

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

**Interim Consolidated Financial Statements**

**March 31, 2010 and 2009**

# LG Chem, Ltd. and Subsidiaries

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## Auditors' Review Report

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

We have reviewed the accompanying interim consolidated statements of financial position of LG Chem, Ltd. and its subsidiaries (collectively referred to as the "Company") as of March 31, 2010 and December 31, 2009, and the related consolidated income statements, statements of comprehensive income, changes in shareholders' equity and cash flows for the three-month period ended March 31, 2010, expressed in Korean won. These interim consolidated financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these interim consolidated financial statements based on our reviews.

We have not reviewed the interim consolidated income statement, statements of comprehensive income, changes in shareholders' equity and cash flows for the three-month period ended March 31, 2009, presented herein for comparative purposes.

We conducted our reviews in accordance with the quarterly and semi-annual review standards established by the securities and Futures Commission of the Republic of Korea. These standards require that we plan and perform the review to obtain moderate assurance as to whether the financial statements are free of material misstatement. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our reviews, nothing has come to our attention that causes us to believe that the interim consolidated financial statements referred to above are not presented fairly, in all material respects, in accordance with International Financial Reporting Standards as adopted by the Republic of Korea ("Korean IFRS").

Samil PricewaterhouseCoopers

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Without qualifying our opinion, we draw your attention that as discussed in Note 2 to the interim consolidated financial statements, the Company has adopted Korean IFRS on January 1, 2010, and its transition date to Korean IFRS in accordance with Korean IFRS 1101, 'First-time Adoption of Korean IFRS' is January 1, 2009. The accompanying interim consolidated financial statements have been prepared in accordance with Korean IFRS issued and effective at the reporting date (March 31, 2010).

Samil PricewaterhouseCoopers

Seoul, Korea  
May 31, 2010

This report is effective as of May 31, 2010, the review report date. Certain subsequent events or circumstances, which may occur between the review 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 review report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

**LG Chem, Ltd. and Subsidiaries**  
**Interim Consolidated Statements of Financial Position**  
**March 31, 2010 and December 31, 2009**

<i>(in millions of Korean won)</i>	Notes	March 31, 2010	December 31, 2009
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	3	1,119,851	1,106,596
Trade and other receivables		2,810,284	2,454,815
Prepaid income taxes		6,220	4,072
Other financial assets	3	11,353	-
Other current assets		118,187	113,715
Inventories		1,716,848	1,597,571
Total current assets		5,782,743	5,276,769
<b>Non-current assets</b>			
Loans and other receivables		13,416	20,066
Other financial assets	3	11,561	22,557
Investments in associates	1	238,709	219,505
Deferred income tax assets		26,103	16,333
Intangible assets	7	4,982,344	4,775,350
Property, plant and equipment	7	165,817	162,159
Other non-current assets		35,068	37,853
Total non-current assets		5,473,018	5,253,823
<b>Total assets</b>		11,255,761	10,530,592

**LG Chem, Ltd. and Subsidiaries**  
**Interim Consolidated Statements of Financial Position**  
**March 31, 2010 and December 31, 2009**

<i>(in millions of Korean won)</i>	Notes	March 31, 2010	December 31, 2009
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	3	1,896,643	1,785,291
Borrowings	3, 8	1,859,780	1,832,657
Other financial liabilities		1	-
Provisions	9	5,140	5,293
Current income tax liabilities		258,491	200,295
Other current liabilities		360,382	83,262
Total current liabilities		4,380,437	3,906,798
<b>Non-current liabilities</b>			
Other payables	3	32,492	29,485
Borrowings	3, 8	575,325	577,917
Other financial liabilities	3	39,839	35,064
Defined benefit liability	10	62,544	54,389
Deferred income tax liabilities		1,752	-
Other non-current liabilities		71	250
Total non-current liabilities		712,023	697,105
<b>Total liabilities</b>		5,092,460	4,603,903
<b>Equity</b>			
<b>Equity attributable to owners of the parent</b>			
Share capital	11	369,500	369,500
Capital surplus		1,157,772	1,157,736
Other components of equity		(15,292)	(479,564)
Accumulated other comprehensive income		(93,925)	(74,557)
Retained earnings		4,624,842	4,836,099
		6,042,897	5,809,214
<b>Non-controlling interest</b>		120,404	117,475
<b>Total equity</b>		6,163,301	5,926,689
<b>Total equity and liabilities</b>		11,255,761	10,530,592

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

**LG Chem, Ltd. and Subsidiaries**  
**Interim Consolidated Statements of Income**  
**Three-Month Periods Ended March 31, 2010 and 2009**

Three-month period ended March 31

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

	Notes	2010	2009
<b>Revenue</b>	6	4,423,105	3,350,298
<b>Cost of sales</b>		3,526,993	2,628,651
<b>Gross profit</b>		896,112	721,647
<b>Selling general and administrative expenses</b>	12	251,381	231,770
<b>Other operating income</b>	13	82,848	215,993
<b>Other operating expenses</b>	14	75,153	221,151
<b>Operating profit</b>	6	652,426	484,719
<b>Non-operating income/expenses</b>			
Financial income	6	39,925	74,714
Financial expenses	6	48,789	127,330
Share of profit of associates	6	7,134	1,261
Other non-operating expenses		1,899	718
		(3,629)	(52,073)
<b>Profit before Income tax</b>	6	648,797	432,646
<b>Income tax expense</b>	15	131,056	100,428
<b>Profit from continuing operations</b>		517,741	332,218
<b>Loss from discontinued operations</b>	18	-	(33,016)
<b>Profit for the period</b>		517,741	299,202
Profit attributable to owners of the parent		511,103	288,177
Profit attributable to non-controlling interests		6,638	11,025
<b>Earnings per share for profit attributable to owners of the parent company (in won)</b>	16		
Basic earnings per share for profit from continuing operations		6,949	3,840
Basic earnings per share		6,949	3,450

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

**LG Chem, Ltd. and Subsidiaries**  
**Interim Consolidated Statements of Comprehensive Income**  
**Three-Month Periods Ended March 31, 2010 and 2009**

<i>(in millions of Korean won)</i>	<b>Notes</b>	Three-month period ended March 31	
		<b>2010</b>	<b>2009</b>
<b>Profit for the period</b>		517,741	299,202
<b>Other comprehensive income</b>			
Actuarial gain(loss) on defined benefit liability	10	(337)	419
Currency translation differences		(23,856)	59,563
Cash flow hedges		985	(11,428)
Other comprehensive income(loss) for the period, net of tax		(204)	(6,858)
<b>Total comprehensive income for the period</b>		<u>494,329</u>	<u>340,898</u>
<b>Comprehensive income for the period attributable to:</b>			
– Owners of the parent		<u>491,400</u>	<u>321,039</u>
– Non-controlling interest		<u>2,929</u>	<u>19,859</u>

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



**LG Chem, Ltd. and Subsidiaries**  
**Interim Consolidated Statements of Changes in Shareholders' Equity**  
**Three-Month Periods Ended March 31, 2010 and 2009**

(in millions of Korean won)

Notes	Attributable to owners of the parent						Non-controlling Interest	Total Equity
	Share capital	Capital surplus	Other components of equity	Accumulated other comprehensive Income	Retained earnings	Total		
	419,500	1,314,549	(14,600)	(18,385)	3,544,810	5,245,874	97,776	5,343,650
	-	-	-	-	288,177	288,177	11,025	299,202
10	-	-	-	-	419	419	-	419
	-	-	-	51,297	-	51,297	8,266	59,563
	-	-	-	-	-	-	-	-
	-	-	-	(11,428)	-	(11,428)	-	(11,428)
	-	-	-	32,443	288,596	321,039	19,859	340,898
	-	(669,484)	-	-	-	(669,484)	-	(669,484)
17	-	-	-	-	(209,202)	(209,202)	-	(209,202)
	-	(2,177)	(376)	-	-	(2,553)	-	(2,553)
	419,500	642,888	(14,976)	14,058	3,624,204	4,685,674	117,635	4,803,309
	369,500	1,157,736	(479,564)	(74,557)	4,836,099	5,809,214	117,475	5,926,689
	-	-	-	-	511,103	511,103	6,638	517,741
	-	-	-	-	(337)	(337)	-	(337)
	-	-	-	(20,147)	-	(20,147)	(3,709)	(23,856)
	-	-	-	985	-	985	-	985
	-	-	-	(206)	2	(204)	-	(204)
	-	-	-	(19,368)	510,768	491,400	2,929	494,329
17	-	-	-	-	(257,753)	(257,753)	-	(257,753)
	-	-	464,272	-	(464,272)	-	-	-
	-	36	-	-	-	36	-	36
	369,500	1,157,772	(15,292)	(93,925)	4,624,842	6,042,897	120,404	6,163,301

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

**LG Chem, Ltd. and Subsidiaries**  
**Interim Consolidated Statements of Cash Flows**  
**Three-Month Periods Ended March 31, 2010 and 2009**

