

# **LG Chem, Ltd. and Subsidiaries**

**Consolidated Financial Statements**

**December 31, 2009 and 2008**

# LG Chem, Ltd. and Subsidiaries

## Index

December 31, 2009 and 2008

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## Report of Independent Auditors

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

We have audited the accompanying consolidated statements of financial position of LG Chem, Ltd. and its subsidiaries (the "Company") as of December 31, 2009 and 2008, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the years ended December 31, 2009 and 2008, expressed in Korean won. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of certain consolidated subsidiaries, including Ningbo LG Yongxing Chemical Co., Ltd., whose statements reflect assets representing 22% of total consolidated assets as of December 31, 2009 (2008: 23%), and sales representing 19% of the total consolidated sales for the year ended December 31, 2009 (2008: 18%). These financial statements were audited by other auditors whose reports thereon have been furnished us, and our opinion expressed herein, insofar as it relates to the amounts included for these 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of LG Chem, Ltd. and its subsidiaries as of December 31, 2009 and 2008, and the results of its operations, the changes in its shareholders' equity and its cash flows for the years ended December 31, 2009 and 2008, in conformity with accounting principles generally accepted in the Republic of Korea.

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

As discussed in Note 32 to the consolidated financial statements, the Company decided to early adopt the Korean International Financial Reporting Standards ("K-IFRS") from 2010, which will be mandatorily applied from 2011 to all listed companies. The effects on the Company's financial statements and operating results as of January 1, 2009 and December 31, 2009, and for the year ended December 31, 2009, are stated on the basis of K-IFRS that are effective as of December 31, 2009. Accordingly, the above effects on financial statements and operating results may change due to additional analysis and revision of K-IFRS.

Accounting principles and auditing standards and their application in practice vary among countries. The accompanying 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 consolidated financial statements are for use by those who are informed about Korean accounting principles or auditing standards and their application in practice.

Seoul, Korea  
March 30, 2010

This report is effective as of March 30, 2010, 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 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. and Subsidiaries**  
**Consolidated Statements of Financial Position**  
**December 31, 2009 and 2008**

<i>(in millions of Korean won)</i>	<b>2009</b>	<b>2008</b>
<b>Assets</b>		
Current assets		
Cash and cash equivalents (Notes 14 and 29)	₩ 1,107,392	₩ 514,297
Short-term investments (Note 5)	106,168	149,005
Trade accounts and notes receivable, net (Notes 2, 6, 14, 17 and 27)	1,787,843	1,551,615
Other accounts receivable, net (Notes 6 and 14)	118,166	99,813
Accrued income	4,864	3,034
Advance payments	36,852	23,982
Prepaid expenses	20,036	29,799
Prepaid income taxes (Note 22)	4,072	599
Inventories, net (Notes 2 and 7)	1,628,798	1,847,720
Deferred income tax assets (Note 22)	31,743	46,483
Other current assets	1,643	10,901
Total current assets	<u>4,847,577</u>	<u>4,277,248</u>
Equity-method investments (Note 3)	112,987	124,371
Derivative instrument transaction debit (Note 17)	18,375	51,845
Other investments (Notes 4 and 8)	4,937	2,787
Property, plant and equipment, net (Notes 2, 9 and 28)	4,935,275	5,185,672
Intangible assets, net (Notes 2, 10, 28 and 31)	(66,706)	(75,269)
Long-term guarantee deposits	22,037	33,771
Long-term prepaid expenses (Note 17)	37,576	47,107
Deferred income tax assets (Note 22)	18,726	27,795
Other non-current assets (Note 6)	47,089	60,246
Total assets	<u>₩ 9,977,873</u>	<u>₩ 9,735,573</u>

**LG Chem, Ltd. and Subsidiaries**  
**Consolidated Statements of Financial Position**  
**December 31, 2009 and 2008**

<i>(in millions of Korean won)</i>	<b>2009</b>	<b>2008</b>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities		
Short-term debts (Note 12)	₩ 777,176	₩ 816,101
Trade accounts and notes payable (Notes 14 and 27)	1,151,257	676,105
Other accounts payable (Notes 14 and 27)	626,195	565,004
Withholdings	41,047	49,275
Accrued expenses	56,711	75,201
Income tax payable (Note 22)	200,539	357,799
Dividends payable	61	481
Provisions for warranty reserve (Note 11)	5,293	87
Deferred income tax liabilities (Note 22)	2,135	-
Current maturities of long-term debts, net (Note 12)	564,624	692,216
Other current liabilities	43,035	39,021
Total current liabilities	3,468,073	3,271,290
Debentures, net (Note 13)	275,459	361,148
Other long-term debts, net (Notes 2 and 13)	362,969	873,077
Accrued severance benefits, net (Notes 2, 4 and 15)	74,503	96,763
Deferred income tax liabilities (Notes 2 and 22)	71,888	38,376
Derivative instrument transaction credit (Note 17)	37,272	36,344
Other non-current liabilities	29,675	5,918
Total liabilities	4,319,839	4,682,916
Commitments and contingencies (Note 17)		
Shareholders' equity (Note 1)		
Common stock (Note 18)	331,356	376,194
Preferred stock	38,144	43,306
	369,500	419,500
Capital surplus (Note 18)		
Paid-in capital in excess of par value	927,173	1,052,640
Other capital surplus	260,312	261,909
	1,187,485	1,314,549
Capital adjustment (Notes 18 and 20)	(479,563)	(14,599)
Accumulated other comprehensive income (Notes 2 and 23)	72,234	133,494
Retained earnings (Notes 2, 19 and 23)	4,334,679	3,036,750
Minority interest	173,699	162,963
Total shareholders' equity	5,658,034	5,052,657
Total liabilities and shareholders' equity	₩ 9,977,873	₩ 9,735,573

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

**LG Chem, Ltd. and Subsidiaries**  
**Consolidated Statements of Income**  
**Years Ended December 31, 2009 and 2008**

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

	<b>2009</b>	<b>2008</b>
<b>Sales (Notes 27 and 28)</b>	₩ 15,759,742	₩ 14,554,882
<b>Cost of sales (Notes 21 and 27)</b>	12,492,677	12,299,549
Gross profit	3,267,065	2,255,333
<b>Selling and administrative expenses (Note 27)</b>	1,033,891	934,210
Operating income	2,233,174	1,321,123
<b>Non-operating income</b>		
Interest income	26,430	5,977
Foreign exchange gains	314,996	427,894
Gain on foreign currency translation (Note 14)	68,716	48,739
Gain on valuation of equity-method investments (Note 3)	1,698	3,833
Gain on transaction of derivative instruments	31,474	73,416
Gain on valuation of derivative instruments (Note 17)	457	53,590
Reversal of negative goodwill (Note 2)	39,170	39,170
Others	33,007	98,221
	515,948	750,840
<b>Non-operating expenses</b>		
Interest expense (Note 9)	66,887	97,548
Foreign exchange losses	326,260	456,571
Loss on foreign currency translation (Note 14)	6,575	215,570
Loss on disposal of trade accounts receivable	41,555	36,566
Loss on valuation of equity-method investments (Note 3)	14,726	4,105
Loss on transaction of derivative instruments	34,855	-
Loss on valuation of derivative instruments (Note 17)	22,136	22,397
Loss on disposal of property, plant and equipment (Note 2)	27,251	8,180
Impairment loss on property, plant and equipment (Note 9)	56,138	-
Impairment loss on intangible assets (Note 10)	16,948	84
Donations	11,284	7,192
Others	69,546	39,228
	694,161	887,441
Income from continuing operations before income tax	2,054,961	1,184,522
<b>Income tax expense on continuing operations (Notes 2 and 22)</b>	488,636	266,823
Income from continuing operations	1,566,325	917,699
<b>(Loss) Income from discontinued operations (Notes 21, 22 and 30)</b>	(33,156)	68,309
Net income	₩ 1,533,169	₩ 986,008
<b>Parent interest in net income</b>	₩ 1,507,131	₩ 1,002,585
<b>Minority interest in net income (loss)</b>	26,038	(16,577)
	₩ 1,533,169	₩ 986,008
<b>Per share data (in won) (Note 24)</b>		
Income from continuing operations per share	₩ 20,258	₩ 11,225
Earnings per share	₩ 19,827	₩ 12,022
Diluted income from continuing operations per share	₩ 20,258	₩ 11,225
Diluted earnings per share	₩ 19,827	₩ 12,022

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

**LG Chem, Ltd. and Subsidiaries**  
**Consolidated Statements of Changes in Shareholders' Equity**  
**Years Ended December 31, 2009 and 2008**

(in millions of Korean won)

	<b>Capital stock</b>	<b>Capital surplus</b>	<b>Capital adjustment</b>	<b>Accumulated other comprehensive Income</b>	<b>Retained earnings</b>	<b>Minority Interest</b>	<b>Total</b>
Balances as of January 1, 2008	₩ 419,500	₩ 1,302,368	₩ (23,475)	₩ (21,303)	₩ 2,201,008	₩ 165,848	₩ 4,043,946
Accumulated effects from changes of financial accounting standards (Note 2)	-	-	-	-	2,035	-	2,035
Dividends	-	-	-	-	(167,006)	(21,911)	(188,917)
Net income	-	-	-	-	1,002,585	(16,577)	986,008
Disposal of treasury stock	-	13,014	8,499	-	-	-	21,513
Changes in cumulative effect of foreign currency translation (Note 23)	-	-	-	149,983	-	36,676	186,659
Valuation gain(loss) on cash flow hedge derivative instruments (Note 23)	-	-	-	(15,667)	-	386	(15,281)
Others	-	(833)	377	20,481	(1,872)	(1,459)	16,694
<b>Balances as of December 31, 2008</b>	<b>₩ 419,500</b>	<b>₩ 1,314,549</b>	<b>₩ (14,599)</b>	<b>₩ 133,494</b>	<b>₩ 3,036,750</b>	<b>₩ 162,963</b>	<b>₩ 5,052,657</b>
Balances as of January 1, 2009	₩ 419,500	₩ 1,314,549	₩ (14,599)	₩ 133,494	₩ 3,036,750	₩ 162,963	₩ 5,052,657
Dividends (Note 25)	-	-	-	-	(209,202)	(1,392)	(210,594)
Decrease in shareholders' equity due to spin-off (Note 18)	(50,000)	(125,467)	(464,272)	(22,769)	-	(6,184)	(668,692)
Net income	-	-	-	-	1,507,131	26,038	1,533,169
Acquisition of treasury stock	-	-	(2,293)	-	-	-	(2,293)
Disposal of treasury stock	-	-	1,785	-	-	-	1,785
Changes in cumulative effect of foreign currency translation (Note 23)	-	-	-	(34,698)	-	(10,724)	(45,422)
Valuation loss on cash flow hedge derivative instruments (Note 23)	-	-	-	8,735	-	-	8,735
Others	-	(1,597)	(184)	(12,528)	-	2,998	(11,311)
<b>Balances as of December 31, 2009</b>	<b>₩ 369,500</b>	<b>₩ 1,187,485</b>	<b>₩ (479,563)</b>	<b>₩ 72,234</b>	<b>₩ 4,334,679</b>	<b>₩ 173,699</b>	<b>₩ 5,658,034</b>

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



**LG Chem, Ltd. and Subsidiaries**  
**Consolidated Statements of Cash Flows**  
**Years Ended December 31, 2009 and 2008**

(in millions of Korean won)

	2009	2008
<b>Cash flows from operating activities</b>		
Net income	₩ 1,533,169	₩ 986,008
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	608,772	591,174
Provision for severance benefits	56,715	65,305
(Gain) loss on foreign currency translation, net	(63,227)	193,140
Loss on disposal of trade accounts receivable	42,444	39,642
Loss (gain) on valuation of equity-method investments, net	13,144	(639)
Gain on transactions of derivative instruments, net	(7,948)	(63,293)
Loss (gain) on valuation of derivative instruments, net	21,679	(40,018)
Loss on disposal of property, plant and equipment	34,122	14,332
Impairment loss on property, plant and equipment	56,138	18
Impairment loss on intangible asset	16,948	186
Reversal of negative goodwill	(39,170)	(39,170)
Others, net	29,070	4,495
	<u>768,687</u>	<u>765,172</u>
<b>Changes in operating assets and liabilities</b>		
Increase in trade accounts and notes receivable	(636,135)	(36,438)
Decrease (increase) in inventories	69,812	(281,523)
Dividends received	21	-
Insurance settlements received	4	76,836
(Increase) decrease in other accounts receivable	(38,862)	16,989
(Increase) decrease in accrued income	(1,851)	679
(Increase) increase in advance payments	(17,002)	8,974
Decrease (increase) in prepaid expenses	6,365	(5,372)
Decrease (increase) in deferred income tax assets	15,593	(47,735)
Decrease (increase) in other current assets	(7,636)	1,087
Increase (decrease) in trade accounts and notes payable	715,897	(490,204)
Increase (decrease) in other accounts payable	174,212	(59,364)
(Decrease) increase in accrued expenses	(2,341)	22,255
(Decrease) increase in income taxes payable	(155,240)	108,812
Increase in provision for warranty reserve	3,402	-
Decrease in other current liabilities	6,941	4,630
Accrued severance benefits transferred from associated companies	1,636	620
Increase (decrease) in deferred income tax liabilities	41,712	(19,173)
Payment of severance benefits	(40,049)	(67,353)
Others, net	(11,252)	(477)
	<u>125,227</u>	<u>(766,757)</u>
Net cash provided by operating activities	<u>2,427,083</u>	<u>984,423</u>

