

LG Chem, Ltd.

Non-Consolidated Financial Statements December 31, 2008 and 2007

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LG Chem, Ltd.
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December 31, 2008 and 2007

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Report of Independent Auditors

To the Board of Directors and Shareholders of
LG Chem, Ltd.

We have audited the accompanying non-consolidated balance sheets of LG Chem, Ltd. (the "Company") as of December 31, 2008 and 2007, and the related non-consolidated statements of income, appropriations of retained earnings, the statements of changes in shareholders' equity and cash flows for the years ended December 31, 2008 and 2007, expressed in Korean won. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Ningbo LG Yongxing Chemical Co., Ltd. and certain other subsidiaries, the investments in which are reflected in the accompanying non-consolidated financial statements using the equity method of accounting. The investments in those subsidiaries represent 7.2% of the Company's total assets as of December 31, 2008 (2007: 6.1%), and the equity in their net profits and losses represents (-)0.7% of the Company's net income before income taxes for the year ended December 31, 2008 (2007: 6.3%). These statements were audited by other auditors whose reports have been furnished to us and our opinion, insofar as it relates to the amounts included for the subsidiaries, is based solely on the reports of the other auditors.

We conducted our audits in conformity with auditing standards generally accepted in the Republic of Korea. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, the non-consolidated financial statements referred to above present fairly, in all material respects, the financial position of LG Chem, Ltd. as of December 31, 2008 and 2007, and the results of its operations, the changes in its retained earnings, the changes in its shareholders' equity and its cash flows for the years ended December 31, 2008 and 2007, in conformity with accounting principles generally accepted in the Republic of Korea.

SAMIL PRICEWATERHOUSE COOPERS

Without qualifying our opinion, we draw your attention to the following matters.

As discussed in Notes 2 and 28 to the non-consolidated financial statements, the Company will spin-off the Industrial Materials segment into LG HAUSYS, Ltd. on April 1, 2009.

As discussed in Note 30 to the non-consolidated financial statements, the Company merged with LG Petrochemical Co., Ltd. on November 1, 2007.

Accounting principles and auditing standards and their application in practice vary among countries. The accompanying non-consolidated financial statements are not intended to present the financial position, results of operations, changes in shareholders' equity and cash flows in conformity with accounting principles and practices generally accepted in countries and jurisdictions other than the Republic of Korea. In addition, the procedures and practices used in the Republic of Korea to audit such financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report and the accompanying non-consolidated financial statements are for use by those who are informed about Korean accounting principles or auditing standards and their application in practice.

Samit PricewaterhouseCoopers

Seoul, Korea
March 11, 2009

This report is effective as of March 11, 2009, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying non-consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

LG Chem, Ltd.
Non-Consolidated Balance Sheets
December 31, 2008 and 2007

(in millions of Korean won)

	2008	2007
Assets		
Current assets		
Cash and cash equivalents (Notes 2 and 13)	₩ 373,300	₩ 466,438
Short-term investments (Note 4)	148,300	106,412
Trade accounts and notes receivable, net (Notes 2, 5, 13, 16 and 25)	1,123,361	977,305
Other accounts receivable, net (Notes 5 and 13)	88,829	98,400
Accrued income	2,799	3,734
Advance payments	8,848	2,796
Prepaid expenses	21,490	14,826
Inventories, net (Notes 2 and 6)	1,508,938	1,167,837
Deferred income tax assets (Note 21)	39,164	23,237
Other current assets	1,619	902
Total current assets	3,316,648	2,861,887
Long-term financial instruments (Note 3)	46	68
Long term investment securities (Note 7)	1,968	1,493
Equity-method investments (Notes 2 and 8)	800,789	634,917
Derivative instrument transaction debit (Note 16)	51,845	1,035
Other investments	206	242
Property, plant and equipment, net (Notes 2, 9, 27 and 30)	3,867,666	3,621,800
Intangible assets, net (Notes 2, 10, 27 and 30)	(112,884)	(182,776)
Long-term trade accounts and notes receivable, net (Note 5)	130	207
Long-term other accounts receivable, net (Note 5)	195	639
Long-term guarantee deposits	31,106	35,373
Long-term prepaid expenses	19,476	19,816
Other non-current assets	59,191	55,251
Total assets	₩ 8,036,382	₩ 7,049,952

LG Chem, Ltd.
Non-Consolidated Balance Sheets
December 31, 2008 and 2007

<i>(in millions of Korean won)</i>	2008	2007
Liabilities and Shareholders' Equity		
Current liabilities		
Trade accounts and notes payable (Notes 13 and 25)	₩ 527,150	₩ 749,401
Other accounts payable (Note 13)	567,475	559,180
Withholdings	47,641	58,948
Accrued expenses	54,752	37,333
Income tax payable (Note 21)	367,620	247,641
Dividends payable	51	40
Current maturities of long-term debts, net (Note 11)	575,142	366,283
Other current liabilities	22,494	11,381
Total current liabilities	2,162,325	2,030,207
Debentures, net (Note 12)	361,148	684,007
Other long-term debts, net (Note 12)	458,796	307,304
Accrued severance benefits, net (Notes 2 and 14)	93,344	94,908
Deferred income tax liabilities (Notes 2 and 21)	38,250	20,771
Derivative instrument transaction credit (Note 16)	26,961	1,781
Other non-current liabilities	5,864	32,778
Total liabilities	3,146,688	3,171,756
Commitments and contingencies (Note 16)		
Shareholders' equity (Note 1)		
Common stock (Note 17)	376,194	376,194
Preferred stock	43,306	43,306
	419,500	419,500
Capital surplus (Note 17)		
Paid-in capital in excess of par value	1,052,640	1,052,640
Gain on disposal of treasury stock	13,855	841
Asset revaluation surplus	206,769	206,769
Other capital surplus	41,285	39,107
	1,314,549	1,299,357
Capital adjustment		
Treasury stock (Note 19)	(14,976)	(23,475)
Other capital adjustments	377	-
	(14,599)	(23,475)
Accumulated other comprehensive income (Notes 2 and 22)		
Gain on valuation of equity-method investments (Note 8)	150,525	9,744
Loss on valuation of equity-method investments (Note 8)	(978)	(26,066)
Valuation loss on Cash flow hedge derivative instruments (Note 16)	(16,053)	-
	133,494	(16,322)
Retained earnings (Note 18)		
Legal reserve	73,430	56,729
Other reserves	1,958,693	1,460,097
Unappropriated retained earnings (Note 2)	1,004,627	682,310
	3,036,750	2,199,136
Total shareholders' equity	4,889,694	3,878,196
Total liabilities and shareholders' equity	₩ 8,036,382	₩ 7,049,952

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

LG Chem, Ltd.
Non-Consolidated Statements of Income
Years Ended December 31, 2008 and 2007

(in millions of Korean won, except per share amounts)

	2008		2007	
Sales (Notes 25 and 27)	₩	12,645,000	₩	8,899,578
Cost of sales (Notes 20 and 25)		10,505,542		7,569,364
Gross profit		2,139,458		1,330,214
Selling and administrative expenses (Note 25)		795,109		667,876
Operating income		1,344,349		662,338
Non-operating income				
Interest income		3,880		8,828
Foreign exchange gains		370,422		42,754
Gain on foreign currency translation (Note 13)		29,625		5,472
Gain on valuation of equity-method investments (Notes 2 and 8)		29,543		173,670
Gain on transaction of derivative instruments		51,849		-
Gain on valuation of derivative instruments (Note 16)		53,590		1,846
Gain on disposal of property, plant and equipment		1,795		5,924
Reversal of negative goodwill (Notes 2 and 10)		39,170		39,170
Reversal of bad debts allowance		4,976		-
Reversal of compensation expenses associated with stock options (Note 15)		337		-
Gain on insurance settlements		57,787		11
Others		18,319		14,819
		661,293		292,494
Non-operating expenses				
Interest expenses		39,249		81,843
Foreign exchange losses		402,178		43,774
Loss on foreign currency translation (Note 13)		178,042		7,523
Loss on disposal of trade accounts receivable (Note 2)		36,566		32,182
Impairment loss on investment securities (Note 7)		-		15
Loss on valuation of equity-method investments (Notes 2 and 8)		45,228		8,286
Loss on valuation of derivative instruments (Note 16)		13,608		-
Loss on disposal of property, plant and equipment (Note 2)		7,267		12,278
Impairment loss on property, plant and equipment		-		3,287
Impairment loss on intangible assets (Note 10)		84		16,376
Donations		6,823		6,710
Others		31,133		15,391
		760,178		227,665
Income from continuing operations before income tax		1,245,464		727,167
Income tax expenses on continuing operations (Notes 2 and 21)		299,665		105,743
Income from continuing operations		945,799		621,424
Income from discontinued operations (Note 28)		56,786		64,781
Net income	₩	1,002,585	₩	686,205
Per share data (in won) (Notes 2 and 23)				
Income from continuing operations per share	₩	11,341	₩	8,392
Earnings per share	₩	12,022	₩	9,264
Diluted income from continuing operations per share	₩	11,341	₩	8,392
Diluted earnings per share	₩	12,022	₩	9,264

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

LG Chem, Ltd.**Non-Consolidated Statements of Appropriations of Retained Earnings****Years Ended December 31, 2008 and 2007****(Date of appropriations: March 20, 2009 and March 21, 2008
for the years ended December 31, 2008 and 2007, respectively)***(in millions of Korean won)*

	2008		2007
Retained earnings before appropriations			
Unappropriated retained earnings carried over from prior year	₩ 7	₩	(3,895)
Accumulated effects from changes of financial accounting standards (Note 2)	2,035		-
Net income	<u>1,002,585</u>		<u>686,205</u>
	<u>1,004,627</u>		<u>682,310</u>
Transfers from other reserves			
Reserve for technology development	<u>76,667</u>		<u>76,667</u>
Appropriation of retained earnings			
Legal reserve	20,920		16,701
Dividends (Note 24)	209,202		167,006
Reserve for technology development	851,165		445,200
Reserve for investment losses	-		130,063
	<u>1,081,287</u>		<u>758,970</u>
Unappropriated retained earnings			
carried forward to subsequent year	<u>₩ 7</u>	₩	<u>7</u>

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

LG Chem, Ltd.

**Non-Consolidated Statements of Changes in Shareholders' Equity
Years Ended December 31, 2008 and 2007**

(in millions of Korean won)

	Capital stock	Capital surplus	Capital adjustment	Accumulated other comprehensive Income	Retained earnings	Total
Balances as of January 1, 2007	₩ 365,432	₩ 739,612	₩ (23,129)	₩ (54,419)	₩ 1,589,744	₩ 2,617,240
Accumulated effects from changes of financial accounting standards	-	-	-	10,025	(3,905)	6,120
Dividends	-	-	-	-	(72,908)	(72,908)
Issuance of stock due to merger (Note 17)	54,068	520,638	-	-	-	574,706
Other capital surplus	-	39,107	-	-	-	39,107
Net income	-	-	-	-	686,205	686,205
Acquisition of treasury stock	-	-	(346)	-	-	(346)
Changes in equity arising from equity-method investments (Note 22)	-	-	-	28,072	-	28,072
Balances as of December 31, 2007	<u>₩ 419,500</u>	<u>₩ 1,299,357</u>	<u>₩ (23,475)</u>	<u>₩ (16,322)</u>	<u>₩ 2,199,136</u>	<u>₩ 3,878,196</u>
Balances as of January 1, 2008	₩ 419,500	₩ 1,299,357	₩ (23,475)	₩ (16,322)	₩ 2,199,136	₩ 3,878,196
Accumulated effects from changes of financial accounting standards (Note 2)	-	-	-	-	2,035	2,035
Dividends (Note 24)	-	-	-	-	(167,006)	(167,006)
Net income	-	-	-	-	1,002,585	1,002,585
Disposal of treasury stock	-	13,014	8,499	-	-	21,513
Changes in equity arising from equity-method investments (Note 22)	-	2,178	377	165,869	-	168,424
Valuation loss on cash flow hedge derivative instruments (Note 22)	-	-	-	(16,053)	-	(16,053)
Balances as of December 31, 2008	<u>₩ 419,500</u>	<u>₩ 1,314,549</u>	<u>₩ (14,599)</u>	<u>₩ 133,494</u>	<u>₩ 3,036,750</u>	<u>₩ 4,889,694</u>

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

LG Chem, Ltd.
Non-Consolidated Statements of Cash Flows
Years Ended December 31, 2008 and 2007

<i>(in millions of Korean won)</i>	2008	2007
Cash flows from operating activities		
Net income	₩ 1,002,585	₩ 686,205
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	423,241	466,558
Provision for severance benefits	64,433	63,634
Loss on foreign currency translation, net	179,613	3,158
Loss on disposal of trade accounts receivable	39,642	36,424
Impairment loss on investment securities	-	19
Loss (Gain) on valuation of equity-method investments, net	15,327	(167,995)
Gain on transactions of derivative instruments	(63,293)	-
Gain on valuation of derivative instruments, net	(48,807)	(2,342)
Loss on disposal of property, plant and equipment, net	6,315	26,061
Impairment loss on property, plant and equipment	18	12,407
Impairment loss on intangible assets	186	21,618
Reversal of negative goodwill	(39,170)	(39,170)
Reversal of bad debts allowance	(5,471)	(550)
Reversal of compensation expenses associated with stock options	(269)	-
Others, net	14,315	22,746
	<u>586,080</u>	<u>442,568</u>
Changes in operating assets and liabilities		
Increase in trade accounts and notes receivable	(211,554)	(91,086)
Increase in inventories	(348,301)	(180,158)
Dividends received	54,185	58,548
Insurance settlements received	76,836	-
Decrease in other accounts receivable	12,478	24,826
Decrease (increase) in accrued income	934	(382)
(Increase) decrease in advance payments	(6,052)	488
(Increase) decrease in prepaid expenses	(6,663)	205
Increase in deferred income tax assets	(15,318)	(25,283)
Increase in other current assets	(943)	(231)
(Decrease) increase in trade accounts and notes payable	(210,510)	58,995
(Decrease) increase in other accounts payable	(11,934)	17,219
Increase (decrease) in accrued expenses	16,296	(26,463)
Increase in income tax payable	119,979	139,800
(Decrease) increase in other current liabilities	(4,144)	14,377
Accrued severance benefits transferred from associated companies	610	608
Decrease in deferred income tax liabilities	(19,173)	(70,898)
Payment of severance benefits	(66,281)	(60,589)
Others, net	(151)	10,479
	<u>(619,706)</u>	<u>(129,545)</u>
Net cash provided by operating activities	<u>968,959</u>	<u>999,228</u>

LG Chem, Ltd.
Non-Consolidated Statements of Cash Flows
Years Ended December 31, 2008 and 2007

<i>(in millions of Korean won)</i>	2008	2007
Cash flows from investing activities		
Acquisition of short-term investments, net	₩ (41,891)	₩ (50,103)
Disposal of property, plant and equipment	28,230	21,519
Disposal of long-term guarantee deposits, net	4,311	4,543
Acquisition of property, plant and equipment	(773,356)	(450,671)
Acquisition of equity-method investments, net	(21,667)	(26,801)
Acquisition of intangible assets, net	(41,640)	(19,157)
Decrease in derivative instrument transaction debit	64,328	-
Others, net	(4,389)	(15,707)
Net cash used in investing activities	<u>(786,074)</u>	<u>(536,377)</u>
Cash flows from financing activities		
Repayment of short-term borrowings, net	-	(25,076)
Repayment of current maturities of long-term debts	(366,887)	(441,218)
Issuance of debentures	144,588	94,059
Payment of dividends	(166,995)	(72,907)
Proceeds from long-term debts, net	92,156	139,041
Disposal of treasury stock	21,513	-
Others, net	(398)	(509)
Net cash used in financing activities	<u>(276,023)</u>	<u>(306,610)</u>
Cash flows from merger	-	194,367
Net (decrease) increase in cash and cash equivalents	<u>(93,138)</u>	<u>350,608</u>
Cash and cash equivalents		
Beginning of the year	466,438	115,830
End of the year	<u>₩ 373,300</u>	<u>₩ 466,438</u>

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

LG Chem, Ltd.

