period, net of income tax	19	0.1	31	0.1	(140)	(132)	0.5
Total comprehensive income (loss) for the period	1,178	4.6%	(757)	3.1%	96	US\$ 90	0.3%

- (1) For convenience, the Korean Won amounts are expressed in U.S. dollars at the rate of 1,063.24 to US\$1.00, the noon buying rate in effect on December 31, 2012 as certified by the Federal Reserve Bank of New York for customs purposes. This translation should not be construed as a representation that the Korean Won amounts represent, have been or could be converted to U.S. dollars at that rate or any other rate.
- (2) Amortization expenses related to certain research and development activities included in administrative expenses for the years ended December 31, 2010 and 2011 have been reclassified as research and development expenses to conform to the criteria of classification for the year ended December 31, 2012.

**Comparison of 2012 to 2011****Revenue**

Our revenue increased by 21.2% from 24,291 billion in 2011 to 29,430 billion (US\$27,680 million) in 2012. Increases in the average selling prices of panels for televisions, notebook computers and mobile and other applications, coupled with increases in the number of units sold across all of our product categories, were the primary contributing factors to this increase, offset in part by a slight decrease in the average selling price of desktop monitors. In particular:

Demand for our large-sized television panels, comprising 42-inch and larger panels, grew in 2012, leading to an increase in the number of those panels sold in 2012 compared to 2011. The number of our 42-inch and larger panels sold increased by 33.2% from approximately 20.5 million panels in 2011 to approximately 27.3 million in 2012. In particular, the number of units sold of our 55-inch television panels increased by 75.0% from approximately 2.0 million panels in 2011 to approximately 3.5 million in 2012. Increases in both the sales volume and average selling price of our large-sized television panels in 2012 compared to 2011, particularly of our large-sized television panels equipped with FPR 3D technology which accounted for about half the number of units sold of our large-sized television panels in 2012, outpaced decreases in both the sales volume and average selling price of our television panels that are less than 42-inch in size during the same period.

Demand for our 15.6-inch or smaller notebook computer panels, which category includes three of our top selling notebook computer panels in 2012, namely 9.7-inch, 15.6-inch and 14-inch panels, grew in 2012, resulting in a 31.4% increase in the number of units sold of our 15.6-inch or smaller notebook computer panels from approximately 86.0 million panels in 2011 to 113.0 million in 2012. The average selling price of our 15.6-inch or smaller notebook computer panels increased in 2012 to compared to 2011, in part due to the increased demand for our AH-IPS panels used in notebook computers and tablet computers and our Shuriken panels used in ultra-slim notebook computers.

The number of units sold of our large-sized desktop monitor panels, comprising 21.5-inch and larger panels, grew in 2012, whereas the average selling price of such panels decreased slightly over the same period. In the case of our 21.5-inch desktop monitor panels, for example, the number of units sold increased by 15.1% from approximately 10.6 million panels in 2011 to approximately 12.2 million in 2012, which outpaced a 6.1% decrease in the average selling price of such model of during the same period. In contrast, the number of units sold of desktop monitor panels that are less than 21.5-inch in size decreased in 2012 compared to 2011, whereas the average selling price of such panels increased slightly.

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In our mobile and other applications category, we experienced continued growth in demand for increasingly larger smartphone panels in 2012 as compared to 2011. For example, the number of units sold of smartphone panels that are 3.5-inch or larger increased in 2012 compared to 2011. In particular, certain models that incorporate advanced technology such as AH-IPS technology, including our 4-inch panels, saw large increases in both their average selling prices and number of units sold in 2012 as compared to 2011. In addition, demand for panels used in certain types of medium-sized tablet computers, such as our 7-inch models, continued to grow in 2012, resulting in an increase in sales volume in 2012 compared to 2011. In contrast, the average selling prices and sales volume of certain other panels in our mobile and other applications category, such as smaller-sized panels used in older mobile phones that have been increasingly superseded in the market by smartphones, continued to decline in 2012 compared to 2011.

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Revenue attributable to sales of panels for televisions increased by 16.7% from approximately 11,579 billion in 2011 to approximately 13,512 billion (US\$12,708 million) in 2012, resulting from increases in both the average selling price and number of units sold of our panels in this category in 2012 compared to 2011. The average selling price of panels for televisions increased by 9.7% from approximately 218,126 in 2011 to approximately 239,193 (US\$225) in 2012, and the total unit sales of panels in this category increased by 6.4% from approximately 53.1 million panels in 2011 to approximately 56.5 million in 2012. The increase in revenue attributable to sales of panels for televisions primarily reflected a continued growth in market demand in 2012 for increasingly larger-sized television panels, in particular for panels incorporating differentiated specialty features such as FPR 3D, which commanded a higher average selling price in 2012 compared to 2011. In addition, the general recovery in demand for television panels in 2012 contributed to the increase in sales volume of such panels in 2012. This increase was partially offset by decreases in both the sales volume and average selling price of our television panels that are less than 42-inch in size during the same period.

Revenue attributable to sales of panels for notebook computers increased by 36.7% from approximately 5,120 billion in 2011 to approximately 6,998 billion (US\$6,582 million) in 2012, resulting from increases in both the number of units sold and average selling price of our panels in this category in 2012 compared to 2011. The total unit sales of panels for notebook computers increased by 28.4% from approximately 90.6 million panels in 2011 to approximately 116.3 million in 2012, and the average selling price of panels in this category increased by 6.4% from approximately 56,526 in 2011 to approximately 60,164 (US\$57) in 2012. The growth in revenue attributable to sales of panels for notebook computers primarily reflected continued growth in demand in 2012 for high performance panels used in certain types of tablet computers and ultra-slim notebooks. These products incorporate newer technologies and therefore command higher price premiums compared to more traditional products, which contributed to the increase in average selling price of our panels in this category in 2012 compared to 2011.

Revenue attributable to sales of panels for desktop monitors increased by 1.3% from approximately 4,975 billion in 2011 to approximately 5,039 billion (US\$4,739 million) in 2012, resulting from an increase in the number of units sold in this category in 2012 compared to 2011, partially offset by a decrease in the average selling price of such panels during the same period. The total unit sales of panels for desktop monitors increased by 3.2% from approximately 50.2 million panels in 2011 to approximately 51.8 million in 2012, whereas the average selling price of panels in this category decreased by 1.8% from approximately 99,011 in 2011 to approximately 97,242 (US\$91) in 2012. The increase in revenue attributable to sales of panels for desktop monitors primarily resulted from the continued shift in market demand toward larger-sized desktop monitors in 2012, which led to an increase in the sales volume of our desktop monitor panels that are 21.5-inch or larger in size in 2012 compared to 2011, offset by a decrease in the sales volume of our desktop monitor panels that are less than 21.5-inch in size over the same period. In addition, the decrease in the average selling price of our panels in this category in 2012 compared to 2011 partially offset the increase in sales volume of such panels over the same period.

Revenue attributable to sales of panels for mobile and other applications increased by 47.8% from approximately 2,540 billion in 2011 to approximately 3,754 billion (US\$3,531 million) in 2012, resulting from an increase in the average selling price of our panels in this category while the number of units sold remained relatively flat. The average selling price of panels for mobile and other applications increased by 46.5% from approximately 14,709 in 2011 to 21,553 (US\$20) in 2012, and the total unit sales of panels in this category increased by 0.9% from approximately 172.7 million panels in 2011 to approximately 174.2 million in 2012. The increase in the average selling price primarily reflected a shift in our product mix toward increasingly larger panels equipped with newer technologies that enable higher resolutions and meet more advanced performance specifications, particularly in the case of panels for smartphones, which tend to command a higher price premium.

In addition, our revenue attributable to royalty and others increased by 64.9% from 77 billion in 2011 to 127 billion (US\$119 million) in 2012. The increase was primarily due to an increase in other revenue, consisting primarily of sales of raw materials on-sold to our customers for module assembly purposes and sales of components to third party after-sales service providers, from 16 billion in 2011 to 89 billion (US\$84 million) in 2012. Such increase was partially offset by a decrease in royalty income included in revenue from 61 billion in 2011 to 38 billion (US\$36 million) in 2012 due to a decrease in lump-sum royalty payments from our licensees in 2012 compared to 2011.

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### ***Cost of Sales***

Cost of sales increased by 14.5% from 23,081 billion in 2011 to 26,425 billion (US\$24,853 million) in 2012. As a percentage of revenue, cost of sales decreased from 95.0% in 2011 to 89.8% in 2012. The increase in our cost of sales in 2012 compared to 2011 was attributable primarily to an increase in raw materials and component costs due to an increase in the number of panels sold in 2012 compared to 2011, as well as the increased share of high-end products in our product mix which contributed to the increase in costs on a per unit basis during the same period. In addition, an increase in depreciation and amortization costs, resulting mainly from recognition of depreciation costs in respect of newly constructed facilities and newly purchased equipment, and an increase in labor costs also contributed to the increase in cost of sales in 2012 compared to 2011.

As a percentage of our total cost of sales, raw materials and component costs decreased slightly from 69.2% in 2011 to 68.5% in 2012, while depreciation and amortization costs and labor costs increased slightly from 14.9% and 7.1%, respectively, in 2011 to 15.8% and 7.3%, respectively, in 2012.

Cost of sales per square meter of net display area, which is derived by dividing total cost of sales by total square meters of net display area shipped, increased by 7.4% from US\$645 per square meter of net display area in 2011 to US\$693 in 2012. Cost of sales per panel sold, which is derived by dividing total cost of sales by total number of panels sold, increased by 5.2% from 62,960 in 2011 to 66,261 (US\$62) in 2012.

### ***Gross Profit and Gross Margin***

As a result of the cumulative effect of the reasons explained above, our gross profit increased by 148.3% from 1,210 billion in 2011 to 3,005 billion (US\$2,826 million) in 2012. Our gross margin improved from 5.0% in 2011 to 10.2% in 2012, primarily as a result of an 11.2% increase in the average selling price of our products in 2012 compared to 2011, which outpaced a 5.2% increase in the cost of sales per panel sold over the same period. The continued shift in our product mix toward higher-end products in 2012 resulted in increases in both the average selling price and cost of sales per panel sold in 2012 compared to 2011, but the increase in average selling price outpaced the increase in cost of sales per panel sold because the higher-end products in our product mix tend to command higher premiums and we were able to partially offset the increase in per unit costs by continuing to improve the efficiency of our production processes, as well as maintaining higher utilization rates in 2012 compared to 2011.

### ***Selling and Administrative Expenses***

Selling and administrative expenses increased by 13.0% from 1,158 billion in 2011 to 1,308 billion (US\$1,230 million) in 2012. In contrast, as a percentage of revenue, our selling and administrative expenses decreased slightly from 4.8% in 2011 to 4.4% in 2012. The increase in selling and administrative expenses in 2012 was attributable primarily to increases in:

shipping costs, resulting primarily from an increase in sales volume shipped to the Americas and Europe, an increase in costs relating to our usage of air freight and a general increase in our overall sales volume in 2012 compared to 2011;

depreciation expense, resulting primarily from recognition of depreciation and amortization costs relating to installation of new upgrades to our IT systems; and

after-sales service expense, resulting primarily from an increase in our overall sales volume in 2012 compared to 2011, as well as the continued shift in our product mix in 2012 toward larger-sized panels equipped with relatively newer technologies, which tend to increase the per unit after-sales service costs.

Such increases were offset in part by a decrease in advertising expense in 2012 compared to 2011 as the initial costs of certain of our advertising campaigns that were undertaken starting in 2011, including FPR 3D promotion activities in markets such as China and Brazil, had a relatively smaller impact on our advertising expense in 2012 compared to 2011.

The following are the major components of our selling and administrative expenses for each of the years in the two-year period ended December 31, 2012:

	Year Ended December 31,	
	2011 <sup>(1)</sup>	2012
	(in billions of Won)	
Salaries	203	223
Expenses related to defined benefit plan	20	21
Other employee benefits	63	57

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	Year Ended December 31,	
	2011 <sup>(1)</sup>	2012
	(in billions of Won)	
Shipping costs	262	350
Fees and commissions	174	190
Depreciation	59	113
Taxes and dues	32	29
Advertising	136	104
After-sales service	72	106
Rent	29	26
Insurance	9	11
Travel	26	21
Training	18	13
Others	55	44
Total	1,158	1,308

(1) Components of selling and administrative expenses for the year ended December 31, 2011 have been reclassified to conform to the criteria of classification for the year ended December 31, 2012.

**Research and Development Expenses**

Research and development expenses decreased by 3.8% from 816 billion in 2011 to 785 billion (US\$738 million) in 2012. As a percentage of revenue, our research and development expenses decreased from 3.4% in 2011 to 2.7% in 2012. The decrease in research and development expenses in 2012 compared to 2011 was attributable to a decrease in costs of certain supplies, particularly photo masks and molds, and raw materials used for our research and development activities, offset in part by an increase in average salaries paid to our research and development employees and an increase in depreciation and amortization costs recognized as research and development expenses.

**Other Income (Expense), Net**

Other income includes primarily foreign currency gains from operating activities, and other expenses include primarily foreign currency losses from operating activities and expenses related to legal proceedings or claims, and others. Our total net other expense increased from 176 billion in 2011 to 353 billion (US\$332 million) in 2012, primarily due to an increase in expenses related to legal proceedings or claims and others from 151 billion in 2011 to 459 billion (US\$432 million) in 2012, offset in part by a net foreign currency gain of 134 billion (US\$126 million) in 2012 compared to a net foreign currency loss of 29 billion in 2011.

We recognized expenses related to legal proceedings or claims of 150 billion and 456 billion (US\$429 million) in 2011 and 2012, respectively. These expenses include provisions with respect to certain loss contingencies relating to legal proceedings as well as settlement payments in connection with related claims. See Item 8.A. Consolidated Statements and Other Financial Information Legal Proceedings for a discussion of our legal proceedings and associated settlement payments.

**Finance Income (Costs), Net**

Finance income recognized in profit or loss includes primarily interest income and foreign currency gains. Finance cost recognized in profit or loss includes primarily interest expense and foreign currency loss.

Our total net finance costs decreased by 7.7% from 156 billion in 2011 to 144 billion (US\$135 million) in 2012. Our total net finance costs decreased because of an increase in finance income in 2012 compared to 2011, offset in part by an increase in finance costs over the same period.

Our finance income increased by 41.5% from 207 billion in 2011 to 293 billion (US\$276 million) in 2012, attributable primarily to a net foreign currency gain of 67 billion (US\$63 million) in 2012 compared to a net foreign currency loss of 32 billion in 2011 due in large part to recording a net foreign currency translation gain in respect of our foreign currency denominated debt in 2012 compared to a loss in 2011 resulting from a higher year-end value of the Korean Won against the U.S. dollar in 2012 compared to 2011, offset in part by a net foreign currency exchange loss in 2012 compared to a gain in 2011 due to a lower average value of the Korean Won against the U.S. dollar in 2012 compared to 2011. The

increase in our finance income in 2012 compared to 2011 was offset in part by a 29 billion decrease in interest income primarily due to a decrease in the average interest rates applicable to our time deposits and reduced average amounts of cash held in the form of time deposits in 2012 compared to 2011.



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Our finance costs increased by 20.4% from 363 billion in 2011 to 437 billion (US\$411 million) in 2012 primarily due to a 43 billion increase in interest expense resulting primarily from an increase in the average interest rates applicable to our financial liabilities, as well as an increase in our average amounts of financial liabilities outstanding, in 2012 compared to 2011, and an increase of 12 billion in loss on sale of trade accounts and notes receivable in 2012 compared to 2011, largely reflecting the increase in trade accounts and notes receivable sold to financial institutions resulting from increased sales in 2012 compared to 2011.

### ***Income Tax Expense (Benefit)***

We recognized income tax expense of 222 billion (US\$209 million) in 2012 compared to an income tax benefit of 293 billion in 2011, primarily due to recording a profit before income tax of 459 billion (US\$432 million) in 2012 compared to a loss before income tax of 1,081 billion in 2011, which led to a 31.0% increase in current tax expense from 58 billion in 2011 to 76 billion (US\$71 million) in 2012, and the recognition of deferred tax expense of 146 billion (US\$137 million) in 2012 compared to a deferred tax benefit of 351 billion in 2011. As a result, our effective income tax rate was 48.4% in 2012 compared to 27.1% in 2011. As of December 31, 2012, unused tax credit carryforwards of 429 billion (US\$403 million) were not recognized as deferred tax assets because we did not believe realization of such amounts would be probable. As of December 31, 2011, unused tax credit carryforwards of 209 billion were not recognized.

### ***Profit (Loss) for the Period***

As a result of the cumulative effect of the reasons explained above, our profit for the period was 236 billion (US\$222 million) in 2012 compared to a loss of 788 billion in 2011.

### **Comparison of 2011 to 2010**

#### ***Revenue***

Our revenue decreased by 4.8% from 25,512 billion in 2010 to 24,291 billion in 2011. Decreases in the average selling prices of panels for televisions and desktop monitors, which outpaced increases in the respective numbers of units sold, were the primary contributing factors to this decrease, offset in part by an increase in the number of notebook computer panel units sold that outpaced a decrease in its average selling price and an increase in the average selling price of mobile and other applications that outpaced a decrease in the number of units sold. In particular:

Demand for our large-sized television panels, comprising 42-inch and larger panels, grew in 2011, leading to an increase in the number of those panels sold in 2011 compared to 2010. In the case of 55-inch television panels, for example, the number of units sold increased by 81.8% from approximately 1.1 million panels in 2010 to approximately 2.0 million in 2011. However, the decrease in the average selling prices of our large-sized television panels in 2011 compared to 2010 outpaced the increase in sales volume over the same periods, resulting in a decrease in revenue from large-sized television panels sold in 2011 compared to 2010. As for our television panels that are less than 42-inch in size, both the sales volume and average selling prices decreased in 2011 compared to 2010.

While the average selling prices of our notebook computer panels generally decreased in 2011 compared to 2010, the number of units sold of 15.6-inch or smaller notebook computer panels, which category includes 9.7-inch, 15.6-inch and 14-inch panels constituting three of our top selling notebook computer panel models in 2011, increased by 31.5% from approximately 65.4 million panels in 2010 to 86.0 million in 2011.

Demand for our large-sized desktop monitor panels, comprising 21.5-inch and larger panels, grew in 2011, leading to an increase in the number of those panels sold in 2011 compared to 2010. In the case of 23-inch desktop monitor panels, for example, the number of units sold increased by 45.2% from approximately 6.2 million panels in 2010 to approximately 9.0 million in 2011. However, the decrease in the average selling prices of our large-sized desktop monitor panels in 2011 compared to 2010 outpaced the increase in sales volume over the same periods, resulting in a decrease in revenue from large-sized desktop monitor panels sold in 2011 compared to 2010. As for our desktop monitor panels that are less than 21.5-inch in size, both the sales volume and average selling prices decreased in 2011 compared to 2010.



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Both the number of units sold and revenue attributable to sales of 3.54-inch, 7-inch and 4.3-inch panels in our mobile and other applications category, which constituted three of our top selling products in that category in 2011, increased in 2011 compared to 2010. In the case of 7-inch and 4.3-inch panels, average selling prices increased in 2011 compared to 2010, whereas in the case of 3.54-inch panels, average selling price decreased in 2011 compared to 2010. However, the increase in revenue attributable to sales of 3.54-inch panels resulting from an increase in the number of units sold in 2011 compared to 2010 more than offset the decrease in revenue resulting from the decrease in their average selling price over the same period. In contrast, the average selling prices and sales volume of certain other panels in our mobile and other applications category, such as smaller-sized panels that were used in older mobile models that have been increasingly superseded in the market by smartphones equipped with larger-sized panels, decreased in 2011 compared to 2010, resulting in lower overall sales volume in our mobile and other applications category in 2011 compared to 2010 and partially offsetting the increase in revenue in that category in 2011 compared to 2010.

In addition, the appreciation of the Korean Won against the U.S. dollar in 2011 compared to 2010 contributed to the reduction of our revenue in 2011 compared to 2010. The average exchange rate of the Korean Won against the U.S. dollar, calculated as the average of the noon buying rates as certified by the Federal Reserve Bank of New York for customs purposes on the last business day of each month in the calendar year, appreciated to 1,105.2 for US\$1.00 in 2011 from 1,158.7 for US\$1.00 in 2010. See Item 3.A. Selected Financial Data Exchange Rates. Because the U.S. dollar is the primary foreign currency in which we make sales, with U.S. dollar denominated sales-related accounts receivable making up 86.9% and 97.5% of our total sales-related accounts receivable balance at the end of 2011 and 2010, respectively, the appreciation of the Won against the U.S. dollar in 2011 compared to 2010 has had the effect of reducing our revenue in Korean Won terms.

Revenue attributable to sales of panels for televisions decreased by 17.8% from approximately 14,079 billion in 2010 to approximately 11,579 billion in 2011. The average selling price of panels for televisions decreased by 20.7% from approximately 275,066 in 2010 to approximately 218,126 in 2011, whereas the total unit sales of panels for televisions increased by 3.7% from approximately 51.2 million panels in 2010 to approximately 53.1 million in 2011. The decrease in revenue attributable to sales of panels for televisions primarily reflected an overall decrease in average selling prices of panels for televisions due to increased downward price pressure affecting TFT-LCD products generally resulting from, among other factors, overcapacity in the industry relative to the demand for such panels, which have been negatively impacted by the global economic difficulties in 2011. In particular, both the average selling prices and number of unit sales of our television panels that are less than 42-inch in size decreased, which decrease was more prominent in some of our smaller-sized models than others. While the total unit sales of panels for televisions increased, due primarily to an increase in the number of unit sales of our large-sized television panels, comprising 42-inch or larger models, which in turn reflected the continued growth in market demand for larger-sized televisions, the additional revenue from increased number of unit sales was not sufficient to fully offset the overall decrease in revenue from sales of panels for televisions resulting from the decrease in the average selling prices.

Revenue attributable to sales of panels for notebook computers increased by 15.7% from approximately 4,424 billion in 2010 to approximately 5,120 billion in 2011. The average selling price of panels for notebook computers decreased by 10.4% from approximately 63,088 in 2010 to approximately 56,526 in 2011, whereas the total unit sales of panels for notebook computers increased by 29.2% from approximately 70.1 million panels in 2010 to approximately 90.6 million in 2011. The growth in revenue attributable to sales of panels for notebook computers primarily reflected continuing growth in demand for higher resolution and higher performance quality panels as well as certain types of notebook computer display panels, including display panels for tablet computers and hinge-up displays, which more than offset the decrease in the average selling price of panels for notebook computers in 2011. The continued increase in sales of panels for tablet computers in 2011 was one of the primary reasons for the increase in unit sales of panels for notebook computers.

Revenue attributable to sales of panels for desktop monitors decreased by 7.7% from approximately 5,390 billion in 2010 to approximately 4,975 billion in 2011. The average selling price of panels for desktop monitors decreased by 9.4% from approximately 109,251 in 2010 to approximately 99,011 in 2011, whereas the total unit sales of panels for desktop monitors increased by 1.8% from approximately 49.3 million panels in 2010 to approximately 50.2 million in 2011. The decrease in revenue attributable to sales of panels for desktop monitors primarily resulted from decreases in average selling prices due to the downward price pressures affecting TFT-LCD products generally as discussed above, which in the case of our desktop monitor panels, outpaced the increase in the number of units sold by us. Furthermore, demand for and revenue from smaller panels, comprising panels that are less than 21.5-inch in size, decreased in 2011, partially offset by increases in revenue from sales of our large-sized models, comprising panels that are 21.5-inch or larger in size, reflecting the continued shift in market demand toward larger-sized desktop monitors.

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Revenue attributable to sales of panels for mobile and other applications increased by 61.3% from approximately 1,575 billion in 2010 to approximately 2,540 billion in 2011. The increase in revenue was primarily attributable to a 76.3% increase in the average selling price of panels for mobile and other applications from approximately 8,342 to 14,709 in 2011, offset in part by a 8.5% decrease in the total unit sales of panels for mobile and other applications sold from approximately 188.8 million panels in 2010 to approximately 172.8 million in 2011. The increase in the average selling price primarily reflected a shift in our product mix toward higher resolution and higher performance quality products for a variety of applications, particularly smartphones, certain types of tablet computers and e-books, some of which are highly innovative and customized to the particular needs of customer's end products and therefore command a higher price premium. The decrease in the number of units sold in this category was largely due to decrease in demand for certain smaller-sized panels used in certain end products that are being, or have been, phased out of the market, including smaller-sized panels used in older mobile phones that have been increasingly superseded in the market by smartphones equipped with larger-sized panels.

In addition, our revenue attributable to royalty and others increased by 75.0% from 44 billion in 2010 to 77 billion in 2011, due primarily to a 165.2% increase in royalty income included in revenue from 23 billion in 2010 to 61 billion in 2011.

***Cost of Sales***

Cost of sales increased by 6.0% from 21,781 billion in 2010 to 23,081 billion in 2011. As a percentage of revenue, cost of sales increased from 85.4% in 2010 to 95.0% in 2011. The increase in our cost of sales in 2011 was attributable primarily to increases in depreciation and amortization, resulting mainly from an increase in depreciation of newly constructed facilities and newly purchased equipment, in 2011 compared to 2010. In addition, an increase in raw materials and component costs, which remained relatively flat on a per unit basis but increased overall due to an increase in the number of panels sold, and an increase in labor costs also contributed to the increase in cost of sales in 2011 compared to 2010.

As a percentage of our total cost of sales, raw materials and component costs decreased slightly from 71.9% in 2010 to 69.2% in 2011, while labor costs and depreciation and amortization increased from 6.5% and 12.8%, respectively, in 2010 to 7.1% and 14.9%, respectively, in 2011.

Cost of sales per square meter of net display area, which is derived by dividing total cost of sales by total square meters of net display area shipped, decreased by 6.7% from US\$691 per square meter of net display area in 2010 to US\$645 in 2011. Cost of sales per panel sold, which is derived by dividing total cost of sales by total number of panels sold, increased by 3.9% from 60,597 in 2010 to 62,960 in 2011.

***Gross Profit and Gross Margin***

As a result of the cumulative effect of the reasons explained above, our gross profit decreased by 67.6% from 3,731 billion in 2010 to 1,210 billion in 2011. Our gross margin decreased from 14.6% to 5.0% over the same period primarily as a result of the decrease in average selling prices of our panels due to increased downward price pressure affecting TFT-LCD products generally, which in turn resulted from overcapacity in the industry relative to the demand for such products in 2011 compared to 2010, and the appreciation of the Korean Won against the U.S. dollar in 2011, which had the impact of reducing our U.S. dollar-denominated sales in Korean Won terms in 2011 compared to 2010. In addition, our gross margin was further negatively impacted by the increase in cost of sales per panel sold in 2011 compared to 2010, due primarily to reduced utilization rates of our facilities in 2011, which in turn resulted in the allocation of increased fixed costs over a proportionally smaller number of panels produced in 2011 relative to our expanded production capacity in 2011 compared to the number of panels produced in 2010 relative to our production capacity in 2010.

***Selling and Administrative Expenses***

Selling and administrative expenses decreased by 9.1% from 1,274 billion in 2010 to 1,158 billion in 2011. As a percentage of revenue, our selling and administrative expenses decreased slightly from 5.0% in 2010 to 4.8% in 2011. The decrease in selling and administrative expenses in 2011 was attributable primarily to decreases in:

after-sales service expenses, resulting from the resolution of the product defects issue in 2010 that had resulted an increase in our after-sales service expenses in 2010, a general decrease in the historical and anticipated rates of warranty claims and continued reductions in costs attributable to providing after-sales services and replacement parts for defective products sold to customers, partially offset by an increase attributable to an increase in our sales volume in 2011 compared to 2010; and

shipping costs, resulting primarily from a decrease in the proportion of air shipments in our total shipments and a decrease in the per unit shipping costs in general in 2011 compared to 2010.

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Such decreases were offset in part by an increase in advertising expense resulting from an increase in our advertising activities primarily in our overseas markets, including FPR 3D promotion activities especially in China and Brazil.

The following are the major components of our selling and administrative expenses for each of the years in the two-year period ended December 31, 2011:

	Year Ended December 31,	
	2010	2011
	(in billions of Won)	
Salaries	207	203
Expenses related to defined benefit plan	14	20
Other employee benefit	55	63
Shipping costs	332	262
Fees and commissions	163	174
Depreciation <sup>(1)</sup>	50	59
Taxes and dues	24	32
Advertising	88	136
After-sales service expenses	203	72
Rent <sup>(2)</sup>	21	29
Insurance <sup>(2)</sup>	8	9
Travel <sup>(2)</sup>	25	26
Training <sup>(2)</sup>	17	18
Others <sup>(2)</sup>	67	55
<b>Total</b>	<b>1,274</b>	<b>1,158</b>

(1) Amortization expenses related to certain research and development activities included in administrative expenses for the years ended December 31, 2010 and 2011 have been reclassified as research and development expenses to conform to the criteria of classification for the year ended December 31, 2012.

(2) Other expenses included in selling and administrative expenses for the years ended December 31, 2010 and 2011 have been reclassified to conform to the presentation for the year ended December 31, 2012.

**Research and Development Expenses**

Research and development expenses increased by 6.3% from 768 billion in 2010 to 816 billion in 2011. As a percentage of revenue, our research and development expenses increased slightly from 3.0% in 2010 to 3.4% in 2011. The increase in research and development expenses in 2011 was attributable to an increase in the average number of research and development employees.

**Other Income (Expense), Net**

Other income includes primarily foreign currency gains from operating activities and other expenses include primarily foreign currency losses from operating activities and expenses related to legal proceedings and claims. Our total net other expense decreased from 394 billion in 2010 to 176 billion in 2011, primarily due to a decrease in expenses related to legal proceedings or claims, and others from 310 billion in 2010 to 151 billion in 2011 and a decrease in net foreign currency loss from 85 billion in 2010 to 29 billion in 2011.

We recognized expenses related to legal proceedings or claims of 309 billion and 150 billion in 2010 and 2011, respectively. These expenses include provisions with respect to certain loss contingencies relating to legal proceedings as well as settlement payments in connection with related claims. See Item 8.A. Consolidated Statements and Other Financial Information Legal Proceedings for a discussion of our legal proceedings and associated settlement payments.

**Finance Income (Costs), Net**

Finance income recognized in profit and loss includes primarily interest income and foreign currency gains. Finance cost recognized in profit and loss includes primarily interest expense and foreign currency loss.

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Our total net finance costs increased by 231.9% from 47 billion in 2010 to 156 billion in 2011. Our total net finance costs increased because of a decrease in finance income and an increase in finance expenses in 2011 compared to 2010.

Our finance income decreased by 14.1% from 241 billion in 2010 to 207 billion in 2011 primarily attributable to a 33 billion decrease in interest income primarily due to reduced average amounts of cash held in the form of time deposits in 2011 compared to 2010.

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Our finance costs increased by 26.0% from 288 billion in 2010 to 363 billion in 2011 primarily due to a 45 billion increase in interest expense due to an increase in average interest rates applicable to our financial liabilities in 2011 compared to 2010 and a 14 billion loss on impairment of investments in equity accounted investees in 2011 primarily due to impairment of investments in RPO, Inc. and Dynamic Solar Design Co., Ltd in 2011. We did not record a loss on impairment of investments in equity accounted investees in 2010.

***Income Tax Expense (Benefit)***

We recognized income tax benefit of 293 billion in 2011 compared to income tax expense of 106 billion in 2010, resulting from a decrease in current tax expense and an increase in deferred tax benefit in 2011 compared to 2010. Our current tax expense decreased by 77.1% from 253 billion in 2010 to 58 billion in 2011, and our deferred tax benefit increased by 138.8% from 147 billion in 2010 to 351 billion in 2011, primarily as a result of recording a loss before income tax of 1,081 billion in 2011 compared to a profit before income tax of 1,266 billion in 2010. As a result, our effective income tax rate was 27.1% in 2011 compared to 8.4% in 2010. As of December 31, 2011, unused tax credit carryforwards of 209 billion were not recognized as deferred tax assets because we did not believe realization of such amounts would be probable while there was no unrecognized deferred tax asset as of December 31, 2010.

***Profit (Loss) for the Period***

As a result of the cumulative effect of the reasons explained above, our loss for the period was 788 billion in 2011 compared to a profit of 1,159 billion in 2010.

**Item 5.B. *Liquidity and Capital Resources***

Our principal sources of liquidity have been net cash flows generated from our operating activities and debt financing activities. We had cash and cash equivalents of 1,631 billion, 1,518 billion and 2,339 billion (US\$2,200 million) as of December 31, 2010, 2011 and 2012, respectively. We also had deposits in banks of 1,503 billion, 815 billion and 315 billion (US\$296 million), respectively, as of December 31, 2010, 2011 and 2012. Our primary use of cash has been to fund capital expenditures related to the expansion and improvement of our production capacity with respect to existing and newly developed products, including the construction and ramping-up of new, or in certain cases, expansions of existing, fabrication facilities and the acquisition of new equipment. We also use cash flows from operations for our working capital requirements and servicing our debt payments. We expect our cash requirements for 2013 to be primarily for capital expenditures and repayment of maturing debt.

As of December 31, 2010 and 2011, we had current assets of 8,840 billion and 7,858 billion, respectively, and current liabilities of 8,882 billion and 9,911 billion, respectively. As of December 31, 2012, we had current liabilities of 9,206 billion (US\$8,658 million), which exceeded our current assets of 8,915 billion (US\$8,385 million) by 291 billion. The increase in net current liabilities in 2011 compared to 2010 was primarily attributable to a 1,400 billion increase in other accounts payable mainly as a result of our investments in our fabrication and other production facilities, including the construction of our P98 facility, as well as additional investments in our AP2 facility, in 2011, a 821 billion increase in trade accounts and notes payable mainly as a result of larger amounts remaining payable at year end due to longer payment terms of the trade accounts and notes payable created in 2011 and increases in purchases of raw materials and components to meet increases in production levels since the end of 2011 as utilization rates of our facilities were adjusted upwards to meet an increase in demand resulting from channel inventory replenishment toward the end of 2011, a 688 billion decrease in deposit in banks due to a general reduction in our cash levels in 2011 and a 261 billion decrease in trade accounts and notes receivable, net caused mainly by reduced revenue and increased sales of trade accounts and notes receivable in 2011 compared to 2010 and appreciation of the Korean Won against the U.S. dollar at the end of 2011 compared to the end of 2010. The increase in net current liabilities in 2011 compared to 2010 was partially offset by a 1,206 billion decrease in current financial liabilities due primarily to repayment of short-term debt with cash on hand and proceeds from long-term debt and a 102 billion increase in inventories. The decrease in net current liabilities in 2012 compared to 2011 was primarily attributable to a 1,182 billion decrease in other accounts payable mainly as a result of repayment of accounts payable amounts associated with the construction of our P98 facility and other investment projects that were completed in 2012, a 594 billion increase in trade accounts and notes receivable mainly as a result of increased sales volume, particularly in the second half of 2012, and a 321 billion increase in cash and cash equivalents, net of decreases in deposits in banks, mainly due to an increase in cash received from sales and an increase in the amount of trade accounts and notes receivable sold to financial institutions in 2012 compared to 2011. The decrease in net current liabilities in 2012 compared to 2011 was partially offset by a 364 billion increase in trade accounts and notes payable due mainly to increases in purchases of raw materials and components resulting from increased production activities in 2012, particularly in the second half of 2012.



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Our management constantly monitors our working capital, and we have historically been able to satisfy our cash requirements from cash flows from operations and debt financing. We believe that we will have sufficient working capital available to us, including in the form of debt, for our current requirements. We issued domestic debentures in the aggregate principal amount of 300 billion in 2012, proceeds from which have been used to satisfy our working capital requirements and redeem our short-term borrowings. In addition, in April 2012, we entered into a syndicated facility loan agreement for an aggregate principal amount of up to 1,000 billion in long-term loans to finance our capital expenditures related to P98, including repayment of accounts payable incurred with respect to the construction of P98, under which an aggregate principal amount of 500 billion was drawn and outstanding as of December 31, 2012.

Our ability to satisfy our cash requirements from cash flows from operations and financing activities will be affected by our ability to maintain and improve our margins and, in the case of external financing, market conditions, which in turn may be affected by several factors outside of our control. Therefore, we re-evaluate our capital requirements regularly in light of our cash flows from operations, the progress of our expansion plans and market conditions. To the extent that we do not generate sufficient cash flows from our operations to meet our capital requirements, we may rely on other financing activities, such as external long-term borrowings and securities offerings, including the issuance of equity, equity-linked and other debt securities.

Our net cash provided by operating activities amounted to 4,884 billion in 2010, 3,666 billion in 2011 and 4,570 billion (US\$4,298 million) in 2012. The decrease in net cash provided by operating activities in 2011 compared to 2010 was mainly due to the recording of a loss in 2011 compared to a profit in 2010, a decrease in revenue in 2011 compared to 2010 which in turn led to a general decrease in cash collected from our customers and an increase in cash paid for cost of sales in 2011 compared to 2010. The decrease in net cash provided by our operating activities in 2011 compared to 2010 was offset in part by an increase in the amount of trade accounts and notes receivable sold to financial institutions in 2011 compared to 2010. The increase in net cash provided by operating activities in 2012 compared to 2011 was mainly due to the recording of a profit in 2012 compared to a loss in 2011, an increase in cash collected from our customers as a result of an increase in sales volumes in 2012 compared to 2011, an increase in the amount of trade accounts and notes receivable sold to financial institutions in 2012 compared to 2011 and an increase in long-term advance received in 2012 compared to 2011. The increase in net cash provided by operating activities in 2012 compared to 2011 was offset in part by an increase in cash paid for purchases of components and raw material due to our increased sales and related production volumes in 2012.

The cyclical market conditions that are characteristic of our industry, as well as the regular ramp-up of our new fabrication facilities and our cost reduction measures, contribute to the fluctuations in our inventory levels from period to period. In 2011, an increase in the production capacity of our existing facilities and the commencement of mass production at P83 contributed to a 4.6% increase in our inventory levels from year-end 2010, which was partially offset by the reduction of utilization rates of our facilities for the period from July 2010 to December 2011 in response to market conditions. In 2012, an increase in our inventory of supplies such as photo masks and molds, a further increase in the production capacity of our existing facilities and the commencement of mass production at P98 contributed to a 3.2% increase in our inventory levels from year-end 2011. Inventories consisted of the following for the periods indicated:

	2010	As of December 31,		
		2011	2012	2012 <sup>(1)</sup>
		(in billions of Won and millions of US\$)		
Finished goods	978	922	1,044	US\$ 982
Work in process	612	772	653	614
Raw materials	422	458	371	349
Supplies	203	165	322	303
<b>Total</b>	<b>2,215</b>	<b>2,317</b>	<b>2,390</b>	<b>US\$ 2,248</b>

(1) For convenience, the Korean Won amounts are expressed in U.S. dollars at the rate of 1,063.24 to US\$1.00, the noon buying rate in effect on December 31, 2012 as certified by the Federal Reserve Bank of New York for customs purposes. This translation should not be construed as a representation that the Korean Won amounts represent, have been or could be converted to U.S. dollars at that rate or any other rate.

Our net cash used in investing activities amounted to 4,515 billion in 2010, 3,494 billion in 2011 and 3,688 billion (US\$3,469 million) in 2012. Net cash used in investing activities primarily reflected the substantial capital expenditures we have made in connection with the expansion and improvement of our production capacity in recent years, mainly relating to construction of our new, or in certain cases, expansions of existing, fabrication and module assembly facilities and acquisition of new equipment. These cash outflows from capital expenditures amounted to 4,942 billion, 4,063 billion and 3,972 billion (US\$3,736 million) in 2010, 2011 and 2012, respectively. We intend to fund our capital requirements

associated with our expansion and construction projects with cash flows from operations and financing activities, such as external long-term borrowings.