**LG Chem, Ltd. and Subsidiaries**  
**Consolidated Statements of Cash Flows**  
**Years Ended December 31, 2009 and 2008**

(in millions of Korean won)

	<b>2009</b>	<b>2008</b>
<b>Cash flows from investing activities</b>		
Disposal (acquisition) of short-term investments, net	₩ 42,533	₩ (14,322)
Disposal of property, plant and equipment	17,650	29,190
Decrease in derivative instrument transaction debit, net	40,250	64,328
Acquisition of property, plant and equipment	(1,076,163)	(905,382)
Acquisition of equity-method investments	(35,207)	(848)
Acquisition of intangible assets, net	(16,092)	(42,036)
Others, net	(9,086)	3,765
Net cash used in investing activities	<u>(1,036,115)</u>	<u>(865,305)</u>
<b>Cash flows from financing activities</b>		
Proceeds from short-term debts, net	42,264	306,779
Repayment of current maturities of long-term debts	(826,364)	(636,750)
Issuance of debentures	298,653	144,588
Payment of dividends	(209,192)	(166,995)
Proceeds from long-term debts, net	124,089	112,121
(Acquisition) disposal of treasury stock	(2,293)	21,513
Others, net	12,056	(22,297)
Net cash used in financing activities	<u>(560,787)</u>	<u>(241,041)</u>
<b>Exchange (losses) gains on cash and cash equivalents</b>	<u>(15,203)</u>	<u>45,704</u>
<b>Cash flows from spin-off</b>	<u>(221,883)</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	593,095	(76,219)
<b>Cash and cash equivalents</b>		
Beginning of the year	514,297	590,516
End of the year	<u>₩ 1,107,392</u>	<u>₩ 514,297</u>

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

# **LG Chem, Ltd. and Subsidiaries**

## **Notes to Consolidated Financial Statements**

### **December 31, 2009 and 2008**

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#### **1. The Consolidated Companies and Equity-Method Investees**

The accompanying consolidated financial statements include the accounts of LG Chem, Ltd. and its subsidiaries (collectively referred to as "the Company"). General information on the Controlling Company, its consolidated subsidiaries and its equity-method investees is described below.

##### **The Controlling 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.

As of December 31, 2009, 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, and with LG Petrochemical Co., Ltd. on November 1, 2007, and spun off its Industrial Materials segment to LG Hausys, Ltd. on April 1, 2009 (Note 30).

As of December 31, 2009, the Company has an outstanding capital stock of ₩369,500 million, including preferred stock of ₩38,144 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, 2009, the Company has issued 66,271,000 common shares and 7,628,921 preferred shares. The largest shareholder of the Company is LG Corp., which holds 33.53% of the Company's common shares. Preferred shareholders have no voting rights but are entitled to dividends at a rate 1% more than those paid to common shareholders.

**LG Chem, Ltd. and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**December 31, 2009 and 2008**

**Consolidated Companies**

Consolidated subsidiaries and equity-method investees are as follows:

Consolidated Subsidiaries	Percentage of Ownership(%) <sup>11</sup>		Number of Shares	
	2009	2008	2009	2008
LG Dow Polycarbonate Ltd. <sup>1</sup>	50.00	50.00	7,025,785	7,025,785
Tianjin LG Dagu Chemical Co., Ltd.	75.00	75.00	-	-
Tianjin LG New Building Materials Co., Ltd. <sup>2</sup>	-	100.00	-	-
Ningbo LG Yongxing Chemical Co., Ltd.	75.00	75.00	-	-
LG Chemical Hong Kong Ltd.	100.00	100.00	6,500,000	6,500,000
LG Hausys America, Inc. <sup>3</sup>	-	100.00	-	3,420
LG Chem America, Inc. <sup>3</sup>	100.00	-	1,290	-
LG Chemical India Pvt. Ltd. <sup>4</sup>	100.00	100.00	126,746,122	126,746,122
LG Polymer India Pvt. Ltd. <sup>4</sup>	100.00	100.00	126,330,000	126,330,000
LG Vina Chemical J/V Company	40.00	40.00	1,520,000	1,520,000
LG Surfaces, LLC. <sup>5</sup>	-	51.00	-	-
LG Chemical (Guangzhou) Engineering Plastics Co., Ltd.	100.00	100.00	-	-
LG Chem (Nanjing) Information & Electronics Materials Co., Ltd. <sup>6</sup>	100.00	100.00	-	-
LG Chem (Taiwan), Ltd. <sup>7</sup>	100.00	100.00	6,938,110	6,922,566
LG Chem Industrial Materials Inc. <sup>2</sup>	-	100.00	-	6,160
LG Chem Display Materials (Beijing) Co., Ltd.	100.00	100.00	-	-
Tianjin LG Bohai Chemical Co., Ltd.	75.00	75.00	-	-
LG Chem (China) Investment Co., Ltd.	100.00	100.00	-	-
LG Chem (Tianjin) Engineering Plastics Co., Ltd.	100.00	100.00	-	-
LG Chem Europe GmbH	100.00	100.00	-	-
LG Hausys Europe GmbH <sup>8</sup>	-	-	-	-
LG Chem Poland Sp. Z.O.O	100.00	100.00	-	-

  

Equity-Method Investees	Percentage of Ownership(%) <sup>16</sup>		Number of Shares	
	2009	2008	2009	2008
M. Dohmen S.A. <sup>9</sup>	-	49.00	-	-
SEETEC Co., Ltd.	50.00	50.00	3,325,680	3,325,680
LG Chem Trading (Shanghai) Co., Ltd. <sup>10</sup>	-	100.00	-	-
LG Holdings (HK) Ltd. <sup>11</sup>	26.00	18.18	53,040,000	37,084,000
Compact Power Inc. <sup>12</sup>	100.00	100.00	2,564,103	2,564,103
LG Chem Brasil, Ltd. <sup>12</sup>	100.00	100.00	-	-
TECWIN Co., Ltd. <sup>13</sup>	19.90	19.90	83,580	83,580
LG Chem Industrial Material Russia, LLC <sup>14</sup>	-	-	-	-
Tianjin LG Botian Chemical <sup>15, 17</sup>	65.59	-	-	-
Ningbo Bond International Trade <sup>12, 16</sup>	90.00	90.00	-	-
Ningbo Zhenhai LG Yongxing Co., Ltd. <sup>16, 17</sup>	100.00	-	-	-

<sup>1</sup> The Company purchased 50% ownership in LG Dow Polycarbonate Ltd. from LG Corp. on December 30, 2003. As a result, LG Dow Polycarbonate Ltd. was included in the scope of consolidated subsidiaries of the Company.

## LG Chem, Ltd. and Subsidiaries

### Notes to Consolidated Financial Statements

#### December 31, 2009 and 2008

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- <sup>2</sup> Investment in LG Hausys America, Inc. was transferred to LG Hausys, Ltd. on April 1, 2009. And gain (loss) before spin-off was recognized in gain (loss) from discontinued operations.
- <sup>3</sup> LG Chem America, Inc. changed its name to LG Hausys America, Inc. and LG Chem America was newly spun off from LG Hausys America, Inc. in 2009. And investment in LG Hausys America, Inc. was transferred to LG Hausys, Ltd. on April 1, 2009. And gain (loss) before spin-off was recognized in gain (loss) from discontinued operations.
- <sup>4</sup> The fiscal year end for LG Chemical India Pvt. Ltd., which wholly owns LG Polymer India Pvt. Ltd., is March 31.
- <sup>5</sup> LG Surfaces, LLC., a subsidiary of the Company's subsidiary, LG Hausys America, Inc. (formerly LG Chem America, Inc.) was included in the scope of consolidation in 2003. LG Surfaces, LLC was transferred to LG Hausys in 2009, and gain (loss) before spin-off was recognized in gain (loss) from discontinued operations.
- <sup>6</sup> The Company acquired additional shares of LG Chem (Nanjing) Information & Electronics Materials Co., Ltd. for ₩27,424 million in 2009.
- <sup>7</sup> The Company acquired additional shares of LG Chem (Taiwan), Ltd. for ₩18 million in 2009.
- <sup>8</sup> The newly established investee was transferred to LG Hausys, Ltd. on April 1, 2009 and gain (loss) before spin-off was recognized in gain (loss) from discontinued operations.
- <sup>9</sup> Transferred to LG Hausys, Ltd. on April 1, 2009.
- <sup>10</sup> The Company acquired additional shares of LG Chem Trading (Shanghai) for ₩4,250 million. And the investee was transferred to LG Hausys, Ltd. on April 1, 2009.
- <sup>11</sup> The Company acquired additional shares of LG Holdings (HK) Ltd. for ₩19,328 million. As a result, the Company's percentage of ownership increased from 18.18% to 26%. As of December 31, 2008, 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%.
- <sup>12</sup> As their total assets were less than ₩10,000 million as of December 31, 2008, these subsidiaries were not included in the consolidation for the year 2009.
- <sup>13</sup> This investee is classified as an equity-method investment as the Company has significant influence over the investee even the Company's percentage of ownership is below 20%.
- <sup>14</sup> The Company acquired additional shares of LG Chem Industrial Material Russia, LLC for ₩4,249 million. The investee was reclassified from investment securities to equity-method investments, and transferred to LG Hausys, Ltd. on April 1, 2009.
- <sup>15</sup> The Company acquired shares of Tianjin LG Botian Chemical for ₩5,977 million (percentage of ownership: 35.80%) during the current year, and the investment is classified as an equity-method investment. As of December 31, 2009, Tianjin LG Bohai Chemical Co., Ltd. also holds 29.79% ownership in Tianjin LG Botian Chemical Co., Ltd.
- <sup>16</sup> The investees are owned by Ningbo LG Yongxing Chemical Co., Ltd., a subsidiary included in the consolidation.
- <sup>17</sup> These companies were newly established in 2009, and total assets were less than ₩10,000 million at the date of establishment, these subsidiaries were not included in the consolidation for the year 2009.
- <sup>18</sup> The Company's percentage of ownership includes both direct and indirect ownership of the Controlling Company and its subsidiaries.

**LG Chem, Ltd. and Subsidiaries**  
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The major businesses of the consolidated subsidiaries and their respective transactions with the Controlling Company are summarized as follows:

<b>Subsidiary</b>	<b>Major Business</b>	<b>Transaction</b>
LG Dow Polycarbonate Ltd.	Manufacturing and marketing of polycarbonate	Purchase of raw materials
Tianjin LG Dagu Chemical Co., Ltd.	Manufacturing and marketing of PVC resin	Supply of raw materials
Tianjin LG New Building Materials Co., Ltd. <sup>1</sup>	Manufacturing and marketing of PVC tiles, C-MAT, and doors	Supply of products and merchandise Purchase of raw materials and products
Ningbo LG Yongxing Chemical Co., Ltd.	Manufacturing and marketing of ABS resin and SBL	Supply of raw materials Supply and purchase of products and merchandise
LG Chemical Hong Kong Ltd.	Trading and marketing	Import and export of products and raw materials
LG Hausys America, Inc. <sup>1</sup>	Trading and related services	Supply of products and merchandise
LG Chem America, Inc.	Trading and related services	Supply of products and merchandise
LG Chemical India Pvt. Ltd.	Trading and marketing	Supply of products and merchandise
LG Polymer India Pvt. Ltd.	Manufacturing of PS	Supply of raw materials
LG Vina Chemical J/V Company	Manufacturing and marketing of DOP	Supply of raw materials
LG Surfaces, LLC. <sup>1</sup>	Trading and marketing	Supply of products and merchandise
LG Chemical (Guangzhou) Engineering Plastics Co., Ltd.	Manufacturing and marketing of EP	Supply and purchase of products and merchandise
LG Chem (Nanjing) Information & Electronics Materials Co., Ltd.	Manufacturing and marketing of LCD display materials and battery	Supply of products and semi products
LG Chem (Taiwan), Ltd.	Manufacturing of LCD display materials and trading	Import and export of products and merchandise
LG Chem Industrial Materials Inc. <sup>1</sup>	Manufacturing and marketing of scagliola	Supply of products
LG Chem Display Materials (Beijing) Co., Ltd.	Manufacturing and marketing of LCD display materials	Supply of products and semi-products
Tianjin LG Bohai Chemical Co., Ltd.	Manufacturing and marketing of VCM	Purchase of raw materials
LG Chem (China) Investment Co., Ltd.	Holding company in China	Export of products and merchandise
LG Chem (Tianjin) Engineering Plastics Co., Ltd.	Manufacturing and marketing of EP	Supply and purchase of products and merchandise
LG Chem Europe GmbH	Trading and marketing	Export of products and merchandise
LG Hausys Europe GmbH <sup>1</sup>	Trading and marketing	Export of products and merchandise
LG Chem Poland Sp. Z.O.O	Manufacturing of LCD display materials	Supply of products and semi-products

<sup>1</sup> Transferred to LG Hausys, Ltd. on April 1, 2009.

