

LG Chem, Ltd. and Subsidiaries
Consolidated Financial Statements
December 31, 2008 and 2007

LG Chem, Ltd. and Subsidiaries
Index
December 31, 2008 and 2007

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Report of Independent Auditors

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

We have audited the accompanying consolidated balance sheets of LG Chem, Ltd. and its subsidiaries ("the Company") as of December 31, 2008 and 2007, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the years then ended, 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 23.2% of total consolidated assets as of December 31, 2008 (2007: 20.2%), and sales representing 17.9% of the total consolidated sales for the year ended December 31, 2008 (2007: 15.7%). 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 accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our 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, 2008 and 2007, and the results of their operations, the changes in their shareholders' equity and cash flows for the years then ended in conformity with accounting principles generally accepted in the Republic of Korea.

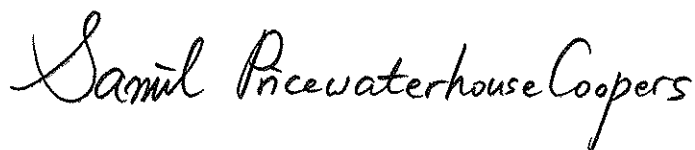
Samil PricewaterhouseCoopers

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

As discussed in Notes 2 and 27 to the consolidated financial statements, LG Chem, Ltd. will spin-off the Industrial Materials segment unit into LG HAUSYS, Ltd. on April 1, 2009.

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

Accounting principles and auditing standards and their application in practice vary among countries. The accompanying 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 26, 2009

This report is effective as of March 26, 2009, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying 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 Balance Sheets
December 31, 2008 and 2007

(in millions of Korean won)

	2008	2007
Assets		
Current assets		
Cash and cash equivalents (Notes 2 and 13)	₩ 514,297	₩ 590,516
Short-term investments (Note 5)	149,005	106,606
Trade accounts and notes receivable, net (Notes 2, 6, 13 and 15)	1,551,615	1,437,558
Other accounts receivable, net (Notes 6 and 13)	99,813	120,225
Accrued income	3,034	3,748
Advance payments	23,982	24,977
Prepaid expenses	29,799	21,793
Inventories, net (Notes 2 and 7)	1,847,720	1,481,590
Deferred income tax assets (Note 20)	46,483	23,237
Other current assets	11,500	9,340
Total current assets	4,277,248	3,819,590
Long-term financial instruments (Note 4)	48	91
Long-term investment securities (Note 8)	2,116	1,619
Equity-method investments (Note 3)	124,371	95,664
Derivative instrument transaction debit (Note 14)	51,845	1,593
Long-term loans receivable	623	577
Property, plant and equipment, net (Notes 2, 9, 26 and 29)	5,185,672	4,636,309
Intangible assets, net (Notes 2, 10, 26 and 29)	(75,269)	(154,101)
Long-term trade accounts and notes receivable, net (Note 6)	221	207
Long-term other accounts receivable, net (Note 6)	217	639
Long-term guarantee deposits	33,771	40,333
Long-term prepaid expenses	47,107	49,337
Deferred income tax assets (Note 20)	27,795	3,282
Other non-current assets	59,808	55,614
Total assets	₩ 9,735,573	₩ 8,550,754

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

<i>(in millions of Korean won)</i>	2008	2007
Liabilities and Shareholders' Equity		
Current liabilities		
Trade accounts and notes payable (Note 13)	₩ 676,105	₩ 1,005,725
Short-term borrowings (Note 11)	816,101	538,156
Other accounts payable (Note 13)	565,004	596,005
Withholdings	49,275	60,216
Accrued expenses	75,288	51,770
Income tax payable (Note 20)	357,799	249,809
Current maturities of long-term debts, net (Note 11)	692,216	401,214
Other current liabilities	39,502	22,026
Total current liabilities	3,271,290	2,924,921
Debentures, net (Note 12)	361,148	684,007
Long-term borrowings (Note 12)	873,077	744,571
Accrued severance benefits, net (Note 2)	96,763	98,505
Deferred income tax liabilities (Note 2)	38,376	18,850
Derivative instrument transaction credit (Note 15)	36,344	3,141
Other non-current liabilities	5,918	32,813
Total liabilities	4,682,916	4,506,808
Commitments and contingencies (Note 15)		
Shareholders' equity (Note 1)		
Common stock (Note 16)	376,194	376,194
Preferred stock	43,306	43,306
	419,500	419,500
Capital surplus (Note 16)		
Paid-in capital in excess of par value	1,052,640	1,052,640
Other capital surplus	261,909	249,728
	1,314,549	1,302,368
Capital adjustment (Note 18)	(14,599)	(23,475)
Accumulated other comprehensive income (Notes 2 and 21)	133,494	(21,303)
Retained earnings (Note 17)	3,036,750	2,201,008
Minority interest	162,963	165,848
Total shareholders' equity	5,052,657	4,043,946
Total liabilities and shareholders' equity	₩ 9,735,573	₩ 8,550,754

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, 2008 and 2007

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

	2008		2007	
Sales (Notes 25 and 26)	₩	14,554,882	₩	11,413,956
Cost of sales (Notes 19 and 25)		12,299,549		9,535,946
Gross profit		2,255,333		1,878,010
Selling and administrative expenses		934,210		812,405
Operating income		1,321,123		1,065,605
Non-operating income				
Interest income		5,977		20,759
Foreign exchange gains		427,894		65,241
Gain on foreign currency translation (Note 13)		48,739		27,612
Gain on valuation of equity-method investments (Note 3)		3,833		7,532
Gain on transaction of derivative instruments		73,416		-
Gain on valuation of derivative instruments (Note 15)		53,590		2,322
Reversal of negative goodwill (Note 10)		39,170		39,170
Gain on insurance settlements		57,787		483
Others		40,434		26,205
		750,840		189,324
Non-operating expenses				
Interest expense		97,548		118,042
Foreign exchange losses		456,571		66,112
Loss on foreign currency translation (Note 13)		215,570		12,661
Loss on disposal of trade accounts receivable		36,566		32,182
Loss on valuation of equity-method investments (Note 3)		4,105		2,229
Loss on valuation of derivative instruments (Note 15)		22,397		-
Loss on disposal of property, plant and equipment		8,180		13,564
Impairment loss on intangible assets (Note 10)		84		16,376
Others		46,420		32,734
		887,441		293,900
Income from continuing operations before income tax		1,184,522		961,029
Income tax expense on continuing operations (Note 20)		266,823		205,444
Income from continuing operations		917,699		755,585
Income from discontinued operations, net of income tax (Note 27)		68,309		80,288
Net income	₩	986,008	₩	835,873
Parent interest in net income	₩	1,002,585	₩	688,636
Minority interest in net income		(16,577)		147,237
	₩	986,008	₩	835,873
Per share data (in won) (Note 22)				
Income from continuing operations per share	₩	11,225	₩	8,251
Earnings per share	₩	12,022	₩	9,297
Diluted income from continuing operations per share	₩	11,225	₩	8,251
Diluted earnings per share	₩	12,022	₩	9,297

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, 2008 and 2007

(in millions of Korean won)

	<u>Capital stock</u>	<u>Capital surplus</u>	<u>Capital adjustment</u>	<u>Accumulated other comprehensive Income</u>	<u>Retained earnings</u>	<u>Minority Interest</u>	<u>Total</u>
Balances as of January 1, 2007	₩ 365,432	₩ 784,175	₩ (64,646)	₩ (58,513)	₩ 1,588,986	₩ 662,321	₩ 3,277,755
Accumulated effects from changes							
in accounting policies	-	-	-	10,203	(2,538)	(22)	7,643
Dividends	-	-	-	-	(72,908)	(40,390)	(113,298)
Changes in percentage of ownership	-	(2,612)	41,517	-	-	(38,905)	-
Changes due to merger of consolidated subsidiary (Note 29)	54,068	520,638	-	-	-	(574,993)	(287)
Net income	-	-	-	-	688,636	147,237	835,873
Acquisition of treasury stock	-	-	(346)	-	-	-	(346)
Changes in cumulative effect of foreign currency translation	-	-	-	26,606	-	6,374	32,980
Others	-	167	-	401	(1,168)	4,226	3,626
Balances as of December 31, 2007	<u>₩ 419,500</u>	<u>₩ 1,302,368</u>	<u>₩ (23,475)</u>	<u>₩ (21,303)</u>	<u>₩ 2,201,008</u>	<u>₩ 165,848</u>	<u>₩ 4,043,946</u>
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							
in accounting policies (Note 2)	-	-	-	-	2,035	-	2,035
Dividends (Note 23)	-	-	-	-	(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	-	-	-	149,983	-	36,676	186,659
Valuation gain(loss) on cash flow hedge derivative instruments	-	-	-	(15,667)	-	386	(15,281)
Others	-	(833)	377	20,481	(1,872)	(1,459)	16,694
Balances as of December 31, 2008	<u>₩ 419,500</u>	<u>₩ 1,314,549</u>	<u>₩ (14,599)</u>	<u>₩ 133,494</u>	<u>₩ 3,036,750</u>	<u>₩ 162,963</u>	<u>₩ 5,052,657</u>