Notes to Non-Consolidated Financial Statements

December 31, 2008 and 2007

1. The Company

The Company was spun off from LG Chem Investment Ltd. (formerly LG Chemical Ltd.) on April 1, 2001, and completed the registration process on April 3, 2001. The Company engages in the business of petrochemicals, industrial materials, and information and electronic materials. The Company has its manufacturing facilities in Yeosu, Cheongju, Ulsan, Naju, Onsan, Iksan, Daesan, Ochang and Gimcheon.

The Company merged with LG Daesan Petrochemical Ltd. on January 1, 2006. Also, the Company merged with LG Petrochemical Co., Ltd. on November 1, 2007 (Note 30).

As of December 31, 2008, the Company has an outstanding capital stock of ₩419,500 million, including preferred stock of ₩43,306 million. The Company has been listed on the Korea Stock Exchange since April 25, 2001.

The Company is authorized to issue 292 million shares of common stock with par value of ₩5,000 per share. As of December 31, 2008 and 2007, the Company has issued 75,238,770 common shares and 8,661,251 preferred shares. Preferred shareholders have no voting rights but are entitled to dividends at a rate 1% more than those paid to common shareholders.

2. Summary of Significant Accounting Policies

The significant accounting policies followed by the Company in the preparation of its non-consolidated financial statements are summarized below.

Basis of Financial Statements Presentation

The Company maintains its accounting records in Korean won and prepares statutory financial statements in the Korean language, in conformity with financial accounting principles generally accepted in the Republic of Korea. Certain accounting principles applied by the Company that conform with financial accounting standards and accounting principles in the Republic of Korea may not conform with generally accepted accounting principles in other countries. Accordingly, these financial statements are intended for use by those who are informed about Korean accounting principles and practices. The accompanying non-consolidated financial statements have been condensed, restructured and translated into English from the Korean language non-consolidated financial statements. Certain information attached to the Korean language financial statements, but not required for a fair presentation of the Company's financial position, results of operations, or cash flows, is not presented in the accompanying non-consolidated financial statements.

Application of the Statements of Korean Financial Accounting Standards

The Korean Accounting Standards Board has published a series of Statements of Korean Financial Accounting Standards ("SKFAS"), which will gradually replace the existing financial accounting standards, established by the Korean Financial and Supervisory Commission.

In 2008, the Company adopted the following new Statements of Korean Financial Accounting Standards ("SKFAS") issued by the Korea Accounting Standards Board:

SKFAS No. 5, *Property, plant & equipment, (as revised)*

SKFAS No. 15, *Equity-method Investments, (as revised)*

SKFAS No. 20, *Related Party Disclosures, (as revised)*

LG Chem, Ltd.
Notes to Non-Consolidated Financial Statements
December 31, 2008 and 2007

Korea Accounting Institute opinion on Korean Accounting Statement Implementation 06-2, *Accounting treatment for taxable temporary differences associated with investments in subsidiaries, associates, and interest in joint ventures.*

Restatement of Prior Year Financial Statements

In the preparation of the Company's financial statements, the Company adopted the Korea Accounting Institute opinion on Korean Accounting Statement Implementation 06-2, *Accounting treatment for taxable temporary differences associated with investments in subsidiaries, associates, and interest in joint ventures*, which was revised on February 22, 2008. The financial statements as of and for the year ended December 31, 2007, have not been restated, and the effect of the change is adjusted on the beginning balance of 2008. The effects of this change were an increase in retained earnings by ₩1,358 million, an increase in changes in equity arising from equity-method investments by ₩179 million, and a decrease in deferred income tax liabilities by ₩1,537 million as of January 1, 2007. Also, the effect of this change were a decrease in income tax expense by ₩677 million for the year ended December 31, 2007, a decrease in deferred income tax liabilities by ₩2,035 million, and an increase in retained earnings by ₩2,035 million as of December 31, 2007 (Note 21).

Mergers

The Company merged with LG Petrochemical Co., Ltd. on November 1, 2007. According to the Accounting Standards for Business Combination, these mergers were regarded as the mergers between a parent company and its subsidiaries. Therefore, assets and liabilities taken over by the Company were assessed at their book values on the consolidated financial statements (Note 30).

Accounting Estimates

The preparation of the non-consolidated financial statements requires management to make estimates and assumptions that affect amounts reported therein. Although these estimates are based on management's best knowledge of current events and actions that the Company may undertake in the future, actual results may differ from those estimates.

Revenue Recognition

Revenue is the gross inflow of economic benefits arising in the ordinary course of the Company's activities and is measured as the fair value of the consideration received or receivable for the sale of goods and services in the said ordinary course of the Company's activities. Revenue is shown as net of value-added tax, sales discounts and sales returns. The Company recognizes revenue when the amount of revenue can be reliably measured, and it is probable that future economic benefits will flow into the Company.

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership of goods are transferred to the buyer.

Interest income is recognized using the effective interest method. Dividend income is recognized when the rights to receive such dividends and amounts thereof are determined. Royalty income is recognized on an accrual basis in accordance with the substance of relevant contracts.

Government Grants

Government grants received, which are to be repaid, are recorded as liability, while grants without obligation to be repaid are offset against cost of assets purchased with such grants. Grants received for a specific purpose are offset against the specific expense for which it was granted, and other grants are recorded as a gain for the period.

LG Chem, Ltd.
Notes to Non-Consolidated Financial Statements
December 31, 2008 and 2007

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and in banks, and financial instruments with maturity of three months or less at the time of purchase. These financial instruments are readily convertible into cash without significant transaction costs and bear low risks from changes in value due to interest rate fluctuations.

Asset-Backed Securities

In accordance with the Asset Securitization Law, on December 27, 2004, the Company transferred ₩229,625 million of trade accounts receivable outstanding as of November 30, 2004, to LG Chem 3rd Special Purpose Company. Through the asset-backed securitization of trade receivables, the Company acquired beneficiary certificates. These beneficiary certificates were all redeemed on their maturity dates of January 28, 2008 (₩50,000 million), February 28, 2008 (₩50,000 million) and March 28, 2008 (₩60,000 million), respectively. This special purpose company was liquidated in 2008.

As of December 31, 2007, 2nd beneficiary certificates acquired from the trust companies, amounting to ₩126,959 million, were included in the trade accounts receivable.

As of December 31, 2007, trade accounts receivable transferred to the special purpose companies amounted to ₩286,959 million, and the Company recognized interest and issuance expenses paid to the special purpose companies, as loss on disposal of trade accounts receivable.

Allowance for Doubtful Accounts

The Company provides an allowance for doubtful accounts and notes receivable. Allowances are calculated based on the estimates made through a reasonable and objective method.

Inventories

Inventories are stated at the lower of cost or market, with cost being determined using the moving-average method, except for materials-in-transit which are stated at actual cost determined using the specific identification method. If the net realizable value of inventory is less than its cost, a contra inventory account representing the valuation loss, is presented to reduce the inventory to its net realizable value. The said valuation loss is recorded as cost of sales. If, however, the circumstances which caused the valuation loss ceased to exist, causing the market value to rise above the carrying amount, the valuation loss is reversed limited to the original carrying amount before valuation. The said reversal is a deduction from cost of sales.

Securities

Costs of securities are determined using the moving-weighted average method. Investments in equity securities or debt securities are classified into trading securities, available-for-sale securities and held-to-maturity securities, depending on the acquisition and holding purpose. Investments in equity securities of companies, over which the Company exercises a significant control or influence, are recorded using the equity method of accounting. Trading securities are classified as current assets while available-for-sale securities and held-to-maturity securities are classified as long-term investments, excluding those securities that mature or are certain to be disposed of within one year, which are then classified as current assets.

Held-to-maturity securities are measured at amortized cost while available-for-sale and trading securities are measured at fair value. However, non-marketable securities, classified as available-for-sale securities, are carried at cost when the fair values are not readily determinable.

LG Chem, Ltd.
Notes to Non-Consolidated Financial Statements
December 31, 2008 and 2007

Gains and losses related to trading securities are recognized in the income statement, while unrealized gains and losses of available-for-sale securities are recognized under other comprehensive income and expense. Realized gains and losses of available-for-sale securities are recognized in the income statement.

Equity-Method Investments

In the non-consolidated financial statements of the Company, investments in business entities, over which the Company exercises significant control or influence over the operating and financial policies of such entities, are recorded using the equity method of accounting.

Under the equity method, the original investment is recorded at cost and adjusted by the changes in the Company's proportionate ownership in the book value of the investee in current operations, as accumulated other comprehensive income and expenses or as adjustments to retained earnings, depending on the nature of the underlying change in the net book value of the investee.

In cases where the investee is the Company's consolidated subsidiary, net income and net assets of the non-consolidated financial statements of the Company should be the same as the Company's proportionate ownership in the net income and net asset of the consolidated financial statements of the Company, unless equity method of accounting for investment is discontinued.

Unrealized profit arising from intercompany transactions is eliminated based on the average gross profit ratio of the corresponding company. The Company's proportionate unrealized profit arising from sales between the Company and equity-method investees or sales between equity-method investees is eliminated. However, unrealized profit arising from sales by the Company to its consolidated subsidiaries is fully eliminated.

The Company discontinues the equity method of accounting for investments when the Company's share in the accumulated losses of the investee equals the costs of the investments, and until the subsequent accumulated proportionate net income of the investees equals its cumulative proportionate net losses not recognized during the periods when the equity method was suspended. Even if the book value of the investments, including other investment-type assets such as the preferred shares or long-term debts of the investees becomes zero or negative, the Company still continues to record its share in the net losses of the investees until its proportionate net loss of the investee equals the book value of such assets.

The difference between the Company's initial proportionate ownership in the net fair value and the net book value of the investee, which is the net of the fair value and the net book value of the recognizable assets and liabilities, is amortized according to the investee's accounting policy for the related assets and liabilities.

When the initial purchase price exceeds or is below the Company's initial proportionate ownership in the net fair value of the investee, which is the net of the fair value of the investee's recognizable assets and liabilities, the Company considers the difference as goodwill (negative goodwill) and amortizes it in accordance with the Accounting Standards for Business Combination.

In cases where the investee is the Company's consolidated subsidiary, the difference between change of the Company's proportionate ownership in the net book value of the investee and purchase price, which is paid for the Company's additional acquisition of shares or investee's issuance of new shares, is accounted for as capital surplus or capital adjustment in shareholders' equity.

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Accounts and records of the overseas equity method companies are maintained in foreign currencies. The financial statements of the overseas equity-method investees have been translated into Korean won at exchange rates as of the balance sheet date for the balance sheet and annual average exchange rate for income statements. Any resulting translation gain or loss is accounted for as accumulated other comprehensive income and expense as gain or loss on valuation of equity-method investments in shareholders' equity.

In the application of the equity method of accounting, the overseas investee companies apply the same accounting policies as the Company. In 2008, the Company made adjustments to the financial statements of overseas investees whose estimated useful lives on their property, plant and equipment are different from those used by the Company. As a result of these adjustments, the gain on valuation of equity-method of accounting increased by ₩1,213 million for the year ended December 31, 2008.

Property, Plant and Equipment, and Related Depreciation

Property, plant and equipment are recorded at cost, except for upward revaluations in accordance with the Korean Asset Revaluation Law. Such revaluations present production facilities and other buildings at their depreciated replacement cost and land at the prevailing market price as of the effective date of revaluation.

Depreciation is computed using the straight-line method over the following estimated useful lives:

	Estimated Useful Lives
Buildings and structures	25 – 50 years
Machinery and equipment	6 – 15 years
Vehicles	4 – 6 years
Tools	4 – 6 years
Furniture and fixtures, and others	4 – 6 years

The Company capitalizes interest expense incurred on borrowings used to finance the cost of constructing property, plant and equipment.

Routine maintenance and repairs are charged to expense as incurred. Expenditures, which enhance the value or extend the useful lives of the related assets, are capitalized.

The Company recognized loss on disposal of property, plant and equipment (including that of discontinued operations) of ₩13,229 million for the year ended 2008 (2007: ₩35,312 million).

Lease Transactions

The Company accounts for lease transactions as either operating leases or capital leases, depending on the terms of the underlying lease agreements. Machinery and equipment acquired under financing lease agreements are recorded as property, plant and equipment at cost and depreciated using the declining-balance method over their estimated useful lives. In addition, the aggregate lease payments are recorded as obligations under financing leases, net of accrued interest, as determined by the total lease payments in excess of the cost of the leased machinery and equipment. Accrued interest is amortized over the lease period using the effective interest rate method.