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We currently expect that, in 2013, our total capital expenditures on a cash out basis will be no more than 4 trillion or, on a delivery basis, between approximately 4 trillion and 4.5 trillion, primarily to fund the expansion of our OLED panel and LTPS backplane technology-based panel production capacities, as well as other expansions and improvements to our existing facilities. However, our overall expenditure levels and our allocation among projects are subject to many uncertainties. We review the amount of our capital expenditures and may make adjustments from time to time based on cash flows from operations, the progress of our expansion plans and market conditions.

Our net cash provided by financing activities amounted to 408 billion in 2010, and our net cash used in financing activities amounted to 278 billion in 2011 and 48 billion (US\$45 million) in 2012. The net cash provided by financing activities in 2010 reflects primarily the net proceeds from short-term borrowings and long-term debt (net of repayments), including the incurrence of Won denominated and foreign currency denominated debt, which were offset in part by the payment of dividends. The net cash used in financing activities in 2011 reflects primarily the repayment of foreign currency denominated short-term borrowings and, to a lesser degree, certain long-term debt and the payment of dividends. The net cash used in financing activities in 2012 reflects primarily the repayment of foreign currency denominated long-term debt, offset in part by cash provided by our incurrence of Won denominated long-term debt. On March 12, 2010, we declared a cash dividend of 179 billion to our shareholders of record as of December 31, 2009 and distributed the cash dividend to such shareholders on April 9, 2010. On March 11, 2011, we declared a cash dividend of 179 billion to our shareholders of record as of December 31, 2010 and distributed the cash dividend to such shareholders on April 7, 2011. At our shareholders meetings on March 9, 2012 and March 8, 2013, we did not declare a cash dividend to our shareholders.

We had a total of 1,213 billion, 22 billion and 36 billion (US\$34 million) of short-term borrowings outstanding as of December 31, 2010, 2011 and 2012, respectively. In 2011 compared to 2010, our short-term borrowings decreased primarily due to a decrease in our U.S. dollar, Japanese Yen and Chinese Renminbi denominated short-term borrowings, which in turn resulted from repayment of such borrowings by their respective maturity dates without incurring new short-term borrowings. In 2012 compared to 2011, our short-term borrowings remained relatively unchanged in amount. The weighted average interest rate under the terms of our short-term borrowings was 2.2% as of December 31, 2012.

As of December 31, 2012, we maintained accounts receivable negotiating facilities with several banks for up to aggregate amounts of US\$1,478 million and ¥5,000 million. Our subsidiaries have also entered into various accounts receivable negotiating facilities. For further information regarding these facilities, please see Note 20 of the notes to our financial statements.

As of December 31, 2012, we had outstanding long-term debt including current portion and discounts on debentures in the amount of 4,420 billion (US\$4,157 million), consisting primarily of 2,250 billion of Korean Won denominated debentures, US\$350 million of U.S. dollar denominated debentures, US\$870 million of U.S. dollar denominated long-term loans, RMB2 million of RMB denominated long-term loans, 5 million of Euro denominated long-term loans and 862 billion of Korean Won denominated long-term loans.

In April 2010, certain holders of our US\$550 million convertible bonds due 2012 exercised their put option for an aggregate principal amount of US\$484 million and were repaid at 109.75% of their principal amount. The remaining US\$66 million of these convertible bonds were repaid in full upon their maturity on April 18, 2012 at 116.77% of their principal amount.

The terms of some of our long-term debt contain provisions that would trigger a requirement for early payment. The principal and interest under these obligations may be accelerated if there is a default, including defaults triggered by failure to comply with financial covenants and cross defaults triggered under our other debt obligations. We believe we were in compliance with the covenants under our debt obligations at December 31, 2012. For further information about our short- and long-term debt obligations as of December 31, 2012, see Note 14 of the notes to our financial statements.

As of December 31, 2012, we were obligated to guarantee the payment obligation of our Poland subsidiary in the amount of 5 million under a long-term credit facility that our Poland subsidiary entered into with a syndicate of banks. In addition, as of December 31, 2012, we were obligated to guarantee the payment obligation of LG Display America's term loan credit facilities amounting to US\$7 million. Other than the foregoing, we have not entered into any other financial guarantees or similar commitments to guarantee the payment obligations of our subsidiaries or other third parties as of December 31, 2012.

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Set forth below are the aggregate amounts, as of December 31, 2012, of our future contractual financing and licensing obligations under our existing debt and other contractual arrangements:

Contractual Obligations	Total	Payments Due by Period			
		Less than 1 year	1-3 years (in millions of Won)	3-5 years	More than 5 years
Long-Term Debt, including current portion	4,431,327	980,289	2,196,586	1,252,530	1,922
Fixed License Payment	54,765	18,255	36,510		
Long-Term Other Payables	216,266	216,236	30		
Total	4,702,358	1,214,780	2,233,126	1,252,530	1,922

Estimates of interest payment based on contractual interest rates effective as of December 31, 2012	433,900	159,100	231,067	43,648	85
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In addition to fixed license payments listed above that we are obligated to make under certain technology license agreements, we also have continuing obligations to make cash royalty payments under our technology license agreements, the amount of which are generally determined based on a percentage of sales of our TFT-LCD products. We also have similar royalty payment obligations under our license agreements relating to certain OLED technology. However no amounts were paid in 2012 under such OLED-related license agreements as we have not had any sales of OLED products utilizing the licensed OLED technology.

Expenses relating to our license fees and royalty payments under existing license agreements were 33 billion in 2010, 35 billion in 2011 and 43 billion (US\$40 million) in 2012, representing 4.3% of our research and development expenses in 2010, 4.3% in 2011 and 5.5% in 2012. We expect to make additional license fee payments as we enter into new technology license agreements from time to time with third parties.

**Taxation**

In 2012, the effective statutory corporate income tax rate applicable to us was 11.0% (including local income surtax) for the first 200 million of our taxable income, 22.0% (including local income surtax) for our taxable income between 200 million and 20 billion and 24.2% (including local income surtax) for our taxable income in excess of 20 billion.

**Tax Credits**

We are entitled to tax credits relating to certain investment and technology and human resources development under the Special Tax Treatment Control Law. Specifically, we are entitled to a tax credit of 10% for our capital investments made on or before June 30, 2003, 15% for our capital investments made on or before December 31, 2004, 10% for our capital investments made on or before December 31, 2005, 7% for our capital investments made on or before December 31, 2008, 10% for our capital investments made on or before December 31, 2009, 7% for our capital investments made on or before December 31, 2010, 5% for our capital investments made on or before December 31, 2011, and 3% for our capital investments made on or before December 31, 2012, each in proportion to the percentage of equity investment in us other than foreign direct equity investment.

In addition, pursuant to the Special Tax Treatment Control Law, we were entitled to a separate additional tax credit of 10% on the positive difference between the total amount of capital investments we made in 2010 and the average of the amount of capital investments we made in the three preceding fiscal years. 2010 was the last taxable year for companies, including us, to benefit from this tax credit, which has expired and is no longer available from 2011.

We are entitled to a tax credit of up to 40% of the increase in certain expenses incurred in connection with technology and human resources development over the average of such expenses during the previous four years.

Tax credits not utilized in the fiscal year during which the relevant investment was made may be carried forward over the next five years in the case of capital investments and five years in the case of investments relating to technology and human resources development. As of December 31, 2012, we had available deferred tax assets related to these credits of 700 billion (US\$658 million), which may be utilized against future income tax liabilities through 2017. In addition, we also had unused tax credit carryforwards of 429 billion (US\$403 million) as of December 31, 2012 for which no deferred tax asset was recognized.



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### **Item 5.C. *Research and Development, Patents and Licenses, etc.***

#### **Research and Development**

The display panel industry is subject to rapid technological changes. We believe that effective research and development is essential to maintaining our position as one of the industry's leading technology innovators. Our research and development expenses amounted to ₩768 billion in 2010, ₩816 billion in 2011 and ₩785 billion (US\$738 million) in 2012, representing 3.0% of our revenue in 2010, 3.4% in 2011 and 2.7% in 2012.

We believe that the future trends for display products will include the widespread use of affordable large-sized flat panel products with higher performance qualities and the use of different types of display products for a variety of purposes, such as using flexible display panels in a range of products, using large-sized display panels for public display or advertising, and using small-sized panels for mobile devices. To meet the demands of the future trends, we have formulated a long-term research and development strategy aimed at enhancing the process, device and design aspects of the existing products and diversifying the use of display panels as new opportunities arise with the development of communication systems and information technology. The following are examples of products and technologies that have been developed through our research and development activities in recent years:

In 2010, we developed a 47-inch full high-definition TFT-LCD panel that utilized FPR 3D and IPS technologies and polarized glasses for use in televisions. We received the Gold Award from the Society for Information Display, a display panel industry trade group, in recognition of the panel's high quality 3D display imagery. In addition, we developed 47-inch and 55-inch full high-definition TFT-LCD panels that utilized TruMotion 480Hz driving technology for use in televisions. TruMotion 480Hz driving technology decreases motion blur by quadrupling the speed of the prior conventional frame rate of 120Hz.

In 2011, we developed a 4.5-inch high-definition TFT-LCD panel that utilized AH-IPS technology, which allows for wide viewing angles and high resolution imagery for use in 4G smartphones. In addition, we became the first display panel manufacturer to develop a 55-inch OLED panel that utilized WRGB OLED technology, for which we were awarded the industrial bronze medal by the Korea Invention Promotion Association. We also developed a 55-inch full high-definition TFT-LCD panel with a super narrow bezel of just 5.3 mm for use in public displays. The super narrow bezel allows the public displays to be displayed alongside each other to create a large 165-inch multi-screen public display capable of producing large near seamless imagery.

In 2012, we developed an 84-inch ultra-definition TFT-LCD panel, which has a substantially higher screen resolution compared to full high-definition panels and may be used in classrooms as interactive whiteboards and in home theaters. In addition, we developed a 55-inch full high-definition OLED panel for retail sales with a thickness of just 4 millimeters, wide viewing angles and near-infinite contrast. We also developed a 29-inch ultra-wide TFT-LCD panel with a 21:9 picture ratio to be used in desktop monitors and all-in-one personal computers. In addition, we also developed a 5-inch product with 1920 x 1080 full high-definition resolution at 440 pixels-per-inch. We developed 32-inch, 42-inch, 47-inch and 55-inch super narrow bezel TFT-LCD panels that are borderless on three sides and 42-inch, 47-inch, 55-inch and 60-inch super narrow bezel TFT-LCD panels that are borderless on all four sides.

As the product lifecycle of display panels using certain of the existing TFT-LCD technology is approaching maturity, we plan to further focus on developing a next generation flat panel display technology, such as OLED, that can replace panels using such maturing technology, while also exploring new growth opportunities in the application of display panels, such as in tablet computers, smartphones, public displays and electronic paper displays.

In order to maintain our position as one of the industry's technology leaders, we believe it is important not only to increase direct spending on research and development, but also to manage our research and development capability effectively in order to successfully implement our long-term strategy. In connection with our efforts to consolidate our research and development efforts for next-generation display technologies, we opened the R&D Center in Paju, Korea in April 2012, which houses 2,500 engineers, researchers, designers, technicians and support personnel.

We complement our in-house research and development capability with collaborations with universities and other third parties. For example, we provide project-based funding to both domestic and overseas universities as a means to recruit promising engineering students and to research and develop new technologies. In July 2012, we entered into an agreement with Seoul National University to establish the LGD-SNU Cooperation Center within the university's Research Institute of Advanced Materials to conduct research into display panel technologies,

including OLED technology. We also enter into joint research and development agreements from time to time with third parties for the development of technologies in specific fields. In addition, we belong to several display industry consortia, and we receive annual government funding to support our research and development efforts. In addition to these collaborations, we may form strategic technology alliances with the research arms of LG Electronics, as well as suppliers and equipment makers in cluster industries, that is, industries related to the TFT-LCD industry, in order to enhance our capability to develop new technology.

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We have developed a research and development management system whereby we encourage our engineers to propose new projects freely and to implement rigorous evaluation criteria for each stage of project development. We select our projects primarily based on their feasibility and alignment with our research and development strategy, and we review the progress of all ongoing projects on a quarterly basis. As of December 31, 2012, we employed approximately 4,089 engineers, researchers, designers, technicians and support personnel in connection with our research and development activities.

While we primarily rely on our own capacity for the development of new technologies in the display panel design and manufacturing process, we rely on third parties for certain key technologies to enhance our technology leadership, as further described in Intellectual Property below.

## **Intellectual Property**

### ***Overview***

Our business has benefited from our patent portfolio, which includes patents for TFT-LCD manufacturing processes, products and applications. We hold a large number of patents in Korea and in other countries, including in the United States, China, Japan, Germany, France, Great Britain and Taiwan. These patents will expire at various dates upon the expiration of their respective terms ranging from 2013 to 2033.

As part of our ongoing efforts to prevent infringements on our intellectual property rights and to keep abreast of critical technology developments by our competitors, we closely monitor patent applications in Korea, Japan and the United States. We also plan to initiate monitoring activities in China. We intend to continue to file patent applications, where appropriate, to protect our proprietary technologies. We also enter into confidentiality agreements with each of our employees and consultants upon the commencement of an employment or consulting relationship. These agreements generally provide that all inventions, ideas, discoveries, improvements and copyrightable material made or conceived by the individual arising out of the employment or consulting relationship and all confidential information developed or made known to the individual during the term of the relationship are our exclusive property. In addition, we have increased our efforts to safeguard our proprietary information by engaging in in-house information protection awareness activities with our employees.

### ***License Agreements***

We enter into license or cross-license agreements from time to time with third parties with respect to various device and process technologies to complement our in-house research and development. We engage in regular discussions with third parties to identify potential areas for additional licensing of key technologies.

Expenses relating to our license fees and royalty payments under existing license agreements were 33 billion in 2010, 35 billion in 2011 and 43 billion (US\$40 million) in 2012, representing 4.3%, 4.3% and 5.5% of our research and development expenses in 2010, 2011 and 2012, respectively. We recognized royalty income in the amount of 28 billion in 2010, 69 billion in 2011 and 42 billion (US\$40 million) in 2012. The following are examples of license agreements we have entered into in recent years:

We have a license agreement with each of Lemelson Foundation, Columbia University, Penn State University, Honeywell International, Honeywell Intellectual Properties, Plasma Physics Corporation and Fergason Patent Properties. Each license agreement provides for a non-exclusive license under certain patents relating to TFT-LCD technologies.

We entered into a license agreement with Semiconductor Energy Laboratory which provides for a non-exclusive license under certain patents relating to amorphous silicon TFT technology and LTPS AMOLED technologies. For IPS technologies, we entered into a non-exclusive license agreement with Merck & Co.

We entered into a cross-license agreement with each of Hitachi, HannStar and Hydis for a non-exclusive license under certain patents relating to display technologies.



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We entered into separate cross-license agreements with each of NEC, Chunghwa Picture Tubes and AU Optronics in connection with the settlement of certain patent infringement lawsuits. Under the agreements, each party grants the other party a license under certain patents relating to TFT-LCD technologies.

We are licensed to use certain patents for our TFT-LCD products pursuant to a cross license agreement between Philips Electronics and Toshiba Corporation.

In addition to the above, we have also entered into license or cross-license agreements with other third parties in the course of our business operations in connection with certain patents which such third parties own or control.

As well as licensing key technologies from third parties, we aim to benefit from our own patents and other intellectual property rights by granting licenses to third parties from time to time in return for royalty payments. For example, we entered into a license agreement with Rockwell Collins Inc. under which we granted to Rockwell a non-exclusive, non-transferable license under our patents primarily for use in military applications.

Under several patent purchase and license agreements between us and third parties where we have sub-licensing rights, we are obligated to share with these third parties a portion of the license payments and/or royalty income received from any such sub-licensing. Our royalty income attributable to such sub-licensing rights after deducting amounts due to third parties under the patent purchase and license agreements accounted for 10.2% of our royalty income in 2012.

### **Item 5.D. *Trend Information***

These matters are discussed under Item 5.A. and Item 5.B. above where relevant.

### **Item 5.E. *Off-Balance Sheet Arrangements***

For a discussion of our off-balance sheet arrangements, please see Factoring and securitization of accounts receivable , Letters of credit and Payment guarantees in Note 20 of the notes to our financial statements.

### **Item 5.F. *Tabular Disclosure of Contractual Obligations***

Presented in Item 5.B. above.

### **Item 5.G. *Safe Harbor***

See Forward-Looking Statements.

## **Item 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES**

### **Item 6.A. *Directors and Senior Management***

#### **Board of Directors**

Our board of directors has the ultimate responsibility for the management of our business affairs. Our articles of incorporation provide for a board consisting of between five and seven directors, more than half of whom must be outside directors. Our shareholders elect all directors at a general meeting of shareholders. Under the Korean Commercial Code, a representative director of a company established in Korea is authorized to represent and act on behalf of such company and has the power to bind such company. Sang Beom Han is currently our sole representative director.

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The term of office for our directors shall not exceed the closing of the annual general meeting of shareholders convened in respect of the last fiscal year within three years after they take office. Our board must meet at least once every quarter, and may meet as often as the chairman of the board of directors or the person designated by the regulation of the board of directors deem necessary or advisable.

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The tables below set forth information regarding our current directors and executive officers. The business address of all of the directors and executive officers is LG Twin Towers, 128 Yeoui-daero, Yeongdeungpo-gu, Seoul 150-721, Korea.

***Our Outside Directors***

Our current outside directors are set out in the table below. Each of our outside directors meets the applicable independence standards set forth under the rules of the Korean Commercial Code and also meets the applicable independence criteria set forth under Rule 10A-3 of the Exchange Act.

Name	Date of Birth	Position	First Elected/	Term Expires	Principal Occupation
			Appointed		
Tae Sik Ahn	March 21, 1956	Director	March 2010	March 2016	Professor, School of Business, Seoul National University
Jin Jang	November 28, 1954	Director	March 2011	March 2014	Chair Professor, Department of Information Display, Kyung Hee University
Dong Il Kwon	February 5, 1957	Director	March 2012	March 2015	Professor, Department of Materials Engineering, Seoul National University
Joon Park	October 30, 1954	Director	March 2013	March 2016	Professor, School of Law, Seoul National University

***Our Non-Outside Directors***

Our current non-outside directors are set out in the table below:

Name	Date of Birth	Position	First Elected/	Term Expires	Principal Occupation
			Appointed		
Sang Beom Han	June 18, 1955	Representative Director, President and Chief Executive Officer	March 2012	March 2015	
Yu Sig Kang	November 3, 1948	Director	March 2011	March 2014	Vice Chairman, LG Management Development Institute
James (Hoyoung) Jeong	November 2, 1961	Director, Executive Vice President and Chief Financial Officer	February 2008	March 2014	

**Table of Contents*****Our Non-Director Executive Officers***

Our current non-director executive officers are set out in the table below:

Name	Date of Birth	Position	First Elected/	Division/Department
Yu Seoung Yin	June 20, 1956	Executive Vice President	January 2009	IT/Mobile Business
Sang Deog Yeo	December 3, 1955	Executive Vice President and Chief Technology Officer	January 2005	
Cheol Dong Jeong	May 11, 1961	Executive Vice President and Chief Production Officer	January 2013	
Bock Kwon	August 4, 1954	Executive Vice President	January 2006	Head of LG Display (China) Co., Ltd.

We and our subsidiaries do not have any service contracts with our directors providing for benefits upon termination of their employment with us or our subsidiaries.

*Sang Beom Han* has served as representative director since March 2012 and chief executive officer since December 2011. Mr. Han also served as head of the TV Business Division, the Panel Center and as vice-president for our P5 facility and the Manufacturing Technology Center since joining LG Display in December 2001. Prior to joining LG Display, Mr. Han served as vice president of Hynix Semiconductor Inc. Mr. Han holds a Ph.D. degree in material science from Stevens Institute of Technology.

*Yu Sig Kang* has served as director since March 2011. Mr. Kang is currently vice chairman of LG Management Development Institute. He also served as representative director of LG Corp. and the head of LG Corp.'s Restructuring Office. Mr. Kang holds a bachelor's degree in business administration from Seoul National University.

*James (Hoyoung) Jeong* has served as director, executive vice president and chief financial officer since February 2008. Mr. Jeong also served as head of our Business Supporting Center. Prior to joining LG Display, he served as chief financial officer of LG Electronics. Mr. Jeong holds a bachelor's degree in business administration from Yonsei University.

*Tae Sik Ahn* has served as outside director since March 2010. Mr. Ahn is currently a professor of the School of Business Administration at Seoul National University and the chairman of the Korean Accounting Association. Mr. Ahn holds a bachelor's degree in business administration from Seoul National University and a Ph.D. in accounting from the University of Texas, Austin.

*Jin Jang* has served as outside director since March 2011. Mr. Jang is currently the chair professor of the Department of Information Display at Kyung Hee University and the president of The Korean Information Display Society. Mr. Jang holds a bachelor's degree in physics from Seoul National University, and a master's degree and a Ph.D. in physics from the Korea Advanced Institute of Science and Technology.

*Dong Il Kwon* has served as outside director since March 2012. Mr. Kwon is currently a professor of the Department of Materials Engineering at Seoul National University. Mr. Kwon holds a bachelor and master's degree in Metallurgical Engineering from Seoul National University and a Ph.D. in Materials Engineering from Brown University.

*Joon Park* has served as outside director since March 2013. Mr. Park is currently a professor of the School of Law at Seoul National University. Mr. Park previously practiced law at a Korean law firm. Mr. Park holds a bachelor's degree in law from Seoul National University.

*Yu Seoung Yin* has served as executive vice president since January 2009 and head of the IT/Mobile Business Division since May 2012. Mr. Yin also served as head of our IT Business Division and China Center. Prior to joining LG Display, Mr. Yin served as executive vice president of the Chairman's Office at LG Holdings. Mr. Yin holds a bachelor's degree in mass communication from Chung-Ang University.

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*Cheol Dong Jeong* has served as executive vice president since January 2013 and chief production officer since December 2011. Mr. Jeong also served as head of Manufacturing Technology Center. Mr. Jeong holds a bachelor's degree in electronic engineering from Kyungpook National University and a master's degree in electronic engineering from Chungbuk National University.

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*Sang Deog Yeo* has served as executive vice president since January 2005 and as chief technology officer since May 2012. Mr. Yeo previously served as head of the Mobile/OLED Business Division prior to our internal reorganization in 2012. Prior to joining LG Display, Mr. Yeo served as head of Monitor Product Development at LG Electronics. Mr. Yeo holds a bachelor's degree in electronic engineering from Kyungpook National University.

*Bock Kwon* has served as executive vice president since January 2006 and as head of LG Display (China) since December 2012. Mr. Kwon also previously served as head of our China Center, System Solution Division and Corporate Strategy & Marketing Center. Prior to joining LG Display, Mr. Kwon worked for the worldwide sales division at LG Electronics. Mr. Kwon holds a bachelor's degree in electrical engineering from Pusan National University.

### **Item 6.B. Compensation**

The aggregate remuneration and benefits-in-kind we paid in 2012 to our executive officers and our directors was 5.1 billion (US\$4.8 million). In addition, as of December 31, 2012, our accrued severance and retirement benefits to those officers and directors amounted to 0.5 billion (US\$0.4 million).

Our articles of incorporation provide for a stock option plan to aid retention of executives and key staff and to provide an incentive to meet strategic objectives. All of the stock options previously granted have either been exercised or expired as of April 7, 2012. See Item 6.E. Share Ownership Stock Options for a description of the plan. In addition, remuneration for our directors is determined by shareholder resolution, and severance payments to our directors are made in accordance with our regulations on severance payments adopted by our shareholders. We also maintain a cash-based incentive plan for our executive officers and other key managerial employees adopted by our board of directors. Incentive payments are determined based on various long-term performance criteria and paid annually, subject to our cash resources and performance in such year. In addition, our executive officers and other key managerial employees are also eligible for bonuses payable under our employee profit sharing plan if certain performance criteria are met.

We carry liability insurance for the benefit of our directors and officers against certain liabilities incurred by them in their official capacities. This insurance covers our directors and officers, as well as those of our subsidiaries, against certain claims, damages, judgments and settlements, including related legal costs, arising from a covered individual's actual or alleged breaches of duty, neglect or other errors, arising in connection with such individual's performance of his or her official duties. The insurance protection also extends to claims, damages, judgments and settlements, including related legal costs, arising out of shareholders' derivative actions or otherwise relating to our securities. Policy exclusions include, but are not limited to, claims relating to fraud, willful misconduct or criminal acts, as well as the payment of punitive damages. In 2012, we paid a premium of approximately US\$2.0 million in respect of this insurance policy.

### **Item 6.C. Board Practices**

See Item 6.A. Directors and Senior Management above for information concerning the terms of office and contractual employment arrangements with our directors and executive officers.

### **Committees of the Board of Directors**

We currently have three committees that serve under our board of directors:

Audit Committee;

Outside Director Nomination Committee; and

Management Committee

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Our board of directors may establish other committees if they deem them necessary. Prior to the annual shareholders meeting in March 2013, we were required under our articles of incorporation to also maintain a Compensation Committee, which was composed of two outside directors and one non-outside director. As part of the amendments to our articles of incorporation adopted by our shareholders in March 2013, such requirement was eliminated and our board of directors is now directly responsible for matters relating to salaries and incentive compensation for our directors and executive officers. In addition, remuneration for our directors is determined by shareholder resolution, and severance payments to our directors are made in accordance with our regulations on severance payments adopted by our shareholders.

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Our board of directors will appoint each member of these committees except that candidates for the Audit Committee will first be elected by our shareholders at the general meeting of shareholders.

### ***Audit Committee***

Under Korean law and our articles of incorporation, we are required to have an Audit Committee. Our Audit Committee is currently comprised of three outside directors: Tae Sik Ahn, Jin Jang and Joon Park. The chairman is Tae Sik Ahn. Members of the Audit Committee are elected by our shareholders at the annual general meeting of shareholders and all members must meet the applicable independence criteria set forth under the rules and regulations of the Sarbanes-Oxley Act of 2002 and the Korean Commercial Code. The committee reviews all audit and compliance-related matters and makes recommendations to our board of directors. The Audit Committee's primary responsibilities include the following:

engaging or dismissing independent auditors;

approving independent audit fees;

approving audit and non-audit services;

reviewing annual and interim financial statements;

reviewing audit results and reports, including management comments and recommendations;

reviewing our system of controls and policies, including those covering conflicts of interest and business ethics;

assessing compliance with disclosure and filing obligations;

considering significant changes in accounting practices; and

examining improprieties or suspected improprieties.

In addition, in connection with general meetings of shareholders, the committee examines the agenda for, and financial statements and other reports to be submitted by, the board of directors at each general meeting of shareholders. Our external auditor reports directly to the Audit Committee. Our external auditor is invited to attend meetings of this committee when needed or when matters pertaining to the audit are discussed.

The committee holds regular meetings at least once each quarter, and more frequently as needed.

### ***Outside Director Nomination Committee***

Under Korean law and our articles of incorporation, we are required to have an Outside Director Nomination Committee. Our Outside Director Nomination Committee is comprised of two outside directors, Dong Il Kwon and Jin Jang, and one non-outside director, James (Hoyoung) Jeong. The chairman is James (Hoyoung) Jeong. The Outside Director Nomination Committee reviews the qualifications of potential candidates for outside directors and proposes nominees to serve on our board of directors.



The committee holds regular meetings at least once each year, and more frequently as needed.

***Management Committee***

The Management Committee was created at our annual general meeting of shareholders in March 2012. The Management Committee is comprised of two non-outside directors, Sang Beom Han and James (Hoyoung) Jeong. The chairman is Sang Beom Han. The committee's primary responsibilities include making recommendations regarding matters relating to our operation and other matters delegated to the committee by our board of directors

The committee holds meetings from time to time as needed.

**Table of Contents****Item 6.D. Employees**

As of December 31, 2012, we had 55,621 employees, including 20,876 employees in our overseas subsidiaries. The following table provides a breakdown of our employees by function as of December 31, 2010, 2011 and 2012:

Employees <sup>(1)</sup>	As of December 31,		
	2010	2011	2012
Production	37,255	45,744	45,564
Technical <sup>(2)</sup>	6,931	7,587	7,456
Sales & Marketing	1,527	1,633	1,559
Management & Administration	992	1,065	1,042
Total	46,705	56,029	55,621

(1) Includes employees of our subsidiaries.

(2) Includes research and development and engineering personnel.

To recruit promising engineering students at leading Korean universities, we work with these universities on research projects where these students can gain exposure to our research and development efforts. We also provide on-the-job training for our new employees and develop training programs to identify and promote new leaders.

As of December 31, 2012, approximately 76.0% of our employees, including those of our subsidiaries, were union members, and production employees accounted for substantially all of these members. We have a collective bargaining arrangement with our labor union, which is negotiated once a year. We consider our relationship with our employees to be good.

The salaries of our employees are reviewed annually. Salaries are adjusted based on individual and team performance, industry standards and inflation. As an incentive, discretionary bonuses may be paid based on the performance of individuals, and a portion of our profits may be paid to our employees under our profit sharing plan if certain performance criteria are achieved. We also provide a wide range of benefits to our employees including medical insurance, employment insurance, workers compensation, free medical examinations, child tuition and education fee reimbursements and low-cost housing for certain employees.

Under the Guarantee of Workers' Retirement Benefits Act, employees with one year or more of service are entitled to receive, upon termination of their employment, a lump-sum severance payment based on the length of their service and their average wage during the last three months of employment. As of December 31, 2012, our recognized liabilities for defined benefit obligations amounted to 181 billion (US\$170 million). See Note 18 of the notes to our financial statements for a discussion on the method of calculating our recognized liabilities for defined benefit obligations.

As of December 31, 2012, our employee stock ownership association owned approximately 0.001% of our common stock.

**Item 6.E. Share Ownership  
Common Stock**

The persons who are currently our executive officers held, as a group, 5,584 shares of our common stock as of April 25, 2013, the most recent date for which this information is available. Our executive officers acquired our shares of common stock through our employee stock ownership association and pursuant to open market purchases on the Korea Exchange. Due to Korean law restrictions, our chief executive officer and chief financial officer did not participate in the employee stock ownership association. Each of our directors and executive officers beneficially owns less than one percent of our common stock on an individual basis.

Starting in 2013, where bonus and incentive payments exceed certain thresholds, our executive officers and certain other key managerial employees are required to use a certain percentage of their bonus and incentive payments to purchase our shares of common stock, which are then required to be held until their resignation or termination.



**Table of Contents*****Stock Options***

Our articles of incorporation provide for a stock option plan to aid retention of executives and key staff and to provide an incentive to meet strategic objectives. Our board of directors resolved in April 2005 to grant the first performance-based stock options to our standing directors and executive officers. The stock option plan compares gains in the KOSPI against increases in the price of our common stock during the period from the grant date to the start of the exercise period. Depending on our performance, adjustments may be made to the number of options that a grantee may exercise during the exercise period. A grantee will be permitted to exercise 100% of the stock options initially granted if our common stock outperforms the KOSPI during the period of comparison. A grantee will be permitted to exercise only 50% of the stock options initially granted if the KOSPI outperforms our common stock during the period of comparison. The stock options granted in April 2005 which were previously unexercised expired as of April 7, 2012. In addition, our board adopted a Stock Appreciation Rights Plan pursuant to which we will pay in cash the difference between the exercise and market price at the date of exercise.

**Item 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS****Item 7.A. Major Shareholders**

The following table sets forth information regarding beneficial ownership of our common stock as of April 25, 2013 by each person or entity known to us to own beneficially more than 5% of our outstanding shares:

<b>Beneficial Owner</b>	<b>Number of Shares of Common Stock</b>	<b>Percentage</b>
LG Electronics	135,625,000	37.9%
National Pension Service	21,633,625	6.1%

Other than as set forth above, no other person or entity known by us to be acting in concert, directly or indirectly, jointly or severally, owned more than 5% or more of our outstanding common stock or exercised control or could exercise control over us as of April 25, 2013. None of our major shareholders identified above has voting rights different from those of our other shareholders.

**Item 7.B. Related Party Transactions**

We engage from time to time in a variety of transactions with related parties, including the sale of our products to, and the purchase of raw materials and components from, such related parties. See Notes 10 and 23 of the notes to our financial statements. We have conducted our transactions with related parties based on arm's length negotiations taking into account such considerations as we would in comparable transactions with a non-related party.

We provide payment guarantees in favor of certain of our subsidiaries. For a discussion of such payment guarantee obligations, please see Item 5.B. Liquidity and Capital Resources and Note 20 of the notes to our financial statements.

**Relationships and Transactions with LG Electronics and Related Companies*****Sales to LG Electronics***

We sell TFT-LCD and other display panels, primarily large-sized panels for televisions, notebook computers and desktop monitors and small-sized panels for mobile and other applications, to LG Electronics (including its overseas subsidiaries) and certain of its affiliates on a regular basis, as both an end-brand customer and as a systems integrator for use in products they assemble on a contract basis for other end-brand customers. Pricing and other principal terms of the sales to LG Electronics are negotiated based on then-prevailing market terms and prices as adjusted for LG Electronics' requirements such as volume and product specifications and our internal projections regarding market trends, which are the same considerations that we take into account when negotiating pricing and principal terms of sales to our non-affiliated end-brand customers.

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Sales to LG Electronics (including its overseas subsidiaries) on an invoiced basis, which include sales to LG Electronics as an end-brand customer and system integrator, amounted to 6,170 billion (US\$5,803 million), or 21.0% of our sales, in 2012.

### ***Sales to LG International***

We sell our products to certain subsidiaries of LG International, our affiliated trading company, in regions where doing so is consistent with local market practices. These subsidiaries of LG International process orders from and distribute products to customers located in their region.

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Sales to LG International and its subsidiaries on an aggregate basis amounted to 1,468 billion (US\$1,381 million), or 5.0% of our sales, in 2012. We sell our products to these subsidiaries of LG International at such prices and on terms determined based on then-prevailing market terms and prices as adjusted for LG International's requirements such as volume and our internal projections regarding market trends.

We establish sales subsidiaries in the relevant geographical markets when the benefit of doing so outweighs the cost of utilizing LG International or its subsidiaries and where local market practice permits. Based on this approach, we have established sales subsidiaries in Shenzhen and Shanghai, China, Taiwan, Singapore, Japan, Germany and the United States. We may establish additional sales subsidiaries in the future in other regions as sales volumes to customers located in these regions increase and/or market practice warrants.

### ***Purchases from LG International***

We procure a portion of our production materials, supplies and services, from LG International and its subsidiaries. We use LG International and its subsidiaries in order to take advantage of their relationships with vendors, experience in negotiations and logistics as well as their ability to obtain volume discounts. Purchase prices we pay to these subsidiaries of LG International and other terms of our transactions with them are negotiated based on then-prevailing market terms and prices as adjusted for our requirements such as volume and specifications and our internal projections regarding market trends. We expect to continue to utilize LG International's overseas subsidiaries for the procurement of a portion of our production materials, supplies and services.

Our purchases, including purchases of materials, supplies and services, from LG International and its subsidiaries, amounted to 572 billion (US\$538 million), or 2.0 % of our total purchases, in 2012.

### ***Other Purchases***

Under a master purchase agreement, we procure, on an as-needed basis, certain of the raw materials, components and other materials necessary for our production process from LG Electronics and its affiliated companies, including LG Chem and LG Innotek (formerly from LG Micron Ltd. prior to its merger with and into LG Innotek in July 2009). Our purchases of raw materials, such as polarizers, from LG Chem amounted to 2,239 billion (US\$2,106 million) in 2012. Our purchases of printed circuit boards, photo masks and other raw materials and components from LG Innotek amounted to 440 billion (US\$414 million) in 2012. We also purchase transportation, warehousing and other related logistics services from Hi Logistics Co., Ltd., a wholly owned subsidiary of LG Electronics, which amounted to 39 billion (US\$ 37 million) in 2012.

Our total purchases, including purchases of materials, supplies and services, from LG Electronics and its affiliated companies, excluding LG International and its subsidiaries, amounted to 4,435 billion (US\$4,171 million), or 15.2% of our total purchases, in 2012.

In addition, we benefit from certain licenses extended to us from license or cross-license agreements between LG Electronics and third parties.

Under the terms of the joint venture agreement establishing LG.Philips LCD Co., Ltd., LG Electronics had assigned most of its patents relating to the development, manufacture and sale of TFT-LCD products to us and we had agreed to maintain joint ownership of those patents that were not assigned to us. Pursuant to a grantback agreement entered into with LG Electronics in July 2004, in the event of any intellectual property dispute between LG Electronics and a third party relating to those patents jointly owned by LG Electronics and us, we intend to allow LG Electronics to assert ownership in those patents for all non TFT-LCD applications and to license or grant other rights in such patents for use by the licensee in non-TFT-LCD applications in order to settle such disputes.

### ***Trademark Agreement with LG Corp.***

We have entered into successive trademark license agreements with LG Corp., the holding company of the LG Group, for use of the LG name. Under the terms of the current agreement, which we entered into in October 2010 and is effective from January 1, 2011 to December 31, 2013, we are required to make monthly payments to LG Corp. in the aggregate amount per year of 0.2% of our sales, net of advertising expenses. As of April 25, 2013, we have made all monthly payments required to be made to LG Corp. in accordance with the terms of the current agreement.

### ***Asset Purchase Agreement with LG Innotek***

In May 2010, we purchased the TFT-LCD module division of LG Innotek, a subsidiary of LG Electronics, for a purchase price of 238 billion. We expect that through this acquisition, we will be able to increase our TFT-LCD production capacity. The terms of the transaction has been negotiated by the parties on an arm's-length basis.



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### **Transactions with Directors and Officers**

Certain of our directors and executive officers also serve as executive officers of companies with which we do business. None of our directors or executive officers has or had any interest in any of our business transactions that are or were unusual in their nature or conditions or significant to our business.

### **Item 7.C. *Interests of Experts and Counsel***

Not applicable.

### **Item 8. FINANCIAL INFORMATION**

#### **Item 8.A. *Consolidated Statements and Other Financial Information***

See Item 18. Financial Statements and pages F-1 through F-85.

### **Legal Proceedings**

We are involved from time to time in certain routine legal actions incidental to our business. However, except for the ongoing proceedings described below, we are not currently involved in any material litigation or other proceedings the outcome of which we believe might, individually or taken as a whole, have a material adverse effect on our results of operations or financial condition. In addition, except as described below, we are not aware of any other material pending or threatened litigation against us.

#### ***Intellectual Property***

In December 2006, LG Display filed a complaint in the U.S. District Court for the District of Delaware against Innolux Corp. (formerly known as Chimei Innolux Corp. or Chimei Optoelectronics Corp.) and AU Optronics Corp. claiming infringement of patents related to liquid crystal displays and the manufacturing processes for TFT-LCDs and seeking, among other things, monetary damages for past infringement and an injunction against future infringement. In March 2007, AU Optronics filed a counter-claim against LG Display and its U.S. subsidiary, LG Display America, in the U.S. District Court for the Western District of Wisconsin for alleged infringement of patents related to the manufacturing processes for TFT-LCDs, but the suit was transferred to the U.S. District Court for the District of Delaware in May 2007. In May 2007, Innolux filed a counter-claim against LG Display and LG Display America for patent infringement in the U.S. District Court for the Eastern District of Texas, but the suit was transferred to the U.S. District Court for the District of Delaware in March 2008. The U.S. District Court for the District of Delaware bifurcated the trial between AU Optronics and Innolux, holding the first trial against AU Optronics in June 2009.

Although LG Display had a total of nine patents to be tried and AU Optronics had a total of seven patents to be tried in the first trial against AU Optronics, the trial was further bifurcated so that only four patents from each side were tried. In February 2010, the U.S. District Court for the District of Delaware found that the four AU Optronics patents were valid and were infringed by LG Display and LG Display America, and in April 2010, the court further found that LG Display's four patents were valid but were not infringed by AU Optronics. In October and November 2010, LG Display filed a motion for a new trial and to amend certain findings on the AU Optronics patents and LG Display's patents, respectively. In September 2011, LG Display and AU Optronics filed a stipulation for dismissal of the case and amicably settled all claims and counterclaims as between the parties. The stay of the Innolux case was lifted in January 2012, and in May 2012, the parties filed a stipulation for dismissal of the case and amicably settled all claims and counterclaims between the parties.