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, 2008 and 2007

(in millions of Korean won)

	2008	2007
Cash flows from operating activities		
Net income	₩ 986,008	₩ 835,873
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	591,174	625,090
Provision for severance benefits	65,305	68,117
Loss (gain) on foreign currency translation, net	193,140	(14,893)
Loss on disposal of trade accounts receivable	39,642	36,424
Gain on valuation of equity method investments, net	(639)	(6,760)
Gain on transactions of derivative instruments	(63,293)	-
Gain on valuation of derivative instruments, net	(40,018)	(2,818)
Loss on disposal of property, plant and equipment, net	7,218	27,579
Impairment loss on property, plant and equipment	18	12,407
Impairment loss on intangible asset	186	21,618
Reversal of negative goodwill	(39,170)	(39,170)
Reversal of bad debts allowance	(6,669)	(550)
Others, net	18,278	27,487
	<u>765,172</u>	<u>754,531</u>
Changes in operating assets and liabilities		
Increase in trade accounts and notes receivable	(36,438)	(257,263)
Increase in inventories	(281,523)	(215,814)
Insurance settlements received	76,836	-
Decrease in other accounts receivable	16,989	7,076
Decrease (increase) in accrued income	679	(1,747)
Decrease in advance payments	8,974	14,473
Increase in prepaid expenses	(5,372)	(3,982)
Increase in deferred income tax assets	(47,735)	(35,317)
Decrease (increase) in other current assets	1,087	(2,143)
(Decrease) increase in trade accounts and notes payable	(490,204)	63,102
(Decrease) increase in other accounts payable	(59,364)	5,888
Increase (decrease) in accrued expenses	22,255	(15,186)
Increase in income taxes payable	108,812	143,990
Increase in other current liabilities	4,630	12,468
Accrued severance benefits transferred from associated company	620	807
Decrease in deferred income tax liabilities	(19,173)	(74,009)
Payment of severance benefits	(67,353)	(66,011)
Others, net	(477)	12,475
	<u>(766,757)</u>	<u>(411,193)</u>
Net cash provided by operating activities	<u>984,423</u>	<u>1,179,211</u>

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

(in millions of Korean won)

	2008	2007
Cash flows from investing activities		
Acquisition of short-term investments, net	₩ (14,322)	₩ (106,144)
Disposal of property, plant and equipment	29,190	22,111
Disposal of long-term guarantee deposits, net	8,154	1,790
Acquisition of property, plant and equipment	(905,382)	(675,655)
(Acquisition) disposal of equity method securities, net	(848)	1,586
Acquisition of intangible assets, net	(42,036)	(18,966)
Decrease in derivative instrument transaction debit	64,328	-
Others, net	(4,389)	(20,733)
Net cash used in investing activities	<u>(865,305)</u>	<u>(796,011)</u>
Cash flows from financing activities		
Repayment of short-term borrowings, net	306,779	113,312
Repayment of current maturities of long-term debts	(636,750)	(471,288)
Issuance of debentures	144,588	94,059
Payment of dividends	(166,995)	(72,907)
Proceeds from long-term borrowings, net	112,121	179,775
Disposal of treasury stock	21,513	-
Others, net	(22,297)	(35,314)
Net cash used in financing activities	<u>(241,041)</u>	<u>(192,363)</u>
Exchange gains (losses) on cash and cash equivalents	<u>45,704</u>	<u>8,593</u>
Cash flows from changes in the scope of consolidation	<u>-</u>	<u>(190,503)</u>
Cash flows from merger	<u>-</u>	<u>194,367</u>
Net (decrease) increase in cash and cash equivalents	(76,219)	203,294
Cash and cash equivalents		
Beginning of the year	590,516	387,222
End of the year	<u>₩ 514,297</u>	<u>₩ 590,516</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, 2008 and 2007

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

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

The Controlling Company merged with LG Daesan Petrochemical Ltd. on January 1, 2006. In addition, the Company merged with LG Petrochemical Co., Ltd. on November 1, 2007 (Note 29).

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

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

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

Consolidated Companies

Consolidated subsidiaries and equity-method investees as of December 31, 2008 and 2007, are as follows:

Consolidated Subsidiaries	Percentage of Ownership (%) ¹¹		Number of Shares	
	2008	2007	2008	2007
LG Dow Polycarbonate Ltd. ¹	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. ⁹	100.00	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 Chem America, Inc. ⁹	100.00	100.00	3,420	3,420
LG Chemical India Pvt. Ltd. ²	100.00	100.00	126,746,122	126,746,122
LG Polymer India Pvt. Ltd.	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. ^{3,9}	51.00	51.00	-	-
LG Chemical (Guangzhou) Engineering Plastics Co., Ltd.	100.00	100.00	-	-
LG Chem (Nanjing) Information & Electronics Materials Co., Ltd. ⁴	100.00	100.00	-	-
LG Chem (Taiwan), Ltd.	100.00	100.00	6,922,566	6,922,566
LG Chem Industrial Materials Inc. ⁹	100.00	100.00	6,160	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 Chem Poland Sp. Z.O.O	100.00	100.00	-	-

Equity-Method Investees	Percentage of Ownership (%) ¹⁶		Number of Shares	
	2008	2007	2008	2007
M. Dohmen S.A.	49.00	49.00	-	-
SEETEC Co., Ltd.	50.00	50.00	3,325,680	3,325,680
LG Holdings (HK) Ltd. ⁵	18.18	18.18	37,084,000	37,084,000
Compact Power Inc. ^{6,7}	100.00	81.00	2,564,103	2,076,924
LG Chem Brasil, Ltd. ⁶	100.00	100.00	-	-
LG Chem Trading (Shanghai) Co., Ltd. ^{6,9}	100.00	100.00	-	-
TECWIN Co., Ltd. ⁸	19.90	19.90	83,580	83,580
Ningbo Bond International Trade ^{6,10}	90.00	90.00	-	-

¹ 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.

² The fiscal year end for LG Chemical India Pvt. Ltd., which wholly owns LG Polymer India Pvt. Ltd., is March 31. In preparing the consolidated financial statements, unaudited financial statements as of and for the year ended December 31, 2008, of LG Chemical India Pvt. Ltd. were used.

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

- ³ LG Surfaces, LLC., a subsidiary of the Company's subsidiary, LG Chem America, Inc., was included in the scope of consolidation in 2003. LG Solid Source, LLC. changed its name to LG Surfaces, LLC. in 2008. As of December 31, 2008, LG Chem America, Inc. has 51% ownership in LG Surfaces, LLC.
- ⁴ The Company acquired additional shares of LG Chem (Nanjing) Information & Electronics Materials Co., Ltd. for ₩20,819 million in 2008.
- ⁵ 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%.
- ⁶ As their total assets were less than ₩7,000 million as of December 31, 2007, these subsidiaries were not included in the consolidation for the year 2008.
- ⁷ The Company acquired additional shares of Compact Power Inc. for ₩848 million. As a result, the Company's percentage of ownership increased from 81% to 100%.
- ⁸ The investee is reclassified from investment securities to equity-method investments.
- ⁹ Investees will be spun-off into LG HAUSYS, Ltd. on April 1, 2009.
- ¹⁰ The investee is owned by Ningbo LG Yongxing Chemical Co., Ltd., a subsidiary included in the consolidation.
- ¹¹ The Company's percentage of ownership includes both direct and indirect ownership of the Controlling Company and its subsidiaries.