Machinery and equipment acquired under operating lease agreements are not included in property, plant and equipment. Instead, the related lease rentals are charged to expense on a pro-rata basis over the lease term.

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Intangible Assets

Intangible assets are stated at cost, which includes acquisition cost, production cost and other costs required to prepare the asset for its intended use.

Intangible assets, consisting of intellectual property rights and exclusive facility use rights are stated at cost, net of accumulated amortization. Amortization is computed using the straight-line method over the estimated useful lives ranging from three to 25 years. Research and development costs are charged to current operations when incurred and are included in operating expenses. Costs incurred in developing new products or technologies, which can be clearly defined and measured, and having probable future economic benefits, are capitalized as development costs. Other development costs are charged as normal development expense in the period incurred. For the year ended December 31, 2008, the Company expensed ₩ 214,851 million (2007: ₩212,038 million) as normal development expense (including discontinued operations).

Development costs which are individually identifiable and directly related to a new technology or to new products which carry probable future benefits are capitalized as intangible assets. Amortization of development cost begins at the commencement of the commercial production of the related products or use of the related technology.

Capitalized development costs are amortized over their economic lives not to exceed 20 years using the straight-line method.

Goodwill represents the excess of the cost of an acquisition over the fair value of the Company's share in the net identifiable assets of the acquired subsidiary or associate at the date of acquisition. Goodwill (negative goodwill) is amortized in accordance with the Accounting Standards for Business Combination.

Impairment of Assets

When the book value of an asset is significantly greater than its recoverable value due to obsolescence, physical damage or an abrupt decline in the market value of the asset, the said decline in value is deducted from the book value to agree with recoverable amount and is recognized as an asset impairment loss for the period. When the recoverable value subsequently exceeds the book value, the impairment amount is recognized as gain for the period to the extent that the revised book value does not exceed the book value that would have been recorded without the impairment. Reversal of impairment of goodwill is not allowed.

Revaluation of Receivables

Receivables, which are modified during the course of court receivership, court mediation or restructuring of customers, are revalued at the present value discounted by an adjusted interest rate. The difference between the book value and the present value is accounted for as bad debt expense.

Premiums or Discounts on Debentures

The Company accounts for the difference between the face amount and issued amount of debentures as an addition to or deduction from debentures. Premiums or discounts on debentures are amortized using the effective interest rate method over the terms of the debentures. The resulting amortization is recorded as interest expense.

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Translation of assets and liabilities denominated in foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into Korean won at the rates of exchange in effect at the balance sheet and the resulting translation gains and losses are recognized in current operations. The exchange rate used to translate U.S. dollar denominated monetary assets and liabilities as of December 31, 2008 is ₩1257.5: US\$1 (2007: ₩938.2: US\$1).

Accrued Severance Benefits

Employees and directors with at least one year of service are entitled to receive a lump-sum payment upon termination of their employment, based on their length of employment and rate of pay at the time of termination. Accrued severance benefits represent the amount of severance benefits which would be payable assuming all eligible employees and directors were to terminate their employment as of the balance sheet date (Note 14).

Accrued severance benefits are funded at approximately 65.3 % as of December 31, 2008 (2007: 64.6 %), through group severance insurance plans and are presented as a deduction from accrued severance benefits.

The Company has made deposits to the National Pension Fund in accordance with National Pension Funds Law. The use of the deposit is restricted to the payment of severance benefits. Accordingly, accrued severance benefits in the accompanying balance sheets are presented net of this deposit.

Provisions and Contingent Liabilities

When there is a probability that an outflow of economic benefits will occur due to a present obligation resulting from a past event, and whose amount is reasonably estimable, a corresponding amount of provision is recognized in the financial statements. However, when such outflow is dependent upon a future event, is not certain to occur, or cannot be reliably estimated, a disclosure regarding the contingent liability is made in the notes to the financial statements.

Income Tax and Deferred Income Tax

Income tax expense includes the current income tax under the relevant income tax law and the changes in deferred tax assets or liabilities. Deferred tax assets and liabilities represent temporary differences between financial reporting and the tax bases of assets and liabilities. Deferred tax assets are recognized for temporary differences which will decrease future taxable income or operating loss to the extent that it is probable that future taxable income will be available against which the temporary differences can be utilized. Deferred tax effects applicable to items in the shareholders' equity are directly reflected in the shareholders' equity.

Deferred income tax assets (liabilities) for temporary differences are classified into current assets (current liabilities) or other non-current assets (non-current liabilities) according to the classification of the assets (liabilities) on balance sheet, to which the temporary differences are related. For temporary differences that are not related to the assets (liabilities) on balance sheet, the deferred income tax assets (liabilities) are classified into current or non-current assets (liabilities) according to the expected reversal date of the temporary differences.

Derivative Financial Instruments

All derivative instruments are accounted for at their fair value according to the rights and obligations associated with the derivative contracts. The resulting changes in fair value of derivative instruments are recognized either under the income statement or shareholders' equity, depending on whether the derivative instruments qualify as a cash flow hedge. Fair value hedge accounting is applied to a derivative instrument purchased with the purpose of hedging

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the exposure to changes in the fair value of an asset or a liability or a firm commitment that is attributable to a particular risk. The resulting changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognized under the shareholders' equity under accumulated other comprehensive income and expense.

Share-based Compensation

The Company recognizes a difference between the stock compensation price as of December 31, 2008 and the exercise price, as stock compensation expense and long-term payables.

Discontinued Operations

The Company reports its operating and non-operating income or loss as income or loss from discontinued operations, net of income tax effect. The income or loss from discontinued operations includes direct costs from discontinued operations and impairment loss on assets due to discontinued operations.

Reclassification of Prior Year Financial Statements

Certain accounts in the December 31, 2007 financial statements were reclassified to conform with the December 31, 2008 financial statement presentation. These reclassifications have no impact on the previously reported net income or shareholders' equity.

Approval of Financial Statements

The December 31, 2008 non-consolidated financial statements of the Company were approved by the Board of Directors on February 26, 2009.

3. Restricted Bank Deposits

As of December 31, 2008 and 2007, long-term financial instruments are deposited in connection with bank overdraft agreements, and withdrawal of these deposits is restricted.

The withdrawal of group severance insurance deposits is also restricted to employees' severance payments (Note 14).

4. Short-Term Investments

<i>(in millions of Korean won)</i>	2008	2007
Time deposits	₩ -	₩ 100,000
Certificates of deposit ¹	148,300	-
Available-for-sale ²	-	4
Short-term loans receivable	-	6,408
	₩ 148,300	₩ 106,412

¹ Certificates of deposit are pledged as collateral for the corporate income tax payment.

² Available-for-sale investments consist of government and public bonds.

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5. Receivables

Receivables and allowance for doubtful accounts as of December 31, 2008 and 2007, consist of the following:

<i>(in millions of Korean won)</i>	2008	2007
Trade accounts and notes receivable	₩ 1,156,519	₩ 1,025,892
Less: Allowance for doubtful accounts	(33,158)	(48,587)
	₩ 1,123,361	₩ 977,305
Other accounts receivable	₩ 99,166	₩ 122,605
Less: Allowance for doubtful accounts	(10,311)	(24,169)
Less: Present value discount	(26)	(36)
	₩ 88,829	₩ 98,400
Long-term trade accounts and notes receivable	₩ 146	₩ 239
Less: Allowance for doubtful accounts	(16)	(32)
	₩ 130	₩ 207
Long-term other accounts receivable	₩ 202	₩ 685
Less: Present value discount	(7)	(46)
	₩ 195	₩ 639

6. Inventories

Inventories as of December 31, 2008 and 2007, consist of the following:

<i>(in millions of Korean won)</i>	2008	2007
Merchandise, net of valuation allowance of ₩363 million (2007: ₩607 million)	₩ 67,005	₩ 43,812
Finished products, net of valuation allowance of ₩19,106million (2007: ₩5,298million)	739,012	528,350
Work-in-process	178,072	141,239
Raw materials, net of valuation allowance of ₩421 million (2007: ₩335 million)	351,521	354,493
Supplies	41,333	37,089
Materials-in-transit	131,995	62,854
	₩ 1,508,938	₩ 1,167,837

As of December 31, 2008, inventories are insured against fire and other casualty losses for up to ₩1,238,416 million (2007: ₩819,936 million).

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7. Investment Securities

Long-term investment securities of the Company as of December 31, 2008 and 2007, are as follows:

<i>(in millions of Korean won)</i>	2008		2007	
Government and public bonds	₩	1	₩	31
Non-marketable stocks		1,967		1,462
Total	₩	1,968	₩	1,493

Non-marketable stocks as of December 31, 2008 and 2007, consist of the following:

<i>(in millions of Korean won)</i>	Percentage of Ownership (%)		Acquisition Cost		Book Value		Fair Value or Net Asset Value ⁴	
	2008	2007	2008	2007	2008	2007	2008	2007
N&L Marble ¹	-	22.73	₩ -	₩ 539	₩ -	₩ -	₩ -	₩ -
PT. Halim Samara Interutama	12.10	12.10	576	576	576	576	936	670
Chemizen. Com Ltd. ²	2.62	2.62	300	300	-	-	-	-
LG Mozel Ltd.	13.00	13.00	195	195	195	195	514	544
EICO Properties Pte. Ltd.	9.20	9.20	2,298	2,298	509	509	2,996	793
Neoecos ²	4.86	4.86	9	9	-	-	-	-
Saerom Seongwon	0.00	0.00	182	182	182	182	1	1
LG Chem Industrial Material Russia, LLC ³	99.00	-	505	-	505	-	505	-
			₩ 4,065	₩ 4,099	₩ 1,967	₩ 1,462	₩ 4,952	₩ 2,008

¹ The investee was liquidated in 2008.

² The Company recognized an impairment loss of ₩10 million for Chemizen. Com Ltd. and ₩9 million for Neoecos in 2007.

³ The investee is in the pre-operation stage.

⁴ Net asset values were calculated based on the recent available financial statements of the investees. Impairment losses are recognized in the statement of income in cases where there is an indication that an investment may have been impaired.

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8. Equity-Method Investments

Equity-method investments as of December 31, 2008 and 2007, are as follows:

in millions of Korean won

Investee ⁵	Percentage of		Acquisition Cost				Fair Value or Net	
	Ownership (%)		Acquisition Cost		Book Value		Asset Value	
	2008	2007	2008	2007	2008	2007	2008	2007
Tianjin LG Dagu Chemical Co., Ltd.	75.00	75.00	₩ 17,440	₩ 17,440	₩ 24,265	₩ 23,370	₩ 24,324	₩ 23,416
Tianjin LG New Building Materials Co., Ltd.	85.35	85.35	33,649	33,649	51,689	31,472	57,945	37,544
Ningbo LG Yongxing Chemical Co., Ltd.	75.00	75.00	110,746	110,746	135,908	143,143	134,388	142,382
LG Chemical India Pvt. Ltd.	100.00	100.00	31,466	31,466	54,928	50,173	54,928	50,173
LG Chemical Hong Kong Ltd.	100.00	100.00	254	254	11,159	7,489	10,039	6,997
LG Vina Chemical J/V Company	40.00	40.00	1,194	1,194	1,313	2,561	1,404	2,614
LG Chem America, Inc.	100.00	100.00	9,596	9,596	7,396	5,441	13,367	8,531
M. Dohmen S.A. ⁵	49.00	49.00	43,203	43,203	993	993	4,023	5,889
SEETEC Co., Ltd. ⁵	50.00	50.00	36,643	36,643	58,416	64,306	147,465	157,490
LG Dow Polycarbonate Ltd.	50.00	50.00	36,794	36,794	62,577	75,919	63,074	74,822
LG Chemical (Guangzhou) Engineering Plastics Co., Ltd.	100.00	100.00	13,091	13,091	21,911	15,435	22,205	15,453
LG Chem (Nanjing) Information & Electronics Materials Co., Ltd. ¹	82.80	77.00	71,523	50,704	98,921	37,339	116,955	51,846
LG Chem Trading (Shanghai) Co., Ltd.	100.00	100.00	3,503	3,503	2,473	1,724	2,471	1,739
LG Chem (China) Investment Co., Ltd.	100.00	100.00	40,340	40,340	46,337	43,125	46,338	43,127
LG Chem (Taiwan), Ltd.	100.00	100.00	6,888	6,888	-	2,566	7,449	6,434
LG Chem Industrial Materials Inc.	100.00	100.00	17,846	17,846	15,883	8,545	17,209	8,891
LG Holdings (HK) Ltd. ^{2,5}	18.18	18.18	41,582	41,582	58,207	27,222	56,375	24,866
Compact Power Inc. ³	100.00	81.00	5,483	4,635	983	611	983	611
LG Chem (Tianjin) Engineering Plastics Co., Ltd.	90.00	90.00	5,589	5,589	14,733	7,125	15,810	7,765
LG Chem Display Materials (Beijing) Co., Ltd.	90.00	90.00	6,865	6,865	12,450	7,200	13,201	7,961
Tianjin LG Bohai Chemical Co., Ltd.	65.00	65.00	63,524	63,524	105,847	67,238	116,114	77,313
LG Chem Europe GmbH	100.00	100.00	1,927	1,927	3,085	2,015	4,637	2,781
LG Chem Brasil, Ltd.	100.00	100.00	258	258	258	258	258	258
LG Chem Poland Sp. Z.O.O	100.00	100.00	5,790	5,790	8,196	9,228	8,196	9,214
TECWIN Co., Ltd. ^{4,5}	19.90	19.90	419	419	2,861	419	2,861	2,420
			<u>₩605,613</u>	<u>₩583,946</u>	<u>₩800,789</u>	<u>₩634,917</u>	<u>₩942,019</u>	<u>₩770,537</u>

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- ¹ In 2008, the Company acquired additional shares of LG Chem (Nanjing) Information & Electronics Materials Co., Ltd. for ₩20,819 million. As a result, the Company's percentage of ownership in LG Chem (Nanjing) Information & Electronics Materials Co., Ltd. increased from 77% to 82.80%.
- ² This investment is classified as an equity-method investment as the combined percentage of ownership of the Company and LG Electronics Inc., a consolidated subsidiary of LG Corp., exceeds 20%.
- ³ In 2008, the Company acquired additional shares of Compact Power Inc. for ₩848 million. As a result, the Company's percentage of ownership in Compact Power Inc. increased from 81% to 100%.
- ⁴ The investee was reclassified from investment securities to equity-method investments.
- ⁵ As of December 31, 2008, the Company has control over all the investees, except M. Dohmen S.A., SEETEC Co., Ltd., LG Holdings (HK) Ltd. and TECWIN Co., Ltd.