In February 2007, Anvik Corporation filed a complaint in the U.S. District Court for the Southern District of New York against LG Display and LG Display America, along with other TFT-LCD manufacturing companies, for alleged patent infringement in connection with the use of photo-masking equipment manufactured by Nikon Corporation. In April 2012, the district court granted Nikon Corporation's motion for summary judgment of invalidity of the patents-in-suit and entered a judgment in favor of Nikon Corporation, LG Display and LG Display America and the other TFT-LCD manufacturing companies, dismissing the case. Anvik Corporation appealed the district court's decision to the U.S. Court of Appeals for the Federal Circuit in April 2012. In March 2013, the U.S. Court of Appeals for the Federal Circuit reversed the district court's summary judgment ruling and remanded the case back to the district court for further proceedings.



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In February 2012, the United States International Trade Commission, or USITC, granted a motion by Industrial Technology Research Institute, or ITRI, to add LG Display and LG Display America as additional respondents in a Section 337 investigation pending before the USITC. ITRI is seeking an exclusion order prohibiting the importation of televisions and monitors incorporating LG Display's products into the United States for alleged patent infringement. In October 2012, USITC issued a preliminary finding that LG Display and LG Display America had not infringed ITRI's patents. A final decision by the USITC is expected to be issued in June 2013.

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In September 2012, Samsung Display filed a complaint in the Seoul Central District Court against LG Display claiming misappropriation of trade secrets relating to OLED technology and seeking injunctive relief. In September 2012, LG Display filed a complaint in the Seoul Central District Court against Samsung Display and Samsung Electronics claiming infringement of certain of LG Display's patents relating to OLED display technology and manufacturing methods and sought monetary damages. In addition, in December 2012, Samsung Display filed a complaint in the Seoul Central District Court against LG Display and LG Electronics claiming infringement of certain of Samsung Display's patents relating to LCD technology and sought monetary damages. Also, in December 2012, LG Display filed an application in the Seoul Central District Court seeking temporary injunctive relief to prohibit Samsung Display and Samsung Electronics from manufacturing and selling products that we claimed to be infringing upon certain of LG Display's patents relating to IPS technology and the related manufacturing methods. In February 2013, under the mediation of the Korean government, LG Display, Samsung Display and Samsung Electronics agreed in principle to work toward resolving the foregoing patent infringement proceedings through an amicable settlement. Accordingly, as of April 25, 2013, Samsung Display has withdrawn its complaint filed in September 2012 and LG Display has withdrawn its application for injunctive relief filed in December 2012. As of the same date, the complaint filed by LG Display against Samsung Display and Samsung Electronics in September 2012 and the complaint filed by Samsung Display against LG Display in December 2012 have not yet been withdrawn.

### ***Antitrust and Others***

In December 2006, LG Display received notices of investigation by the U.S. Department of Justice, the European Commission, the Korea Fair Trade Commission and the Japan Fair Trade Commission with respect to possible anti-competitive activities in the TFT-LCD industry. LG Display subsequently received similar notices from the Competition Bureau of Canada, the Secretariat of Economic Law of Brazil, the Taiwan Fair Trade Commission and the Federal Competition Commission of Mexico.

In November 2008, LG Display executed an agreement with the U.S. Department of Justice whereby LG Display and LG Display America pleaded guilty to a Sherman Antitrust Act violation and agreed to pay a single total fine of US\$400 million. In December 2008, the U.S. District Court for the Northern District of California accepted the terms of the plea agreement and entered a judgment against LG Display and LG Display America and ordered the payment of US\$400 million. The agreement resolved all federal criminal charges against LG Display and LG Display America in the United States in connection with this matter, provided that LG Display continues to cooperate with the U.S. Department of Justice in connection with the ongoing proceedings.

In December 2010, the European Commission issued a decision finding that LG Display engaged in anti-competitive activities in the TFT-LCD industry in violation of European Union competition laws, and imposed a fine of 215 million. In February 2011, LG Display filed with the European Union General Court an application for partial annulment and reduction of the fine imposed by the European Commission. As of April 25, 2013, the European Union General Court has not ruled on LG Display's application. In November 2011, LG Display received a request for information from the European Commission relating to certain alleged anti-competitive activities in the TFT-LCD industry and has responded to the request.

In November 2009, the Taiwan Fair Trade Commission terminated its investigation without any finding of violations or levying of fines. Also, in February 2012, the Competition Bureau of Canada terminated its investigation without any finding of violations or levying of fines. As of April 25, 2013, no decision has been issued by the Japan Fair Trade Commission, and we believe the statutory time period by which the Commission was required to have issued a decision has already lapsed. As of April 25, 2013, investigations by the Federal Competition Commission of Mexico and the Secretariat of Economic Law of Brazil are ongoing.

In December 2011, the Korea Fair Trade Commission imposed a fine of 31.4 billion after finding that LG Display and certain of its subsidiaries engaged in anti-competitive activities in violation of Korean fair trade laws. In December 2011, LG Display filed an appeal of the decision with the Seoul High Court. As of April 25, 2013, the Seoul High Court has not ruled on LG Display's appeal.

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After the commencement of the U.S. Department of Justice investigation, a number of class action complaints were filed against LG Display, LG Display America and other TFT-LCD panel manufacturers in the United States and Canada alleging violation of respective antitrust laws and related laws. In a series of decisions in 2007 and 2008, the class action lawsuits in the United States were transferred to the Northern District of California for pretrial proceedings, which we refer to as the MDL Proceedings. In March 2010, the federal district court granted the class certification motion filed by the indirect purchaser plaintiffs, and granted in part and denied in part the class certification motion filed by the direct purchaser plaintiffs. In January 2011, 78 entities (including groups of affiliated entities) submitted requests for exclusion from the direct purchaser class. In April 2012, ten entities (including groups of affiliated companies) submitted requests for exclusion from the indirect purchaser class. In addition, since 2010, the attorneys general of Arkansas, California, Florida, Illinois, Michigan, Mississippi, Missouri, New York, Oklahoma, Oregon, South Carolina, Washington, West Virginia and Wisconsin filed complaints against LG Display, alleging similar antitrust violations as alleged in the MDL Proceedings.

In June 2011, LG Display reached a settlement with the direct purchaser class, which the federal district court approved in December 2011. In July 2012, LG Display reached a settlement with the indirect purchaser class plaintiffs and with the state attorneys general of Arkansas, California, Florida, Michigan, Missouri, New York, West Virginia and Wisconsin, which was approved by the federal district court in April 2013 and, in the case of the state attorneys general actions, by their respective state governments. In March 2013, the attorney general of Oklahoma dismissed its action as to LG Display pursuant to a separate settlement agreement. As of April 25, 2013, the Illinois, Mississippi, Oregon, South Carolina and Washington attorneys general actions remain pending. While the Oregon attorney general action is pending in the MDL Proceedings, the Illinois and Washington attorneys general actions are pending in their respective state courts, and the Mississippi and South Carolina attorneys general actions are pending in federal courts in their respective districts.

In addition, in relation to the MDL Proceedings, in 2009, ATS Claim, LLC (assignee of Ricoh Electronics, Inc.), AT&T Corp. and its affiliates, Motorola Mobility, Inc., and Electrograph Technologies Corp. and its subsidiary filed separate claims in the United States, and all of the actions were subsequently consolidated into the MDL Proceedings. In November 2010, ATS Claim, LLC dismissed its action as to LG Display pursuant to a settlement agreement. In addition, in 2010, TracFone Wireless Inc., Best Buy Co., Inc. and its affiliates, Target Corp., Sears, Roebuck and Co., Kmart Corp., Old Comp Inc., Good Guys, Inc., RadioShack Corp., Newegg Inc., Costco Wholesale Corp., Sony Electronics, Inc. and its affiliate, SB Liquidation Trust and the trustee of the Circuit City Stores, Inc. Liquidation Trust filed claims in the United States. In addition, in 2011, the AASI Creditor Liquidating Trust on behalf of All American Semiconductor Inc., CompuCom Systems, Inc., Interbond Corporation of America, Jaco Electronics, Inc., Office Depot, Inc., P.C. Richard & Son Long Island Corporation, MARTA Cooperative of America, Inc., ABC Appliance, Inc., Schultze Agency Services, LLC on behalf of Tweeter Opco, LLC and its affiliate, T-Mobile U.S.A., Inc., Tech Data Corporation and its affiliate filed similar claims in the United States. In 2012, ViewSonic Corp., NECO Alliance LLC, Rockwell Automation LLC, Proview Technology Inc. and its affiliates filed similar claims. To the extent these claims were not filed in the MDL Proceedings, they have been transferred or are expected to be transferred to the MDL Proceedings for pretrial proceedings. In December 2012, Sony Europe Limited and its affiliate filed similar claims in the High Court of Justice in the United Kingdom. In January 2013, AT&T Corp. and its affiliates dismissed their action as to LG Display pursuant to a settlement agreement. In January 2013, the trustee of Circuit City Stores, Inc. Liquidation Trust dismissed its action as to LG Display pursuant to a settlement agreement, which was approved by the U.S. Bankruptcy Court. In April 2013, Sony Electronics, Inc. and Sony Europe Limited, together with their respective affiliates, dismissed their actions as to LG Display pursuant to a settlement agreement. LG Display reached a settlement with T-Mobile, U.S.A., Inc. in April 2013.

In Canada, the Ontario Superior Court of Justice certified the class action complaints filed by the direct and indirect purchasers in May 2011. LG Display is pursuing an appeal of the decision as well as defending the on-going class actions in Quebec and British Columbia.

In February 2007, LG Display and certain of its current and former officers and directors were named as defendants in a purported shareholder class action in the U.S. District Court for the Southern District of New York, alleging violation of the U.S. Securities Exchange Act of 1934. In May 2010, the defendants, including LG Display, reached an agreement in principle with the class plaintiffs to settle the action and, in March 2011, the district court granted final approval of the settlement.

In October 2012, Arkema France and Altuglas International SAS filed a request for arbitration in the International Court of Arbitration of the International Chamber of Commerce regarding the termination of a supply contract with LG Display. LG Display is currently defending against their claims.

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In each of the foregoing matters that are ongoing, we are continually evaluating the merits of the respective claims and vigorously defending ourselves. Irrespective of the validity or the successful assertion of the claims described above, we may incur significant costs with respect to litigating or settling any or all of the asserted claims. While we continue to vigorously defend the various proceedings described above, it is possible that one or more proceedings may result in an unfavorable outcome. We have recognized provisions in 2012 with respect to those contingencies in which management has concluded that the likelihood of an unfavorable outcome is probable and the amount of loss is reasonably estimable. However, actual liability may be materially different from that estimated as of December 31, 2012 and may have a material adverse effect on our operating results or financial condition.

**Dividends**

Annual dividends must be approved by the shareholders at the annual general meeting of shareholders and interim dividends must be approved by the board of directors. Cash dividends may be paid out of retained earnings that have not been appropriated to statutory reserves.

On March 12, 2010, we declared a cash dividend of ₩178.9 billion to our shareholders of record as of December 31, 2009 and distributed the cash dividend to such shareholders on April 9, 2010. On March 11, 2011, we declared a cash dividend of ₩178.9 billion to our shareholders of record as of December 31, 2010 and distributed the cash dividend to such shareholders on April 7, 2011. At our annual general meetings of shareholders held on March 9, 2012 and March 8, 2013, we did not declare a cash dividend to our shareholders.

**Item 8.B. Significant Changes**

Except as disclosed elsewhere in this annual report, we have not experienced any significant changes since the date of our audited consolidated financial statements included in this annual report.

**Item 9. THE OFFER AND LISTING****Item 9.A. Offer and Listing Details.****Market Price Information**

The principal trading market for our common stock is the Korea Exchange. Our common stock, which is in registered form and has a par value of ₩5,000 per share of common stock, has been listed on the Korea Exchange since July 23, 2004 under the identifying code 034220. As of December 31, 2012, 357,815,700 shares of common stock were outstanding. Our common stock is also listed on the New York Stock Exchange in the form of ADSs. The ADSs have been issued by Citibank as ADS depository and have been listed on the New York Stock Exchange under the symbol LPL since July 22, 2004. One ADS represents one-half of one share of common stock. As of December 31, 2012, 10,926,993 ADSs were outstanding.

The table below sets forth, for the periods indicated, the high and low closing prices and the average daily volume of trading activity on the Korea Exchange for our common stock, and their high and low closing prices and the average daily volume of trading activity on the New York Stock Exchange for our ADSs:

	Korea Exchange			New York Stock Exchange		
	Closing Price Per Common Stock		Average Daily Trading Volume (in thousands of shares)	Closing Price Per ADS		Average Daily Trading Volume (in thousands of DRs)
	High	Low		High	Low	
<b>2008</b>	50,600	16,650	3,557	24.99	5.54	1,113
<b>2009</b>	39,250	22,800	3,962	16.93	7.78	1,646
<b>2010</b>	47,900	33,250	2,877	21.10	14.03	1,465
<b>2011</b>	40,950	17,500	3,250	18.81	7.72	1,210
<b>First Quarter</b>	40,950	33,650	2,711	18.11	15.03	1,134

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<b>Second Quarter</b>	40,900	28,050	3,463	18.81	13.04	1,372
<b>Third Quarter</b>	31,300	17,500	3,410	14.55	7.72	1,332
<b>Fourth Quarter</b>	26,300	18,150	3,394	11.75	7.80	999
<b>2012</b>	36,200	20,050	2,499	16.79	8.52	661
<b>First Quarter</b>	30,450	24,950	2,621	13.61	10.83	760

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	Korea Exchange			New York Stock Exchange		
	Closing Price Per Common Stock High	Low	Average Daily Trading Volume (in thousands of shares)	Closing Price Per ADS High	Low	Average Daily Trading Volume (in thousands of DRs)
<b>Second Quarter</b>	27,850	20,050	2,377	12.16	8.52	580
<b>Third Quarter</b>	29,400	21,050	2,208	13.31	9.08	506
<b>Fourth Quarter</b>	36,200	26,350	2,602	16.79	11.79	773
<b>October</b>	32,500	26,350	2,464	14.84	11.79	487
<b>November</b>	36,200	33,100	2,686	16.79	15.27	749
<b>December</b>	35,400	29,700	2,694	16.35	13.58	1,098
<b>2013</b>						
<b>First Quarter</b>	33,050	27,450	2,286	14.93	12.68	1,008
<b>January</b>	31,650	27,450	2,785	14.93	12.90	1,279
<b>February</b>	31,050	27,650	1,992	14.30	12.68	1,046
<b>March</b>	33,050	29,900	2,017	14.82	13.72	686
<b>Second Quarter</b>	31,950	29,650	1,950	14.12	13.22	880
<b>April (through April 25)</b>	31,950	29,650	1,950	14.12	13.22	880

Source: Korea Exchange; New York Stock Exchange.

**Item 9.B. Plan of Distribution**

Not applicable.

**Item 9.C. Markets****The Korea Exchange**

On January 27, 2005, the Korea Exchange was established pursuant to the Korea Securities and Futures Exchange Act by consolidating the Korea Stock Exchange, the Korea Futures Exchange, the KOSDAQ Stock Market, Inc., or the KOSDAQ, and the KOSDAQ Committee of the Korea Securities Dealers Association, which had formerly managed the KOSDAQ. There are three different markets operated by the Korea Exchange: the KRX KOSPI Market, the KRX KOSDAQ Market and the KRX Derivatives Market. The Korea Exchange has two trading floors located in Seoul, one for the KRX KOSPI Market and one for the KRX KOSDAQ Market, and one trading floor in Busan for the KRX Derivatives Market. The Korea Exchange is a limited liability company, the shares of which are held by (i) financial investment companies that were formerly members of the Korea Futures Exchange or the Korea Stock Exchange and (ii) the stockholders of the KOSDAQ. Currently, the Korea Exchange is the only stock exchange in Korea and is operated by membership, having as its members Korean financial investment companies and some Korean branches of foreign securities companies.

As of December 31, 2012, the aggregate market value of equity securities listed on the Korea Exchange was approximately 1,155.2 trillion. The average daily trading volume of equity securities for 2012 was approximately 486.5 million shares with an average transaction value of 4,823.6 billion.

The Korea Exchange has the power in some circumstances to suspend trading in the shares of a given company or to de-list a security pursuant to the Regulation on Listing on the Korea Exchange. The Korea Exchange also restricts share price movements. All listed companies are required to file accounting reports annually, semi-annually and quarterly and to release immediately all information that may affect trading in a security.

The Korean government has in the past exerted, and continues to exert, substantial influence over many aspects of the private sector business community that can have the intention or effect of depressing or boosting the market. In the past, the Korean government has informally both encouraged and restricted the declaration and payment of dividends, induced mergers to reduce what it considers excess capacity in a particular industry and induced private companies to offer publicly their securities.

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The Korea Exchange publishes the KOSPI every ten seconds, which is an index of all equity securities listed on the Korea Exchange. On January 1, 1983, the method of computing KOSPI was changed from the Dow Jones method to the aggregate value method. Under the new method, the market capitalizations of all listed companies are aggregated, subject to certain adjustments, and this aggregate is expressed as a percentage of the aggregate market capitalization of all listed companies as of the base date, January 4, 1980.

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Movements in KOSPI for the periods indicated are set out in the following table:

	Opening	High	Low	Closing
1983	122.52	134.46	115.59	121.21
1984	115.25	142.46	115.25	142.46
1985	139.53	163.37	131.40	163.37
1986	161.40	279.67	153.85	272.61
1987	264.82	525.11	264.82	525.11
1988	532.04	922.56	527.89	907.20
1989	919.61	1,007.77	844.75	909.72
1990	908.59	928.82	566.27	696.11
1991	679.75	763.10	586.51	610.92
1992	624.23	691.48	459.07	678.44
1993	697.41	874.10	605.93	866.18
1994	879.32	1,138.75	855.37	1,027.37
1995	1,013.57	1,016.77	847.09	882.94
1996	888.85	986.84	651.22	651.22
1997	653.79	792.29	350.68	376.31
1998	385.49	579.86	280.00	562.46
1999	587.57	1,028.07	498.42	1,028.07
2000	1,059.04	1,059.04	500.60	504.62
2001	520.95	704.50	468.76	693.70
2002	724.95	937.61	584.04	627.55
2003	635.17	822.16	515.24	810.71
2004	821.26	936.06	719.59	895.92
2005	893.71	1,379.37	870.84	1,379.37
2006	1,389.27	1,464.70	1,203.86	1,434.46
2007	1,435.26	2,064.85	1,355.79	1,897.13
2008	1,853.45	1,888.88	938.75	1,124.47
2009	1,132.87	1,723.17	992.69	1,682.77
2010	1,696.14	2,052.97	1,532.68	2,051.00
2011	2,070.08	2,228.96	1,652.71	1,825.12
2012	1,826.37	2,049.28	1,769.31	1,997.05
2013 (through April 25)	2,031.10	2,031.10	1,900.06	1,951.60

Source: The Korea Exchange

Shares are quoted ex-dividend on the first trading day of the relevant company's accounting period. Since the calendar year is the accounting period for the majority of listed companies, this may account for the drop in KOSPI between its closing level at the end of one calendar year and its opening level at the beginning of the following calendar year.

With certain exceptions, principally to take account of a share being quoted ex-dividend and ex-rights, permitted upward and downward movements in share prices of any category of shares on any day are limited under the rules of the Korea Exchange to 15% of the previous day's closing price of the shares, rounded down as set out below:

Previous Day's Closing Price (Won)	Rounded Down to Won
Less than 5,000	5
5,000 to less than 10,000	10
10,000 to less than 50,000	50
50,000 to less than 100,000	100
100,000 to less than 500,000	500



500,000 or more

1,000

As a consequence, if a particular closing price is the same as the price set by the fluctuation limit, the closing price may not reflect the price at which persons would have been prepared, or would be prepared to continue, if so permitted, to buy and sell shares. Orders are executed on an auction system with priority rules to deal with competing bids and offers.

Due to deregulation of restrictions on brokerage commission rates, the brokerage commission rate on equity securities transactions may be determined by the parties, subject to commission schedules being filed with the Korea Exchange by the financial investment companies. In addition, a securities transaction tax of 0.15% of the sales price will generally be imposed on the transfer of shares or certain securities representing rights to subscribe for shares. An agricultural and fishery special surtax of 0.15% of the sales prices will also be imposed on transfer of these shares and securities on the Korea Exchange. See Item 10.E. Taxation Korean Taxation.

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The number of companies listed on the KRX KOSPI Market, the corresponding total market capitalization at the end of the periods indicated and the average daily trading volume for those periods are set forth in the following table:

Year	Market Capitalization on the Last Day of Each Period			Average Daily Trading Volume, Value		
	Number of Listed Companies	(Billions of Won)	(Millions of US\$) <sup>(1)</sup>	Thousands of Shares	(Millions of Won)	(Thousands of US\$) <sup>(1)</sup>
1983	328	3,490	4,361	9,325	5,941	7,425
1984	336	5,149	6,207	14,847	10,642	12,829
1985	342	6,570	7,362	18,925	12,315	13,798
1986	355	11,994	13,863	31,755	32,870	37,991
1987	389	26,172	32,884	20,353	70,185	88,183
1988	502	64,544	93,895	10,367	198,364	288,571
1989	626	95,477	140,119	11,757	280,967	412,338
1990	669	79,020	109,872	10,866	183,692	255,412
1991	686	73,118	95,541	14,022	214,263	279,973
1992	688	84,712	107,027	24,028	308,246	389,445
1993	693	112,665	138,870	35,130	574,048	707,566
1994	699	151,217	190,762	36,862	776,257	979,257
1995	721	141,151	181,943	26,130	487,762	628,721
1996	760	117,370	138,490	26,571	486,834	928,418
1997	776	70,989	41,881	41,525	555,759	327,881
1998	748	137,799	114,261	97,716	660,429	547,619
1999	725	349,504	307,662	278,551	3,481,620	3,064,806
2000	704	188,042	148,415	306,163	2,602,211	2,053,837
2001	689	255,850	194,785	473,241	1,997,420	1,520,685
2002	683	258,681	216,071	857,245	3,041,595	2,540,590
2003	684	355,363	298,624	542,010	2,216,636	1,862,719
2004	683	412,588	398,597	372,895	2,232,109	2,156,419
2005	702	655,075	648,589	467,629	3,157,662	3,126,398
2006	731	704,588	757,622	279,096	3,435,180	3,693,742
2007	745	951,900	1,017,205	363,741	5,539,653	5,919,697
2008	763	576,888	457,122	355,205	5,189,644	4,112,238
2009	770	887,935	763,060	485,657	5,795,552	4,980,495
2010	766	1,114,882	1,260,486	379,171	5,607,749	6,340,121
2011	791	1,041,999	899,438	353,760	6,863,146	5,924,166
2012	784	1,154,294	1,014,229	486,480	4,823,643	4,536,740
2013 (through April 25)	775	1,123,145	1,056,342	407,698	3,979,967	3,556,622

Source: The Korea Exchange

(1) Converted at the noon buying rate as certified by the Federal Reserve Bank of New York in effect on the last business day of the year indicated other than for 2013, which is converted at the noon buying rate as certified by the Federal Reserve Bank of New York in effect on April 19, 2013 (the latest available noon buying rate prior to filing this annual report).

The Korean securities markets are principally regulated by the Financial Services Commission and the Financial Investment Services and Capital Markets Act. The Financial Investment Services and Capital Markets Act imposes restrictions on insider trading and price manipulation, requires specified information to be made available by listed companies to investors and establishes rules regarding margin trading, proxy solicitation, takeover bids, acquisition of treasury shares and reporting requirements for shareholders holding substantial interests. In addition, it also regulates the securities and derivatives markets in Korea.

**Further Opening of the Korean Securities Market**

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Starting May 1, 1996, foreign investors were permitted to invest in warrants representing the right to subscribe for shares of a company listed on the KRX KOSPI Market or the KRX KOSDAQ Market, subject to certain investment limitations. A foreign investor may not acquire such warrants with respect to shares of a class of a company for which the ceiling on aggregate investment by foreigners has been reached or exceeded.

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A stock index futures market was opened on May 3, 1996 and a stock index option market was opened on July 7, 1997, in each case at the Korea Exchange. Remittance and repatriation of funds in connection with foreign investment in stock index futures and options are subject to regulations similar to those that govern remittance and repatriation in the context of foreign investment in Korean stocks.

In addition, on January 28, 2002, the Korea Exchange opened a new options market for the stock of seven companies (Samsung Electronics, SK Telecom, KT Corporation, Korea Electric Power Corporation, POSCO, Kookmin Bank and Hyundai Motor Company), and as of June 13, 2011, the Korea Exchange expanded this market to include the stock of 33 companies. Foreigners are permitted to invest in such options subject to the same procedural requirements and investment limitations applicable to Korean investors.

As of December 30, 1997, foreign investors were permitted to invest in all types of corporate bonds, bonds issued by national or local governments and bonds issued in accordance with certain special laws without being subject to any aggregate or individual investment ceiling. The Financial Services Commission sets forth procedural requirements for such investments. The Korean government announced on February 8, 1998 its plans for the liberalization of the money market with respect to investment in money market instruments by foreigners in 1998. In accordance with the plan, foreigners have been permitted to invest in money market instruments issued by corporations, including commercial paper, starting February 16, 1998 with no restrictions as to the amount. Starting May 25, 1998, foreigners have been permitted to invest in certificates of deposit and repurchase agreements.

Currently, foreigners are permitted to invest in certain other securities including shares of Korean companies that are not listed on the Korea Exchange and in bonds that are not listed.

### **Protection of Customer's Interest in Case of Insolvency of Financial Investment Companies**

Under Korean law, the relationship between a customer and a financial investment company with a brokerage license in connection with a securities sell or buy order is deemed to be a consignment and the securities acquired by a consignment agent (i.e., the financial investment company with a brokerage license) through such sell or buy order are regarded as belonging to the customer in so far as the customer and the consignment agent's creditors are concerned. Therefore, in the event of a bankruptcy or reorganization procedure involving a financial investment company with a brokerage license, the customer of the financial investment company is entitled to the proceeds of the securities sold by such financial investment company.

When a customer places a sell order with a financial investment company with a brokerage license that is not a member of the KRX KOSPI Market or the KRX KOSDAQ Market and such financial investment company places a sell order with another financial investment company with a brokerage license that is a member of the KRX KOSPI Market or the KRX KOSDAQ Market, the customer is still entitled to the proceeds of the securities sold and received by the non-member company from the member company regardless of the bankruptcy or reorganization of the non-member company.

Under the Financial Investment Services and Capital Markets Act, the Korea Exchange is obliged to indemnify any loss or damage incurred by a counterparty as a result of a breach by members of the KRX KOSPI Market or the KRX KOSDAQ Market. If a financial investment company with a brokerage license that is a member of the KRX KOSPI Market or the KRX KOSDAQ Market breaches its obligation in connection with a buy order, the Korea Exchange is obliged to pay the purchase price on behalf of the breaching member. Therefore, the customer can acquire the securities that have been ordered to be purchased by the breaching member.

When a customer places a buy order with a non-member company and the non-member company places a buy order with a member company, the customer has the legal right to the securities received by the non-member company from the member company because the purchased securities are regarded as belonging to the customer in so far as the customer and the non-member company's creditors are concerned.

As the cash deposited with a financial investment company with a brokerage license is regarded as belonging to such financial investment company, which is liable to return the same at the request of its customer, the customer cannot take back deposited cash from the financial investment company if a bankruptcy or reorganization procedure is instituted against such financial investment company and, therefore, can suffer from loss or damage as a result. However, the Depositor Protection Act provides that the Korea Deposit Insurance Corporation will, upon the request of the investors, pay investors up to 50 million of cash deposited with such financial investment company in case of such financial investment company's bankruptcy, liquidation, cancellation of securities business license or other insolvency events. Pursuant to the Financial Investment Services and Capital Markets Act, as amended, financial investment companies with a brokerage license are required to deposit the cash received from its customers to the extent the amount is not covered by the insurance with the Korea Securities Finance Corporation, a special entity established pursuant to the Financial Investment Services and Capital Markets Act. Set-off or attachment of cash deposits by such financial investment company is prohibited. The premiums related to this insurance are paid by such financial investment company.



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### **Item 9.D.     *Selling Shareholders***

Not applicable.

### **Item 9.E.     *Dilution***

Not applicable.

### **Item 9.F.     *Expenses of the Issue***

Not applicable.

## **Item 10.     ADDITIONAL INFORMATION**

### **Item 10.A.   *Share Capital***

Not applicable.

### **Item 10.B.   *Memorandum and Articles of Association* Description of Capital Stock**

This section provides information relating to our capital stock, including brief summaries of material provisions of our current articles of incorporation, the Financial Investment Services and Capital Markets Act and the Korean Commercial Code. The following summaries are subject to, and are qualified in their entirety by reference to, our articles of incorporation and the applicable provisions of the Financial Investment Services and Capital Markets Act and the Korean Commercial Code.

#### **General**

Under our articles of incorporation, which was last amended in March 2013, the total number of shares authorized to be issued by us is 500,000,000 shares, which consists of shares of common stock and non-voting preferred stock, both with par value of 5,000 per share. We are authorized to issue preferred stock of up to 40,000,000 shares. As of December 31, 2012, 357,815,700 shares of common stock were issued. All of the issued and outstanding shares are fully-paid and non-assessable and are in registered form. We issue share certificates in denominations of 1, 5, 10, 50, 100, 500, 1,000 and 10,000 shares.

#### **Dividends**

We distribute dividends to our shareholders in proportion to the number of shares owned by each shareholder. The shares represented by the ADSs have the same dividend rights as other outstanding shares.

Holders of preferred shares are entitled to receive dividends in priority to the holders of common stock. The amount of dividends for preferred shares is determined by our board of directors within a range of 1% to 10% of par value at the time the shares are issued, provided that if the dividend amount on the shares of common stock exceeds that on the preferred shares, holders of preferred shares will also participate in the distribution of the excess dividend amount in the same proportion as holders of common stock. If the amount available for dividends is less than the aggregate amount of such minimum dividend, the holders of preferred shares will be entitled to receive the accumulated unpaid dividends in priority to the holders of common stock from the dividends payable in respect of the next fiscal year.

We declare dividends annually at the annual general meeting of shareholders which is held within three months after the end of the fiscal year. We pay the annual dividend shortly after the annual general meeting to the shareholders of record as of the end of the preceding fiscal year. We may distribute the annual dividend in cash or in shares. However, a dividend of shares must be distributed at par value. If the market price of the

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shares is less than their par value, dividends in shares may not exceed one-half of the annual dividend. We have no obligation to pay any annual dividend unclaimed for five years from the payment date.

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Under the Korean Commercial Code, we may pay an annual dividend only out of the excess of our net assets, on a non-consolidated basis, over the sum of (1) our stated capital and (2) the total amount of our capital surplus reserve and legal reserve accumulated up to the end of the relevant dividend period. We may not pay an annual dividend unless we have set aside a legal reserve in an amount equal to at least 10% of the cash portion of the annual dividend or unless we have accumulated a legal reserve of not less than one-half of our stated capital. We may not use legal reserves to pay cash dividends but may transfer amounts from legal reserves to capital stock or use legal reserves to reduce an accumulated deficit.

Also, we may pay an interim dividend in accordance with a resolution of the board of directors to our shareholders who are registered in the shareholders' register as of July 1 of the relevant fiscal year, and such an interim dividend shall be made in cash.

### **Distribution of Free Shares**

In addition to paying dividends in shares out of our retained or current earnings, we may also distribute to our shareholders an amount transferred from our capital surplus or legal reserve to our stated capital in the form of free shares. Free shares are shares newly issued to existing shareholders without consideration, much like stock dividends, except that in the case of free shares a portion of the reserves, as opposed to earnings, is transferred to capital. We must distribute such free shares to all of our shareholders in proportion to their existing shareholdings. We may distribute free shares when we determine that our capital surplus or legal reserves are too large relative to our paid-in capital.

### **Preemptive Rights and Issuance of Additional Shares**

We may issue authorized but unissued shares at the times and, unless otherwise provided in the Korean Commercial Code, on the terms our board of directors may determine. All of our shareholders are generally entitled to subscribe for any newly issued shares in proportion to their existing shareholdings. We must offer new shares on uniform terms to all shareholders who have preemptive rights and are listed on our shareholders' register as of the relevant record date. However, under the Korean Commercial Code, we may vary the specific terms of these preemptive rights for different classes of shares without shareholder approval. To the extent that such different terms result in placing any particular class of shareholders at a disadvantage relative to other classes, a special resolution by that disadvantaged class of shareholders is necessary.

We must give public notice of the preemptive rights regarding new shares and their transferability at least two weeks before the relevant record date. Our board of directors may determine how to distribute shares for which preemptive rights have not been exercised or where fractions of shares occur.

Under our articles of incorporation, we may issue new shares pursuant to a board resolution to persons other than existing shareholders, who however will not have preemptive rights, if the new shares are, among others:

publicly offered pursuant to the Financial Investment Services and Capital Markets Act;

issued to members of our employee stock ownership association;

represented by depositary receipts;

issued upon exercise of stock options granted to our officers and employees;

issued to corporations, institutional investors or domestic or overseas financial institutions to achieve our operational objectives; or

issued for the purpose of drawing foreign investment when we deem it necessary for our business needs;



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provided that the aggregate number of shares so issued do not exceed 20% of the total number of issued and outstanding shares.

In addition, we may issue convertible bonds or bonds with warrants, respectively, up to an aggregate face amount of 2.5 trillion to persons other than existing shareholders. The classes of shares to be issued upon conversion of bonds or exercise of warrants shall be common stock.

Members of our employee stock ownership association, whether or not they are our shareholders, generally have a preemptive right to subscribe for up to 20% of the shares publicly offered pursuant to the Financial Investment Services and Capital Markets Act. As of December 31, 2012, approximately 0.001% of the outstanding shares were held by our employee stock ownership association.

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### **General Meeting of Shareholders**

We hold the annual general meeting of shareholders within three months after the end of each fiscal year. Subject to a board resolution or court approval, we may hold an extraordinary general meeting of shareholders:

as necessary;

at the request of holders of an aggregate of 3% or more of our outstanding shares;

at the request of shareholders holding an aggregate of 1.5% or more of our outstanding shares for at least six consecutive months; or

at the request of our audit committee.

Holders of preferred shares may request a general meeting of shareholders only after the preferred shares become entitled to vote or are enfranchised, as described under **Voting Rights** below.

We must give shareholders written notice setting out the date, place and agenda of the meeting at least two weeks before the date of the general meeting of shareholders. However, for holders of less than 1% of the total number of issued and outstanding voting shares, we may give notice by placing at least two public notices in at least two daily newspapers or providing such notice in the electronic notification system of the Financial Supervisory Service or the Korea Exchange at least two weeks in advance of the meeting. We will use *Maeil Business Newspaper* and *The Chosun Ilbo*, published in Seoul, Korea, for public notice purposes. Shareholders not on the shareholders' register as of the record date are not entitled to receive notice of the general meeting of shareholders, attend or vote at the meeting. Holders of non-voting preferred shares, unless enfranchised, are not entitled to receive notice of general meetings of shareholders.

The place of our general meetings of shareholders is decided by our board of directors, which can be our head office, our Paju Display Cluster or any other place as designated by our board of directors.

### **Voting Rights**

Holders of our common stock are entitled to one vote for each share of common stock, except that voting rights may not be exercised with respect to shares of common stock held by us or by a corporate shareholder in which we own, directly or indirectly, more than 10% of its voting stock. The Korean Commercial Code permits cumulative voting, under which voting method each shareholder would have multiple voting rights corresponding to the number of directors to be appointed in the voting and may exercise all voting rights cumulatively to elect one director. However, our articles of incorporation prohibit cumulative voting.

According to our current articles of incorporation, our shareholders may adopt resolutions at a general meeting by an affirmative majority vote of the voting shares present or represented at the meeting, where the affirmative votes also represent at least one-fourth of our total voting shares then issued and outstanding. However, under the Korean Commercial Code and our articles of incorporation, the following matters, among others, require approval by the holders of at least two-thirds of the shares present or represented at a meeting, where the affirmative votes also represent at least one-third of our total voting shares then issued and outstanding:

amending our articles of incorporation;

removing a director;

effecting any dissolution, merger or consolidation of us;

transferring the whole or any significant part of our business;

effecting our acquisition of all of the business of any other company;

effecting our acquisition of a part of the business of any other company that has a material effect on our business; or

issuing any new shares at a price lower than their par value.

In general, holders of preferred shares are not entitled to vote on any resolution or receive notice of any general meeting of shareholders. However, in the case of amendments to our articles of incorporation, any merger or consolidation involving us, capital reductions or in certain other cases in which the rights or interests of the preferred shares are affected, approval of the holders of preferred shares is required. We may obtain such approval by a resolution of holders of at least two-thirds of the preferred shares present or represented at a class meeting of the holders of preferred shares, where the affirmative votes also represent at least one-third of our total issued and outstanding preferred shares. In addition, if we are unable to pay dividends on preferred shares as provided in our articles of incorporation, the holders of preferred shares will become enfranchised and will be entitled to exercise voting rights until those dividends are paid. The holders of enfranchised preferred shares have the same rights as holders of common stock to request, receive notice of, attend and vote at a general meeting of shareholders.

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Shareholders may exercise their voting rights by proxy.

Holders of ADRs exercise their voting rights through the ADR depositary, an agent of which is the record holder of the underlying shares. Subject to the provisions of the deposit agreement, ADR holders are entitled to instruct the ADR depositary how to vote the shares underlying their ADSs.

### **Rights of Dissenting Shareholders**

In some limited circumstances, including the transfer of all or any significant part of our business and our merger or consolidation with another company, dissenting shareholders have the right to require us to purchase their shares. To exercise this right, shareholders must submit to us a written notice of their intention to dissent before the general meeting of shareholders. Within 20 days after the relevant resolution is passed at such meeting, the dissenting shareholders must make a request to us in writing to purchase their shares. We are obligated to purchase the shares of dissenting shareholders no later than one month after the end of such 20-day period. The purchase price for the shares is required to be determined through negotiation between the dissenting shareholders and us. If we cannot agree on a price through negotiation, the purchase price will be the average of (1) the weighted average of the daily closing prices of shares on the Korea Exchange for the two-month period before the date of the adoption of the relevant board resolution, (2) the weighted average of the daily closing price of shares on the Korea Exchange for the one-month period before the date of the adoption of the relevant board resolution and (3) the weighted average of the daily closing price of shares on the Korea Exchange for the one-week period before the date of the adoption of the relevant board resolution. If we or the dissenting shareholders that had requested the purchase of their shares do not accept the purchase price, we or the dissenting shareholders may request a court to determine the purchase price. Holders of ADSs will not be able to exercise dissenter's rights unless they have withdrawn the underlying common stock and become our direct shareholders.

### **Register of Shareholders and Record Dates**

Our transfer agent, Korea Securities Depository, maintains the register of our shareholders at its office in Seoul, Korea. It will register transfers of shares on the register of shareholders on presentation of the share certificates.

The record date for annual dividends is December 31. For the purpose of determining the shareholders entitled to annual dividends, the register of shareholders may be closed for the period from January 1 to January 15 of each year. Further, for the purpose of determining the shareholders entitled to some other rights pertaining to the shares, we may, on at least two weeks' public notice, set a record date and/or close the register of shareholders for not more than three months.

### **Business Report**

At least one week before the annual general meeting of shareholders, we must make our business report and audited consolidated Korean IFRS financial statements available for inspection at our principal office and at all of our branch offices. In addition, copies of business reports, the audited consolidated Korean IFRS financial statements and any resolutions adopted at the general meeting of shareholders will be available to our shareholders.