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

Subsidiary	Major Business	Transaction
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.	Manufacturing and marketing of PVC tiles, C-MAT, and doors	Supply of products and merchandises 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 Chem America, Inc.	Trading and related services	Supply of products and merchandises
LG Chemical India Pvt. Ltd. ¹	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.	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 and battery	Supply of products and semi products
LG Chem (Taiwan), Ltd.	Manufacturing of LCD display and trading	Import and export of products and merchandise
LG Chem Industrial Materials Inc.	Manufacturing and marketing of scagliola	Supply of products
LG Chem Display Materials (Beijing) Co., Ltd.	Manufacturing and marketing of LCD display	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 Chem Poland Sp. Z.O.O	Manufacturing of LCD display	Supply of products and semi-products

¹ LG Chemical India Pvt. Ltd. which held 100% of ownership in LG Polymer India Pvt. Ltd. until 2007, started its operations in 2008.

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

The significant financial data of the Controlling Company and its subsidiaries included in the accompanying consolidated financial statements as of and for the years ended December 31, 2008 and 2007, are summarized as follows:

(in millions of Korean won)

Company	2008			
	Total Assets	Shareholders' Equity	Sales ³	Net Income (Loss)
LG Chem, Ltd.	₩ 8,036,382	₩ 4,889,694	₩14,487,831	₩ 1002,585
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. ²	104,754	57,945	90,984	3,120
Ningbo LG Yongxing Chemical Co., Ltd. ²	464,455	179,184	993,208	(23,555)
LG Chemical Hong Kong Ltd.	48,053	10,039	177,072	216
LG Chem 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				<u>₩1,002,585</u>
Minority interest in net income				<u>₩ (16,577)</u>

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

Company	2007			
	Total Assets	Shareholders' Equity	Sales ³	Net Income (Loss)
LG Chem, Ltd.	₩ 7,049,952	₩ 3,878,196	₩10,809,001	₩ 686,205
LG Petrochemical Co., Ltd. ¹	-	-	2,132,586	247,141
LG Dow Polycarbonate Ltd.	337,703	148,633	259,509	(8,813)
Tianjin LG Dagu Chemical Co., Ltd.	157,445	61,818	293,692	7,722
Tianjin LG New Building Materials Co., Ltd. ²	77,742	40,799	71,399	4,617
Ningbo LG Yongxing Chemical Co., Ltd. ²	461,002	200,722	961,046	55,236
LG Chemical Hong Kong Ltd.	47,025	6,997	502,488	814
LG Chem America, Inc.	100,089	4,934	286,426	(1,549)
LG Chemical India Pvt. Ltd.	69,334	50,288	119,752	3,447
LG Vina Chemical J/V Company	13,158	6,535	49,267	2,233
LG Surfaces, LLC	22,375	12,921	150,738	5,311
LG Chemical (Guangzhou) Engineering Plastics Co., Ltd.	55,972	16,031	91,245	3,508
LG Chem (Nanjing) Information & Electronics Materials Co., Ltd.	139,310	51,846	105,486	6,228
LG Chem (Taiwan), Ltd.	214,719	7,363	403,344	(1,764)
LG Chem Industrial Materials Inc.	38,937	8,903	32,338	(1,414)
LG Chem Display Materials (Beijing) Co., Ltd.	18,792	7,961	9,075	1,541
Tianjin LG Bohai Chemical Co., Ltd.	364,694	103,084	190,004	151
LG Chem (China) Investment Co., Ltd.	61,320	42,139	75,856	1,128
LG Chem (Tianjin) Engineering Plastics Co., Ltd.	25,390	7,795	34,738	1,806
LG Chem Europe GmbH	23,839	2,728	74,489	324
LG Chem Poland Sp.Z.O.O	32,950	8,817	11,507	2,592
Elimination and equity pick-up	(760,994)	(624,564)	(3,125,496)	(180,591)
	<u>₩ 8,550,754</u>	<u>₩ 4,043,946</u>	<u>₩13,538,490</u>	<u>₩ 835,873</u>
				<u>₩ 688,636</u>
				<u>₩ 147,237</u>

¹ The Company merged with LG Petrochemical Co., Ltd. in 2007. Sales and net income of LG Petrochemical Co., Ltd. are for the period from January 1, 2007 to November 1, 2007.

² Includes sales and net income of Tianjin LG New Building Materials Co., Ltd. and Ningbo LG Yongxing Chemical Co., Ltd., respectively, which were merged with these subsidiaries.

³ 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 and its subsidiaries maintain their 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.

Application of the Statements of Korean Financial Accounting Standards

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

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

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

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

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

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

Restatement of Prior Year Consolidated Financial Statements

In the preparation of the Company's consolidated 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 consolidated financial statements as of and for the year ended December 31, 2007, have not been restated, and the effect of the change is adjusted on the beginning balance of 2008. The effects of this change were an increase in retained earnings by ₩1,358 million, an increase in changes in equity arising from equity-method investments by ₩179 million, and a decrease in deferred income tax liabilities by ₩1,537 million as of January 1, 2007. Also, the effects of this change were a decrease in income tax expense by ₩677 million for the year ended December 31, 2007, a decrease in deferred income tax liabilities by ₩2,035 million, and an increase in retained earnings by ₩2,035 million as of December 31, 2007 (Note 20).

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

<i>(in millions of Korean won)</i>	2008			
		Net Asset Value before Adjustments	Adjustments	Net Asset Value after Adjustments
Investee				
Tianjin LG Dagu Chemical Co., Ltd.	₩	34,902	₩ (2,470)	₩ 32,432
Tianjin LG New Building Materials Co., Ltd.		59,008	(1,063)	57,945
Ningbo LG Yongxing Chemical Co., Ltd.		177,122	2,062	179,184
LG Chemical India Pvt. Ltd.		31,677	474	32,151
LG Vina Chemical J/V Company		3,169	341	3,510
LG Chem America, Inc.		8,728	1,084	9,812
LG Chemical (Guangzhou) Engineering Plastics Co., Ltd.		22,221	(16)	22,205
LG Chem (China) Investment Co., Ltd.		46,097	241	46,338
LG Chem Poland Sp. Z.O.O		7,655	541	8,196
LG Chem (Tianjin) Engineering Plastics Co., Ltd.		15,791	19	15,810

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 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:

<i>(in millions of Korean won)</i>	Goodwill	Negative Goodwill	Equity Method Adjustment	
			Debit	Credit
January 1, 2007	₩ 20,691	₩ 313,358	₩ 2,879	₩ 67,256
Decrease due to changes in the scope consolidation ¹	(11,134)	-	-	-
Increase due to merger ¹	11,134	-	-	-
Amortization	(8,788)	(39,170)	(524)	(3,363)
December 31, 2007	11,903	274,188	2,355	63,893
Amortization	(2,718)	(39,170)	(524)	(3,363)
December 31, 2008 ²	₩ 9,185	₩ 235,018	₩ 1,831	₩ 60,530

¹ On November 1, 2007, LG Chem, Ltd. merged with LG Petrochemical Co., Ltd. (Note 29).

² Excludes goodwill of ₩25,222 million, which occurred when the Company acquired the Super Absorbent Polymers division (the "SAP division") from Kolon Industry Inc. in 2008 (Note 29).

LG Chem, Ltd. and Subsidiaries
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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 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, for the years ended December 31, 2008 and 2007, are as follows:

	Unrealized Profit	
	2008	2007
(in millions of Korean won)		
Transactions with consolidated subsidiaries	₩ 23,694	₩ 10,271
Transactions with equity-method investees	₩ -	₩ 16

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 of the balance sheet date for the balance sheets and the average exchange rates for income statements. Resulting differences are accounted for as an overseas operation translation debit or credit in the capital adjustment account in shareholders' equity.

Merger

In 2007, the Controlling Company merged with LG Petrochemical Ltd. In addition, Tianjin LG New Building Materials Co., Ltd., and Ningbo LG Yongxing Chemical Co., Ltd., which were included in the scope of consolidation in 2006, merged with Tianjin LG Window & Door Co., Ltd. and Ningbo LG Yongxing Latex Co., Ltd., respectively. According to the Accounting Standards for Business Combination, this merger was regarded as the merger between a parent company and its subsidiary. Therefore, assets and liabilities taken over by the Company were assessed at the book value on the consolidated financial statements (Note 29).

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

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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 beneficiary certificates. These beneficiary certificates were all redeemed on their maturity dates of January 28, 2008 (₩50,000 million), February 28, 2008 (₩50,000 million) and March 28, 2008 (₩60,000 million), respectively. This special purpose company was liquidated in 2008.

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

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

Allowance for Doubtful Accounts

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

Inventories

Inventories are stated at the lower of cost or market, with cost being determined using the moving-average method, except for materials-in-transit which are stated at actual cost determined using the specific identification method. If the net realizable value of inventory is less than its cost, a contra inventory account representing the valuation loss, is 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.