<i>(in millions of Korean won)</i>	Three-month period Ended March 31	
	2010	2009
<b>Cash flows from operating activities</b>		
Cash generated from operations	476,784	904,294
Interest received	6,578	3,940
Interest paid	(10,964)	(28,049)
Income tax paid	(82,346)	(239,433)
<b>Net cash generated from operating activities</b>	<b>390,052</b>	<b>640,752</b>
<b>Cash flows from investing activities</b>		
Decrease in other receivables	4,939	168,018
Decrease in loans and other receivables	534	4,478
Decrease in non-current other financial assets	7	148
Proceeds from disposal of property, plant and equipment	3,082	22,568
Proceeds from disposal of intangible assets	126	2,467
Decrease in other non-current assets	-	147
Increase in other receivables	(55,853)	(36,990)
Increase in loans and other receivables	(906)	(4,065)
Increase in non-current other financial assets	(11)	-
Acquisition of investments in associates	(14,210)	(23,376)
Acquisition of property, plant and equipment	(379,456)	(283,017)
Acquisition of intangible assets	(6,119)	(9,672)
Increase in other non-current assets	-	(2,690)
<b>Net cash used in investing activities</b>	<b>(447,867)</b>	<b>(161,984)</b>
<b>Cash flows from financing activities</b>		
Proceeds from borrowings	199,410	349,543
Repayments of borrowings	(118,284)	(218,344)
<b>Net cash provided by financing activities</b>	<b>81,126</b>	<b>131,199</b>
<b>Net increase in cash and cash equivalents</b>	<b>23,311</b>	<b>609,967</b>
Cash and cash equivalents at beginning of the period	1,106,596	513,664
Exchange gains(losses) on cash and cash equivalents	(10,056)	9,695
<b>Cash and cash equivalents at the end of period</b>	<b>1,119,851</b>	<b>1,133,326</b>

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

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

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

### **March 31, 2010 and 2009, and December 31, 2009**

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#### **1. General Information**

General information about LG Chem, Ltd. (the "Parent Company") and its subsidiaries (collectively referred to as "the Company") is as follows.

##### **1.1 The Parent Company**

The Parent Company was spun off from LG Chem Investment Ltd. (formerly LG Chemical Ltd.) taking over the petrochemicals, industrial materials, and information and electronic materials business on April 1, 2001, and completed the registration process on April 3, 2001. The Parent Company has been listed on the Korea Stock Exchange since April 25, 2001.

The Parent Company merged with LG Daesan Petrochemical Ltd. on January 1, 2006, and with LG Petrochemical Co., Ltd., on November 1, 2007, and spun off its Industrial Materials segment to LG Hausys, Ltd. on April 1, 2009.

As of March 31, 2010, the Parent Company has its manufacturing facilities in Yeosu, Cheongju, Ulsan, Naju, Onsan, Iksan, Daesan, Ochang and Gimcheon.

The Parent Company is authorized to issue 292 million shares of ordinary shares with par value of ₩5,000 per share. As of March 31, 2010, the Parent Company has issued 66,271,100 ordinary shares (₩ 331,356 million) and 7,628,921 preferred shares (₩ 38,144 million). The largest shareholder of the Parent Company is LG Corp., which owns 33.53% of the Parent Company's ordinary shares. Preferred shareholders have no voting rights but are entitled to receive dividends at a rate 1% more than those paid to ordinary shareholders.

##### **1.2 Business overview**

The Company is engaged in petrochemicals business, and information and electronic materials business. The Company is also engaged in the manufacturing and distribution of medium-and large-sized batteries for electric vehicles.

The petrochemical business is an upstream supplier of raw materials and a large processing industry that produces, mainly using Naphtha, a variety of primary petrochemicals and their derivatives such as ethylene, propylene, butadiene (olefin petrochemicals) and benzene, xylene, toluene, and others (aromatic petrochemicals), as well as synthetic resin, synthetic rubber and synthetic components made from these primary petrochemicals. The Company's main products are ethylene, polyethylene, propylene, synthetic rubber, polyvinyl chloride (PVC), plasticizer, acrylate, acrylonitrile-butadiene-styrene (ABS), epoxy resin, and others.

The information and electronic materials business manufactures and supplies a variety of display materials such as polarizer, sensitized material, PDP filter and toners along with lithium-ion batteries for cell phone, laptop computers and electric vehicles. Presently, the medium and large battery division for electronic automotives supplies its products to domestic car manufacturing companies. To maintain its dominant position in the North American battery market, the Company is currently constructing new manufacturing facilities in North America which will manufacture medium-and large-sized batteries for HEV/EV. The Company is also preparing mass production of Liquid Crystal Display Glass based on the source technology licensed from SHOTT Solar, Inc., a Germany-based company, combining with its high-quality production techniques.

**LG Chem, Ltd. and Subsidiaries**  
**Notes to Interim Consolidated Financial Statements**  
**March 31, 2010 and 2009, and December 31, 2009**

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**1.3 Consolidated subsidiaries and associates**

Consolidated subsidiaries and associates are as follows:

	<u>Business Location</u>
<b>Consolidated Subsidiaries</b>	
Tianjin LG Dagu Chemical Co., Ltd.	China
Ningbo LG Yongxing Chemical Co., Ltd.	China
LG Chemical Hong Kong Ltd.	Hong Kong
LG Chem America, Inc.	USA
LG Chemical India Pvt. Ltd.	India
LG Polymer India Pvt. Ltd.	India
LG Chemical (Guangzhou) Engineering Plastics Co., Ltd.	China
LG Chem (Nanjing) Information & Electronics Materials Co., Ltd.	China
LG Chem (Taiwan), Ltd.	Taiwan
LG Chem Display Materials (Beijing) Co., Ltd.	China
Tianjin LG Bohai Chemical Co., Ltd.	China
LG Chem (China) Investment Co., Ltd.	China
LG Chem (Tianjin) Engineering Plastics Co., Ltd.	China
LG Chem Europe GmbH	Germany
LG Chem Poland Sp. Z.O.O	Poland
Compact Power inc.	USA
Tianjin LG Botian Chemical Co., Ltd.	China
<b>Associates</b>	
LG Dow Polycarbonate Ltd.	Korea
SEETEC Co., Ltd.	Korea
LG Vina Chemical J/V Company	Vietnam
LG Holdings (HK) Ltd.	Hong Kong
LG Chem Brasil, Ltd.	Brasil
TECWIN Co., Ltd.	Korea
HL Greenpower Co., Ltd.	Korea

**LG Chem, Ltd. and Subsidiaries**  
**Notes to Interim Consolidated Financial Statements**  
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**2. Summary of Significant Accounting Policies**

The principal accounting policies applied in the preparation of these consolidated financial statements are summarized below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

**2.1 Basis of preparation**

The Company has adopted the International Financial Reporting Standards as adopted by the Republic of Korea ("Korean IFRS") on January 1, 2010 and its transition date to Korean IFRS in accordance with Korean IFRS 1101, 'First-time Adoption of Korean IFRS', is January 1, 2009. The reconciliations and descriptions of the effect of the transition from the previous accounting principles generally accepted in the Republic of Korea ("K-GAAP") to Korean IFRS on the Company's equity, net income are provided in Note 5.

The accompanying consolidated financial statements have been prepared in accordance with the Korean IFRS standards and interpretations issued and effective at the reporting date, March 31, 2010.

The interim consolidated financial statements for the three-month period ended March 31, 2010, have been prepared in accordance Korean IFRS 1034, 'Interim Financial Reporting'. The preparation of financial statements in conformity with Korean IFRS 1034 requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

**2.2 Changes of accounting policies and disclosures**

The Company has not early adopted any standards, amendments and interpretations to existing standards that have been issued but are not yet effective at the reporting date.

**2.3 Consolidation**

**(1) Subsidiaries**

Subsidiaries are all entities (including special purpose entities) over which the Parent Company has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Parent Company controls another company. Subsidiaries are fully consolidated from the date on which control is transferred to the Parent Company. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Parent Company. Consideration transferred is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. The consideration includes any assets or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. For each business combination, non-controlling interest in the acquiree is measured either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

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

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

#### **March 31, 2010 and 2009, and December 31, 2009**

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The excess of the cost of acquisition over the fair value of the Company's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealized gains and losses on transactions between consolidated companies are eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Company.

#### **(2) Transactions with non-controlling interests**

The Company applies a policy of treating transactions with non-controlling interests as transactions with equity owners of the Company. The difference between any consideration paid and the relevant share of the carrying value of net assets of the subsidiary is recorded in equity. Gains and losses on disposal of non-controlling interests are also recognized in equity. When control ceases, any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognized in the income statement.

#### **(3) Associates**

Associates are all entities over which the Company has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost. The Company's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss. See Note 2.18 for the impairment of non-financial assets including goodwill.

The Company's share of its associates' post-acquisition profits or losses is recognized in the income statement, and its share of post-acquisition movements in reserves is recognized in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Company's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Company does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealized gains on transactions between the Company and its associates are eliminated to the extent of the Company's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Company. Dilution gains and losses arising in investments in associates are recognized in the income statement.

#### **(4) Joint venture**

A joint venture is a contractual arrangement whereby two or more parties (venturers) undertake an economic activity that is subject to joint control. As with associates, investments in jointly controlled entities are accounted for using the equity method of accounting and are initially recognised at cost. The Company's investment in jointly controlled entities includes goodwill identified on acquisition, net of any accumulated impairment loss (Note 2.18).

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

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

### **March 31, 2010 and 2009, and December 31, 2009**

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#### **2.4 Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Corporate Management Committee that makes strategic decisions.