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Changes in equity-method investments for the years ended December 31, 2008 and 2007, are as follows:

(In millions of Korean won)

Investee	2008					
	January 1, 2008	Acquisition (Disposal)	Dividends	Valuation Gain (Loss) ²	Increase (Decrease) in Accumulated other comprehensive income and expenses	December 31, 2008
Tianjin LG Dagu Chemical Co., Ltd.	₩ 23,370	₩ -	₩ (5,286)	₩ (1,791)	₩ 7,972	₩ 24,265
Tianjin LG New Building Materials Co., Ltd. ¹	31,472	-	-	2,853	17,364	51,689
Ningbo LG Yongxing Chemical Co., Ltd.	143,143	-	(45,016)	(16,634)	54,415	135,908
LG Chemical India Pvt. Ltd.	50,173	-	-	(847)	5,602	54,928
LG Chemical Hong Kong Ltd.	7,489	-	-	933	2,737	11,159
LG Vina Chemical J/V Company	2,561	-	(891)	(1,679)	1,322	1,313
LG Chem America, Inc. ¹	5,441	-	-	(1,746)	3,701	7,396
M. Dohmen S.A.	993	-	-	-	-	993
SEETEC Co., Ltd.	64,306	-	-	(5,878)	(12)	58,416
LG Dow Polycarbonate Ltd.	75,919	-	-	(14,055)	713	62,577
LG Chemical (Guangzhou) Engineering Plastics Co., Ltd.	15,435	-	(2,992)	2,760	6,708	21,911
LG Chem (Nanjing) Information & Electronics Materials Co., Ltd.	37,339	20,819	-	12,144	28,619	98,921
LG Chem Trading (Shanghai) Co., Ltd. ¹	1,724	-	-	42	707	2,473
LG Chem (China) Investment Co., Ltd.	43,125	-	-	(722)	3,934	46,337
LG Chem (Taiwan), Ltd.	2,566	-	-	(5,118)	2,552	-
LG Chem Industrial Materials Inc. ¹	8,545	-	-	3,214	4,124	15,883
LG Holdings (HK) Ltd.	27,222	-	-	4,183	26,802	58,207
Compact Power Inc.	611	848	-	(143)	(333)	983
LG Chem (Tianjin) Engineering Plastics Co., Ltd.	7,125	-	-	3,245	4,363	14,733
LG Chem Display Materials (Beijing) Co., Ltd.	7,200	-	-	1,528	3,722	12,450
Tianjin LG Bohai Chemical Co., Ltd.	67,238	-	-	2,199	36,410	105,847
LG Chem Europe GmbH	2,015	-	-	51	1,019	3,085
LG Chem Brasil, Ltd.	258	-	-	-	-	258
LG Chem Poland Sp. Z.O.O	9,228	-	-	(2,308)	1,276	8,196
TECWIN Co., Ltd	419	-	-	2,442	-	2,861
	<u>₩ 634,917</u>	<u>₩ 21,667</u>	<u>₩(54,185)</u>	<u>₩ (15,327)</u>	<u>₩ 213,717</u>	<u>₩ 800,789</u>

¹ Investees will be transferred to LG HAUSYS, Ltd. on April 1, 2009.

² Includes gain (loss) from discontinued operations.

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(in millions of Korean won)

Investee	2007							
	January 1, 2007	Acquisition (Disposal)	Dividends	Valuation Gain (Loss)	Increase (Decrease) in Accumulated other comprehensive income and expenses	Increase (Decrease) due to Acquisition	December 31, 2007	
LG Petrochemical Co., Ltd. ¹	₩ 352,579	₩ -	₩(22,600)	₩103,983	₩ 39,020	₩(472,982)	₩ -	
Tianjin LG Dagu Chemical Co., Ltd.	21,465	-	-	227	1,678	-	23,370	
Tianjin LG New Building Materials Co., Ltd. ²	16,849	-	-	3,650	3,284	7,689	31,472	
Tianjin LG Window & Door Co., Ltd. ²	7,689	-	-	-	-	(7,689)	-	
Ningbo LG Yongxing Chemical Co., Ltd. ²	112,539	8,666	(32,034)	39,623	9,601	4,748	143,143	
LG Chemical India Pvt. Ltd.	40,906	-	-	3,558	5,709	-	50,173	
LG Chemical Hong Kong Ltd.	6,669	-	-	756	64	-	7,489	
LG Vina Chemical J/V Company	2,239	-	(847)	1,146	23	-	2,561	
LG Chem America, Inc.	5,200	-	-	(20)	261	-	5,441	
M. Dohmen S.A.	993	-	-	-	-	-	993	
SEETEC Co., Ltd.	54,749	-	-	9,542	15	-	64,306	
LG Dow Polycarbonate Ltd.	80,246	-	-	(4,161)	(166)	-	75,919	
LG Chemical (Guangzhou) Engineering Plastics Co., Ltd.	11,301	2,605	(3,067)	3,538	1,058	-	15,435	
LG Chem (Nanjing) Information & Electronics Materials Co., Ltd.	21,370	7,408	-	6,286	2,275	-	37,339	
LG Chem Trading (Shanghai) Co., Ltd.	1,653	-	-	(71)	142	-	1,724	
LG Chem (China) Investment Co., Ltd.	40,298	-	-	1,045	1,782	-	43,125	
LG Chem (Taiwan), Ltd.	1,158	4,597	-	(3,379)	190	-	2,566	
LG Chem Industrial Materials Inc.	9,850	-	-	(1,393)	88	-	8,545	
LG Chem Europe Sarl ³	1,441	(1,441)	-	-	-	-	-	
LG Holdings (HK) Ltd.	28,682	-	-	(2,778)	1,318	-	27,222	
Ningbo LG Yongxing Latex Co., Ltd. ²	4,748	-	-	-	-	(4,748)	-	
Compact Power Inc.	545	-	-	60	6	-	611	
LG Chem (Tianjin) Engineering Plastics Co., Ltd.	4,639	-	-	1,961	525	-	7,125	
LG Chem Display Materials (Beijing) Co., Ltd.	4,977	-	-	1,328	895	-	7,200	
Tianjin LG Bohai Chemical Co., Ltd. ⁴	37,294	5,111	-	(89)	5,255	19,667	67,238	
LG Chem Europe GmbH	933	-	-	694	388	-	2,015	
LG Chem Brasil, Ltd.	258	-	-	-	-	-	258	
LG Chem Poland Sp. Z.O.O	5,352	-	-	2,489	1,387	-	9,228	
TECWIN Co., Ltd.	419	-	-	-	-	-	419	
	₩ 877,041	₩ 26,946	₩ (58,548)	₩167,995	₩ 74,798	₩(453,315)	₩ 634,917	

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- 1 The Company merged with LG Petrochemical Co., Ltd. in 2007 (Note 30).
- 2 As Tianjin LG New Building Materials Co., Ltd. and Ningbo LG Yongxing Chemical Co., Ltd. merged with Tianjin LG Window & Door Co., Ltd. and Ningbo LG Yongxing Latex Co., Ltd., respectively, in 2007, profits of the merged companies are included in the profit amounts of the surviving companies.
- 3 The investee was liquidated in 2007.
- 4 The Company's percentage of ownership increased as the Company merged with LG Petrochemical Co., Ltd., which held 20% of ownership Tianjin LG Bohai Chemical Co., Ltd. in 2007.
- 5 Includes gain (loss) from discontinued operations.

The accumulated unamortized differences between the purchase price and the underlying proportionate net book value of equity investments, as well as the changes in such amounts for the years ended December 31, 2008 and 2007, are as follows:

(in millions of Korean won)

Investee	2008				2007			
	Beginning Balance	Increase	Amortization	Ending Balance	Beginning Balance	Increase	Amortization	Ending Balance
LG Petrochemical Co., Ltd. ¹	₩ -	₩ -	₩ -	₩ -	₩ 13,512	₩(11,134)	₩ 2,378	₩ -
SEETEC Co., Ltd.	(63,893)	-	(3,363)	(60,530)	(67,256)	-	(3,363)	(63,893)
LG Dow Polycarbonate Ltd.	1,190	-	198	992	1,388	-	198	1,190
LG Holdings (HK) Ltd.	2,355	-	524	1,831	2,879	-	524	2,355
	<u>₩(60,348)</u>	<u>₩ -</u>	<u>₩ (2,641)</u>	<u>₩(57,707)</u>	<u>₩(49,477)</u>	<u>₩(11,134)</u>	<u>₩ (263)</u>	<u>₩(60,348)</u>

- 1 As the Company merged with LG Petrochemical Co., Ltd. in 2007, the unamortized differences under equity-method accounting were transferred to goodwill (Note 30).

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The eliminated unrealized gains incurred from inventory transactions among equity method investees for the years ended December 31, 2008 and 2007, are as follows:

<i>(in millions of Korean won)</i>	Investee	2008		2007	
		₩		₩	
	Tianjin LG Dagu Chemical Co., Ltd.	₩	60	₩	50
	Tianjin LG New Building Materials Co., Ltd.		333		188
	Ningbo LG Yongxing Chemical Co., Ltd.		23		202
	LG Chemical Hong Kong Ltd.		123		759
	LG Vina Chemical J/V Company		91		53
	LG Chem America, Inc.		5,946		3,084
	LG Dow Polycarbonate Ltd.		1,405		100
	LG Chemical (Guangzhou) Engineering Plastics Co., Ltd.		309		23
	LG Chem (Nanjing) Information & Electronics Materials Co., Ltd.		4,337		525
	LG Chem Trading(Shanghai) Co., Ltd.		-		16
	LG Chem (China) Investment Co., Ltd.		1		1
	LG Chem (Taiwan), Ltd.		7,322		3,807
	LG Chem Industrial Materials Inc.		1,420		391
	Tianjin LG Bohai Chemical Co., Ltd.		325		301
	LG Chem Europe GmbH		1,551		766
	LG Chem (Tianjin) Engineering Plastics Co., Ltd.		448		21
		₩	23,694	₩	10,287

Changes in gain (loss) on valuation of investment securities accounted for as accumulated other comprehensive income and expenses for the years ended December 31, 2008 and 2007, are as follows:

<i>(in millions of Korean won)</i>	2008			2007		
	Gain	Loss	Net	Gain	Loss	Net
Beginning balance	₩ 12,385	₩(31,802)	₩ (19,417)	₩ 1,523	₩(55,858)	₩ (54,335)
Increase	183,147	-	183,147	50,742	-	50,742
Decrease	-	(30,570)	(30,570)	-	(24,056)	(24,056)
Others ¹	(3,678)	-	(3,678)	(39,880)	-	(39,880)
Ending balance	191,854	(1,232)	190,622	12,385	(31,802)	(19,417)
Tax effect	(41,329)	254	(41,075)	(2,641)	5,736	3,095
Net ending balance	₩150,525	₩ (978)	₩ 149,547	₩ 9,744	₩(26,066)	₩ (16,322)

¹ Includes changes arising from the merger of LG Petrochemical Co., Ltd. and the disposal of LG Chem Europe Sarl.

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The summary financial information on the equity-method investees as of and for the years ended December 31, 2008 and 2007, follows:

Investee	2008			
	Total Assets	Total Liabilities	Sales	Net Income (Loss)
Tianjin LG Dagu Chemical Co., Ltd.	₩ 148,868	₩ 116,436	₩ 404,754	₩ (2,365)
Tianjin LG New Building Materials Co., Ltd.	104,754	46,809	90,984	3,120
Ningbo LG Yongxing Chemical Co., Ltd.	464,455	285,271	993,208	(23,555)
LG Chemical India Pvt. Ltd.	80,868	25,940	143,788	(847)
LG Chemical Hong Kong Ltd.	48,053	38,014	177,072	216
LG Vina Chemical J/V Company	12,782	9,272	49,803	(3,198)
LG Chem America, Inc.	168,716	155,349	403,033	1,142
M. Dohmen S.A.	99,142	90,932	76,227	(3,793)
SEETEC Co., Ltd.	376,808	81,877	470,381	(23,779)
LG Dow Polycarbonate Ltd.	316,192	190,043	320,288	(23,698)
LG Chemical (Guangzhou) Engineering Plastics Co., Ltd.	64,878	42,673	111,367	3,036
LG Chem (Nanjing) Information & Electronics Materials Co., Ltd.	301,457	184,502	171,153	15,671
LG Chem Trading (Shanghai) Co., Ltd.	5,120	2,649	15,883	26
LG Chem (China) Investment Co., Ltd.	61,026	14,688	106,055	(711)
LG Chem (Taiwan), Ltd.	161,059	153,610	459,331	(2,462)
LG Chem Industrial Materials Inc.	55,760	38,551	48,265	4,182
LG Holdings (HK) Ltd.	310,093	-	-	25,890
Compact Power Inc.	8,275	7,292	13,475	(144)
LG Chem (Tianjin) Engineering Plastics Co., Ltd.	35,559	19,749	51,043	3,682
LG Chem Display Materials (Beijing) Co., Ltd.	24,883	11,682	11,714	1,518
Tianjin LG.Bohai Chemical Co., Ltd.	443,267	288,448	391,620	3,189
LG Chem Europe GmbH	33,485	28,848	91,816	889
LG Chem Brasil, Ltd.	258	-	-	-
LG Chem Poland Sp. Z.O.O	39,483	31,287	17,398	(1,904)
TECWIN Co, Ltd.	31,429	17,051	56,823	3,626
	<u>₩ 3,396,670</u>	<u>₩ 1,880,973</u>	<u>₩ 4,675,481</u>	<u>₩ (20,269)</u>