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.

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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.

Equity-Method Investments

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

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

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. Even if the book value of the investments, including other investment-type assets such as the preferred shares or long-term debts of the investees becomes zero or negative, the Company still continues to record its share in the net losses of the investees until its proportionate net loss of the investee equals the book value of such assets.

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

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

In cases where the investee is the Company's consolidated subsidiary, the difference between change of the Company's proportionate ownership in the net book value of the investee and purchase price, which is paid for the Company's additional acquisition of shares or investee's issuance of new shares, is accounted for as accumulated other comprehensive income and expenses as gain or loss on valuation of equity-method investments in shareholders' equity.

Accounts and records of the overseas equity method investees are maintained in foreign currencies. The financial statements of the overseas equity-method investees have been translated into Korean won at exchange rates as of the balance sheet date for the balance sheet and annual average exchange rates for income statements. Any resulting translation gain or loss is accounted for as overseas operation translation debit or credit under the accumulated other comprehensive income and expenses, a component of shareholders' equity.

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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:

	Estimated Useful Lives
Buildings	25 – 50 years
Structures	15 – 50 years
Machinery and equipment	6 – 15 years
Others	3 – 6 years

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

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

For the year ended December 31, 2007, the Company realized loss on the disposal of property, plant and equipment amounting to ₩14,220 million (2007: ₩36,892 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. Other development costs are charged as normal development expense in the year incurred. For the year ended December 31, 2008, the Company expensed ₩214,851 million (2007: ₩212,360 million) as normal development expense (including discontinued operations).

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

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

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Negative Goodwill

The Company records differences between the investment account and corresponding capital accounts of subsidiaries as a goodwill or negative goodwill in accordance with the Accounting Standards for Business Combination. The negative goodwill is amortized using the straight-line method over weighted average useful lives of assets.

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.

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 balance sheet and the resulting translation gains and losses are recognized in current operations (Note 13).

Accrued Severance Benefits

Employees and directors with at least one year of service with the Company are entitled to receive a lump-sum payment upon termination of their service with the Company, 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 with the Company as of the balance sheet date.

Accrued severance benefits are funded at approximately 64.5% as of December 31, 2008 (2007: 63.8%), through group severance insurance plans and are presented as a deduction from accrued severance benefits.

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

Provisions and Contingent Liabilities

When there is a probability that an outflow of economic benefits will occur due to a present obligation resulting from a past event, and whose amount is reasonably estimable, a corresponding amount of provision is recognized in the 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.

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Income Tax and Deferred Income Tax

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

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

Derivative Financial Instruments

All derivative instruments are accounted for at their fair value according to the rights and obligations associated with the derivative contracts. The resulting changes in fair value of derivative instruments are recognized either under the income statement or shareholders' equity, depending on whether the derivative instruments qualify as a cash flow hedge. Fair value hedge accounting is applied to a derivative instrument purchased with the purpose of hedging the exposure to changes in the fair value of an asset or a liability or a firm commitment that is attributable to a particular risk. The resulting changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognized under the shareholders' equity under accumulated other comprehensive income and expense.

Share-based Compensation

The Company recognizes a difference between the stock compensation price as of December 31, 2007, and the exercise price, as stock compensation expense and long-term payables.

Discontinued Operations

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

Reclassification of Prior Year Consolidated Financial Statements

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

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3. Equity-Method Investments

For the years ended December 31, 2008 and 2007, changes in equity method investments are as follows:

(in millions of Korean won)

Investee	2008							Ending Balance
	Beginning Balance	Acquisition	Dividend income	Valuation Gain (Loss)	Increase (Decrease) in accumulated other comprehensive income and expense	Others		
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	
	₩ 95,664	₩ 848	₩ -	₩ 639	₩ 27,164	₩ 56	₩ 124,371	

(in millions of Korean won)

Investee	2007							Ending Balance
	Beginning Balance	Changes in Consolidation scope	Acquisition	Dividend income	Valuation Gain (Loss)	Increase (Decrease) in accumulated other comprehensive income and expense		
M. Dohmen S.A.	₩ 993	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 993	
SEETEC Co., Ltd.	54,749	-	-	-	9,542	15	64,306	
LG Chem Trading (Shanghai) Co., Ltd.	1,653	-	-	-	(71)	142	1,724	
LG Chem Europe Sarl ¹	1,441	-	(1,441)	-	-	-	-	
LG Holdings (HK) Ltd.	28,681	-	-	-	(2,777)	1,317	27,221	
Compact Power Inc.	545	-	-	-	60	6	611	
LG Chem Brasil, Ltd.	258	-	-	-	-	-	258	
LG Chem Poland Sp. Z.O.O. ²	5,352	(5,352)	-	-	-	-	-	
Ningbo Bond International Trade	191	12	-	(77)	6	-	132	
TECWIN Co., Ltd.	419	-	-	-	-	-	419	
	₩ 94,282	₩ (5,340)	₩ (1,441)	₩ (77)	₩ 6,760	₩ 1,480	₩95,664	

¹ The investee was liquidated in 2007.

² As the total assets exceeded ₩7,000 million as of December 31, 2006, these subsidiaries were included in the scope of the consolidation for the year 2007.

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4. Restricted Bank Deposits

As of December 31, 2008, long-term financial instruments of ₩48 million (2007: ₩71 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 2).

5. Short-Term Investments

(in millions of Korean won)

	2008		2007
Time deposits ¹	₩ 148,835	₩	100,055
Available-for-sale ²	-		4
Short-term loans receivable	170		6,547
	<u>₩ 149,005</u>	₩	<u>106,606</u>

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

² Available-for-sale consists of government and public bonds.

6. Receivables

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

(in millions of Korean won)

	2008		2007
Trade accounts and notes receivable	₩ 1,590,289	₩	1,493,764
Less: Allowance for doubtful accounts	(38,674)		(56,206)
	<u>₩ 1,551,615</u>	₩	<u>1,437,558</u>
Other accounts receivable	₩ 110,150	₩	144,489
Less: Allowance for doubtful accounts	(10,311)		(24,228)
Less: Present value adjustment	(26)		(36)
	<u>₩ 99,813</u>	₩	<u>120,225</u>
Long-term trade accounts and notes receivable	₩ 236	₩	239
Less: Allowance for doubtful accounts	(15)		(32)
Less: Present value adjustment	-		-
	<u>₩ 221</u>	₩	<u>207</u>
Long-term other accounts receivable	₩ 224	₩	685
Less: Present value discount accounts	(7)		(46)
	<u>₩ 217</u>	₩	<u>639</u>

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7. Inventories

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

<i>(in millions of Korean won)</i>	2008	2007
Merchandise, net of valuation allowance of ₩398 million (2007: ₩607 million)	₩ 117,305	₩ 91,792
Finished products, net of valuation allowance of ₩33,138 million (2007: ₩11,367 million)	871,759	658,830
Work-in-process	195,470	153,856
Raw materials, net of valuation allowance of ₩421 million (2007: ₩335 million)	435,923	427,846
Supplies	54,384	47,005
Materials-in-transit	172,879	102,261
	<u>₩ 1,847,720</u>	<u>₩ 1,481,590</u>

8. Investment Securities

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

<i>(in millions of Korean won)</i>	2008	2007
Government and public bonds	₩ 1	₩ 31
Non-marketable stocks	2,115	1,588
Total	<u>₩ 2,116</u>	<u>₩ 1,619</u>

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

<i>(in millions of Korean won)</i>	Percentage of Ownership (%)		Acquisition Cost		Book Value		Fair Value or Net Asset Value ⁵	
	2008	2007	2008	2007	2008	2007	2008	2007
N&L Marble ¹	-	22.73	₩ -	₩ 539	₩ -	₩ -	₩ -	₩ -
PT. Halim Samara Interutama	12.10	12.10	576	576	576	576	936	670
Chemizen. Com Ltd. ²	2.62	2.62	300	300	-	-	-	-
LG Mozel Ltd.	13.00	13.00	195	195	195	195	514	544
EICO Properties Pte. Ltd.	9.20	9.20	2,298	2,298	509	509	2,996	793
Neocos ²	4.86	4.86	9	9	-	-	-	-
Saerom Seongwon	0.00	0.00	182	182	182	182	1	1
LG Chem Industrial Material Russia, LLC ³	99.00	-	505	-	505	-	505	-
Ninbo Zhenhai Zhoungan Warehouse Storage Management Co. Ltd. ⁴	4.65	4.65	26	26	40	28	40	28
AP Gas Power Corp. ⁴	1.00	1.00	95	95	108	98	108	98
			<u>₩4,186</u>	<u>₩4,220</u>	<u>₩2,115</u>	<u>₩1,588</u>	<u>₩5,100</u>	<u>₩ 2,134</u>

¹ The investee was liquidated in 2008.

