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

x **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

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)

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. x **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 x 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. x 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 x Accelerated filer ¨ Non-accelerated filer ¨

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 the International Accounting Standards Board x Other ¨

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 x 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 Chines 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 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.

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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,				
	2009	2010	2011	2012	2012 [1]
	(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 [2]	(305)	(428)	(430)	(494)	(465)

Research and development expenses [2]	(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

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Consolidated statements of financial position data

	As of December 31,				
	2009	2010	2011	2012	2012 [1]
	(in billions of Won)				(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

	Year Ended December 31,				
	2009	2010	2011	2012	2012 [1]
	(in billions of Won, except for percentages)				(in millions of US$, except for percentages)
Gross margin [3]	12.8%	14.6%	5.0%	10.2%	10.2%
Net margin [4]	5.6%	4.5%	(3.2)%	0.8%	0.8%
EBITDA [5]	3,845	4,200	2,657	5,086	US$ 4,784
Capital expenditures	3,761	4,942	4,063	3,972	3,736
Depreciation and amortization [6]	2,842	2,926	3,651	4,469	4,203
Net cash provided by operating activities [7]	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

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:

	Year Ended December 31,				
	2009	2010	2011	2012	2012 [1]
	(in billions of Won)				(in millions of US$)
Profit (loss) for the period	1,118	1,159	(788)	236	US$ 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
EBITDA	3,845	4,200	2,657	5,086	US$ 4,784

(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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Operating data

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

	Year Ended December 31,				
	2009	2010	2011	2012	2012 [5]
	(in billions of Won)				(in millions of US$)
Revenue by product category:					
Televisions [1]	10,965	14,079	11,579	13,512	US$ 12,708
Notebook computers [2]	3,568	4,424	5,120	6,998	6,582
Desktop monitors [3]	4,640	5,390	4,975	5,039	4,739
Mobile and other applications [4]	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, 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.

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.

Year Ended December 31,	At End of Period	Average Rate[1]	High	Low
		(Korean Won per US$1.00)		
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 Optolectronics 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, automotives, 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 cyclicality 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

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, automotives, 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;

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:

	Computer Products		Mobile and Other
Televisions	**Notebook Computers**	**Desktop Monitors**	**Applications**
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:

	Year Ended December 31,						
	2010		2011		2012		
	Sales	%	Sales	%	Sales	Sales[3]	%
	(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[1]	6	0.0	43	0.2	165	155	0.5
Total[2]	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 processers 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 NF3, and sulfur hexafluoride, or SF6, gases, by developing and adopting cost-effective abatement technologies and systems and increasing the number of abatement systems installed in our facilities.

We installed NF3 abatement systems at all of our production lines when the production facilities were being constructed. In April 2005, we voluntarily installed SF6 abatement systems in P1, and in December 2009 and January 2012, we installed SF6 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 SF6 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 SF6 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 CO2 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 CO2 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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Subsidiaries

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.(1)	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.(2)	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 (3)	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.(4)	Manufacturing and sales	Korea	May 2006		43,999,839,152	100%	100%

LUCOM Display Technology (Kunshan) Ltd.	Manufacturing and sales	China	December 2010	RMB	50,353,677	51%	51%
LG Display USA Inc.	Manufacturing and sales	U.S.A.	October 2011	US$	10,920,000	100%	100%
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[1]	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)[2]	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

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

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Facility	Generation[1]	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)[2]	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[3]
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					
Fabs							
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.