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<i>(in millions of Korean won)</i>	2007			
	Total Assets	Total Liabilities	Sales	Net Income (Loss)
Investee				
Tianjin LG Dagu Chemical Co., Ltd.	₩ 126,210	₩ 94,988	₩ 293,692	₩ 314
Tianjin LG New Building Materials Co., Ltd. ¹	74,487	36,943	71,399	3,696
Ningbo LG Yongxing Chemical Co., Ltd. ¹	448,387	258,545	920,670	52,373
LG Chemical India Pvt. Ltd.	69,334	19,160	119,752	3,447
LG Chemical Hong Kong Ltd.	38,944	31,947	502,488	814
LG Vina Chemical J/V Company	13,158	6,623	49,267	2,233
LG Chem America, Inc.	103,682	95,151	286,426	894
M. Dohmen S.A.	82,860	70,842	83,805	(6,714)
SEETEC Co., Ltd.	520,489	205,510	359,348	15,173
LG Dow Polycarbonate Ltd.	334,059	184,415	260,293	(8,240)
LG Chemical (Guangzhou) Engineering Plastics Co., Ltd.	55,444	39,991	91,245	3,531
LG Chem (Nanjing) Information & Electronics Materials Co., Ltd.	140,834	88,987	105,486	6,476
LG Chem Trading (Shanghai) Co., Ltd.	1,895	156	1,296	(47)
LG Chem (China) Investment Co., Ltd.	62,189	19,062	75,856	1,128
LG Chem (Taiwan), Ltd.	213,790	207,356	403,344	(2,688)
LG Chem Industrial Materials Inc.	38,937	30,046	32,338	(1,426)
LG Holdings (HK) Ltd.	136,783	4	-	(12,398)
Compact Power Inc.	2,252	1,498	6,345	75
LG Chem (Tianjin) Engineering Plastics Co., Ltd.	25,359	17,595	34,738	1,821
LG Chem Display Materials (Beijing) Co., Ltd.	18,822	10,861	9,075	1,541
Tianjin LG Bohai Chemical Co., Ltd.	364,694	261,610	190,004	151
LG Chem Europe GmbH	21,939	19,158	74,489	376
LG Chem Brasil, Ltd.	258	-	-	-
LG Chem Poland Sp. Z.O.O	33,365	24,151	11,507	2,981
TECWIN Co, Ltd.	21,741	9,957	47,093	1,753
	<u>₩ 2,949,912</u>	<u>₩ 1,734,556</u>	<u>₩ 4,029,956</u>	<u>₩ 67,264</u>

¹ As Tianjin LG New Building Materials Co., Ltd. and Ningbo LG Yongxing Chemical Co., Ltd. merged with Tianjin LG Window & Door Co., Ltd. and Ningbo LG Yongxing Latex Co., Ltd., respectively, in 2007, the financial information of the merged companies are included in those of the surviving companies.

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To conform with the Company's accounting policies and accounting estimates, certain overseas equity method investees' useful lives and deferred tax accounting were adjusted. Summary of these adjustments as of December 31, 2008 and 2007, is as follows:

(in millions of Korean won)

Investee	2008		
	Net Asset Value before Adjustments	Adjustments	Net Asset Value after Adjustments
Tianjin LG Dagu Chemical Co., Ltd.	₩ 34,902	₩ (2,470)	₩ 32,432
Tianjin LG New Building Materials Co., Ltd.	59,008	(1,063)	57,945
Ningbo LG Yongxing Chemical Co., Ltd.	177,122	2,062	179,184
LG Chemical India Pvt. Ltd.	54,455	474	54,929
LG Vina Chemical J/V Company	3,169	341	3,510
LG Chem America, Inc.	12,283	1,084	13,367
LG Chemical (Guangzhou) Engineering Plastics Co., Ltd.	22,221	(16)	22,205
LG Chem (China) Investment Co., Ltd.	46,097	241	46,338
LG Chem Poland Sp. Z.O.O	7,655	541	8,196
LG Chem (Tianjin) Engineering Plastics Co., Ltd.	15,791	19	15,810

(in millions of Korean won)

Investee	2007		
	Net Asset Value before Adjustments	Adjustments	Net Asset Value after Adjustments
Tianjin LG Dagu Chemical Co., Ltd.	₩ 36,778	₩ (5,556)	₩ 31,222
Tianjin LG New Building Materials Co., Ltd.	38,466	(922)	37,544
Ningbo LG Yongxing Chemical Co., Ltd.	191,736	(1,894)	189,842
LG Chemical (Guangzhou) Engineering Plastics Co., Ltd.	15,430	23	15,453
LG Chem (Tianjin) Engineering Plastics Co., Ltd.	7,749	15	7,764
LG Chem (Nanjing) Information & Electronics Materials Co., Ltd.	51,599	248	51,847

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9. Property, Plant and Equipment

Property, plant and equipment as of December 31, 2008 and 2007, consist of the following:

<i>(in millions of Korean won)</i>	2008		2007	
Buildings	₩	1,092,373	₩	1,015,083
Structures		510,824		492,002
Machinery and equipment		4,892,001		4,575,811
Vehicles		30,773		26,413
Tools and furniture		671,917		606,317
Others		-		12,935
		<u>7,197,888</u>		<u>6,728,561</u>
Less: Accumulated depreciation		(4,183,635)		(3,898,819)
Accumulated impairment loss		(12,301)		(12,408)
		<u>3,001,952</u>		<u>2,817,334</u>
Land		498,231		497,823
Construction-in-progress		286,851		286,560
Machinery-in-transit		80,632		20,083
	₩	<u>3,867,666</u>	₩	<u>3,621,800</u>

For the year ended December 31, 2008, capitalized interest expense amounted to ₩4,693 million (2007: ₩3,140 million). As a result of the capitalization of interest expense, as of December 31, 2008, property, plant and equipment increased by ₩25,558 million (2007: ₩22,146 million), and net income for 2008 increased by ₩2,584 million (2007: ₩1,804 million), respectively.

As of December 31, 2008, property, plant and equipment, except for land, are insured against fire and other casualty losses for up to ₩13,409,702 million (2007: ₩9,659,817). In addition, as of December 31, 2008 and 2007, the Company has business interruption insurance policies.

As of December 31, 2008, certain property, plant and equipment have been pledged as collaterals for certain bank loans, for up to a maximum of ₩429,171 million (2007: ₩365,822 million) (Notes 11 and 12).

As of December 31, 2008, the appraised value of the Company's land, as determined by the local governments in Korea for property tax assessment purposes, amounted to approximately ₩814,688 million (2007: ₩777,178 million).

As of December 31, 2008, the Company has a financing lease agreement on certain property, plant and equipment at the methyl tertiary butyl ether factory. The book values of the said property, plant and equipment total ₩6,587 million as of December 31, 2008 (2007: ₩8,754 million), and their total depreciation expense amounts to ₩2,182 million for the year then ended (₩2,180 million) (Note 12).

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10. Intangible Assets

Intangible assets as of December 31, 2008 and 2007, are as follows:

<i>(in millions of Korean won)</i>	2008	2007
Intellectual property rights	₩ 32,339	₩ 24,595
Exclusive facility use rights	1,054	1,242
Development costs, net	45,908	45,471
Others	9,418	9,389
Goodwill	33,415	10,714
Negative goodwill	(235,018)	(274,187)
	<u>₩ (112,884)</u>	<u>₩ (182,776)</u>

The changes in development costs for the years ended December 31, 2008 and 2007, are as follows:

<i>(in millions of Korean won)</i>	2008	2007
Beginning balance	₩ 45,471	₩ 66,345
Increase	14,799	15,963
	<u>60,270</u>	<u>82,308</u>
Less: Amortization	(13,645)	(20,867)
Disposal	(717)	(68)
Impairment loss	-	(15,902)
Ending balance	<u>₩ 45,908</u>	<u>₩ 45,471</u>

For the years ended December 31, 2008 and 2007, expenses (including those of discontinued operations) which have potential future benefits but were not capitalized as intangible assets due to their uncertainty include:

<i>(in millions of Korean won)</i>	2008	2007
Employee education expenses	₩ 14,602	₩ 12,362
Advertising expenses	38,936	41,381
	<u>₩ 53,538</u>	<u>₩ 53,743</u>

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11. Current Maturities of Long-Term Debts

Current maturities of long-term debts as of December 31, 2008 and 2007, consist of the following:

(in millions of Korean won)

	Annual Interest Rate (%)		2008	2007
	2008	2007		
Current maturities of long-term debts				
Debentures, including US\$ 85 million (2007: US\$ 115million)	LIBOR 0.45~3.5	LIBOR+0.4~5.0	₩ 506,888	₩ 327,893
Won currency loans	3.0~9.0	3.0~9.0	3,444	1,466
Foreign currency loans of US\$ 52 million (2007: US\$ 40 million)	LIBOR+0.51	LIBOR+0.6	65,427	37,528
			575,759	366,887
Less: Discount on debentures issued			(617)	(604)
			<u>₩ 575,142</u>	<u>₩ 366,283</u>

Certain property, plant and equipment serve as collaterals for the above borrowings as of December 31, 2008 (Note 9).

12. Long-term Debts

Long-term debts as of December 31, 2008 and 2007, consist of the following:

(in millions of Korean won)

	Reference	2008	2007
Debentures	(1)	₩ 361,148	₩ 684,007
Loans	(2)	458,796	307,304
		<u>₩ 819,944</u>	<u>₩ 991,311</u>

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(1) Debentures as of December 31, 2008 and 2007, are as follows:

(In millions of Korean won)

	Annual Interest Rate (%)			2008		2007
	2008	2007				
Publicly offered debentures including JPY 10,000 million, payable through 2013	3.5~5.02	3.5~5.02	₩	599,389	₩	680,000
Privately offered debentures, payable through 2009	5.02~5.32	5.02~5.32		100,000		100,000
Foreign debentures of US\$135 million (2007: US\$250 million) payable through 2010 ¹	LIBOR+ 0.2-0.45	LIBOR+ 0.2-0.60		169,763		234,550
				869,152		1,014,550
Less: Current maturities				(506,888)		(327,893)
Discount on debentures issued				(1,116)		(2,650)
			₩	361,148	₩	684,007

¹ Term notes were issued on March 23, 2006, to mature on September 23, 2009. Further, the Company issued floating rate notes on March 20, 2007, and will redeem these on September 23, 2009 and September 17, 2010.

(2) Loans payable as of December 31, 2008 and 2007, consist of the following:

(in Millions of Korean won)

	Annual Interest Rate (%)			2008		2007
	2008	2007				
Won currency loans						
Energy fund loans	4.25	4.25	₩	4,153	₩	5,859
Housing loans	3.0	3.0		4,006		4,200
Company housing Movement expense	-	-		1,754		1,754
Capital lease ¹	9.0	9.0		12,202		13,593
				22,115		25,406
Less: Current maturities				(3,444)		(1,466)
				18,671		23,940
Foreign currency loans						
General term loans of US\$ 402 million (2007: US\$342 million)	LIBOR+ 0.3-0.51	LIBOR+ 0.3-0.6		505,552		320,892
Less: Current maturities				(65,427)		(37,528)
				440,125		283,364
			₩	458,796	₩	307,304

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¹ Capital lease liabilities are liabilities associated with a financing lease of property, plant and equipment at the methyl tertiary butyl ether factory (Note 9).

Certain property, plant and equipment serve as collaterals for the above borrowings as of December 31, 2008 (Note 9).

The annual maturities of long-term debts, excluding discounts and premiums on debentures, as of December 31, 2008, are as follows:

(in millions of Korean won)

Year	Debentures	Won Currency Loans		Foreign Currency Loans	Total
		Loans	Lease		
2010	₩ 162,875	₩ 3,273	₩ 2,481	₩ 314,375	₩ 483,004
2011	139,389	957	2,481	62,875	205,702
2012	-	-	2,481	62,875	65,356
Thereafter	60,000	3,759	5,674	-	69,433
Unaccrued interest	-	-	(2,435)	-	(2,435)
	<u>₩ 362,264</u>	<u>₩ 7,989</u>	<u>₩ 10,682</u>	<u>₩ 440,125</u>	<u>₩ 821,060</u>

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13. Assets and Liabilities Denominated in Foreign Currencies

Monetary assets and liabilities denominated in foreign currencies are translated into Korean won at the exchange rates in effect at the balance sheet date. Resulting translation gains and losses are recognized in current operations.

As of December 31, 2008 and 2007, monetary assets and liabilities denominated in foreign currencies, excluding items referred to in Notes 12 and 13, consist of the following:

	Foreign Currency (in thousands)				Korean Won (in millions)	
	2008		2007		2008	2007
Cash and cash equivalents	US\$	74,735	US\$	17,460	₩94,428	₩23,799
	EUR	176	EUR	487		
	GBP	16	GBP	130		
	JPY	4,561	JPY	770,523		
Trade accounts and notes receivable	US\$	331,855	US\$	304,924	452,292	429,537
	EUR	11,351	EUR	10,493		
	GBP	78	GBP	110		
	JPY	1,053,190	JPY	15,450,855		
Other accounts receivable	US\$	38,124	US\$	21,745	48,229	24,105
	EUR	160	EUR	168		
	JPY	270	JPY	413,613		
Trade accounts and notes payable	US\$	93,418	US\$	162,082	203,593	247,522
	EUR	268	EUR	1,998		
	JPY	6,143,927	JPY	11,105,747		
Other accounts payable	US\$	49,572	US\$	43,490	82,301	49,554
	EUR	929	EUR	2,087		
	JPY	1,179,483	JPY	472,984		

Gains and losses on foreign currency translation (including discontinued operations) for the year ended December 31, 2008, are ₩32,613 million (2007: ₩6,878 million) and ₩209,959 million (2007: ₩8,944 million), respectively.

14. Accrued Severance Benefits

Accrued severance benefits as of December 31, 2008 and 2007, are as follows:

<i>(in millions of Korean won)</i>	2008		2007	
Provision for severance benefits	₩	277,340	₩	278,413
Less: Group severance insurance deposits		(181,240)		(179,983)
Contribution to National Pension Plan		(2,756)		(3,522)
Ending balance	₩	93,344	₩	94,908

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15. Stock Options

Based on the Commercial Code of Korea, the Company may grant stock options to directors and employees who have contributed or can contribute to the Company's establishment, management, overseas business or technology renovation with the approval of the Board of Directors or shareholders. In 2005, the Company granted stock options pursuant to the resolution of the Board of Directors.