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

³ The investee is in the pre-operation stage.

⁴ 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,

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which are consolidated subsidiaries.

- ⁵ Net asset values were calculated based on the recent available financial statements of the investees. Impairment losses are recognized in the statement of income in cases where there is an indication that an investment may have been impaired.

9. Property, Plant and Equipment

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

<i>(in millions of Korean won)</i>	2008		2007	
Buildings	₩	1,393,582	₩	1,234,200
Structures		623,399		573,245
Machinery and equipment		6,375,869		5,653,592
Vehicles		39,595		32,568
Tools and furniture		726,624		640,273
Others		13		12,935
		<u>9,159,082</u>		<u>8,146,813</u>
Accumulated depreciation		(4,908,934)		(4,327,323)
Accumulated impairment loss		(12,300)		(12,407)
		<u>4,237,848</u>		<u>3,807,083</u>
Land		513,319		512,548
Construction-in-progress		353,873		296,595
Machinery-in-transit		80,632		20,083
	₩	<u>5,185,672</u>	₩	<u>4,636,309</u>

For the year ended December 31, 2008, capitalized interest expense amounted to ₩4,693 million (2007: ₩6,426 million).

As of December 31, 2008, inventories and property, plant and equipment, except for land, are insured against fire and other casualty losses for up to ₩15,537,526 million (2007: ₩10,944,838 million). In addition, as of December 31, 2008 and 2007, the Company has business interruption insurance policies.

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

As of December 31, 2008, the appraised value of the Company's land, as determined by the local governments of Korea for property tax assessment purposes, amounted to approximately ₩823,203 million (2007: ₩785,544 million).

As of December 31, 2008, 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 amounts to ₩6,587 million as of December 31, 2008 (2007: ₩8,754 million), and their total depreciation expense amounts to ₩2,182 million for the year then ended (2007: ₩2,180 million) (Note 12).

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10. Intangible Assets

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

<i>(in millions of Korean won)</i>	2008	2007
Intellectual property rights	₩ 32,343	₩ 24,597
Exclusive facility use rights	8,833	8,083
Development costs	46,747	45,953
Others	37,419	29,550
Goodwill	34,407	11,903
Negative goodwill	(235,018)	(274,187)
	<u>₩ (75,269)</u>	<u>₩ (154,101)</u>

The changes in development costs of the Controlling Company and its domestic subsidiaries for the years ended December 31, 2008 and 2007, are as follows:

<i>(in millions of Korean won)</i>	2008	2007
Beginning balance	₩ 45,471	₩ 66,712
Increase	14,799	15,896
	<u>60,270</u>	<u>82,608</u>
Less: Amortization	(13,645)	(21,167)
Disposal	(717)	(68)
Impairment loss	-	(15,902)
Ending balance	<u>₩ 45,908</u>	<u>₩ 45,471</u>

For the years ended December 31, 2008 and 2007, expenses 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>	2008	2007
Employee education expenses	14,602	₩ 13,469
Advertising expenses	38,938	41,807
	<u>53,540</u>	<u>₩ 55,276</u>

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

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

(in millions of Korean won)

	Annual Interest Rate (%)				
	2008	2007		2008	2007
Short-term borrowings					
General term loans	6.87~8.7	CD+0.6	₩	15,000	₩ 13,000
Bank overdrafts	5.9~6.35	5.7		13,342	13,514
Notes discounted	5.65	5.87		295,759	309,092
Foreign currency loans	LIBOR+0.85	LIBOR+2.9		492,000	202,550
				<u>816,101</u>	<u>538,156</u>
Current maturities of long-term debts					
Debentures	LIBOR+0.45~3.5	LIBOR+0.4~5.0		506,888	327,893
Won currency loans	3.0~9.0	3.0~9.0		13,444	2,599
Foreign currency loans	LIBOR+0.51-0.6	LIBOR+0.6		172,584	71,408
				<u>692,916</u>	<u>401,900</u>
Less: Discount on debentures issued				(617)	(604)
Present value discount accounts				(82)	(82)
				<u>692,216</u>	<u>401,214</u>
			₩	<u>1,508,317</u>	₩ <u>939,370</u>

Certain property, plant and equipment serve as collaterals for the above borrowings as of December 31, 2008 and 2007 (Note 9).

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12. Long-term Debts

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

<i>(in millions of Korean won)</i>	Reference	2008		2007	
Debentures	(1)	₩	361,148	₩	684,007
Loans	(2)		873,077		744,571
		₩	<u>1,234,225</u>	₩	<u>1,428,578</u>

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

<i>(in millions of Korean won)</i>	Annual Interest Rate (%)		2008	2007
	2008	2007		
Publicly offered debentures payable through 2013	3.5~5.02	3.5~5.02	₩ 599,389	₩ 680,000
Privately offered debentures, payable through 2009	5.02~5.32	5.02~5.32	100,000	100,000
Foreign debentures payable through 2010 ¹	LIBOR+0.2-0.45	LIBOR+0.2-0.60	169,763	234,550
			869,152	1,014,550
Less: Current maturities			(506,888)	(327,893)
Discount on debentures issued			(1,116)	(2,650)
			<u>₩ 361,148</u>	<u>₩ 684,007</u>

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

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

<i>(in millions of Korean won)</i>	Annual Interest Rate (%)		2008	2007
	2008	2007		
Won currency loans				
Energy fund loans	4.25	4.25	₩ 4,153	₩ 5,859
General term loans	CD+0.6	CD+0.6	47,500	50,000
Financial lease ¹	9.0	9.0	12,202	13,593
Housing loans	3.0	3.0	4,006	4,200
Relocatin loans	-	-	1,754	1,754
			<u>69,615</u>	<u>75,406</u>
Less: Current maturities			<u>(13,444)</u>	<u>(2,599)</u>
			<u>56,171</u>	<u>72,807</u>
Foreign currency loans				
General term loans	LIBOR+0.3-0.51	LIBOR+0.3-0.6	505,552	320,892
Others	LIBOR+0.85	LIBOR+0.48-1.0	406,738	361,675
Facility loans	LIBOR+0.6	LIBOR+0.6	77,502	60,990
			<u>989,792</u>	<u>743,557</u>
Less: Current maturities			<u>(172,584)</u>	<u>(71,408)</u>
Discount on loans			<u>(302)</u>	<u>(385)</u>
			<u>816,906</u>	<u>671,764</u>
			<u>₩ 873,077</u>	<u>₩ 744,571</u>

¹ Capital 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 as of December 31, 2008 and 2007 (Note 9).

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

<i>(in millions of Korean won)</i>	Year	Won Currency		Foreign	Total
		Debentures	Loans		
	2010	₩ 162,875	₩ 15,754	₩ 330,691	₩ 509,320
	2011	139,389	13,438	79,191	232,018
	2012	-	12,481	79,191	91,672
	Thereafter	60,000	16,933	12,238	89,171
		<u>362,264</u>	<u>58,606</u>	<u>501,311</u>	<u>922,181</u>
	Unearned interests	-	(2,435)	-	(2,435)
		<u>₩ 362,264</u>	<u>₩ 56,171</u>	<u>₩ 501,311</u>	<u>₩ 919,746</u>

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13. 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 11 and 12, as of December 31, 2008 and 2007, consist of the following:

	Foreign Currencies (in thousands)				Korean won Equivalent (in millions)	
	2008		2007		2008	2007
Cash and cash equivalents	US\$	76,657	US\$	19,575	₩ 95,585	₩ 25,783
	EUR	176	EUR	487		
	GBP	16	GBP	130		
	JPY	4,561	JPY	770,523		
Trade accounts and notes receivable	US\$	352,235	US\$	333,412	477,871	456,267
	EUR	11,351	EUR	10,493		
	GBP	78	GBP	110		
	JPY	1,053,190	JPY	15,450,855		
Other accounts receivable	US\$	38,170	US\$	22,066	48,287	24,406
	EUR	160	EUR	168		
	JPY	270	JPY	413,613		
Trade accounts and notes payable	US\$	95,170	US\$	171,240	205,792	256,115
	EUR	268	EUR	1,998		
	JPY	6,143,927	JPY	11,105,747		
Other accounts payable	US\$	50,513	US\$	44,566	83,482	50,563
	JPY	1,179,483	JPY	472,984		
	EUR	929	EUR	2,087		

Gains and losses on foreign currency translation(including discontinued operations) for the year ended December 31, 2008, are ₩52,300 million (2007: ₩30,472 million) and ₩247,446 million (2007: ₩14,217 million), respectively.