Under the Financial Investment Services and Capital Markets Act, we must file with the Financial Services Commission and the Korea Exchange (1) a yearly report (including audited non-consolidated financial statements and audited consolidated financial statements) within 90 days after the end of our fiscal year and (2) interim reports with respect to the three-month period, six-month period and nine-month period from the beginning of each fiscal year within 45 calendar days following the end of each such period. Copies of these reports will be available for public inspection at the Financial Services Commission and the Korea Exchange.

### **Transfer of Shares**

Under the Korean Commercial Code, the transfer of shares is effected by delivery of share certificates. However, to assert shareholders' rights against us, the transferee must have his name and address registered on our register of shareholders. For this purpose, a shareholder is required to file his name, address and seal with us. A non-Korean shareholder may file a specimen signature in place of a seal, unless he is a citizen of a country with a sealing system similar to that of Korea. In addition, a non-resident shareholder must appoint an agent authorized to receive notices on his behalf in Korea and file a mailing address in Korea. The above requirements do not apply to the holders of ADSs.

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Under current Korean regulations, the Korea Securities Depository, foreign exchange banks (including domestic branches of foreign banks), financial investment companies with a dealing, brokerage or collective investment license and internationally recognized custodians may act as agents and provide related services for foreign shareholders. Certain foreign exchange controls and securities regulations apply to the transfer of shares by non-residents or non-Koreans. See Item 10.D. Exchange Controls.

### **Acquisition of Shares by Us**

Under the Korean Commercial Code, we may acquire our own shares pursuant to a resolution adopted at a general meeting of shareholders through either (i) purchases on a stock exchange or (ii) with respect to shares other than any redeemable shares as set forth in Article 345, Paragraph (1) of the Korean Commercial Code, purchases from each shareholder in proportion to such shareholder's existing shareholding ratio through the methods set forth in the Presidential Decree, provided that the aggregate purchase price does not exceed the amount of our profit that may be distributed as dividends in respect of the immediately preceding fiscal year.

In addition, pursuant to the Financial Investment Services and Capital Markets Act, we may acquire shares through purchases on the Korea Exchange or through a tender offer. We may also acquire interests in our own shares through agreements with trust companies or retrieve our own shares from a trust company upon termination of the trust agreement. The aggregate purchase price for shares purchased through such means may not exceed the total amount available for distribution of dividends at the end of the preceding fiscal year, subject to certain procedural requirements.

### **Liquidation Rights**

In the event of our liquidation, after payment of all debts, liquidation expenses and taxes, our remaining assets will be distributed among shareholders in proportion to their shareholdings. Holders of preferred shares have no preference in liquidation.

### **Item 10.C. *Material Contracts***

We have not entered into any material contracts during the two years immediately preceding the date of this annual report, other than in the ordinary course of our business. For information regarding our agreements and transactions with certain related parties, see Item 7.B. Related Party Transactions. For descriptions of certain agreements related to our capital commitments and obligations and certain agreements related to our joint ventures, which we believe were not material to our results of operations and financial condition in the periods in which such agreements were entered, see Item 5.B. Liquidity and Capital Resources and Item 4.B. Business Overview Joint Ventures, respectively.

### **Item 10.D. *Exchange Controls***

The Foreign Exchange Transaction Act of Korea and the Presidential Decree and regulations under that Act and Decree, which we refer to collectively as the Foreign Exchange Transaction Laws, regulate investments in Korean securities by non-residents and issuances of securities outside Korea by Korean companies. Non-residents may invest in Korean securities pursuant to the Foreign Exchange Transaction Laws. The Financial Services Commission has also adopted, pursuant to its authority under the Korean Securities and Exchange Act, regulations that restrict investments by foreigners in Korean securities and regulate issuances of securities outside Korea by Korean companies.

Subject to certain limitations, the Ministry of Strategy and Finance has the authority to take the following actions under the Foreign Exchange Transaction Laws:

if the government deems it necessary on account of war, armed conflict, natural disaster or grave and sudden and significant changes in domestic or foreign economic circumstances or similar events or circumstances, the Ministry of Strategy and Finance may temporarily suspend performance under any or all foreign exchange transactions, in whole or in part, to which the Foreign Exchange Transaction Laws apply (including suspension of payment and receipt of foreign exchange) or impose an obligation to deposit, safe-keep or sell any means of payment to The Bank of Korea or certain other governmental agencies, foreign exchange equalization funds or financial institutions; and

if the government concludes that the international balance of payments and international financial markets are experiencing or are likely to experience significant disruption or that the movement of capital between Korea and other countries is likely to adversely affect the Korean Won, exchange rates or other macroeconomic policies, the Ministry of Strategy and Finance may take action to require any person who intends to effect a capital transaction to obtain permission or to require any person who effects a capital transaction to deposit a portion of the means of payment acquired in such transactions with The Bank of Korea, foreign exchange equalization funds or financial institutions.

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### **Government Review of Issuance of ADSs**

In order for us to issue ADSs outside Korea, we are required to submit a report to the Ministry of Strategy and Finance or our designated foreign exchange bank (depending on the aggregate issue amount) with respect to the issuance of the ADSs. No further governmental approval is necessary for the offering and issuance of the ADSs.

Under current Korean laws and regulations and the terms of the deposit agreement, the depository is required to obtain our consent for the number of shares of common stock to be deposited in any given proposed deposit that exceeds the difference between:

- (1) the aggregate number of shares of our common stock deposited by us for the issuance of our ADSs (including deposits in connection with the initial issuance and all subsequent offerings of our ADSs and stock dividends or other distributions related to these ADSs); and
- (2) the number of shares of our common stock on deposit with the depository at the time of such proposed deposit.

We can give no assurance that we would, subject to governmental authorization, grant our consent, if our consent is required. Therefore, a holder of ADRs who surrenders ADRs and withdraws shares may not be permitted subsequently to deposit those shares and obtain ADRs.

### **Reporting Requirements for Holders of Substantial Interests**

Under the Financial Investment Services and Capital Markets Act, any person whose direct or beneficial ownership of our common stock with voting rights, whether in the form of shares of common stock or ADSs, certificates representing the rights to subscribe for shares and equity-related debt securities including convertible bonds, bonds with warrants and exchangeable bonds, which we refer to collectively as equity securities, together with the equity securities directly or beneficially owned by certain related persons or by any person acting in concert with the person, accounts for 5% or more of our total outstanding equity securities, is required to report the status and purpose (in terms of whether the purpose of the shareholding is to participate in the management of the issuer) of the holdings to the Financial Services Commission and the Korea Exchange within five business days after reaching the 5% ownership interest. In addition, any change (i) in the ownership interest subsequent to the report that equals or exceeds 1% of the total outstanding equity securities from the previous report or (ii) in the shareholding purpose, is required to be reported to the Financial Services Commission and the Korea Exchange within five business days from the date of the change (or, in the case of a person with no intent to seek management control or an institutional investor prescribed by the Financial Services Commission, within ten days of the end of the month in which the change occurred).

Violation of these reporting requirements may subject a person to criminal sanctions such as fines or imprisonment and/or prohibition on the exercise of voting rights with respect to the ownership of equity securities exceeding the reported number of shares. Furthermore, the Financial Services Commission may order the disposal of the unreported equity securities.

When a person's shareholding ratio reaches or exceeds ten percent or more of the company's issued and outstanding shares with voting rights, the person must file a report to the Securities and Futures Commission and to the Korea Exchange within five business days following the date on which the person reached such shareholding limit. In addition, such person must file a report to the Securities and Futures Commission and to the Korea Exchange regarding any subsequent change in his/her shareholding. These subsequent reports on changes in shareholding are required within five business days after the relevant change has occurred. Violation of these reporting requirements may subject a person to criminal sanctions such as fines or imprisonment.

### **Restrictions Applicable to ADSs**

No Korean governmental approval is necessary for the sale and purchase of our ADSs in the secondary market outside Korea or for the withdrawal of shares of our common stock underlying the ADSs and the delivery inside Korea of shares in connection with the withdrawal, provided, that a foreigner who intends to acquire the shares must obtain an investment registration card from the Financial Supervisory Service as described below. The acquisition of the shares by a foreigner must be immediately reported to the governor of the Financial Services Commission, either by the foreigner or by his standing proxy in Korea.





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Persons who have acquired shares of our common stock as a result of the withdrawal of shares underlying our ADSs may exercise their preemptive rights for new shares, participate in free distributions and receive dividends on shares without any further Korean governmental approval.

### **Restrictions Applicable to Shares**

As a result of amendments to the Foreign Exchange Transaction Laws and Financial Services Commission regulations, adopted in connection with the stock market opening from January 1992, which we refer to collectively as the Investment Rules, after that date, foreigners may invest, with limited exceptions and subject to procedural requirements, in shares of all Korean companies listed on the KRX KOSPI Market or the KRX KOSDAQ Market unless prohibited by specific laws. Foreign investors may trade shares listed on the KRX KOSPI Market or the KRX KOSDAQ Market only through the KRX KOSPI Market or the KRX KOSDAQ Market, except in limited circumstances, including:

odd-lot trading of shares;

acquisition of shares, which we refer to as converted shares, by exercise of warrants, conversion rights or exchange rights under bonds with warrants, convertible bonds or exchangeable bonds or withdrawal rights under depositary receipts issued outside of Korea by a Korean company;

acquisition of shares as a result of inheritance, donation, bequest or exercise of shareholders' rights, including preemptive rights or rights to participate in free distributions and receive dividends;

over-the-counter transactions between foreigners of a class of shares for which the ceiling on aggregate acquisition by foreigners, as explained below, has been reached or exceeded;

shares acquired by way of direct investment and/or the disposal of such shares by the investor;

the disposal of shares pursuant to the exercise of appraisal rights of dissenting shareholders;

the disposal of shares in connection with a tender offer;

the acquisition of shares by a foreign depositary in connection with the issuance of depositary receipts;

the acquisition and disposal of shares through an overseas stock exchange market if such shares are simultaneously listed on the KRX KOSPI Market or the KRX KOSDAQ Market and such overseas stock exchange; and

arm's-length transactions between foreigners, if all of such foreigners belong to the investment group managed by the same person. For over-the-counter transactions of shares between foreigners outside the KRX KOSPI Market or the KRX KOSDAQ Market for shares with respect to which the limit on aggregate foreign ownership has been reached or exceeded, a financial investment company with a brokerage license in Korea must act as an intermediary. Odd-lot trading of shares outside the KRX KOSPI Market or the KRX KOSDAQ Market must involve a financial investment company with a dealing license in Korea as the other party. Foreign investors are prohibited from engaging in margin transactions by borrowing shares from financial investment companies with respect to shares that are subject to a foreign ownership limit.

The Investment Rules require a foreign investor who wishes to invest in shares on the KRX KOSPI Market or the KRX KOSDAQ Market (including converted shares and shares being issued for initial listing on the KRX KOSPI Market or the KRX KOSDAQ Market) to register its identity with the Financial Supervisory Service prior to making any such investment unless it has previously registered. However, the registration requirement does not apply to foreign investors who acquire converted shares (including upon conversion of ADSs into shares and upon exercise of conversion rights of convertible bonds) with the intention of selling such converted shares within three months from the date of acquisition of the converted shares. Upon registration, the Financial Supervisory Service will issue to the foreign investor an investment registration card, which must be presented each time the foreign investor opens a brokerage account with a financial investment company with a brokerage license. Foreigners eligible to obtain an investment registration card include foreign nationals who have not been residing in Korea for a consecutive period of six months or more, foreign governments, foreign municipal authorities, foreign public institutions, international financial institutions or similar international organizations, corporations incorporated under foreign laws and any person in any additional category designated by a decree promulgated under the Financial Investment Services and Capital Markets Act. All Korean branch offices of a foreign corporation as a group are treated as a separate foreigner from the offices of the corporation located outside of Korea for the purpose of investment registration. However, a foreign corporation or depository issuing depository receipts may obtain one or more investment registration cards in its name in certain circumstances as described in the relevant regulations.

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Upon a foreign investor's purchase of shares through the KRX KOSPI Market or the KRX KOSDAQ Market, no separate report by the investor is required because the investment registration card system is designed to control and oversee foreign investment through a computer system. However, a foreign investor's acquisition or sale of shares outside the KRX KOSPI Market or the KRX KOSDAQ Market (as discussed above) must be reported by the foreign investor or his standing proxy to the governor of the Financial Supervisory Service at the time of each such acquisition or sale; provided, however, that a foreign investor must ensure that any acquisition or sale by it of shares outside the KRX KOSPI Market or the KRX KOSDAQ Market in the case of trades in connection with a tender offer, odd-lot trading of shares or trades of a class of shares for which the aggregate foreign ownership limit has been reached or exceeded, is reported to the governor of the Financial Supervisory Service by the financial investment company engaged to facilitate such transaction. A foreign investor may appoint a standing proxy from among the Korea Securities Depository, foreign exchange banks (including domestic branches of foreign banks), financial investment companies with a dealing, brokerage or collective investment license and internationally recognized custodians which will act as a standing proxy to exercise shareholders' rights or perform any matters related to the foregoing activities if the foreign investor does not perform these activities itself. Generally, a foreign investor may not permit any person, other than its standing proxy, to exercise rights relating to its shares or perform any tasks related thereto on its behalf. However, a foreign investor may be exempted from complying with these standing proxy rules with the approval of the governor of the Financial Supervisory Service in cases deemed inevitable by reason of conflict between the laws of Korea and the home country of the foreign investor.

Certificates evidencing shares of Korean companies must be kept in custody with an eligible custodian in Korea. Only the Korea Securities Depository, foreign exchange banks (including domestic branches of foreign banks), financial investment companies with a dealing, brokerage or collective investment license and internationally recognized custodians are eligible to act as a custodian of shares for a non-resident or foreign investor; provided, however, that a foreign investor may have the certificate evidencing shares released from such custody when it is necessary to exercise its rights to such shares or to inspect and confirm the presence of the certificate(s) of such shares. A foreign investor must ensure that its custodian deposits its shares with the Korea Securities Depository. However, a foreign investor may be exempted from complying with this deposit requirement with the approval of the governor of the Financial Supervisory Service in circumstances where compliance with that requirement is made impracticable, including cases where compliance would contravene the laws of the home country of such foreign investor.

Under the Investment Rules, with certain exceptions, foreign investors may acquire shares of a Korean company without being subject to any foreign investment ceiling. As one such exception, designated public corporations are subject to a 40% ceiling on the acquisition of shares by foreigners in the aggregate. Designated public corporations may set a ceiling on the acquisition of shares by a single person in their articles of incorporation. Currently, Korea Electric Power Corporation is the only designated public corporation which has no ceiling specifically set for foreign shareholders but has set a ceiling on the acquisition of shares by a single person regardless of its nationality within 3% of the total number of shares by its articles of incorporation. Furthermore, an investment by a foreign investor in 10% or more of the outstanding shares with voting rights of a Korean company is defined as a foreign direct investment under the Foreign Investment Promotion Act of Korea. Generally, a foreign direct investment must be reported to the foreign exchange bank or Korea Trade-Investment Promotion Agency designated by the Ministry of Trade, Industry & Energy prior to such investment (within 30 days from the date of such investment, if the company is listed on the Korea Exchange). The acquisition of shares of a Korean company by a foreign investor may also be subject to certain foreign or other shareholding restrictions in the event that the restrictions are prescribed in a specific law that regulates the business of the Korean company.

Under the Foreign Exchange Transaction Laws, a foreign investor who intends to acquire shares must designate a foreign exchange bank at which he must open a foreign currency account and a Korean Won account exclusively for stock investments. No approval is required for remittance into Korea and deposit of foreign currency funds in the foreign currency account. Foreign currency funds may be transferred from the foreign currency account at the time required to place a deposit for, or settle the purchase price of, a stock purchase transaction to a Korean Won account opened at a financial investment company with a securities dealing or brokerage license. Funds in the foreign currency account may be remitted abroad without any Korean governmental approval.

Dividends on shares of Korean companies are paid in Korean Won. No Korean governmental approval is required for foreign investors to receive dividends on, or the Korean Won proceeds of the sale of, any shares to be paid, received and retained in Korea. Dividends paid on, and the Korean Won proceeds of the sale of, any shares held by a non-resident of Korea must be deposited either in a Korean Won account with the investor's financial investment company or in his Korean Won account. Funds in the investor's Korean Won account may be transferred to his foreign currency account or withdrawn for local living expenses, provided that any withdrawal of local living expenses in excess of a certain amount is reported to the Financial Supervisory Service by the foreign exchange bank at which the Won account is maintained. Funds in the Korean Won account may also be used for future investment in shares or for payment of the subscription price of new shares obtained through the exercise of preemptive rights.

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Financial investment companies with a securities dealing, brokerage or collective investment license are allowed to open foreign currency accounts with foreign exchange banks exclusively for accommodating foreign investors' stock investments in Korea. Through these accounts, such financial investment companies may enter into foreign exchange transactions on a limited basis, such as conversion of foreign currency funds and Korean Won funds, either as a counterparty to or on behalf of foreign investors, without the investors having to open their own accounts with foreign exchange banks.

### **Item 10.E. Taxation**

The following summary is based upon the tax laws of the United States and the Republic of Korea as in effect on the date of this annual report, and is subject to any change in U.S. or Korean law that may come into effect after such date. Investors in the shares of common stock or ADSs are advised to consult their own tax advisers as to the United States, Korean or other tax consequences of the purchase, ownership and disposition of such securities, including the effect of any national, state or local tax laws.

#### **Korean Taxation**

The following summary of Korean tax considerations applies to you so long as you are not:

a resident of Korea;

a corporation having its head office, principal place of business or place of effective management in Korea (i.e., a Korean corporation); or

engaged in a trade or business in Korea through a permanent establishment or a fixed base to which the relevant income is attributable or with which the relevant income is effectively connected.

#### ***Taxation of Dividends on Shares of Common Stock or ADSs***

We will deduct Korean withholding tax from dividends (whether in cash or in shares) paid to you at a rate of 22% (including local income surtax). If you are a qualified resident in a country that has entered into a tax treaty with Korea, you may qualify for a reduced rate of Korean withholding tax. See *Tax Treaties* below for a discussion of treaty benefits. If we distribute to you free shares representing a transfer of certain capital reserves or asset revaluation reserves into paid-in capital, that distribution may be subject to Korean withholding tax.

#### ***Taxation of Capital Gains from Transfer of Shares of Common Stock or ADSs***

As a general rule, capital gains earned by non-residents upon transfer of shares of our common stock or ADSs are subject to Korean withholding tax at the lower of (1) 11% (including local income surtax) of the gross proceeds realized or (2) subject to the production of satisfactory evidence of acquisition costs and certain direct transaction costs of the shares or ADSs, 22% (including local income surtax) of the net realized gain, unless exempt from Korean income taxation under the applicable Korean tax treaty with the non-resident's country of tax residence. See *Tax Treaties* below for a discussion on treaty benefits. Even if you do not qualify for an exemption under a tax treaty, you will not be subject to the foregoing withholding tax on capital gains if you qualify under the relevant Korean domestic tax law exemptions discussed in the following paragraphs.

With respect to shares of our common stock, you will not be subject to Korean income taxation on capital gains realized upon the transfer of such shares through the Korea Exchange if you (1) have no permanent establishment in Korea and (2) did not own or have not owned (together with any shares owned by any entity with which you have a certain special relationship and possibly including the shares represented by the ADSs) 25% or more of our total issued and outstanding shares at any time during the calendar year in which the sale occurs and during the five calendar years prior to the calendar year in which the sale occurs.

Under the tax law amendments effective for capital gains recognized or to be recognized from disposition of ADSs on or after January 1, 2008, ADSs are viewed as shares of stock for capital gains tax purposes. Accordingly, capital gains from sale or disposition of ADSs are taxed (if taxable) as if such gains are from sale or disposition of shares of our common stock. It should be noted that (i) capital gains earned by you

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(regardless of whether you have a permanent establishment in Korea) from a transfer of ADSs outside Korea will generally be exempt from Korean income taxation by virtue of the Special Tax Treatment Control Law of Korea, or the STTCL, provided that the issuance of ADSs is deemed to be an overseas issuance under the STTCL, but (ii) in the case where an owner of the underlying shares of stock transfers ADSs after conversion of the underlying shares into ADSs, the exemption under the STTCL described in (i) will not apply. In the case where an owner of the underlying shares of stock transfers the ADSs after conversion of the underlying shares of stock into ADSs, such person is obligated to file corporate income tax returns and pay tax unless a purchaser or a financial investment company with a brokerage license, as applicable, withholds and pays the tax on capital gains derived from transfer of ADSs, as discussed below.

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If you are subject to tax on capital gains with respect to the sale of ADSs, or of shares of common stock which you acquired as a result of a withdrawal, the purchaser or, in the case of the sale of shares of common stock on the Korea Exchange or through a financial investment company with a brokerage license in Korea, the financial investment company, is required to withhold Korean tax from the sales price in an amount equal to 11% (including local income surtax) of the gross realization proceeds and to make payment of these amounts to the Korean tax authority, unless you establish your entitlement to an exemption under an applicable tax treaty or domestic tax law or produce satisfactory evidence of your acquisition cost and certain direct transaction costs for the shares of common stock or the ADSs. To obtain the benefit of an exemption from tax pursuant to a tax treaty, you must submit to the purchaser or the financial investment company, or through the ADR depositary, as the case may be, prior to or at the time of payment, such evidence of your tax residence as the Korean tax authorities may require in support of your claim for treaty benefits. See the discussion under **Tax Treaties** below for an additional explanation of claiming treaty benefits.

***Tax Treaties***

Korea has entered into a number of income tax treaties with other countries, including the United States, which reduce or exempt Korean withholding tax on dividend income and capital gains on transfer of shares of common stock or ADSs. For example, under the Korea-U.S. income tax treaty, reduced rates of Korean withholding tax on dividends of 16.5% or 11.0%, respectively (including local income surtax), depending on your shareholding ratio, and an exemption from Korean withholding tax on capital gains are available to residents of the United States that are beneficial owners of the relevant dividend income or capital gains. However, under Article 17 (Investment of Holding Companies) of the Korea-U.S. income tax treaty, such reduced rates and exemption do not apply if (1) you are a U.S. corporation, (2) by reason of any special measures, the tax imposed on you by the United States with respect to such dividends or capital gains is substantially less than the tax generally imposed by the United States on corporate profits, and (3) 25% or more of your capital is held of record or is otherwise determined, after consultation between competent authorities of the United States and Korea, to be owned directly or indirectly by one or more persons who are not individual residents of the United States. Also, under Article 16 (Capital Gains) of the Korea-U.S. income tax treaty, the exemption on capital gains does not apply if you are an individual, and (a) you maintain a fixed base in Korea for a period or periods aggregating 183 days or more during the taxable year and your ADSs or shares of common stock giving rise to capital gains are effectively connected with such fixed base or (b) you are present in Korea for a period or periods of 183 days or more during the taxable year.

You should inquire for yourself whether you are entitled to the benefit of an income tax treaty with Korea. It is the responsibility of the party claiming the benefits of an income tax treaty in respect of dividend payments or capital gains to submit to us, the purchaser or the financial investment company, as applicable, a certificate as to his tax residence. In the absence of sufficient proof, we, the purchaser or the financial investment company, as applicable, must withhold tax at the normal rates. Furthermore, effective from July 1, 2002, in order for you to obtain the benefit of a tax exemption on certain Korean source income (e.g., dividends and capital gains) under an applicable tax treaty, Korean tax law requires you (or your agent) to submit the application for tax exemption along with a certificate of your tax residency issued by a competent authority of your country of tax residence, subject to certain exceptions. For example, a U.S. resident would be required to provide a Form 6166 as a certificate of tax residency along with the application for tax exemption. Such application should be submitted to the relevant district tax office by the ninth day of the month following the date of the first payment of such income. In addition, in order to obtain the benefit of the reduced Korean withholding tax rates on dividends, you (or your agent) must submit an application for entitlement to such reduced tax rates to us prior to the dividend payment date. If you are a beneficial owner of the relevant dividend income on shares of common stock or ADSs held by an overseas investment fund, subject to certain exceptions, in order for you to claim the benefits of the applicable tax treaty, the overseas investment fund must submit a report with certain general information about itself, its investments and beneficial owners to us prior to the dividend payment date.

***Inheritance Tax and Gift Tax***

If you die while holding an ADS or donate an ADS, it is unclear whether, for Korean inheritance and gift tax purposes, you will be treated as the owner of the shares of common stock underlying the ADSs. If the tax authority interprets depositary receipts as the underlying share certificates, you may be treated as the owner of the shares of common stock and your heir or the donee (or in certain circumstances, you as the donor) will be subject to Korean inheritance or gift tax presently at the rate of 10% to 50% based on the value of the ADSs or shares of common stock and the identity of the individual against whom the tax is assessed.

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If you die while holding a share of common stock or donate a share of common stock, your heir or donee (or in certain circumstances, you as the donor) will be subject to Korean inheritance or gift tax at the same rate as indicated above.

At present, Korea has not entered into any tax treaty relating to inheritance or gift taxes.

### ***Securities Transaction Tax***

If you transfer shares of common stock on the Korea Exchange, you will be subject to securities transaction tax at the rate of 0.15% and an agriculture and fishery special surtax at the rate of 0.15% of the sale price of the shares of common stock. If your transfer of the shares of common stock is not made on the Korea Exchange, subject to certain exceptions, you will be subject to a securities transaction tax at the rate of 0.5% and will not be subject to an agriculture and fishery special surtax.

Depository receipts, which the ADSs constitute, are included in the scope of securities the transfers of which are subject to securities transaction tax effective starting with transfers occurring on or after January 1, 2011. However, transfer of depository receipts listed on a foreign securities exchange similar to that of Korea (e.g., the New York Stock Exchange or the Nasdaq Stock Market) will not be subject to the securities transaction tax.

In principle, the securities transaction tax, if applicable, must be paid by the transferor of the shares or certain rights including rights to subscribe to each shares. When the transfer is effected through a securities settlement company, such settlement company is generally required to withhold and pay the tax to the tax authorities. When such transfer is made through a financial investment company only, such financial investment company is required to withhold and pay the tax. Where the transfer is effected by a non-resident without a permanent establishment in Korea, other than through a securities settlement company or a financial investment company, the transferee is required to withhold the securities transaction tax.

Non-reporting or under-reporting of securities transaction tax will generally result in penalties equal to 20% to 40% of the non-reported tax amount or 10% to 40% of the under-reported tax amount, respectively. Also, a failure to timely pay securities transaction tax will result in a penalty equal to 10.95% per annum of the due but unpaid tax amount. The penalties are imposed on the party responsible for paying the securities transaction tax or, if such tax is required to be withheld, on the party that has the obligation to withhold.

### **United States Taxation**

This summary describes certain material U.S. federal income tax consequences for a U.S. holder (as defined below) of acquiring, owning, and disposing of ADSs. This summary applies to you only if you hold the ADSs as capital assets for tax purposes. This summary does not apply to you if you are a member of a class of holders subject to special rules, such as:

a dealer in securities or currencies;

a trader in securities that elects to use a mark-to-market method of accounting for securities holdings;

a bank;

a life insurance company;

a tax-exempt organization;

a person that holds ADSs that are a hedge or that are hedged against interest rate or currency risks;

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a person that holds ADSs as part of a straddle or conversion transaction for tax purposes;

a person whose functional currency for tax purposes is not the U.S. dollar; or

a person that owns or is deemed to own 10% or more of any class of our stock.

This summary is based on the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations promulgated thereunder, published rulings and court decisions, all as currently in effect. These laws are subject to change, possibly on a retroactive basis.

Please consult your own tax advisers concerning the consequences of purchasing, owning, and disposing of ADSs in your particular circumstances, including the possible application of state, local, non-U.S. or other tax laws.

For purposes of this summary, you are a U.S. holder if you are a beneficial owner of an ADS and you are:

a citizen or resident of the United States;



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a U.S. domestic corporation; or

otherwise subject to U.S. federal income tax on a net income basis with respect to income from the ADS.

In general, if you are the beneficial owner of ADSs, you will be treated as the beneficial owner of the common stock represented by those ADSs for U.S. federal income tax purposes, and no gain or loss will be recognized if you exchange an ADS for the common stock represented by that ADS.

### ***Dividends***

The gross amount of cash dividends that you receive (prior to deduction of Korean taxes) generally will be subject to U.S. federal income taxation as foreign source dividend income. Dividends paid in Korean Won will be included in your income in a U.S. dollar amount calculated by reference to the exchange rate in effect on the date of the depositary's receipt of the dividend, regardless of whether the payment is in fact converted into U.S. dollars. If such a dividend is converted into U.S. dollars on the date of receipt, you generally should not be required to recognize foreign currency gain or loss in respect of the dividend income. Subject to certain exceptions for short-term (60 days or less) and hedged positions, the U.S. dollar amount of qualified dividends received by an individual U.S. holder in respect of ADSs generally will be subject to taxation at a lower rate than other ordinary income. Dividends paid on the ADSs will be treated as qualified dividends if (i) the ADSs are readily tradable on an established securities market in the United States and (ii) we were not, in the year prior to the year in which the dividend was paid, and are not, in the year in which the dividend is paid, a passive foreign investment company, or PFIC. The ADSs are listed on the New York Stock Exchange and will qualify as readily tradable on an established securities market in the United States so long as they are so listed. Based on our audited financial statements and relevant market and shareholder data, we believe that we were not treated as a PFIC for U.S. federal income tax purposes with respect to our 2012 taxable year. In addition, based on our audited financial statements and our current expectations regarding the value and nature of our assets, the sources and nature of our income, and relevant market and shareholder data, we do not anticipate becoming a PFIC for our 2013 taxable year.

Distributions of additional shares in respect of ADSs that are made as part of a pro-rata distribution to all of our shareholders generally will not be subject to U.S. federal income tax.

### ***Sale or Other Disposition***

For U.S. federal income tax purposes, gain or loss you realize on the sale or other disposition of ADSs will be treated as U.S. source capital gain or loss, and will be long-term capital gain or loss if the ADSs were held for more than one year. Your ability to offset capital losses against ordinary income is limited. Long-term capital gain recognized by an individual U.S. holder generally is subject to taxation at a reduced rate.

### ***Foreign Tax Credit Considerations***

You should consult your own tax advisers to determine whether you are subject to any special rules that limit your ability to make effective use of foreign tax credits, including the possible adverse impact of failing to take advantage of benefits under the income tax treaty between the United States and Korea. If no such rules apply, you may claim a credit against your U.S. federal income tax liability for Korean taxes withheld from cash dividends on the ADSs, so long as you have owned the ADSs (and not entered into specified kinds of hedging transactions) for at least a 16-day period that includes the ex-dividend date. Instead of claiming credit, you may, at your election, deduct such Korean taxes in computing your taxable income, subject to generally applicable limitations under U.S. tax law. Foreign tax credits will not be allowed for withholding taxes imposed in respect of certain hedged positions in securities and may not be allowed in respect of arrangements in which a U.S. holder's expected economic profit is insubstantial.

Any Korean securities transaction tax or agriculture and fishery special surtax that you pay will not be creditable for foreign tax credit purposes.

The calculation of foreign tax credits and, in the case of a U.S. holder that elects to deduct foreign taxes, the availability of deductions involve the application of complex rules that depend on a U.S. holder's particular circumstances. You should consult your own tax advisers regarding the creditability or deductibility of such taxes.

### ***U.S. Information Reporting and Backup Withholding Rules***

Payments of dividends and sales proceeds that are made within the United States or through certain U.S. related financial intermediaries are subject to information reporting and may be subject to backup withholding unless the holder (i) is a corporation or other exempt recipient or (ii) provides a taxpayer identification number and certifies that no loss of exemption from backup withholding has occurred.



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### **Item 10.F. *Dividends and Paying Agents***

Not applicable.

### **Item 10.G. *Statements by Experts***

Not applicable.

### **Item 10.H. *Documents on Display***

We are subject to the information requirements of the Exchange Act and, in accordance therewith, are required to file reports, including annual reports on Form 20-F, and other information with the SEC. These materials, including this annual report and the exhibits thereto, may be inspected and copied at the SEC's public reference rooms in Washington, D.C., New York, New York and Chicago, Illinois. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms. As a foreign private issuer, we are also required to make filings with the SEC by electronic means. Any filings we make electronically will be available to the public over the Internet at the SEC's web site at <http://www.sec.gov>.

### **Item 10.I. *Subsidiary Information***

Not applicable.

## **Item 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

### **Overview**

Market risk is the risk of loss related to adverse changes in market prices, including interest rates and foreign exchange rates, of financial instruments. We are exposed to various financial market risks in our ordinary course of business transactions, primarily from changes in interest rates and foreign exchange rates, and we utilize financial derivatives to mitigate these risks. We also used various derivative instruments, principally forward contracts with maturities of one year or less, to manage our exposure associated with net asset and liability positions and cash flows denominated in foreign currencies. We have used, and intend to continue to use, these financial derivatives only for hedging purposes and not for speculative purposes.

Our primary market risk exposures relate to interest rate movements on floating rate borrowings and exchange rate movements on foreign currency denominated accounts receivable, as well as foreign currency denominated future cash flows from sales, mostly denominated in U.S. dollars and foreign currency denominated accounts payable for purchases of raw materials and supplies, primarily denominated in U.S. dollars and Japanese Yen. The fair value of our financial instruments has been determined as the price, as of the applicable measurement date, that we would receive when selling an asset or that we would pay when transferring a liability, in an orderly transaction between market participants. Fair value is based on quoted market prices where available.

For a further discussion of our market risk and fair value of our financial assets and liabilities, see Note 13 to the notes to our financial statements.

### ***Interest Rate Risks***

Our exposure to interest rate risks relates primarily to our long-term debt obligations, which are typically incurred to fund capital expenditures and repay maturing debt, as well as for working capital and other general corporate purposes. As of December 31, 2012, we had outstanding long-term debt, including current portion, in the amount of 4,420 billion (US\$4,157 million).

From time to time, we may enter into interest rate swap contracts to hedge against the effects of interest rate fluctuations of certain of our floating rate long-term debt. As of December 31, 2012, we had no interest rate swap contracts outstanding.

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We may be exposed to interest rate risks on additional debt financing that we may periodically undertake to fund capital expenditures required for our capacity expansion. Upward fluctuations in interest rates increase the cost of new debt. The interest rate that we will be able to obtain in a new debt financing will depend on market conditions at that time and may differ from the rates we have secured on our current debt.

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As of December 31, 2012, we had US\$1,220 million aggregate principal amount of U.S. dollar denominated long-term loans and bonds, 5 million aggregate principal amount of Euro denominated long-term loan and RMB2 million aggregate principal amount of RMB denominated long-term loan. The interest rates on these loans and bonds are set based on three-month U.S. dollar LIBOR plus 1.70% to 2.25%, six-month U.S. dollar LIBOR plus 0.69% to 1.78%, three-month Euribor plus 0.6% and 90% of the rates published by the People's Bank of China, as applicable. The table below provides information about our financial instruments that are sensitive to changes in interest rates. The risk associated with fluctuating interest expense is principally limited to our U.S. dollar denominated, Euro denominated and RMB denominated term loans, and we do not believe that a near-term 10% change in the effective interest rate would have a significant impact on our cash flows. We currently do not have any capital lease obligations.

							Fair Value at
	2013	2014	Expected Maturity Dates				December 31,
			2015	2016	2017	Thereafter	2012
	(in billions of Won, except for interest rate percentages)						
Long-term debt obligations							
Fixed rate ( )	200.0	639.3	857.5	1,106.6	238.6	2.0	3,044.0
Average interest rate	4.9%	4.8%	4.5%	4.7%	4.3%	2.8%	3,049.6
Variable Rate ( )	54.6	4.0	2.2	0.8	0.4	0.1	62.1
Average interest rate	4.1%	1.8%	1.8%	1.8%	1.8%	1.8%	62.1
Variable rate (RMB)	0.3						0.3
Average interest rate	5.5%						0.3
Variable rate (EUR)	7.7						7.7
Average interest rate	0.8%						7.7
Variable rate (US\$)	716.9	460.6	128.5				1,306.0
Average interest rate	2.1%	2.3%	2.1%				1,307.0

For a further discussion of our interest rate risk exposures, including a further sensitivity analysis on our interest rate risk exposures, see Note 13(d) of the notes to our financial statements.

**Foreign Currency Risk**

The primary foreign currency to which we are exposed is the U.S. dollar. We are also exposed, to a lesser extent, to other foreign currencies, including the Chinese Renminbi, the Japanese Yen and the Euro. As of December 31, 2012, we had U.S. dollar denominated sales-related trade accounts and notes receivable of US\$2,656 million, which represented 84.7% of our trade accounts and notes receivable, net. As of December 31, 2012, we also had RMB denominated sales-related trade accounts and notes receivable of RMB1,223 million, Euro denominated sales-related trade accounts and notes receivable of 95 million and Japanese Yen denominated sales-related trade accounts and notes receivable of ¥433 million, which represented 6.3%, 4.0% and 0.2% of our trade accounts and notes receivable, net, respectively.

In addition to relying on natural hedges created by foreign currency payables and receivables, we enter into short-term foreign currency forward contracts with major financial institutions to minimize the impact of foreign currency fluctuations on our results of operations. Gains and losses on foreign currency forward contracts are recorded in the period of the exchange rate changes as foreign exchange gain or loss or other comprehensive income. As of December 31, 2012, we did not have any outstanding foreign currency forward contracts.

Based on our overall foreign currency exposure as of December 31, 2012, a short-term 10% appreciation or depreciation of the U.S. dollar against the Korean Won may have a material effect on our short-term financial condition, results of operations or cash flows.

For a further discussion of our foreign currency risk exposures, including a sensitivity analysis on our currency risk exposures, see Note 13(c) of the notes to our financial statements.

**Other Risks**

We are exposed to credit risk in the event of non-performance by the counterparties under our foreign currency forward contracts at maturity. In order to minimize this risk, we limit the transaction amount with any one party and continually monitor the credit quality of the counterparties to these financial instruments. We do not anticipate any material losses from these contracts, and we believe the risk of non-performance by the counterparties under these contracts is remote.



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A substantial portion of our sales is attributable to a limited number of our end-brand customers. Our top ten end-brand customers, including our largest shareholder as an end-brand customer, together accounted for 75.8% of our sales in 2010, 70.9% in 2011 and 71.3% in 2012. While we negotiate directly with our end-brand customers concerning the price and quantity of the sales, for some sales transactions we invoice the end-brand customers designated system integrators. In addition, a portion of our sales to end-brand customers and their system integrators located in certain regions are sold through LG International's overseas subsidiaries. Although our sales to LG International and its subsidiaries only accounted for 5.0% of our sales in 2012, in the past we have sold a significantly greater amount to these entities. As a result of our significant dependence on a concentrated group of end-brand customers and their designated system integrators, as well as a significant amount of sales we may make to our affiliated trading company, LG International, and its subsidiaries, we are exposed to credit risks associated with these entities. We have established certain measures, such as factoring arrangements and requirement of credit insurance from customers, to protect us from excessive exposure to such credit risks.

Our credit policy typically requires payment within 30 to 90 days, and payments on the vast majority of our sales have typically been collected within 65 days. We manage our accounts receivable and credit exposure to customers by establishing credit limits for each customer to whom we supply products on an open account basis in accordance with our internal credit guidelines. We assess credit risk through quantitative and qualitative analysis, and based on this analysis, we establish credit limits and determine whether we will seek to use one or more credit support devices, such as obtaining some form of third-party guaranty or stand-by letter of credit, obtaining credit insurance or through factoring of all or part of accounts receivables. Our credit policy does not require credit limits on accounts receivable created on letters of credit. To date we have not experienced any material problems relating to customer payments. For a further discussion of our credit risk exposures, see Note 13(a) to the notes to our financial statements.

According to the Korean Statistical Information Service, the rate of inflation in Korea was 3.0% in 2010, 4.0% in 2011 and 2.2% in 2012. Inflation has not had a material impact on our results of operations in recent years.