#### **2.5 Foreign currency translation**

##### **(1) Functional and presentation currency**

Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in 'Korean won', which is the Parent Company's functional and the Company's presentation currency.

##### **(2) Transactions and balances**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within 'financial income or expenses'. All other foreign exchange gains and losses are presented in the income statement within 'other operating income or expenses'.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analyzed between translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortized cost are recognized in profit or loss, and other changes in carrying amount are recognized in equity.

Exchange differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognized in profit or loss as part of the fair value gain or loss. Exchange differences on non-monetary financial assets such as equities classified as available-for-sale are included in the available-for-sale reserve in equity.

##### **(3) Group companies**

The results and financial position of all the group entities that have a functional currency different from the presentation currency are translated as follows:

- i) Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- ii) Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- iii) All resulting exchange differences are recognized as a separate component of equity.

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

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

#### **March 31, 2010 and 2009, and December 31, 2009**

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On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When control is lost for subsidiary including foreign operations, accumulated exchange differences that were recorded in equity are reclassified in the income statement when profit or loss on disposal is recognized.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

#### **2. 6 Cash and cash equivalents**

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

#### **2.7 Financial assets**

##### **2.7.1 Classification**

The Company classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, available-for-sale, held-to-maturity financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

##### **(1) Financial assets at fair value through profit or loss**

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term.

##### **(2) Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Company's loans and receivables comprise 'cash and cash equivalents' and 'trade and other receivables' in the statements of financial position.

##### **(3) Available-for-sale financial assets**

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

##### **(4) Held-to-maturity financial assets**

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the end of the reporting period, which are classified as current assets.



**LG Chem, Ltd. and Subsidiaries**  
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2.7.2 Recognition and measurement

Regular purchases and sales of financial assets are recognized on the trade date, the date on which the Company commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortized cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss category' are presented in the income statement within 'financial income or expenses' in the period in which they arise. Dividend income from 'financial assets at fair value through profit or loss' is recognized in the income statement when the Company's right to receive payments is established.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as 'available-for-sale financial assets' are analyzed between exchange differences resulting from changes in amortized cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognized in profit or loss; translation differences on non-monetary securities are recognized 'in other comprehensive income'. Changes in the fair value of monetary and non-monetary securities classified as 'available-for-sale financial assets' are recognized in 'other comprehensive income'.

When securities classified as 'available-for-sale financial assets' are sold or impaired, the accumulated fair value adjustments recognized in equity are included in the income statement as 'other operating income or expenses'.

Interest on 'available-for-sale financial assets' calculated using the effective interest method is recognized in the income statement as part of 'financial income'. Dividends on 'available-for-sale equity instruments' are recognized in the income statement as part of 'financial income' when the Company's right to receive payments is established.

**2.8 Offsetting financial instruments**

Financial assets and liabilities are offset and the net amount reported in the statements of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

**2.9 Impairment of financial assets**

(1) Assets carried at amortized cost

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

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The criteria that the Company uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- For economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganization;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
  - 1) Adverse changes in the payment status of borrowers in the portfolio; and
  - 2) National or local economic conditions that correlate with defaults on the assets in the portfolio.

The Company first assesses whether objective evidence of impairment exists.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount of the asset is reduced and the amount of the loss is recognized in the income statement. If a 'loan and receivable' or 'held-to-maturity financial asset' has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Company may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in the income statement.

#### **(2) Assets classified as available for sale**

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the Company uses the criteria refer to (a) above. In the case of equity investments classified as 'available-for-sale financial assets', a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for 'available-for-sale financial assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss, is removed from equity and recognized in the income statement. Impairment losses recognized in the income statement on equity instruments are not reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified as 'available-for-sale financial assets' increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the income statement.

Impairment testing on trade receivables is further explained in Note 2.11.

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**2.10 Derivative financial instruments**

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The resulting gain or loss is recognized in the income statement within 'other operating income and expenses' or 'financial income or expenses' according to the Company's risk management policy.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in the income statement within 'other operating income or expenses' or 'financial income or expenses'.

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement within 'other operating income or expenses' or 'financial income or expenses'.

**2.11 Trade receivables**

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment.

**2.12 Inventories**

Inventories are stated at the lower of cost and net realizable value. Cost is determined using weighted average cost method except goods in transit measured by individual cost method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

**2.13 Property, plant and equipment**

All property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. For those assets that were revalued under the previous GAAP, the previous GAAP revaluation was used as deemed costs at the date of revaluation.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

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Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

Buildings	25 - 50 years
Structures	15 - 50 years
Machinery	6 - 15 years
Others	1 - 6 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.18). Gains or losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within 'other operating income or expenses' in the income statement.

**2.14 Borrowing costs**

The Company capitalizes borrowing costs that are directly attributable to the acquisition or construction of a qualifying asset as part of the cost of that asset during the period to prepare the asset for its intended use. The Company recognizes other borrowing costs as an expense in the period in which it incurs them.

**2.15 Government grants**

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Company will comply with all attached conditions.

Government grants relating to costs are deferred and recognized in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are presented as a deduction of related assets and are credited to depreciation over the expected lives of the related assets.

**2.16 Intangible assets**

(1) Goodwill

Goodwill represents the excess of the aggregate of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of the Company's previously held equity interest in the acquiree over the net identifiable assets at the date of acquisition. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose identified according to operating segment.

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(2) Industrial property rights

Industrial property rights are shown at historical cost. Industrial property rights have a finite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of Industrial property rights over their estimated useful lives of 5 to 10 years.

(3) Other intangible assets

Other intangible assets such as software which meet the definition of an intangible asset are amortized using the straight-line method over their estimated useful lives of 6 to 50 years when the assets are available for use. Membership rights are regarded as intangible assets with indefinite useful lives and not amortized as there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the entity. All membership rights are tested annually for impairment and stated at cost less accumulated impairment losses.

**2.17 Research and Development**

Costs associated with research are recognized as an expense as incurred. Costs that are identifiable, controllable and directly attributable to development projects are recognized as intangible assets when the following criteria are met:

- It is technically feasible to complete the development project so that it will be available for use;
- Management intends to complete the development project and use or sell it;
- There is an ability to use or sell the development project;
- It can be demonstrated how the development project will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use or sell the development project are available; and
- The expenditure attributable to the development project during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognized as an expense as incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period. Capitalized development costs that are recognized as intangible assets are amortized using the straight-line method over their estimated useful lives of 3 to 6 years when the assets are available for use and are tested for impairment.

**2.18 Impairment of non-financial assets**

Assets that have an indefinite useful life, for example goodwill, are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

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**2.19 Trade payables**

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

**2.20 Borrowings**

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized as 'financial expenses' in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

**2.21 Current and deferred income tax**

The tax expense for the period comprises current and deferred tax. Tax is recognized in the income statement, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at reporting date in the countries where the Company operates and generates taxable income. The Company periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax assets and liabilities are offset if, and only if: (a) the Company has a legally enforceable right to offset current tax assets against current tax liabilities and (b) the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities which intend either to settle current tax liabilities and assets

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on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Interim period income tax expenses are calculated using estimated average annual effective income tax rate.

#### **2.22 Provisions**

Provisions are recognized when: the Company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized for future losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

#### **2.23 Post-employment benefits**

The liability recognized in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognized past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds at the date of valuation that are denominated in the currency in which the benefits will be paid.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income in the period in which they arise. Actuarial gains and losses recognized in other comprehensive income are immediately recognized in retained earnings and are not recognized in profit or loss in a subsequent period.

#### **2.24 Share Capital**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

#### **2.25 Revenue recognition**

Revenue comprises the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the Company's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Company.

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The Company recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Company and when specific criteria have been met for each of the Company's activities as described below. The Company bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

#### **(a) Sales of goods**

Sales of goods are recognized upon delivery of products to customers. Delivery does not occur until the products have been delivered to the specified location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Company has objective evidence that all criteria for acceptance have been satisfied. The Company recognizes provisions for product warranties and sales returns based on reasonable expectation reflecting warranty obligation and sales return rates incurred historically.

#### **(b) Interest income**

Interest income is recognized using the effective interest method. When a loan and receivable is impaired, the Company reduces the carrying amount to its recoverable amount, and continues unwinding the discount as interest income. Interest income on impaired receivables is recognized using the original effective interest rate.

#### **(c) Dividend income**

Dividend income is recognized when the right to receive payment is established.

### **2.26 Leases**

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lesser) are charged to the income statement on a straight-line basis over the period of the lease.

The Company leases certain property, plant and equipment. Leases of property, plant and equipment where the Company has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in 'financial lease liability'. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term.

### **2.27 Dividend distribution**

Dividend liability is recognized in the financial statements when dividends are approved by the shareholders.



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**3. Financial risk management**

**3.1 Financial risk factors**

The Company's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance. The Company uses derivative financial instruments to hedge certain exposures.

Risk management is carried out by a finance team under policies approved by the board of directors. Finance team identifies, evaluates and hedges financial risks in close co-operation with the Company's operating units. The board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

(1) Market risk

1) Foreign exchange risk

The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar. Foreign exchange risk arises from future commercial transactions and recognized assets and liabilities.