14. Stock Options

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

Details of the stock options granted are as follows:

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

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

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

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

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

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

² Stock compensation cost was recognized due to changes in stock price during 2008 and 2007 excluding the reversal of stock compensation expense (including discontinued operations) (Note 25).

15. Commitments and Contingencies

As of December 31, 2008, 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 Controlling Company has provided financial guarantee to customers.

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

As of December 31, 2008, the 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 Company, one blank promissory note is provided as collateral to a financial institution.

The Controlling Company has guaranteed repayment of various obligations of its subsidiaries and associated companies. The outstanding balance of such guarantees as of December 31, 2008, amounts to ₩189,060 million (2007: ₩160,286 million) (Note 24).

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As of December 31, 2008, the Controlling Company and its domestic subsidiaries are contingently liable for notes from export sales which were discounted through financial institutions in the ordinary course of business amounting to ₩513,538 million.

As of December 31, 2008, the Controlling Company and its domestic subsidiaries have bank overdraft agreements with several banks for up to ₩82,000 million. The Controlling Company and its domestic subsidiaries have also entered into contracts with several financial institutions to open import letters of credit for up to ₩142,800 million and US\$ 325 million. The Controlling Company and its domestic subsidiaries have entered into contracts with several financial institutions for discounting notes from export for up to US\$ 800 million, for other foreign currency payment guarantee of up to US\$ 15 million, and for other notes of up to ₩50,000 million.

Furthermore, the Company has entered into credit line agreements with several financial institutions for up to ₩60,000 million and US\$ 198 million.

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

As of December 31, 2008, the Controlling 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 Controlling Company has entered into manufacture and production technical contracts with Toyo Engineering Corp., while having BPA manufacturing technical contracts with three companies including Exxon Mobile. The Controlling 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.

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

LG Dow Polycarbonate Ltd., a subsidiary included in the consolidation, has 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, the Company pays royalty fees in proportion to sales amounts over 15 years, starting from July 1, 2001. Also, other than royalty fees, the Company 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 the Company does not meet a certain debt ratio or interest compensation ratio, no dividend can be paid out 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, 2008, outstanding contracts and options include interest rate swaps of ₩19,000 million and US\$ 28,500 thousand (2007: ₩20,000 million and US\$ 30,000 thousand), currency swaps and options of US\$ 202,029 thousand and JPY 10,000,000 thousand (2007: US\$ 242,029 thousand) and forward exchange contracts and options of US\$ 140,100 thousand (2007: US\$ 130,000 thousand).

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

<i>(in millions of Korean won)</i>	2008				
	Trading		Hedge ¹		Other comprehensive income ²
	Valuation gain ¹	Valuation loss ¹	Valuation gain ¹	Valuation loss ¹	
Currency swap	₩ -	₩ -	₩ 65,418	₩ 16,611	₩ (15,281)
Forward exchange	₩ -	₩ 8,789	₩ -	₩ -	₩ -

¹ Includes gain(loss) from discontinued operations.

² Includes minority interest in other comprehensive income.

<i>(in millions of Korean won)</i>	2007				
	Trading		Hedge ¹		Other comprehensive income ¹
	Valuation gain ¹	Valuation loss ¹	Valuation gain ¹	Valuation loss ¹	
Interest swap	₩ -	₩ -	₩ -	₩ -	₩ (770)
Currency swap	2,342	-	-	-	-
Forward exchange	476	-	-	-	-

¹ Includes gain(loss) from discontinued operations.

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, 2008 and 2007, the Controlling 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 Controlling Company's operations or financial position although the outcome of these legal actions is uncertain.

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16. Capital Surplus

Changes in capital in 2008 and 2007 are as follows:

(in millions of Korean won)

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

Paid-in Capital in Excess of Par Value

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

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17. Retained Earnings

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

<i>(in millions of Korean won)</i>	2008	2007
Appropriations		
Legal reserve	₩ 73,430	₩ 56,729
Reserve for business rationalization	4,000	4,000
Reserve for technology development	1,366,197	997,664
Reserve for investment losses	376,376	246,313
Voluntary reserve	212,120	212,120
	<u>2,032,123</u>	<u>1,516,826</u>
Unappropriated retained earnings	1,004,627	684,182
	<u>₩ 3,036,750</u>	<u>₩ 2,201,008</u>

Legal Reserve

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

Other Reserve

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

18. Treasury Stock

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

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

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

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19. Cost of Sales

Cost of sales for the years ended December 31, 2008 and 2007, consists of:

(in millions of Korean won)

	2008		2007	
Products				
Beginning balance of inventories	₩	811,314	₩	628,001
Cost of goods manufactured		12,597,527		9,558,523
Ending balance of inventories		(1,066,607)		(811,314)
Others		(87,006)		(45,108)
Discontinued operations		(561,871)		(602,548)
		<u>11,693,357</u>		<u>8,727,554</u>
Merchandise				
Beginning balance of inventories		91,792		90,530
Purchases		1,666,845		1,766,904
Ending balance of inventories		(117,305)		(91,792)
Others		(12,530)		(72)
Discontinued operations		(1,046,033)		(976,921)
		<u>582,769</u>		<u>788,649</u>
Other cost of sales		<u>23,423</u>		<u>19,743</u>
Total	₩	<u>12,299,549</u>	₩	<u>9,535,946</u>

20. Income Taxes

Income tax expense for the years ended December 31, 2008 and 2007, consists of the following:

(in millions of Korean won)	Controlling Company		Domestic Subsidiaries		Overseas Subsidiaries		Consolidation Adjustment		Total	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
Current income taxes under the tax law	₩355,698	₩211,743	₩ -	₩92,164	₩ 4,316	₩ 9,446	₩ -	₩ -	₩360,014	₩313,353
Changes in deferred income tax assets(liabilities) ¹	3,587	(89,334)	(9,087)	(1,555)	(23,822)	(1,492)	(732)	(364)	(30,054)	(92,745)
Foreign exchange translation	-	-	-	-	(3,751)	513	-	-	(3,751)	513
Total income tax effect	₩359,285	₩122,409	₩(9,087)	₩ 90,609	₩(23,257)	₩ 8,467	₩(732)	₩(364)	₩326,209	₩221,121
Deferred income taxes directly added to shareholders' equity ²	(38,080)	(6,846)	577	1,865	-	-	-	-	(37,503)	(4,981)
Income taxes from discontinued operations	(21,540)	(9,820)	-	-	(717)	(876)	374	-	(21,883)	(10,696)
Income taxes	₩299,665	₩105,743	₩(8,510)	₩ 92,474	₩(23,974)	₩ 7,591	₩ (358)	₩ (364)	₩266,823	₩205,444

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

<i>(in millions of Korean won)</i>	Accumulated Temporary Differences		Deferred Income Tax Assets (Liabilities)	
	2008	2007	2008	2007
Beginning balance	₩ (7,884)	₩ (349,956)	₩ 2,466	₩ (89,069)
Adjustment	7,719	-	2,035	-
Adjusted beginning balance	(705)	(349,956)	4,501	(89,069)
Ending balance	(25,922)	(7,884)	914	2,466
			(3,587)	91,535
Deferred income taxes due to merger and others			-	2,201
			₩ (3,587)	₩ 89,334

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

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

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

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The reconciliation between income tax based on the statutory rate (including discontinued operations) and income tax expense (including discontinued operations) for the years ended December 31, 2008 and 2007, follows:

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

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

Changes in temporary differences of the Controlling Company and domestic subsidiaries for the years ended December 31, 2008 and 2007, are as follows:

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

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- ¹ As of December 31, 2008, deferred income taxes for the negative goodwill of ₩235,018 million and goodwill of ₩8,193 million were not recognized in accordance with SKFAS No. 16, *Deferred Income Tax*.
- ² As of December 31, 2008, the accumulated temporary differences that may not be realized in the future were excluded from the calculation of deferred income taxes. Further, taxable accumulated temporary differences of ₩662 million and deductible accumulated temporary differences of ₩5,644 million related to equity-method investments, were not recognized as deferred income tax liabilities and deferred income tax assets.
- ³ The Company adopted the Korea Accounting Institute opinion on Korean Accounting Statement Implementation 06-2, *Accounting treatment for taxable temporary differences associated with investments in subsidiaries, associates, and interest in joint ventures*, which was revised on February 22, 2008. The consolidated financial statements as of and for the year ended December 31, 2007, have not been restated. Instead, the effect of the change is adjusted to the beginning balance of 2008 (Note 2).