**Item 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES**  
**Fees and Charges**

Under the terms of the deposit agreement, as a holder of our ADSs, you are required to pay the following service fees to the depository:

Services	Fees
Issuance of ADSs	Up to \$0.05 per ADS issued
Cancellation of ADSs	Up to \$0.05 per ADS canceled
Distribution of cash dividends or ADSs pursuant to stock dividends	Up to \$0.02 per ADS held
Distribution of cash proceeds or free shares in the form of ADSs.	Up to \$0.02 per ADS held
Distribution of securities other than ADSs or rights to purchase additional ADSs	Up to \$0.05 per security distributed
Distribution of ADSs pursuant to exercise of rights to purchase additional ADSs	Up to \$0.02 per ADS held

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As a holder of our ADSs, you are also responsible for paying certain fees and expenses incurred by the depositary and certain taxes and governmental charges such as the following:

Fees for the transfer and registration of shares charged by the registrar and transfer agent for the shares in Korea (i.e., upon deposit and withdrawal of shares).

Expenses incurred for converting foreign currency into U.S. dollars.

Expenses for cable, telex and fax transmissions and for delivery of securities.

Taxes and duties upon the transfer of securities (i.e., when shares are deposited or withdrawn from deposit).

Fees and expenses incurred in connection with the delivery or servicing of shares on deposit.

Depository fees payable upon the issuance and cancellation of ADSs are typically paid to the depositary by the brokers (on behalf of their clients) receiving the newly issued ADSs from the depositary and by the brokers (on behalf of their clients) delivering the ADSs to the depositary for cancellation. The brokers in turn charge these fees to their clients. Depository fees payable in connection with distributions of cash or securities to ADS holders and the depositary services fee are charged by the depositary to the holders of record of ADSs as of the applicable ADS record date.

The depository fees payable for cash distributions are generally deducted from the cash being distributed. In the case of distributions other than cash (i.e., stock dividend, rights), the depositary charges the applicable fee to the ADS record date holders concurrent with the distribution. In the case of ADSs registered in the name of the investor (whether certificated or uncertificated in direct registration), the depositary sends invoices to the applicable record date ADS holders. In the case of ADSs held in brokerage and custodian accounts (via the Depository Trust Company, or DTC), the depositary generally collects its fees through the systems provided by DTC (whose nominee is the registered holder of the ADSs held in DTC) from the brokers and custodians holding ADSs in their DTC accounts. The brokers and custodians who hold their clients' ADSs in DTC accounts in turn charge their clients' accounts the amount of the fees paid to the depositary.

In the event of refusal to pay the depository fees, the depositary may, under the terms of the deposit agreement, refuse the requested service until payment is received or may set off the amount of the depository fees from any distribution to be made to such holder of ADSs.

Note that the fees and charges you may be required to pay may vary over time and may be changed by us and by the depositary. You will receive prior notice of such changes.

### **Fees and Payments from the Depositary to Us**

In 2012, we received the following payments, after deduction of applicable U.S. taxes, from the depositary:

Reimbursement of listing fees:	US\$ 76,000
Reimbursement of settlement infrastructure fees (including DTC fees):	US\$ 2,521
Reimbursement of proxy process expenses (printing, postage and distribution):	US\$ 24,303
Reimbursement of legal fees:	US\$ 56,811
Contributions toward our investor relations efforts (non-deal roadshows / investor conferences and investor relations agency fees, etc.):	US\$ 438,058

### **PART II**



**Item 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES**

Not applicable.

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### **Item 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS**

Not applicable.

### **Item 15. CONTROLS AND PROCEDURES**

#### **Disclosure Controls and Procedures**

Our management has evaluated, with the participation of our chief executive officer and chief financial officer, the effectiveness of our disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as of December 31, 2012. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon our evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were effective as of such date. Our disclosure controls and procedures are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms, and that it is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

#### **Management's Annual Report on Internal Control Over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) under the Exchange Act. Because of its inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that a misstatement of our financial statements would be prevented or detected. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2012. The effectiveness of our internal control over financial reporting as of December 31, 2012 has been audited by KPMG Samjong Accounting Corp., an independent registered public accounting firm, as stated in its attestation report which is included in Item 18 of this Form 20-F.

#### **Changes in Internal Control Over Financial Reporting**

There has been no change in our internal control over financial reporting during 2012 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

### **Item 16. [RESERVED]**

### **Item 16A. AUDIT COMMITTEE FINANCIAL EXPERT**

Our board of directors has determined that Tae Sik Ahn qualifies as an audit committee financial expert and is independent within the meaning of this Item 16A.

### **Item 16B. CODE OF ETHICS**

We have adopted a code of ethics, as defined in Item 16B of Form 20-F under the Exchange Act. Our Code of Ethics applies to our chief executive officer, chief financial officer and persons performing similar functions as well as to our non-executive directors and other officers and employees. Our Code of Ethics is available on our website at [www.lgdisplay.com](http://www.lgdisplay.com). If we amend the provisions of our Code of Ethics that apply to our chief executive officer and chief financial officer and persons performing similar functions, or if we grant any waiver of such provisions, we will disclose such amendment or waiver on our website at the same address.



**Table of Contents****Item 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The following table sets forth the fees billed to us by our independent auditors, KPMG Samjong Accounting Corp., the member firms of KPMG, and their respective affiliates, which we collectively refer to as KPMG, during the fiscal years ended December 31, 2011 and 2012:

	Year ended December 31,	
	2011	2012
	(in millions of Won)	
Audit fees	3,205	3,115
Audit-related fees		
Tax fees	232	134
All other fees		
<b>Total fees</b>	<b>3,437</b>	<b>3,249</b>

Audit fees in the above table are the fees billed by KPMG in connection with the audit of our annual financial statements and the review of our interim financial statements.

Audit-related fees in the above table are the aggregate fees billed by KPMG for agreed upon procedures related to various transactions involving us and our subsidiaries.

Tax fees in the above table are fees billed by KPMG for tax compliance services and other tax advice.

All other fees in the above table are the aggregate fees billed by KPMG for forensic related services.

**Audit Committee Pre-Approval Policies and Procedures**

Our audit committee has not established pre-approval policies and procedures for the engagement of our independent auditors for services. Our audit committee expressly approves on a case-by-case basis any engagement of our independent auditors for audit and non-audit services provided to our subsidiaries or to us.

The audit committee is permitted to approve certain fees for audit and non-audit services before the completion of the engagement that are recurring, in the ordinary course of business and otherwise comply with the *de minimis* exception to the applicable rules of the SEC. In 2012, no fees were approved pursuant to the *de minimis* exception

**Item 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES**

Not applicable.

**Item 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS**

Neither we nor any affiliated purchaser, as defined in Rule 10b-18(a)(3) of the Exchange Act, purchased any of our equity securities during the period covered by this annual report

**Item 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT**

Not applicable.



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### **Item 16G. CORPORATE GOVERNANCE**

The following is a summary of the significant differences between the New York Stock Exchange's corporate governance standards and those that we follow under Korean law.

#### **NYSE Corporate Governance Standards**

##### **Nomination/Corporate Governance Committee**

Listed companies must have a nomination/corporate governance committee composed entirely of independent directors.

##### **Compensation Committee**

Listed companies must have a compensation committee composed entirely of independent directors.

##### **Executive Session**

Listed companies must hold meetings solely attended by non-management directors to more effectively check and balance management directors.

##### **Audit Committee**

Listed companies must have an audit committee that satisfies the requirements of Rule 10A-3 under the Exchange Act.

##### **Audit Committee Additional Requirements**

Listed companies must have an audit committee that is composed of at least three directors.

##### **Shareholder Approval of Equity Compensation Plan**

Listed companies must allow its shareholders to exercise their voting rights with respect to any material revision to the company's equity compensation plan.

##### **Corporate Governance Guidelines**

Listed companies must adopt and disclose corporate governance guidelines.

#### **LG Display's Corporate Governance Practice**

We maintain an Outside Director Nomination Committee composed of two outside directors and one non-outside director.

Under Korean law, we are not required to establish a compensation committee. Accordingly, we do not currently have a compensation committee, and our board of directors is directly responsible for matters relating to salaries and incentive compensation for our directors and executive officers.

We do not normally hold executive sessions solely attended by non-management directors as that is not required under Korean law but we may elect to do so at the discretion of the directors.

We maintain an Audit Committee composed of three outside directors who meet the applicable independence criteria set forth under Rule 10A-3 of the Exchange Act.

Our Audit Committee has three directors, as described above.

We currently have two equity compensation plans: one providing for the grant of stock options to officers and key employees and an Employee Stock Ownership Plan, or ESOP.

Stock options to officers and key employees may be granted pursuant to a resolution of the shareholders in an amount not to exceed 15% of the total number of our issued and outstanding shares. However, the board of directors may grant stock options to non-director officers and employees up to 1% of the total number of our issued and outstanding shares, which grant must be approved by a resolution of the subsequent general meeting of shareholders, except for the stock options granted before March 30, 2006.

All material matters related to the granting of stock options are provided in our articles of incorporation, and any amendments to the articles of incorporation are subject to shareholders' approval. Matters related to the ESOP are not subject to shareholders' approval under Korean law.

We do not maintain formal corporate governance guidelines. Our board of directors is responsible for overseeing our policies,

practices and procedures in the area of corporate governance.

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**Code of Business Conduct and Ethics**

Listed companies must adopt and disclose a code of business conduct and ethics for directors, officers and employees, and promptly disclose any waivers of the code for directors or executive officers.

We have adopted the Code of Ethics for all directors, officers and employees. A copy of our Code of Ethics is available on our website at [www.lgdisplay.com](http://www.lgdisplay.com).

**Item 16H. MINE SAFETY DISCLOSURE**

Not applicable.



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**PART III**

**Item 17. FINANCIAL STATEMENTS**

Not applicable.

**Item 18. FINANCIAL STATEMENTS**

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### **Item 19. EXHIBITS**

<b>Number</b>	<b>Description</b>
1.1	Amended and Restated Articles of Incorporation (translation in English)
2.1*	Form of Common Stock Certificate (translation in English) (incorporated by reference to Exhibit 4.1 to the Registrant's Registration Statement (No. 333-116819) on Form F-1, filed on July 13, 2004)
2.2*	Deposit Agreement (including Form of American Depositary Receipt) (incorporated by reference to Exhibit (a) to the Registrant's Registration Statement (No. 333-147661) on Form F-6, filed on November 28, 2007)
2.3*	Letter from Citibank, N.A., as depositary, dated as of November 29, 2007, to the Registrant relating to the direct registration system for the American depositary receipts (incorporated by reference to Exhibit 2.3 to the Registrant's Annual Report (No. 001-32238) on Form 20-F, filed on April 16, 2008)
8.1**	List of subsidiaries of LG Display Co., Ltd.
12.1	Section 302 certification of the Chief Executive Officer
12.2	Section 302 certification of the Chief Financial Officer
13.1	Section 906 certification of the Chief Executive Officer
13.2	Section 906 certification of the Chief Financial Officer

\* Filed previously.

\*\* Incorporated by reference to Note 1 of the notes to the consolidated financial statements of LG Display Co., Ltd. included in this annual report.

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**SIGNATURES**

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

**LG DISPLAY CO., LTD.**

(Registrant)

/s/ Sang Beom Han

(Signature)

Name:

Sang Beom Han

Title:

Representative Director,

President and Chief Executive Officer

/s/ James Jeong

(Signature)

Name:

James (Hoyoung) Jeong

Title:

Director, Executive Vice

President and Chief Financial Officer

Date: April 26, 2013

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### **Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Shareholders

LG Display Co., Ltd.:

We have audited the accompanying consolidated statements of financial position of LG Display Co., Ltd and subsidiaries as of December 31, 2011 and 2012 and the related consolidated statements of comprehensive income (loss), changes in equity and cash flows for each of the years in the three-year period ended December 31, 2012. We also have audited LG Display Co., Ltd. s internal control over financial reporting as of December 31, 2012, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). LG Display Co., Ltd. s management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management s Annual Report on Internal Control over Financial Reporting . Our responsibility is to express an opinion on these consolidated financial statements and an opinion on LG Display Co., Ltd. s internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of LG Display Co., Ltd. and subsidiaries as of December 31, 2011 and 2012 and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2012, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board. Also in our opinion, LG Display Co., Ltd. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

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/s/ KPMG Samjong Accounting Corp.

Seoul, Korea

April 22, 2013

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**Table of Contents****LG DISPLAY CO., LTD. AND SUBSIDIARIES**

## Consolidated Statements of Financial Position

As of December 31, 2011 and 2012

(In millions of won)	Note	December 31, 2011	December 31, 2012
<b>Assets</b>			
Cash and cash equivalents	6, 13	1,517,977	2,338,661
Deposits in banks	6, 13	815,000	315,092
Trade accounts and notes receivable, net	7, 13, 20, 23	2,740,107	3,334,341
Other accounts receivable, net	7, 13	212,870	199,007
Other current financial assets	9, 13	3,297	3,828
Inventories	8	2,317,370	2,390,007
Prepaid income taxes		8,522	8,483
Other current assets	7	242,922	325,266
<b>Total current assets</b>		<b>7,858,065</b>	<b>8,914,685</b>
Investments in equity accounted investees	10	385,145	402,158
Other non-current financial assets	9, 13	84,548	86,432
Deferred tax assets	30	1,424,005	1,294,813
Property, plant and equipment, net	11, 24	14,696,849	13,107,511
Intangible assets, net	12, 24	535,114	497,602
Other non-current assets	7	179,205	152,310
<b>Total non-current assets</b>		<b>17,304,866</b>	<b>15,540,826</b>
<b>Total assets</b>		<b>25,162,931</b>	<b>24,455,511</b>
<b>Liabilities</b>			
Trade accounts and notes payable	13, 23	3,782,627	4,147,036
Current financial liabilities	13, 14	894,972	1,015,272
Other accounts payable	13	3,992,671	2,811,161
Accrued expenses		267,595	412,055
Income tax payable		58,259	56,521
Provisions	15	279,403	250,984
Advances received		616,351	485,468
Other current liabilities	19	19,556	27,661
<b>Total current liabilities</b>		<b>9,911,434</b>	<b>9,206,158</b>
Non-current financial liabilities	13, 14	3,722,364	3,440,585
Non-current provisions	15	5,400	6,515
Deferred tax liabilities	30	240	
Employee benefits	18	146,638	180,640
Long-term advances received	20	668,914	1,049,678
Other non-current liabilities	19	576,913	331,755
<b>Total non-current liabilities</b>		<b>5,120,469</b>	<b>5,009,173</b>
<b>Total liabilities</b>		<b>15,031,903</b>	<b>14,215,331</b>
<b>Equity</b>			
Share capital	22	1,789,079	1,789,079

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Share premium		2,251,113	2,251,113
Reserves	22	12,181	(69,370)
Retained earnings		6,063,359	6,238,989
<b>Total equity attributable to equity holders of the Company</b>		10,115,732	10,209,811
<b>Non-controlling interests</b>		15,296	30,369
<b>Total equity</b>		10,131,028	10,240,180
<b>Total liabilities and equity</b>		25,162,931	24,455,511

*See accompanying notes to the consolidated financial statements.*

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**Table of Contents****LG DISPLAY CO., LTD. AND SUBSIDIARIES**

## Consolidated Statements of Comprehensive Income (Loss)

For the years ended December 31, 2010, 2011 and 2012

(In millions of won, except earnings per share)				
	Note	2010	2011	2012
<b>Revenue</b>	23, 24, 25	25,511,535	24,291,289	29,429,668
<b>Cost of sales</b>	8, 23	(21,780,880)	(23,081,322)	(26,424,756)
<b>Gross profit</b>		3,730,655	1,209,967	3,004,912
Selling expenses	17	(846,376)	(728,419)	(813,742)
Administrative expenses	17	(427,858)	(429,511)	(493,694)
Research and development expenses		(767,861)	(816,054)	(785,111)
Other income	26	1,483,443	1,223,545	1,260,945
Other expenses	26	(1,877,142)	(1,400,491)	(1,614,040)
Finance income	28	240,988	207,266	293,172
Finance costs	28	(288,472)	(363,309)	(436,696)
Equity income on investments, net		18,192	16,047	42,779
<b>Profit (loss) before income tax</b>		1,265,569	(1,080,959)	458,525
Income tax expense (benefit)	29	106,335	(293,064)	222,180
<b>Profit (loss) for the year</b>		1,159,234	(787,895)	236,345
<b>Other comprehensive income (loss)</b>				
Net change in unrealized fair value of available-for-sale financial assets	28,29	12,063	2,700	4,764
Defined benefit plan actuarial gains (losses)	18,29	4,480	(23,732)	(75,899)
Cumulative translation differences	28,29	6,735	47,443	(86,320)
Gain (loss) on sales of own shares of associate accounted for using the equity method	29	810	(214)	(48)
Income tax benefit (expense) on other comprehensive income (loss) items	29	(5,107)	4,958	17,282
<b>Other comprehensive income (loss) for the year, net of income tax</b>		18,981	31,155	(140,221)
<b>Total comprehensive income (loss) for the year</b>		1,178,215	(756,740)	96,124
<b>Profit (loss) attributable to:</b>				
Owners of the Controlling Company		1,156,343	(771,223)	233,204
Non-controlling interests		2,891	(16,672)	3,141
<b>Profit (loss) for the year</b>		1,159,234	(787,895)	236,345
<b>Total comprehensive income (loss) attributable to:</b>				
Owners of the Controlling Company		1,175,216	(741,417)	94,079
Non-controlling interests		2,999	(15,323)	2,045
<b>Total comprehensive income (loss) for the year</b>		1,178,215	(756,740)	96,124
<b>Earnings (loss) per share</b>				
Basic earnings (loss) per share	31	3,232	(2,155)	652
Diluted earnings (loss) per share	31	3,152	(2,155)	652

*See accompanying notes to the consolidated financial statements.*

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**Table of Contents****LG DISPLAY CO., LTD. AND SUBSIDIARIES**

## Consolidated Statements of Changes in Equity

For the years ended December 31, 2010, 2011 and 2012

(In millions of won)	Attributable to owners of the Controlling Company							Non-controlling interest	Total equity
	Share capital	Share premium	Cumulative net gain on sales of own shares of associates	Translation reserve	Fair value reserve	Retained earnings			
<b>Balances at January 1, 2010</b>	1,789,079	2,251,113		(36,369)	(14,636)	6,050,562			10,039,749
<b>Total comprehensive income for the year</b>									
Profit for the year						1,156,343	2,891		1,159,234
<b>Other comprehensive income</b>									
Net change in fair value of available-for-sale financial assets, net of tax					9,076				9,076
Cumulative translation differences, net of tax				5,821			108		5,929
Defined benefit plan actuarial gain, net of tax						3,166			3,166
Gain on sales of own shares of associates accounted for using the equity method, net of tax			810						810
<b>Total other comprehensive income</b>			810	5,821	9,076	3,166	108		18,981
<b>Total comprehensive income for the year</b>			810	5,821	9,076	1,159,509	2,999		1,178,215
<b>Transaction with owners, recognized directly in equity</b>									
Dividends to equity holders						(178,908)			(178,908)
Changes in ownership interests in subsidiaries							21,911		21,911
<b>Balances at December 31, 2010</b>	1,789,079	2,251,113	810	(30,548)	(5,560)	7,031,163	24,910		11,060,967
<b>Balances at January 1, 2011</b>	1,789,079	2,251,113	810	(30,548)	(5,560)	7,031,163	24,910		11,060,967
<b>Total comprehensive income (loss) for the year</b>									
Loss for the year						(771,223)	(16,672)		(787,895)
<b>Other comprehensive income (loss)</b>									
Net change in fair value of available-for-sale financial assets, net of tax					1,704				1,704
Cumulative translation differences, net of tax				45,989			1,349		47,338
Defined benefit plan actuarial loss, net of tax						(17,673)			(17,673)
Loss on sales of own shares of associates accounted for using the equity method, net of tax			(214)						(214)

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Total other comprehensive income (loss)	(214)	45,989	1,704	(17,673)	1,349	31,155
Total comprehensive income (loss) for the year	(214)	45,989	1,704	(788,896)	(15,323)	(756,740)
<b>Transaction with owners, recognized directly in equity</b>						
Dividends to equity holders				(178,908)		(178,908)
Changes in ownership interests in subsidiaries					5,709	5,709
<b>Balances at December 31, 2011</b>	1,789,079	2,251,113	596	15,441	(3,856)	6,063,359
<b>Balances at January 1, 2012</b>	1,789,079	2,251,113	596	15,441	(3,856)	6,063,359
<b>Total comprehensive income (loss) for the year</b>						
Income for the year				233,204	3,141	236,345
<b>Other comprehensive income (loss)</b>						
Net change in fair value of available-for-sale financial assets, net of tax				3,790		3,790
Cumulative translation differences, net of tax			(85,293)		(1,096)	(86,389)
Defined benefit plan actuarial loss, net of tax				(57,574)		(57,574)
Loss on sales of own shares of associates accounted for using the equity method, net of tax	(48)					(48)
Total other comprehensive income (loss)	(48)	(85,293)	3,790	(57,574)	(1,096)	(140,221)
Total comprehensive income (loss) for the year	(48)	(85,293)	3,790	175,630	2,045	96,124
<b>Transaction with owners, recognized directly in equity</b>						
Incorporation of subsidiaries					13,028	13,028
<b>Balances at December 31, 2012</b>	1,789,079	2,251,113	548	(69,852)	(66)	6,238,989

See accompanying notes to the consolidated financial statements.

**Table of Contents****LG DISPLAY CO., LTD. AND SUBSIDIARIES**

## Consolidated Statements of Cash Flows

For the years ended December 31, 2010, 2011 and 2012

(In millions of won)	Note	2010	2011	2012
<b>Cash flows from operating activities:</b>				
Profit (loss) for the year		1,159,234	(787,895)	236,345
<b>Adjustments for:</b>				
Income tax expense (benefit)	29	106,335	(293,064)	222,180
Depreciation	11, 16	2,756,532	3,413,450	4,196,487
Amortization of intangible assets	12, 16	168,846	237,996	272,925
Gain on foreign currency translation		(119,880)	(85,804)	(234,912)
Loss on foreign currency translation		85,263	132,295	73,391
Retirement allowance	18, 27	102,471	113,970	138,879
Gain on disposal of property, plant and equipment		(1,387)	(740)	(5,925)
Loss on disposal of property, plant and equipment		415	862	3,728
Impairment loss on property, plant and equipment			3,589	
Loss on disposal of intangible assets			1,588	704
Impairment loss on intangible assets			5,574	40,012
Finance income		(165,465)	(59,542)	(133,711)
Finance costs		167,843	238,737	209,104
Equity in income of equity method accounted investees, net	10	(18,192)	(16,047)	(42,779)
Other income		(23,913)	(19,591)	(8,235)
Other expenses		606,522	210,008	560,458
		4,824,624	3,095,386	5,528,651
Change in trade accounts and notes receivable		(81,196)	296,691	(1,456,943)
Change in other accounts receivable		(13,442)	(90,398)	15,515
Change in other current assets		(50,310)	11,010	(46,216)
Change in inventories		(510,332)	(102,153)	(72,637)
Change in other non-current accounts receivable		267		
Change in other non-current assets		(54,146)	(39,796)	(47,872)
Change in trade accounts and notes payable		966,567	792,128	440,883
Change in other accounts payable		(30,419)	97,686	(292,443)
Change in accrued expenses		68,948	(158,640)	158,698
Change in other current liabilities		11,654	(5,384)	359,132
Change in long-term advance received		379,105	281,975	789,670
Change in other non-current liabilities		10,231	13,770	2,453
Change in provisions		(290,536)	(208,390)	(390,974)
Change in defined benefit liabilities		(103,716)	(69,727)	(180,599)
Cash generated from operating activities		5,127,299	3,914,158	4,807,318
Income taxes paid		(242,389)	(162,266)	(77,643)
Interest received		110,812	65,600	33,302
Interest paid		(112,190)	(151,634)	(193,282)
<b>Net cash from operating activities</b>		<b>4,883,532</b>	<b>3,665,858</b>	<b>4,569,695</b>

See accompanying notes to the consolidated financial statements.



**Table of Contents****LG DISPLAY CO., LTD. AND SUBSIDIARIES**

## Consolidated Statements of Cash Flows, Continued

For the years ended December 31, 2010, 2011 and 2012

(In millions of won)	2010	2011	2012
<b>Cash flows from investing activities:</b>			
Dividends received	33,772	6,130	686
Proceeds from withdrawal of deposits in banks	5,400,000	2,401,500	913,500
Increase in deposits in banks	(4,403,000)	(1,713,500)	(413,512)
Acquisition of investments in equity accounted investees	(72,316)	(53,226)	(6,599)
Proceeds from disposal of investments in equity accounted investees	20,530	2,045	3,938
Acquisition of property, plant and equipment	(4,942,360)	(4,063,070)	(3,972,479)
Proceeds from disposal of property, plant and equipment	1,887	643	58,846
Acquisition of intangible assets	(227,663)	(215,286)	(285,888)
Grants received	46	1,605	3,962
Receipt from (payment for) settlement of derivatives	(14,781)	23,784	742
Increase in short-term loans			(10)
Proceeds from collection of short-term loans	42	92	
Acquisition of other non-current financial assets	(52,205)	(59,444)	(55,276)
Proceeds from disposal of other non-current financial assets	11,417	174,266	63,905
Acquisition of businesses, net of cash acquired	(270,536)		
<b>Net cash used in investing activities</b>	<b>(4,515,167)</b>	<b>(3,494,461)</b>	<b>(3,688,185)</b>
<b>Cash flows from financing activities:</b>			
Proceeds from short-term borrowings	1,422,669	1,292,804	3,455,548
Repayments of short-term borrowings	(1,007,485)	(2,483,997)	(3,441,632)
Proceeds from issuance of debentures	1,117,437	1,145,209	298,783
Proceeds from long-term debt	477,064	941,921	494,000
Repayment of long-term debt	(120,000)		
Repayments of current portion of long-term debt	(1,324,562)	(1,000,987)	(867,851)
Increase in non-controlling interest	21,911	5,709	13,028
Payment of cash dividend	(178,908)	(178,908)	
<b>Net cash provided by (used in) financing activities</b>	<b>408,126</b>	<b>(278,249)</b>	<b>(48,124)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>776,491</b>	<b>(106,852)</b>	<b>833,386</b>
Cash and cash equivalents at January 1	817,982	1,631,009	1,517,977
Effect of exchange rate fluctuations on cash held	36,536	(6,180)	(12,702)
<b>Cash and cash equivalents at December 31</b>	<b>1,631,009</b>	<b>1,517,977</b>	<b>2,338,661</b>

See accompanying notes to the consolidated financial statements.

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**LG DISPLAY CO., LTD. AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

For the years ended December 31, 2010, 2011 and 2012

**1. Reporting Entity**

(a) Description of the Controlling Company

LG Display Co., Ltd. (the Controlling Company) was incorporated in February 1985 under its original name of LG Soft, Ltd. as a wholly owned subsidiary of LG Electronics Inc. In 1998, LG Electronics Inc. and LG Semicon Co., Ltd. transferred their respective Thin Film Transistor Liquid Crystal Display ( TFT-LCD ) related business to the Controlling Company. The main business of the Controlling Company and its subsidiaries is to manufacture and sell TFT-LCD panels. The Controlling Company is a stock company ( Jusikhoesa ) domiciled in the Republic of Korea with its address at 128, Yeouidae-ro, Yeongdeungpo-gu, Seoul, the Republic of Korea. In July 1999, LG Electronics Inc. and Koninklijke Philips Electronics N.V. ( Philips ) entered into a joint venture agreement. Pursuant to the agreement, the Controlling Company changed its name to LG.Philips LCD Co., Ltd. However, on February 29, 2008, the Controlling Company changed its name to LG Display Co., Ltd. based upon the approval of shareholders at the general shareholders' meeting on the same date as a result of the decrease in Philips' share interest in the Controlling Company and the possibility of its business expansion to Organic Light Emitting Diode ( OLED ) and Flexible Display products. As of December 31, 2012, LG Electronics Inc. owns 37.9% (135,625,000 shares) of the Controlling Company's common shares.

As of December 31, 2012, the Controlling Company has TFT-LCD manufacturing plants, an OLED manufacturing plant and an LCD Research & Development Center in Paju and TFT-LCD manufacturing plants in Gumi. The Controlling Company has overseas subsidiaries located in North America, Europe and Asia.

The Controlling Company's common stock is listed on the Korea Exchange under the identifying code 034220. As of December 31, 2012, there are 357,815,700 shares of common stock outstanding. The Controlling Company's common stock is also listed on the New York Stock Exchange in the form of American Depositary Shares ( ADSs ) under the symbol LPL. One ADS represents one-half of one share of common stock. As of December 31, 2012, there are 21,853,986 ADSs outstanding.



**Table of Contents****LG DISPLAY CO., LTD. AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

For the years ended December 31, 2010, 2011 and 2012

**1. Reporting Entity, Continued****(b) Consolidated Subsidiaries as of December 31, 2012**  
(In millions)

Subsidiaries	Location	Percentage of ownership	Fiscal year end	Date of incorporation	Business	Capital stocks
LG Display America, Inc. (*1)	California, U.S.A.	100%	December 31	September 24, 1999	Sell TFT-LCD products	USD 260
LG Display Japan Co., Ltd.	Tokyo, Japan	100%	December 31	October 12, 1999	Sell TFT-LCD Products	JPY 95
LG Display Germany GmbH	Dusseldorf, Germany	100%	December 31	November 5, 1999	Sell TFT-LCD products	EUR 1
LG Display Taiwan Co., Ltd.	Taipei, Taiwan	100%	December 31	April 12, 1999	Sell TFT-LCD products	NTD 116
LG Display Nanjing Co., Ltd. (*2)	Nanjing, China	100%	December 31	July 15, 2002	Manufacture and sell TFT-LCD products	CNY 2,834
LG Display Shanghai Co., Ltd.	Shanghai, China	100%	December 31	January 16, 2003	Sell TFT-LCD products	CNY 4
LG Display Poland Sp. zo. o. (*3)	Wroclaw, Poland	80%	December 31	September 6, 2005	Manufacture and sell TFT-LCD products	PLN 511
LG Display Guangzhou Co., Ltd. (*4)	Guangzhou, China	90%	December 31	June 30, 2006	Manufacture and sell TFT-LCD products	CNY 992
LG Display Shenzhen Co., Ltd.	Shenzhen, China	100%	December 31	August 28, 2007	Sell TFT-LCD products	CNY 4
LG Display Singapore Pte. Ltd.	Singapore	100%	December 31	January 12, 2009	Sell TFT-LCD products	SGD 1.4
L&T Display Technology (Xiamen) Limited	Xiamen, China	51%	December 31	January 5, 2010	Manufacture LCD module and TV sets	CNY 82
L&T Display Technology (Fujian) Limited	Fujian, China	51%	December 31	January 5, 2010	Manufacture LCD module and monitor sets	CNY 116

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LG Display Yantai Co., Ltd. (*5)	Yantai, China	100%	December 31	April 19, 2010	Manufacture and sell TFT- LCD products	CNY 525
L&I Electronic Technology (Dongguan) Limited	Dongguan, China	51%	December 31	September 26, 2010	Manufacture and sell e- Book devices	CNY 33
Image&Materials, Inc. (*6)	Domestic	100%	December 31	May 17, 2006	Manufacture EPD materials	KRW 1,008
LUCOM Display Technology (Kunshan) Limited	Kunshan, China	51%	December 31	December 15, 2010	Manufacture notebook borderless hinge-up	CNY 99

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**Table of Contents****LG DISPLAY CO., LTD. AND SUBSIDIARIES**

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2010, 2011 and 2012

**1. Reporting Entity, Continued****(b) Consolidated Subsidiaries as of December 31, 2012, Continued***(In millions)*

Subsidiaries	Location	Percentage of ownership	Fiscal year end	Date of incorporation	Business	Capital stocks
LG Display U.S.A., Inc.	Texas, U.S.A.	100%	December 31	October 26, 2011	Manufacture TFT-LCD products	USD 11
LG Display Reynosa S.A. de C.V.	Reynosa, Mexico	100%	December 31	November 4, 2011	Manufacture TFT-LCD products	MXN 112
Nanumnuri Co., Ltd. (*7)	Domestic	100%	December 31	March 21, 2012	Janitorial services	KRW 800
LG Display China Co., Ltd. (*8)	Guangzhou, China	70%	December 31	December 10, 2012	Manufacture and sell TFT-LCD products	CNY 252

(\*1) In June 2012, the Controlling Company contributed 88,380 million in cash for the capital increase of LG Display America, Inc. ( LGDUS ). There were no changes in the Controlling Company's ownership percentage in LGDUS as a result of this additional investment.

(\*2) In May 2012, the Controlling Company invested 52,358 million in cash for the capital increase of LG Display Nanjing Co., Ltd. ( LGDNJ ). There were no changes in the Controlling Company's ownership percentage in LGDNJ as a result of this additional investment.

(\*3) Toshiba Corporation ( Toshiba ) acquired 20% of LG Display Poland Sp. z o.o. ( LGDWR ) in December 2007 through a stock purchase agreement. With the acquisition of the 20% interest, Toshiba and the Controlling Company and LGDWR entered into a derivative contract with LGDWR's equity shares as its underlying assets. According to the contract, the Controlling Company or LGDWR has a call option to buy Toshiba's 20% interest in LGDWR and Toshiba has a put option to sell its 20% interest in LGDWR to the Controlling Company or LGDWR under the same terms: the exercise price of the call is equal to the price of the put option which is the total amount of Toshiba's investment at cost. The call and put options are exercisable after five years from the date of acquisition and on each anniversary thereafter with no stated expiration date in whole or in part. Toshiba's investment in LGDWR is regarded as financing due to the options and recorded as other accounts payable in the consolidated statement of financial position of LG Display Co., Ltd. and its subsidiaries (the Group ). Accordingly, LGDWR is consolidated as a wholly owned subsidiary in the consolidated financial statements.

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- (\*4) Skyworth TV Holdings Limited ( Skyworth ) acquired a 16% equity interest in LG Display Guangzhou Co., Ltd. ( LGDGZ ) in June 2008. With the acquisition of the 16% interest in June 2008 (which was reduced to 10% at December 31, 2009 with the additional investment in LGDGZ by the Controlling Company), Skyworth and the Controlling Company entered into a derivative contract with LGDGZ's equity interest as its underlying assets. According to the contract, the Controlling Company has a call option to buy Skyworth's interest in LGDGZ and Skyworth has a put option to sell its interest in LGDGZ to LG Display Co., Ltd. under the same terms: the exercise price of the call is equal to the price of the put option which is the total amount of Skyworth's investment at cost. The call and put options are exercisable after five years from the date of acquisition with no stated expiration date in whole or in part. Skyworth's investment in LGDGZ is regarded as financing due to the options and recorded as other accounts payable in the consolidated statement of financial position of the Group. Accordingly, LGDGZ is consolidated as a wholly owned subsidiary in the consolidated financial statements.

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**LG DISPLAY CO., LTD. AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

For the years ended December 31, 2010, 2011 and 2012

**1. Reporting Entity, Continued**

(b) Consolidated Subsidiaries as of December 31, 2012, Continued

- (\*5) In October 2012, the Controlling Company contributed 43,860 million in cash for the capital increase of LG Display Yantai Co., Ltd. ( LGDYT ). There were no changes in the Controlling Company's ownership percentage in LGDYT as a result of this additional investment.
- (\*6) In February 2012, the Controlling Company contributed 3,000 million in cash for the capital increase of Image & Materials, Inc. ( I&M ). There were no changes in the Controlling Company's ownership percentage in I&M as a result of this additional investment.
- (\*7) In March 2012, the Controlling Company established Nanumnuri Co., Ltd., a wholly owned subsidiary of the Controlling Company founded as a Standard Workplace for the Disabled under the Act on Employment Promotion and Vocational Rehabilitation for Disabled Persons, with an investment of 800 million in cash.
- (\*8) The Controlling Company entered into an agreement with Shenzhen SKYWORTH-RGB Electronics Co., Ltd. and Guangzhou GET Technologies Development Co., Ltd. to manufacture and sell TFT-LCD products and incorporated LG Display China Co., Ltd. in Guangzhou, China. The Controlling Company invested 30,399 million in cash for a 70% controlling equity interest in LG Display China Co., Ltd.

Dividends received from consolidated subsidiaries for the years ended December 31, 2010, 2011 and 2012 amounted to 44,419 million, 36,490 million and 55,114 million, respectively.

**Table of Contents****LG DISPLAY CO., LTD. AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

For the years ended December 31, 2010, 2011 and 2012

**1. Reporting Entity, Continued****(c) Associates and Jointly Controlled Entities (Equity Method Investees) as of December 31, 2012***(In millions of won)*

Associates and jointly controlled entities	Location	Percentage of ownership	Fiscal year end	Date of incorporation	Business	Carrying amount
Suzhou Raken Technology Ltd.	Suzhou, China	51%	December 31	October 2008	Manufacture and sell LCD modules and LCD TV sets	128,751
Guangzhou New Vision Technology Research and Development Limited	Guangzhou, China	50%	December 31	July 2008	R&D on design of LCD modules and LCD TV sets	3,596
Global OLED Technology LLC	Virginia, U.S.A	33%	December 31	December 2009	Managing and licensing OLED patents	36,164
Paju Electric Glass Co., Ltd.	Domestic	40%	December 31	January 2005	Manufacture electric glass for FPDs	82,855
TLI Inc.	Domestic	12%	December 31	October 1998	Manufacture and sell semiconductor parts	6,961
AVACO Co., Ltd.	Domestic	16%	December 31	January 2001	Manufacture and sell equipment for FPDs	10,964
New Optics LTD.	Domestic	42%	December 31	August 2005	Manufacture back light parts for TFT-LCDs	25,064
LIG ADP Co., Ltd.	Domestic	13%	December 31	January 2001	Develop and manufacture the equipment for FPDs	1,730
WooRee E&L Co., Ltd. (formerly, WooRee LED Co., Ltd.)	Domestic	30%	December 31	June 2008	Manufacture LED back light unit packages	23,549
Dynamic Solar Design Co., Ltd.	Domestic	40%	December 31	April 2009	Develop and manufacture equipment for solar battery	69

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LB Gemini New Growth Fund No. 16	Domestic	31%	December 31	December 2009	and FPDs Invest in small and middle sized companies and benefit from M&A opportunities	13,680
Can Yang Investments Limited	Hong Kong	9%	December 31	January 2010	Develop and manufacture and sell LED parts	13,856

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**Table of Contents****LG DISPLAY CO., LTD. AND SUBSIDIARIES**

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2010, 2011 and 2012

**1. Reporting Entity, Continued***(In millions of won)*

Associates and jointly controlled entities	Location	Percentage of ownership	Fiscal year end	Date of incorporation	Business	Carrying amount
YAS Co., Ltd.	Domestic	19%	December 31	April 2002	Develop and manufacture deposition equipment for OLEDs	9,409
Eralite Optoelectronics (Jiangsu) Co., Ltd.	Suzhou, China	20%	December 31	August 2010	Manufacture LED Packages	3,449
Narenanotech Corporation	Domestic	23%	December 31	December 1995	Manufacture and sell FPD manufacturing equipment	26,448
Avatec. Co., Ltd.	Domestic	17%	December 31	August 2000	Manufacture and sell glass for FPDs	14,685
Glonix Co., Ltd.	Domestic	20%	December 31	October 2006	Manufacture and sell LCD	928
						402,158

**2. Basis of Presenting Financial Statements****(a) Statement of Compliance**

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ( IFRSs ) as issued by the International Accounting Standards Board.

The consolidated financial statements were authorized for issuance by the Board of Directors on January 24, 2013.

**(b) Basis of Measurement**

The consolidated financial statements have been prepared on the historical cost basis except for the following material items in the consolidated statements of financial position:



derivative financial instruments are measured at fair value,

financial instruments at fair value through profit or loss are measured at fair value,

available-for-sale financial assets are measured at fair value,

liabilities for cash-settled share-based payment arrangements are measured at fair value, and

liabilities for defined benefit plans are recognized as the present value of defined benefit obligations less the fair value of plan assets

(c) Functional and Presentation Currency

The consolidated financial statements are presented in Korean won, which is the Controlling Company's functional currency. All amounts in Korean won are in millions unless otherwise stated.