Management has set up a policy to require consolidated companies to manage their foreign exchange risk against their functional currency. Each consolidated entity manages its foreign exchange risk arising from future commercial transactions and recognized assets and liabilities through foreign currency denominated borrowings and derivative instruments such as forward contracts in co-operation with finance team. Foreign exchange risk arises when future commercial transactions or recognized assets or liabilities are denominated in a currency other than the Company's functional currency.

The Company manages maximum loss for currency risk exposures within acceptable range by using currency risk management model and hires employees who are exclusively responsible for currency risk management.

The Company has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. Currency exposure arising from the net assets of the Company's foreign operations is managed primarily through borrowings denominated in the relevant foreign currencies.

As of March 31, 2010 and December 31, 2009, the Company's monetary assets and liabilities denominated in currencies other than its functional currency, are as follows:

<i>(in millions of Korean won)</i>	<b>March 31, 2010</b>		<b>December 31, 2009</b>	
	<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>
USD	2,039,433	2,902,479	1,957,471	2,689,960
EUR	47,612	43,584	46,062	44,762
GBP	1,411	768	2,022	1,276
JPY	105,377	331,417	88,221	309,405

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The Company regularly evaluates its foreign exchange risk. As of March 31, 2010 and December 31, 2009, if the Company's functional currency had weakened/strengthened by 10% against the US dollar with all other variables held constant, profit for the period would have been affected as follows:

<i>(in millions of Korean won)</i>	<b>March 31, 2010</b>		<b>December 31, 2009</b>	
	<u>10% Increase</u>	<u>10% Decrease</u>	<u>10% Increase</u>	<u>10% Decrease</u>
USD	(86,305)	86,305	(73,249)	73,249

The above sensitivity analysis has been performed for foreign currency monetary assets and liabilities denominated in currencies other than the Company's functional currency at the reporting date. Changes in foreign currency exchange rate in the future may affect the Company's selling price and gross profit rate.

2) Cash flow and fair value interest rate risk

The Company's interest rate risk arises from non-current borrowings. Borrowings issued at variable rates expose the Company to cash flow interest rate risk which is partially offset by cash held at variable rates. In addition, borrowings issued at fixed rates expose the Company to fair value interest rate risk. As of March 31, 2010 and December 31, 2009, the Company's borrowings at variable rate were denominated in the Korean won and foreign currency.

The Company analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. Based on these scenarios, the Company calculates the impact on profit and loss of a defined interest rate shift. For each simulation, the same interest rate shift is used for all currencies. The scenarios are run only for liabilities that represent the major interest-bearing positions.

Based on the simulations performed, the impact on profit for the period of a 0.1% shift would be a maximum increase of ₩2,170 million (2009: ₩2,037 million) or decrease of ₩2,170 million (2009: ₩2,037 million), respectively.

Based on the various scenarios, the Company manages its cash flow interest rate risk by using floating-to-fixed interest rate currency swaps. Such currency swaps have the economic effect of converting borrowings from floating rates to fixed rates. Generally, the Company raises long-term borrowings at floating rates and swaps them into fixed rates that are lower than those available if the Company borrowed at fixed rates directly.

(2) Credit risk

Credit risk is managed on group basis. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions. To mitigate credit risk, the Company monitors and sets the counterparty's credit limit on a periodic basis based on the counterparty's financial conditions, default history and other important factors.

No credit limits were exceeded during the reporting period, and management does not expect any losses from non-performance by these counterparties.

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(3) Liquidity risk

Cash flow forecasting is performed in the subsidiaries of the Company and aggregated by finance team. Finance team monitors rolling forecasts of the Company's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the Company does not breach borrowing limits or covenants on any of its borrowing facilities. Such forecasting takes into consideration the Company's debt financing plans, covenant compliance, compliance with internal statement of financial position ratio targets and, if applicable external regulatory or legal requirements - for example, currency restrictions.

Surplus cash held by the subsidiaries is maintained at appropriate level for working capital management. The Company's finance team invests surplus cash in interest bearing current accounts, time deposits, and money market deposits, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient head-room as determined by the above-mentioned forecasts.

The table below analyses the Company's non-derivative financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date. Derivative financial liabilities are included in the analysis if their contractual maturities are essential for an understanding of the timing of the cash flows.

Comparative information has been restated as permitted by the amendments to Korean IFRS 1107 for the liquidity risk disclosures.

<i>(in millions of Korean won)</i>	<b>March 31, 2010</b>			
	<b>Less than 1 year</b>	<b>Between 1 and 2</b>	<b>Between 2 and 5</b>	<b>Over 5 years</b>
Borrowings (excluding finance lease liabilities)	1,858,084	397,121	168,496	1,125
Finance lease liabilities	1,696	1,855	6,729	-
Hedging derivative	-	39,839	-	-
Trade and other payables	1,896,643	32,492	-	-
<b>Total</b>	<b>3,756,423</b>	<b>471,307</b>	<b>175,225</b>	<b>1,125</b>

<i>(in millions of Korean won)</i>	<b>December 31, 2009</b>			
	<b>Less than 1 year</b>	<b>Between 1 and 2</b>	<b>Between 2 and 5</b>	<b>Over 5 years</b>
Borrowings (excluding finance lease liabilities)	1,830,998	303,903	263,763	1,226
Finance lease liabilities	1,659	1,812	7,213	-
Hedging derivative	-	35,064	-	-
Trade and other payables	1,785,291	29,485	-	-
<b>Total</b>	<b>3,617,948</b>	<b>370,264</b>	<b>270,976</b>	<b>1,226</b>

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All of the non-trading Company's gross settled derivative financial instruments are in hedge relationships and are due to settle within 20 months after reporting date. These contracts require undiscounted contractual cash inflows of ₩ 234,848 million (2009: ₩ 243,042 million) and undiscounted contractual cash outflows of ₩ 250,415 million (2009: ₩ 250,415 million).

**3.2 Capital risk management**

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

Consistent with others in the industry, the Company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated statements of financial position plus net debt.

As of March 31, 2010 and December 31, 2009, the gearing ratios are as follows:

<i>(in millions of Korean won)</i>	<b>March 31, 2010</b>	<b>December 31, 2009</b>
Total borrowings (Note 8)	2,435,105	2,410,574
Less: cash and cash equivalents	(1,119,851)	(1,106,596)
Net debt	1,315,254	1,303,978
Total equity	6,163,301	5,926,689
Total capital	7,478,555	7,230,667
Gearing ratio (%)	17.6%	18.0%

**3.3 Fair Value estimation**

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Company is the current bid price.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Company uses various valuation techniques and makes judgments based on market conditions existing at the end of each reporting period. Borrowings without quoted market prices for similar instruments are measured at their fair values based on discounted cash flow analysis using an average borrowing rate. The fair values of currency swap are measured as the present value of estimated future cash flows and the fair values of foreign exchange forward contracts are calculated at quoted forward exchange rate at the end of the reporting date.

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The Company classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in measurements. The fair value hierarchy should have the following levels:

- Level 1 : Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 : Inputs other than quoted prices that are observable for the asset or liability, either directly (for example, as prices) or indirectly (for example, derived from prices).
- Level 3 : Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

(1) The following table presents the Company's financial assets and liabilities that are measured at fair value as of March 31, 2010 and December 31, 2009.

*(in millions of Korean won)*

	<b>March 31, 2010</b>			<b>Total</b>
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
<b>Financial assets</b>				
Current Financial assets	-	11,353	-	11,353
Non-current Financial assets	-	7,380	4,181	11,561
<b>Total Financial assets</b>	-	18,733	4,181	22,914
<b>Financial liabilities</b>				
Other non-current financial liabilities	-	39,839	-	39,839

*(in millions of Korean won)*

	<b>December 31, 2009</b>			<b>Total</b>
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
<b>Financial assets</b>				
Non-current Financial assets	-	18,375	4,182	22,557
<b>Financial liabilities</b>				
Other non-current financial liabilities	-	35,064	-	35,064

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Company is the current bid price. These instruments are included in level 1. Instruments included in level 1 comprise primarily marketable equity investments classified as trading securities or available-for-sale.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

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If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.

Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

#### 4. Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

##### 4.1 Critical accounting estimates and assumptions

The Company makes estimates and assumptions concerning the future. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

##### (1) Estimated impairment of goodwill

The Company tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in Note 2.18. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

##### (b) Income taxes

The Company is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

##### (c) Fair value of financial instruments

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The Company uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. The Company has used discounted cash flow analysis for various available-for-sale financial assets that are not traded in active markets.

##### (d) Provisions

The Company recognizes provisions for product warranties and sales return as of the reporting date as described in Note 9. The amounts are estimated based on historical data.

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**5. Transition to Korean IFRS**

**5.1 Basis of transition to Korean IFRS**

(1) Application of Korean IFRS

The Company's transition date to Korean IFRS is January 1, 2009, and the adoption date is January 1, 2010. The Company has prepared its opening statement of financial position as of January 1, 2009 in accordance with Korean IFRS and the reporting date of these interim consolidated financial statements is March 31, 2010.

In preparing these interim consolidated financial statements in accordance with Korean IFRS 1101, 'First-time Adoption of Korean IFRS', the Company has applied the mandatory exceptions and certain optional exemptions allowed by Korean IFRS.

(2) Exemptions from full retrospective application elected by the Company

The Company has elected to apply the following optional exemptions from retrospective application.

1) Business combination

The Company has not retrospectively applied Korean IFRS 1103 to the business combinations that took place prior to the transition date of January 1, 2009.