**LG Chem, Ltd. and Subsidiaries**  
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The significant financial data of the Controlling Company and its subsidiaries included in the accompanying consolidated financial statements are summarized as follows:

(in millions of Korean won)

Company	2009			
	Total Assets	Shareholders' Equity	Sales <sup>2</sup>	Net Income (Loss) <sup>2</sup>
LG Chem, Ltd.	₩ 8,358,827	₩ 5,484,335	₩13,998,832	₩ 1,507,131
LG Dow Polycarbonate Ltd.	290,794	114,124	365,799	(2,516)
Tianjin LG Dagu Chemical Co., Ltd.	148,194	53,623	419,900	29,009
Tianjin LG New Building Materials Co., Ltd. <sup>1</sup>	-	-	21,382	768
Ningbo LG Yongxing Chemical Co., Ltd.	535,005	248,570	1,124,563	90,946
LG Chemical Hong Kong Ltd.	92,574	10,465	423,160	1,313
LG Hausys America, Inc. <sup>1</sup>	-	-	61,060	(3,696)
LG Chem America, Inc.	116,106	3,970	264,821	32
LG Chemical India Pvt. Ltd.	32,579	32,377	1,395	288
LG Polymer India Pvt. Ltd.	63,064	42,444	138,086	(9,727)
LG Vina Chemical J/V Company	14,575	7,921	47,355	4,467
LG Surfaces, LLC <sup>1</sup>	-	-	41,297	(877)
LG Chemical (Guangzhou) Engineering Plastics Co., Ltd.	83,992	30,534	143,960	14,776
LG Chem (Nanjing) Information & Electronics Materials Co., Ltd.	432,555	169,426	471,092	28,697
LG Chem (Taiwan), Ltd.	271,501	20,381	536,507	18,300
LG Chem Industrial Materials Inc. <sup>1</sup>	-	-	11,632	(495)
LG Chem Display Materials (Beijing) Co., Ltd.	22,682	13,503	14,151	1,305
Tianjin LG Bohai Chemical Co., Ltd.	405,120	151,468	397,647	11,861
LG Chem (China) Investment Co., Ltd.	61,244	51,139	45,589	2,173
LG Chem (Tianjin) Engineering Plastics Co., Ltd.	43,115	20,841	63,784	6,556
LG Chem Europe GmbH	22,149	5,038	62,778	696
LG Hausys Europe GmbH <sup>1</sup>	-	-	3,990	16
LG Chem Poland Sp.Z.O.O	28,634	9,484	18,243	1,673
Elimination and equity pick-up	(1,044,837)	(811,609)	(2,539,697)	(169,527)
	<u>₩ 9,977,873</u>	<u>₩ 5,658,034</u>	<u>₩16,137,326</u>	<u>₩ 1,533,169</u>
Parent interest in net income				₩1,507,131
Minority interest in net income				<u>₩ 26,038</u>

<sup>1</sup> Investees were transferred to LG Hausys, Ltd. on April 1, 2009, and the 2009 financial information represents sales and net income before spin-off.

<sup>2</sup> Includes sales from discontinued operations.

**LG Chem, Ltd. and Subsidiaries**  
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(in millions of Korean won)

Company	2008			
	Total Assets	Shareholders' Equity	Sales <sup>1</sup>	Net Income (Loss)
LG Chem, Ltd.	₩ 8,036,382	₩ 4,889,694	₩14,487,831	₩ 1,002,585
LG Dow Polycarbonate Ltd.	316,192	126,149	320,288	(23,698)
Tianjin LG Dagu Chemical Co., Ltd.	148,868	32,432	404,754	(2,365)
Tianjin LG New Building Materials Co., Ltd. <sup>1</sup>	104,754	57,945	90,984	3,120
Ningbo LG Yongxing Chemical Co., Ltd.	464,455	179,184	993,208	(23,555)
LG Chemical Hong Kong Ltd.	48,053	10,039	177,072	216
LG Hausys America, Inc.	165,161	9,812	403,033	(837)
LG Chemical India Pvt. Ltd.	32,304	32,151	421	443
LG Polymer India Pvt. Ltd.	80,034	54,247	143,367	(1,290)
LG Vina Chemical J/V Company	12,782	3,510	49,803	(3,198)
LG Surfaces, LLC	22,726	12,340	201,386	3,879
LG Chemical (Guangzhou) Engineering Plastics Co., Ltd.	64,878	22,205	111,367	3,036
LG Chem (Nanjing) Information & Electronics Materials Co., Ltd.	301,457	116,955	171,153	15,671
LG Chem (Taiwan), Ltd.	161,059	7,449	459,331	(2,462)
LG Chem Industrial Materials Inc.	55,760	17,209	48,265	4,182
LG Chem Display Materials (Beijing) Co., Ltd.	24,883	13,201	11,714	1,518
Tianjin LG Bohai Chemical Co., Ltd.	443,267	154,819	391,620	3,189
LG Chem (China) Investment Co., Ltd.	61,026	46,338	106,055	(711)
LG Chem (Tianjin) Engineering Plastics Co., Ltd.	35,559	15,810	51,043	3,682
LG Chem Europe GmbH	33,485	4,637	91,816	889
LG Chem Poland Sp.Z.O.O	39,483	8,196	17,398	(1,904)
Elimination and equity pick-up	(916,995)	(761,665)	(2,034,831)	3,618
	<u>₩ 9,735,573</u>	<u>₩ 5,052,657</u>	<u>₩16,697,078</u>	<u>₩ 986,008</u>
Parent interest in net income				₩1,002,585
Minority interest in net income				₩ (16,577)

<sup>1</sup> Includes sales from discontinued operations.



**LG Chem, Ltd. and Subsidiaries**  
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**2. Summary of Significant Accounting Policies**

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

**Basis of Consolidated Financial Statement Presentation**

The Controlling Company maintains its accounting records in Korean won and prepare statutory financial statements in the Korean language, in conformity with 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 consolidated financial statements are intended for use by those who are informed about Korean accounting principles and practices. The accompanying consolidated financial statements have been condensed, restructured and translated into English from the Korean language consolidated financial statements. Certain information attached to the Korean language consolidated 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 consolidated financial statements.

**Restatement of Prior Year Consolidated 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 effects of the change, adjusted on the beginning balance of 2008, were a decrease in deferred income tax liabilities by ₩2,035 million, and an increase in retained earnings by ₩2,035 million as of January 1, 2008 (Notes 22 and 23)

To conform to the Company's accounting policies and accounting estimates, certain overseas subsidiaries' useful lives and deferred tax accounting were adjusted. A summary of these adjustments is as follows:

	<b>2009</b>		
	<b>Net Asset Value before Adjustments</b>	<b>Adjustments</b>	<b>Net Asset Value after Adjustments</b>
<i>(in millions of Korean won)</i>			
<b>Subsidiaries</b>			
Tianjin LG Dagu Chemical Co., Ltd.	₩ 91,556	₩ (37,933)	₩ 53,623
Ningbo LG Yongxing Chemical Co., Ltd.	268,439	(19,869)	248,570
LG Polymer India Pvt. Ltd.	46,080	(3,636)	42,444
LG Chemical (Guangzhou) Engineering Plastics Co., Ltd.	31,441	(907)	30,534
LG Chem (Nanjing) Information & Electronics Materials Co., Ltd.	173,664	(4,238)	169,426
LG Chem (China) Investment Co., Ltd.	51,179	(40)	51,139
LG Chem (Tianjin) Engineering Plastics Co., Ltd.	20,857	(16)	20,841
LG Chem Display Materials (Beijing) Co., Ltd.	13,743	(240)	13,503
Tianjin LG Bohai Chemical Co., Ltd.	154,671	(3,203)	151,468

**LG Chem, Ltd. and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
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(in millions of Korean won)

Subsidiaries	2008		
	Net Asset Value before Adjustments	Adjustments	Net Asset Value after Adjustments
Tianjin LG Dagu Chemical Co., Ltd.	₩ 79,900	₩ (47,468)	₩ 32,432
Tianjin LG New Building Materials Co., Ltd.	64,808	(6,863)	57,945
Ningbo LG Yongxing Chemical Co., Ltd.	192,145	(12,961)	179,184
LG Chemical India Pvt. Ltd.	53,773	474	54,247
LG Vina Chemical J/V Company	3,169	341	3,510
LG Hausys America, Inc.	8,728	1,084	9,812
LG Chemical (Guangzhou) Engineering Plastics Co., Ltd.	22,978	(773)	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.	15,833	(23)	15,810

**Elimination of Investment and Capital Accounts**

The investment account of the Controlling Company is eliminated against the corresponding capital accounts of its consolidated subsidiaries.

The Company records differences between the investment account and corresponding capital accounts of subsidiaries as a goodwill or negative goodwill. The goodwill or negative goodwill is amortized in accordance with the Accounting Standards for Business Combination. The difference between the change of the Company's proportionate ownership in the net book value of the investee and purchase price, paid upon the Company's additional acquisition of shares or investee's issuance of new shares, is accounted for as capital surplus or capital adjustment. The differences between the investment account and the corresponding capital account for equity-method investees at the date of acquisition of the investment are amortized in accordance with the Accounting Standards for Business Combination.

Changes in the goodwill and negative goodwill accounts, and the equity-method adjustment accounts are summarized as follows:

(in millions of Korean won)

	Goodwill	Equity Method Adjustment	
		Debit	Credit
January 1, 2008	₩ 1,190	₩ 2,355	₩ 63,893
Amortization	(198)	(524)	(3,363)
December 31, 2008	992	1,831	60,530
Amortization	(198)	(524)	(3,363)
December 31, 2009	₩ 794	₩ 1,307	₩ 57,167

**Elimination of Intercompany Unrealized Profit**

Unrealized profit included in inventories, property, plant and equipment and other assets as a result of intercompany transactions is eliminated based on the average gross profit ratio of the corresponding company. Unrealized profit arising from sales by the Controlling Company to the consolidated subsidiaries is fully eliminated and charged to the equity of the Controlling Company. Unrealized

**LG Chem, Ltd. and Subsidiaries**  
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profit arising from sales by the consolidated subsidiaries to the Controlling Company or between consolidated subsidiaries is charged to the equity of the Controlling Company to the extent of the Controlling Company's percentage of ownership.

Unrealized profits included in inventories and other accounts, as a result of intercompany transactions are as follows:

<i>(in millions of Korean won)</i>	<b>Unrealized Profit</b>	
	<b>2009</b>	<b>2008</b>
Transactions with consolidated subsidiaries	₩ 11,975	₩ 23,694
Transactions with equity-method investees	₩ -	₩ -

**Translation of Foreign Currency Financial Statements**

Accounts and records of the overseas subsidiaries are maintained in foreign currencies. For presentation in the accompanying consolidated financial statements, the financial statements of the overseas subsidiaries have been translated at exchange rates as the date of the statement of financial position and the average exchange rates for income statements. Resulting differences are accounted for as an overseas operation translation debit or credit in the accumulated other comprehensive income account in shareholders' equity.

**Spin-off**

On April 1, 2009, the Company spun off its Industrial Materials segment to LG Hausys, Ltd. Principal accounting treatments related to the spin-off are as follows (Note 30):

- Assets and liabilities were transferred to the newly established company at their carrying value
- Accumulated other comprehensive income directly related to the transferred assets and liabilities are transferred to the newly established company
- Any losses from capital reduction were offset against gain from capital reduction and paid-in capital in excess of par value corresponding to the rate of reduced capital, and the remaining amounts after the offsetting were recorded as capital adjustments

**Accounting Estimates**

The preparation of the 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.

# LG Chem, Ltd. and Subsidiaries

## Notes to Consolidated Financial Statements

### December 31, 2009 and 2008

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#### **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.

#### **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 the 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). This special purpose company was liquidated in 2008.

#### **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 created 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 cease 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 (Note 7).

#### **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.

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.

# LG Chem, Ltd. and Subsidiaries

## Notes to Consolidated Financial Statements

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#### **Equity-Method Investments**

In the consolidated financial statements of the Company, investments in business entities, over which the Company exercises significant 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.

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.

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. If the book value of the investments 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 other investment-type assets such as the preferred shares or long-term debts of the investees.

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.

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 at the date of the statement of financial position 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.

#### **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.

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

	<b>Estimated Useful Lives</b>
Buildings	25 – 50 years
Structures	15 – 50 years
Machinery and equipment	6 – 15 years
Others	1 – 6 years

## **LG Chem, Ltd. and Subsidiaries**

### **Notes to Consolidated Financial Statements**

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The Company capitalizes interest it incurs 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 realized loss on the disposal of property, plant and equipment amounting to ₩34,112 million (2008: ₩14,220 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 straight-line 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.

#### **Intangible Assets**

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. Amortization of development cost begins at the commencement of the commercial production of the related products or use of the related technology. Other development costs are charged as normal development expense in the year incurred. The Company expensed ₩220,881 million (2008: ₩214,851 million) as normal development expense including discontinued operations.

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

#### **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 debts expense.

# **LG Chem, Ltd. and Subsidiaries**

## **Notes to Consolidated Financial Statements**

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#### **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.

#### **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 date of statement of financial position and the resulting translation gains and losses are recognized in current operations.

#### **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 date of statement of financial position.

Accrued severance benefits are funded at approximately 68.1% (2008: 64.5%), 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 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 consolidated 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 consolidated 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), to which the temporary differences are related. For temporary differences that are not related to the assets (liabilities), 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.

#### **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 discontinued operations income or loss includes direct costs from discontinued operations and impairment loss on assets due to discontinued operations.

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**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 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.

**Reclassification of Prior Year Consolidated Financial Statements**

Certain accounts in the December 31, 2008 consolidated financial statements were reclassified to conform with the December 31, 2009 consolidated financial statement presentation. These reclassifications have no impact on the previously reported net income or shareholders' equity.