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**LG DISPLAY CO., LTD. AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

For the years ended December 31, 2010, 2011 and 2012

**2. Basis of Presenting Financial Statements, Continued**

(d) Use of Estimates and Judgments

The preparation of the consolidated financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is included in the following notes:

Classification of financial instruments (note 3(d))

Estimated useful lives of property, plant and equipment (note 3(e))

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next 12 months is included in the following notes:

Recognition and measurement of provisions (note 3(j) and 21)

Net realizable value of inventories (note 8)

Measurement of defined benefit obligations (note 18)

Deferred tax assets and liabilities (note 30)

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**LG DISPLAY CO., LTD. AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

For the years ended December 31, 2010, 2011 and 2012

**3. Summary of Significant Accounting Policies**

The significant accounting policies followed by the Group in preparation of its consolidated financial statements are as follows:

(a) Consolidation

(i) Subsidiaries

Subsidiaries are those entities controlled by the Controlling Company or its subsidiaries, where control is the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Each item of profit and loss and other reserves is allocated to the owners of the parent and non-controlling interests. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

(ii) Associates and jointly controlled entities (equity method investees)

Associates are those entities over which the Group has significant influence over the financial and operating policies, but not control. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity.

A jointly controlled entity is an entity that the Group has joint control over and whose activities are established by a contractual arrangement that requires unanimous consent for strategic financial and operating decisions.

Investments in associates and jointly controlled entities are initially recognized at cost and subsequently accounted for using the equity method of accounting. The carrying amount of investments in associates and jointly controlled entities is increased or decreased to recognize the Group's share of the profits or losses and changes in the Group's proportionate interest of the investee after the date of acquisition. Distributions received from an investee reduce the carrying amount of the investment. Unrealized gains on transactions between the Group and associates and jointly controlled entities are eliminated to the extent of the Group's interest in the associates and jointly controlled entities. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

If an associate or jointly controlled entity uses accounting policies different from those of the Controlling Company for like transactions and events in similar circumstances, appropriate adjustments are made to the consolidated financial statements. As of and during the periods presented in the consolidated financial statements, no adjustments were made in applying the equity method.

When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to nil, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

(iii) Transactions eliminated on consolidation

Intra-group balances and transactions, including income, expenses and unrealized gains or losses, are eliminated in preparing the consolidated financial statements. Intra-group losses are recognized as expense if intra-group losses indicate an impairment that requires recognition in the consolidated financial statements.

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**LG DISPLAY CO., LTD. AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

For the years ended December 31, 2010, 2011 and 2012

**3. Summary of Significant Accounting Policies, Continued**

**(b) Foreign Currency Transactions and Translation**

Transactions in foreign currencies are translated to the respective functional currencies of the Group at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated to the functional currency at the exchange rate on the reporting date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was originally determined. Foreign currency differences arising on retranslation are recognized in profit or loss, except for differences arising on available-for-sale equity instruments and a financial asset and liability designated as a cash flow hedge, which are recognized in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the original transaction. Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition are recognized in profit or loss in the period in which they arise. Foreign currency differences arising from assets and liabilities in relation to the investing and financing activities including loans, bonds and cash and cash equivalents are recognized in finance income (costs) in the consolidated statement of comprehensive income and foreign currency differences arising from assets and liabilities in relation to activities other than investing and financing activities are recognized in other income (expense) in the consolidated statement of comprehensive income. Relevant foreign currency differences are presented in gross amounts in the consolidated statement of comprehensive income.

If the presentation currency of the Group is different from a foreign operation's functional currency, the financial position and financial performance of the foreign operation are translated into the presentation currency using the following methods:

The assets and liabilities of foreign operations, whose functional currency is not the currency of a hyperinflationary economy, including goodwill and fair value adjustments arising on acquisition, are translated to the Group's functional currency at exchange rates at the reporting date. The income and expenses of foreign operations are translated to the Group's functional currency at exchange rates at the dates of the transactions. Foreign currency differences are recognized in other comprehensive income. However, if the operation is a non-wholly-owned subsidiary, then the relevant proportionate share of the translation difference is allocated to the non-controlling interests. When a foreign operation is disposed of, in part or in full, the relevant accumulative amount in other comprehensive income is transferred to profit or loss as part of the profit or loss on disposal. When the Group disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount in other comprehensive income is reclassified to profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation is treated as assets and liabilities of the foreign operation. Thus they are expressed in the functional currency of the foreign operation and translated at the at each reporting date's exchange rate.

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**LG DISPLAY CO., LTD. AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

For the years ended December 31, 2010, 2011 and 2012

**3. Summary of Significant Accounting Policies, Continued**

(c) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the weighted-average method, and includes expenditures incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work-in-process, cost includes an appropriate share of production overheads based on the actual capacity of production facilities. However, the normal capacity is used for the allocation of fixed production overheads if the actual level of production is lower than the normal capacity.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated selling expenses.

(d) Financial Instruments

(i) Non-derivative financial assets

The Group initially recognizes loans and receivables and deposits on the date they are originated. All other non-derivative financial assets, including financial assets at fair value through profit or loss, are recognized in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows of the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognized as a separate asset or liability. If a transfer does not result in derecognition because the Group has retained substantially all the risks and rewards of ownership of the transferred asset, the Group continues to recognize the transferred asset and recognizes a financial liability for the consideration received. In subsequent periods, the Group recognizes any income on the transferred assets and any expense incurred on the financial liability.

Financial assets and liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

The Group has the following non-derivative financial assets: financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets.

Financial assets at fair value through profit or loss

A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. If a contract contains one or more embedded derivatives, the Group designates the entire hybrid (combined) contract as a financial asset at fair value through profit or loss unless: the embedded derivative(s) does not significantly modify the cash flows that otherwise would be required by the contract; or it is clear with little or no analysis when a similar hybrid (combined) instrument is first considered that separation of the embedded derivative(s) is prohibited. Upon initial recognition, attributable transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.



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**LG DISPLAY CO., LTD. AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

For the years ended December 31, 2010, 2011 and 2012

**3. Summary of Significant Accounting Policies, Continued**

(d) Financial Instruments, Continued

(i) Non-derivative financial assets, Continued

Cash and cash equivalents

Cash and cash equivalents include all cash balances and short-term highly liquid investments with an original maturity of three months or less that are readily convertible into known amounts of cash. They are stated at face value, which approximates fair value.

Deposits in banks

Deposits in banks are those with maturity of more than three months and less than one year and are held for cash management purposes.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. When loans and receivables are recognized initially, the Group measures them at their fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses. Loans and receivables comprise trade accounts and notes receivable and other accounts receivable.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or that are not classified as financial assets at fair value through profit or loss, held-to-maturity financial assets or loans and receivables. The Group's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale equity instruments, are recognized in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognized, the cumulative gain or loss in other comprehensive income is transferred to profit or loss.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and whose derivatives are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost.

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**LG DISPLAY CO., LTD. AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

For the years ended December 31, 2010, 2011 and 2012

**3. Summary of Significant Accounting Policies, Continued**

(d) Financial Instruments, Continued

(ii) Non-derivative financial liabilities

The Group initially recognizes debt securities issued and subordinated liabilities on the date that they are originated. The Group classifies liabilities into two categories in accordance with the substance of the contractual arrangement and the definitions of a financial liability: financial liabilities at fair value through profit or loss and other financial liabilities.

Financial liabilities at fair value through profit or loss include financial liabilities held for trading or designated as such upon initial recognition at fair value through profit or loss. After initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss. Upon initial recognition, transaction costs that are directly attributable to acquisition are recognized in profit or loss as incurred.

Non-derivative financial liabilities other than financial liabilities classified as fair value through profit or loss are classified as other financial liabilities and measured initially at fair value minus transaction costs that are directly attributable to the issue. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method. As of December 31, 2012, non-derivative financial liabilities comprise borrowings, bonds and others.

The Group derecognizes a financial liability when its contractual obligations are discharged, cancelled or expired.

(iii) Ordinary share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of ordinary shares are recognized as a deduction from equity, net of tax effects. Capital contributed in excess of par value upon issuance of common stocks is classified as share premium within equity.



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**LG DISPLAY CO., LTD. AND SUBSIDIARIES**

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For the years ended December 31, 2010, 2011 and 2012

**3. Summary of Significant Accounting Policies, Continued**

(d) Financial Instruments, Continued

(iv) Derivative financial instruments, including hedge accounting

The Group holds forward exchange contracts, interest rate swaps, currency swaps and other derivative contracts to manage interest rate risk and foreign exchange risk. Derivatives are initially recognized at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognized in profit or loss except in the case where the derivatives are designated as cash flow hedges and the hedge is determined to be an effective hedge.

The Group designates derivatives as hedging items to hedge the risk of changes in the fair value of assets, liabilities or firm commitments (a fair value hedge) and foreign currency risk of highly probable forecasted transactions or firm commitments (a cash flow hedge).

On initial designation of the hedge, management formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship. Management makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, whether the hedging instruments are expected to be highly effective in offsetting the changes in the fair value or cash flows of the respective hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80-125 percent. For a cash flow hedge of a forecasted transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that could ultimately affect reported net income.

Cash flow hedges

When a derivative is designated as a hedge of the variability in cash flows attributable to a particular risk associated with a recognized asset or liability or a highly probable forecasted transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income and presented in the hedging reserve in equity. The amount recognized in other comprehensive income is removed and included in profit or loss in the same period the hedged cash flows affect profit or loss under the same line item in the consolidated statement of comprehensive income. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated, exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognized in other comprehensive income and presented in the hedging reserve in equity remains there until the forecasted transaction affects profit or loss. When the hedged item is a non-financial asset, the amount recognized in other comprehensive income is transferred to the carrying amount of the asset when the asset is recognized. If the forecasted transaction is no longer expected to occur, then the balance in other comprehensive income is recognized immediately in profit or loss. In other cases the amount recognized in other comprehensive income is transferred to profit or loss in the same period that the hedged item affects profit or loss.

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**LG DISPLAY CO., LTD. AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

For the years ended December 31, 2010, 2011 and 2012

**3. Summary of Significant Accounting Policies, Continued**

(d) Financial Instruments, Continued

(iv) Derivative financial instruments, including hedge accounting, Continued

Embedded derivative

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss. Changes in the fair value of separable embedded derivatives are recognized immediately in profit or loss.

(e) Property, Plant and Equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes an expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labor, any costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located and borrowing costs on qualifying assets.

The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item and recognized in other income or other expenses.

(ii) Subsequent costs

Subsequent expenditure on an item of property, plant and equipment is recognized as part of its cost only if it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

(iii) Depreciation

Depreciation is recognized in profit or loss on a straight-line basis method, reflecting the pattern in which the asset's future economic benefits are expected to be consumed by the Group. The residual value of property, plant and equipment is zero. Land is not depreciated.

Estimated useful lives of the assets are as follows:

Useful lives (years)

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Buildings and structures	20, 40
Machinery	4
Furniture and fixtures	3~5
Equipment, tools and vehicles	3~5, 12

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate and any changes are accounted for as changes in accounting estimates. There were no such changes for all periods presented.

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**LG DISPLAY CO., LTD. AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

For the years ended December 31, 2010, 2011 and 2012

**3. Summary of Significant Accounting Policies, Continued**

(f) Borrowing Costs

The Group capitalizes borrowing costs, which includes exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs, directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. To the extent that the Group borrows funds specifically for the purpose of obtaining a qualifying asset, the Group determines the amount of borrowing costs eligible for capitalization as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings. The Group immediately recognizes other borrowing costs as an expense.

(g) Government Grants

In case there is reasonable assurance that the Group will comply with the conditions attached to a government grant, the government grant is recognized as follows:

(i) Grants related to the purchase or construction of assets

A government grant related to the purchase or construction of assets is deducted in calculating the carrying amount of the asset. The grant is recognized in profit or loss over the life of a depreciable asset as a reduced depreciation expense.

(ii) Grants for compensating the Group's expenses incurred

Grants that compensate the Group for expenses incurred are recognized in profit or loss as other income on a systematic basis in the same periods in which the expenses are recognized.

(iii) Other government grants

A government grant that becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the entity with no future related costs is recognized as income of the period in which it becomes receivable.

(h) Intangible Assets

Intangible assets are initially measured at cost. Subsequently, intangible assets are measured at cost less accumulated amortization and accumulated impairment losses.

(i) Goodwill

Goodwill arising from business combinations is recognized as the excess of the acquisition cost of investments in subsidiaries, associates and joint ventures over the Group's share of the net fair value of the identifiable assets acquired and liabilities assumed. Any deficit is a bargain purchase that is recognized in profit or loss. Goodwill is measured at cost less accumulated impairment losses.



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**LG DISPLAY CO., LTD. AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

For the years ended December 31, 2010, 2011 and 2012

**3. Summary of Significant Accounting Policies, Continued**

(h) Intangible Assets, Continued

(ii) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognized in profit or loss as incurred.

Development activities involve a plan or design of the production of new or substantially improved products and processes. Development expenditure is capitalized only if the Group can demonstrate all of the following:

the technical feasibility of completing the intangible asset so that it will be available for use or sale,

its intention to complete the intangible asset and use or sell it,

its ability to use or sell the intangible asset,

how the intangible asset will generate probable future economic benefits. Among other things, the Group can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset,

the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset, and

its ability to measure reliably the expenditure attributable to the intangible asset during its development.

The expenditure capitalized includes the cost of materials, direct labor, overhead costs that are directly attributable to preparing the asset for its intended use, and borrowing costs on qualifying assets.

(iii) Other intangible assets

Other intangible assets include intellectual property rights, software, customer relationships, technology, memberships and others.

(iv) Subsequent costs

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Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific intangible asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognized in profit or loss as incurred.

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## Notes to the Consolidated Financial Statements

For the years ended December 31, 2010, 2011 and 2012

**3. Summary of Significant Accounting Policies, Continued****(h) Intangible Assets, Continued****(v) Amortization**

Amortization is calculated on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use. The residual value of intangible assets is zero. However, as there are no foreseeable limits to the periods over which condominium and golf club memberships are expected to be available for use, these intangible assets are regarded as having indefinite useful lives and not amortized.

	<b>Estimated useful lives (years)</b>
Intellectual property rights	5, 10
Rights to use electricity, water and gas supply facilities	10
Software	4
Customer relationships	7
Technology	10
Development costs	(*)
Condominium and golf club memberships	Not amortized

- (\*) Capitalized development costs are amortized over the useful life considering the life cycle of the developed products. Amortization of capitalized development costs is recognized in research and development expenses in the consolidated statement of comprehensive income.

Amortization periods and the amortization methods for intangible assets with finite useful lives are reviewed at each financial year-end. The useful lives of intangible assets that are not being amortized are reviewed each period to determine whether events and circumstances continue to support indefinite useful life assessments for those assets. If appropriate, the changes are accounted for as changes in accounting estimates.

**(i) Impairment****(i) Financial assets**

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency in interest or principal payments by an issuer or a debtor, for economic reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the Group would not otherwise consider, or the disappearance of an active market for that financial asset. In addition, for an investment in an equity security, objective evidence of impairment includes significant financial difficulty of the issuer and a significant or prolonged decline in its fair value below its cost.





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**LG DISPLAY CO., LTD. AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

For the years ended December 31, 2010, 2011 and 2012

**3. Summary of Significant Accounting Policies, Continued**

(i) Impairment, Continued

(i) Financial assets, continued

Management considers evidence of impairment for loans and receivables at both a specific asset and collective level. All individually significant loans and receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

If there is objective evidence that an impairment loss has been incurred on financial assets carried at amortized cost or cost, the amount of the impairment loss is measured as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses are recognized in profit or loss and reflected in an allowance account against loans and receivables.

The amount of the impairment loss on financial assets including equity securities carried at cost is measured as the difference between the carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

When a decline in the fair value of an available-for-sale financial asset has been recognized in other comprehensive income the amount of the cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognized in profit or loss.

In a subsequent period, for the financial assets recorded at fair value, if the fair value increases and the increase can be objectively related to an event occurring after the impairment loss was recognized, the previously recognized impairment loss is reversed. The amount of the reversal in financial assets carried at amortized cost and a debt instrument classified as available for sale is recognized in profit or loss. However, impairment loss recognized for an investment in an equity instrument classified as available-for-sale is reversed through other comprehensive income.

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**LG DISPLAY CO., LTD. AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

For the years ended December 31, 2010, 2011 and 2012

**3. Summary of Significant Accounting Policies, Continued**

(i) Impairment, Continued

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than assets arising from employee benefits, inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, irrespective of whether there is any indication of impairment, the recoverable amount is estimated each year at the same time.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating unit, or CGU). The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. 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. Fair value less costs to sell is based on the best information available to reflect the amount that the Group could obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the costs of disposal.

The Group's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Goodwill acquired in a business combination is allocated to CGUs that are expected to benefit from the synergies of the combination. Impairment losses recognized in respect of a CGU are allocated first to reduce the carrying amount of any goodwill allocated to the unit, and then to reduce the carrying amounts of the other assets in the unit on a pro rata basis.

In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. An impairment loss in respect of goodwill is not reversed.

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**LG DISPLAY CO., LTD. AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

For the years ended December 31, 2010, 2011 and 2012

**3. Summary of Significant Accounting Policies, Continued**

(j) Provisions

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

The risks and uncertainties that inevitably surround events and circumstances are taken into account in reaching the best estimate of a provision. Where the effect of the time value of money is material, provisions are determined at the present value of the expected future cash flows. The unwinding of the discount is recognized as finance cost

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

The Group recognizes a liability for warranty obligations based on the estimated costs expected to be incurred under its basic limited warranty. This warranty covers defective products and is normally applicable for eighteen months from the date of purchase. These liabilities are accrued when product revenues are recognized. Warranty costs primarily include raw materials and labor costs. Factors that affect the Group's warranty liability include historical and anticipated rates of warranty claims on those repairs and cost per claim to satisfy the Group's warranty obligation. As these factors are impacted by actual experience and future expectations, management periodically assesses the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary. Accrued warranty obligations are included in the current and non-current provisions.

Liabilities for loss contingencies arising from claims, assessments, litigation, fines, and penalties and other sources, are recorded when it is probable that a liability has been incurred and the amount of the assessment and/or remediation can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred.

(k) Employee Benefits

(i) Short-term employee benefits

Short-term employee benefits that are due to be settled within twelve months after the end of the period in which the employees render the related service are recognized in profit or loss on an undiscounted basis. The expected cost of profit-sharing and bonus plans are recognized when the Group has a present legal or constructive obligation to make payments as a result of past events and a reliable estimate of the obligation can be made.

(ii) Other long-term employee benefits

The Group's net obligation in respect of long-term employee benefits other than pension plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods.

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**LG DISPLAY CO., LTD. AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

For the years ended December 31, 2010, 2011 and 2012

**3. Summary of Significant Accounting Policies, Continued**

(k) Employee Benefits, Continued

(iii) Defined contribution plan

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

(iv) Defined benefit plan

A defined benefit plan is a post-employment benefit plan other than defined contribution plans. The Group's net obligation in respect of its defined benefit plan is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The fair value of any plan assets is deducted.

The calculation is performed annually by an independent actuary using the projected unit credit method. The discount rate is the yield at the reporting date on high quality corporate bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The Group recognizes all actuarial gains and losses arising from defined benefit plans in retained earnings immediately.

In measuring the defined benefit liability, the Group recognizes past service cost immediately when the benefits are vested immediately following the introduction of a defined benefit plan.

(v) Share-based payment transactions

The fair value of the amount payable to employees in respect of share appreciation rights, which are settled in cash, is recognized as an expense with a corresponding increase in liabilities, over the period that the employees unconditionally become entitled to payment. The liability is remeasured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognized as personnel expense in profit or loss.

(l) Revenue

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of estimated returns, earned trade discounts, volume rebates and other cash incentives paid to customers. Revenue is recognized when persuasive evidence exists that the significant risks and rewards of ownership have been transferred to the buyer, generally on delivery and acceptance at the customers' premises, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognized as a reduction of revenue when the sales are recognized. Sales taxes collected from customers and remitted to governmental authorities are accounted for on a net basis and therefore are excluded from revenues in the consolidated statements of comprehensive income.



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**LG DISPLAY CO., LTD. AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

For the years ended December 31, 2010, 2011 and 2012

**3. Summary of Significant Accounting Policies, Continued**

(m) Operating Segments

An operating segment is a component of the Group that: 1) engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with other components of the group, 2) whose operating results are reviewed regularly by the Group's chief operating decision maker ( CODM ) in order to allocate resources and assess its performance, and 3) for which discrete financial information is available. Management has determined that the CODM of the Group is the Board of Directors. The CODM does not receive and therefore does not review discrete financial information for any component of the Group. Consequently, no operating segment information is included in these consolidated financial statements. Entity wide disclosures of geographic and product revenue information are provided in note 23 to these consolidated financial statements.

(n) Finance Income and Finance Costs

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss, and gains on hedging instruments that are recognized in profit or loss. Interest income is recognized as it accrues in profit or loss, using the effective interest method. Dividend income is recognized in profit or loss on the date that the Group's right to receive payment is established.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognized on financial assets, and losses on hedging instruments that are recognized in profit or loss. Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of that asset.

(o) Income Tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

(i) Current tax

Current tax is the expected tax payable or receivable on the taxable profit or loss for the year, using tax rates enacted or substantively enacted at the reporting date and any adjustment to tax payable in respect of previous years. The taxable profit is different from the accounting profit for the period since the taxable profit is calculated excluding the temporary differences, which will be taxable or deductible in determining taxable profit (tax loss) of future periods, and non-taxable or non-deductible items from the accounting profit.

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### **LG DISPLAY CO., LTD. AND SUBSIDIARIES**

#### Notes to the Consolidated Financial Statements

For the years ended December 31, 2010, 2011 and 2012

### **3. Summary of Significant Accounting Policies, Continued**

#### **(o) Income Tax, Continued**

##### **(ii) Deferred tax**

Deferred tax is recognized, using the liability method, in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. However, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill.

The Group recognizes a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries, associates, and interests in joint ventures, except to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. A deferred tax asset is recognized for all deductible temporary differences to the extent that it is probable that the differences relating to investments in subsidiaries, associates and jointly controlled entities will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

The Group offsets deferred tax assets and deferred tax liabilities if, and only if the Group has a legally enforceable right to set off current tax assets against current tax liabilities and the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously.

#### **(p) Earnings (Loss) Per Share**

The Group presents basic and diluted earnings (loss) per share ( EPS ) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Controlling Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for the effects of all dilutive potential ordinary shares, which comprise convertible bonds.

#### **(q) Adopted New and Amended Accounting Pronouncements**

##### **(i) IFRS 7, Financial Instruments: Disclosures**

The Group has applied the amendments to IFRS 7, *Financial Instruments: Disclosures*, for the year ended December 31, 2012 by prospectively disclosing the nature of transferred assets, their carrying amount, and the description of risks and rewards for each class of transferred financial assets that are derecognized in their entirety. When the Group derecognizes transferred financial assets but still has continuing involvement in the transferred financial assets, the nature of, and risks associated with, the Group's continuing involvement in derecognized financial assets shall



be additionally disclosed.

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**LG DISPLAY CO., LTD. AND SUBSIDIARIES**

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For the years ended December 31, 2010, 2011 and 2012

**3. Summary of Significant Accounting Policies, Continued**

(r) Recent Accounting Pronouncements, Not Yet Adopted

The following accounting standards, interpretations and amendments are issued and will be effective for annual periods beginning on or after January 1, 2013 and have not been adopted early in preparing these consolidated financial statements.

(i) IAS 1, *Presentation of Financial Statements (Amendments to IAS 1)*

The amendments require presentation of other comprehensive income on the basis of whether they are potentially reclassifiable to profit or loss subsequently. The amendments are effective for annual periods beginning on or after July 1, 2012.

(ii) IAS 19, *Employee Benefits (Amendments to IAS 19)*

The revised standard requires an entity to calculate the expected return on plan assets based on the discount rate that is used to measure the present value of defined benefit obligation. The effective date for the amendments is annual periods beginning on or after January 1, 2013.

(iii) IFRS 9, *Financial Instrument*

This standard introduces certain new requirements for classifying and measuring financial assets. IFRS 9 divides all financial assets that are currently in the scope of International Accounting Standards ( IASs ) 39 into two classifications, those measured at amortized cost and those measured at fair value. The standard along with proposed expansion of IFRS 9 for classifying and measuring financial liabilities, and de-recognition of financial instruments, impairment, and hedge accounting is effective from annual reporting periods beginning on or after January 1, 2015 although entities are permitted to adopt earlier.

(iv) IFRS 13, *Fair value measurement*

The standard defines fair value and sets out a framework for measuring fair value and the required disclosures about fair value measurements. This standard is effective for annual periods beginning on or after January 1, 2013.

(v) IFRS 10, *Consolidated Financial Statements*

The standard introduces a single control model to determine whether an investee should be consolidated. The standard is effective for annual periods beginning on or after January 1, 2013.

(vi) IFRS 11, *Joint Arrangements*

The standard classifies joint arrangements into two types: joint operations and joint ventures. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint operators) have rights to the assets and obligations for the liabilities relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint venturers) have rights to the net assets of the arrangement. The standard requires a joint operator to recognize and measure the assets and liabilities (and recognize the related revenues and expenses) in relation to its interest in the arrangement in accordance with relevant IFRSs applicable to the particular assets, liabilities, revenues and expenses. The standard requires a joint venturer to recognize an investment and to account for that investment using the equity method. The standard is effective for annual periods beginning on or after January 1, 2013.



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**LG DISPLAY CO., LTD. AND SUBSIDIARIES**

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For the years ended December 31, 2010, 2011 and 2012

**3. Summary of Significant Accounting Policies, Continued**

(r) Recent Accounting Pronouncements, Not Yet Adopted, Continued

*(vii) IFRS 12, Disclosure of Interests in Other Entities*

The standard brings together into a single standard all the disclosure requirements about an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The standard requires an entity to disclose information that enables users of financial statements to evaluate the nature of and risks associated with its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows. The standards are effective for annual periods beginning on or after January 1, 2013.

Management believes the initial adoption of these standards will not have a significant impact on the Group's financial position or results of operations.

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Notes to the Consolidated Financial Statements

For the years ended December 31, 2010, 2011 and 2012

**4. Determination of Fair Value**

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) Current Assets and Liabilities

The carrying amounts approximate fair value because of the short maturity of these instruments.

(b) Trade Receivables and Other Receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes. The carrying amounts of short-term receivables approximate fair value.

(c) Investments in Equity and Debt Securities

The fair value of marketable available-for-sale financial assets is determined by reference to their quoted closing bid price at the reporting date. The fair value of non-marketable securities is determined using valuation methods.

(d) Derivatives

For forward contracts, if a listed market price is not available, fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds).

The fair value of interest rate swaps is estimated by discounting estimated future cash flows based on the terms and maturity of each contract by LIBOR and forward interest rates for the same terms at the measurement date.

Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group and counterparty when appropriate.

(e) Non-derivative Financial Liabilities

The fair value of financial liabilities at FVTPL is determined by reference to their quoted closing price at the reporting date. Fair value, which is determined for disclosure purposes, except for the liabilities at FVTPL, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

(f) Share-based Payment Transactions

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The fair value of the employee share appreciation rights is measured using the Black-Scholes formula. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behavior), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

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### **LG DISPLAY CO., LTD. AND SUBSIDIARIES**

#### Notes to the Consolidated Financial Statements

For the years ended December 31, 2010, 2011 and 2012

#### **4. Determination of Fair Value, Continued**

##### **(g) Assets Acquired in a Business Combination**

###### **(i) Inventories**

The fair value of inventories acquired in a business combination is determined based on the estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

###### **(ii) Property, plant and equipment**

The fair value of property, plant and equipment recognized as a result of a business combination is based on market values.

###### **(iii) Intangible assets**

The fair value of customer relationships acquired in a business combination is determined using the multi-period excess earnings method, whereby the subject asset is valued after deducting a fair return on all other assets that are part of creating the related cash flows. The fair value of technology acquired in a business combination is based on the discounted estimated royalty payments that have been avoided as a result of the patent or trademark being owned.

#### **5. Risk Management**

##### **(a) Financial Risk Management**

The Group is exposed to credit risk, liquidity risk and market risks. The Group identifies and analyzes such risks, and controls are implemented under a risk management system to monitor and manage these risks at below a threshold level.

###### **(i) Credit risk**

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers.

The Group's exposure to credit risk of trade and other receivables is influenced mainly by the individual characteristics of each customer. However, management considers the demographics of the Group's customer base, including the default risk of the country in which customers operate, do not have a significant influence on credit risk since the majority of the customers are global electronic appliance manufacturers operating in global markets.

The Group establishes credit limits for each customer and each new customer is analyzed quantitatively and qualitatively before determining whether to utilize third party guarantees, insurance or factoring as appropriate.

The Group does not establish allowances for receivables under insurance and receivables from customers with a high credit rating. For the rest of the receivables, the Group establishes an allowance for impairment of trade and other receivables that have been individually or collectively evaluated for impairment and estimated on the basis of historical loss experience for assets.





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**LG DISPLAY CO., LTD. AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

For the years ended December 31, 2010, 2011 and 2012

**5. Risk Management, Continued**

(a) Financial Risk Management, Continued

(ii) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group has historically been able to satisfy its cash requirements from cash flows from operations and debt and equity financing. To the extent that the Group does not generate sufficient cash flows from operations to meet its capital requirements, the Group may rely on other financing activities, such as external long-term borrowings and offerings of debt securities, equity-linked and other debt securities. In addition, the Group maintains a line of credit with various banks.

(iii) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices, will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

The Group buys and sells derivatives, and also incurs financial liabilities, in order to manage market risks.

(iv) Currency risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the functional currency of the Group, Korean won (KRW). The currencies in which these transactions primarily are denominated are USD, EUR and JPY.

The Group uses forward exchange contracts to hedge its currency risk, most with a maturity of less than one year from the reporting date.

Interest on borrowings is denominated in the currency of the borrowing. Generally, borrowings are denominated in currencies that match the cash flows generated by the underlying operations of the Group, primarily KRW, USD and JPY.

In respect of other monetary assets and liabilities denominated in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances. In relation to the currency fluctuation, the Group adopts policies to adjust factoring volumes of foreign currency denominated receivables or utilizing usance as a means to settle payables for the facilities.

(v) Interest rate risk

Interest rate risk arises principally from the Group's debentures and borrowings. The Group has not entered into any interest rate swap contracts as of December 31, 2012 and 2011 to hedge interest rate risk.



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## Notes to the Consolidated Financial Statements

For the years ended December 31, 2010, 2011 and 2012

**5. Risk Management, Continued****(vi) Equity price risk**

The Group holds equity securities which are classified as available-for-sale financial assets. Equity securities are valued at fair value and are exposed to the risk of price changes in the securities market. Management believes that equity price risk does not have a significant impact on the Group's financial position or results of operations since exposure to equity price risk is limited.

**(b) Capital Management**

Management's policy is to maintain a capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Liabilities to equity ratio, net borrowings to equity ratio and other financial ratios are used by management to achieve an optimal capital structure. Management also monitors the level of dividends to ordinary shareholders. Equity, defined by IFRS, is identical to the definition of capital, managed by management.

<i>(In millions of won)</i>	<b>December 31, 2011</b>	<b>December 31, 2012</b>
Total liabilities	15,031,903	14,215,331
Total equity	10,131,028	10,240,180
Cash and deposits in banks (*1)	2,332,977	2,653,753
Borrowings	4,610,367	4,455,857
Total liabilities to equity ratio	148%	139%
Net borrowings to equity ratio (*2)	22%	18%

(\*1) Cash and deposits in banks consists of cash and cash equivalents and deposit in banks.

(\*2) Net borrowings to equity ratio is calculated by dividing total equity with borrowings less cash and deposits in banks.

**6. Cash and Cash Equivalents and Deposits in Banks**

Cash and cash equivalents and deposits in banks at the reporting date are as follows:

<i>(In millions of won)</i>	<b>December 31, 2011</b>	<b>December 31, 2012</b>
<b>Current assets</b>		
<b>Cash and cash equivalents</b>		
Demand deposits	1,517,977	2,338,661
<b>Deposits in banks</b>		
Time deposits	800,000	300,092

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Restricted cash	15,000	15,000
	815,000	315,092

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## Notes to the Consolidated Financial Statements

For the years ended December 31, 2010, 2011 and 2012

**7. Receivables and Other Current Assets**

- (a) Trade accounts and notes receivable at the reporting date are as follows:

<i>(In millions of won)</i>	<b>December 31, 2011</b>	<b>December 31, 2012</b>
Trade, net	2,113,912	2,584,226
Due from related parties	626,195	750,115
	2,740,107	3,334,341

- (b) Other accounts receivable at the reporting date are as follows:

<i>(In millions of won)</i>	<b>December 31, 2011</b>	<b>December 31, 2012</b>
<b>Current assets</b>		
Non-trade accounts receivable, net	197,300	189,924
Accrued income	15,570	9,073
Short-term loans		10
	212,870	199,007

Due from related parties included in other accounts receivable, as of December 31, 2011 and 2012 are 1,772 million and 1,792 million, respectively.

- (c) Other assets at the reporting date are as follows:

<i>(In millions of won)</i>	<b>December 31, 2011</b>	<b>December 31, 2012</b>
<b>Current assets</b>		
Advance payments	12,115	10,514
Prepaid expenses	42,208	45,058
Value added tax refundable	188,599	260,353
Others		9,341
	242,922	325,266
<b>Non-current assets</b>		

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Long-term prepaid expenses	157,344	144,023
Others	21,861	8,287
	179,205	152,310

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## Notes to the Consolidated Financial Statements

For the years ended December 31, 2010, 2011 and 2012

**8. Inventories**

Inventories at the reporting date are as follows:

<i>(In millions of won)</i>	<b>December 31, 2011</b>	<b>December 31, 2012</b>
Finished goods	921,936	1,044,125
Work-in-process	772,206	653,260
Raw materials	458,085	370,653
Supplies	165,143	321,969
	<b>2,317,370</b>	<b>2,390,007</b>

The amount of the inventories recognized as cost of sales and inventory write-downs are as follows:

<i>(In millions of won)</i>	<b>2010</b>	<b>2011</b>	<b>2012</b>
Inventories recognized as cost of sales	21,780,880	23,081,322	26,424,756
Including: valuation loss of inventories	155,142	133,341	135,720

There were no significant reversals of inventory write-downs recognized during 2010, 2011 and 2012.

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## Notes to the Consolidated Financial Statements

For the years ended December 31, 2010, 2011 and 2012

**9. Other Financial Assets**

(a) Other financial assets at the reporting date are as follows:

<i>(In millions of won)</i>	<b>December 31, 2011</b>	<b>December 31, 2012</b>
<b>Current assets</b>		
Deposits	3,297	3,828
<b>Non-current assets</b>		
Guarantee deposits with banks	95	16
Available-for-sale financial assets	13,682	16,136
Deposits	70,171	59,034
Long-term loans	600	
Long-term other accounts receivable		11,246
	84,548	86,432

(b) Available-for-sale financial assets at the reporting date are as follows:

<i>(In millions of won)</i>	<b>December 31, 2011</b>	<b>December 31, 2012</b>
<b>Non-current assets</b>		
<b>Debt securities</b>		
Government bonds	2,838	2,838
<b>Equity securities</b>		
E Ink Holdings, Inc.	6,319	
Intellectual Discovery, Ltd.	2,673	2,673
Siliconworks Co., Ltd.		10,505
Formosa Epitaxy, Inc. ( Formosa )	1,735	
Other	117	120
	13,682	16,136



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## Notes to the Consolidated Financial Statements

For the years ended December 31, 2010, 2011 and 2012

**10. Investments in Equity Accounted Investees**

Investments in equity accounted investees accounted for under the equity method consist of the following:

*(in millions of won)*

Company	Carrying value	
	December 31, 2011	December 31, 2012
Suzhou Raken Technology Ltd.	133,000	128,751
Guangzhou New Vision Technology Research and Development Limited	3,814	3,596
Global OLED Technology LLC	44,147	36,164
Paju Electric Glass Co., Ltd.	69,395	82,855
TLI Inc. (*)	16,410	6,961
AVACO Co., Ltd. (*)	7,328	10,964
New Optics Ltd.	10,986	25,064
LIG ADP Co., Ltd. (*)	2,745	1,730
WooRee E&L Co. Ltd (formerly, WooRee LED Co., Ltd.)	15,080	23,549
Dynamic Solar Design Co., Ltd.	1,538	69
LB Gemini New Growth Fund No.16	13,658	13,680
Can Yang Investments Limited	14,488	13,856
YAS Co., Ltd.	9,814	9,409
Eralite Optoelectronics (Jiangsu) Co., Ltd.	4,173	3,449
Narenanotech Corporation	27,969	26,448
Avatec. Co., Ltd. (*)	10,600	14,685
Glonix Co., Ltd.		928
	385,145	402,158

(\*) Based on quoted market prices at December 31, 2012, the fair values of the investments in TLI Inc., AVACO Co., Ltd., LIG ADP Co., Ltd., and AVATEC Co., Ltd., which are listed companies on the Korea Exchange, are 6,961 million, 15,169 million, 7,320 million and 27,958 million, respectively.

Dividends received from equity accounted investees for the years ended December 31, 2010, 2011 and 2012 amounted to 33,772 million, 6,130 million and 204 million, respectively.

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## Notes to Consolidated Financial Statements

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**10. Investments in Equity Accounted Investees, Continued**

Summary of the financial information of equity accounted investees, not adjusted for the percentage ownership held by the Group:

(a) Summary of the financial information of investments in joint ventures is as follows:

<i>(In millions of won)</i>										
<b>December 31, 2010</b>										
<b>Company</b>	<b>Ownership (%)</b>	<b>Current assets</b>	<b>Non-current assets</b>	<b>Total assets</b>	<b>Current liabilities</b>	<b>Non-current liabilities</b>	<b>Total liabilities</b>	<b>Revenue</b>	<b>Expenses</b>	<b>Profit (loss)</b>
Suzhou Raken Technology Ltd. (*)	51	809,713	114,772	924,485	691,179		691,179	2,101,073	2,063,414	37,659
Guangzhou New Vision Technology Research and Development Limited	50	6,659	422	7,081	2		2	172	1,141	(969)
Global OLED Technology LLC	33	16,197	131,238	147,435	2,020		2,020	5,373	16,866	(11,493)
<b>December 31, 2011</b>										
<i>(In millions of won)</i>										
<b>December 31, 2011</b>										
<b>Company</b>	<b>Ownership (%)</b>	<b>Current assets</b>	<b>Non-current assets</b>	<b>Total assets</b>	<b>Current liabilities</b>	<b>Non-current liabilities</b>	<b>Total liabilities</b>	<b>Revenue</b>	<b>Expenses</b>	<b>Profit (loss)</b>
Suzhou Raken Technology Ltd. (*)	51	694,315	149,727	844,042	585,001		585,001	1,744,325	1,732,866	11,459
Guangzhou New Vision Technology Research and Development Limited	50	7,470	159	7,629	1		1	95	532	(437)
Global OLED Technology LLC	33	12,566	122,823	135,389	505		505	5,245	17,113	(11,868)

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For the years ended December 31, 2010, 2011 and 2012

**10. Investments in Equity Accounted Investees, Continued***(In millions of won)*

Company	Ownership (%)	December 31, 2012						2012		Profit (loss)
		Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities	Revenue	Expenses	
Suzhou Raken Technology Ltd. (*)	51	586,067	126,384	712,451	457,414		457,414	1,967,587	1,956,084	11,503
Guangzhou New Vision Technology Research and Development Limited	50	7,183	9	7,192	1		1	232	225	7
Global OLED Technology LLC	33	7,955	104,155	112,110	1,184	434	1,618	2,402	17,972	(15,570)

- (\*) Despite its 51% equity interest, management concluded that the Controlling Company does not have control of Suzhou Raken Technology Ltd. because the Controlling Company and AmTRAN Technology Co., Ltd., which has a 49% equity interest of the investee, jointly control the board of directors of the investee through equal voting powers. Accordingly, investment in Suzhou Raken Technology Ltd. was accounted for as an equity method investment.