2) Cumulative translation differences

The Company has elected to set the previously accumulated cumulative transition differences to zero at January 1, 2009 in accordance with Korean IFRS 1101.

3) Fair value as deemed cost

The Company has elected to use revaluation of certain items of property, plant and equipment under the previous K-GAAP as deemed cost at January 1, 2009.

(3) Exceptions to retrospective application of other Korean IFRS

The Company applied the following exceptions.

1) Derecognition of financial assets and financial liabilities

In accordance with Korean IFRS 1101, the Company has not recognized those financial assets or liabilities that had been derecognized in accordance with its previous K-GAAP that do not qualify for derecognition in accordance with Korean IFRS 1039. The Company has applied the derecognition requirements in Korean IFRS 1039 prospectively for transactions occurring on or after January 1, 2004. The Company has not applied the exception provided in Korean IFRS 1101 that an entity may apply the derecognition requirements in Korean IFRS 1039 retrospectively from a date of the entity's choosing.

2) Accounting estimates

The Company's estimates under Korean IFRSs at the date of transition, January 1, 2009 are consistent with estimates made for the same date under previous K-GAAP (after adjustments to reflect any difference in accounting policies), unless there is objective evidence that those estimates were in error.

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**5.2 Reconciliation between Korean IFRS and K-GAAP**

(1) Effects on financial position and operating results

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

<i>(in millions of Korean won)</i>	<b>Total Assets</b>	<b>Total Liabilities</b>	<b>Total Shareholders' equity</b>
K-GAAP	9,735,573	4,682,916	5,052,657
Adjustments			
Change in scope of consolidation <sup>1</sup>	(246,785)	(181,598)	(65,187)
Investments in associates <sup>2</sup>	56,824	-	56,824
Derecognized trade receivables <sup>3</sup>	468,294	461,633	6,661
Employee benefits <sup>4</sup>	(1,867)	(27,973)	26,106
Gain from bargain purchases <sup>5</sup>	235,018	-	235,018
Income tax effect <sup>6</sup>	(6,805)	(38,376)	31,571
Total adjustments	504,679	213,686	290,993
Korean IFRS	10,240,252	4,896,602	5,343,650

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

<sup>2</sup> Aggregate effect of immediate recognition in retained earnings for the remaining balance of gain from bargain purchases of associates and recognition of deferred income tax liabilities for revaluation of associates' land.

<sup>3</sup> Recognition of discounted trade receivables derecognized under K-GAAP as of January 1, 2009 that do not qualify for derecognition under Korean IFRS.

<sup>4</sup> Change in defined benefit liability using actuarial valuation.

<sup>5</sup> Immediate recognition in retained earnings for the remaining balance of gain from bargain purchases as of January 1, 2009.

<sup>6</sup> Income tax effect on the above adjustments and offset of deferred tax assets and liabilities.

- 2) Effects on the consolidated total assets, liabilities and equity as of March 31, 2009, are as follows:

<i>(in millions of Korean won)</i>	<b>Total Assets</b>	<b>Total Liabilities</b>	<b>Total Shareholders' equity</b>
K-GAAP	10,354,353	5,177,301	5,177,052
Adjustments			
Change in scope of consolidation <sup>1</sup>	(215,323)	(146,960)	(68,363)
Investments in associates <sup>2</sup>	56,163	-	56,163
Derecognized trade receivables <sup>3</sup>	622,509	614,905	7,604
Employee benefits <sup>4</sup>	(4,096)	(32,009)	27,913
Gain from bargain purchase <sup>5</sup>	225,225	-	225,225
Goodwill amortization <sup>6</sup>	1,283	-	1,283
Spin-off <sup>7</sup>	18,274	687,758	(669,484)
Income tax effect <sup>8</sup>	11,874	(34,042)	45,916
Total adjustments	715,909	1,089,652	(373,743)
Korean IFRS	11,070,262	6,266,953	4,803,309

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



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- <sup>2</sup> Aggregate effect of immediate recognition in retained earnings for the remaining balance of gain from bargain purchase of associates, reversal of goodwill amortization for the period relating to investments in associates and recognition of deferred tax liabilities for revaluation of associates' land.
- <sup>3</sup> Recognition of discounted trade receivables that were derecognized under K-GAAP as of March 31, 2009 that do not qualify for derecognition under Korean IFRS.
- <sup>4</sup> Change in defined benefit liability using actuarial valuation.
- <sup>5</sup> Immediate recognition in retained earnings for the remaining balance of gain from bargain purchases as of March 31, 2009.
- <sup>6</sup> Reversal of goodwill amortization for the period.
- <sup>7</sup> Effect from the application of IFRIC Interpretation as adopted by the Republic of Korea ("Korean IFRIC") 2117, 'Distribution of non-cash assets to owners', for the spin-off of Industry Materials Segment.
- <sup>8</sup> Income tax effect on the above adjustments and offset of deferred income tax assets and liabilities.
- 3) Effects on the consolidated total assets, total liabilities and shareholders' equity as of December 31, 2009, are as follows:

<i>(in millions of Korean won)</i>	<b>Total Assets</b>	<b>Total Liabilities</b>	<b>Total Shareholders' equity</b>
K-GAAP	9,977,873	4,319,839	5,658,034
Adjustments			
Change in scope of consolidation <sup>1</sup>	(204,454)	(147,863)	(56,591)
Investments in associates <sup>2</sup>	54,182	-	54,182
Derecognized trade receivables <sup>3</sup>	527,421	522,555	4,866
Employee benefits <sup>4</sup>	(1,715)	(22,241)	20,526
Gain from bargain purchase <sup>5</sup>	195,848	-	195,848
Goodwill amortization <sup>6</sup>	5,130	-	5,130
Spin-off <sup>7</sup>	-	9,325	(9,325)
Income tax effect <sup>8</sup>	(23,693)	(77,275)	53,582
Others	-	(437)	437
Total adjustments	552,719	284,064	268,655
Korean IFRS	10,530,592	4,603,903	5,926,689

- <sup>1</sup> Change in scope of consolidated companies.
- <sup>2</sup> Aggregate effect of immediate recognition in retained earnings for the remaining balance of gain from bargain purchase of associates, reversal of goodwill amortization for the period relating to investments in associates and recognition of deferred tax liabilities for revaluation of associates' land.
- <sup>3</sup> Recognition of discounted trade receivables derecognized under K-GAAP as of December 31, 2009 that do not qualify for derecognition under Korean IFRS.
- <sup>4</sup> Change in defined benefit liability using actuarial valuation.
- <sup>5</sup> Immediate recognition in retained earnings for the remaining balance of gain from bargain purchases as of December 31, 2009.
- <sup>6</sup> Reversal of goodwill amortization for the period.
- <sup>7</sup> Effect from the application of Korean IFRIC 2117, 'Distribution of non-cash assets to owners', for the spin-off of Industry Materials Segment.
- <sup>8</sup> Income tax effect on the above adjustments and offset of deferred tax assets and liabilities.

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- 4) Effects on the consolidated profit and comprehensive income for the three-month period ended March 31, 2009, are as follows:

<i>(in millions of Korean won)</i>	<b>Profit</b>	<b>Comprehensive income</b>
K-GAAP	300,194	336,147
Adjustments		
Change in consolidated companies <sup>1</sup>	(656)	(3,176)
Investments in associates <sup>2</sup>	(660)	(660)
Derecognized trade receivables <sup>3</sup>	943	943
Employee benefits <sup>4</sup>	1,254	1,807
Gain from bargain purchase <sup>5</sup>	(9,792)	(9,792)
Goodwill amortization <sup>6</sup>	1,283	1,283
Income tax effect <sup>7</sup>	6,636	14,346
Total adjustments	(992)	4,751
Korean IFRS	299,202	340,898

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

<sup>2</sup> Cancellation of reversal of gain from bargain purchase and goodwill amortization relating to investments in associates for the period.

<sup>3</sup> Interests for discounted trade receivables derecognized under K-GAAP that do not qualify for derecognition under Korean IFRS.

<sup>4</sup> Change in defined benefit liability using actuarial valuation.

<sup>5</sup> Cancellation of reversal of gain from bargain purchase for the period.

<sup>6</sup> Cancellation of amortization of goodwill that is not amortized but subject to impairment under Korean IFRS.

<sup>7</sup> Income tax effect on the above adjustments.

- 5) Effects on the consolidated profit and comprehensive income for the year ended December 31, 2009, are as follows:

<i>(in millions of Korean won)</i>	<b>Net profit</b>	<b>Comprehensive income</b>
K-GAAP	1,533,169	1,486,952
Adjustments		
Change in scope of consolidation <sup>1</sup>	4,613	2,902
Investments in associates <sup>2</sup>	(2,642)	(2,642)
Derecognized trade receivables <sup>3</sup>	(1,795)	(1,795)
Employee benefits <sup>4</sup>	4,692	(5,580)
Gain from bargain purchase <sup>5</sup>	(39,170)	(39,170)
Goodwill amortization <sup>6</sup>	5,130	5,130
Spin-off <sup>7</sup>	2,227	2,227
Income tax effect <sup>8</sup>	34,169	22,011
Others	(1,196)	(1,390)
Total adjustments	6,028	(18,307)
Korean IFRS	1,539,197	1,468,645

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

<sup>2</sup> Cancellation of reversal of gain from bargain purchase and goodwill amortization relating to investments in associates for the year.