**3. Equity-Method Investments**

Changes in equity method investments are as follows:

(in millions of Korean won)

Investee	2009								
	Beginning Balance	Acquisition	Dividend income	Valuation Gain (Loss) <sup>1</sup>	Increase (Decrease) in accumulated other comprehensive income and expense	Increase (Decrease) due to spin-off	Others	Ending Balance	
M. Dohmen S.A.	₩ 993	₩ -	₩ -	₩ -	₩ -	₩ (993)	₩ -	₩ -	
SEETEC Co., Ltd.	58,416	-	-	(8,677)	31	-	-	49,770	
LG Chem Trading (Shanghai) Co., Ltd.	2,473	4,250	-	54	284	(7,061)	-	-	
LG Holdings (HK) Ltd.	58,206	19,328	-	(6,219)	(20,318)	-	-	50,997	
Compact Power Inc.	983	-	-	973	(528)	-	-	1,428	
LG Chem Brasil, Ltd.	258	-	-	-	-	-	-	258	
TECWIN Co., Ltd.	2,861	-	(21)	626	-	-	-	3,466	
LG Chem Industrial Material Russia, LLC	-	4,754	-	-	-	(4,754)	-	-	
Tianjin LG Botian Chemical.	-	6,057	-	-	-	-	-	6,057	
Ningbo Bond International Trade	181	-	-	99	-	-	(124)	156	
Ningbo Zhenhai LG Yongxing Co., Ltd.	-	818	-	-	-	-	37	855	
	<u>₩124,371</u>	<u>₩ 35,207</u>	<u>₩ (21)</u>	<u>₩(13,144)</u>	<u>₩ (20,531)</u>	<u>₩ (12,808)</u>	<u>₩ (87)</u>	<u>₩112,987</u>	

<sup>1</sup> Includes gain (loss) from discontinued operations.



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(in millions of Korean won)

Investee	2008						
	Beginning Balance	Acquisition	Dividend income	Valuation Gain (Loss) <sup>1</sup>	Increase (Decrease) in accumulated other comprehensive income and expense	Others	Ending Balance
M. Dohmen S.A.	₩ 993	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 993
SEETEC Co., Ltd.	64,306	-	-	(5,878)	(12)	-	58,416
LG Chem Trading (Shanghai) Co., Ltd.	1,724	-	-	42	707	-	2,473
LG Holdings (HK) Ltd.	27,221	-	-	4,183	26,802	-	58,206
Compact Power Inc.	611	848	-	(143)	(333)	-	983
LG Chem Brasil, Ltd.	258	-	-	-	-	-	258
Ningbo Bond International Trade	132	-	-	(7)	-	56	181
TECWIN Co., Ltd.	419	-	-	2,442	-	-	2,861
	<u>₩ 95,664</u>	<u>₩ 848</u>	<u>₩ -</u>	<u>₩ 639</u>	<u>₩ 27,164</u>	<u>₩ 56</u>	<u>₩ 124,371</u>

<sup>1</sup> Includes gain (loss) from discontinued operations.

**4. Restricted Bank Deposits**

Long-term financial instruments of ₩43 million (2008: ₩48 million) are deposited in connection with bank overdraft agreements. The withdrawal of these deposits is restricted.

Group severance insurance deposits are restricted as to their withdrawal in relation to employees' retirement payments (Note 15).

**5. Short-Term Investments**

(in millions of Korean won)

	2009	2008
Time deposits <sup>1</sup>	₩ 101,254	₩ 148,835
Short-term loans receivable	4,914	170
	<u>₩ 106,168</u>	<u>₩ 149,005</u>

<sup>1</sup> As of December 31, 2008, certificates of deposit were pledged as collaterals for the corporate income tax payment.

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**6. Receivables**

<i>(in millions of Korean won)</i>	<b>2009</b>	<b>2008</b>
Trade accounts and notes receivable	₩ 1,800,822	₩ 1,590,289
Less: Allowance for doubtful accounts	(12,979)	(38,674)
	<u>₩ 1,787,843</u>	<u>₩ 1,551,615</u>
Other accounts receivable	₩ 119,578	₩ 110,150
Less: Allowance for doubtful accounts	(1,412)	(10,311)
Less: Present value adjustment	-	(26)
	<u>₩ 118,166</u>	<u>₩ 99,813</u>
Long-term trade accounts and notes receivable	₩ 43	₩ 236
Less: Allowance for doubtful accounts	(3)	(15)
	<u>₩ 40</u>	<u>₩ 221</u>
Long-term other accounts receivable	₩ -	₩ 224
Less: Present value discount accounts	-	(7)
	<u>₩ -</u>	<u>₩ 217</u>

**7. Inventories**

<i>(in millions of Korean won)</i>	<b>2009</b>	<b>2008</b>
Merchandise, net of valuation allowance of ₩325 million (2008: ₩398 million)	₩ 45,621	₩ 117,305
Finished products, net of valuation allowance of ₩6,108 million (2008: ₩33,138 million)	718,517	871,759
Work-in-process	190,678	195,470
Raw materials, net of valuation allowance of ₩693 million (2008: ₩421 million)	463,901	435,923
Supplies	56,944	54,384
Materials-in-transit	153,137	172,879
	<u>₩ 1,628,798</u>	<u>₩ 1,847,720</u>

Inventories are insured against fire.

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**8. Investment Securities**

(in millions of Korean won)

	2009		2008	
Government and public bonds	₩	1	₩	1
Non-marketable stocks		4,181		2,115
Total	₩	4,182	₩	2,116

Non-marketable stocks consist of the following:

(in millions of Korean won)	Percentage of Ownership (%)		Acquisition Cost		Book Value		Fair Value or Net Asset Value <sup>6</sup>	
	2009	2008	2009	2008	2009	2008	2009	2008
HASIU	12.10	12.10	₩ 576	₩ 576	₩ 576	₩ 576	₩ 936	₩ 936
Chemizen. Com Ltd.	2.62	2.62	300	300	-	-	-	-
LG Mozel Ltd. <sup>1</sup>	-	13.00	-	195	-	195	514	514
EICO Properties Pte. Ltd.	9.20	9.20	2,298	2,298	509	509	2,770	2,996
Neocos	4.86	4.86	9	9	-	-	4	-
Saerom Seongwon <sup>2</sup>	-	-	182	182	-	182	-	1
LG Chem Industrial Material Russia, LLC <sup>3</sup>	-	99.00	-	505	-	505	-	505
Global OLED Technology LLC <sup>4</sup>	2.00	-	2,959	-	2,959	-	2,959	-
Ninbo Zhenhai Zhoungan Warehouse Storage Management Co., Ltd.	4.65	4.65	26	26	37	37	37	40
AP Gas Power Corp. <sup>5</sup>	1.00	1.00	95	95	40	40	100	108
			₩ 6,445	₩ 4,186	₩ 4,181	₩ 2,115	₩ 6,970	₩ 5,100

<sup>1</sup> Transferred to LG Hausys, Ltd. on April 1, 2009.

<sup>2</sup> The Company recognized an impairment loss of ₩182 million (included in discontinued operations) in 2009.

<sup>3</sup> The Company acquired additional shares of LG Chem Industrial Material Russia, LLC for ₩4,249 million. The investee was reclassified from investment securities to equity-method investments, and transferred to LG Hausys, Ltd. on April 1, 2009 (Note 3).

<sup>4</sup> The Company acquired Global OLED Technology LLC for ₩2,959 million in 2009.

<sup>5</sup> Ninbo Zhenhai Zhoungan Warehouse Storage Management Co. Ltd. and AP Gas Power Corp. are owned by Ningbo LG Yongxing Chemical Co., Ltd. and LG Polymer India Pvt Ltd., respectively, which are included in the consolidation.

<sup>6</sup> Net asset values were calculated based on the recent available financial statements of the investees. Impairment losses are recognized in the statements of income in cases where there is an indication that an investment may have been impaired.

**LG Chem, Ltd. and Subsidiaries**  
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**9. Property, Plant and Equipment**

<i>(in millions of Korean won)</i>	<b>2009</b>	<b>2008</b>
Buildings	₩ 1,313,797	₩ 1,393,582
Structures	603,904	623,399
Machinery and equipment	6,239,701	6,375,869
Vehicles	33,615	39,595
Tools and furniture	469,443	726,624
Others	17,977	13
	<u>8,678,437</u>	<u>9,159,082</u>
Accumulated depreciation	(4,709,988)	(4,908,934)
Accumulated impairment loss	(13,021)	(12,300)
	<u>3,955,429</u>	<u>4,237,848</u>
Land	439,311	513,319
Construction-in-progress	476,154	353,873
Machinery-in-transit	64,382	80,632
	<u>₩ 4,935,275</u>	<u>₩ 5,185,672</u>

For the year ended December 31, 2009, capitalized interest expense amounted to ₩9,270 million (2008: ₩4,693 million).

As of December 31, 2009, inventories and property, plant and equipment, except for land, are insured against fire and other casualty losses for up to ₩11,872,473 million (2008: ₩15,537,526 million). In addition, the Company has business interruption insurance policies.

As of December 31, 2009, certain property, plant and equipment have been pledged as collaterals for certain bank loans for up to a maximum of ₩391,387 million (2008: ₩429,171 million) (Notes 12 and 13).

As of December 31, 2009, the appraised value of the Company's land, as determined by the local governments of Korea for property tax assessment purposes, amounted to ₩687,257 million (2008: ₩823,203 million).

As of December 31, 2009, the Company has a financing lease agreement on certain property, plant and equipment at the MTBE factory. The book values of the said property, plant and equipment amount to ₩4,405 million as of December 31, 2009 (2008: ₩6,587 million), and their total depreciation expense amounted to ₩2,182 million for the year then ended (2008: ₩2,182 million) (Note 13).

**LG Chem, Ltd. and Subsidiaries**  
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**10. Intangible Assets**

<i>(in millions of Korean won)</i>	<b>2009</b>	<b>2008</b>
Intellectual property rights	₩ 47,205	₩ 32,343
Development costs	24,300	46,747
Goodwill	29,080	34,407
Others	28,557	46,252
Negative goodwill	(195,848)	(235,018)
	<u>₩ (66,706)</u>	<u>₩ (75,269)</u>

The changes in development costs of the Controlling Company and its domestic subsidiaries are as follows:

<i>(in millions of Korean won)</i>	<b>2009</b>	<b>2008</b>
Beginning balance	₩ 45,908	₩ 45,471
Decrease due to spin-off	(3,649)	
Increase	7,910	14,799
	<u>50,169</u>	<u>60,270</u>
Less: Amortization	(9,542)	(13,645)
Disposal	(265)	(717)
Impairment loss	(16,948)	-
Ending balance	<u>₩ 23,414</u>	<u>₩ 45,908</u>

Expenses of the Controlling Company and its domestic subsidiaries that may have potential future benefits, but were not capitalized as intangible assets due to their uncertainty of future economic benefits, include:

<i>(in millions of Korean won)</i>	<b>2009</b>	<b>2008</b>
Employee education expense	₩ 10,519	₩ 14,602
Advertising expense	14,414	38,938
	<u>₩ 24,933</u>	<u>₩ 53,540</u>

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**11. Warranty reserve**

(in millions of Korean won)

	<b>Provision for Products defects <sup>1</sup></b>	<b>Provision for Repairs and recalls <sup>2</sup></b>
Beginning balance	₩ 87	₩ -
Increase	3,414	5,131
Decrease due to spin-off <sup>3</sup>	-	(3,339)
Decrease	-	-
Ending balance	<u>₩ 3,501</u>	<u>₩ 1,792</u>

<sup>1</sup> The Company has accrued provisions for product defects for a specified period of time after sale.

<sup>2</sup> The Controlling Company has accrued provisions for the estimated cost of future repairs and recalls based on experience, terms of guarantees and the expectation of future repairs and recalls.

<sup>3</sup> Transferred to LG Hausys, Ltd. on April 1, 2009.

**12. Short-term Borrowings and Current Maturities of Long-Term Debts**

(in millions of Korean won)

	<b>Annual Interest Rate (%)</b>			
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
<b>Short-term borrowings</b>				
Bank overdrafts	4.29	5.9~6.35	₩ 12,357	₩ 13,342
General term loans	6.8	6.87~8.7	10,000	15,000
Notes discounted	2.1	5.65	425,795	295,759
Foreign currency loans	LIBOR+0.5	LIBOR+0.85	<u>329,024</u>	<u>492,000</u>
			<u>777,176</u>	<u>816,101</u>
<b>Current maturities of long-term debts</b>				
Debentures	LIBOR+0.26~4.5	LIBOR+0.45~3.5	158,380	506,888
Won currency loans	3.0~9.0	3.0~9.0	14,454	13,444
Foreign currency loans	LIBOR+0.3~0.4	LIBOR+0.51~0.6	<u>391,958</u>	<u>172,584</u>
			564,792	692,916
Less: Discount on debentures issued			(86)	(617)
Present value discount accounts			(82)	(82)
			<u>564,624</u>	<u>692,216</u>
			<u>₩ 1,341,800</u>	<u>₩ 1,508,317</u>

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

**LG Chem, Ltd. and Subsidiaries**  
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**13. Long-Term Debts**

<i>(in millions of Korean won)</i>	Reference	2009	2008
Debentures	(1)	₩ 275,459	₩ 361,148
Loans	(2)	362,969	873,077
		<u>₩ 638,428</u>	<u>₩ 1,234,225</u>

(1) Debentures as of December 31, 2009 and 2008, are as follows:

<i>(in millions of Korean won)</i>	Annual Interest Rate (%)		2009	2008
	2009	2008		
Publicly offered debentures payable through 2012	4.85~ 3M TIBOR+3	3.5~5.02	₩ 376,282	₩ 599,389
Privately offered debentures, payable through 2009	-	5.02~5.32	-	100,000
Foreign currency debentures payable through 2010 <sup>1</sup>	6M LIBOR+0.26	6M LIBOR+ 0.2~0.45	58,380	169,763
			<u>434,662</u>	<u>869,152</u>
Less: Current maturities			(158,380)	(506,888)
Discount on debentures			<u>(823)</u>	<u>(1,116)</u>
			<u>₩ 275,459</u>	<u>₩ 361,148</u>

<sup>1</sup> Term notes issued on March 23, 2006 were redeemed on September 23, 2009. Further, the Company issued floating rate notes on March 20, 2007, and will redeem these on September 17, 2010.