(in millions of Korean won)

	2007					Ending Balance	Deferred Income tax as of January 1, 2007	Deferred Income tax as of December 31, 2007
	Beginning Balance Before Adjustment	Adjustment ¹	Increase	Decrease	Ending Balance			
Accrued severance benefits	₩ 144,191	₩ -	₩ 46,606	₩ 30,303	₩ 160,494	₩ 39,653	₩ 44,136	
Severance insurance plans	(144,191)	-	(46,606)	(30,303)	(160,494)	(39,653)	(44,136)	
Allowance for doubtful accounts	69,728	-	65,267	61,901	73,094	19,175	20,101	
Accrued interest income	(1)	(1,648)	(1,838)	(1,650)	(1,837)	-	(505)	
Research and development costs	(2,594)	-	-	(2,374)	(220)	(713)	(61)	
Present value discount	32	-	-	21	11	9	3	
Property, Plant and Equipment	113,169	-	24,867	19,289	118,747	31,121	32,655	
Equity-method investments	(254,853)	-	(110,932)	(280,220)	(85,565)	(62,915)	(18,834)	
Reserves for technology development	(333,333)	-	-	(76,667)	(256,666)	(91,667)	(70,583)	
Others	86,910	9,653	116,502	26,326	186,739	23,900	51,353	
Equity	54,334	-	(73,891)	(38,972)	19,415	14,942	5,339	
Sub total ¹	(266,608)	8,005	₩ 19,975	₩(292,346)	53,718	(66,148)	19,468	
Equity-method investments ³	65,161	-			53,439	17,919	14,757	
Equity ³	18,187	-			8,163	5,002	2,245	
Total	₩(349,956)	₩ 8,005			₩ (7,884)	₩(89,069)	₩ 2,466	

- ¹ Includes temporary differences transferred from LG Petrochemical Co., Ltd., at the time of merger.
- ² As of December 31, 2007, deferred income tax assets for the negative goodwill of ₩274,187 million were not recognized in accordance with SKFAS No. 16, *Deferred Income Tax*.
- ³ As of December 31, 2007, the accumulated temporary differences that may not be realized in the future were excluded from the calculation of deferred income taxes. Further, taxable accumulated temporary differences of ₩334 million and deductible accumulated temporary differences of ₩61,936 million related to equity-method investments, were not recognized as deferred income tax liabilities and deferred income tax assets.

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

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

21. Comprehensive Income

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

<i>(in millions of Korean won)</i>	2008	2007
Net income	₩ 986,008	₩ 835,873
Accumulated effects from changes in accounting policies (Note 2)	2,035	-
Changes in cumulative effect of foreign currency translation ¹	186,659	32,980
Changes in equity from movements in the equity-method investments ²	18,218	890
Gain on valuation of derivatives ³	(15,281)	(924)
Others ⁴	2,263	51
Comprehensive income	<u>₩ 1,179,902</u>	<u>₩ 868,870</u>
Parent interest in comprehensive income	<u>₩ 1,159,417</u>	<u>₩ 715,642</u>
Minority interest in comprehensive income	<u>₩ 20,485</u>	<u>₩ 153,228</u>

¹ Includes income tax effects of ₩38,746 million (2007: ₩7,181 million).

² Includes income tax effects of ₩5,235 million (2007: ₩(123) million).

³ Includes income tax effects of ₩(6,089) million (2007: ₩(59) million).

⁴ Includes income tax effects of ₩172 million (2007: nil).

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22. Earnings Per Share

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

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

	2008	2007
Income from continuing operations	₩ 936,173	₩ 610,941
Preferred stock dividends	(22,077)	(17,748)
Preferred stock share in the remaining profit available for dividends	(75,498)	(51,741)
Income from continuing operations available for common stock (A)	₩ 838,598	₩ 541,452
Weighted average number of shares of outstanding common stock (B) ¹	74,706,927	65,624,898
Basic income from continuing operations per share (A/B)	₩ 11,225	₩ 8,251

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

	2008	2007
Net income	₩ 1,002,585	₩ 688,636
Preferred stock dividends	(22,077)	(17,748)
Preferred stock share in the remaining profit available for dividends	(82,395)	(60,796)
Net income available for common stock (A)	₩ 898,113	₩ 610,092
Weighted average number of shares of outstanding common stock (B) ¹	74,706,927	65,624,898
Basic earnings per share (A/B)	₩ 12,022	₩ 9,297

¹ Excludes treasury stock.

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

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

	2008	2007
Loss from discontinued operations per share	₩ 797	₩ 1,046

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23. Dividends

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

	2008		2007	
Shares issued and outstanding (par value per share: ₩5,000)				
Common stock		74,849,856		74,628,861
Preferred stock		8,657,592		8,657,592
Dividend per share (in won)				
Common stock: cash	₩	2,500 (50%)	₩	2,000 (40%)
Preferred stock: cash	₩	2,550 (51%)	₩	2,050 (41%)
Cash dividend amount (in millions)				
Common stock	₩	187,125	₩	149,258
Preferred stock		22,077		17,748
	₩	<u>209,202</u>	₩	<u>167,006</u>
Dividend payout ratio				
Dividends (A)	₩	209,202	₩	167,006
Net income (B)		1,002,585		688,636
Dividend payout ratio (A/B)		<u>20.87%</u>		<u>24.25%</u>
Dividend yield ratio				
		2008		2007
		Common Stock		Common Stock
		Preferred Stock		Preferred Stock
Dividend per share (A)	₩	2,500	₩	2,000
Market value at the end of year (B)		71,000		89,600
Dividend yield ratio (A/B)		<u>3.52%</u>		<u>2.23%</u>
		<u>8.85%</u>		<u>5.02%</u>

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24. Transactions with Subsidiaries

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

(in millions of Korean won)

Sales to / Purchases from		2008			
Company	Subsidiary	Sales	Purchases	Receivables	Payables
LG Chem, Ltd.	LG Petrochemical Co., Ltd.	₩ -	₩ -	₩ -	₩ -
	LG Chem 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.	Tianjin LG Dagu Chemical Co., 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>

Sales to / Purchases from		2007			
Company	Subsidiary	Sales	Purchases	Receivables	Payables
LG Chem, Ltd.	LG Petrochemical Co., Ltd. ¹	₩ 15,134	₩1,321,426	₩ -	₩ -
	LG Chem America, Inc.	254,738	1,025	1,864	415
	LG Chemical Hong Kong Ltd.	346,134	1,591	956	-
	LG Chem (Nanjing) Information & Electronics Materials Co., Ltd.	38,109	85,923	821	7,844
	LG Chem (Taiwan), Ltd.	368,733	2,866	6,472	205
	LG Chem Display Materials (Beijing) Co., Ltd.	1	9,262	-	1,025
	Others	104,858	103,196	21,341	8,569
LG Chemical Hong Kong Ltd.	Tianjin LG Dagu Chemical Co., Ltd	22,390	-	-	-
	Ningbo LG Yongxing Chemical Co., Ltd.	69,507	-	95	-
	Others	60,337	8,418	22,379	198
Others		313,003	-	57,446	-
		<u>₩1,592,944</u>	<u>₩1,533,707</u>	<u>₩111,374</u>	<u>₩ 18,256</u>

¹ Includes sales and purchases of LG Petrochemical Co., Ltd. until its merger with the Controlling Company.

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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 outstanding balance of such guarantees as of December 31, 2008, amounted to approximately ₩189,060 million to guarantee the outstanding bank borrowings of ₩160,100 million (2007: ₩160,286 million to guarantee the outstanding bank borrowings of ₩122,583 million).