<sup>3</sup> Interests for discounted trade receivables derecognized under K- that do not qualify for derecognition under Korean IFRS.

<sup>4</sup> Change in defined benefit liability using actuarial valuation.

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- <sup>5</sup> Cancellation of reversal of gain from bargain purchase for the year.  
<sup>6</sup> Cancellation of amortization of goodwill that are not amortized but subject to impairment under Korean IFRS.  
<sup>7</sup> Effect from the application of Korean IFRIC 2117, 'Distribution of non-cash assets to owners', for the spin-off of Industry Materials Segment.  
<sup>8</sup> Income tax effect on the above adjustments.

**6. Segment Information**

(1) General information about the Company's reportable segments is as follows:

Segment	Products or Services	Major Customers
Petrochemicals	PE, PVC, VCM, alcohol, plasticizers, ABS/PS, EPS, MBS, SBL, EP, ethylene, propylene, BPA and others	LG International Corp., LG Electronics Inc., Daewoo Electronics Corp., National Plastic Co., Ltd., Youlchon Chemical Co., Ltd., OCI Company, Ltd., MITSUBISHI International Corp., and others
Information & Electronic Materials	Batteries, Polarizers	LG Electronics Inc., LG Display Co., Ltd., Motorola, Inc., HP and others
Others	General Management, Sales and R & D.	

(1) The segment information for revenue and profit and loss for the three-month periods ended March 31, 2010 and 2009, is as follows:

	2010			
	Petrochemicals	Information & Electronic Materials	Others	Total
<i>(in millions of Korean won)</i>				
Total segment revenue	3,308,647	1,152,577	63,696	4,524,920
Inter-segment revenue <sup>1</sup>	(39,389)	(5,366)	(57,060)	(101,815)
Revenue from external customers	3,269,258	1,147,21	6,636	4,423,105
Operating profit (loss) <sup>2</sup>	490,147	175,056	(12,777)	652,426
Financial income	31,333	8,441	151	39,925
Financial expenses	(35,678)	(12,975)	(136)	(48,789)
Depreciation and amortization	(82,349)	(57,602)	(2,471)	(142,422)
Share of the profit of associates	5,404	1,730	-	7,134
<b>Profit (loss) before tax</b>	<b>493,125</b>	<b>169,177</b>	<b>(13,505)</b>	<b>648,797</b>

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<i>(in millions of Korean won)</i>	2009			
	Petrochemicals	Information & Electronic Materials	Others	Total
Total segment revenue	2,581,637	782,871	58,742	3,423,250
Inter-segment revenue <sup>1</sup>	(24,557)	(1,603)	(46,792)	(72,952)
Revenue from external customers	2,557,080	781,268	11,950	3,350,298
Operating profit (loss) <sup>2</sup>	379,701	111,083	(6,065)	484,719
Financial income	51,738	22,774	202	74,714
Financial expenses	(91,779)	(35,361)	(190)	(127,330)
Depreciation and Amortization	(79,438)	(47,740)	(11,233)	(138,411)
Share of the profit of associates	933	157	171	1,261
<b>Profit (loss) before tax</b>	<b>341,738</b>	<b>97,454</b>	<b>(6,546)</b>	<b>432,646</b>

<sup>1</sup> Sales between segments are carried out at arm's length.

<sup>2</sup> Management assesses the performance of the operating segments based on a measure of operating profit of segment.

(2) The segment information on assets and liabilities as of March 31, 2010 and December 31, 2009, is as follows:

<i>(in millions of Korean won)</i>	March 31, 2010			
	Petrochemicals	Information & Electronic Materials	Others	Total
Total assets for the segment <sup>1</sup>	6,871,822	3,023,804	1,360,135	11,255,761
Investments in associates and joint ventures	4,584	14,210	219,915	238,709
Additions to non-current assets <sup>2</sup>	3,435,407	1,666,767	81,055	5,183,229
Total liabilities for the segment <sup>1</sup>	2,986,180	1,508,523	597,757	5,092,460

<i>(in millions of Korean won)</i>	December 31, 2009			
	Petrochemicals	Information & Electronic Materials	Others	Total
Total assets for the segment <sup>1</sup>	6,166,078	2,793,542	1,570,972	10,530,592
Investments in associates and joint ventures	4,029	-	215,476	219,505
Additions to non-current assets <sup>2</sup>	3,217,306	1,562,588	195,468	4,975,362
Total liabilities for the segment <sup>1</sup>	2,381,418	1,329,161	893,324	4,603,903

<sup>1</sup> Assets and liabilities are measured in a manner consistent with those in the financial statements and allocated on the basis of segment operation.

<sup>2</sup> Financial instruments and deferred tax assets are excluded.

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**7. Property, Plant and Equipment, and Intangible assets**

(1) Changes in carrying amounts of property, plant and equipment for the three-month period ended March 31, 2010 and for the year ended December 31, 2009, are as follows:

<i>(in millions of Korean won)</i>	<b>March 31, 2010</b>	<b>December 31, 2009</b>
Beginning balance	4,775,350	4,945,850
Acquisitions	379,457	1,079,707
Reclassification	(415)	(45,692)
Disposals	(3,347)	(93,620)
Depreciation	(138,829)	(545,998)
Impairment /reversal	-	(53,926)
Decrease due to spin-off	-	(438,492)
Exchange differences	(29,872)	(72,479)
Ending balance	<u>4,982,344</u>	<u>4,775,350</u>

(2) Changes in carrying amounts of intangible assets for the three-month period ended March 31, 2010 and for the year ended December 31, 2009, are as follows:

<i>(in millions of Korean won)</i>	<b>March 31, 2010</b>	<b>December 31, 2009</b>
Beginning balance	162,159	188,864
Acquisitions	7,377	29,230
Disposals	(144)	(1,147)
Amortization	(3,202)	(16,936)
Impairment /reversal	-	(16,948)
Decrease due to Spin-off	-	(20,561)
Exchange differences	(373)	(343)
Ending Balance	<u>165,817</u>	<u>162,159</u>

(3) As of March 31, 2010, certain property, plant and equipment have been pledged as collaterals for certain bank loans for up to a maximum of ₩385,254 million (2009: ₩391,387 million), as explained in Note 8.

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**8. Borrowings**

The carrying amounts of borrowings are as follows:

(1) Current borrowings

(in millions of Korean won)

	Annual	December 31,	
	Interest Rate (%)	March 31, 2010	2009
	March 31, 2010		
Notes discounted <sup>1</sup>	Libor+1.4	964,419	949,353
Bank loans <sup>2</sup>	Libor+0.3	454,763	343,792
		<u>1,419,182</u>	<u>1,293,145</u>
<b>Current maturities of long-term debts</b>			
Debentures	LIBOR+0.26	56,543	158,294
Bank loans	LIBOR+0.3	382,359	379,559
Financial lease liability	9.0	1,696	1,659
		<u>440,598</u>	<u>539,512</u>
		<u>1,859,780</u>	<u>1,832,657</u>

<sup>1</sup> Notes discounted that are yet due.

<sup>2</sup> Certain property, plant and equipment serve as collaterals for the above borrowings (Note 7).

(2) Non-current borrowings

(in millions of Korean won)

	Annual Interest Rate (%)	Maturity	March 31, 2010		
			Total Amount	Current maturities	Long-term debts
<b>1. Debentures</b>					
Won currency debentures	4.85	2012.4.29	149,526		149,526
Foreign currency debentures <sup>1</sup>	Libor+0.3 ~Tibor+3.0	2010.9.17 ~2011.12.19	178,046	56,543	121,503
			<u>327,572</u>	<u>56,543</u>	<u>271,029</u>
<b>2. Bank loans</b>					
Won currency loans	0 ~ 3.25	2010.6.15~ 2020.3.21	5,326	2,692	2,634
Foreign currency Loans	Libor+0.3	2010.4.18~ 2015.10.15	672,745	379,667	293,078
			<u>678,071</u>	<u>382,359</u>	<u>295,712</u>
<b>3. Financial lease liability</b>					
Financial lease liability <sup>2</sup>	9.00	2014.10.29	10,280	1,696	8,584
			<u>1,015,923</u>	<u>440,598</u>	<u>575,325</u>

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(in millions of Korean won)

December 31, 2009

	Annual Interest Rate (%)	Maturity	Total Amount	Current maturities	Long-term debts
1. Debentures					
Won currency debentures	4.5 ~ 4.85	2010.3.16 ~2012.4.29	249,399	99,926	149,473
Foreign currency debentures <sup>1</sup>	Libor+0.26 ~Tibor+3.0	2010.9.17 ~2011.12.19	184,354	56,368	125,986
			<u>433,753</u>	<u>158,294</u>	<u>275,459</u>
2. Bank loans					
Won currency loans	0 ~ 3.25	2010.6.15 ~2020.3.21	5,792	2,795	2,997
Foreign currency Loans	Libor+0.3	2010.2.27 ~2015.10.15	667,201	376,764	290,437
			<u>672,993</u>	<u>379,559</u>	<u>293,434</u>
3. Financial lease liability					
Financial lease liability <sup>2</sup>	9.00	2014.10.29	10,683	1,659	58,368
			<u>1,117,429</u>	<u>539,512</u>	<u>577,917</u>

<sup>1</sup> The Company issued floating rate notes on March 20, 2007, and will redeem these on September 17, 2010.