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(2) Loans payable consist of the following:

	<b>Annual Interest Rate (%)</b>		<b>2009</b>	<b>2008</b>
	<b>2009</b>	<b>2008</b>		
<i>(in millions of Korean won)</i>				
<b>Won currency loans</b>				
Energy fund loans	3.25	4.25	₩ 2,448	₩ 4,153
General term loans	CD+0.6	CD+0.6	37,500	47,500
Financial lease <sup>1</sup>	9.0	9.0	10,683	12,202
Housing loans	3.0	3.0	2,198	4,006
Relocation loans	-	-	1,145	1,754
			<u>53,974</u>	<u>69,615</u>
Less: Current maturities			(14,454)	(13,444)
			<u>39,520</u>	<u>56,171</u>
<b>Foreign currency loans</b>				
General term loans	3M LIBOR+0.3~ 6M LIBOR+0.4	LIBOR+0.3~0.51	408,660	505,552
Others	LIBOR+0.5	LIBOR+0.85	249,988	406,738
Facility loans	LIBOR+0.6	LIBOR+0.6	56,979	77,502
			<u>715,627</u>	<u>989,792</u>
Less: Current maturities			(391,958)	(172,584)
Discount on loans			(220)	(302)
			<u>323,449</u>	<u>816,906</u>
			<u>₩ 362,969</u>	<u>₩ 873,077</u>

<sup>1</sup> Financial lease liabilities are liabilities associated with a financing lease of property, plant and equipment of MTBE factory after their sale (Note 9).

Certain property, plant and equipment are provided as collaterals for the above borrowings (Note 9).

The annual maturities of long-term debts of domestic consolidated companies, excluding discounts and premiums on debentures, as of December 31, 2009, are as follows:

*(in millions of Korean won)*

<b>Year</b>	<b>Debentures</b>	<b>Won Currency Loans</b>	<b>Foreign Currency Loans</b>	<b>Total</b>
2011	₩ 126,282	₩ 13,614	₩ 191,977	₩ 331,873
2012	150,000	12,675	120,295	282,970
2013	-	10,193	11,397	21,590
Thereafter	-	4,653	-	4,653
	<u>276,282</u>	<u>41,135</u>	<u>323,669</u>	<u>475,961</u>
Present value discount	-	(1,615)	-	(1,615)
	<u>₩ 276,282</u>	<u>₩ 39,520</u>	<u>₩ 323,669</u>	<u>₩ 639,471</u>



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**14. Assets and Liabilities Denominated in Foreign Currencies**

Monetary assets and liabilities of the Controlling Company and its domestic subsidiaries denominated in foreign currencies, excluding items referred to in Notes 12 and 13, consist of the following:

	Foreign Currencies (in thousands)				Korean won Equivalent (in millions)	
	2009		2008		2009	2008
Cash and cash equivalents	US\$	167,742	US\$	76,657	₩ 208,978	₩ 95,585
	EUR	845	EUR	176		
	GBP	368	GBP	16		
	JPY	864,615	JPY	4,561		
Trade accounts and notes receivable	US\$	418,234	US\$	352,235	538,738	477,871
	EUR	841	EUR	11,351		
	GBP	29	GBP	78		
	JPY	3,873,307	JPY	1,053,190		
Other accounts receivable	US\$	36,187	US\$	38,170	43,337	48,287
	EUR	162	EUR	160		
	JPY	-	JPY	270		
Trade accounts and notes payable	US\$	248,555	US\$	95,170	426,972	205,792
	EUR	103	EUR	268		
	JPY	10,747,424	JPY	6,143,927		
Other accounts payable	US\$	95,031	US\$	50,513	125,782	83,482
	JPY	897,890	JPY	1,179,483		
	EUR	692	EUR	929		

Gains and losses on foreign currency translation (including discontinued operations) are ₩69,491 million (2008: ₩52,300 million) and ₩16,174 million (2008: ₩247,446 million), respectively.

**15. Accrued Severance Benefits**

*(in millions of Korean won)*

	2009	2008
Provision for severance benefits	₩ 239,685	₩ 280,793
Less: Group severance insurance deposits	(163,221)	(181,240)
Contribution to National Pension Plan	(1,961)	(2,790)
Ending balance	₩ 74,503	₩ 96,763

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**16. 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:

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

<sup>1</sup> Stock options for 347,000 shares were forfeited due to the early termination of employment of the grantee employees. In 2008, remaining 221,000 shares were exercised.

Changes in stock options are as follows:

*(in millions of Korean won)*

	<b>2008</b>
Beginning balance	₩ 11,857
Stock compensation cost <sup>1</sup>	1,059
Exercised amounts	<u>(12,916)</u>
Ending balance	<u>₩ -</u>

<sup>1</sup> Stock compensation cost was recognized due to changes in stock price during 2008, excluding the reversal of stock compensation expense (including discontinued operations) (Note 27).

## **LG Chem, Ltd. and Subsidiaries**

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#### **17. Commitments and Contingencies**

The Controlling Company and the newly established company, LG Hausys Ltd., have provided the joint guarantee for obligations outstanding as of April 1, 2009, the spin-off date (Note 30).

The Controlling 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 guarantees to customers.

As of December 31, 2009 and 2008, the Controlling Company has been provided with guarantees from the Seoul Guarantee Insurance for the execution of supply contracts.

As of December 31, 2009, the Controlling 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 Controlling Company, one blank promissory note is provided as collateral to a financial institution.

As of December 31, 2009, the Company is contingently liable for notes receivable from export sales which were discounted through financial institutions in the ordinary course of business amounting to ₩646,812 million.

As of December 31, 2009, the Company has bank overdraft agreements with several banks for up to ₩74,900 million. The Company has also entered into contracts with several financial institutions to open import letters of credit for up to ₩121,700 million and US\$ 243 million, respectively. The Company has entered into contracts with several financial institutions for discounting notes from export and derivative financial instruments for up to US\$ 1,003 million and US\$ 30 million, respectively, for other foreign currency payment guarantee of up to US\$ 5 million, and for other notes of up to ₩50,000 million.

The Company has entered into credit line agreements with several financial institutions for up to ₩116,140 million and US\$ 302 million.

As of December 31, 2009, the Controlling Company has B2B contracts with several financial institutions.

The Controlling Company has guaranteed the repayment of various obligations of its subsidiaries and associated companies. The outstanding balance of such guarantees as of December 31, 2009, amounts to ₩199,533 million (2008: ₩189,060 million) (Note 27).

As of December 31, 2009, the Company has entered into technology license agreements with companies such as 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., Exxon Mobile and others. The Company has also entered into technical contracts for technologies and consultation in relation to the manufacture of certain products.

The Company entered into 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.

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As of December 31, 2009, the Controlling Company has a long-term purchase contract for certain raw materials and was provided with US\$ 69 million guarantee for this contract (2008: US\$ 28 million). Further, as of December 31, 2009, the Controlling Company provided US\$ 11 million guarantee in regard to a purchase contract for certain raw materials.

LG Dow Polycarbonate Ltd., a subsidiary included in the consolidation, entered into a technology license agreement with The Dow Chemical Company ("TDCC") on January 6, 1999. According to the contract, which was modified on July 1, 2004 and April 14, 2005, LG Dow Polycarbonate Ltd. has to pay royalty fees in proportion to sales amounts over 15 years, starting from July 1, 2001. Also, other than royalty fees, LG Dow Polycarbonate Ltd. paid ₩47,366 million to TDCC, which was recognized as long-term prepaid expense and amortized over 15 years using the straight-line method.

LG Dow Polycarbonate Ltd. has entered into a loan agreement with a certain financial institution, to maintain its debt ratio below 250%. Also, in case where LG Dow Polycarbonate Ltd. does not meet a certain debt ratio or interest compensation ratio, no dividend can be paid without the agreement of the financial institution.

The Controlling Company and LG Dow Polycarbonate Ltd. have interest rate swap, currency swap, forward exchange contracts and options for hedging against fluctuations in foreign exchange rates and interest rates. As of December 31, 2009, outstanding contracts and options include interest rate swaps of ₩15,000 million and US\$ 22,500 thousand (2008: ₩19,000 million and US\$ 28,500 thousand), currency swaps and options of US\$ 105,000 thousand and JPY 10,000,000 thousand (2008: US\$ 202,029 thousand and JPY 10,000,000 thousand) and forward exchange contracts and options of US\$ 87,000 thousand (2008: US\$ 140,100 thousand). Details of the changes in valuation gain or loss on derivatives are as follows:

<i>(in millions of Korean won)</i>	2009				
	Trading		Hedge <sup>1</sup>		Other comprehensive income <sup>2</sup>
	Valuation gain	Valuation loss	Valuation gain <sup>1</sup>	Valuation loss <sup>1</sup>	
Currency swap	₩ -	₩ -	₩ -	₩ (22,097)	₩ (7,318)
Forward exchange	₩ 457	₩ (39)	₩ -	₩ -	₩ -

<sup>1</sup> Includes gain(loss) from discontinued operations.

<sup>2</sup> Excludes income tax effect.

<i>(in millions of Korean won)</i>	2008				
	Trading		Hedge <sup>1</sup>		Other comprehensive income <sup>2</sup>
	Valuation gain	Valuation loss	Valuation gain <sup>1</sup>	Valuation loss <sup>1</sup>	
Currency swap	₩ -	₩ -	₩ 65,418	₩ (16,611)	₩ (16,053)
Forward exchange	₩ -	₩ 8,789	₩ -	₩ -	₩ -

<sup>1</sup> Includes gain(loss) from discontinued operations.

<sup>2</sup> Excludes income tax effect.

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The Company applies the cash flow hedge accounting and is exposed to fluctuations in cash flows up to September 5, 2013, on its cross currency and interest swaps. Accumulated other comprehensive income and expense are recognized in the statements of income during the periods that the target derivatives affect the Company's net income.

As of December 31, 2009 and 2008, the Company has been named as a defendant and plaintiff in various legal actions. Management believes that these legal actions will not have any material adverse impact on the Company's operations or financial position although the outcome of these legal actions is uncertain.

**18. Equity**

*(in millions of Korean won)*

	<u>Common stock</u>		<u>Preferred stock</u>		Paid-in capital in excess of par value <sup>1</sup>	Loss on capital reduction <sup>2</sup>
	Number of shares	Amounts	Number of shares	Amounts		
January 1, 2008	75,238,770	₩ 376,194	8,661,251	₩ 43,306	₩1,052,640	₩ -
December 31, 2008	75,238,770	376,194	8,661,251	43,306	1,052,640	-
Spin off	<u>(8,967,670)</u>	<u>(44,838)</u>	<u>(1,032,230)</u>	<u>(5,162)</u>	<u>(125,467)</u>	<u>(464,272)</u>
December 31, 2009	<u>66,271,100</u>	<u>₩ 331,356</u>	<u>7,628,921</u>	<u>₩ 38,144</u>	<u>₩ 927,173</u>	<u>₩ (464,272)</u>

<sup>1</sup> At the time of spin-off in 2001, the Controlling Company recorded ₩532,002 million as paid-in capital in excess of par value. The Controlling Company accounted for the difference between the acquisition cost and the carrying value of the Controlling Company's share in the net identifiable asset as a decrease in capital surplus and netted against paid-in capital in excess of par value of the new shares issued upon acquisition. The Controlling Company recognized ₩520,638 million as paid-in capital in excess of par value in 2007, when the Controlling Company merged with LG Petrochemical Co., Ltd.

<sup>2</sup> The Controlling Company incurred losses on capital reduction amounting to ₩589,735 million and recognized ₩464,272 million as capital adjustment, after offsetting against paid-in capital in excess of par value corresponding to the rate of reduced capital. The capital adjustment will be treated in the same manner as disposition of accumulated deficit.

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**19. Retained Earnings**

*(in millions of Korean won)*

	<b>2009</b>		<b>2008</b>	
Appropriations				
Legal reserve	₩	94,350	₩	73,430
Reserve for business rationalization		4,000		4,000
Reserve for technology development		2,140,695		1,366,197
Reserve for investment losses		376,376		376,376
Voluntary reserve		212,120		212,120
		<u>2,827,541</u>		<u>2,032,123</u>
Unappropriated retained earnings		<u>1,507,138</u>		<u>1,004,627</u>
	₩	<u>4,334,679</u>	₩	<u>3,036,750</u>

**Legal Reserve**

The Korean Commercial Code requires the Controlling 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 Controlling 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.