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**10. Investments in Equity Accounted Investees, Continued**

(b) Summary of the financial information of associates at the reporting date is as follows:

<i>(In millions of won)</i>						
December 31, 2010						
Company	Ownership (%)	Total assets	Total liabilities	Total shareholders equity	Sales	Net income (loss)
Paju Electric Glass Co., Ltd.	40	289,865	173,753	116,112	763,750	10,178
TLI Inc. (*1,4)	12	134,759	37,821	96,938	82,689	14,079
AVACO Co., Ltd. (*1,2)	20	113,206	49,913	63,293	205,476	15,622
New Optics Ltd.	42	211,303	174,725	36,578	718,001	8,114
LIG ADP Co., Ltd. (*1)	13	92,071	37,143	54,928	197,245	18,392
WooRee E&L Co., Ltd. (formerly, WooRee LED Co., Ltd.) (*3)	30	121,330	98,152	23,178	73,001	1,046
Dynamic Solar Design Co., Ltd. (*4)	40	6,344	348	5,996	626	(469)
RPO, Inc.	26	11,853	2,968	8,885	376	(9,345)
LB Gemini New Growth Fund No.16(*5)	31	25,939		25,939	1,020	(1,081)
Can Yang Investments Limited (*1, 6)	15	111,912	5	111,907		(4,462)
YAS Co., Ltd. (*1)	20	22,449	9,056	13,393	4,513	623
Eralite Optoelectronics (Jiangsu) Co., Ltd.	20	22,927	52	22,875		(197)
<i>(In millions of won)</i>						
December 31, 2011						
Company	Ownership (%)	Total assets	Total liabilities	Total shareholders equity	Sales	Net income (loss)
Paju Electric Glass Co., Ltd.	40	384,421	202,609	181,812	885,492	53,459
TLI Inc. (*1,4)	12	113,566	14,317	99,249	47,893	2,832
AVACO Co., Ltd. (*1,2)	20	127,373	54,227	73,146	238,589	7,381
New Optics Ltd.	42	163,443	141,532	21,911	562,927	(15,659)
LIG ADP Co., Ltd. (*1)	13	109,520	55,811	53,709	109,388	2,220
WooRee E&L Co., Ltd. (formerly, WooRee LED Co., Ltd.) (*3)	30	160,520	128,441	32,079	226,597	8,750
Dynamic Solar Design Co., Ltd. (*4)	40	3,887	41	3,846	6	(2,150)
LB Gemini New Growth Fund No.16 (*5)	31	45,072	502	44,570	4,545	2,544
Can Yang Investments Limited (*1, 6)	12	334,224	209,233	124,991	18,707	(17,424)
YAS Co., Ltd. (*1)	19	34,534	11,515	23,019	25,408	6,830
Eralite Optoelectronics (Jiangsu) Co., Ltd.	20	22,418	1,553	20,865	74	(3,134)
Narenanotech Corporation	23	103,894	36,596	67,298	43,946	(3,711)
Avatec Co., Ltd. (*7)	20	63,529	13,537	49,992	44,327	6,640

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**10. Investments in Equity Accounted Investees, Continued***(In millions of won)*

Company	December 31, 2012				2012	
	Ownership (%)	Total assets	Total liabilities	Total shareholders equity	Sales	Net income (loss)
Paju Electric Glass Co., Ltd.	40	424,805	214,271	210,534	998,899	51,985
TLI Inc. (*1,4)	12	117,704	18,390	99,314	59,563	(2,087)
AVACO Co., Ltd. (*1,2)	16	129,416	34,943	94,473	91,000	1,973
New Optics Ltd.	42	178,569	110,333	68,236	553,397	36,989
LIG ADP Co., Ltd. (*1)	13	74,355	40,208	34,147	18,103	(18,095)
WooRee E&L Co., Ltd. (formerly, WooRee LED Co., Ltd.) (*3)	30	382,032	313,680	68,352	475,204	20,485
Dynamic Solar Design Co., Ltd. (*4)	40	2,414	15	2,399		(1,447)
LB Gemini New Growth Fund No.16 (*5)	31	45,070	429	44,641	2,526	590
Can Yang Investments Limited (*1, 6)	9	259,547	112,825	146,722	56,614	(3,484)
YAS Co., Ltd. (*1)	19	29,508	9,411	20,097	15,349	(2,970)
Eralite Optoelectronics (Jiangsu) Co., Ltd.	20	17,862	619	17,243	4,868	(2,671)
Narenanotech Corporation	23	103,305	30,166	73,139	55,164	5,841
Avatec Co., Ltd. (*1,7)	17	98,266	11,788	86,478	75,596	18,130
Glonix Co., Ltd. (*8)	20	27,534	22,852	4,682	11,530	(6,094)

(\*1) Although the Controlling Company's share interests in TLI Inc., AVACO Co., Ltd., LIG ADP Co., Ltd., Can Yang Investments Limited, YAS Co., Ltd., and Avatec Co., Ltd. are below 20%, the Controlling Company is able to exercise significant influence through its right to assign a director to the board of directors of each investee and, accordingly, the investments in these investees have been accounted for using the equity method.

(\*2) In 2012, the Controlling Company's ownership in AVACO CO., Ltd. was reduced from 20% to 16% because the Controlling Company did not participate in AVACO Co., Ltd.'s capital increase.

(\*3) As of December 31, 2012 and 2011, the Controlling Company's percentage ownership in the investee represents the Controlling Company's holdings of common shares over total common shares issued.

(\*4) During 2012, the Controlling Company recognized an impairment loss of 890 million for the difference between the carrying amount of and the recoverable amount from the investment in Dynamic Solar Design Co., Ltd., which was acquired for developing, manufacturing and selling solar battery and Flat Panel Display (FPD). Furthermore at December 31, 2012, the Controlling Company recognized an impairment loss of 9,115 million for the difference between the carrying amount of and the recoverable amount from the investment in TLI Inc., which was acquired for manufacturing and selling semiconductor parts used in display panels.

(\*5) The Controlling Company is a member of the limited partnership in the LB Gemini New Growth Fund No.16 (the Fund). In 2012, the Controlling Company received 3,571 million from the Fund as capital distribution and made additional cash investments of 1,533 million each in the Fund in September, November, and December of 2012, respectively. Despite the receipt from the fund and additional investments, there were no changes in the Controlling Company's ownership percentage in the Fund. The Controlling Company is committed to make additional investments of up to an aggregate of 30,000 million.

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For the years ended December 31, 2010, 2011 and 2012

**10. Investments in Equity Accounted Investees, Continued**

- (\*6) In 2012, the Controlling Company's ownership in Can Yang Investments Limited was reduced from 12% to 9% because the Controlling Company did not participate in Can Yang Investments Limited's capital increase.
- (\*7) In 2012, the Controlling Company's ownership in Avatec Co., Ltd. was reduced from 20% to 17% because the Controlling Company did not participate in Avatec Co., Ltd.'s capital increase.
- (\*8) In April 2012, the Controlling Company acquired 4,000,000 common shares (20%) of GLONIX Co., Ltd., which manufactures liquid crystal displays, for 2,000 million. As of December 31, 2012, 20% of GLONIX Co., Ltd. is owned by the Controlling Company and the Controlling Company has the right to assign a director in the board of directors of GLONIX Co., Ltd.

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## Notes to Consolidated Financial Statements

For the years ended December 31, 2010, 2011 and 2012

**11. Property, Plant and Equipment**

Changes in property, plant and equipment for the year ended December 31, 2011 are as follows:

<i>(In millions of won)</i>	<b>Land</b>	<b>Buildings and structures</b>	<b>Machinery and equipment</b>	<b>Furniture and fixtures</b>	<b>Construction- in-progress (*1)</b>	<b>Others</b>	<b>Total</b>
Acquisition cost as of January 1, 2011	442,962	3,879,677	24,099,414	672,508	2,703,860	242,687	32,041,108
Accumulated depreciation as of January 1, 2011		(876,361)	(17,626,751)	(529,303)		(193,292)	(19,225,707)
Book value as of January 1, 2011	442,962	3,003,316	6,472,663	143,205	2,703,860	49,395	12,815,401
Additions					5,264,019		5,264,019
Depreciation		(193,120)	(3,141,295)	(61,324)		(17,711)	(3,413,450)
Impairment loss			(138)	(3,222)		(229)	(3,589)
Disposals		(166)	(563)	(366)		(15)	(1,110)
Others (*2)	1,290	278,471	4,091,712	74,323	(4,478,639)	32,843	
Effect of movements in exchange rates		9,843	18,757	2,163	5,537	883	37,183
Subsidy received		(22)	(1,583)				(1,605)
Book value as of December 31, 2011	444,252	3,098,322	7,439,553	154,779	3,494,777	65,166	14,696,849
Acquisition cost as of December 31, 2011	444,252	4,170,768	28,028,986	720,716	3,494,777	261,526	37,121,025
Accumulated depreciation as of December 31, 2011		(1,072,446)	(20,589,295)	(562,715)		(196,131)	(22,420,587)
Accumulated impairment loss as of December 31, 2011			(138)	(3,222)		(229)	(3,589)

(\*1) As of December 31, 2011, construction-in-progress relates to construction of plants including their machinery.

(\*2) Others are mainly amounts transferred from construction-in-progress.

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## Notes to Consolidated Financial Statements

For the years ended December 31, 2010, 2011 and 2012

**11. Property, Plant and Equipment, Continued**

Changes in property, plant and equipment for the year ended December 31, 2012 are as follows:

<i>(In millions of won)</i>	<b>Land</b>	<b>Buildings and structures</b>	<b>Machinery and equipment</b>	<b>Furniture and fixtures</b>	<b>Construction-in-progress (*1)</b>	<b>Others</b>	<b>Total</b>
Acquisition cost as of January 1, 2012	444,252	4,170,768	28,028,986	720,716	3,494,777	261,526	37,121,025
Accumulated depreciation as of January 1, 2012		(1,072,446)	(20,589,295)	(562,715)		(196,131)	(22,420,587)
Accumulated impairment loss as of January 1, 2012			(138)	(3,222)		(229)	(3,589)
Book value as of January 1, 2012	444,252	3,098,322	7,439,553	154,779	3,494,777	65,166	14,696,849
Additions					2,726,336		2,726,336
Depreciation		(235,016)	(3,873,305)	(68,643)		(19,523)	(4,196,487)
Disposals	(2,787)	(7,010)	(42,127)	(1,085)		(3,641)	(56,650)
Others (*2)	(473)	1,420,649	3,762,658	47,981	(5,251,832)	18,615	(2,402)
Effect of movements in exchange rates		(28,092)	(22,684)	(2,034)	(2,379)	(984)	(56,173)
Subsidy received		(1,792)	(2,170)				(3,962)
Book value as of December 31, 2012	440,992	4,247,061	7,261,925	130,998	966,902	59,633	13,107,511
Acquisition cost as of December 31, 2012	440,992	5,546,497	31,490,302	755,948	966,902	256,806	39,457,447
Accumulated depreciation as of December 31, 2012		(1,299,436)	(24,228,377)	(624,950)		(197,173)	(26,349,936)
Accumulated impairment loss as of December 31, 2012							

(\*1) As of December 31, 2012, construction-in-progress relates to construction of plants including their machinery.

(\*2) Others are mainly amounts transferred from construction-in-progress.

The capitalized borrowing costs and capitalization rate for the years ended December 31, 2010, 2011 and 2012 are as follows:



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*(In millions of won)*

	2010	2011	2012
Capitalized borrowing costs	21,412	23,139	24,612
Capitalization rate	3.97%	3.65%	3.29%

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## Notes to Consolidated Financial Statements

For the years ended December 31, 2010, 2011 and 2012

**12. Intangible Assets**

Changes in intangible assets for the year ended December 31, 2011 are as follows:

<i>(In millions of won)</i>	Intellectual property rights	Software	Memberships	Development in-progress costs	Construction- in-progress (software)	Customer relationships	Technology	Goodwill	Others (*2)	Total
Acquisition cost as of January 1, 2011	507,862	317,807	47,147	265,092	11,463	24,011	11,074	23,912	13,084	1,221,452
Accumulated amortization as of January 1, 2011	(436,151)	(119,179)		(113,395)		(2,300)	(742)		(9,784)	(681,551)
Book value as of January 1, 2011	71,711	198,628	47,147	151,697	11,463	21,711	10,332	23,912	3,300	539,901
Additions-internally developed				127,381						127,381
Other additions	21,890		2,931		87,346				7	112,174
Amortization (*1)	(11,501)	(86,021)		(134,867)		(3,424)	(1,110)		(1,073)	(237,996)
Disposals	(1,588)									(1,588)
Impairment loss		(1,039)	(4,535)							(5,574)
Transfer from construction-in-progress		87,990			(87,990)					
Effect of movements in exchange rates	18	801							(3)	816
Book value as of December 31, 2011	80,530	200,359	45,543	144,211	10,819	18,287	9,222	23,912	2,231	535,114
Acquisition cost as of December 31, 2011	523,873	407,832	50,078	392,473	10,819	24,011	11,074	23,912	13,090	1,457,162
Accumulated amortization as of December 31, 2011	(443,343)	(206,434)		(248,262)		(5,724)	(1,852)		(10,859)	(916,474)
Accumulated impairment loss as of December 31, 2011		(1,039)	(4,535)							(5,574)
Remaining amortization period (year)	7.46	2.49	N/A	0.55	N/A	5.33	8.33	N/A	2.60	

(\*1) The Group has classified the amortization as manufacturing overhead costs, selling expenses and administrative expenses, and research and development expenses.

(\*2) Others mainly consist of rights to use of electricity and gas supply facilities.



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## Notes to Consolidated Financial Statements

For the years ended December 31, 2010, 2011 and 2012

**12. Intangible Assets, Continued**

Changes in intangible assets for the year ended December 31, 2012 are as follows:

	Intellectual property rights	Software	Memberships	Development in-progress costs (*3)	Construction- (software)	Customer relationships	Technology	Goodwill (*3)	Others (*2)	Total
(In millions of won)										
Acquisition cost as of January 1, 2012	523,873	407,832	50,078	392,473	10,819	24,011	11,074	23,912	13,090	1,457,162
Accumulated amortization as of January 1, 2012	(443,343)	(206,434)		(248,262)		(5,724)	(1,852)		(10,859)	(916,474)
Accumulated impairment loss as of January 1, 2012		(1,039)	(4,535)							(5,574)
Book value as of January 1, 2012	80,530	200,359	45,543	144,211	10,819	18,287	9,222	23,912	2,231	535,114
Additions-internally developed				198,225						198,225
Other additions	19,079		155		63,219					82,453
Amortization (*1)	(13,413)	(110,958)		(143,079)		(3,440)	(1,106)		(929)	(272,925)
Disposals		(610)							(94)	(704)
Impairment loss			(3,393)	(27,300)				(9,319)		(40,012)
Transfer from construction-in-progress		70,777			(71,816)					(1,039)
Effect of movements in exchange rates		(710)		(2,881)					81	(3,510)
Book value as of December 31, 2012	86,196	158,858	42,305	169,176	2,222	14,847	8,116	14,593	1,289	497,602
Acquisition cost as of December 31, 2012	542,952	470,074	50,233	529,349	2,222	24,011	11,074	23,912	13,077	1,666,904
Accumulated amortization as of December 31, 2012	(456,756)	(311,216)		(332,873)		(9,164)	(2,958)		(11,788)	(1,124,755)
Accumulated impairment loss as of December 31, 2012			(7,928)	(27,300)				(9,319)		(44,547)
Remaining amortization period (year)	6.62	2.69	N/A	0.58	N/A	4.33	7.33	N/A	2.17	

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- (\*1) The Group has classified the amortization as manufacturing overhead costs, selling expenses, administrative expenses and research and development expenses.
- (\*2) Others mainly consist of rights to use of electricity and gas supply facilities.
- (\*3) During 2012, the Group recognized full impairment loss for the difference between the carrying amount and the recoverable amount of goodwill and in-process research and development because the economic benefit from these assets are estimated to be less than previously expected.

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## Notes to Consolidated Financial Statements

For the years ended December 31, 2010, 2011 and 2012

**13. Financial Instruments**

## (a) Credit Risk

## (i) Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date is as follows:

<i>(In millions of won)</i>	<b>December 31, 2011</b>	<b>December 31, 2012</b>
Cash and cash equivalents	1,517,977	2,338,661
Deposits in banks	815,000	315,092
Trade accounts and notes receivable, net	2,740,107	3,334,341
Other accounts receivable, net	212,870	199,007
Available-for-sale financial assets	2,838	2,838
Other non-current financial assets		11,246
Deposits	73,468	62,862
Others	695	16
	<b>5,362,955</b>	<b>6,264,063</b>

The maximum exposure to credit risk for trade accounts and notes receivable at the reporting date by geographic region was as follows:

<i>(In millions of won)</i>	<b>December 31, 2011</b>	<b>December 31, 2012</b>
Domestic	56,200	205,454
Euro-zone countries	478,650	415,664
Japan	60,598	79,564
United States	777,292	1,392,303
China	1,003,650	881,018
Taiwan	279,919	166,839
Others	83,798	193,499
	<b>2,740,107</b>	<b>3,334,341</b>

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## Notes to Consolidated Financial Statements

For the years ended December 31, 2010, 2011 and 2012

**13. Financial Instruments, Continued**

## (ii) Impairment loss

The aging of trade accounts and notes receivable at the reporting date was as follows:

	December 31, 2011		December 31, 2012	
	Book value	Impairment loss	Book value	Impairment loss
<i>(In millions of won)</i>				
Not past due	2,704,076	(654)	3,298,888	(1,007)
Past due 1-15 days	7,710	(2)	18,307	(5)
Past due 16-30 days	14,327	(2)	12,152	(2)
Past due 31-60 days	14,252	(3)	2,829	(3)
Past due more than 60 days	405	(2)	3,184	(2)
	2,740,770	(663)	3,335,360	(1,019)

The movement in the allowance for impairment in respect of receivables for the years ended December 31, 2010, 2011 and 2012 was as follows:

<i>(In millions of won)</i>	2010	2011	2012
Balance at the beginning of the year	365	532	663
Bad debt expenses charged to selling expenses	167	131	356
Balance at the end of the year	532	663	1,019

There were no receivables written-off for the years ended December 31, 2010, 2011 and 2012.

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## Notes to Consolidated Financial Statements

For the years ended December 31, 2010, 2011 and 2012

**13. Financial Instruments, Continued**

## (b) Liquidity Risk

(i) The following are the contractual maturities of financial liabilities, including estimated interest payments, as of December 31, 2012.

(In millions of won)	Contractual cash flows						
	Carrying amount	Total	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
Non-derivative financial liabilities							
Secured bank loan	53,555	55,153	639	27,417	27,097		
Unsecured bank loans	1,783,698	1,951,813	370,949	101,035	489,042	988,780	2,007
Unsecured bond issues	2,618,604	2,894,163	628,404	46,847	727,063	1,491,849	
Trade accounts and notes payables	4,147,036	4,147,036	4,147,036				
Other accounts payable	2,641,958	2,642,294	2,642,294				
Other non-current liabilities	30	30			30		
	11,244,881	11,690,489	7,789,322	175,299	1,243,232	2,480,629	2,007

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

(ii) As of December 31, 2012, there are no derivatives designated as cash flow hedges.



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## Notes to Consolidated Financial Statements

For the years ended December 31, 2010, 2011 and 2012

**13. Financial Instruments, Continued**

## (c) Currency Risk

## (i) Exposure to currency risk

The Group's exposure to foreign currency risk based on notional amounts at the reporting date is as follows:

(In millions)	December 31, 2011						
	USD	JPY	CNY	TWD	EUR	PLN	SGD
Cash and cash equivalents	822	14,286	439	4,543	40	7	
Trade accounts and notes receivable	2,064	645	1,054		42		
Other accounts receivable	80	111	134	222	10		
Available-for-sale financial assets	5			49			
Other assets denominated in foreign currencies	1	182	20	14			1
Trade accounts payable	(1,921)	(39,932)	(1,629)		(25)		
Other accounts payable	(64)	(26,169)	(401)	(166)	(84)	(10)	
Other non-current accounts payable	(13)				(26)		
Debt	(1,044)	(6,000)	(142)		(27)		
Bonds	(347)	(9,987)					
Financial liabilities at fair value through profit or loss	(76)						
Gross statement of financial position exposure	(493)	(66,864)	(525)	4,662	(70)	(3)	1
Forward exchange contracts	(160)						
Net exposure	(653)	(66,864)	(525)	4,662	(70)	(3)	1

(In millions)	December 31, 2012						
	USD	JPY	CNY	TWD	EUR	PLN	SGD
Cash and cash equivalents	1,466	7,540	536	2	61	2	
Trade accounts and notes receivable	2,656	433	1,223		95	37	
Other accounts receivable	66	95	340		1		
Available-for-sale financial assets				3			
Other assets denominated in foreign currencies	1	178	20	11			1
Trade accounts payable	(2,234)	(31,162)	(1,847)	(463)	(67)		
Other accounts payable	(109)	(12,948)	(725)	(8)	(38)	(8)	
Debt	(898)		(33)		(5)		
Bonds	(349)						
Net exposure	599	(35,864)	(486)	(455)	47	31	1



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## Notes to Consolidated Financial Statements

For the years ended December 31, 2010, 2011 and 2012

**13. Financial Instruments, Continued**

Significant exchange rates applied during the reporting periods are as follows:

<i>(In won)</i>	Average rate			Reporting date spot rate	
	2010	2011	2012	December 31, 2011	December 31, 2012
USD	1,156.62	1,108.12	1,126.88	1,153.30	1,071.10
JPY	13.20	13.19	14.13	14.85	12.48
CNY	170.84	171.45	178.59	182.51	171.88
TWD	36.71	37.71	38.11	38.13	36.90
EUR	1,533.33	1,541.88	1,448.63	1,494.10	1,416.26
PLN	383.99	375.28	346.41	338.65	348.21
SGD	848.84	881.17	901.71	886.44	875.48

## (ii) Sensitivity analysis

A weaker won, as indicated below, against the following currencies which comprise the Group's assets or liabilities denominated in a foreign currency as of December 31, 2011 and 2012, would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Group considers to be reasonably possible as of the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, would remain constant. The changes in equity and profit (or loss) before tax would have been as follows:

<i>(In millions of won)</i>	December 31, 2011		December 31, 2012	
	Equity	Profit or loss	Equity	Profit or loss
USD (5 percent weakening)	(29,623)	(28,032)	21,637	32,664
JPY (5 percent weakening)	(40,040)	(35,494)	(17,921)	(13,935)
CNY (5 percent weakening)	(4,830)		(4,176)	
TWD (5 percent weakening)	8,974	162	(838)	(5)
EUR (5 percent weakening)	(4,900)	(1,957)	2,491	2,629
PLN (5 percent weakening)	(85)	128	537	8
SGD (5 percent weakening)	4		16	

A stronger won against the above currencies as of December 31, 2011 and 2012 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

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## Notes to Consolidated Financial Statements

For the years ended December 31, 2010, 2011 and 2012

**13. Financial Instruments, Continued**

- (d) Interest Rate Risk  
(i) Profile

The interest rate profile of the Group's interest-bearing financial instruments at the reporting date is as follows:

<i>(In millions of won)</i>	<b>December 31, 2011</b>	<b>December 31, 2012</b>
<b>Fixed rate instruments</b>		
Financial assets	2,335,815	2,656,591
Financial liabilities	(2,685,175)	(3,077,467)
	(349,360)	(420,876)
<b>Variable rate instruments</b>		
Financial assets	600	
Financial liabilities	(1,925,192)	(1,378,390)
	(1,924,592)	(1,378,390)

- (ii) Equity and profit or loss sensitivity analysis for variable rate instruments

For the years ended December 31, 2011 and 2012, a change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss before tax by the amounts shown below for the respective following years. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

<i>(In millions of won)</i>	<b>Equity</b>		<b>Profit or loss</b>	
	<b>1% increase</b>	<b>1% decrease</b>	<b>1% increase</b>	<b>1% decrease</b>
<b>December 31, 2011</b>				
Variable rate instruments	(14,588)	14,588	(14,588)	14,588
<b>December 31, 2012</b>				
Variable rate instruments	(10,448)	10,448	(10,448)	10,448

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## Notes to Consolidated Financial Statements

For the years ended December 31, 2010, 2011 and 2012

**13. Financial Instruments, Continued**

## (e) Fair Values

## (i) Fair values versus carrying amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown in the consolidated statement of financial position, are as follows:

	December 31, 2011		December 31, 2012	
	Carrying amounts	Fair values	Carrying amounts	Fair values
<i>(In millions of won)</i>				
<b>Assets carried at fair value</b>				
Available-for-sale financial assets	11,009	11,009	13,463	13,463
<b>Assets carried at amortized cost</b>				
Cash and cash equivalents	1,517,977	1,517,977	2,338,661	2,338,661
Deposits in banks	815,000	815,000	315,092	315,092
Trade accounts and notes receivable	2,740,107	2,740,107	3,334,341	3,334,341
Other accounts receivable	212,870	212,870	199,007	199,007
Other non-current financial assets			11,246	11,246
Deposits	73,468	73,468	62,862	62,862
Others	695	695	16	16
	5,360,117	5,360,117	6,261,225	6,261,225
<b>Liabilities carried at fair value</b>				
Financial liabilities at fair value through profit or loss	87,339	87,339		
Derivatives	6,969	6,969		
	94,308	94,308		
<b>Liabilities carried at amortized cost</b>				
Secured bank loans	57,665	57,665	53,555	53,555
Unsecured bank loans	1,673,387	1,620,010	1,783,698	1,823,514
Unsecured bond issues	2,791,976	2,829,206	2,618,604	2,677,038
Trade accounts and notes payable	3,782,627	3,782,627	4,147,036	4,147,036
Other accounts payable	3,905,496	3,905,496	2,641,958	2,641,901
Other non-current liabilities	53,457	53,379	30	30
	12,264,608	12,248,383	11,244,881	11,343,074

The basis for determining fair values is disclosed in note 4.



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## Notes to Consolidated Financial Statements

For the years ended December 31, 2010, 2011 and 2012

**13. Financial Instruments, Continued**

(e) Fair Values, Continued

(ii) Interest rates used for determining fair value

The significant interest rates applied for determination of the above fair value at the reporting date are as follows:

	December 31, 2011	December 31, 2012
Derivatives	3.90%	Not applicable
Debentures, loans and borrowings	4.19%	3.69%
(iii) Fair value hierarchy		

The table below analyzes financial instruments carried at fair value, by valuation method. The different levels have been defined as follows: "

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: inputs for the asset or liability that are not based on observable market data

Financial instruments carried at fair value as of December 31, 2011 and 2012 are as follows:

<i>(In millions of won)</i>	Level 1	Level 2	Level 3	Total
<b>December 31, 2011</b>				
Assets				
Available-for-sale financial assets	11,009			11,009
Liabilities				
Financial liabilities at fair value through profit or loss	(87,339)			(87,339)
Derivatives		(6,969)		(6,969)
	(87,339)	(6,969)		(94,308)

<i>(In millions of won)</i>	Level 1	Level 2	Level 3	Total
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**December 31, 2012**

Assets

Available-for-sale financial assets	13,463	13,463
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## Notes to Consolidated Financial Statements

For the years ended December 31, 2010, 2011 and 2012

**13. Financial Instruments, Continued**

## (e) Fair Values, Continued

The derivative financial liabilities are classified as Level 2 since all significant inputs to compute the fair value of the over-the-counter derivatives were observable.

Changes in Level 3 financial instruments for the year ended December 31, 2011 are as follows:

			Net realized/unrealized gains included in		
	January 1, 2011	Purchases, disposal and others	Profit or loss	Other comprehensive income	Transfer to other levels
(In millions of won)					
<b>December 31, 2011</b>					<b>December 31, 2011</b>
Available-for-sale financial assets	26,085	(34,257)		8,172	

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## Notes to Consolidated Financial Statements

For the years ended December 31, 2010, 2011 and 2012

**14. Financial Liabilities**

(a) Financial liabilities at the reporting date are as follows:

<i>(In millions of won)</i>	<b>December 31, 2011</b>	<b>December 31, 2012</b>
<b>Current</b>		
Short-term borrowings	22,200	35,739
Current portion of long-term debt	778,464	979,533
Current portion of financial liabilities at fair value through profits or loss	87,339	
Derivatives	6,969	
	894,972	1,015,272
<b>Non-current</b>		
Won denominated borrowings	366,629	807,005
Foreign currency denominated borrowings	1,011,734	589,105
Bonds	2,344,001	2,044,475
	3,722,364	3,440,585

The above financial liabilities, except for convertible bonds which are designated as financial liabilities at fair value through profit or loss and derivative liabilities, are measured at amortized cost.

(b) Short-term borrowings at the reporting date are as follows:

*(In millions of won, USD and CNY)*

<b>Lender</b>	<b>Annual interest rate as of December 31, 2012 (*)</b>	<b>December 31, 2011</b>	<b>December 31, 2012</b>
Bank of China and others	3ML+0.80%, 1.60 ~ 6.56%	21,489	35,739
Hana Bank		711	
Foreign currency equivalent		USD 19	USD 28 CNY 31
		22,200	35,739

(\*) ML represents Month LIBOR (London Inter-Bank Offered Rates).

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## Notes to Consolidated Financial Statements

For the years ended December 31, 2010, 2011 and 2012

**14. Financial Liabilities, Continued**

(c) Local currency long-term debt at the reporting date is as follows:  
*(In millions of won)*

<b>Lender</b>	<b>Annual interest rate as of December 31, 2012</b>	<b>December 31, 2011</b>	<b>December 31, 2012</b>
Shinhan Bank and others	3-year Korean Treasury Bond rate less 1.25%, 2.75%	20,817	16,629
National Agricultural Cooperative Federation and others	4.51%~5.21%, 1-year Bank bonds rate plus 1.40%	350,300	845,072
Less current portion of long-term debt		(4,488)	(54,696)
		366,629	807,005

(d) Foreign currency long-term debt at the reporting date is as follows:  
*(In millions of won, USD, JPY, CNY and EUR)*

<b>Lender</b>	<b>Annual interest rate as of December 31, 2012 (*)</b>	<b>December 31, 2011</b>	<b>December 31, 2012</b>
The Export-Import Bank of Korea	6ML+0.69%	40,366	26,777
Kookmin Bank and others	6ML+1.78%, 3ML+1.70%~2.25%	1,225,110	905,080
China Communication Bank and others	3M EURIBOR+0.60%, 90% of the Basic Rate published by the People's Bank of China	72,259	7,956
Foreign currency equivalent		USD 1,025 CNY 142 EUR 27 JPY 6,000	USD 870 CNY 2 EUR 5

Less current portion of long-term debt	(326,001)	(350,708)
	1,011,734	589,105

(\*) EURIBOR represents Euro Interbank Offered Rates.

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## Notes to Consolidated Financial Statements

For the years ended December 31, 2010, 2011 and 2012

**14. Financial Liabilities, Continued**

(e) Details of debentures issued and outstanding at the reporting date are as follows:

<i>(In millions of won, USD and JPY)</i>	<b>Maturity</b>	<b>Annual interest rate as of December 31, 2012</b>	<b>December 31, 2011</b>	<b>December 31, 2012</b>
<b>Local currency debentures (*1)</b>				
Publicly issued debentures	March 2013~ October 2017	3.22~5.89%	2,250,000	2,250,000
Less discount on debentures			(6,721)	(5,579)
Less current portion of debentures			(299,658)	(199,946)
			1,943,621	2,044,475
<b>Foreign currency debentures (*1)</b>				
Floating-rate bonds	April 2013	3ML+1.80%	552,171	374,885
Foreign currency equivalent			USD 350	USD 350
			JPY 10,000	
Less discount on bonds			(3,474)	(702)
Less current portion of bonds			(148,317)	(374,183)
			400,380	
<b>Financial liabilities at fair value through profit or loss (*2)</b>				
Convertible bonds			87,339	
Foreign currency equivalent			USD76	
Less current portion of convertible bonds			(87,339)	
			2,344,001	2,044,475

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- (\*1) Principal of the local and foreign currency debentures is to be repaid at maturity and interests are paid quarterly in arrears.
- (\*2) The convertible bonds which were recognized as financial liabilities at fair value through profit or loss as of December 31, 2011 were repaid at 116.77% of the principal amount on April 18, 2012 upon maturity.

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## Notes to Consolidated Financial Statements

For the years ended December 31, 2010, 2011 and 2012

**15. Provisions**

Changes in provisions for the year ended December 31, 2012 are as follows:

<i>(In millions of won)</i>	<b>Litigations and claims (*1)</b>	<b>Warranties (*2)</b>	<b>Others</b>	<b>Total</b>
Balance of January 1, 2012	222,703	61,657	443	284,803
Additions	445,421	78,526	1,083	525,030
Usage	(467,535)	(84,799)		(552,334)
Balance at December 31, 2012	200,589	55,384	1,526	257,499
There of non-current		6,515		6,515

(\*1) The Group expects that the provision for litigation and claims will be utilized in the next year.

(\*2) The provision for warranties covers defective products and is normally applicable for eighteen months from the date of purchase. The warranty liability is calculated by using historical and anticipated rates of warranty claims, and costs per claim to satisfy the Group's warranty obligation.

**16. The Nature of Expenses and Others**

The classification of expenses by nature for the years ended December 31, 2010, 2011 and 2012 are as follows:

<i>(In millions of won)</i>	<b>2010</b>	<b>2011</b>	<b>2012</b>
Changes in inventories	(547,436)	(102,154)	(72,637)
Purchase of raw materials, merchandise and others	15,933,940	15,714,809	17,993,091
Depreciation and amortization	2,925,378	3,651,446	4,469,412
Labor costs	1,911,925	2,192,328	2,500,323
Supplies and others	1,062,504	1,027,734	883,155
Outsourcing fee	103,424	138,638	197,482
Shipping costs	414,563	313,658	428,762
Utility expense	480,605	576,085	675,851
Fees and commissions	372,096	424,545	443,998
After-sale service expenses	203,450	72,350	106,391
Others	1,273,148	1,209,588	1,394,876
	24,133,597	25,219,027	29,020,704

Total expenses consist of cost of sales, selling, administrative, research and development expenses and other expenses, excluding foreign exchange differences.

For the year ended December 31, 2012, other income and other expenses contained exchange differences amounting to 1,228,847 million and 1,095,280 million, respectively (for the year ended December 31, 2010: 1,465,830 million and 1,550,909 million, respectively; for the year



ended December 31, 2011: 1,190,793 million and 1,220,143 million, respectively) (note 26).

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## Notes to Consolidated Financial Statements

For the years ended December 31, 2010, 2011 and 2012

**17. Selling and Administrative Expenses**

Details of selling and administrative expenses for the years ended December 31, 2010, 2011 and 2012 are as follows:

<i>(In millions of won)</i>	<b>2010</b>	<b>2011</b>	<b>2012</b>
Salaries	206,768	202,750	223,221
Expenses related to defined benefit plan	14,268	20,197	21,080
Other employee benefits	54,564	63,314	56,967
Shipping costs	332,046	262,247	349,691
Fees and commissions	163,251	173,918	190,207
Depreciation	49,786	59,182	112,890
Taxes and dues	24,267	31,987	28,444
Advertising	87,945	136,062	104,114
After-sale service	203,450	72,350	106,391
Rent	21,204	28,262	25,829
Insurance	7,997	8,846	11,197
Travel	25,140	26,014	20,518
Training	17,040	17,949	12,856
Others	66,508	54,852	44,031
	<b>1,274,234</b>	<b>1,157,930</b>	<b>1,307,436</b>

The expenses for the year ended December 31, 2010 and 2011 were reclassified to conform to the criteria of classification for the year ended December 31, 2012 as follows:

<i>(In millions of won)</i>	<b>2010</b>	<b>2011</b>	<b>2012</b>
<b>Selling and administrative expenses before the reclassification</b>	<b>1,367,411</b>	<b>1,292,756</b>	<b>1,449,487</b>
<b>Reclassification items</b>			
Amortization(*)	(93,177)	(134,826)	(142,051)
<b>Selling and administrative expenses after the reclassification</b>	<b>1,274,234</b>	<b>1,157,930</b>	<b>1,307,436</b>

(\*) Amortization expense of capitalized development costs is reclassified as research and development expense.

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## Notes to Consolidated Financial Statements

For the years ended December 31, 2010, 2011 and 2012

**18. Employee Benefits**

The Group's primary defined benefit plan provides a lump-sum payment to an employee based on final salary rates and length of service at the time the employee leaves the Controlling Company.

- (a) Recognized liabilities for defined benefit obligations at the reporting date are as follows:

<i>(In millions of won)</i>	<b>December 31, 2011</b>	<b>December 31, 2012</b>
Present value of partially funded defined benefit obligations	486,891	672,370
Fair value of plan assets	(340,253)	(491,730)
	146,638	180,640

- (b) Changes in the present value of the defined benefit obligations for the years ended December 31, 2011 and 2012 are as follows:

<i>(In millions of won)</i>	<b>2011</b>	<b>2012</b>
Opening defined benefit obligations	360,540	486,891
Current service cost	107,338	130,160
Interest cost	18,985	22,909
Actuarial losses on plan liabilities (before tax)	24,984	75,921
Benefit payments	(24,429)	(40,913)
Transfers from related parties	(527)	(2,598)
Closing defined benefit obligations	486,891	672,370

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

<i>(In millions of won)</i>	<b>2011</b>	<b>2012</b>
Opening fair value of plan assets	281,825	340,253
Expected return on plan assets	12,353	14,190
Actuarial gains on plan assets (before tax)	1,256	199
Contributions by employer directly to plan assets	60,000	160,000
Benefit payments	(15,181)	(22,912)
Closing fair value of plan assets	340,253	491,730



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## Notes to Consolidated Financial Statements

For the years ended December 31, 2010, 2011 and 2012

**18. Employee Benefits, Continued**

(d) Plan assets at the reporting date are as follows:

<i>(In millions of won)</i>	<b>December 31, 2011</b>	<b>December 31, 2012</b>
Deposits with financial institutions	340,253	491,730

As of December 31, 2012, plan assets mainly consist of deposits in banks, which guarantee the payment of their principal and interest. The Group expects to make a contribution of 95,361 million to the defined benefit plans during the next financial year.

(e) Expenses recognized in profit or loss for the years ended December 31, 2010, 2011 and 2012 are as follows:

<i>(In millions of won)</i>	<b>2010</b>	<b>2011</b>	<b>2012</b>
Current service cost	87,928	107,338	130,160
Interest cost	14,711	18,985	22,909
Expected return on plan assets	(12,946)	(12,353)	(14,190)
Past service cost	12,778		
	102,471	113,970	138,879

Expenses are recognized in the following line items in the consolidated statements of comprehensive income:

<i>(In millions of won)</i>	<b>2010</b>	<b>2011</b>	<b>2012</b>
Cost of sales	81,225	87,044	108,801
Selling expenses	6,268	8,333	10,087
Administrative expenses	7,531	10,123	10,195
Research and development expenses	7,447	8,470	9,796
	102,471	113,970	138,879

(f) Cumulative amount of actuarial loss, net of income taxes, recognized in other comprehensive income for the years ended December 31, 2010, 2011 and 2012 is as follows:

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*(In millions of won)*

	<b>2010</b>	<b>2011</b>	<b>2012</b>
Cumulative amount at January 1	(14,443)	(11,277)	(28,950)
Recognized during the period	3,166	(17,673)	(57,574)
Cumulative amount at December 31	(11,277)	(28,950)	(86,524)

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## Notes to Consolidated Financial Statements

For the years ended December 31, 2010, 2011 and 2012

**18. Employee Benefits, Continued**

(g) Principal actuarial assumptions at the reporting date (expressed as weighted averages) are as follows:

	2010	2011	2012
Expected rate of salary increase	5.6%	5.6%	5.1%
Discount rate for defined benefit obligations	5.5%	4.9%	4.0%
Expected long-term rate of return on assets	4.4%	4.3%	4.0%

The expected long-term rate of return is based on the portfolio as a whole and not on the sum of the returns on individual asset categories.