Details of the stock options granted are as follows:

Grant date	Number of Common Shares Granted ¹	Grant Method	Exercise Price per share (in Korean won)	Exercise Period
March 25, 2005	568,000	To compensate price difference	₩ 42,530	March 26, 2008 to March 25, 2012

¹ Stock options for 347,000 shares were forfeited due to the early termination of employment of the grantee employees. In 2008, 221,000 shares were exercised. Further, if the increase in the stock price is not higher than the increase in the Korea Composite Stock Price Index during the three years after the grant date, the final number of common shares exercised will only be 50% of the number of common shares originally granted.

Changes in stock options for the years ended December 31, of 2008 and 2007, are as follows:

	Granted number of shares	
	2008	2007
Beginning balance	221,000	221,000
Exercised number of shares	221,000	-
Ending balance	-	221,000

	Amounts	
	2008	2007
Beginning balance ¹	₩ 11,857	₩ -
Stock compensation cost ²	1,059	11,857
Exercised amounts	(12,916)	-
Ending balance	₩ -	₩ 11,857

¹ As stock price did not exceed the exercise price, no stock compensation expense was recognized as of December 31, 2006.

² Stock compensation cost was recognized due to changes in stock price during 2008, excluding the reversal of stock compensation expense (including discontinued operations) (Note 25).

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16. Commitments and Contingencies

As of December 31, 2008, the Company has provided a joint guarantee for obligations outstanding as of January 1, 2005, for Lotte Daesan Petrochemical Ltd. and SEETEC Co., Ltd. In addition, the Company has provided financial guarantee to customers.

As of December 31, 2008 and 2007, the Company has been provided with guarantees from Seoul Guarantee Insurance for the execution of supply contracts.

As of December 31, 2008, the Company has provided one blank promissory note to the Korea National Oil Corporation as collateral in relation to petroleum import surcharges. Further, with respect to the borrowings of the Company, one blank promissory note is provided as collateral to a financial institution.

The Company has guaranteed repayments of various obligations of subsidiaries and associated companies. The outstanding balances of such guarantees as of December 31, 2008, amounted to ₩176,884 million (2007: ₩143,981 million) (Note 25).

As of December 31, 2008, the Company is contingently liable for notes receivable from export sales amounting to ₩822,156 million which were discounted through financial institutions in the ordinary course of business.

As of December 31, 2008, the Company has bank overdraft agreements with several banks for up to ₩57,000 million. The Company has also entered into contracts with several financial institutions to open letters of credit for up to ₩142,800 million and US\$ 325 million. The Company has entered into contracts with several financial institutions for discounting notes from export for up to US\$ 800 million, for other foreign currency payment guarantee of up to US\$ 15 million, and for other notes of up to ₩50,000 million.

Furthermore, the Company has entered into credit limit contracts with several financial institutions up to ₩30,000 million and US\$ 198 million.

As of December 31, 2008, the Company has B2B contracts with several financial institutions.

As of December 31, 2008, the Company has technical importation contracts with companies like Goodyear Tire & Rubber Company for the production of polymer and rubber products. Further, the Company has entered into manufacture and production technical contracts with Toyo Engineering Corp., while having BPA manufacturing technical contracts with three companies including Exxon Mobile. The Company has also entered into technical contracts for technologies and consultation in relation to the manufacture of certain products.

The Company entered a contract with LG Corp. to use trademarks on the products that the Company manufactures and sells, and on the services the Company provides in relation to its business.

As of December 31, 2008, the Company has a long-term purchase contract for certain raw materials and was provided with a US\$ 28 million guarantee for this contract (2007: US\$ 4 million).

As of December 31, 2008 and 2007, the Company has been named as a defendant and plaintiff in various legal actions. Management believes that these legal actions will not have a material adverse impact on the Company's operations or financial position although the outcome of these legal actions is uncertain.

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The Company has cross currency and interest rate swap with financial institutions for hedging against fluctuations in foreign exchange rates and interest rates. As of December 31, 2008, the Company's outstanding contracts and options include currency swap of US\$ 202 million and JPY 10,000 million (2007: US\$ 242 million).

Details of the changes in valuation gain or loss on derivatives for the years ended December 31, 2008 and 2007, are as follows:

(in millions of Korean won)	Trading		Hedge ¹		Other comprehensive income ³
	Valuation gain ²	Valuation loss	Valuation gain ²	Valuation loss ²	
2008	₩ -	₩ -	₩ 65,418	₩ 16,611	₩ (16,053)
2007	2,342	-	-	-	-

¹ The Company applies cash flow hedge accounting and is exposed to fluctuations in cash flows up to January 22, 2012, on its cross currency and interest swaps.

² Includes gain(loss) from discontinued operations.

³ The ₩16,053 million, net of tax, was charged to accumulated other comprehensive income.

17. Capital Surplus

Changes in capital in 2008 are as follows:

(in millions of Korean won)

Increase	Common Stock shares	Paid-in-capital of Common Stock	Paid-in Capital in Excess of Par Value
2007.Jan.1,	64,425,064	₩ 322,126	₩ 532,002
2007.Nov.1, Issuance of new shares due to merger	10,813,706	54,068	520,638
2007.Dec.31,	75,238,770	₩ 376,194	₩ 1,052,640
2008.Dec.31,	75,238,770	₩ 376,194	₩ 1,052,640

Paid-in Capital in Excess of Par Value

At the time of spin-off, the Company recorded ₩532,002 million as paid-in capital in excess of par value. However, the Company accounted for the difference between the acquisition cost and the carrying value of the Company's share in the net identifiable asset as a decrease in capital surplus and netted it against paid-in capital in excess of par value of the new shares issued upon acquisition. The Company recognized the amount of ₩520,638 million as paid-in capital in excess of par value as of December 31, 2007.

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18. Retained Earnings

Retained earnings as of December 31, 2008 and 2007, consist of:

<i>(in millions of Korean won)</i>	2008		2007	
Appropriations				
Legal reserve	₩	73,430	₩	56,729
Reserve for business rationalization		4,000		4,000
Reserve for technology development		1,366,197		997,664
Reserve for investment losses		376,376		246,313
Voluntary reserve		212,120		212,120
		<u>2,032,123</u>		<u>1,516,826</u>
Unappropriated retained earnings		1,004,627		682,310
	₩	<u>3,036,750</u>	₩	<u>2,199,136</u>

Legal Reserve

The Korean Commercial Code requires the Company to appropriate an amount equal to a minimum of 10% of its cash dividends as a legal reserve until such reserve equals 50% of its paid-in capital. This reserve is not available for the payment of cash dividends. With the approval of the Board of Directors, it may be transferred to common stock or may be used to reduce accumulated deficit, if any.

Other Reserve

Pursuant to the Special Tax Treatment Control Law, the Company is required to appropriate, as a reserve for business rationalization, a portion of retained earnings equal to tax reductions arising from investment and other tax credits. This reserve may be distributed as dividends after reversal.

19. Treasury Stock

Treasury stock as of December 31, 2008 and 2007, are as follows:

<i>(in millions of Korean won)</i>	Number of Shares		Amounts	
	2008	2007	2008	2007
Common Stock	388,914	609,909	₩ 14,956	₩ 23,455
Preferred Stock	3,659	3,659	20	20
Total	<u>392,573</u>	<u>613,568</u>	<u>₩ 14,976</u>	<u>₩ 23,475</u>

The Company intends to sell its treasury stock in the near future.

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20. Cost of Sales

Cost of sales for the years ended December 31, 2008 and 2007, are as follows:

(in millions of Korean won)

	2008	2007
Products		
Beginning balance of inventories	₩ 669,154	₩ 480,039
Increase due to merger ¹	-	29,938
Cost of goods manufactured	11,198,546	8,062,824
Ending balance of inventories	(916,590)	(669,154)
Others	(37,380)	(43,628)
Discontinued operations	(835,695)	(873,167)
	<u>10,078,035</u>	<u>6,986,852</u>
Merchandise		
Beginning balance of inventories	43,812	47,064
Increase due to merger ¹	-	1,923
Purchases	1,178,938	1,332,145
Ending balance of inventories	(67,005)	(43,812)
Discontinued operations	(777,604)	(790,659)
	<u>378,141</u>	<u>546,661</u>
Other cost of sales	<u>49,366</u>	<u>35,851</u>
Total	<u>₩ 10,505,542</u>	<u>₩ 7,569,364</u>

¹ Increased as the Company merged with LG Petrochemical Co.,Ltd. in 2007.

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21. Income Taxes

Income taxes for the years ended December 31, 2008 and 2007, consist of the following:

<i>(in millions of Korean won)</i>	2008		2007	
Current income taxes under the tax law	₩	355,698	₩	211,743
Changes in deferred income tax assets(liabilities) ¹		3,587		(89,334)
Total income tax effect		359,285		122,409
Deferred income taxes directly added to shareholders' equity ²		(38,080)		(6,846)
Income taxes from discontinued operations		(21,540)		(9,820)
Income taxes	₩	299,665	₩	105,743

¹ The changes in deferred income tax assets (liabilities) are as follows:

<i>(in millions of Korean won)</i>	Accumulated Temporary Differences		Deferred Income Tax Assets (Liabilities)	
	2008	2007	2008	2007
Beginning balance	₩ (7,884)	₩ (349,956)	₩ 2,466	₩ (89,069)
Adjustment	7,719	-	2,035	-
Adjusted beginning balance	(705)	(349,956)	4,501	(89,069)
Ending balance	(25,922)	(7,884)	914	2,466
Deferred income taxes due to merger and others			-	2,201
			₩ (3,587)	₩ 89,334

The Company adopted the Korea Accounting Institute opinion on Korean Accounting Statement Implementation 06-2, *Accounting treatment for taxable temporary differences associated with investments in subsidiaries, associates, and interest in joint ventures*, which was revised on February 22, 2008. The financial statements as of and for the year ended December 31, 2007, have not been restated, and the effect of the change is adjusted to the beginning balance of 2008 (Note 2).

² Deferred income taxes directly added to (deducted from) shareholders' equity as of December 31, 2008 and 2007, are as follows:

<i>(in millions of Korean won)</i>	Accumulated Temporary Differences		Deferred Income Tax Assets (Liabilities)	
	2008	2007	2008	2007
Beginning balance	₩ 11,252	₩ 36,147	₩ 3,094	₩ 9,940
Ending balance	(164,562)	11,252	(34,986)	3,094
			₩ (38,080)	₩ (6,846)

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Reconciling items between net income before tax (including discontinued operations) and income tax expense (including discontinued operations) for the years ended December 31, 2008 and 2007, are as follows:

<i>(in millions of Korean won)</i>	2008	2007
Income before tax from continuing operations	₩1,245,464	₩ 727,167
Income before tax from discontinued operations	78,326	74,601
Net income before tax	<u>₩1,323,790</u>	<u>₩ 801,768</u>
Income tax applying current tax rate	₩ 364,042	₩ 220,486
Adjustments		
Non-taxable income	(10,837)	(13,839)
Non-deductible expense	7,725	8,246
Effect of unrecognized deferred tax of current year's temporary differences ¹	(9,262)	(80,284)
Tax credit	(41,877)	(22,126)
Effect of decreased income tax rate	3,976	-
Others	7,438	3,080
Income tax expense	<u>₩ 321,205</u>	<u>₩ 115,563</u>
Effective tax rate (income tax expense/net income before tax)	<u>24.26%</u>	<u>14.41%</u>

¹ Includes amounts from the merger with LG Petrochemical Co., Ltd. in 2007.

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Changes in temporary differences for the years ended December 31, 2008 and 2007, are as follows:

(in millions of Korean won)

	2008					
	Beginning Balance Before Adjustment	Increase	Decrease	Ending Balance	Deferred Income tax as of January 1, 2008	Deferred Income tax as of December 31, 2008
Accrued severance Benefits	₩ 160,494	₩ 53,632	₩ 36,611	₩ 177,515	₩ 44,136	₩ 39,053
Severance insurance plans	(160,494)	(53,632)	(36,611)	(177,515)	(44,136)	(39,503)
Allowance for doubtful accounts	73,094	47,392	63,055	57,431	20,101	13,321
Accrued interest income	(1,837)	(933)	(1,837)	(933)	(505)	(226)
Research and development costs	(220)	-	(168)	(52)	(61)	(12)
Present value discount	11	-	9	2	3	1
Property, plant and equipment	118,747	2,084	55,477	65,354	32,655	14,378
Equity-method investments	(85,565)	17,937	(51,364)	(16,264)	(18,834)	(1,480)
Reserves for technology development	(256,666)	-	(76,666)	(180,000)	(70,583)	(41,287)
Others	186,739	100,142	61,200	225,681	51,353	53,972
Equity	19,415	(191,574)	-	(172,159)	5,339	(36,657)
Sub total ¹	53,718	₩ (24,952)	₩ 49,706	(20,940)	19,468	2,010
Equity-method investments ²	53,439			12,579	14,757	2,767
Effect on accounting policy changes ³	(7,179)			-	(2,035)	-
Equity ²	8,163			(7,597)	2,245	(1,671)
Total	₩ (705)			₩ (25,922)	₩ 4,501	₩ 914

¹ As of December 31, 2008, deferred income taxes for the negative goodwill of ₩235,018 million and goodwill of ₩8,193 million were not recognized, when the Company adopted SKFAS No. 16, *Deferred Income Tax*.

² As of December 31, 2008, the accumulated temporary differences that may not be realized in the future were excluded from the calculation of deferred income taxes. Furthermore, taxable accumulated temporary differences of ₩662 million and deductible accumulated temporary differences of ₩5,644 million relating to the equity-method investment, were not recognized as deferred income tax liabilities and deferred income tax assets.

³ The Company adopted the Korea Accounting Institute opinion on Korean Accounting Statement Implementation 06-2, *Accounting treatment for taxable temporary differences associated with investments in subsidiaries, associates, and interest in joint ventures*, which was revised on February 22, 2008. The financial statements as of and for the year ended December 31, 2007, have not been restated, and the effect of the change is adjusted to the beginning balance of 2008 (Note 2).