**20. Treasury Stock**

*(in millions of Korean won)*

	<b>Number of Shares</b>		<b>Amounts</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Common stock	359,778	388,914	₩ 15,368	₩ 14,956
Preferred stock	5,518	3,659	116	20
Total	<u>365,296</u>	<u>392,573</u>	<u>₩ 15,484</u>	<u>₩ 14,976</u>

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

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**21. Cost of Sales**

(in millions of Korean won)

	2009		2008	
<b>Products</b>				
Beginning balance of inventories	₩	1,066,607	₩	811,314
Cost of goods manufactured		11,873,487		12,597,527
Ending balance of inventories		(908,472)		(1,066,607)
Duty refunds		(57,128)		(87,006)
Discontinued operations		(139,068)		(561,871)
		<u>11,843,709</u>		<u>11,693,357</u>
<b>Merchandise</b>				
Beginning balance of inventories		117,305		91,792
Purchases		714,779		1,666,845
Ending balance of inventories		(45,621)		(117,305)
Others		(198)		(12,530)
Discontinued operations		(168,489)		(1,046,033)
		<u>617,776</u>		<u>582,769</u>
<b>Other cost of sales</b>		<u>31,192</u>		<u>23,423</u>
<b>Total</b>	₩	<u>12,492,677</u>	₩	<u>12,299,549</u>

**22. Income Taxes**

Income tax expense consists of the following:

(in millions of Korean won)

	Controlling Company		Domestic Subsidiaries		Overseas Subsidiaries		Consolidation Adjustment		Total	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
Current income taxes under the tax law	₩383,867	₩355,698	₩ -	₩ -	₩40,307	₩ 4,316	₩ -	₩ -	₩424,174	₩360,014
Changes in deferred income tax assets(liabilities) <sup>1</sup>	39,566	3,587	(906)	(9,087)	950	(23,822)	(137)	(732)	39,473	(30,054)
Foreign exchange translation	-	-	-	-	(4,006)	(3,751)	-	-	4,006	(3,751)
Total income tax effect	<u>423,433</u>	<u>359,285</u>	<u>(906)</u>	<u>(9,087)</u>	<u>45,263</u>	<u>(23,257)</u>	<u>(137)</u>	<u>(732)</u>	<u>467,653</u>	<u>326,209</u>
Deferred income taxes directly added to shareholders' equity <sup>2</sup>	10,593	(38,080)	(219)	577	-	-	-	-	10,374	(37,503)
Income taxes from discontinued operations	10,618	(21,540)	-	-	(22)	(717)	13	374	10,609	(21,883)
<b>Income tax expense</b>	<u>₩444,644</u>	<u>₩299,665</u>	<u>₩(1,125)</u>	<u>₩(8,510)</u>	<u>₩45,241</u>	<u>₩(23,974)</u>	<u>₩(124)</u>	<u>₩(358)</u>	<u>₩488,636</u>	<u>₩266,823</u>

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<sup>1</sup> The changes in deferred income tax assets (liabilities) of the Controlling Company are as follows:

<i>(in millions of Korean won)</i>	<b>Accumulated Temporary Differences</b>		<b>Deferred Income Tax Assets (Liabilities)</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Beginning balance	₩(25,922)	₩ (7,884)	₩ 914	₩ 2,466
Adjustment <sup>a</sup>	-	7,179	-	2,035
Adjusted beginning balance	(25,922)	(705)	914	4,051
Ending balance	(258,238)	(25,922)	(56,215)	914
Spin-off <sup>b</sup>	-	-	17,563	-
			<u>₩ (39,566)</u>	<u>₩ (3,587)</u>

<sup>a</sup> 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, 2009. The effect of the change is adjusted to the beginning balance of 2008 (Note 2).

<sup>b</sup> Transferred to LG Hausys, Ltd.

<sup>2</sup> Deferred income taxes directly added to (deducted from) shareholders' equity are as follows:

<i>(in millions of Korean won)</i>	<b>Accumulated Temporary Differences</b>		<b>Deferred Income Tax Assets (Liabilities)</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Beginning balance	₩(164,562)	₩ 11,252	₩ (34,986)	₩ 3,094
Ending balance	(88,924)	(164,562)	(19,691)	(34,986)
Spin-off <sup>a</sup>			(4,702)	-
			<u>₩ 10,593</u>	<u>₩ (38,080)</u>

<sup>b</sup> Transferred to LG Hausys, Ltd.

The reconciliation between income tax based on the statutory rate (including discontinued operations) and income tax expense (including discontinued operations) follows:

<i>(in millions of Korean won)</i>	<b>2009</b>	<b>2008</b>
Income before tax from continuing operations	₩1,984,345	₩1,245,464
Income before tax from discontinued operations	(43,188)	78,326
Net income before tax	<u>₩1,941,157</u>	<u>₩1,323,790</u>
Income tax applying current tax rate	₩ 469,760	₩ 364,042
Adjustments		
Non-taxable income	(11,859)	(10,837)
Non-deductible expense	3,720	7,725
Effect of unrecognized deferred tax <sup>1</sup>	1,540	(9,262)
Tax credit	(45,156)	(41,877)
Effect of decreased income tax rate changes	(183)	3,976
Others	16,204	7,438
Income tax expense	<u>₩ 434,026</u>	<u>₩ 321,205</u>
Effective tax rate (income tax expense/ net income before tax)	<u>22.36%</u>	<u>24.26%</u>



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Changes in temporary differences of the Controlling Company and domestic subsidiaries are as follows:

(in millions of Korean won)

	<b>2009</b>					
	<b>Beginning Balance Before Adjustment</b>	<b>Increase</b>	<b>Decrease<sup>1</sup></b>	<b>Ending Balance</b>	<b>Deferred Income tax as of January 1, 2009</b>	<b>Deferred Income tax as of December 31, 2009</b>
Accrued severance benefits	₩ 177,515	₩ 46,675	₩ 61,913	₩ 162,277	₩ 39,053	₩ 35,701
Severance insurance plans	(177,515)	(43,742)	(58,980)	(162,277)	(39,053)	(35,701)
Allowance for doubtful accounts	57,431	38,661	71,628	24,464	13,321	5,382
Accrued interest income	(933)	(2,813)	(933)	(2,813)	(226)	(681)
Research and development costs	(52)	-	(52)	-	(12)	-
Present value discount	2	-	2	-	1	-
Property, plant and equipment	65,354	2,190	59,113	8,431	14,378	1,855
Equity-method investments	(16,264)	(131,179)	39,448	(186,891)	(1,480)	(33,078)
Reserves for technology development	(180,000)	(90,000)	(92,262)	(177,738)	(41,287)	(41,082)
Others	225,681	46,378	87,883	184,176	53,972	35,247
Equity	(172,159)	65,252	(14,982)	(91,925)	(36,657)	(20,351)
Sub total <sup>2</sup>	(20,940)	₩ (68,578)	₩ 152,778	(242,296)	2,010	(52,708)
Equity-method investments <sup>3</sup>	12,579			18,943	2,767	4,167
Equity <sup>2</sup>	(7,597)			(3,001)	(1,671)	(660)
Total	₩ (25,922)			₩ (258,238)	₩ 914	₩ (56,215)

<sup>1</sup> Includes temporary differences of ₩88,025 million transferred to LG Hausys, Ltd. on April 1, 2009. Accordingly, deferred income tax assets transferred to LG Hausys, Ltd. were ₩17,563 million including deferred income tax (₩4,702) million, which was directly reflected in equity.

<sup>2</sup> As of December 31, 2009, deferred income taxes for the negative goodwill of ₩195,848 million and goodwill of ₩5,672 million were not recognized, with the adoption of SKFAS No. 16, *Deferred Income Tax*.

<sup>3</sup> As of December 31, 2009, the accumulated temporary differences that may not be realized in the future were excluded from the calculation of deferred income taxes. Further, taxable accumulated temporary differences of ₩1,844 million and deductible accumulated temporary differences of ₩14,097 million relating to the equity-method investment, were not recognized as deferred income tax liabilities and deferred income tax assets.

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	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 <sup>1</sup>	53,718	₩ (24,952)	₩ 49,706	(20,940)	19,468	2,010
Equity-method investments <sup>2</sup>	53,439			12,579	14,757	2,767
Effect of accounting policy changes <sup>3</sup>	(7,179)			-	(2,035)	-
Equity <sup>2</sup>	8,163			(7,597)	2,245	(1,671)
Total	₩ (705)			₩ (25,922)	₩ 4,501	₩ 914

<sup>1</sup> 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, with adoption of SKFAS No. 16, *Deferred Income Tax*.

<sup>2</sup> 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. Further, 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.

<sup>3</sup> 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 effect of the change is adjusted to the beginning balance of 2008 (Note 2).

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% tax rate was used for temporary differences expected to be reversed in year 2010 and 2011, while 22% was used for temporary differences expected to reverse in 2012 and thereafter. As a result, deferred tax assets and deferred tax liabilities increased by ₩3,342 million and ₩3,525 million, respectively, as compared to the amount using the current tax rate.

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, 2009.

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**23. Comprehensive Income and Expenses**

<i>(in millions of Korean won)</i>	<b>2009</b>	<b>2008</b>
Net income	₩ 1,533,169	₩ 986,008
Accumulated effects from changes in accounting policies (Note 2)	-	2,035
Changes in cumulative effect of foreign currency translation	(45,422)	186,659
Changes in equity from movements in the equity-method investments	(12,528)	18,218
Gain on valuation of derivatives	8,735	(15,281)
Others	2,998	2,263
Comprehensive income	<u>₩ 1,486,952</u>	<u>₩ 1,179,902</u>
Parent interest in comprehensive income	<u>₩ 1,468,640</u>	<u>₩ 1,159,417</u>
Minority interest in comprehensive income	<u>₩ 18,312</u>	<u>₩ 20,485</u>

**24. Earnings Per Share**

<i>(in millions of Korean won, except per share amounts)</i>	<b>2009</b>	<b>2008</b>
Income from continuing operations	₩ 1,539,857	₩ 936,173
Preferred stock dividends	(27,063)	(22,077)
Preferred stock share in the remaining profit available for dividends	(132,918)	(75,498)
Income from continuing operations available for common stock (A)	<u>₩ 1,379,876</u>	<u>₩ 838,598</u>
Weighted average number of shares of outstanding common stock (B) <sup>1</sup>	<u>68,116,575</u>	<u>74,706,927</u>
Basic income from continuing operations per share (A/B)	<u>₩ 20,258</u>	<u>₩ 11,225</u>

<i>(in millions of Korean won, except per share amounts)</i>	<b>2009</b>	<b>2008</b>
Net income	₩ 1,507,131	₩ 1,002,585
Preferred stock dividends	(27,063)	(22,077)
Preferred stock share in the remaining profit available for dividends	(129,526)	(82,395)
Net income available for common stock (A)	<u>₩ 1,350,542</u>	<u>₩ 898,113</u>
Weighted average number of shares of outstanding common stock (B) <sup>1</sup>	<u>68,116,575</u>	<u>74,706,927</u>
Basic earnings per share (A/B)	<u>₩ 19,827</u>	<u>₩ 12,022</u>

<sup>1</sup> Excludes treasury stock.

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There are no outstanding convertible bonds or other dilutive securities. 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 loss from discontinued operations per share are ₩(431) (2008: earnings per share of ₩ 797).

**25. Dividends**

	2009		2008					
Shares issued and outstanding (par value per share: ₩5,000)								
Common stock		65,911,322		74,849,856				
Preferred stock		7,623,403		8,657,592				
Dividend per share (in won)								
Common stock: cash	₩	3,500 (70%)	₩	2,500 (50%)				
Preferred stock: cash	₩	3,550 (71%)	₩	2,550 (51%)				
Cash dividend amount (in millions of Korean won)								
Common stock	₩	230,689	₩	187,125				
Preferred stock		27,063		22,077				
	₩	<u>257,752</u>	₩	<u>209,202</u>				
Dividend payout ratio								
Dividends (A)	₩	257,752	₩	209,202				
Net income (B)		1,507,131		1,002,585				
Dividend payout ratio (A/B)		<u>17.10%</u>		<u>20.87%</u>				
Dividend yield ratio								
		<b>2009</b>		<b>2008</b>				
		<b>Common Stock</b>	<b>Preferred Stock</b>	<b>Common Stock</b>	<b>Preferred Stock</b>			
Dividend per share (A)	₩	3,500	₩	3,550	₩	2,500	₩	2,550
Market value at the end of year (B)		<u>228,500</u>	<u>82,500</u>	<u>71,000</u>	<u>28,800</u>			
Dividend yield ratio (A/B)		<u>1.53%</u>	<u>4.30%</u>	<u>3.52%</u>	<u>8.85%</u>			

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**26. Transactions with Subsidiaries**

Significant transactions which occurred in the ordinary course of business with consolidated subsidiaries are summarized as follows:

(in millions of Korean won)

Sales to / Purchases from		2009			
Company	Subsidiary	Sales <sup>1</sup>	Purchases <sup>1</sup>	Receivables	Payables
LG Chem, Ltd.	LG Hausys America, Inc.	₩ 30,850	₩ 137	₩ -	₩ 1,604
	LG Chem America, Inc.	272,974	848	882	-
	LG Chemical Hong Kong Ltd.	130,486	3,056	-	171
	LG Chem (Nanjing) Information & Electronics Materials Co., Ltd.	140,421	401,943	4,144	39,352
	LG Chem (Taiwan), Ltd.	455,852	4,921	9	4
	LG Chem Display Materials (Beijing) Co., Ltd.	-	-	-	1,087
	Others	234,483	89,461	27,866	6,059
LG Chemical Hong Kong Ltd.	Ningbo LG Yongxing Chemical Co., Ltd.	131,695	-	32,046	-
	Others	218,471	134,063	59,777	-
Others		291,360	-	41,473	-
		<u>₩1,906,592</u>	<u>₩ 634,429</u>	<u>₩ 166,636</u>	<u>₩ 48,277</u>

<sup>1</sup> Includes transactions with Tianjin LG New Building Materials Co., Ltd. and other subsidiaries of LG Hausys, Ltd. before spin-off.