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

(in millions of Korean won)

		2008			
	Guarantee Beneficiary	Amount of Guarantee	Financial Institution	Outstanding Loan Amount	
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		32,695	
	LG Chem Industrial Materials Inc.	31,815	Wachovia Bank	31,815	
		12,575		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 (China) Investment Co., Ltd.	LG Chem America, Inc	11,318	Woori Bank	-
LG Chem Display Materials Co., Ltd.		12,176	Agricultural Bank of China	9,372	
		<u>₩ 189,060</u>		<u>₩ 160,100</u>	

(in millions of Korean won)

		2007			
	Guarantee Beneficiary	Amount of Guarantee	Financial Institution	Outstanding Loan Amount	
The Controlling Company	LG Chem (Nanjing) Information & Electronics Materials Co., Ltd.	₩ 15,480	Bank of China	₩ 15,480	
		18,764	Woori Bank	18,764	
		15,856	Korea Exchange Bank	9,382	
		23,736	Wachovia Bank	23,736	
	LG Chem Industrial Materials Inc.	4,144	Societe Generale	-	
		Tianjin LG Bohai Chemical Co., Ltd.	37,528	Export-Import Bank of Korea	15,637
		LG Chem Poland Sp. Z.O.O.	13,813	Export-Import Bank of Korea	13,813
			6,216	Nordea Bank	4,144
	LG Chem (China) Investment Co., Ltd.	LG Chem America, Inc	3,753	Woori Bank	3,753
		4,691	Kookmin Bank	3,753	
LG Chem Display Materials Co., Ltd.		10,985	Agricultural Bank of China	8,801	
	LG Chemical (Guangzhou) Engineering Plastics Co., Ltd.	5,320	Industrial and Commercial Bank of China	5,320	
		<u>₩ 160,286</u>		<u>₩ 122,583</u>	

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25. Related Party Transactions

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

<i>(in millions of Korean won)</i>	Sales	Purchases	Receivables	Payables
Controlling company ¹	₩ -	₩ 37,788	₩ 7,723	₩ 6,024
Subsidiaries ²	18,227	6,831	2,375	-
Equity-method investees ²	95,548	159,930	5,194	8,260
Key management	-	64,468	-	52,284
Others ³	2,363,582	627,616	356,701	89,027
2008 Total	<u>₩2,477,357</u>	<u>₩ 896,633</u>	<u>₩ 371,993</u>	<u>₩ 155,595</u>
2007 Total	<u>₩1,719,954</u>	<u>₩ 752,724</u>	<u>₩ 334,223</u>	<u>₩ 166,567</u>

¹ LG Corp. is the ultimate parent Company, and issues the consolidated financial statements.

² Please refer to Note 1 for percentage of ownership of the Company's investments to its related parties.

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

Compensation for key management officers of the Controlling Company and its domestic listed subsidiary for the year ended December 31, 2008 and 2007, consist of:

<i>(in millions of Korean won)</i>	2008	2007
Short-term employee benefits	₩ 45,428	₩ 28,846
Post-employment benefits	5,126	3,690
Other long-term employee benefits	12,855	13,648
Reversal of share-based compensation	1,059	11,856
Total	<u>₩ 64,468</u>	<u>₩ 58,040</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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26. Segment Information

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

(1) Industry Segment Information

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

¹ As explained in Note 27, the spin off of the Industrial Materials segment is classified as discontinued operations.

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

(in millions of Korean won)	2008				
	Petrochemicals	Information & Electronic Materials	Others	Consolidation Adjustment	Total
Sales					
External sales ¹	₩ 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	<u>₩ 885,209</u>	<u>₩ 470,065</u>	<u>₩ (19,072)</u>	<u>₩ (15,079)</u>	<u>₩ 1,321,123</u>
Property, plant and equipment, and intangible assets²	<u>₩ 3,093,586</u>	<u>₩ 1,289,621</u>	<u>₩1,037,782</u>	<u>₩ (75,568)</u>	<u>₩ 5,345,421</u>

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<i>(in millions of Korean won)</i>	2007				
	Petrochemicals	Information & Electronic Materials	Others	Consolidation Adjustment	Total
Sales					
External sales ¹	₩ 11,056,970	₩ 2,294,369	₩ 986,727	₩ (2,924,110)	₩11,413,956
Inter-segment sales	40,101	2,430	146,458		188,989
	<u>₩ 11,097,071</u>	<u>₩ 2,296,799</u>	<u>₩1,133,185</u>	<u>₩ (2,924,110)</u>	<u>₩11,602,945</u>
Operating income	<u>₩ 932,425</u>	<u>₩ 166,153</u>	<u>₩ (17,838)</u>	<u>₩ (15,135)</u>	<u>₩ 1,065,605</u>
Property, plant and equipment, and intangible assets ²	<u>₩ 2,838,593</u>	<u>₩ 1,003,622</u>	<u>₩ 947,770</u>	<u>₩ (33,590)</u>	<u>₩ 4,756,395</u>

¹ Includes the sales of continuing operations to the Industrial Materials segment, which was discontinued, amounting to ₩254,645 million (2007: ₩248,950 million).

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

(2) Geographical Segment Information

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

	<i>(in millions of Korean won)</i>								
	Domestic ¹	China	North America	South America	South-East Asia	Western Europe	Others	Consolidation adjustment	Total
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
2007	₩8,258,737	₩5,556,610	₩ 796,113	₩ 76,138	₩325,819	₩397,964	₩1,252,605	₩(3,125,496)	₩13,538,490

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

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27. Discontinued Operations

(1) Industrial Materials Business

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

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

<i>(in millions of Korean won)</i>	2008	2007
Income before income tax from discontinued operations	₩ 90,233	₩ 91,650
Income tax	(21,883)	(10,882)
Unrealized income and loss	(41)	11
Income after income tax from discontinued operations	<u>₩ 68,309</u>	<u>₩ 80,779</u>

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

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

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

	2008			2007		
	Before	Consolidation adjustment	After	Before	Consolidation adjustment	After
Sales ¹	₩2,641,221	₩ (244,380)	₩2,396,841	₩2,560,897	₩ (196,475)	₩2,364,422
Cost of sales ¹	(2,098,305)	231,198	(1,867,107)	(2,023,247)	194,556	(1,828,691)
Gross profit (loss)	542,916	(13,182)	529,734	537,650	(1,919)	535,731
Selling and administrative expenses	(434,785)	5,918	(428,867)	(422,469)	1,149	(421,320)
Operating loss	108,131	(7,264)	100,867	115,181	(770)	114,411
Non-operating income	105,395	(5,927)	99,468	29,726	(4,139)	25,587
Non-operating expenses	(114,315)	4,213	(110,102)	(51,333)	2,985	(48,348)
Income from the industrial materials segment	₩ 99,211	₩ (8,978)	₩ 90,233	₩ 93,574	₩ (1,924)	₩ 91,650

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

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

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

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(2) PDP Fluorescent Substance Business

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

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

(in millions of Korean won)

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

¹ Excludes impairment loss on discontinued operations.

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

(in millions of Korean won)

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

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

(in millions of Korean won)

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

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

(in millions of Korean won)

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

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28. Supplemental Cash Flow Information

Major transactions not involving any inflow nor outflow of cash and cash equivalents for the years ended December 31, 2008 and 2007, are as follows:

<i>(in millions of Korean won)</i>	2008	2007
Reclassification of construction-in-progress to property, plant and equipment	₩ 667,318	₩ 605,882
Reclassification of machinery-in-transit to machinery and equipment	100,478	89,997
Reclassification of depreciation expenses to development costs	905	1,418
Reclassification of severance benefits to development costs	164	340
Gain on valuation of investment using the equity method of accounting (accumulated other comprehensive income and expenses)	27,164	1,481
Reclassification of long-term debt to current maturities of long-term debts	186,028	74,007
Reclassification of long-term debt to current maturities of debentures	506,888	327,893
Gain on valuation of derivatives (accumulated other comprehensive income and expenses)	22,142	960

29. Business Acquisition and Merger

Business Acquisition

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

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

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

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

(2) Changes in goodwill are as follows:

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

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

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

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

Merger with LG Petrochemical Co., Ltd.

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

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

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

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

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

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

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

<i>(in millions of Korean won)</i>		
January 1, 2007 (purchase date) ¹	₩	13,512
Amortization ¹		(2,378)
October 31, 2007 ¹	₩	11,134
November 1, 2007(merger date)	₩	11,134
Amortization		(420)
December 31, 2007	₩	10,714
Amortization		(2,521)
December 31, 2008	₩	8,193

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

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

Condensed Balance Sheets as of October 31, 2007

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

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

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

¹ Includes income from discontinued operations.

Condensed Balance Sheets as of December 31, 2006

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

Condensed Income Statements for the year ended December 31, 2006

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

¹ Includes income from discontinued operations.