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2007

	Beginning Balance Before Adjustment		2007		Ending Balance	Deferred Income tax as of January 1, 2007	Deferred Income tax as of December 31, 2007
	Adjustment	Adjustment ¹	Increase	Decrease			
Accrued severance benefits	₩ 144,191	₩ -	₩46,606	₩ 30,303	₩ 160,494	₩ 39,653	₩ 44,136
Severance insurance plans	(144,191)	-	(46,606)	(30,303)	(160,494)	(39,653)	(44,136)
Allowance for doubtful accounts	69,728	-	65,267	61,901	73,094	19,175	20,101
Accrued interest income	(1)	(1,648)	(1,838)	(1,650)	(1,837)	-	(505)
Research and development costs	(2,594)	-	-	(2,374)	(220)	(713)	(61)
Present value discount	32	-	-	21	11	9	3
Property, plant and equipment	113,169	-	24,867	19,289	118,747	31,121	32,655
Equity-method investments	(254,853)	-	(110,932)	(280,220)	(85,565)	(62,915)	(18,834)
Reserves for technology development	(333,333)	-	-	(76,667)	(256,666)	(91,867)	(70,583)
Others	88,910	9,653	116,502	26,326	186,739	23,900	51,353
Equity	54,334	-	(73,891)	(38,972)	19,415	14,942	5,339
Sub total ¹	(266,608)	8,005	₩ 19,975	₩(292,346)	53,718	(66,148)	19,468
Equity-method investments ³	65,161	-	-	-	53,439	17,919	14,757
Equity ³	18,187	-	-	-	8,163	5,002	2,245
Total	₩(349,956)	₩ 8,005			₩ (7,884)	₩(89,069)	₩ 2,466

¹ Includes temporary differences transferred from LG Petrochemical Co., Ltd., at the time of the merger.

² As of December 31, 2007, deferred income tax assets for the negative goodwill of ₩274,187 million were not recognized, as the Company adopted SKFAS No. 16, *Deferred Income Tax*.

³ As of December 31, 2007, the accumulated temporary differences that may not be realized in the future were excluded from the calculation of deferred income taxes. Furthermore, taxable accumulated temporary differences of ₩334 million and deductible accumulated temporary differences of ₩61,936 million relating to the equity-method investment, were not recognized as deferred income tax liabilities and deferred income tax assets.

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The gross balances of deferred tax assets and liabilities are as follows:

(in millions of Korean won)	2008		2007	
	Deferred tax Assets	Deferred tax Liabilities	Deferred tax Assets	Deferred tax Liabilities
Current	₩ 69,754	₩ (30,590)	₩ 44,825	₩ (21,588)
Non-current	81,346	(119,596)	106,517	(127,288)

The tax effect of cumulative temporary differences was calculated based on future tax rate of the fiscal year when temporary differences are expected to be realized. The 24.2% and 22.0% tax rates were used for temporary differences expected to be realized in year 2009 and thereafter, respectively. As a result, deferred tax assets and deferred tax liabilities decreased by ₩5,001 million and ₩11,034 million, respectively, as compared to the amount using the current tax rate of 27.5%.

Realization of the future tax benefits related to the deferred tax assets is dependent on many factors, including the Company's ability to generate taxable income within the period during which the temporary differences reverse, the outlook of the Korean economic environment, and the overall future industry outlook. Management periodically considers these factors in reaching its conclusion and recognized the deferred income tax asset since all the future (deductible) tax benefits are determined to be realizable as of December 31, 2008.

Income tax expense on discontinued operations for the year ended December 31, 2008 is ₩21,540 million (2007: ₩9,820 million).

22. Comprehensive Income and Expenses

Comprehensive income and expenses for the years ended December 31, 2008 and 2007, consists of:

(in millions of Korean won)	2008	2007
Net income	₩ 1,002,585	₩ 686,205
Accumulated effects from changes of financial accounting standards (Note 2)	2,035	-
Other comprehensive income		
Increase from equity-method investments, net of tax effects of ₩44,171 million (2007: ₩6,846 million)	165,869	28,072
Valuation loss on cash flow hedge derivative instruments, net of tax effects of ₩(6,089) million	(16,053)	-
Comprehensive income	₩ 1,154,436	₩ 714,277

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23. Earnings Per Share

Basic income from continuing operations per share and earnings per share for the years ended December 31, 2008 and 2007, are computed as follows:

(in millions of Korean won, except per share amounts)

	2008	2007
Income from continuing operations	₩ 945,799	₩ 621,424
Preferred stock dividends	(22,077)	(17,748)
Preferred stock share in the remaining profit available for dividends	(76,497)	(52,962)
Income from continuing operations available for common stock (A)	847,225	550,714
Weighted average number of shares of outstanding common stock (B) ¹	74,706,927	65,624,898
Basic income from continuing operations per share (A/B)	₩ 11,341	₩ 8,392

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(in millions of Korean won, except per share amounts)

	2008		2007	
Net income	₩	1,002,585	₩	686,205
Preferred stock dividends		(22,077)		(17,748)
Preferred stock share in the remaining profit available for dividends		(82,395)		(60,512)
Net income available for common stock (A)		898,113		607,945
Weighted average number of shares of outstanding common stock (B) ¹		74,706,927		65,624,898
Basic earnings per share (A/B)	₩	12,022	₩	9,264

¹ Excludes treasury stock.

There are no outstanding convertible bonds or other dilutive securities as of December 31, 2008 and 2007. Accordingly, basic earnings and income from continuing operations per share are identical to fully diluted earnings and income from continuing operations per share.

Basic and diluted income from discontinued operations per share for the years ended December 31, 2008 and 2007, are as follows:

	2008		2007	
Income from discontinued operations per share	₩	681	₩	872

24. Dividends

Details of dividends for the years ended December 31, 2008 and 2007, are as follows:

	2008		2007	
Shares issued and outstanding (par value per share: ₩5,000)				
Common stock		74,849,856		74,628,861
Preferred stock		8,657,592		8,657,592
Dividend per share (in won)				
Common stock: cash	₩	2,500 (50%)	₩	2,000 (40%)
Preferred stock: cash	₩	2,550 (51%)	₩	2,050 (41%)
Cash dividend amount (in millions)				
Common stock	₩	187,125	₩	149,258
Preferred stock		22,077		17,748
	₩	209,202	₩	167,006

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25. Related Party Transactions

LG Corp. is the parent of the Company, and issues the consolidated financial statements.

Significant transactions, which occurred in the ordinary course of business with related parties for the years ended December 31, 2008 and 2007, and the related account balances as of December 31, 2008 and 2007, are summarized as follows:

(in millions of Korean won)	2008			
	Sales	Purchases	Receivables ⁴	Payables
Controlling company	₩ -	₩ 37,788	₩ 7,723	₩ 6,024
Subsidiaries ^{1,2}	1,209,951	285,515	30,472	48,277
Equity method investees ¹	95,548	159,930	5,194	8,260
Key management	-	64,468	-	52,284
Other related companies ³	2,363,582	627,616	356,701	89,027
Total	₩3,669,081	₩1,175,317	₩ 400,090	₩ 203,872

(in millions of Korean won)	2007			
	Sales	Purchases	Receivables ⁴	Payables
Controlling company	₩ 1	₩ 32,161	₩ 7,326	₩ 3,546
Subsidiaries ^{1,2,5}	1,131,229	1,477,263	33,494	16,961
Equity method investees ¹	57,083	154,446	8,988	17,862
Key management	-	55,250	-	50,355
Other related companies ³	1,662,870	510,867	317,909	94,804
Total	₩2,851,183	₩2,229,987	₩ 367,717	₩ 183,528

¹ Please refer to Note 8 for percentage of ownership, acquisition cost, net asset value and book value of the Company's investments to its related parties.

² Includes LG Solid Source, LLC, a subsidiary of LG Chem America Inc., and Ningbo Bond International Trade, a subsidiary of Ningbo LG Yongxing Chemical Co., Ltd.

³ Includes LG Display Co., Ltd. and LG Electronics Inc.

⁴ No allowance for doubtful accounts was provided for the outstanding balances as of December 31, 2008 (2007: ₩2,186 million). Reversal of bad debt allowance recognized for 2008 amounts to ₩2,186 million (2007: ₩145 million).

⁵ Includes sales and purchases of LG Petrochemical Co., Ltd. before merger with the Company in 2007.

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Compensation for key management officers for the years ended December 31, 2008 and 2007, consists of:

<i>(in millions of Korean won)</i>	2008	2007
Short-term employee benefits	₩ 45,428	₩ 27,666
Post-employment benefits	5,126	3,526
Other long-term employee benefits	12,855	12,202
Stock compensation cost	1,059	11,856
Total	₩ 64,468	₩ 55,250

Key management officers include directors and audit committee members having duties and responsibilities over planning, operations and control of the Company's business activities.

The details of guarantees provided by the Company as of December 31, 2008 and 2007, are as follows:

<i>(in millions of Korean won)</i>	2008		
Guarantee Beneficiary	Amount of Guarantee	Financial Institution	Outstanding Loan Amount
LG Chem (Nanjing) Information & Electronics Materials Co., Ltd.	₩ 10,060	Bank of China	₩ 10,060
	25,150	Woori Bank	25,150
	12,575	Korea Exchange Bank	12,575
	37,725	Export-Import Bank of Korea	32,695
LG Chem Industrial Materials Inc.	31,815	Kookmin Bank	31,815
	12,575	Bank of America	2,767
Tianjin LG Bohai Chemical Co., Ltd.	12,575	Export-Import Bank of Korea	12,575
LG Chem Poland Sp.Z.O.O.	17,762	Export-Import Bank of Korea	17,762
	5,329	Nordea Bank	5,329
LG Chem America, Inc	11,318	JP Morgan	-
	₩176,884		₩ 150,728

<i>(in millions of Korean won)</i>	2007		
Guarantee Beneficiary	Amount of Guarantee	Financial Institution	Outstanding Loan Amount
LG Chem (Nanjing) Information & Electronics Materials Co., Ltd.	₩ 15,480	Bank of China	₩ 15,480
	18,764	Woori Bank	18,764
	15,856	Korea Exchange Bank	9,382
LG Chem Industrial Materials Inc.	23,736	Kookmin Bank	23,736
LG Chem Europe GmbH	4,144	Societe Generale	-
Tianjin LG Bohai Chemical Co., Ltd.	37,528	Export-Import Bank of Korea	15,637
LG Chem Poland Sp.Z.O.O.	13,813	Export-Import Bank of Korea	13,813
	6,216	Nordea Bank	4,144
LG Chem America, Inc.	3,753	Woori Bank	3,753
	4,691	Kookmin Bank	3,753
	₩ 143,981		₩ 108,462

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26. Operating Results for the Final Interim Period

Operating results for the three-month periods ended December 31, 2008 and 2007, are as follows:

(in millions of Korean won, except per share amounts)

	Three-Month Periods Ended December 31	
	2008 (unaudited)	2007 (unaudited)
Sales	₩ 2,815,633	₩ 2,474,287
Operating income	147,192	210,975
Net income	61,612	125,879
Earnings per share	737	1,582

27. Segment Information

The Company defines its segments by the nature of its products and services.

(1) Industry Segment Information

Industry	Products or Services	Major Customers
Petrochemicals	PE, PVC, VCM, alcohol, plasticizers, ABS/PS, EPS, MBS, SBL, EP, ethylene, propylene, BPA and others	LG Electronics Inc. Daewoo Electronics Co., Ltd. Kia Motors Corp. Youlchon Chemical Co., Ltd. National Plastic Co., Ltd. and others
Industrial Materials ¹	Hi Sash, UBR, wall coverings, living materials, building materials and others	Hyundai Motors Co., Ltd. GM Daewoo Auto & Technology Company Distributors and wholesalers
Information & Electronic Materials	Batteries, Polarizers	LG Electronics Inc. LG Display Co., Ltd. and others

¹ As explained in Note 28, the spin off of the Industrial Materials segment is classified as discontinued operations.

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Financial information on industry segments for the years ended December 31, 2008 and 2007, are as follows:

2008				
<i>(in millions of Korean won)</i>	Petrochemicals	Information & Electronic Materials	Others	Total
Sales				
External sales ¹	₩ 9,933,935	₩ 2,695,637	₩ 15,428	₩ 12,645,000
Inter-segment sales	90,758	4,727	240,459	335,944
	<u>₩ 10,024,693</u>	<u>₩ 2,700,364</u>	<u>₩ 255,887</u>	<u>₩ 12,980,944</u>
Operating income	<u>₩ 903,344</u>	<u>₩ 451,451</u>	<u>₩ (10,446)</u>	<u>₩ 1,344,349</u>
Property, plant and equipment, and intangible assets ²	<u>₩ 2,081,876</u>	<u>₩ 1,016,518</u>	<u>₩ 891,406</u>	<u>₩ 3,989,800</u>
Depreciation and amortization	<u>₩ 232,670</u>	<u>₩ 126,375</u>	<u>₩ 6,378</u>	<u>₩ 365,423</u>
2007				
<i>(in millions of Korean won)</i>	Petrochemicals	Information & Electronic Materials	Others	Total
Sales				
External sales ¹	₩ 6,749,958	₩ 2,133,302	₩ 16,318	₩ 8,899,578
Inter-segment sales	40,101	2,430	146,458	188,989
	<u>₩ 6,790,059</u>	<u>₩ 2,135,732</u>	<u>₩ 162,776</u>	<u>₩ 9,088,567</u>
Operating income	<u>₩ 511,240</u>	<u>₩ 153,441</u>	<u>₩ (2,343)</u>	<u>₩ 662,338</u>
Property, plant and equipment, and intangible assets ²	<u>₩ 2,002,830</u>	<u>₩ 856,819</u>	<u>₩ 853,562</u>	<u>₩ 3,713,211</u>
Depreciation and amortization	<u>₩ 251,335</u>	<u>₩ 148,244</u>	<u>₩ 4,342</u>	<u>₩ 403,921</u>

¹ Includes sales of continuing operations to the Industrial Materials segment, which was discontinued, amounting to ₩247,836 million (2007: ₩244,038 million).

² Excludes negative goodwill incurred from the merger, which is deducted from intangible assets. The negative goodwill as of December 31, 2008, amounts to ₩235,018 million (2007: ₩274,187 million). Meanwhile, property, plant and equipment, and intangible assets of discontinued operations as of December 31, 2008 and 2007, are included under others.

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(2) Geographical Segment Information

The sales by geographical segments for the years ended December 31, 2008 and 2007, are as follows:

(in millions of Korean won)

	Domestic ¹	China	North America	South America	South-East Asia	Western Europe	Others	Total
2008	₩6,263,873	₩3,250,377	₩ 472,834	₩ 127,563	₩ 600,224	₩ 402,156	₩1,527,973	₩12,645,000
2007	₩4,340,724	₩2,655,872	₩ 253,066	₩ 68,124	₩ 268,546	₩ 358,093	₩ 955,153	₩ 8,899,578

¹ Domestic sales include the exports made through local letters of credit.