(in millions of Korean won)

Sales to / Purchases from		2008			
Company	Subsidiary	Sales	Purchases	Receivables	Payables
LG Chem, Ltd.	LG Hausys America, Inc.	₩ 373,823	₩ 1,189	₩ 104	₩ 1,604
	LG Chemical Hong Kong Ltd.	77,172	2,448	2	171
	LG Chem (Nanjing) Information & Electronics Materials Co., Ltd.	82,486	165,135	14,267	39,352
	LG Chem (Taiwan), Ltd.	410,403	3,083	60	4
	LG Chem Display Materials (Beijing) Co., Ltd.	9	11,714	-	1,087
	Others	247,832	95,115	13,664	6,059
	LG Chemical Hong Kong Ltd.	Ningbo LG Yongxing Chemical Co., Ltd.	13,868	-	4,277
	Others	103,538	259	42,518	-
Others		448,217	-	44,744	-
		<u>₩1,757,348</u>	<u>₩ 278,943</u>	<u>₩ 119,636</u>	<u>₩ 48,277</u>

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The Controlling Company and LG Chem (China) Investment Co., Ltd. have guaranteed the repayment of various obligations of its subsidiaries and associated companies.

The details of guarantees provided as of December 31, 2009 and 2008, are as follows:

(in millions of Korean won)

		<b>2009</b>			
	<b>Guarantee Beneficiary</b>	<b>Amount of Guarantee</b>	<b>Financial Institution</b>	<b>Outstanding Loan Amount</b>	
The Controlling Company	LG Chem (Nanjing) Information & Electronics Materials Co., Ltd.	₩ 68,129	Bank of China	₩ 63,377	
		23,352	Woori Bank	23,352	
		35,028	Export-Import Bank of Korea	35,028	
		Tianjin LG Bohai Chemical Co., Ltd.	3,892	Export-Import Bank of Korea	3,892
		LG Chem Poland Sp.Z.O.O.	17,989	Nordea Bank	11,261
		LG Hausys America.	29,540	Kookmin Bank	29,540
		LG Chem America, Inc	5,838	Bank of America	3,503
		11,676	Bank of America	-	
LG Chem (China) Investment Co., Ltd.	LG Chem Display Materials Co., Ltd.	4,089	Agricultural Bank of China	4,089	
		<u>₩ 199,533</u>		<u>₩ 174,042</u>	

(in millions of Korean won)

		<b>2008</b>			
	<b>Guarantee Beneficiary</b>	<b>Amount of Guarantee</b>	<b>Financial Institution</b>	<b>Outstanding Loan Amount</b>	
The Controlling Company	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	
		31,815	Wachovia Bank	31,815	
		LG Chem Industrial Materials Inc.	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	Woori Bank	-
LG Chem (China) Investment Co., Ltd.	LG Chem Display Materials Co., Ltd.	12,176	Agricultural Bank of China	9,372	
		<u>₩ 189,060</u>		<u>₩ 160,100</u>	

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**27. Related Party Transactions**

Significant transactions, which occurred in the ordinary course of business with related companies and the related account balances are summarized as follows:

<i>(in millions of Korean won)</i>	<b>Sales</b>	<b>Purchases</b>	<b>Receivables</b>	<b>Payables</b>
Controlling company <sup>1</sup>	₩ -	₩ 37,677	₩ 5,276	₩ 1,943
Subsidiaries <sup>2,3</sup>	11,321	5,397	3,061	236
Equity-method investees <sup>2</sup>	48,751	152,374	-	13,578
Key management	-	40,590	-	33,581
Others <sup>4</sup>	2,907,472	679,738	511,623	142,891
2009 Total	<u>₩2,907,472</u>	<u>₩ 915,776</u>	<u>₩ 519,960</u>	<u>₩ 192,229</u>
2008 Total	<u>₩2,477,357</u>	<u>₩ 896,633</u>	<u>₩ 371,993</u>	<u>₩ 155,595</u>

- <sup>1</sup> LG Corp. is the ultimate parent company, and issues the consolidated financial statements.  
<sup>2</sup> Please refer to Note 1 for percentage of ownership of the Company's investments in its related parties.  
<sup>3</sup> Includes transactions with Tianjin LG New Building Materials Co., Ltd., and other subsidiaries of LG Hausys, Ltd. before spin-off.  
<sup>4</sup> Includes LG Display Co., Ltd., LG Electronics Inc., LG International Corp., and LG Hausys, Ltd. and its subsidiaries after spin-off.

Compensation for key management officers of the Controlling Company and its domestic listed subsidiary consists of:

<i>(in millions of Korean won)</i>	<b>2009</b>	<b>2008</b>
Short-term employee benefits	₩ 25,732	₩ 45,428
Post-employment benefits	4,658	5,126
Other long-term employee benefits	10,200	12,855
Reversal of share-based compensation	-	1,059
Total	<u>₩ 40,590</u>	<u>₩ 64,468</u>

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

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**28. 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. LG International Corp. Youlchon Chemical Co., Ltd. National Plastic Co., Ltd. and others
Information & Electronic Materials	Batteries, Polarizers	LG Electronics Inc. LG Display Co., Ltd. and others
Industrial Materials <sup>1</sup>	Hi Sash, UBR, wall coverings, living materials, building materials and others	Hyundai Motors Co., Ltd. GM Daewoo Auto & Technology Co. distributors and wholesalers

<sup>1</sup> As explained in Note 30, the Company spun off its Industrial Materials segment on April 1, 2009, and classified it as discontinued operations.

Financial information on industry segments are as follows:

(in millions of Korean won)	2009				
	Petrochemicals	Information & Electronic Materials	Others	Consolidation Adjustment	Total
Sales					
External sales <sup>1</sup>	₩ 12,480,941	₩ 4,766,187	₩ 998,507	₩ (2,485,893)	₩15,759,742
Inter-segment sales	120,645	15,320	196,211	-	332,176
	<u>₩ 12,601,586</u>	<u>4,781,507</u>	<u>₩ 1,194,718</u>	<u>₩ (2,485,893)</u>	<u>₩16,091,918</u>
Operating income	<u>₩ 1,689,389</u>	<u>₩ 548,817</u>	<u>₩ 12,466</u>	<u>₩ (17,496)</u>	<u>₩ 2,233,174</u>
Property, plant and equipment, and intangible assets <sup>2</sup>	<u>₩ 3,000,843</u>	<u>₩ 1,501,249</u>	<u>₩643,807</u>	<u>₩ (81,482)</u>	<u>₩ 5,064,417</u>



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<i>(in millions of Korean won)</i>	<b>2008</b>				<b>Total</b>
	<b>Petrochemicals</b>	<b>Information &amp; Electronic Materials</b>	<b>Others</b>	<b>Consolidation Adjustment</b>	
Sales					
External sales <sup>1</sup>	₩ 12,669,516	₩ 2,940,773	₩ 728,236	₩ (1,783,643)	₩14,554,882
Inter-segment sales	90,758	4,727	240,459	-	335,944
	<u>₩ 12,760,274</u>	<u>2,945,500</u>	<u>₩ 968,695</u>	<u>₩ (1,783,643)</u>	<u>₩14,890,826</u>
Operating income	₩ 885,209	₩ 470,065	₩ (19,072)	₩ (15,079)	₩ 1,321,123
Property, plant and equipment, and intangible assets <sup>2</sup>	₩ 3,093,586	₩ 1,289,621	₩1,037,782	₩ (75,568)	₩ 5,345,421

<sup>1</sup> Includes sales of discontinued operations to the Industrial Materials segment, amounting to ₩38,863 million (2008: ₩254,645 million).

<sup>2</sup> Excludes negative goodwill incurred from the merger, which is deducted from intangible assets. The negative goodwill amounts to ₩195,848 million (2008: ₩235,018 million). Meanwhile, property, plant and equipment, and intangible assets of discontinued operations as of December 31, 2009 and 2008, are included under others.

(2) Geographical Segment Information

The sales by geographical segments (including discontinued operations) are as follows:

	<i>(in millions of Korean won)</i>								
	<b>Domestic<sup>1</sup></b>	<b>China</b>	<b>North America</b>	<b>South America</b>	<b>South-East Asia</b>	<b>Western Europe</b>	<b>Others</b>	<b>Consolidation adjustment</b>	<b>Total</b>
2009	₩7,564,842	₩7,447,410	₩750,661	₩130,848	₩683,417	₩359,045	₩1,740,800	₩(2,539,697)	₩16,137,326
2008	₩8,352,136	₩6,066,842	₩1,202,443	₩136,560	₩662,739	₩440,519	₩1,870,670	₩(2,034,831)	₩16,697,078

<sup>1</sup> Domestic sales include the exports made through local letters of credit.

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**29. Supplemental Cash Flow Information**

Major transactions not involving any inflow or outflow of cash and cash equivalents are as follows:

<i>(in millions of Korean won)</i>	<b>2009</b>	<b>2008</b>
Reclassification of depreciation expenses to development costs	₩ 530	₩ 905
Reclassification of severance benefits to development costs	298	164
Gain on valuation of investments using the equity method of accounting (accumulated other comprehensive income and expenses)	20,531	27,164
Reclassification of long-term debts to current maturities of long-term debts	406,412	186,028
Reclassification of long-term debts to current maturities of debentures	158,380	506,888
Gain on valuation of derivatives (accumulated other comprehensive income and expenses)	12,488	22,142

**30. Spin-off**

Pursuant to a resolution of the Board of Directors on December 2, 2008, and an approval by the shareholders on January 23, 2009, the Company spun off its Industrial Materials segment to the newly established LG Hausys, Ltd. on April 1, 2009.

LG Chem, Ltd. engages in the business of petrochemicals and information and electronic materials as of April 1, 2009.

**Method of spin-off**

The Company spun off its Industrial Materials segment to LG Hausys, Ltd., in accordance with the Commercial Law of the Republic of Korea, and transferred related assets and liabilities to LG Hausys, Ltd.

LG Hausys, Ltd. issued shares within its net asset value and allotted them to LG Chem, Ltd.'s shareholders in proportion to the percentage of shareholding as of the spin-off date.

The Company reduced its capital stock by 0.1191895 share per one share of the Company.

**Assets and liabilities of the spun off business segment**

Assets and liabilities transferred to LG Hausys, Ltd. are those listed on the spin-off plan approved by the shareholders on January 23, 2009, reflecting changes in carrying values which occurred up to the spin-off date.

**Transfer of right and obligations**

Upon the date of spin-off, all the rights and obligations regarding the transferred assets and liabilities are transferred to LG Hausys, Ltd.

**Severance benefits and employees**

Employees of the spun off business segment and their severance benefits as of the spin-off date were transferred to LG Hausys, Ltd.

**Responsibilities**

The Company and LG Hausys, Ltd. have provided the joint guarantee for obligations outstanding as of April 1, 2009, the spin-off date.

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**Settlement of transfer transactions after the spin-off date**

Adjustments resulting from transactions prior to spin-off will be settled in cash.

The summarized asset and liabilities of the spun off business segment as of April 1, 2009 and December 31, 2008, are as follows:

<i>(in millions of Korean won)</i>	<b>2009</b>	<b>2008</b>
Total assets	₩ 1,130,549	₩ 956,713
Total liabilities	₩ 468,045	₩ 271,846

The statements of operations of the Industrial Materials segment, excluding impairment loss on discontinued operations, for the three-month period ended March 31, 2009 and for the year ended December 31, 2008, are as follows:

<i>(in millions of Korean won)</i>	<b>2009</b>	<b>2008</b>
Sales	₩ 341,200	₩ 2,090,667
Operating income (loss)	₩ (26,939)	₩ 85,282

The financial statements of the Company are prepared in accordance with SKFAS No. 11, *Discontinued operations*.

The income before tax from discontinued operations of the Industrial Materials segment for the three-month period ended March 31, 2009 and for the year ended December 31, 2008, are as follows:

<i>(in millions of Korean won)</i>	<b>2009</b>	<b>2008</b>
Impairment loss on discontinued operations	₩ (168)	₩ (120)
Income (loss) from the industrial materials segment <sup>1</sup>	(43,597)	90,353
Income before income tax from discontinued operations	(43,765)	90,233
Unrealized income and loss <sup>1</sup>	-	(41)
Income (loss) before tax from discontinued operations	₩ (43,765)	₩ 90,192

<sup>1</sup> Excludes impairment loss on discontinued operations.