<sup>2</sup> Financial lease liabilities are liabilities associated with a financing lease of property, plant and equipment of MTBE factory after their sale.

(3) Carrying amounts and fair values of non-current borrowings are as follows:

(in millions of Korean won)

	March 31, 2010		December 31, 2009	
	Carrying amount	Fair Value <sup>1</sup>	Carrying amount	Fair Value <sup>1</sup>
Bank Loans	295,712	294,952	293,434	292,716
Debentures	271,029	275,672	275,459	276,247
Financial Lease Liability	8,584	8,683	9,024	8,948
Total	<u>575,325</u>	<u>579,307</u>	<u>577,917</u>	<u>577,911</u>

<sup>1</sup> Fair values are based on cash flows discounted using Korean won currency note yield (AA+) in the same credit grade with the Company, and borrowing rate quoted by People's Bank of China and others.

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(4) Changes in debentures for the three-month period ended March 31, 2010 and for the year ended December 31, 2009, are as follows:

<i>(in millions of Korean won)</i>	<b>March 31, 2010</b>	<b>December 31, 2009</b>
Beginning balance	433,753	867,419
Amortization	173	1,342
Increase	-	298,653
Repayment	(100,000)	(506,887)
Decrease due to spin-off	-	(209,172)
Exchange difference	(6,354)	(17,602)
Ending balance	<u>327,572</u>	<u>433,753</u>

**9. Provisions**

Changes of provisions for the three-month period ended March 31, 2010, and for the year ended December 31, 2009, are as follows:

<i>(in millions of Korean won)</i>	<b>March 31, 2010</b>		
	<b>Warranty <sup>1</sup></b>	<b>Sales Return <sup>2</sup></b>	<b>Total</b>
Beginning balance	3,501	1,792	5,293
Addition	-	386	386
Reversal	(539)	-	(539)
Ending balance	<u>2,962</u>	<u>2,178</u>	<u>5,140</u>

<i>(in millions of Korean won)</i>	<b>December 31, 2009</b>		
	<b>Warranty <sup>1</sup></b>	<b>Sales Return <sup>2</sup></b>	<b>Total</b>
Beginning balance	87	-	87
Addition	3,414	5,131	8,545
Decrease due to spin-off	-	(3,339)	(3,339)
Ending balance	<u>3,501</u>	<u>1,792</u>	<u>5,293</u>

<sup>1</sup> Warranty provisions have been accrued for estimated costs of warranty services to be provided determined based on the terms of warranty and historical experience.

<sup>2</sup> Sales return provisions have been accrued for estimated amount of sales return determined based on historical experience.



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**10. Defined Benefit Liability**

(1) The amounts recognized in the statements of financial position are determined as follows:

<i>(in millions of Korean won)</i>	<b>March 31, 2010</b>	<b>December 31, 2009</b>
Present value of obligations <sup>1</sup>	224,142	219,256
Fair value of plan assets	(161,598)	(164,867)
Total	62,544	54,389
Liabilities	62,544	54,389

<sup>1</sup> The present value of retirement benefit obligation is net of existing contribution to the National Pension Plan of ₩1,854 million (2009: ₩1,926 million).

(2) The amounts recognized in the income statements for the three-months periods ended March 31, 2010 and 2009, are as follows:

<i>(in millions of Korean won)</i>	<b>2010</b>	<b>2009</b>
Current service cost <sup>1</sup>	9,298	12,604
Interest expense <sup>1</sup>	2,714	3,755
Expected return on plan assets <sup>1</sup>	(1,966)	(1,676)
Loss from discontinued operations	-	(3,173)
Total expenses	10,046	11,510

<sup>1</sup> Excludes ₩52 million (2009: ₩83 million) of expenses allocated to construction in progress and development costs from current service cost, interest expense and expected return on plan assets.

(3) Of the total expenses, ₩7,131 million (2009: ₩8,217 million) and ₩2,915 million (2009: ₩3,293 million) are included in 'cost of sales' and 'selling, general and administrative expenses' for the three-month periods ended March 31, 2010 and 2009, respectively.

(4) Actuarial gains and losses recognized as other comprehensive income for three-month period ended March 31, 2010 and for the year ended December 31, 2009, are as follows:

<i>(in millions of Korean won)</i>	<b>2010</b>	<b>2009</b>
Actuarial losses before tax	(337)	553
Income tax effect	-	(134)
Actuarial losses after tax	(337)	419

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- (5) Changes in the defined benefit obligations for the three-month period ended March 31, 2010 and for the year ended December 31, 2009, are as follows:

<i>(in millions of Korean won)</i>	<b>March 31, 2010</b>	<b>December 31, 2009</b>
Beginning balance	219,256	248,479
Transfer in	143	1,766
Current service cost	9,345	36,519
Interest expense	2,732	12,595
Actuarial losses(before tax)	-	12,340
Benefits paid	(7,334)	(39,414)
Spin-off	-	(53,029)
Ending balance	<u>224,142</u>	<u>219,256</u>

- (6) Changes in the fair value of plan assets are as follows:

<i>(in millions of Korean won)</i>	<b>March 31, 2010</b>	<b>December 31, 2009</b>
Beginning balance	164,867	183,107
Expected return on plan assets	1,979	5,672
Actuarial gains(losses).(before tax)	(337)	2,068
Employer contributions	-	33,000
Benefits paid	(4,911)	(22,470)
Spin-off	-	(36,510)
Ending balance	<u>161,598</u>	<u>164,867</u>

- (7) The actual return on plan assets for the three-month period ended March 31, 2010 and for the year ended December 31, 2009 were ₩1,642 million and ₩2,229 million, respectively.

- (8) The principal actuarial assumptions used are as follows:

	<b>March 31, 2010</b>	<b>December 31, 2009</b>
Discount rate	5.70%	5.70%
Expected rate of return	5.00%	5.00%
Future salary increase	3.60%	3.60%

- (9) A sensitivity analysis for changes in actuarial key assumptions :

<i>(in millions of Korean won)</i>	<b>1% Increase</b>	<b>1% Decrease</b>
Change of interest rate:		
Increase(decrease) of defined benefit obligation	(5,780)	10,341

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**11. Equity**

(1) Changes in share capital and share premium are as follows:

<i>(in millions of Korean won)</i>	<u>Ordinary shares</u>		<u>Preferred shares</u>		<u>Share premium</u>	<u>Loss on capital reduction</u>
	<u>Number of shares</u>	<u>Amounts</u>	<u>Number of shares</u>	<u>Amounts</u>		
January 1, 2009	75,238,770	376,194	8,661,251	43,306	1,052,640	-
Spin-off	(8,967,670)	(44,838)	(1,032,330)	(5,162)	(155,215)	(464,272)
December 31, 2009	66,271,100	331,356	7,628,921	38,144	897,425	(464,272)
March 31, 2010	66,271,100	331,356	7,628,921	38,144	897,425	-

(2) Changes in treasury shares are as follows:

<i>(in millions of Korean won)</i>	<u>Number of shares</u>		<u>Carrying amount</u>	<u>Gain on sale of treasury shares</u>
	<u>Ordinary shares</u>	<u>Preferred shares</u>		
January 1, 2009	388,914	3,659	14,976	13,855
Spin-off	(46,356)	(437)	(1,785)	-
Purchase of treasury stock	17,220	2,296	2,293	-
December 31, 2009	359,778	5,518	15,484	13,855
March 31, 2010	359,778	5,518	15,484	13,855

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

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**12. Selling and administrative expenses**

Selling, general and administrative expenses for the three-month periods ended March 31, 2010 and 2009, consist of following:

<i>(in millions of Korean won)</i>	<b>2010</b>	<b>2009</b>
Salaries	49,515	41,558
Retirement allowance	2,948	3,324
Employee benefits	10,807	12,053
Travel expenses	5,002	4,086
Water & utilities	4,244	5,200
Packaging expenses	945	811
Charge for use	14,306	10,112
Commission expenses	33,741	29,014
Depreciation expenses	10,000	9,503
Advertising expenses	1,853	1,813
Freight expenses	78,231	77,244
Training expenses	1,573	1,121
Amortization expenses	2,251	2,226
Sample expenses	1,446	1,445
Ordinary R&D expenses	13,466	6,213
Others	21,053	26,047
<b>Total</b>	<b>251,381</b>	<b>231,770</b>

**13. Other operating income**

Other operating income for the three-month periods ended March 31, 2010 and 2009, consist of:

<i>(in millions of Korean won)</i>	<b>2010</b>	<b>2009</b>
Foreign exchange gains	49,553	153,338
Gain on foreign currency translation	27,222	57,809
Gain on disposal of property, plant and equipment	114	-
Gain on disposal of intangible assets	145	-
Others	5,814	4,846
<b>Total</b>	<b>82,848</b>	<b>215,993</b>

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**14. Other operating expenses**

Other operating expenses for the three-month periods ended March 31, 2010 and 2009, consist of:

<i>(in millions of Korean won)</i>	<b>2010</b>	<b>2009</b>
Foreign exchange losses	45,954	145,688
Loss on foreign currency translation	27,793	48,877
Loss on disposal of property, plant and equipment	378	5,978
Loss on disposal of intangible assets	17	258
Impairment loss on property, plant and equipment	-	3,962
Impairment loss on intangible assets	-	7,135
Others	1,011	9,253
Total	<u>75,153</u>	<u>221,151</u>

**15. Income taxes**

Income tax expense is recognized based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual rate used for the three-month period ended March 31, 2010, was 24.2% (2009: 24.2%).