28. Discontinued Operations

(1) Industrial Materials Business

Pursuant to a resolution of Board of directors on December 2, 2008, and an approval by the on January 23, 2009, the Company spun off its Industrial Materials segment to the newly established LG HAUSYS, Ltd., on April, 1, 2009. Therefore, the financial statements of the Company are prepared in accordance with SKFAS No. 11, *Discontinued operations*. The prior year financial statements, presented herein for comparative purposes, include discontinued operations of the Industrial Materials segment. The safety materials and AMS business were included in Industrial Material segment and disposed of in 2007.

The income before tax from discontinued operations of the Industrial Materials segment for the years ended December 31, 2008 and 2007, are as follows:

(in millions of Korean won)	2008	2007
Impairment loss on discontinued operations	₩ (120)	₩ (16,523)
Income from the industrial materials segment ¹	78,446	91,801
Income before tax from discontinued operations	₩ 78,326	₩ 75,278

¹ Excludes impairment loss on discontinued operations.

The book values of the Industrial Materials segment's assets and liabilities to be spun-off as of December 31, 2008 and 2007, are as follows:

(in millions of Korean won)	2008	2007
Current assets	₩ 383,103	₩ 362,042
Investments	82,557	58,958
Property, plant and equipment	457,461	436,181
Intangible assets	9,235	6,034
Non-current assets	24,357	21,023
Total assets	₩ 956,713	₩ 884,238
Current liabilities	₩ 245,335	₩ 259,657
Non-current liabilities	26,511	21,277
Total liabilities	₩ 271,846	₩ 280,934

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The statements of operations of the Industrial Materials segment, excluding impairment loss on discontinued operations, for the years ended December 31, 2008 and 2007, are as follows:

<i>(in millions of Korean won)</i>	2008	2007
Sales ¹	₩ 2,090,667	₩ 2,144,399
Cost of sales ¹	(1,617,208)	(1,662,871)
Gross profit	473,459	481,528
Selling and administrative expenses	(388,177)	(387,418)
Operating income	85,282	94,110
Non-operating income	100,607	27,269
Non-operating expenses	(107,443)	(29,578)
Income from the Industrial Materials segment	₩ 78,446	₩ 91,801

¹The amounts include sales and costs of discontinued to continuing operations, which are expected to continue after spin-off.

The income after income tax from discontinued operations on the industrial materials segment for the years ended December 31, 2008 and 2007, are as follows:

<i>(in millions of Korean won)</i>	2008	2007
Income before income tax from discontinued operations	₩ 78,326	₩ 75,278
Income tax	(21,540)	(10,006)
Income after income tax from discontinued operations	₩ 56,786	₩ 65,272

Cash flows from the Industrial Materials segment for the years ended December 31, 2008 and 2007, are as follows:

<i>(in millions of Korean won)</i>	2008	2007
Cash flows from operating activities	₩ 53,436	₩ 150,620
Cash flows from investing activities	(83,824)	(60,353)
Cash flows from financing activities	30,388	(90,267)

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(2) PDP Fluorescent Substance Business

The Company decided to sell its PDP fluorescent substance business as approved by the CEO of the Company on October 16, 2007. The Company disposed of all of the related assets by December 31, 2007

The loss before tax from discontinued operations of the PDP fluorescent substance business for the year ended December 31, 2007, is as follows:

(in millions of Korean won)

Impairment loss on discontinued operations	₩	(261)
Loss from the PDP fluorescent substance business 1		(416)
Loss before tax from discontinued operations	₩	<u>(677)</u>

¹ Excludes impairment loss on discontinued operations.

The operations of the PDP fluorescent substance business, excluding impairment loss on discontinued operations for the year ended December 31, 2007, is as follows:

(in millions of Korean won)

Sales	₩	9,061
Cost of sales		(4,793)
Gross profit		<u>4,268</u>
Selling and administrative expenses		(2,824)
Operating income		1,444
Non-operating income		741
Non-operating expenses		(2,601)
Loss from the PDP fluorescent substance business	₩	<u>(416)</u>

The loss after income tax from discontinued operations on the PDP fluorescent substance business for the year ended December 31, 2007, is as follows:

(in millions of Korean won)

Loss before income tax from discontinued operations	₩	(677)
Income tax		186
Loss after income tax from discontinued operations	₩	<u>(491)</u>

Cash flows from the PDP fluorescent substance business for the year ended December 31, 2007, are as follows:

(in millions of Korean won)

Cash flows from operating activities	₩	2,044
Cash flows from investing activities		21
Cash flows from financing activities		(2,065)

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29. Supplemental Cash Flow Information

Major transactions not involving an inflow or outflow of cash and cash equivalents for the years ended December 31, 2007 and 2006, are as follows:

<i>(in millions of Korean won)</i>	2008	2007
Reclassification of construction-in-progress to property, plant and equipment	₩ 590,176	₩ 458,655
Reclassification of machinery-in-transit to machinery and equipment	100,478	87,412
Reclassification of depreciation expenses to development costs	905	1,418
Reclassification of severance benefits to development costs	164	340
Gain on valuation of investment using the equity method of accounting (accumulated other comprehensive income and expenses)	213,717	74,798
Reclassification of long-term debt to current maturities of long-term debts	52,258	37,338
Reclassification of long-term debt to current maturities of debentures	479,747	326,904
Gain on valuation of derivatives (accumulated other comprehensive income and expenses)	22,142	

30. Business Acquisition and Merger

Business Acquisition

Pursuant to a resolution of Board of directors on June 23, 2008, the Company acquired the Super Absorbent Polymers division (the "SAP division") from Kolon Industry Inc., on September 1, 2008.

The Company recorded the fair value of individually identifiable assets and liabilities acquired. The differences between the acquisition costs and the fair values of assets and liabilities were recorded as goodwill and amortized over ten years.

(1) The acquisition cost and goodwill are as follows :

<i>(in millions of Korean won)</i>	Amount	
Acquisition cost	₩	87,000
Fair value of net assets acquired		60,908
Goodwill	₩	<u>26,092</u>

(2) Changes in goodwill are as follows:

<i>(in millions of Korean won)</i>	Amount	
Goodwill incurred from business combination	₩	26,092
Amortization		870
Balance as of September 30, 2008	₩	<u>25,222</u>

LG Chem, Ltd.
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(3) Condensed balance sheet of the SAP division as of September 1, 2008, follows:

<i>(in millions of Korean won)</i>	Amount	
Current assets, net	₩	14,372
Fixed assets		46,536
Total	₩	60,908

(4) The fair value of net assets acquired will be adjusted based on the result of the due diligence and the review of contingency liabilities.

Merger with LG Petrochemical Co., Ltd.

On November 1, 2007, the Company merged with LG Petrochemical Co., Ltd., as approved by the shareholders on September 14, 2007. This merger was previously approved by the Board of Directors on July 5, 2007, and was formalized in a merger contract with LG Petrochemical Co., Ltd. on July 10, 2007.

Upon the merger, LG Chem Ltd. issued shares to the shareholders of LG Petrochemical Co., Ltd. in accordance with the merger contract, which provided that for one common share of LG Petrochemical Co., Ltd. with a par value of ₩5,000 per share, 0.4805033 common share of LG Chem, Ltd. is issued in exchange. The Company did not issue new shares for its 18,080,000 shares in LG Petrochemical Co., Ltd., representing its previous ownership of 40%, and for LG Petrochemical Co., Ltd.'s 4,615,042 treasury shares, which represented 10.21% of the total LG Petrochemical Co., Ltd. shares issued.

The major businesses and the CEOs of LG Chem, Ltd. and LG Petrochemical Co., Ltd. are as follows:

Entity	CEO	Major Business	Relationship
LG Chem, Ltd.	Kim Bahn-suk	Manufacturing, processing and marketing of petrochemical products	Parent company
LG Petrochemical Co., Ltd.	Park Jin-su	Manufacturing and marketing of petrochemical products	Subsidiary

Pursuant to the Accounting Standards for Business Combination, this merger was regarded as the merger between a parent company and its subsidiary. Accordingly, assets and liabilities taken over by the Company were assessed at their book values on the consolidated financial statements.

The Company accounted for the difference between the acquisition cost and the carrying value of the acquired company's net asset as a decrease in capital surplus and netted it against paid-in capital in excess of par value of the new shares issued at the acquisition. The Company recognized the amount of ₩520,638 million as paid-in capital in excess of par value as of December 31, 2007.

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Changes in goodwill from January 1, 2007 to December 31, 2008, are as follows:

(in millions of Korean won)

January 1, 2007 (purchase date) ¹	₩	13,512
Amortization ¹		(2,378)
October 31, 2007 ¹	₩	11,134
November 1, 2007(merger date)	₩	11,134
Amortization		(420)
December 31, 2007	₩	10,714
Amortization		(2,521)
December 31, 2008	₩	8,193

¹ Difference between the investment and the Company's proportionate ownership in the net asset fair value of LG Petrochemical Co., Ltd. according to the equity-method application. The amortization amounts are reflected under accounted by the equity-method investments.

The condensed balance sheets as of October 31, 2007 and December 31, 2006, and the condensed income statements for the ten-month period ended October 31, 2007 and for the year ended December 31, 2006, of the Company and LG Petrochemical Co., Ltd., are as follows:

Condensed Balance Sheets as of October 31, 2007

(in millions of Korean won)	LG Chem, Ltd.	LG Petrochemical Co., Ltd.
Current assets	₩ 2,225,500	₩ 685,835
Investments	1,062,187	19,715
Property, plant and equipment	3,025,388	595,075
Intangible assets	(192,669)	69
Other non-current assets	106,345	8,487
Total assets	₩ 6,226,751	₩ 1,309,181
Current liabilities	₩ 1,839,293	₩ 245,209
Non-current liabilities	1,179,151	12,234
Total liabilities	3,018,444	257,443
Total shareholders' equity	3,208,307	1,051,738
Total liabilities and shareholders' equity	₩ 6,226,751	₩ 1,309,181

LG Chem, Ltd.

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Condensed Income Statements for ten-month period ended October 31, 2007

<i>(in millions of Korean won)</i>	LG Chem, Ltd. ¹	LG Petrochemical Co., Ltd.
Sales	₩ 8,800,344	₩ 2,132,586
Cost of sales	(7,314,142)	(1,769,368)
Gross profit	1,486,202	363,218
Selling and administrative expenses	(883,876)	(35,666)
Operating income	602,326	327,552
Non-operating income, net	99,328	8,601
Net income before tax	701,654	336,153
Income tax expense	(90,833)	(89,012)
Net income	₩ 610,821	₩ 247,141

¹ Includes income from discontinued operations.

Condensed Balance Sheets as of December 31, 2006

<i>(in millions of Korean won)</i>	LG Chem, Ltd.	LG Petrochemical Co., Ltd.
Current assets	₩ 1,949,221	₩ 538,023
Investments	878,676	17,399
Property, plant and equipment	3,099,022	579,011
Intangible assets	(212,990)	370
Other non-current assets	92,587	3,707
Total assets	₩ 5,806,516	₩ 1,138,510
Current liabilities	₩ 1,872,655	₩ 268,032
Non-current liabilities	1,310,501	15,407
Total liabilities	3,183,156	283,439
Total shareholders' equity	2,623,360	855,071
Total liabilities and shareholders' equity	₩ 5,806,516	₩ 1,138,510

Condensed Income Statements for the year ended December 31, 2006

<i>(in millions of Korean won)</i>	LG Chem, Ltd. ¹	LG Petrochemical Co., Ltd.
Sales	₩ 9,302,341	₩ 2,195,239
Cost of sales	(7,965,401)	(1,899,380)
Gross profit	1,336,940	295,859
Selling and administrative expenses	(1,002,995)	(37,398)
Operating income	333,945	258,461
Non-operating income(expenses), net	61,356	(3,189)
Net income before tax	395,301	255,272
Income tax expense	(79,301)	(64,389)
Net income	₩ 316,000	₩ 190,883

¹ Includes income from discontinued operations.

**Report of Independent Accountants'
Review of Internal Accounting Control System**

To the President of
LG Chem, Ltd.

We have reviewed the accompanying management's report on the operations of the Internal Accounting Control System ("IACS") of LG Chem, Ltd. (the "Company") as of December 31, 2008. The Company's management is responsible for designing and operating IACS and for its assessment of the effectiveness of IACS. Our responsibility is to review the management's report on the operations of the IACS and issue a report based on our review. The management's report on the operations of the IACS of the Company states that "based on its assessment of the operations of the IACS as of December 31, 2008, the Company's IACS has been designed and is operating effectively as of December 31, 2008, in all material respects, in accordance with the IACS standards established by the Internal Accounting Control System Operations Committee (IACSOC) of the Korea Listed Companies Association."

Our review was conducted in accordance with the IACS review standards established by the Korean Institute of Certified Public Accountants. Those standards require that we plan and perform, in all material respects, the review of management's report on the operations of the IACS to obtain a lower level of assurance than an audit. A review is to obtain an understanding of a company's IACS and consists principally of inquiries of management and, when deemed necessary, a limited inspection of underlying documents, which is substantially less in scope than an audit.

A company's IACS is a system to monitor and operate those policies and procedures designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the Republic of Korea. Because of its inherent limitations, IACS may not prevent or detect a material misstatement of the financial statements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

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

Our review is based on the Company's IACS as of December 31, 2008, and we did not review management's assessment of its IACS subsequent to December 31, 2008. This report has been prepared pursuant to the Acts on External Audit for Stock Companies in Korea and may not be appropriate for other purposes or for other users.

Samil PricewaterhouseCoopers

March 11, 2009

Report on the Operations of the Internal Accounting Control System

To the Board of Directors and Audit Committee of
LG Chem, Ltd.

I, as the Internal Accounting Control Officer ("IACO") of LG Chem, Ltd. ("the Company"), assessed the status of the design and operations of the Company's internal accounting control system ("IACS") for the year ended December 31, 2008.

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

Based on the assessment on the operations of the IACS, the Company's IACS has been effectively designed and is operating as of December 31, 2008, in all material respects, in accordance with the IACS standards.

January 30, 2009

Cho Seok-Je, Internal Accounting Control System Officer

Kim Bahn-Suk, Chief Executive Officer