Assumptions regarding future mortality are based on published statistics and mortality tables. The current mortality underlying the values of the liabilities in the defined benefit plans are as follows:

		December 31, 2011	December 31, 2012
Twenties	Males	0.02%	0.01%
	Females	0.01%	0.00%
Thirties	Males	0.02%	0.02%
	Females	0.01%	0.01%
Forties	Males	0.04%	0.04%
	Females	0.02%	0.02%
Fifties	Males	0.09%	0.08%
	Females	0.05%	0.04%

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## Notes to Consolidated Financial Statements

For the years ended December 31, 2010, 2011 and 2012

**19. Other Liabilities**

Other liabilities at the reporting date are as follows:

<i>(In millions of won)</i>	<b>December 31, 2011</b>	<b>December 31, 2012</b>
<b>Current liabilities</b>		
Withholdings	14,808	22,929
Unearned revenues	4,744	4,732
Share-based payment liabilities	4	
	19,556	27,661
<b>Non-current liabilities</b>		
Long-term accrued expenses	333,459	319,499
Long-term other accounts payable	226,496	30
Long-term unearned revenues	16,958	12,226
	576,913	331,755

**20. Commitments****Factoring and securitization of accounts receivable**

The Controlling Company has agreements with Korea Development Bank and several other banks for accounts receivable sales negotiating facilities of up to an aggregate of USD 1,478 million ( 1,583,600 million) and JPY 5,000 million ( 62,375 million) in connection with its export sales transactions with its subsidiaries. As of December 31, 2012, no short-term borrowings were outstanding in connection with these agreements. In connection with all of the contracts in this paragraph, the Controlling Company has sold its accounts receivable with recourse.



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## Notes to Consolidated Financial Statements

For the years ended December 31, 2010, 2011 and 2012

**20. Commitments, Continued**

In June 2009 and January 2011, LG Display Singapore Pte. Ltd., the Controlling Company's subsidiary, entered into agreements with Standard Chartered Bank and Citibank for accounts receivable sales negotiating facilities of up to an aggregate of USD 250 million ( 267,775 million) and USD 100 million ( 107,110 million), respectively. As of December, accounts and notes receivable amounting to USD 250 million ( 267,494 million) were sold, with none of the underlying accounts and notes receivable being past due under the agreement with Standard Chartered Bank when no accounts and notes receivable were sold, but not past due under the agreement with Citibank. In June 2009, June 2011 and July 2011, LG Display Taiwan Co., Ltd. entered into agreements with Taishin International Bank, BNP Paribas and Chinatrust Commercial Bank for accounts receivable sales negotiating facilities of up to an aggregate of USD 970 million ( 1,038,967 million), USD 65 million ( 69,622 million) and USD 168 million ( 179,945 million), respectively, and, as of December 31, 2012, accounts and notes receivable amounting to USD 243 million ( 260,520 million), USD 96 million ( 102,933 million) were sold, with none of the underlying accounts and notes receivable being past due under the agreements with Taishin International Bank and Chinatrust Commercial Bank, respectively. In addition, in December 2010, LG Display Taiwan Co., Ltd. entered into agreements with Citibank and Standard Chartered Bank and in December 2012, with Sumitomo Mitsui Banking Corporation for accounts receivable sales negotiating facilities of up to an aggregate of USD 222 million ( 237,784 million), USD 200 million ( 214,220 million), and USD 100 million ( 107,110 million), respectively, and, as of December 31, 2012, accounts and notes receivable amounting to USD 124 million ( 133,029 million), USD 120 million ( 128,035 million), and USD 20 million ( 21,462 million) were sold, with none of the underlying accounts and notes receivable being past due, respectively. In December 2010 and in December 2012, LG Display Shanghai Co., Ltd. entered into agreements with BNP Paribas and Hongkong & Shanghai Banking Corp. for accounts receivable sales negotiating facilities of up to an aggregate of USD 130 million ( 139,243 million) and USD 100 million ( 107,110 million), respectively, and as of December 31, 2012, accounts and notes receivable amounting to USD 118 million ( 126,660 million) and USD 43 million ( 45,953 million) were sold, with none of the underlying accounts and notes receivable being past due, respectively. In July 2009, LG Display Shenzhen Co., Ltd. and LG Display Shanghai Co., Ltd. entered into agreements with Bank of China Limited, and, as of December 31, 2012, accounts and notes receivable amounting to USD 259 million ( 277,287 million) were sold, with none of the underlying accounts and notes receivable being past due. In June 2010, LG Display Germany GmbH entered into an agreement with Citibank for accounts receivable sales negotiating facilities of up to an aggregate of USD 307 million ( 328,828 million), and, as of December 31, 2012, accounts and notes receivable amounting to USD 133 million ( 142,395 million) were sold, with none of the underlying accounts and notes receivable being past due. In addition, LG Display Germany GmbH started forfeiting from September, 2011 and accounts and notes receivable amounting to USD 12 million ( 12,514 million) were sold, with none of the underlying accounts and notes receivable being past due. In March 2011, LG Display America, Inc. entered into agreements with Australia and New Zealand Banking Group Limited and Standard Chartered Bank for accounts receivable sales negotiating facilities of up to an aggregate of USD 80 million ( 85,688 million) and USD 50 million ( 53,555 million), respectively, and, as of December 31, 2012, accounts and notes receivable amounting to USD 80 million ( 85,650 million) and USD 13 million ( 14,105 million) were sold, with none of the underlying accounts and notes receivable being past due, respectively. In addition, in June 2011, LG Display America, Inc. has entered into an agreement with Citibank for accounts receivable sales negotiating facilities of up to an aggregate of USD 200 million ( 214,220 million) and as of December 31, 2012, accounts and notes receivable amounting to USD 200 million ( 214,117 million) were sold, with none of the underlying accounts and notes receivable being past due. In August 2011, LG Display Japan Co., Ltd. entered into an agreement with Sumitomo Mitsui Banking Corporation for accounts receivable sales negotiating facilities of up to an aggregate of USD 90 million ( 96,399 million) and, as of December 31, 2012, accounts and notes receivable amounting to USD 1 million ( 1,102 million) were sold, with none of the underlying accounts and notes receivable being past due. The Controlling Company has a credit facility agreement with Shinhan Bank pursuant to which the Controlling Company could sell its accounts receivables up to an aggregate of 50,000 million in connection with its domestic sales transactions and, as of December 31, 2012, no accounts and notes receivable were sold but not past due. In addition, the Controlling Company entered into agreements with Standard Chartered Bank for accounts receivable sales negotiating facilities of up to USD 50 million ( 53,555 million) and USD 23 million ( 24,635 million), in April 2011 and November 2012, respectively. As of December 31, 2012, accounts and notes receivable amounting to USD 16 million ( 16,598 million) and USD 1 million ( 1,024 million) were sold to Standard Chartered Bank, with none of the underlying accounts and notes receivable being past due. In connection with all of the contracts in this paragraph, the Group has sold its accounts receivable without recourse.



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**20. Commitments, Continued**

**Letters of credit**

As of December 31, 2012, the Controlling Company has agreements with Korea Exchange Bank in relation to the opening of letters of credit up to USD 15 million ( 16,067 million), USD 15 million ( 16,067 million) with China Construction Bank, JPY 1,500 million ( 18,713 million) with Woori Bank, USD 70 million ( 74,977 million) with Bank of China, USD 60 million ( 64,266 million) with Sumitomo Mitsui Banking Corporation, USD 15 million ( 16,067 million) with Hana Bank and USD 30 million ( 32,133 million) with Shinhan Bank.

**Payment guarantees**

The Controlling Company obtained payment guarantees amounting to USD 8.5 million ( 9,104 million) and EUR 215 million ( 304,496 million) from Royal Bank of Scotland and other various banks for a number of occasions, including value added tax payments in Poland. As of December 31, 2012, the Controlling Company is providing a payment guarantee to a syndicate of banks including Kookmin Bank, Societe Generale and others in connection with a EUR 5 million ( 7,626 million) term loan credit facility of LG Display Poland Sp. zo.o. In addition, the Controlling Company provides a payment guarantee in connection with LG Display America Inc.'s term loan credit facilities with an aggregate amount of USD 7 million ( 7,498 million) for principals and related interests.

LG Display Japan Co., Ltd. and other subsidiaries are provided with payment guarantees from the Bank of Tokyo-Mitsubishi UFJ and other various banks amounting to USD 5 million ( 5,356 million), JPY 1,300 million ( 16,218 million), CNY 800 million ( 137,504 million) and PLN 0.2 million ( 70 million) respectively, for their local tax payments.

**Credit facility agreements**

LG Display Japan Co., Ltd. and other subsidiaries have entered into short-term credit facility agreements of up to USD 40 million ( 42,844 million), and JPY 8,000 million ( 99,800 million) in total, with Mizuho Corporate Bank and other various banks. As of December 31, 2012, no amounts under the credit facilities are outstanding.

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### **LG DISPLAY CO., LTD. AND SUBSIDIARIES**

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## **20. Commitments, Continued**

### **License agreements**

As of December 31, 2012, in relation to its TFT-LCD business, the Controlling Company has technical license agreements with Hitachi Display, Ltd. and others and has a trademark license agreement with LG Corp.

### **Long-term supply agreement**

In connection with long-term supply agreements, as of December 31, 2012, the Controlling Company's advances received from a customer amount to USD 1,380 million ( 1,478,118 million) in aggregate. The advances received will be offset against outstanding accounts receivable balances after a given period of time, as well as those arising from the supply of products thereafter. The Controlling Company received a payment guarantee amounting to USD 300 million ( 321,330 million) from the Industrial Bank of Korea relating to advances received.

### **Pledged Assets**

Regarding the secured bank loan amounting to USD 50 million ( 53,555 million), the Controlling Company provided part of its OLED manufacturing machinery as pledged assets to the Export-Import Bank of Korea.

## **21. Contingencies**

### **Patent infringement lawsuit against Innolux Corp. and others**

In 2006, the Controlling Company filed a complaint in the United States District Court for the District of Delaware against Innolux Corp. (formerly, Chimei Innolux Corp.) and AU Optronics Corp. claiming infringement of patents related to liquid crystal displays and the manufacturing processes for TFT-LCDs. Both AU Optronics Corp. and Innolux Corp. filed counter-claims against the Controlling Company claiming infringement of the patents. In September 2011, the Controlling Company and AU Optronics Corp. filed a stipulation for dismissal of the Delaware case and amicably settled the claims and counterclaims between the two parties. In May 2012, for the Controlling Company and Innolux Corp., the charge was dropped after the two parties amicably settled the claims.

### **Anvik Corporation's lawsuit for infringement of patent**

In 2007, Anvik Corporation filed a patent infringement case against the Controlling Company, along with other LCD manufacturing companies in the United States District Court for the Southern District of New York, in connection with the usage of photo-masking equipment manufactured by Nikon Corporation. The court granted Nikon Corporation's motion for summary judgment of invalidity of the patents-in-suit and entered a judgment in favor of Nikon Corporation, the Controlling Company and LG Display America, Inc. and other TFT-LCD manufacturing companies, dismissing the case in April 2012. In April 2012, Anvik Corporation appealed the court's decision to the United States Court of Appeals for the Federal Circuit.

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### **LG DISPLAY CO., LTD. AND SUBSIDIARIES**

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## **21. Contingencies, Continued**

### **Industrial Technology Research Institute of Taiwan's action for patent infringement**

In 2012, the United States International Trade Commission (USITC) granted a motion by Industrial Technology Research Institute of Taiwan (ITRI) to add the Controlling Company and LG Display America as additional respondents in an investigation under Section 337 of the United States Tariff Act (In the Matter of Certain Devices for Improving Uniformity Used in a Backlight Module and Components Thereof and Products Containing the Same, Investigation No. 337-TA-805). ITRI is seeking an exclusion order which prohibits the importation of televisions and monitors incorporating the Controlling Company's products into the United States for alleged patent infringement. On October 22, 2012, USITC issued a Notice of Initial Determination finding that LG Display Co., Ltd. and LG Display America, Inc. did not infringe the asserted patent of ITRI. The Final Determination is scheduled to be issued on June 28, 2013.

### **Patent Infringement Litigations and Invalidity Proceedings Between the Controlling Company and Samsung Display Co., Ltd. and Samsung Electronics Co., Ltd.**

In September 2012, the Controlling Company filed a complaint in the Seoul Central District Court against Samsung Display Co., Ltd. (SSD) and Samsung Electronics Co., Ltd. (SSE) claiming infringement of seven patents related to OLED display technology and relevant manufacturing methods and seeking monetary compensation. As a response, SSD requested for an invalidity proceeding over the identical seven patents in the Korean Intellectual Property Tribunal. Furthermore, in December 2012, SSD filed a complaint in the Seoul Central District Court against the Controlling Company and LG Electronics Co., Ltd. (LGE) claiming infringement of seven patents related to LCD technology and seeking monetary compensation. In the same month, the Controlling Company filed a complaint in the Seoul Central District Court against SSD and SSE claiming infringement of three patents related to In-Plane Switching (IPS) technology and relevant manufacturing methods and seeking an injunctive relief to ban all use of such patented technology as well as monetary compensation of 1 billion, approximately USD 1 million for each non-compliance by SSD and SSE. As a response, SSD requested an invalidity proceeding over the identical three patents in the Korean Intellectual Property Tribunal.

### **Request for arbitration of Arkema France and its subsidiary regarding termination of a contract with the Controlling Company**

In October 2012, Arkema France (Arkema) and its subsidiary filed a request for arbitration in the International Court of Arbitration of the International Chamber of Commerce regarding termination of a contract with the Controlling Company. The Controlling Company is currently defending against Arkema's claims.

### **Anti-trust investigations and litigations**

In December 2006, the Controlling Company received notices of investigation by the Korea Fair Trade Commission, the Japan Fair Trade Commission, the U.S. Department of Justice, and the European Commission with respect to possible anti-competitive activities in the TFT-LCD industry. The Controlling Company subsequently received similar notices from the Canadian Bureau of Competition Policy, the Federal Competition Commission of Mexico, the Secretariat of Economic Law of Brazil and the Taiwan Fair Trade Commission.

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#### **21. Contingencies, Continued**

In November 2008, the Controlling Company executed an agreement with the U.S. Department of Justice ( DOJ ) whereby the Controlling Company and its U.S. subsidiary, LG Display America, Inc. ( LGDUS ), pleaded guilty to a Sherman Antitrust Act violation and agreed to pay a single total fine of USD 400 million. In December 2008, the U.S. District Court for the Northern District of California accepted the terms of the plea agreement and entered a judgment against the Controlling Company and LGDUS and ordered the payment of USD 400 million. The agreement resolved all federal criminal charges against the Controlling Company and LGDUS in the United States in connection with this matter.

In December 2010, the European Commission ( the EC ) issued a decision finding that the Controlling Company engaged in anti-competitive activities in the LCD industry in violation of European competition laws and imposed a fine of EUR 215 million. In February 2011, the Controlling Company filed with the European Union General Court an application for partial annulment and reduction of the fine imposed by the EC. The European Union General Court has not ruled on the Controlling Company's application. In November 2011, the Controlling Company received an additional Request for Information from the EC relating to the alleged anti-competitive activities in the LCD industry and is responding to the request.

In November 2009, the Taiwan Fair Trade Commission terminated its investigation without any finding of violations or levying of fines. Also, in February 2012, the Competition Bureau of Canada terminated its investigation against the Controlling Company without any finding of violations or levying of fines. To date no decision has been issued by the Japan Fair Trade Commission, and we believe the statutory time period by which the Commission was required to have issued a decision has already lapsed. To date investigations by the Federal Competition Commission of Mexico and the Secretariat of Economic Law of Brazil are ongoing.

In August 2011, the Korea Fair Trade Commission issued an Examination Report finding that the Controlling Company engaged in anti-competitive activities in violation of Korean fair trade laws and a hearing was held in October 2011. In December 2011, the Korea Fair Trade Commission imposed a fine on the Controlling Company and certain of its subsidiaries of approximately 31,378 million, and the Controlling Company filed an appeal of the decision with the Seoul High Court in December 2011. To date the Seoul High Court has not ruled on the Controlling Company's appeal.

Subsequent to the commencement of the DOJ investigation, a number of class action complaints were filed against the Controlling Company and other TFT-LCD panel manufacturers in the U.S. and Canada alleging violation of respective antitrust laws and related laws. The class action lawsuits in the U.S. were transferred to the Northern District of California for pretrial proceedings ( MDL Proceedings ). In March 2010, the court certified the class action complaints filed by direct purchasers and indirect purchasers. 78 entities (including groups of affiliated entities) submitted requests for exclusion from the direct purchaser class. The time period for submitting requests for exclusion from the indirect purchaser class expired on April 13, 2012. Ten entities (including groups and affiliated entities) submitted requests for exclusion from the indirect purchaser class. In addition, since 2010, the attorneys general of Arkansas, California, Florida, Illinois, Michigan, Mississippi, Missouri, New York, Oklahoma, Oregon, South Carolina, Washington, West Virginia and Wisconsin filed complaints against the Controlling Company, alleging similar antitrust violations as alleged in the MDL Proceedings. In June 2011, the Controlling Company reached a settlement with the direct purchaser class, which the federal district court approved in December 2011. In July 2012, the Controlling Company reached a settlement with the indirect purchaser class and with the state attorneys general of Arkansas, California, Florida, Michigan, Missouri, New York, West Virginia, and Wisconsin, which is subject to court approval.

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### **LG DISPLAY CO., LTD. AND SUBSIDIARIES**

#### Notes to Consolidated Financial Statements

For the years ended December 31, 2010, 2011 and 2012

#### **21. Contingencies, Continued**

Apart from the direct and indirect purchaser class actions, individual plaintiffs filed complaints in various state or federal courts in the United States alleging violation of the respective antitrust laws and related laws by various LCD panel manufacturers. To date, the Controlling Company is currently defending against 33 Direct Action Plaintiffs including Motorola Mobility, Inc., Electrograph Technologies Corp. and its affiliates, TracFone Wireless Inc., Best Buy Co., Inc. and its affiliates, Target Corp., Sears, Roebuck and Co., Kmart Corp., Old Comp Inc., Good Guys, Inc., RadioShack Corp., Newegg Inc., Costco Wholesale Corp., Sony Electronics, Inc. and its affiliates, SB Liquidation Trust, Office Depot, Inc., Interbond Corp. of America (BrandsMart), Jaco Electronics, Inc., P.C. Richard & Son Long Island Corp., MARTA Cooperative of America, Inc., ABC Appliance (ABC Warehouse), Schultze Agency Services, LLC (Tweeter), AASI Creditor Liquidating Trust for All American Semiconductor Inc., Tech Data Corp. and its affiliate, CompuCom Systems, Inc., View Sonic Corp., NECO Alliance LLC, Rockwell Automation Inc., Proview Technology, Inc. and its affiliates, and the attorneys general of Illinois, Washington, Oregon, South Carolina, and Mississippi.

In Canada, the Ontario Superior Court of Justice certified the class action complaints filed by the direct and indirect purchasers in May 2011. The Controlling Company is pursuing an appeal of the decision as well as defending the on-going class actions in Quebec and British Columbia.

In December 2012, the National Development and Reform Commission of China issued a decision finding that the Controlling Company engaged in anti-competitive activities in the LCD industry in violation of Chinese laws and imposed a fine of RMB 118 million ( 20,334 million). The Controlling Company has agreed to pay the imposed fine and resolved its charges against the Controlling Company.

While the Group continues its vigorous defense of the various pending proceedings described above, there is a possibility that one or more proceedings may result in an unfavorable outcome to the Group. For certain cases described above, management is not able to estimate the potential estimated loss if the final outcome of the cases is unfavorable to the Group as the cases are in early stage and management does not have sufficient information to estimate the amount of possible loss. Otherwise the Group has established provisions with respect to certain of the contingencies, considering factors such as the nature of the litigation, claim, or assessment, the progress of the case and the opinions or views of legal counsel and other advisers. These estimates have been based on our assessment of the facts and circumstances at each reporting date and are subject to change materially based upon new information, intervening events and the final outcome of the cases.

#### **22. Capital and Reserves**

##### **(a) Share capital**

The Controlling Company is authorized to issue 500,000,000 shares of capital stock (par value 5,000), and as of December 31, 2012, the number of issued common shares is 357,815,700.

There have been no changes in the capital stock from January 1, 2010 to December 31, 2012.

##### **(b) Reserves**

###### **Translation reserve**

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale financial assets until the investments are derecognized or impaired.

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**23. Related Parties**

## (a) Key management personnel compensation

Compensation costs of key management for the years ended December 31, 2010, 2011 and 2012 are as follows:

<i>(In millions of won)</i>	2010	2011	2012
Short-term benefits	2,183	1,529	1,567
Expenses related to defined benefit plan	360	396	173
Other long-term benefits	606		
	3,149	1,925	1,740

Key management refers to the registered directors who have significant control and responsibilities over the Controlling Company's operations and business.

## (b) Significant transactions with related companies

Significant transactions such as sales of goods and purchases of raw material and outsourcing service and others, which occurred in the normal course of business with related parties for the years ended December 31, 2010, 2011 and 2012 are as follows:

<i>(In millions of won)</i>	Sales and others			Purchases and others		
	2010	2011	2012	2010	2011	2012
Joint ventures	1,163,265	755,643	663,297	27,605	1,174	147,904
Associates	7	6,158	7,396	1,550,269	1,812,826	2,526,062
LG Electronics	5,845,037	4,819,737	6,170,017	555,569	345,919	245,364
Other related parties	174,521	41	41	317,837	37,633	39,042
	7,182,830	5,581,579	6,840,751	2,451,280	2,197,552	2,958,372

Account balances with related parties at the reporting date are as follows:

<i>(In millions of won)</i>	Trade accounts and notes receivable and others		Trade accounts and notes payable and others	
	December 31, 2011	December 31, 2012	December 31, 2011	December 31, 2012
Joint ventures	130,217	92,870	340,073	168,620
Associates	3	521	697,539	610,427
LG Electronics	497,747	658,516	98,487	67,867

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Other related parties			3,632	3,621
	627,967	751,907	1,139,731	850,535

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## Notes to Consolidated Financial Statements

For the years ended December 31, 2010, 2011 and 2012

**24. Geographic and Other Information**

The Group manufactures and sells TFT-LCD and Active Matrix ( AM )-OLED products. Sales of AM-OLED products are insignificant to total sales. International sales represent approximately 93% of total sales for the year ended December 31, 2012 (2010: 93%, 2011: 92%).

The following is a summary of sales by region based on the location of the customers for the years ended December 31, 2010, 2011 and 2012.

## (a) Revenue by geography

*(In millions of won)*

Region	2010	2011	2012
Domestic	1,705,130	1,963,501	2,149,646
Foreign			
China	14,076,853	14,292,700	16,766,696
Asia (excluding China)	2,752,117	2,291,916	2,900,738
United States	2,852,204	2,216,695	3,209,225
Europe	4,125,231	3,526,477	4,403,363
	25,511,535	24,291,289	29,429,668

Sales to Company A and Company B constituted 23% and 22% of total revenue, respectively, for the year ended December 31, 2012 (2010: 23% and 11%, 2011: 20% and 17%). The Group's top ten end-brand customers together accounted for 71% of sales for the year ended December 31, 2012 (2010: 76%, 2011: 71%).

## (b) Non-current assets by geography

*(In millions of won)*

Region	December 31, 2011	
	Property, plant and equipment	Intangible assets
Domestic	13,528,286	520,023
Foreign		
China	1,009,959	15,045
Others	158,604	46
Sub total	1,168,563	15,091
Total	14,696,849	535,114

(In millions of won)

Region	December 31, 2012	
	Property, plant and equipment	Intangible assets
Domestic	12,002,578	488,678
Foreign		
China	939,929	7,499
Others	165,004	1,425
Sub total	1,104,933	8,924
Total	13,107,511	497,602

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## Notes to Consolidated Financial Statements

For the years ended December 31, 2010, 2011 and 2012

**24. Geographic and Other Information, Continued**

## (c) Revenue by product and services

*(In millions of won)*

<b>Product</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
Panels for:			
Notebook computers	4,424,440	5,120,421	6,997,833
Desktop monitors	5,389,736	4,975,379	5,039,066
TFT-LCD televisions	14,078,665	11,579,129	13,511,535
Mobile and others	1,618,694	2,616,360	3,881,234
	25,511,535	24,291,289	29,429,668

**25. Revenue**

Details of revenue for the years ended December 31 2010, 2011 and 2012 are as follows:

<i>(In millions of won)</i>	<b>2010</b>	<b>2011</b>	<b>2012</b>
Sales of goods	25,467,963	24,214,709	29,302,389
Royalties	22,552	60,594	37,783
Others	21,020	15,986	89,496
	25,511,535	24,291,289	29,429,668

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## Notes to Consolidated Financial Statements

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**26. Other Income and Other Expenses**

(a) Details of other income for the years ended December 31, 2010, 2011 and 2012 are as follows:

<i>(In millions of won)</i>	<b>2010</b>	<b>2011</b>	<b>2012</b>
Rental income	4,305	6,325	7,253
Foreign currency gain	1,465,830	1,190,793	1,228,847
Gain on disposal of property, plant and equipment	1,387	740	5,925
Reversal of stock compensation cost		469	3
Commission earned	5,555	8,630	3,867
Reversal of allowance for doubtful accounts for other receivables			521
Others	6,366	16,588	14,529
	1,483,443	1,223,545	1,260,945

(b) Details of other expenses for the years ended December 31, 2010, 2011 and 2012 are as follows:

<i>(In millions of won)</i>	<b>2010</b>	<b>2011</b>	<b>2012</b>
Other bad debt expenses	65	849	9
Foreign currency loss	1,550,909	1,220,143	1,095,280
Loss on disposal of property, plant and equipment	415	862	3,728
Impairment loss on property, plant, and equipment		3,589	
Loss on disposal of intangible assets		1,588	704
Impairment loss on intangible assets		5,574	40,012
Donations	15,611	16,564	15,350
Expenses related to legal proceedings or claims, and others	310,142	151,322	458,957
	1,877,142	1,400,491	1,614,040

**27. Personnel Expenses**

Details of personnel expenses for the years ended December 31, 2010, 2011 and 2012 are as follows:

<i>(In millions of won)</i>	<b>2010</b>	<b>2011</b>	<b>2012</b>
Salaries and wages	1,569,137	1,719,035	2,006,603
Other employee benefits	297,366	383,197	397,122
Contributions to National Pension plan	40,553	54,118	59,332
Expenses related to defined benefit plan	102,471	113,970	138,879

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Stock compensation cost	157	(469)	(3)
	2,009,684	2,269,851	2,601,933

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## Notes to Consolidated Financial Statements

For the years ended December 31, 2010, 2011 and 2012

**28. Finance Income and Finance Costs**

- (a) Finance income and costs recognized in profit or loss for the years ended December 31, 2010, 2011 and 2012 are as follows:

<i>(In millions of won)</i>	<b>2010</b>	<b>2011</b>	<b>2012</b>
<b>Finance income</b>			
Interest income	91,203	58,430	28,859
Dividend income	48	131	482
Foreign currency gain	146,563	148,144	260,265
Gain on disposal of investments in equity accounted investees	2,506	551	3,566
Gain on valuation of financial assets at fair value through profit or loss	668	10	
	240,988	207,266	293,172
<b>Finance costs</b>			
Interest expense	99,659	144,927	187,589
Foreign currency loss	170,307	180,395	193,483
Loss on disposal of available-for-sale securities	854	354	5,272
Loss on impairment of available-for-sale securities			6,392
Loss on disposal of financial assets at fair value through profit or loss		774	
Loss on redemption of debentures	4,138		1,524
Loss on valuation of financial assets at fair value through profit or loss	1,729		
Loss on valuation of financial liabilities at fair value through profit or loss	2,419	1,935	
Loss on sale of trade accounts and notes receivable	9,366	20,359	32,431
Loss on disposal of investments in equity accounted investees		321	
Loss on impairment of investments in equity accounted investees		14,244	10,005
	288,472	363,309	436,696

- (b) Finance income and costs recognized in other comprehensive income or loss for the years ended December 31, 2010, 2011 and 2012 are as follows:

<i>(In millions of won)</i>	<b>2010</b>	<b>2011</b>	<b>2012</b>
Cumulative translation differences	6,735	47,443	(86,320)
Net change in fair value of available-for-sale financial assets	12,063	2,700	4,764
Tax effect	(3,793)	(1,101)	(1,043)
	15,005	49,042	(82,599)



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## Notes to Consolidated Financial Statements

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**29. Income Taxes**

- (a) Details of income tax expense (benefit) for the years ended December 31, 2010, 2011 and 2012 are as follows:

<i>(In millions of won)</i>	<b>2010</b>	<b>2011</b>	<b>2012</b>
Current tax expense	253,436	57,530	75,946
Deferred tax expense (benefit)	(147,101)	(350,594)	146,234
Income tax expense (benefit)	106,335	(293,064)	222,180

- (b) Income taxes recognized directly in other comprehensive income for the years ended December 31, 2010, 2011 and 2012 are as follows:

<i>(In millions of won)</i>	<b>Before tax</b>	<b>2010 Tax (expense) benefit</b>	<b>Net of tax</b>
Gain on valuation of available-for-sale securities	12,063	(2,987)	9,076
Defined benefit plan actuarial gain	4,480	(1,314)	3,166
Cumulative translation differences	6,735	(806)	5,929
Gain on sales of own shares of associated accounted for using the equity method	810		810
	24,088	(5,107)	18,981

<i>(In millions of won)</i>	<b>Before tax</b>	<b>2011 Tax (expense) benefit</b>	<b>Net of tax</b>
Gain on valuation of available-for-sale securities	2,700	(996)	1,704
Defined benefit plan actuarial loss	(23,732)	6,059	(17,673)
Cumulative translation differences	47,443	(105)	47,338
Loss on sales of own shares of associates accounted for using the equity method	(214)		(214)
	26,197	4,958	31,155

<i>(In millions of won)</i>	<b>Before tax</b>	<b>2012 Tax (expense) benefit</b>	<b>Net of tax</b>
Gain on valuation of available-for-sale Securities	4,764	(974)	3,790
Defined benefit plan actuarial loss	(75,899)	18,325	(57,574)
Cumulative translation differences	(86,320)	(69)	(86,389)

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Loss on sale of own shares of associates accounted for using the equity method	(48)		(48)
	(157,503)	17,282	(140,221)

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## Notes to Consolidated Financial Statements

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**29. Income Taxes, Continued**

(c) Reconciliation of the actual effective tax rate for the years ended December 31, 2010, 2011 and 2012 is as follows:

<i>(In millions of won)</i>	<b>2010</b>		<b>2011</b>		<b>2012</b>	
Profit (loss) for the period		1,159,234		(787,895)		236,345
Income tax expense (benefit)		106,335		(293,064)		222,180
Profit (loss) excluding income tax		1,265,569		(1,080,959)		458,525
Income tax (benefit) using the Controlling Company's domestic tax rate	24.20%	306,268	24.20%	(261,592)	24.20%	110,963
Effect of tax rates in foreign jurisdictions	1.24%	15,732	(0.30%)	3,259	3.53%	16,171
Non-deductible expenses	7.69%	97,268	(2.18%)	23,560	5.43%	24,882
Tax credits	(24.33%)	(307,911)	22.97%	(248,331)	(26.85%)	(123,126)
Change in unrecognized deferred tax assets			(17.41%)	188,190	43.09%	197,569
Change in tax rates	(0.85%)	(10,798)	0.71%	(7,689)	0.35%	1,593
Others	0.45%	5,776	(0.88%)	9,539	(1.28%)	(5,872)
Actual income tax expense (benefit)		106,335		(293,064)		222,180
Actual effective tax rate		8.4%		27.11%		48.46%

**30. Deferred Tax Assets and Liabilities**

(a) Unrecognized deferred tax liabilities

As of December 31, 2011 and 2012, in relation to the temporary differences on investments in subsidiaries amounting to 221,073 million and 165,434 million, respectively, the Controlling Company did not recognize deferred tax liabilities since the Controlling Company is able to control the timing of the reversal of the temporary difference and it is probable that the temporary differences will not reverse in the foreseeable future.

(b) Unrecognized deferred tax assets

As of December 31, 2011 and 2012, the tax basis of the Controlling Company's investment in one subsidiary is greater than its financial statement carrying amount, which gave rise to deductible temporary differences amounting to 434,526 million and 431,471 million, respectively. The Controlling Company did not recognize deferred tax assets for these temporary differences because the possibility for these differences to reverse, through events such as disposing of the related investments in the foreseeable future, is less than probable.



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**30. Deferred Tax Assets and Liabilities, Continued**

(c) Unused tax credit carryforwards for which no deferred tax asset is recognized

Realization of deferred tax assets related to tax credit carryforwards is dependent on whether sufficient taxable income will be generated prior to their expiration. As of December 31, 2012, the Controlling Company recognized deferred tax assets of 699,529 million, in relation to tax credit carryforwards, to the extent that management believes the realization is probable. The amount of unused tax credit carryforwards for which no deferred tax asset is recognized and their expiration dates are as follows:

(In millions of won)	December 31		
	2013	2014	2015
Tax credit carryforwards	135,960	206,539	86,101

(d) Deferred tax assets and liabilities are attributable to the following:

(In millions of won)	Assets		Liabilities		Total	
	December, 31, 2011	December, 31, 2012	December, 31, 2011	December, 31, 2012	December, 31, 2011	December, 31, 2012
Other accounts receivable, net			(3,738)	(2,063)	(3,738)	(2,063)
Inventories, net	15,915	10,075			15,915	10,075
Available-for-sale financial assets	1,259	285			1,259	285
Defined benefit obligation	21,877	38,573			21,877	38,573
Investments in equity accounted investees	4,307	7,619			4,307	7,619
Accrued expenses	72,965	81,802			72,965	81,802
Property, plant and equipment	133,720	171,881			133,720	171,881
Intangible assets	1,105	2,488			1,105	2,488
Provisions	11,618	12,979			11,618	12,979
Gain or loss on foreign currency	13,616	5,340	(31,313)	(958)	(17,697)	4,382
Debentures	6,059				6,059	
Others	18,974	34,344	(715)	(220)	18,259	34,124
Tax losses	329,068	233,139			329,068	233,139
Tax credit carryforwards	829,048	699,529			829,048	699,529
Deferred tax assets (liabilities)	1,459,531	1,298,054	(35,766)	(3,241)	1,423,765	1,294,813

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**30. Deferred Tax Assets and Liabilities, Continued**

(e) Changes in deferred tax assets and liabilities for the years ended December 31, 2011 and 2012 are as follows:

<i>(In millions of won)</i>	December 31, 2010	Profit or loss	Other comprehensive income	December 31, 2011	Profit or loss	Other comprehensive income	December 31, 2012
Other accounts receivable, net	(5,919)	2,181		(3,738)	1,675		(2,063)
Inventories, net	17,942	(2,027)		15,915	(5,840)		10,075
Available-for-sale financial assets	(4,784)	7,039	(996)	1,259		(974)	285
Defined benefit obligation	3,829	11,989	6,059	21,877	(1,629)	18,325	38,573
Investments in equity accounted investees	12,041	(7,734)		4,307	3,312		7,619
Derivative instruments	(2,008)	2,008					
Accrued expenses	78,396	(5,431)		72,965	8,837		81,802
Property, plant and equipment	112,286	21,434		133,720	38,161		171,881
Intangible assets		1,105		1,105	1,383		2,488
Provisions	17,962	(6,344)		11,618	1,361		12,979
Gain or loss on foreign currency	20,044	(37,741)		(17,697)	22,079		4,382
Debentures	5,049	1,010		6,059	(6,059)		
Others	18,128	236	(105)	18,259	15,934	(69)	34,124
Tax losses		329,068		329,068	(95,929)		233,139
Tax credit carryforwards	795,247	33,801		829,048	(129,519)		699,529
Deferred tax assets (liabilities)	1,068,213	350,594	4,958	1,423,765	(146,234)	17,282	1,294,813

(f) Changes in minimum tax rate for the subsequent period

On January 1, 2013, the Tax Reduction and Exemption Control Act in Korea was amended so that the minimum tax rate applied to taxable income in excess of 100 billion for the Controlling Company after 2013 was revised from 14% to 16%. As of December 31, 2012, the Controlling Company applied 14% as the minimum tax rate when measuring the amount of tax credit related deferred tax assets for which it is probable that the related tax benefit will be realized. If the Controlling Company applied the 16% of minimum tax rate, the unused tax credit for which no deferred tax asset is recognized as disclosed in note 29 (c) would have amounted to 558,411 million.

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## Notes to Consolidated Financial Statements

For the years ended December 31, 2010, 2011 and 2012

**31. Earnings (Loss) per Share**

- (a) Basic earnings (loss) per share for the years ended December 31, 2010, 2011 and 2012 are as follows:

<i>(In won and No. of shares)</i>	2010	2011	2012
<b>Profit (loss) attributable to owners of the Controlling Company</b>	1,156,343,357,418	(771,222,702,492)	233,204,398,428
Weighted-average number of common shares outstanding	357,815,700	357,815,700	357,815,700
<b>Earnings (loss) per share</b>	3,232	(2,155)	652

There were no events or transactions that resulted in changes in the number of common shares used for calculating earnings (loss) per share from January 1, 2010 to December 31, 2012.

- (b) Diluted earnings per share is not calculated since there was no potential common stock for the years ended December 31, 2012. In addition, there is no effect of dilutive potential ordinary shares due to the Controlling Company's net loss for the year ended December 31, 2011. Diluted earnings per share for the year ended December 31, 2010 were as follows:

<i>(In won and No. of shares)</i>	2010
<b>Profit for the year</b>	1,156,343,357,418
Finance income and cost on convertible bond, net of tax	(18,345,174,214)
<b>Adjusted income</b>	1,137,998,183,204
Weighted-average number of common shares outstanding and common equivalent shares(*)	361,080,224
<b>Diluted earnings per share</b>	3,152

- (\*) Weighted-average number of common shares outstanding to calculate dilutive potential ordinary shares for the year ended December 31, 2010 is calculated as follows:

<i>(In No. of shares)</i>	2010
<b>Weighted-average number of common shares (basic)</b>	357,815,700
Effect of conversion of convertible bonds	3,264,524
<b>Weighted-average number of common shares at the reporting date</b>	361,080,224

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(c) The number of dilutive potential ordinary shares outstanding for the year ended December 31, 2010 and 2011 is as follows:

	<b>2010</b>		<b>2011</b>
	<b>Convertible bonds</b>		<b>Convertible bonds</b>
Common shares to be issued	1,281,697	9,399,113	1,286,594
Period	January 1, 2010~	January 1, 2010~	January 1, 2011~
	December 31, 2010	March 19, 2010	December 31, 2011
Weight	365 days / 365 days	77 days / 365 days	365 days / 365 days
Weighted-average number of common shares to be issued	1,281,697	1,982,827	1,286,594

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**LG DISPLAY CO., LTD. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

For the years ended December 31, 2010, 2011 and 2012

**32. Supplemental Cash Flow Information**

Supplemental cash flow information for the years ended December 31, 2010, 2011 and 2012 is as follows:

<i>(In millions of won)</i>	<b>2010</b>	<b>2011</b>	<b>2012</b>
<b>Non-cash investing and financing activities:</b>			
Changes in other accounts payable arising from the purchase of property, plant and equipment	906,481	1,177,809	(1,270,755)

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