**16. Earnings per share**

(1) Basic earnings per share attributable to the owners of the Parent for the three-month periods ended March 31, 2010 and 2009, is computed as follows:

**Earnings per share for profit from continuing operations**

<i>(in millions of Korean won, except per share amounts)</i>	<b>2010</b>	<b>2009</b>
Profit from continuing operations attributable to the owners of the Parent	511,103	320,763
Preferred shares dividends <sup>1</sup>	(6,766)	(5,519)
Preferred shares in the remaining profit available for dividends	<u>(46,306)</u>	<u>(27,833)</u>
Profit from continuing operations attributable to ordinary shares (A)	458,031	287,411
Weighted average number of shares of outstanding ordinary shares (B) <sup>2</sup>	<u>65,911,322</u>	<u>74,849,856</u>
Basic earnings per share for profit from continuing operations attributable to ordinary equity holders of the parent company (A/B)	<u>6,949</u>	<u>3,840</u>

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**Earnings per share**

<i>(in millions of Korean won, except per share amounts)</i>	<b>2010</b>	<b>2009</b>
Profit attributable to the owners of the Parent	511,103	288,177
Preferred shares dividends <sup>1</sup>	(6,766)	(5,519)
Preferred shares in the remaining profit available for dividends	(43,306)	(24,454)
Profit attributable to ordinary shares (A)	458,031	258,204
Weighted average number of shares of outstanding ordinary shares (B) <sup>2</sup>	65,911,322	74,849,856
Basic earnings per share for profit attributable ordinary equity holders of the parent company (A/B)	6,949	3,450

<sup>1</sup> Preferred shares dividends were assumed to be a fourth of the dividends paid for the previous years.

<sup>2</sup> Weighted average number of ordinary shares in issue during the period excluding ordinary shares purchased by the Parent Company and held as treasury shares.

- For the three-month period ended March 31, 2010: computed by deducting 359,778 shares of treasury shares from 66,271,100 shares of outstanding ordinary shares.
- For the three-month period ended March 31, 2009: computed by deducting 388,914 shares of treasury shares from 75,238,770 shares of outstanding ordinary shares.

(2) There are no outstanding convertible bonds or other dilutive securities. Accordingly, basic earnings per share are identical to diluted earnings per share.

(3) Basic and diluted loss per share for loss from discontinued operations for the three-month periods ended March 31, 2010 and 2009, are as follows:

	<b>2010</b>	<b>2009</b>
Basis and diluted loss from discontinued operation (in won)	-	(390)

**17. Dividends**

The ₩257,753 million (2009: ₩209,202 million) of dividends for the year ended December 31, 2009, was paid in April 2010.

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**18. Discontinued operations**

Pursuant to a resolution of the Board of Directors on December 2, 2008, and an approval by the shareholders on January 23, 2009, the Company spun off its Industrial Materials segment to the newly established LG Hausys, Ltd. on April 1, 2009. The consolidated financial statements have been prepared in accordance with Korean IFRIC 2117, 'Distributions of Non-cash Assets to Owners'.

The income statement for discontinued operations for the three-month period ended March 31, 2009, follows:

<i>(in millions of Korean won)</i>	<b>2009</b>
Revenue	416,081
Cost of sales	(338,267)
Gross profit	77,814
Selling, general and administrative expenses	(105,249)
Other operating income	4,723
Other operating expenses	(11,804)
Operating loss	(34,516)
Financial income	13,891
Financial expenses	(22,959)
Share of loss of associates	(171)
Other non-operating expenses	(202)
Loss before income tax	(43,957)
Income tax expense	10,941
Loss after income tax	(33,016)

Cash flows from the discontinued operations for the three-month period ended March 31, 2009, are as follows:

	<b>2009</b>
Operating cash flows	(23,554)
Investing cash flows	(20,201)
Financing cash flows	25,270
Total cash flows	(18,485)

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**19. Contingencies**

- (1) As of March 31, 2010, the Company is contingently liable for notes receivable from export sales which were discounted through financial institutions in ordinary course of business amounting to ₩241,818 million (excluding the amounts included in current borrowings).
- (2) As of March 31, 2010, the Company has various specific individual line of credit agreements with several financial institutions, as follows:
- Bank overdraft: up to ₩53,900 million, US\$ 32 million, INR 430 million and PLN 32 million
  - Import letter of credit: up to CNY 200 million, US\$ 291 million and INR 1,845 million
  - Local letter of credit: up to ₩121,700 million and US\$ 42million
  - Discount of notes from export: up to US\$ 912 million
  - Derivative financial instruments: up to US\$ 40 million
  - Loans: up to CNY 4,285 million, US\$ 578 million, EUR 1 million and TWD 495 million
  - Other foreign currency payment guarantee: up to CNY 100 million and US\$ 5 million
  - Discount of other notes: up to ₩50,000 million, CNY 1,180 and US\$ 6 million

As of March 31, 2010, the Company has also entered into comprehensive line of credit agreements with several financial institutions for up to ₩67,300 million and US\$ 302 million.

- (3) As of March 31, 2010, the Company has been named as a defendant for 15 legal actions involving ₩6,480 million in claims and plaintiff for 19 legal actions with ₩4,226 million in claims. The ultimate outcome of these cases cannot be determined at this time.
- (4) As of March 31, 2010, the Company has a long-term purchase contract for certain raw materials and was provided with US\$ 70 million guarantee for this contract (December 31, 2009: US\$ 69 million). Further, as of March 31, 2010, the Company provided US\$ 18 million in payment guarantees in regard to a purchase contract for certain raw materials.
- (5) As of the reporting date, the Company has guaranteed the repayment of various obligations of its subsidiaries and associates. The outstanding balance of such guarantees as of March 31, 2010, amounts to US\$ 130 million, EUR 1 million and PLN 32 million (total equivalent to ₩161,273 million) (2009: US\$ 155 million, EUR 3 million and PLN 32 million, total equivalent to ₩199,533 million) The details of guarantees provided as of March 31, 2010 and December, 31, 2009, are as follows:

(in millions of Korean won)

Guarantee Beneficiary	2010		Outstanding Loan Amount
	Amount of Guarantee	Financial Institution	
The Parent Company LG Chem (Nanjing) Information & Electronics Materials Co., Ltd.	65,982	Bank of China	65,982
	22,616	Woori Bank	22,616
	33,924	Export-Import Bank of Korea	33,924
Tianjin LG Bohai Chemical Co., Ltd.	3,769	Export-Import Bank of Korea	3,769
LG Chem Poland Sp.ZOO.	14,062	Nordea Bank	9,609
LG Hausys America	-	Kookmin Bank	-
LG Chem America, Inc	5,654	Bank of America	-
Compact Power, inc.	11,308	Bank of America	6,785
LG Chem (China) Investment Co., Ltd. Co., Ltd.	3,958	Agricultural Bank of China	3,958
	<u>161,273</u>		<u>146,643</u>



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

**20. Related party transactions**

- (1) Significant transactions, which occurred in the ordinary course of business with related parties for the three-month periods ended March 31, 2010 and 2009, and the related account balances as of March 31, 2010 and December 31, 2009, are summarized as follows:

(in millions of Korean won)	March 31, 2010		March 31, 2009	
	Sales	Purchases	Sales	Purchases
Entities with significant influence over the Company <sup>1</sup>	-	9,823	-	8,638
Associates <sup>2</sup>	38,893	61,774	41,468	37,660
Key management	-	11,076	-	9,137
Others <sup>3</sup>	3,812	124,439	2,506	100,646
Total	<u>42,705</u>	<u>207,082</u>	<u>43,974</u>	<u>156,081</u>

(in millions of Korean won)	March 31, 2010		December 31, 2009	
	Receivables	Payables	Receivables	Payables
Entities with significant influence over the Company <sup>1</sup>	5,276	3,298	5,276	1,943
Associates <sup>2</sup>	14,254	25,714	16,783	18,329
Key management	-	34,155	-	36,664
Others <sup>3</sup>	31,084	121,474	30,717	102,868
Total	<u>50,614</u>	<u>184,641</u>	<u>52,776</u>	<u>159,804</u>

<sup>1</sup> The largest shareholder of the Company is LG Corp., which owns 33.53% of the Company's ordinary shares (Note 1).

<sup>2</sup> Please refer to Note 1 for the Company's percentage of ownership in its associates.

<sup>3</sup> Includes LG Corp.'s subsidiaries.

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(2) Compensation for key management officers of the Parent Company and its domestic listed subsidiary for the three-month periods ended March 31, 2010 and 2009, consists of:

<i>(in millions of Korean won)</i>	<u>2010</u>	<u>2009</u>
Short-term employee benefits	7,822	6,750
Post-employment benefits	348	994
Other long-term employee benefits	<u>2,906</u>	<u>1,393</u>
Total	<u>11,076</u>	<u>9,137</u>

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

The Company has not recognized any bad debts expense or allowance for trade receivables against related parties for the three-month periods ended March 31, 2010 and 2009.

The details of the guarantees provided by the Company as of the reporting date are disclosed in Note 19.