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The consolidated statements of income of the Industrial Materials segment, excluding impairment loss on discontinued operations, for the three-month period ended March 31, 2009 and for the year ended December 31, 2008, are as follows:

(in millions of Korean won)

	2009			2008		
	Before	Consolidation adjustment	After <sup>1</sup>	Before	Consolidation adjustment	After
Sales	₩468,274	₩ (51,827)	₩416,447	₩2,641,221	₩ (244,380)	₩2,396,841
Cost of sales	(393,571)	54,438	339,133	(2,098,305)	231,198	(1,867,107)
Gross profit (loss)	74,703	2,611	77,314	542,916	(13,182)	529,734
Selling and administrative expenses	(105,869)	112	(105,757)	(434,785)	5,918	(428,867)
Operating loss	(31,166)	2,723	(28,443)	108,131	(7,264)	100,867
Non-operating income	20,653	(673)	19,980	105,395	(5,927)	99,468
Non-operating expenses	(37,094)	1,960	(35,134)	(114,195)	4,213	(109,982)
Income (loss) from the industrial materials segment	₩ (47,607)	₩ 4,010	₩ (43,597)	₩ 99,331	₩ (8,978)	₩ 90,353

<sup>1</sup>The amounts include sales and purchases between the discontinued and continuing operations, which are expected to continue after spin-off.

The income after income tax from discontinued operations of the industrial materials segment of the Consolidated Company for the three-month period ended March 31, 2009 and for the year ended December 31, 2008, are as follows:

(in millions of Korean won)

	2009	2008
Income before income tax from discontinued operations	₩ (43,765)	₩ 90,233
Income tax	10,609	(21,883)
Unrealized income and loss	-	(41)
Income (loss) after income tax from discontinued operations	₩ (33,156)	₩ 68,309

Cash flows from the industrial materials segment for the three-month period ended March 31, 2009 and for the year ended December 31, 2008, are as follows:

(in millions of Korean won)

	2009	2008
Cash flows from operating activities	₩ 13,309	₩ 53,436
Cash flows from investing activities	(20,932)	(83,824)
Cash flows from financing activities	7,623	30,388

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**31. 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>	<b>Amount</b>
Acquisition cost	₩ 87,000
Fair value of net assets acquired	<u>60,908</u>
Goodwill	<u>₩ 26,092</u>

(2) Changes in goodwill are as follows:

<i>(in millions of Korean won)</i>	<b>Amount</b>
Goodwill incurred from business combination	₩ 26,092
Amortization	<u>870</u>
Balance as of December 31, 2008	25,222
Amortization	<u>2,609</u>
Balance as of December 31, 2009	<u>₩ 22,613</u>

(3) Condensed statement of financial position of the SAP division as of September 1, 2008, are as follows:

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

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**32. Early Adoption of Korean International Financial Reporting Standards**

The Company decided to early adopt the Korean International Financial Reporting Standards ("K-IFRS") from 2010, which will be mandatorily applied from 2011 to all listed companies.

The Company's implementation plan is as follows:

**Early adoption plan and progress status**

The Company organized certain task force team in order to manage the Company's K-IFRS implementation process and the team regularly reports the progress to the management.

Since 2007, the Company engaged an external advisory firm and completed an analysis on significant differences between K-IFRS and the current Korean Financial Accounting Standards.

The Company has completed determining the accounting policies it will adopt under K-IFRS. Financial statements in accordance with K-IFRS at the date of transition, January 1, 2009, and after the transition date, are now being prepared.

**Differences between K-IFRS and current Korean Financial Accounting Standards**

		<b>K-GAAP</b>	<b>K-IFRS</b>
The first adoption of K-IFRS	Business combination	N/A	Business combination occurred before the date of transition, January 1, 2009, to IFRSs should not be recognized retrospectively.
	Cumulative translation differences	N/A	The cumulative translation differences for all foreign operations are deemed to be zero at the date of transition, January 1, 2009.
	Deemed cost from fair value or revalued amounts	N/A	Revaluation under the K-GAAP is permitted as deemed cost.
Employee benefits		Benefits for existing employees are calculated based on the assumption that all employees terminate their employment at the reporting date.	At the reporting date, accrued severance benefits for all employees are valued using an actuarial method.
Business combination		Goodwill is amortised over a period not exceeding 20 years using the straight-line method. Negative goodwill not exceeding total fair value of acquired non-monetary assets is recognised as income over weighted average useful life of acquired depreciable assets.	Goodwill is not amortised while tested for impairment at the end of each reporting period. Negative goodwill is recognised in income statement immediately.

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	<b>K-GAAP</b>	<b>K-IFRS</b>
Account classification, such as memberships	Classified as non-current asset.	Classified as intangible asset.
Transfer of trade receivables	In certain cases, transfer of trade receivables is deemed as a sales transaction and derecognized in the financial statement.	Transfer of trade receivables deemed as financial arrangement and recognized as a short-term debt.
Deferred income tax	Recognize deferred tax asset/liability arising from investments in subsidiaries, jointly controlled entities and associates regardless of the nature of the temporary differences between carrying amount in the financial statement and its tax base. It shall be classified as current and non-current assets or liabilities.	Recognize deferred tax asset/liability arising from investments in subsidiaries, jointly controlled entities and associates by the nature of the temporary differences between carrying amount in the financial statement and its tax base. It shall be classified only as non-current assets or liabilities.
Spin off	Assets and liabilities were transferred to the newly established company at their carrying value. Any losses from capital reduction were offset against gain from capital reduction and paid-in capital in excess of par value corresponding to the rate of reduced capital, and the remaining amounts after the offsetting were recorded as capital adjustments.	Apply distributions of non-cash asset to owners. A liability to distribute non-cash assets as a dividend to its owners is measured at the fair value of the assets to be distributed. Any changes in the carrying amount of the dividend payable are recognised in equity as adjustments to the amount of the distribution. When an entity settles the dividend payable, it shall recognise the difference, if any, between the carrying amount of the assets distributed and the carrying amount of the dividend payable in profit or loss.

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Changes in consolidated companies as of December 31, 2009, due to IFRS adoption are as follows:

<b>K-GAAP</b>	<b>K-IFRS</b>	<b>Differences</b>
LG Dow Polycarbonate Ltd.	-	Classified as joint venture wherein the Company and Dow Chemical hold joint ownership.
Tianjin LG Dagu Chemical Co., Ltd.	Tianjin LG Dagu Chemical Co., Ltd.	-
Ningbo LG Yongxing Chemical Co., Ltd.	Ningbo LG Yongxing Chemical Co., Ltd.	-
LG Chemical Hong Kong Ltd.	LG Chemical Hong Kong Ltd.	-
LG Chem America, Inc.	LG Chem America, Inc.	-
LG Chemical India Pvt. Ltd.	LG Chemical India Pvt. Ltd.	-
LG Polymer India Pvt. Ltd.	LG Polymer India Pvt. Ltd.	-
LG Vina Chemical J/V Company	-	The Company owns less than 50% of voting power. It is excluded from the scope of consolidation assuming that the Company does not have de facto control.
LG Chemical (Guangzhou) Engineering Plastics Co., Ltd.	LG Chemical (Guangzhou) Engineering Plastics Co., Ltd.	-
LG Chem (Nanjing) Information & Electronics Materials Co., Ltd.	LG Chem (Nanjing) Information & Electronics Materials Co., Ltd.	-
LG Chem (Taiwan), Ltd.	LG Chem (Taiwan), Ltd.	-
LG Chem Display Materials (Beijing) Co., Ltd.	LG Chem Display Materials (Beijing) Co., Ltd.	-
Tianjin LG Bohai Chemical Co., Ltd.	Tianjin LG Bohai Chemical Co., Ltd.	-
LG Chem (China) Investment Co., Ltd.	LG Chem (China) Investment Co., Ltd.	-
LG Chem (Tianjin) Engineering Plastics Co., Ltd.	LG Chem (Tianjin) Engineering Plastics Co., Ltd.	-
LG Chem Europe GmbH	LG Chem Europe GmbH	-
LG Chem Poland Sp. Z.O.O.	LG Chem Poland Sp. Z.O.O.	-
-	Compact Power Inc.	Included in the scope of consolidation under K-IFRS with less than ₩10 billion of total assets even if they are excluded under K-GAAP.
-	Tianjin LG Botian Chemical	Included in the scope of consolidation under K-IFRS with less than ₩10 billion of total assets even if they are excluded under K-GAAP



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**Effects on Financial Position and Operating Results**

Effects on total assets, total liabilities and shareholders' equity as of the date of IFRS transition, January 1, 2009, are as follows:

(in millions of Korean won)

	<b>Total Assets</b>	<b>Total Liabilities</b>	<b>Total Shareholders' equity</b>
K-GAAP	₩ 9,735,573	₩ 4,682,916	₩ 5,052,657
Adjustments			
Changes in consolidated companies <sup>1</sup>	(246,785)	(181,598)	(65,187)
Investments in associates <sup>2</sup>	56,284	-	56,824
Derecognition of accounts receivable <sup>3</sup>	468,294	461,633	6,661
Employee benefits <sup>4</sup>	(1,867)	(27,973)	26,106
Amortization on negative goodwill <sup>5</sup>	235,018	-	235,018
Income tax effect <sup>6</sup>	(6,805)	(38,376)	31,571
Total adjustments	504,679	213,686	290,993
K-IFRS	₩ 10,240,252	₩ 4,896,602	₩ 5,343,650

<sup>1</sup> Changes in scope of consolidated companies.

<sup>2</sup> Withdrawal of amortization of negative goodwill in associates and recognition of deferred tax liabilities from associates companies' revaluation of land.

<sup>3</sup> Discounted trade accounts receivable with recourse accounted as sales under K-GAAP is accounted as borrowing transaction under K-IFRS.

<sup>4</sup> Changes of accrued severance benefits using actuarial valuation.

<sup>5</sup> Balance of negative goodwill was reversed entirely.

<sup>6</sup> Income tax effects from above adjustments and deferred income tax classified as non-current assets or liabilities.

Effects on total assets, total liabilities and shareholders' equity as of December 31, 2009, are as follows:

(in millions of Korean won)

	<b>Total Assets</b>	<b>Total Liabilities</b>	<b>Total Shareholders' equity</b>
K-GAAP	₩ 9,977,873	₩ 4,313,839	₩ 5,658,034
Adjustments			
Changes in consolidated companies <sup>1</sup>	(204,454)	(147,863)	(56,591)
Investments in associates <sup>2</sup>	54,182	-	54,182
Derecognition of accounts receivable <sup>3</sup>	527,421	522,555	4,866
Employee benefits <sup>4</sup>	(1,715)	(22,241)	20,526
Amortization on negative goodwill <sup>5</sup>	195,848	-	195,848
Withdrawal of amortization on goodwill <sup>6</sup>	5,130	-	5,130
Spin-off <sup>7</sup>	-	9,325	(9,325)
Income tax effect <sup>8</sup>	(23,693)	(77,275)	53,582
Others	-	(437)	437
Total adjustments	552,719	284,064	268,655
K-IFRS	₩ 10,530,592	₩ 4,063,903	₩ 5,926,689

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- <sup>1</sup> Changes in scope of consolidated companies.
- <sup>2</sup> Withdrawal of amortization of negative goodwill in associates and recognition of deferred tax liabilities from associates companies' revaluation of land.
- <sup>3</sup> Discounted trade accounts receivable with recourse accounted as sales under K-GAAP is accounted for as borrowing transaction under K-IFRS.
- <sup>4</sup> Changes of accrued severance benefits using actuarial valuation.
- <sup>5</sup> Balance of negative goodwill was reversed entirely.
- <sup>6</sup> Cancellation of goodwill amortization.
- <sup>7</sup> Distribution of non-cash assets to owners as spin off accounting treatment in Industry Materials segment under K-IFRS.
- <sup>8</sup> Income tax effects from above adjustments and deferred income tax classified as non-current assets or liabilities.

Effects on net income and comprehensive income for 2009 are as follows:

(in millions of Korean won)

	<b>Net Income</b>	<b>Comprehensive income</b>
K-GAAP	₩ 1,533,169	₩ 1,468,952
Adjustments		
Changes in consolidated companies <sup>1</sup>	4,613	2,902
Investments in associates <sup>2</sup>	(2,642)	(2,642)
Derecognition of accounts receivable <sup>3</sup>	(1,795)	(1,795)
Employee benefits <sup>4</sup>	4,692	(5,580)
Withdrawal of amortization on negative goodwill <sup>5</sup>	(39,170)	(39,170)
Withdrawal of amortization on goodwill <sup>6</sup>	5,130	5,130
Spin-off <sup>7</sup>	2,227	2,227
Income tax effect <sup>8</sup>	34,169	22,011
Others	(1,196)	(1,390)
Total adjustments	<u>6,028</u>	<u>(18,307)</u>
K-IFRS	<u>₩ 1,539,197</u>	<u>₩ 1,468,645</u>

- <sup>1</sup> Changes in scope of consolidated companies.
- <sup>2</sup> Withdrawal of amortization of goodwill and negative goodwill in associates.
- <sup>3</sup> Interests from the derecognition of accounts receivable.
- <sup>4</sup> Changes of accrued severance benefits from using actuarial valuation.
- <sup>5</sup> Cancellation of negative goodwill amortization
- <sup>6</sup> Cancellation of goodwill amortization.
- <sup>7</sup> Distribution of non-cash assets to owners as spin off accounting treatment in industry materials segment under K-IFRS.
- <sup>8</sup> Income tax effects from above adjustments

Effects on the Company's financial statements and operating results as of January 1, 2009 and December 31, 2009, and for the year December 31, 2009, are stated on the basis of K-IFRS that are effective as of December 31, 2009. Accordingly, the above effects on financial statements and operating results may change due to additional analysis and revision of K-IFRS.